

UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

In re:)	Case No. 06-00932
)	
GLAZED INVESTMENTS, LLC,)	Chapter 11
)	
Debtor.)	Hon. Pamela S. Hollis
)	

**AMENDED DISCLOSURE STATEMENT FOR THE DEBTOR'S
AMENDED LIQUIDATING PLAN OF REORGANIZATION PURSUANT
TO CHAPTER 11 OF THE UNITED STATES BANKRUPTCY CODE**

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SUMMARY OF THE PLAN

THIS IS ONLY A SUMMARY OF THE INFORMATION CONTAINED IN THE PLAN AND THE DISCLOSURE STATEMENT. ALL CREDITORS AND OTHER PARTIES IN INTEREST ARE URGED TO REVIEW THOSE DOCUMENTS IN THEIR ENTIRETY BEFORE VOTING ON THE PLAN.

Plan: Debtor's Amended Liquidating Plan of Reorganization Pursuant to Chapter 11 of the United States Bankruptcy Code Dated ~~April 12~~ May 8, 2006.

Debtor: Glazed Investments, LLC.

General Purpose: The Debtor was the exclusive area developer of Krispy Kreme products for a geographic region encompassing parts of Minnesota, Wisconsin and Colorado. Prior to its bankruptcy filing, the Debtor operated twenty franchise locations and supplied approximately 1,340 wholesale locations in its covered territory. On March 16, 2006, the Bankruptcy Court authorized the Debtor to consummate the sale of substantially all of its operating Assets to Westward Dough for \$10 million. The sale closed on March 30, 2006. The Plan contemplates monetizing the Assets of the Debtor and distributing the proceeds thereof to fund the Plan. To the extent the Debtor's Assets are insufficient to make the Plan distributions to holders of Allowed Claims, Krispy Kreme will advance funds to the Debtor sufficient for such payments to be made.

Unclassified Claims: Unclassified Claims consist of all Administrative Claims and Tax Claims. The Debtor estimates that the Allowed Administrative Claims and Allowed Tax Claims will be approximately \$1,500,000 and \$295,000, respectively.

Allowed Administrative Claims and Allowed Tax Claims will be paid in full in cash generally as soon as reasonably practicable (a) after the Effective Date, or (b) if such Claim is Allowed after the Effective Date, when such Claim is Allowed. United States Trustee and other bankruptcy fees required to be paid pursuant to 28 U.S.C. § 1930 will be paid in full on or before the Effective Date. *The expected recovery of holders of Allowed Unclassified Claims is 100%.*

Classes of Claims: 1. Class 1: Allowed Claims of ANB, GE and US Bank, pursuant to the ANB Loans, the GE Notes and the US Bank Loan Documents, respectively. *The expected recovery of each of the holders of Allowed Class 1 Claims is 100%.*

(a) *Class 1A.* The Allowed Claim of ANB (\$645,724.36). The sum of \$322,862.18 was paid to ANB on the closing date of the Westward

Dough sale, and the balance of the Allowed Claim of ANB will be paid in full in cash on the Effective Date.

(b) *Class 1B.* The Allowed Claim of GE (~~\$4,589,181.00~~ ~~689,181.00~~, which includes, but is not limited to, postpetition interest, attorneys' fees and all other costs and expenses). The sum of \$2,294,590.50 was paid to GE on the closing date of the Westward Dough sale, and the balance of the Allowed Claim of GE will be paid in full in cash on the Effective Date.

(c) *Class 1C.* The Allowed Claim of US Bank (\$5,331,113.11 as of April 4, 2006, plus postpetition interest payable under the US Bank Loan Documents at the non-default rate accruing through the date of final payment to US Bank pursuant to Section 4.1.3 of the Plan, plus reasonable fees and cost provided in the US Bank Loan Documents, less scheduled principal amortization payments made by the Debtor to US Bank after April 4, 2006 under the US Bank Loan Documents). The sum of \$2,713,426.34 was paid to US Bank on the closing date of the Westward Dough sale, and the balance of the Allowed Claim of US Bank will be paid in full in cash on the Effective Date.

2. Class 2: All Allowed Secured Claims against the Debtor other than the Class 1A, 1B or 1C Claims. The Debtor estimates that the amount of Allowed Class 2 Claims will be approximately \$14,000.

Each holder of an Allowed Class 2 Claim will receive, at the Debtor's election, either (a) the full amount of its Allowed Claim in cash as soon as reasonably practicable after the later of (i) the Effective Date, and (ii) when such Claim becomes an Allowed Claim, or (b) possession of the collateral securing such Claim. *The expected recovery of holders of Allowed Class 2 Claims is 100%.*

3. Class 3: All Allowed Other Priority Claims against the Debtor. The Debtor estimates that the amount of Allowed Class 3 Claims will be approximately \$465,000.

Each holder of an Allowed Class 3 Claim will receive the full amount of its Allowed Claim in cash on or as soon as reasonably practicable after the later of (a) the Effective Date, and (b) when such Claim becomes an Allowed Claim. *The expected recovery of holders of Allowed Class 3 Claims is 100%.*

4. Class 4: All Allowed General Unsecured Claims against the Debtor. The Debtor estimates that the aggregate amount of Allowed Class 4 Claims will be approximately \$4,300,000.

Each holder of an Allowed Class 4 Claim will receive its pro-rata share of the Class 4 Distribution Pool. *The Debtor expects that the Class 4*

general unsecured creditors will receive between approximately 13.6% and 20% of their Allowed Claims, depending on the aggregate Allowed General Unsecured Claims.

There will be two (2) distributions from the Class 4 Distribution Pool to holders of Class 4 Claims: (a) an initial distribution thirty-five (35) days after the Effective Date to all holders of Class 4 Claims that have been Allowed by the date that is thirty (30) days after the Effective Date in an amount equal to the number that is obtained by dividing the amount of the individual Allowed Claim by the maximum amount of potential Allowed Class 4 Claims, and multiplying that fraction by \$520,000; and (b) a final distribution to holders of Allowed Class 4 Claims upon conclusion of the claims reconciliation process in an amount such that (taking into account any payments already made) each holder of an Allowed Class 4 Claim receives a pro-rata share of the Class 4 Distribution Pool.

Holders of Class 4 Claims that received payments prior to the Petition Date that the Debtor asserts constitute avoidable preferences under section 547 of the Bankruptcy Code will have an opportunity, to be exercised on their ballot to accept the Plan, to waive their Claims against the Debtor in exchange for a release from the Debtor.

On the Effective Date, Krispy Kreme will waive its rights to receive any distribution from the Class 4 Distribution Pool; provided that, on account of its Class 4 Claims against the Debtor, Krispy Kreme will receive all funds of the Debtor's estate remaining (if any) after payment in full of all Allowed Claims as set forth in the Plan.

5. Class 5: Equity Interests in the Debtor of whatever nature or description and however held. The holders of Class 5 Interests will retain their Interests in the Debtor, but will not receive any distributions on account of such Interests. ***Holders of Equity Interests will not receive a distribution.***

Funding:

Estate Assets: On March 16, 2005, the Bankruptcy Court approved the sale of the Assets to Westward Dough for approximately \$10 million. The sale closed on March 30, 2006. A portion of the Net Proceeds of the sale were paid to US Bank, ANB and GE on the closing date of the sale on account of their Allowed Claims. The Remaining Net Proceeds of the sale to Westward Dough, the proceeds from the collection or sale of any remaining estate Assets and any cash on hand will fund the Plan and distributions to holders of Allowed Claims in accordance with the Plan. To the extent the estate Assets are insufficient to make payment to holders of Allowed Claims under the Plan, Krispy Kreme will advance funds to the Debtor sufficient for such payments to be made.

**Effective
Date:**

The Effective Date will be a date selected by the Debtor which is a business day after the Confirmation Date on which: (a) no stay of the Confirmation Order is in effect, and (b) all conditions specified in Section 11.1 of the Plan have been (i) satisfied, or (ii) waived pursuant to Section 11.2 of the Plan; provided however, that the Effective Date shall occur no later than thirty (30) days after the Confirmation Date as long as the Confirmation Order is not stayed pending appeal.

