

March 1985
Dunkin' Donuts
Incorporated
P.O. Box 317
Randolph, MA
02368

DUNKIN' DONUTS QUARTERLY

First
Quarter
1985



Dunkin' Donuts University Expands

The Company has expanded Dunkin' Donuts University (DDU), its corporate training facility in Braintree, Massachusetts, where each year over 600 Franchise Owners, Company shop managers, and corporate employees participate in an intensive six-week program to learn how to make our products and manage a Dunkin' Donuts shop. This is the second major enhancement to this facility since it was purchased and renovated in 1978. Approximately \$400,000 was expended to add 7,500 sq. ft. of space and make renovations to the University which included: a new bakery training kitchen, additional classrooms, and a new laboratory for product research and development. This investment is

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Dunkin' Donuts Reports Worldwide Sales Up 11% and Share Earnings Up 17% for First Quarter

To Our Shareholders:

We are pleased to report total sales of all Dunkin' Donuts shops throughout the world amounted to \$140,707,000 for the quarter ended January 26, 1985, an 11% increase over the \$126,384,000 generated during the corresponding period a year ago. Average sales of all North American Dunkin' Donuts shops (excluding satellite locations) were \$106,300 for the quarter, a 6.7% improvement over last year's average of \$99,600.

Net income for the first quarter was \$2,630,000, or \$.54 per share, on gross revenues of \$24,004,000. This is a 17% increase in per share earnings over the results achieved during the comparable quarter a

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New Shop Openings Worldwide

The Company plans to open approximately 100 new Dunkin' Donuts shops worldwide, including satellites, in fiscal 1985. Approximately 75 will be opened in

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To Our Shareholders continued.

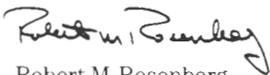
year ago of \$2,255,000, or \$.46 per share, on gross revenues of \$21,649,000.

At January 26, 1985, there were 1,362 Dunkin' Donuts shops in operation, including 51 satellite locations. Of this total, 1,259 were located in North America.

Our corporate mission is "to be the dominant retailer of high quality donuts and related bakery, snack and beverage products worldwide and in each market in which we compete. In addition, we plan on being the dominant retailer as measured by total sales versus any of our competition throughout the world." The five strategies we are relying on to achieve our financial objectives in the '80s are:

1. Increased advertising
2. Introducing profitable and compatible new products
3. Aggressive new shop expansion
4. Remodeling existing shops
5. Improving shop operating standards

The effective execution of these strategies will enable our Company to fulfill our mission, achieve our financial objectives and ensure that we continue as the preeminent company in its segment of the away-from-home food market.



Robert M. Rosenberg
Chairman and Chief
Executive Officer



Thomas R. Schwarz
President and Chief
Operating Officer

February 20, 1985

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intended to improve the quality of student training and to enable students to devote more time to learning how to make our new line of baked products, including muffins, cookies, brownies and biscuits.

Dunkin' Donuts believes that training is crucial to quality. Training ensures that our people have the skills necessary to provide our customers with products of superior taste, freshness and value. This major investment in DDU demonstrates again our commitment to quality in our people as well as our products.

Dunkin' Donuts Shareholders Join New Dividend Reinvestment Plan

In September, 1984, the Company announced the establishment of a new Dividend Reinvestment Plan for its shareholders. The plan offers stockholders an opportunity to invest their cash dividends automatically in additional shares of Dunkin' Donuts Common Stock. All brokerage commissions and bank charges associated with stock purchases made under the plan are paid by the Company. Participation in the plan is voluntary and participants may join or withdraw at any time. Currently, approximately 630 shareholders are participating in the plan.

Any shareholder who is interested in learning more about this plan should contact the Company's transfer agent at the following address:

First National Bank of Boston
Dividend Reinvestment Plan
P.O. Box 644
Boston, Massachusetts 02102
Telephone (617) 929-6564

The First National Bank of Boston, which administers the plan, will provide a brochure with details of the plan and a Stockholder Authorization Card. Stockholders who decide to join are instructed to complete and return the card in the envelope provided.

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North America with the balance in other countries under license agreements. Of the shops that will open in North America, it is anticipated that approximately 45% will be developed by Franchise Owners using their own or borrowed capital. The Company offers special financial incentives, plus construction and financing assistance, to encourage Franchise Owners to develop their own locations.

During the first quarter, 19 new Dunkin' Donuts shops were opened worldwide, including two satellite locations. In addition to the 11 shops opened in North America during the quarter, eight new shops were opened in the following foreign countries: Korea (3), Thailand (2), Japan (2), and Venezuela (1).