Classes:

Holders of unimpaired Administrative Claims, Tax Claims, Class 3 Claims and the Class 5 Interests are deemed to have accepted the Plan and are not entitled to vote. Classes 1A, 1B, 1C, 2 and 4 are entitled to vote on the Plan.

Voting:

Those creditors entitled to vote on the Plan should complete the enclosed ballot and return it to the Debtor's notice and claims agent, BMC Group, Inc. ("BMC"), *if by U.S. Mail* to Glazed Investments, LLC, c/o BMC Group, P.O. Box 906, El Segundo, California 90245-0906 or if by hand or overnight delivery to Glazed Investments, LLC, c/o BMC Group, 1330 East Franklin Avenue, El Segundo, California 90245. Ballots must be received on or before _____, 2006 at _____. Only those ballots returned in a timely manner and in accordance with the accompanying notice and instructions will be counted in determining whether a particular Class of creditors has accepted or rejected the Plan. Acceptance of the Plan by a Class of Claims requires accepting votes by (1) more than one-half of the voting creditors of such Class, and (2) holders of Claims totaling at least two-thirds of the total amount of Claims held by voting creditors of such Class.

**Confirmation
Hearing:**

The hearing on Confirmation of the Plan will be held before Judge Pamela S. Hollis in Courtroom 644, 219 South Dearborn Street, Chicago, Illinois on _____ 2006 at _____. Objections to confirmation of the Plan are due on or before _____, 2006 at _____.

**Additional
Information:**

Requests for additional information regarding the Plan or this Disclosure Statement should be directed to Debtor's counsel:

Daniel A. Zazove
Jason D. Horwitz
Perkins Coie LLP
131 South Dearborn Street
Suite 1700
Chicago, Illinois 60603

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**AMENDED DISCLOSURE STATEMENT FOR THE DEBTOR'S AMENDED
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PLAN OF REORGANIZATION PURSUANT TO CHAPTER 11 OF
THE UNITED STATES BANKRUPTCY CODE**

I. INTRODUCTION

A. General.

On February 3, 2006, the Debtor filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. No trustee or examiner has been requested or appointed in this case, and the Debtor continues to manage its affairs pursuant to sections 1107 and 1108 of the Bankruptcy Code. The Debtor commenced this chapter 11 case to facilitate the sale of substantially all of its Assets. On March 16, 2006, the Bankruptcy Court authorized the Debtor to consummate the sale of substantially all of its Assets to Westward Dough for \$10 million. The sale closed on March 30, 2006.

On April 12, 2006, the Debtor filed the Debtor's Liquidating Plan of Reorganization Pursuant to Chapter 11 of the United States Bankruptcy Code Dated April 12, 2006 ~~(the "Plan")~~ ~~and this~~ and the Disclosure Statement for the Debtor's Liquidating Plan of Reorganization Pursuant to Chapter 11 of the United States Bankruptcy Code. On May 8, 2006, the Debtor filed the Debtor's Amended Liquidating Plan of Reorganization Pursuant to Chapter 11 of the United

States Bankruptcy Code Dated May 8, 2006 (the "Plan") and this amended Disclosure Statement.

A copy of the Plan is attached to this Disclosure Statement as Exhibit A. On _____, 2006, the Bankruptcy Court approved this Disclosure Statement as containing "adequate information" to enable a hypothetical, reasonable investor in each of the relevant classes to make an informed judgment to vote to accept or reject the Plan.

B. Purpose of Disclosure Statement.

The purpose of this Disclosure Statement is to provide holders of Claims with such information as would enable a hypothetical, reasonable holder of a Claim or Interest to make an informed judgment when voting on the Plan. This Disclosure Statement does not purport to be a complete description of the Plan, the financial status of the Debtor, the applicable provisions of the Bankruptcy Code or other matters that may be deemed significant by creditors or other parties in interest.

THIS DISCLOSURE STATEMENT CONTAINS ONLY A SUMMARY OF THE PLAN, AND IS NOT INTENDED TO REPLACE A CAREFUL AND DETAILED REVIEW AND ANALYSIS OF THE PLAN. IT IS INTENDED TO AID AND SUPPLEMENT SUCH REVIEW. IN THE EVENT OF A CONFLICT BETWEEN THE PLAN AND THE DISCLOSURE STATEMENT, THE PROVISIONS OF THE PLAN WILL GOVERN. ALL HOLDERS OF CLAIMS ARE ENCOURAGED TO REVIEW THE FULL TEXT OF THE PLAN AND TO CAREFULLY READ THIS ENTIRE DISCLOSURE STATEMENT BEFORE DECIDING WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF ~~APRIL~~MAY 12~~8~~, 2006. THE DEBTOR BELIEVES THAT THE

INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT IS ACCURATE AS OF THAT DATE.

NO PERSON SHOULD CONSTRUE THE CONTENTS OF THIS DISCLOSURE STATEMENT AS PROVIDING ANY LEGAL, BUSINESS, FINANCIAL OR TAX ADVICE. EACH PERSON SHOULD CONSULT WITH THEIR OWN LEGAL, BUSINESS, FINANCIAL AND TAX ADVISORS AS TO ANY SUCH MATTERS CONCERNING THE SOLICITATION AND THE PLAN. THIS DISCLOSURE STATEMENT MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN DETERMINING WHETHER TO ACCEPT OR REJECT THE PLAN.

C. Defined Terms.

Unless otherwise defined, all capitalized terms contained in this Disclosure Statement shall have the meanings ascribed to them in the Plan. The rules of construction and definitions contained in the Bankruptcy Code and the Bankruptcy Rules are applicable to this Disclosure Statement.

II.CONFIRMATION PROCEDURES

A. Classes Entitled to Vote.

There are seven (7) classes of Claims and Interests under the Plan. Classes 3 and 5 are unimpaired and are presumed to have accepted the Plan. Impaired Classes 1A, 1B, 1C, 2 and 4 are entitled to vote on the Plan.

B. Voting on the Plan.

Any Claim holder whose legal, contractual or equitable rights are altered, modified or changed by the proposed treatment under the Plan or whose treatment under the Plan is not provided for in section 1124 of the Bankruptcy Code is considered "impaired." Allowed Claims

in Class 3 (Other Priority Claims) and Class 5 (Interests) are unimpaired under the Plan and deemed to have accepted the Plan. Under the Plan, holders of Allowed Claims in Class 1A (Allowed Claim of ANB), Class 1B (Allowed Claim of GE), Class 1C (Allowed Claim of US Bank), Class 2 (other Secured Claims) and Class 4 (General Unsecured Claims) are impaired and entitled to vote on the Plan by submitting the ballot enclosed with this Disclosure Statement.

In order to vote to accept or reject the Plan, holders of Claims in classes 1A, 1B, 1C, 2 and 4 must complete and sign the enclosed ballot and return it to one of the following addresses so that it is received by _____ p.m. on or before _____, 2006 (the "Voting Deadline"):

If by U.S. Mail

Glazed Investments, LLC
c/o BMC Group
P.O. Box 906
El Segundo, California 90245-0906

If by hand or overnight delivery

Glazed Investments, LLC
c/o BMC Group
1330 East Franklin Avenue
El Segundo, California 90245

Any ballot that is validly executed, but does not clearly indicate rejection of the Plan shall be deemed to constitute a vote for acceptance of the Plan.

ONLY THOSE BALLOTS RETURNED BEFORE THE VOTING DEADLINE AND IN ACCORDANCE WITH THE ACCOMPANYING NOTICE AND INSTRUCTIONS WILL BE COUNTED IN DETERMINING WHETHER A PARTICULAR CLASS OF CREDITORS HAS ACCEPTED OR REJECTED THE PLAN.

C. Confirmation Hearing.

The Confirmation hearing will be held before The Honorable Pamela S. Hollis, Bankruptcy Judge, in Courtroom 644, United States Courthouse, 219 South Dearborn Street,

Chicago, Illinois on _____, 2006 at _____. The Bankruptcy Court has ordered that objections, if any, to Confirmation of the Plan shall be filed with the Bankruptcy Court and served on the below parties or before _____, 2006. The Confirmation hearing may be adjourned from time to time by the Bankruptcy Court without further notice other than by announcement of the next adjourned date at the Confirmation hearing. **All objections to the Confirmation of the Plan must be served on (a) counsel to the Debtor, Daniel A. Zazove, Esq., Perkins Coie LLP, 131 South Dearborn Street, Suite 1700, Chicago, Illinois 60603, (b) counsel to the Creditors' Committee, Jeffrey N. Pomerantz, Esq., Pachulski Stang Ziehl Young Jones & Weintraub LLP, 10100 Santa Monica Blvd., #1100, Los Angeles, California 90067, and (c) the Office of the United States Trustee, 225 West Monroe Street, Suite 3350, Chicago, Illinois 60606, Attn: Steve G. Wolfe, Esq., and (d) counsel to Krispy Kreme Doughnut Corporation, Timothy R. Pohl, Esq. and Patrick J. Nash, Jr., Esq., Skadden, Arps, Slate, Meagher & Flom LLP, 333 West Wacker Drive, Suite 2100, Chicago, Illinois 60606.**

At the Confirmation hearing, the Bankruptcy Court will (1) determine whether the requisite vote has been obtained for each impaired class of creditors; (2) hear and determine objections to the Plan and to Confirmation of the Plan that have not been previously disposed of; (3) determine whether the Plan meets the confirmation requirements of the Bankruptcy Code; and (4) determine whether to confirm the Plan.

D. Acceptances Necessary for Confirmation.

An impaired class of holders of Claims accepts the Plan if the Plan is accepted by at least two-thirds (2/3) in dollar amount and more than one-half (1/2) in number of the Allowed Claims

of such Class that have voted to accept or reject the Plan. All Claims are allowed for voting purposes only unless objected to prior to the hearing on Confirmation of the Plan.

Unless there is unanimous acceptance of the Plan by an impaired Class of Claims, the Bankruptcy Court, as an additional requirement for Confirmation, must determine that under the Plan the members of each such Class will receive property of a value, as of the Effective Date of the Plan, that is not less than the value that each such Class member would receive if the Debtor were liquidated under chapter 7 of the Bankruptcy Code on the Effective Date of the Plan.

E. Confirmation Without Unanimous Acceptances.

The Bankruptcy Code does not require every Class of Claims and Interests to accept the Plan in order that the Plan be confirmed. If the Plan is not accepted by every Class, the Bankruptcy Court may nonetheless confirm the Plan so long as (1) at least one impaired Class of Claims has voted to accept the Plan, and (2) the Bankruptcy Court finds that the Plan does not “discriminate unfairly” and is “fair and equitable” as to each impaired Class that has not accepted the Plan. In general, this means that a non-accepting secured creditor must retain its lien on the property securing its Claim and receive deferred cash payments totalling at least the allowed amount of its Claim. For unsecured creditors of a non-accepting impaired Class, this means that they must either receive property equal to the allowed amount of their Claims, or, if they receive less than such value, no Class of Claims or Interests with a lower priority may receive or retain any property under the Plan on account of such Claims or Interest.

**IN THE EVENT AT LEAST ONE IMPAIRED CLASS OF CREDITORS VOTES
TO ACCEPT THE PLAN, IT IS THE DEBTOR’S INTENTION TO INVOKE THE
PROVISIONS OF SECTION 1129(b) OF THE BANKRUPTCY CODE.**

F. Recommendations.

The Debtor recommends that all holders of Claims vote to accept the Plan.

III.DESCRPTION OF THE DEBTOR AND ITS BUSINESS

A. Organization and Ownership.

Founded in 2000, the Debtor is a Delaware limited liability company whose membership interests are 97% owned by KKDC and 3% owned by Adrienne Livengood, the former spouse of A. Scott Livengood, the former Chief Executive Officer of Krispy Kreme. The Debtor's corporate headquarters are located at 1211 West 22nd Street, Suite 700, Oak Brook, Illinois 60523.

B. Overview of the Debtor's Business.

Pursuant to a February 28, 2000 area development agreement with KKDC (as amended, the "Development Agreement") and prior to the sale of substantially all of its Assets to Westward Dough, the Debtor was KKDC's exclusive area developer of Krispy Kreme products for a geographic region encompassing parts of Minnesota, Wisconsin and Colorado (the "Covered Territory"). The Development Agreement authorized the Debtor to develop and operate up to forty-three Krispy Kreme franchises in the Covered Territory. In addition, the Development Agreement conferred the right and obligation to supply wholesale customers of Krispy Kreme products in the Covered Territory from the "back-door" of the Debtor's retail stores.

Prior to the Petition Date, the Debtor operated twenty franchise locations: Aurora, CO; Colorado Springs, CO; Grand Junction, CO; Littleton, CO; Lone Tree, CO; Thornton, CO; Apple Valley, MN; Coon Rapids, MN; Eden Prairie, MN; the Mall of America, MN; Maple Grove, MN; Rochester, MN; St. Cloud, MN; St. Paul, MN; Ashwaubenon, WI; Brookfield, WI; Grand Chute, WI; Onalaska, WI; Wausau, WI; and West Allis, WI and supplied approximately 1,340 wholesale locations in the Covered Territory. The Debtor was party to a ground lease at each of the twenty franchise locations, and leased both the ground and the leasehold improvements in

Lone Tree, CO; Apple Valley, MN; Eden Prairie, MN; the Mall of America, MN; Maple Grove, MN; Brookfield, WI; Grand Chute, WI; Onalaska, WI; and Wausau, WI.

C. Capital Structure.

1. Prepetition Debt.

(a) US Bank Loan Documents. As of the Petition Date, the Debtor was obligated to US Bank in the amount of \$5,662,992.24 under the US Bank Loan Documents. The Debtor's obligations under the US Bank Loan Documents are secured by first priority, senior liens on a significant portion of the Debtor's assets including the Debtor's (a) bank accounts and accounts receivable, (b) inventory, and (c) leasehold improvements and equipment at certain of the Debtor's store locations.¹ Krispy Kreme guarantees 74.72% of the Debtor's obligation under the US Bank Loan Documents.

(b) GE Notes. As of the Petition Date, the Debtor was obligated to GE under the GE Notes in the aggregate amount of \$4,670,617.19. The Debtor's obligations to GE are secured by liens on the leases, the leasehold improvements and/or the equipment at the following store locations: Aurora, CO; Thornton, CO; Coon Rapids, MN; Wausau, WI; and West Allis, WI, as well as inactive commissaries located in Commerce City, CO; Pewaukee, WI; and New Brighton, MN. GE's liens are senior to the liens on such assets held by US Bank. Based upon the amounts outstanding as of the Petition Date, KKDC guarantees 49.7% of the Debtor's obligation under the GE Notes.

(c) ANB Loans. As of the Petition Date, the Debtor was obligated to ANB under the ANB Loans in the amount of \$645,724.36. The Debtor's obligations to ANB are

¹ More specifically, US Bank has a lien on (a) the leasehold improvements at the Debtor's stores located in Grand Junction, CO; Littleton, CO; St. Cloud, MN; and St. Paul, MN, and (b) the equipment at Lone Tree, CO; Apple Valley, MN; Eden Prairie, MN; Brookfield, WI; St. Paul, MN; Grand Junction, CO; Ashwaubenon, WI; Littleton, CO; St. Cloud, MN; Rochester, MN; Onalaska, WI; Grand Chute, WI; and the Mall of America.

secured by a lien on the Debtor's lease, leasehold improvements and equipment at the Colorado Springs, CO store. ANB's liens are senior to the liens granted on such assets to US Bank. KKDC guarantees 97% of the Debtor's obligations under the ANB Loans.

(d) Unsecured Funded Debt. The Debtor is the maker of that certain Line of Credit Promissory Note, dated October 15, 2003 (as subsequently amended and restated, the "KKDC Promissory Note"). As of the Petition Date, the Debtor owed KKDC approximately \$8.843 million under the KKDC Promissory Note. In addition, the Debtor is obligated to KKDC and Adrienne Livengood in the amount of \$4,384,400 and \$135,600, respectively, under subordinated notes due 2010 (the "Subordinated Notes").

2. Postpetition Debt.

On March 16, 2006, the Debtor received final Bankruptcy Court approval of a \$3.5 million debtor in possession loan facility provided by KKDC (the "DIP Facility") and the use of cash collateral. Both the DIP Facility and cash collateral were available for working capital to finance the Debtor's postpetition business operations pending the sale to Westward Dough.

The DIP Facility, subject to certain adequate protection liens, (a) has priority, pursuant to section 364(c)(1) of the Bankruptcy Code, over any and all administrative expenses of the kind specified in sections 503(b) and 507(b) of the Bankruptcy Code; (b) is secured, pursuant to section 364(c)(2) of the Bankruptcy Code, by perfected first priority security interests in and liens upon all unencumbered prepetition and postpetition property of the Debtor; and (c) is secured, pursuant to section 364(c)(3) of the Bankruptcy Code, by perfected junior security interests in and liens upon all prepetition and postpetition property of the Debtor that is subject to the liens of the Prepetition Secured Lenders and any liens permitted by the DIP Facility.

The Debtor did not need to borrow any amounts under the DIP Facility due to unexpectedly robust sales in certain of the stores that the Debtor closed after the Petition Date and reduced expenses on account of such closures.

D. Events Leading to the Chapter 11 Filing.

Krispy Kreme experienced exponential growth in its store base and revenues from 2000 through early 2004, garnering favorable coverage in both business and popular media. For example, in a July 7, 2003 cover story, *Fortune* magazine described Krispy Kreme as “the hottest brand in America.” The Debtor participated in this early success. The Debtor’s retail franchise openings were “events,” with customers lining up hours before grand openings that received substantial local media coverage. The Debtor earned a profit in each of its first three years of operations, primarily on the strength of strong retail sales.

However, the Debtor’s sales declined in recent years due at least in part to the increasing popularity of “low carb” diets. In addition to the changing tastes and preferences of the American consumer, sharply escalating distribution costs in connection with the Debtor’s wholesale business exacerbated the decline in the Debtor’s financial performance. Many of the Debtor’s stores were unprofitable, and the Debtor had no source of financing to fund further operating losses.

Accordingly, prior to the Petition Date, the Debtor actively pursued strategic alternatives while at the same time implementing aggressive measures to conserve cash. For example, prior to the Petition Date, the Debtor ceased operations at its now-inactive commissary locations in Commerce City, CO; New Brighton, MN; and Pewaukee, WI, and closed five retail factory stores located in Littleton, CO; Colorado Springs, CO; Rochester, MN; Grand Chute, WI; and Mall of America, MN. The Debtor determined that the best alternative to maximize the value of

its assets for its creditors, as well as to preserve as many of its stores and the jobs of the employees that work in those stores as possible, was to sell its Assets to a willing buyer on a going concern basis.

E. Prepetition Sale Efforts.

Prior to the Petition Date, KKDC and the Debtor marketed the Assets to existing KKDC area developers and third parties that might be interested in the Assets and would likely be able to consummate a purchase thereof. Westward Dough, an existing KKDC area developer for a territory that includes Nevada, Utah, Idaho, Montana and Wyoming, was the only entity to make an offer for the Assets.

As a result, on February 2, 2006, the Debtor entered into the Asset Purchase Agreement with Westward Dough, who agreed to pay \$10 million for (a) the Debtor's rights as the exclusive area developer for the Covered Territory, (b) all of the Debtor's inventory and equipment, and (c) the Debtor's interest in the leases and improvements at 12 of the Debtor's 20 retail locations.² The Asset Purchase Agreement was subject to higher and better offers.

F. Financial Information.

The Debtor's schedules of assets and liabilities and statement of financial affairs, which were filed with the Bankruptcy Court on March 7, 2006 and subsequently amended on April 6, 2006 (collectively, the "Schedules and Statements"), enumerate all of the Debtor's assets and liabilities as of the Petition Date. In addition, the Debtor has filed monthly reports of its operations with the Bankruptcy Court summarizing the Debtor's postpetition financial performance. The Schedules and Statements and any monthly operating reports are available for public inspection in the office of the Clerk of the United States Bankruptcy Court, 219 South

² The purchased locations were Aurora, CO; Grand Junction, CO; Lone Tree, CO; Thornton, CO; Apple Valley, MN; Coon Rapids, MN; Eden Prairie, MN; Maple Grove, MN; St. Paul, MN; Ashwaubenon, WI; Brookfield, WI; and West Allis, WI.

Dearborn, 6th Floor, Chicago, Illinois 60604 during regular business hours or by visiting the United States Bankruptcy Court's website at www.ilnb.uscourts.gov or BMC's website at www.bmcgroup.com. The information contained in the Debtor's schedules of assets and liabilities, as amended, are summarized as follows.

1. Assets:

As of the Petition Date, the Debtor's assets at their respective book values were comprised of the following:

Assets

Cash on Hand:	\$41,800.00
Financial Accounts:	\$737,719.96
Utility Security Deposits:	\$67,674.96
Accounts Receivable:	\$2,281,614.71
Minnesota Tax Refund:	\$212,108.22
Licenses, Franchises and Intangibles:	\$966,649.87
Automobile:	\$500.00
Office Equipment and Furnishings:	\$237,798.00
Machinery, Fixtures and Equipment:	\$13,573,600.95
Inventory:	\$407,656.26
<u>Improvements to Real Property:</u>	<u>\$10,072,223.92</u>
TOTAL	\$28,599,346.85

2. Liabilities:

As of the Petition Date, the Debtor's liabilities were comprised of the following:

Secured Claims:	\$10,992,910.43
Priority Claims	\$456,786.49
<u>General Unsecured Claims:</u>	<u>\$18,506,379.76³</u>
TOTAL:	\$29,956,076.68

³ This amount includes certain Claims that are listed as contingent, unliquidated and/or disputed, but excludes claims listed as "unknown."

G. The Chapter 11 Case.

On February 3, 2006, the Debtor filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. The Debtor has continued to manage its affairs as a debtor and debtor in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

1. Summary of Key Motions:

(a) Motion to Obtain Postpetition Financing and Authorizing Debtor to Utilize Cash Collateral; Granting Adequate Protection to Prepetition Secured Lenders. On February 7, 2006, the Bankruptcy Court entered an interim order granting authority for the Debtor to enter into the DIP Facility in an interim principal amount of \$700,000. The Debtor was also authorized to use the cash collateral of US Bank and provide the Prepetition Secured Lenders certain adequate protection liens. On March 16, 2006, the Bankruptcy Court gave final approval of the DIP Facility in the principal amount of \$3.5 million.

(b) Motion for Continued Use of Cash Management System. On February 7, 2006, the Bankruptcy Court entered an order authorizing the Debtor to continue to operate its existing bank accounts, to continue to use its existing business forms and to continue to use its centralized cash management system.

(c) Motion to Pay Prepetition Wages, Salaries and Other Compensation and Employee Benefits. On February 7, 2006, the Bankruptcy Court granted the Debtor's request to pay all compensation and benefits owed to its employees. The Debtor is authorized to compensate its employees for obligations payable as of the Petition Date, as well as obligations that become due after the Petition Date.

(d) Motion to Continue Customer Programs. On February 7, 2006, the Bankruptcy Court authorized the Debtor to continue to (i) process credit card transactions in the

ordinary course of business, (ii) honor outstanding gift certificates, and (iii) participate in Krispy Kreme's gift card and coupon programs.

(e) Reject Executory Contracts and Unexpired Leases. On February 7, 2006, February 28, 2006 and April 6, 2006, the Bankruptcy Court approved the rejection of several real property leases and executory contracts that were no longer integral to the Debtor's operations and were not assumed by Westward Dough.

(f) Applications for Retention of Debtor's Professionals. The Debtor received Bankruptcy Court authority to retain Perkins Coie LLP, as counsel for the Debtor, and BMC, as the Debtor's notice and claims agent.

(g) Motion to Establish Bid Procedures and to Sell Substantially All of the Debtor's Assets. On February 7, 2006, the Bankruptcy Court entered the Order, Pursuant to 11 U.S.C. § 363 and Fed. R. Bankr. P. 2002 and 6004, (i) Approving Bid Procedures for the Potential Sale of Substantially All of the Debtor's Assets, (ii) Approving Notice Procedures Regarding the Proposed Sale, and (iii) Scheduling a Hearing Date to Consider the Sale (the "Bid Procedures Order"). The Bid Procedures Order, among other things, approved the Glazed Investments, LLC Bidding Procedures (the "Bidding Procedures") to be employed with respect to the proposed disposition of the Debtor's Assets.

Pursuant to Bid Procedures Order, the Debtor solicited bids for the Assets by, among other things, serving notice of the sale on all entities known to have expressed an interest in a transaction with respect to all or part of the Assets at any time and advertising the sale in the *Wall Street Journal (National Edition)*. However, only three entities signed confidentiality agreements seeking additional information on the Debtor's and the Assets, and none submitted a bid on the Assets.

Without any competing offers for the Assets, the Debtor did not hold an auction, and the Court entered the Sale Order on March 16, 2006 approving the sale of substantially all of the Debtor's Assets to Westward Dough pursuant to the Asset Purchase Agreement. The sale closed on March 30, 2006.

2. Appointment of the Creditors' Committee.

On February 13, 2006, the Office of the United States Trustee appointed the Creditors' Committee. On February 17, 2006, the Creditors' Committee retained Pachulski Stang Ziehl Young Jones & Weintraub, as its lead counsel, and Robert F. Coleman & Associates, as its local counsel.

3. First Meeting of Creditors.

The United States Trustee convened a first meeting of creditors pursuant to section 341 of the Bankruptcy Code on March 9, 2006.

4. Bar Dates.

On March 16, 2006, the Bankruptcy Court entered an order establishing May 8, 2006 as the last date for all creditors (other than Governmental Units) to file proofs of claim against the Debtor, and August 2, 2006 as the last date for Governmental Units to file proofs of claim against the Debtor. The Court also authorized the Debtor to provide notice of the bar dates by mail and approved a bar date notice.

IV. SUMMARY OF THE PLAN

A. Plan Settlement Term Sheet.

Immediately after retaining its counsel, the Creditors' Committee began requesting, and the Debtor and Krispy Kreme provided, numerous documents and information regarding the company, its businesses and history. This information exchange led to extensive and productive

negotiations between the parties, through their counsel, over the course of the next several weeks in an effort to reach a consensual plan for the treatment of General Unsecured Claims.

These discussions culminated in the Plan Settlement Term Sheet, dated March 15, 2006, between the Debtor, the Creditors' Committee and Krispy Kreme (the "Term Sheet"), which has been incorporated into the Plan. Under the Plan, holders of Allowed General Unsecured Claims (other than KKDC) will receive their ratable share of the Class 4 Distribution Pool as illustrated on Schedule 1 to the Plan. The Debtor expects that the Class 4 general unsecured creditors will receive between 13.6% and 20% (approximately) of their Allowed Claims. Krispy Kreme agreed to subordinate any distribution it is entitled to receive on account of its Claims against the Debtor to the extent necessary to ensure a distribution to holders of Allowed General Unsecured Claims equal to Schedule 1. Krispy Kreme also agreed to advance funds to the Debtor, if necessary, to fund the Class 4 Distribution Pool.

The treatment of General Unsecured Claims in the Plan is the product of the negotiation and execution of the Term Sheet.

B. Overview of the Plan.

The Plan is a liquidating plan. It contemplates that all of the Debtor's rights, title and interests in all of its Assets, including but not limited to the Net Proceeds of the sale to Westward Dough, will revert in the post-Confirmation Debtor. The Net Proceeds of the sale to Westward Dough, the proceeds from the collection or sale of any remaining estate Assets (including but not limited to the collection of accounts receivable) and any cash on hand will fund the Plan and distributions to holders of Allowed Claims in accordance therewith. To the extent such estate Assets are insufficient to make any payments to holders of Allowed Claims under the Plan, Krispy Kreme will advance the required funds to the Debtor for such payments to be made.

C. Designation and Treatment of Claims and Interests Under the Plan.

There are six (6) classes of Claims and one (1) class of Interests under the Plan. Administrative Claims and Tax Claims are not subject to classification pursuant to 11 U.S.C. § 1123(a)(1) and, therefore, are not entitled to vote. Class 5 is unimpaired and, accordingly, is presumed to have accepted the Plan pursuant to 11 U.S.C. § 1126(f). Impaired Classes 1A, 1B, 1C, 2 and 4 are entitled to vote on the Plan. The Plan contemplates distribution of the estate Assets to Allowed Claims in the following Classes of claimants, in order of priority as listed:

1. Unimpaired Claims and Interests.

a. Unclassified Claims.

Unclassified Claims consisting of all Administrative Claims and Tax Claims will be paid in full in cash generally as soon as reasonably practicable (i) after the Effective Date, or (ii) if such Claim is Allowed after the Effective Date, when such Claim is Allowed. United States Trustee and other bankruptcy fees required to be paid pursuant to 28 U.S.C. § 1930 will be paid in full on or before the Effective Date.

b. Class 3 Claims (Other Priority Claims).

All Allowed Other Priority Claims against the Debtor will receive the full amount of the Allowed Claim in cash on or as soon as reasonably practicable after the later of (i) the Effective Date, and (ii) when such Claim becomes an Allowed Claim.

c. Class 5 Interests.

Equity Interests in the Debtor of whatever nature or description and however held will retain their Interests in the Debtor, but will not receive any distribution on account of such Interests.

2. Impaired Claims.

a. Class 1 Claims (Allowed Secured Claims of the Prepetition Secured Lenders).

All Allowed Claims of ANB, GE and US Bank, pursuant to the ANB Loans, the GE Notes and the US Bank Loan Documents, respectively.

(i) Class 1A Claim (Allowed Claim of ANB). The Allowed Claim of ANB. In full satisfaction and release of all Allowed Claims against the Debtor held by any holder of a Class 1A Claim, and in full satisfaction and release of any Claims against Krispy Kreme under the Class 1 Claim Guarantees, (A) \$322,862.18 was paid to ANB on the closing date of the sale of substantially all of the Debtor's Assets to Westward Dough from the Net Proceeds of such sale, and (B) on the Effective Date, the balance of the Allowed Claim of ANB shall be paid in full in cash.

(ii) Class 1B Claim (Allowed Claim of GE). The Allowed Claim of GE. In full satisfaction and release of all Allowed Claims against the Debtor held by any holder of a Class 1B Claim, and in full satisfaction and release of any Claims against Krispy Kreme under the Class 1 Claim Guarantees, (A) \$2,294,590.50 was paid to GE on the closing date of the sale of substantially all of the Debtor's Assets to Westward Dough from the Net Proceeds of such sale, and (B) on the Effective Date, the balance of the Allowed Claim of GE shall be paid in full in cash.

(iii) Class 1C Claim (Allowed Claim of US Bank). The Allowed Claim of US Bank. In full satisfaction and release of all Allowed Claims against the Debtor held by any holder of a Class 1C Claim, and in full satisfaction and release of any Claims against Krispy Kreme under the Class 1 Claim Guarantees, (A) \$2,713,426.34 was paid to US Bank on the closing date of the sale of substantially all of the Debtor's Assets to Westward Dough from the Net Proceeds of such sale, and (B) on the Effective Date, the balance of the Allowed Claim of US Bank shall be paid in full in cash.

As a condition precedent to receiving and retaining the distributions set forth in Section 4.1 of the Plan, holders of Class 1 Claims will be required to (a) execute a release, in form and

substance reasonably satisfactory to Krispy Kreme, of any and all Claims under the Class 1 Claim Guarantees, and (b) return to Krispy Kreme any outstanding letters of credit or any other collateral securing any Claim of such holder against Krispy Kreme related to its Class 1 Claims or its Class 1 Claim Guarantees.

b. Class 2 Claims (Allowed Secured Claims other than those of the Prepetition Secured Lenders).

All Allowed Secured Claims against the Debtor other than the Class 1A, 1B or 1C Claims. In the sole discretion of the Debtor, each holder of an Allowed Class 2 Claim will receive either (i) the full amount of its Allowed Claim in cash as soon as reasonably practicable after the later of (A) the Effective Date, and (B) when such Claim becomes an Allowed Claim, or (ii) the collateral securing such Claim without representation or warranty by, or further recourse against, the Debtor.

c. Class 4 Claims (General Unsecured Claims).

All Allowed General Unsecured Claims against the Debtor. In full satisfaction and release of all Claims against the Debtor, each holder of an Allowed Class 4 Claim will receive its pro-rata share of the Class 4 Distribution Pool only from the Class 4 Distribution Pool, to be distributed pursuant to Section 10.2 of the Plan.

On the Effective Date, Krispy Kreme will waive its rights to receive any distribution from the Class 4 Distribution Pool; provided that, on account of its Class 4 Claims against the Debtor, Krispy Kreme will receive all funds of the Debtor's estate remaining (if any) after payment in full of all Allowed Administrative Claims and Allowed Tax Claims and payment of Allowed Claims in Classes 1, 2, 3 and 4 as set forth in the Plan.

Also on the Effective Date, the maximum amount of the Class 4 Distribution Pool (based upon the ~~potential maximum Allowed~~ dollar amount in the "Aggregate Dollars Payable to Trade

Claims” column on Schedule 1, which corresponds to the total of all Allowed Claims and Contested Claims in Class 4 Claims as of such date as of the Effective Date, excluding the Claims of Krispy Kreme) will be funded into a segregated account held for the benefit of holders of the Class 4 Claims (except Krispy Kreme). If the Debtor has insufficient funds to fully fund the maximum amount of the Class 4 Distribution Pool on the Effective Date, Krispy Kreme will advance the Debtor sufficient monies to fully fund the Class 4 Distribution Pool on the Effective Date. The Debtor and the Creditors’ Committee are still in discussions with respect to the mechanics of the segregated account for the Class 4 Distribution Pool. The parties hope to resolve this issue prior to the Confirmation Date.

There will be two (2) distributions from the Class 4 Distribution Pool to holders of Class 4 Claims: (a) an initial distribution thirty-five (35) days after the Effective Date to holders of Class 4 Claims that have been Allowed by the date that is thirty (30) days after the Effective Date in an amount equal to the number that is obtained by dividing the amount of the individual Allowed Claim by the maximum amount of potential Allowed Class 4 Claims (except Krispy Kreme), and multiplying that fraction by \$520,000; and (b) a final distribution to holders of Allowed Class 4 Claims upon conclusion of the claims reconciliation process in an amount such that (taking into account any payments already made) each holder of an Allowed Class 4 Claim receives a pro-rata share of the Class 4 Distribution Pool. Any amounts initially funded into the Class 4 Distribution Pool on the Effective Date that are not to be distributed on account of Allowed Class 4 Claims consistent with Schedule 1, will be paid to Krispy Kreme pursuant to Section 4.3.1 of the Plan.

For purposes of this section in the Plan, the “maximum amount of potential Allowed Class 4 Claims (except Krispy Kreme)” will mean the total of all Allowed Claims and Contested

Claims in Class 4 as of thirty (30) days after the Effective Date, excluding the claims of Krispy Kreme.

D. Implementation of the Plan.

1. Continued Limited Liability Company Existence; Vesting of Assets.

The Debtor will continue to exist after the Effective Date as a separate limited liability company in accordance with the laws of the state of Delaware and pursuant to its certificate of formation and limited liability operating agreement in effect prior to the Effective Date, provided however, that the purpose of the post-Effective Date Debtor will be limited to taking such actions as are necessary to implement, and are consistent with implementing, the Plan. As soon as reasonably practicable after the Debtor exhausts its assets by making the final distribution of cash under this Plan, the Debtor will (a) effectuate its dissolution in accordance with the laws of the state of Delaware, and (b) cause the resignation of all of its officers and directors.

E. Means for Implementation of the Plan.

1. Sources of Funding.

On March 16, 2005, the Bankruptcy Court entered the Sale Order approving the sale of substantially all of the Debtor's Assets to Westward Dough for \$10 million. The sale closed on March 30, 2006. On the closing date, the following amounts were paid to the holders of the Class 1 Claims from the Net Proceeds of such sale: \$2,713,426.34 to US Bank, \$2,294,590.50 to GE and \$322,862.18 to ANB. The Remaining Net Proceeds of the sale of substantially all of the Debtor's Assets to Westward Dough, the proceeds from the collection or sale of any remaining estate Assets and any cash on hand will fund the Plan and distributions to holders of Allowed Claims in accordance therewith. To the extent such estate assets are insufficient to make any payments to holders of Allowed Claims under the Plan, Krispy Kreme will advance funds to the

Debtor sufficient for such payments to be made, and any such advance will be deemed to have been made on account of the Class 1 Claim Guarantees regardless of the obligation of the Debtor paid with funds advanced by Krispy Kreme.

2. No Transfer Taxes.

Pursuant to section 1146(a) of the Bankruptcy Code, any transfers of property pursuant to this Plan, including, but not limited to, the sale of substantially all of the Debtor's Assets to Westward Dough, will not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, stamp act, real estate transfer tax, mortgage recording tax or other similar tax or governmental assessment in the United States.

F. Treatment of Executory Contracts and Unexpired Leases.

1. All Executory Contracts and Unexpired Leases Are Rejected.

All prepetition executory contracts and unexpired leases that have not been previously assumed will be deemed rejected by the Debtor as of the Effective Date.

2. Bar Date of Claims Resulting from the Rejection of Contracts Under the Plan.

All claims arising from the rejection of executory contracts or unexpired leases under this Plan must be filed within twenty (20) days of the Effective Date.

G. Retention of Causes of Action.

1. Reservation.

The Debtor will reserve all of its Claims and causes of action arising under either the Bankruptcy Code or under other applicable federal or state law, including, but not limited to, any third-party claims, counterclaims and cross-claims. Specifically and without limiting the foregoing, the Debtor retains all Claims and causes of action under chapter 5 of the Bankruptcy

Code to recover preferential transfers and fraudulent conveyances under bankruptcy and applicable non-bankruptcy law.

2. Preferences.

Notwithstanding the treatment of Allowed Class 4 Claims as described above, certain holders of Class 4 Claims that (a) are entitled to vote on the Plan, and (b) the Debtor asserts have received avoidable preferences, may receive, in conjunction with their ballot for voting on the Plan, an option to elect to waive all Claims against the Debtor in exchange for a release by the Debtor of its Claims against such holder. If such election is not made by the holder of such Class 4 Claim by the deadline for voting on the Plan, then all rights and Claims of any kind by the Debtor against such holder, and by such holder against the Debtor, will be reserved. Further, if the Debtor intends to pursue a preference action against any holder of a Class 4 Claim who does not receive a ballot containing the aforementioned election option, then the Debtor will not initiate any such preference action unless it first extends to such holder of a Class 4 Claim a formal written offer pursuant to which such creditor may elect to waive all of its Claims against the Debtor in exchange for a release by the Debtor of all of its Claims against such creditor.

H. Discharge, Release, Injunctive and Related Provisions.

1. Discharge of the Debtors.

Pursuant to section 1141(d)(3) of the Bankruptcy Code, Confirmation will not discharge Claims against the Debtor; provided however, that no holder of a Claim against the Debtor may, on account of such Claim, seek or receive any payment or other distribution from, or seek recourse against, the Debtor, its successors, property of the estate or its property, except as expressly provided in the Plan.

2. Releases by the Debtor.

Except as otherwise specifically provided in the Plan, for good and valuable consideration, including the service of the Releasees to facilitate the expeditious sale of the Assets, the funding of the Plan, including payment in full of Allowed Administrative Claims, Allowed Tax Claims, Allowed Other Priority Claims, Allowed Secured Claims and the Class 4 Distribution Pool, the Releasees, on the Effective Date, will be deemed released by the Debtor and the Debtor's estate from any and all Claims, obligations, suits, damages, causes of action, remedies and liabilities whatsoever, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity or otherwise, that the Debtor or its estate would have been legally entitled to assert in its own right or on behalf of the holder of any Claim or Interest or other person or entity, based in whole or in part upon any act or omission, transaction, agreement, event or other occurrence taking place on or before the Effective Date.

3. Injunction.

Except as otherwise provided in the Plan, from and after the Effective Date, all holders of Claims or Interests will be permanently enjoined from commencing or continuing in any manner, any suit, action or other proceeding, on account of or respecting any Claim, Interest, obligation, debt, right, cause of action, remedy or liability or any other claim or cause of action released or to be released pursuant to the Plan.

4. Exculpation and Limitation of Liability.

Neither the Debtor nor the Creditors' Committee, nor any of their respective present or former members, officers, directors, employees, advisors or attorneys will have or incur any liability to any person or entity for any act or omission in connection with, relating to or arising out of this chapter 11 case, except for their gross negligence or willful misconduct.

I. Miscellaneous Provisions.

1. Administrative Claims Bar Date.

All requests for allowance and/or payment of an Administrative Claim must be filed with the Bankruptcy Court and served on counsel for the Debtor, no later than thirty (30) days after the Effective Date. Notwithstanding the foregoing, no request for allowance and/or payment of an Administrative Claim need be filed with respect to an Administrative Claim that is paid or payable by the Debtor in the ordinary course of business.

2. Releases and Satisfaction of Subordination of Other Rights.

All Claims against the Debtor and all rights and Claims between or among holders of such Claims relating in any manner whatsoever to any claimed lien rights, subordination rights or rights to assert Claims that are owned by the Debtor or its estates against any third party, will be deemed satisfied by the distributions made during this chapter 11 case and distributions under, described in, contemplated by and/or implemented in the Plan. Distributions under, described in, contemplated by and/or implemented by the Plan to the various Classes of Claims hereunder will not be subject to levy, garnishment, attachment or like legal process by any holder of a Claim, by reason of any claimed lien or subordination rights or otherwise, so that each holder of a Claim shall have and receive the benefit of the distributions in the manner set forth in the Plan.

3. Post-Confirmation Creditors' Committee.

On the Effective Date, the Creditors' Committee will be reconstituted as the Post-Confirmation Creditors' Committee. Upon the date that all holders of Allowed Class 4 Claims have received all distributions under this Plan, the Post-Confirmation Creditors' Committee will be dissolved and its members will be deemed released of all their duties, responsibilities and obligations in connection with this chapter 11 case and the Plan and its implementation, and the

retention or employment of the Post-Confirmation Creditors' Committee's attorneys, accountants and other agents or professionals will terminate. The budget for fees and expenses for professionals retained by the Post-Confirmation Creditors' Committee shall be governed by Section 15.1 of the Plan.

4. Term of Injunction or Stays.

All injunctions or stays provided for in this chapter 11 case under sections 105 or 362 of the Bankruptcy Code or otherwise, and extant on the Confirmation Date (excluding any injunctions or stays contained in this Plan or the Confirmation Order), will remain in full force and effect until the Effective Date.

V. THE PLAN CONFIRMATION PROCESS

A. Acceptance and Confirmation.

At the Confirmation hearing, the Bankruptcy Court will confirm the Plan only if all the requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation of the Plan are that the Plan is (1) accepted by the impaired Class of Claims or, if rejected by the impaired Class, that the Plan "does not discriminate unfairly" and is "fair and equitable" as to the dissenting Class, (2) feasible, and (3) in the best interests of creditors whose Claims are impaired under the Plan.

B. Acceptance of the Plan.

For the Plan to be accepted by any Class, it must be accepted by creditors who hold at least two-thirds in dollar amount of the Claims in such impaired Class as to which votes are cast, and who comprise more than one-half of the voting creditors holding Claims in such Class. A Class is impaired if the legal, equitable or contractual rights attaching to the Claims in that Class are modified, other than by curing defaults, reinstating maturity and compensating the holder for

certain kinds of reliance damages. Creditors whose Claims are not impaired by the Plan may not vote and are conclusively presumed, pursuant to the Bankruptcy Code, to have accepted the Plan.

If any impaired Class does not accept the Plan, the Debtor may nevertheless seek confirmation of the Plan. As set forth in section 1129(b) of the Bankruptcy Code, to obtain such confirmation and “cram-down” on the dissenting Class or Classes, the Debtor must demonstrate to the Bankruptcy Court that the Plan “does not discriminate unfairly” and is “fair and equitable” with respect to each dissenting Class. A plan does not discriminate unfairly, if among other things, the dissenting Class is treated substantially equally with respect to other Classes of equal rank. The Debtor will satisfy the “fair and equitable” test if the Debtor can demonstrate to the Bankruptcy Court that either (1) each holder of a Claim in the dissenting Classes receives or retains, under the Plan, property of a value equal to the allowed amount of its Claim; or (2) the holders of Claims that are junior to the Claims of the holders of such dissenting Class will not receive or retain any property under the Plan.

C. Operations.

The Plan is a liquidating plan. The Debtor will continue to exist after the Effective Date as a limited liability company in accordance with the laws of the state of Delaware and pursuant to its certificate of formation and limited liability operating agreement in effect prior to the Effective Date, provided however, that the purpose of the post-Effective Date Debtor will be limited to taking such actions as are necessary to implement, and are consistent with implementing, this Plan. As soon as reasonably practicable after the Debtor exhausts its assets by making the final distribution of cash under the Plan, the Debtor will (1) effectuate its dissolution in accordance with the laws of the state of Delaware, and (2) cause the resignation of all of its officers and directors.

The Plan contemplates the revesting of all of the Debtor's rights, title and interests in all of its assets in the post-Confirmation Debtor. Additionally, the Debtor will continue to be empowered to execute contracts and documents of transfer on behalf of its estate and the post-Confirmation entity and shall continue to be responsible for administering its estate and the post-Confirmation entity. All distributions under the Plan will be made by the Debtor's estate.

D. Feasibility.

As a condition to confirmation of a plan, section 1129(a) of the Bankruptcy Code requires that the confirmation of the Plan is not likely to be followed by the liquidation of the Debtor (unless, like in this case, such liquidation is proposed in the Plan) or the need for further financial reorganization. Because liquidation is proposed in the Plan, and because Krispy Kreme will advance funds to the Debtor, if necessary, to make the distributions contemplated under the Plan, the Debtor believes that the Plan meets the feasibility requirement in that it will be able to make all payments required by the Plan without the necessity for further financial reorganization.

E. Risk Factors.

Certain risk factors are inherent in the chapter 11 plan confirmation process. If a plan is accepted by creditors, it is usually because the proposal represents a greater return to creditors than would be available in liquidation. The Debtor believes that the Plan and this Disclosure Statement accurately reflect the values of its assets and liabilities and that the Debtor's proposed treatment of Allowed Claims, based on such values, is fair and equitable with respect to each Class of creditors.

However, the Debtor cannot guarantee its creditors, with 100% certainty, that its financial projections will prove to be correct, that it will be able to pay all creditors in full or as otherwise projected in the Plan or in this Disclosure Statement, or if any issues with this Disclosure

Statement or the Plan are raised and litigated, the Debtor will prevail on each issue. Therefore, there is some risk that even if the Debtor's creditors vote to accept the Plan, it may not be confirmed, and if it is, such creditors may not receive the projected recovery. If the Plan is not confirmed, the Debtor would have the right under the Bankruptcy Code to make modifications to the Plan consistent with the Bankruptcy Court's rulings, and, if required, solicit acceptances to the Plan as modified.

VI. GENERAL FEDERAL INCOME TAX CONSIDERATIONS

The confirmation and execution of the Plan may have tax consequences to holders of Claims and Interests. The Debtor does not offer an opinion as to any federal, state, local or other tax consequences to holders of Claims and Interests as a result of the Confirmation of the Plan. All holders of Claims and Interests are urged to consult their own tax advisors with respect to the federal, state, local and foreign tax consequences of the Plan. THIS DISCLOSURE STATEMENT IS NOT INTENDED, AND SHOULD NOT BE CONSTRUED, AS LEGAL OR TAX ADVICE TO ANY CREDITOR.

VII. BEST INTEREST TEST

Confirmation of the Plan also requires that each claimant either (a) accept the Plan, or (b) receive or retain under the Plan property of a value, as of the Effective Date of the Plan, that is not less than the value such claimant would receive or retain if the Debtor was liquidated under chapter 7 of the Bankruptcy Code. In order to make this determination, the Court must compare the treatment accorded creditors and equity security holders under the Plan with the treatment such creditors and equity security holders would be entitled to under chapter 7 of the Bankruptcy Code.

Under the Plan filed in accordance with the Term Sheet: (a) all secured creditors will receive a distribution in the entire amount of their Allowed Claims, (b) all general unsecured creditors will receive an estimated distribution between approximately 13.6% and 20% of their Allowed Claims, and (c) the Interest holders will retain their Interests in the Debtor (but will receive no distribution). Additionally, KKDC will (y) subordinate its distribution on account of all of its Claims to the extent necessary to ensure that holders of Allowed General Unsecured Claims other than KKDC will receive a distribution from the Class 4 Distribution Pool in accordance with Schedule 1 to the Plan, and (z) advance funds to the Debtor sufficient to make any Plan payments to the extent estate Assets are insufficient to make any payments to holders of Allowed Claims under the Plan.

To determine what creditors and Interest holders would receive if the Debtor was liquidated, the Bankruptcy Court must calculate the liquidation value that would be generated from the administration of the Debtor's assets in a chapter 7 liquidation case. Such amount would then be reduced by the estimated cost and expenses of liquidation and by any additional administrative and priority claims that would, in all likelihood, be imposed in a chapter 7 case. Indeed, the cost of liquidation under a chapter 7 would include the statutory compensation payable to a trustee, as well as the fees payable to the trustee's counsel and other professionals, such as accountants, that the trustee would likely engage, plus the unpaid administrative expenses incurred by the Debtor during this chapter 11 case.

Based upon the foregoing analysis, the Debtor believes that all creditors would receive at least as much value under the Plan as they would receive in a chapter 7 liquidation in large part because, in a chapter 7 case, Krispy Kreme would not be obligated to subordinate – and in fact likely would not subordinate – its distribution to ensure a recovery to General Unsecured

Creditors. It is similarly highly improbable that Krispy Kreme would, in a chapter 7 case, advance funds to the Debtor to ensure payments to creditors. As a result, the Plan satisfies the “best interests of the creditors.”

The sale of substantially all of the Debtor’s Assets to Westward Dough for \$10 million closed on March 30, 2006. Less closing costs and other expenses, the Net Proceeds from the sale totaled approximately \$9.8 million. On the closing date, the Debtor also had approximately \$1.8 million of cash on hand, and expects to collect approximately \$1.9 million in outstanding accounts receivables and possibly \$390,000 from tax escrows and refunds post-closing and during the wind-down of the estate. As a result, the Debtor anticipates that the estate Assets available for distribution to creditors will equal approximately \$13.89 million.

The Prepetition Secured Lenders, which hold first priority liens on all of the Assets and, therefore, must be paid in full before other creditors receive value, are owed approximately \$10.6 million. After the payment in full of the Prepetition Secured Lenders’ Claims in a chapter 7 case, there would be approximately \$3.29 million remaining in the Debtor’s estate. Holders of Allowed Administrative Claims, Allowed Tax Claims, Allowed other Secured Claims and Allowed Other Priority Claims would then need to be paid in full before holders of General Unsecured Claims receive a distribution. The Debtor expects that these Claims will total approximately \$3.7 million in the aggregate (including Krispy Kreme’s Administrative Claims, which Krispy Kreme has agreed to subordinate pursuant to the Plan), thereby exhausting the estate’s Assets and leaving no Assets to distribute to General Unsecured Claims in a chapter 7 context.

While the chapter 7 trustee may assert avoidance actions against various creditors, which would likely increase the amount of estate Assets available for distribution, holders of General

Unsecured Claims would still receive less in a chapter 7 scenario for several reasons. First, converting this case to a chapter 7 would result in a conservative estimate of \$534,700 of additional fees and expenses incurred by the chapter 7 trustee and its professionals. Therefore, the minimum recovery from preference actions necessary just to pay Administrative Claims, Tax Claims, other Secured Claims, Other Priority Claims and chapter 7 expenses in full (without even taking into consideration the significant fees and costs that would be incurred in pursuing the preference actions) is \$944,700. It is highly unlikely that the chapter 7 trustee would be able to recover \$944,700 from preference actions, and even if he or she did, holders of General Unsecured Claims would still not receive a distribution.

Second, even assuming that the preference actions did result in sufficient funds to pay all other Claims and expenses in full so that holders of General Unsecured Claims were entitled to recover some estate Assets, the unsecured creditors would be the ones funding such a distribution. In other words, the chapter 7 trustee would necessarily sue general unsecured creditors in order to recover assets to pay the very same general unsecured creditors. Third, according to the Debtor's Schedules and Statements, General Unsecured Claims are approximately \$18.5 million, with approximately \$17.1 million of that amount owed to Krispy Kreme. Therefore, the proceeds from lawsuits against general unsecured creditors would primarily benefit Krispy Kreme as opposed to the other general unsecured creditors.

As a result, holders of Allowed General Unsecured Claims would likely receive no distribution in a chapter 7 liquidation. Because the Plan does not provide for distributions less than the amount that would be available to creditors in a chapter 7 liquidation, confirmation of the Plan is in the best interest of the Debtor's estate. The Debtor's liquidation analysis is attached hereto as Exhibit B.

Alternatively, if the Plan is not confirmed and consummated, the case could also be dismissed or an alternative plan of reorganization could be proposed. Each of which would likely result in a smaller recovery for all creditors. If the case is dismissed, the Prepetition Secured Lenders would foreclose on their security interests in, among other things, the Net Proceeds of the Assets sold to Westward Dough and the Debtor's cash and accounts receivables, leaving little, if any, amounts available to general unsecured creditors. Further, if the bankruptcy case was dismissed, as in a chapter 7 liquidation, Krispy Kreme would not guarantee any recoveries and it would not waive its Claims against the estate – as it agrees to do under the Plan – thereby substantially increasing the General Unsecured Claims pool and further reducing the recovery (if general unsecured creditors receive any distribution at all) of general unsecured creditors.

The Debtor also believes that the Plan described herein will provide a greater and more expeditious return to creditors than an alternative plan because, among other things, if the Plan is not confirmed, the Debtor may be without cash to fund operations or the implementation of a different plan. Accordingly, on information and belief, the Debtor avers that no alternative plan would be feasible.

VIII.CONCLUSION

The Debtor believes that the Plan provides for the maximum recovery for all of its creditors. Accordingly, the Debtor believes that approval of the Plan is in the best interests of the Debtor and its estate and creditors, and recommends that all of its impaired creditors vote to accept the Plan.

Respectfully submitted,

GLAZED INVESTMENTS, LLC

By: /s/ Joel Aaseby
Joel Aaseby

/s/ Daniel A. Zazove

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EXHIBIT A

Debtor's Amended Liquidating Plan of Reorganization Pursuant to Chapter 11 of the
United States Bankruptcy Code Dated ~~April 12~~ May 8, 2006

EXHIBIT B

Debtor's Liquidation Analysis

Document comparison done by DeltaView on Monday, May 08, 2006 4:41:23 PM

Input:	
Document 1	C:\DOCUME~1\horwj\LOCALS~1\Temp\CH060800.001
Document 2	C:\DOCUME~1\horwj\LOCALS~1\Temp\CH061070074.DOC
Rendering set	Perkins Coie

Legend:	
<u>Insertion</u>	
Deletion	
Moved from	
<u>Moved to</u>	
Style change	
Format change	
Moved deletion	
Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

Statistics:	
	Count
Insertions	21
Deletions	10
Moved from	0
Moved to	0
Style change	0
Format changed	0
Total changes	31