Financial Highlights

Dunkin' Donuts Incorporated and Subsidiaries

	13 Weeks Ended	
	January 26, 1985	January 28, 1984
Worldwide Sales	\$140,707,000	\$126,384,000
Gross Revenues	\$ 24,004,000	\$ 21,649,000
Net Income	\$ 2,630,000	\$ 2,255,000
Net Income Per Share	\$.54	\$.46
Average Shares Outstanding	4,906,000	4,884,000

The Company's common stock is traded over-the-counter under the NASDAQ symbol DUNK.

Condensed Statement of Consolidated Income

Dunkin' Donuts Incorporated and Subsidiaries

	13 Weeks Ended	
	January 26, 1985	January 28, 1984
Gross revenues:		
Sales by Company-operated shops	\$ 8,286,000	\$ 6,917,000
Rental income	7,952,000	7,286,000
Continuing franchise fee income	6,128,000	5,540,000
Initial franchise fee income	291,000	160,000
Other income	1,347,000	1,746,000
Total revenues	24,004,000	21,649,000
Costs and expenses:		
Company-operated shops	7,342,000	6,127,000
Expenses applicable to rental income	3,048,000	3,027,000
Selling, general and administrative expenses	7,668,000	7,072,000
Interest expense	938,000	1,099,000
Total costs and expenses	18,996,000	17,325,000
Income before income taxes	5,008,000	4,324,000
Provision for federal and state income taxes	2,378,000	2,069,000
Net income	\$ 2,630,000	\$ 2,255,000
Average shares outstanding	4,906,000	4,884,000
Net income per share	\$.54	\$.46
Cash dividends per share	\$.08	\$.07

See Basis of Presentation in Financial Comments section.
Certain amounts have been reclassified to permit comparison.

Consolidated Balance Sheet

Dunkin' Donuts Incorporated and Subsidiaries

Assets	January 26, 1985	October 27, 1984
Current assets:		
Cash and short-term investments	\$ 1,359,000	\$ 6,614,000
Marketable securities, at cost, which approximates market	4,006,000	6,465,000
Accounts and notes receivable principally from franchise owners, less allowance of \$925,000 in 1985 and \$958,000 in 1984 for doubtful accounts	5,057,000	4,447,000
Equipment, food and supplies inventories	1,416,000	915,000
Prepaid rent, deposits and other current assets	2,190,000	2,055,000
Total current assets	14,028,000	20,496,000
Property, plant and equipment, at cost:		
Land	18,505,000	18,295,000
Buildings	59,932,000	58,120,000
Leaseholds and leasehold improvements	14,664,000	14,113,000
Restaurant and other equipment	10,780,000	10,706,000
Leased property under capital leases	23,915,000	23,879,000
	127,796,000	125,113,000
Less: Accumulated depreciation and amortization	42,325,000	41,076,000
	85,471,000	84,037,000
Other assets:		
Prepaid income taxes	364,000	420,000
Lease acquisition costs	2,175,000	2,225,000
Notes receivable and other	2,439,000	2,176,000
	4,978,000	4,821,000
	\$104,477,000	\$109,354,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 6,341,000	\$ 10,847,000
Accrued expenses	5,097,000	7,833,000
Income taxes	2,745,000	2,319,000
Current portion of notes and mortgages payable and capital lease obligations	2,795,000	2,748,000
Total current liabilities	16,978,000	23,747,000
Notes and mortgages payable	13,000,000	13,417,000
Capital lease obligations	15,118,000	15,264,000
Deferred liabilities and credits:		
Estimated future losses associated with permanently closed locations	1,710,000	1,564,000
Income on notes receivable	632,000	611,000
Security deposits by lessees	1,751,000	1,723,000
	4,093,000	3,898,000
Stockholders' equity:		
Common stock, par value \$1:		
Authorized - 10,000,000 shares		
Issued - 5,055,002 shares in 1985; 5,050,427 shares in 1984	5,055,000	5,050,000
Capital in excess of par value	1,043,000	1,025,000
Retained earnings	50,602,000	48,353,000
	56,700,000	54,428,000
Less: Treasury stock, at cost - 289,009 shares in 1985 and 1984	(1,148,000)	(1,148,000)
Cumulative translation adjustment	(264,000)	(252,000)
	55,288,000	53,028,000
	\$104,477,000	\$109,354,000

See Basis of Presentation in Financial Comments section.

Statement of Changes in Consolidated Financial Position

Dunkin' Donuts Incorporated and Subsidiaries

	13 Weeks Ended	
	January 26, 1985	January 28, 1984
Cash Provided From (Used In) Operations:		
Net Income	\$ 2,630,000	\$ 2,255,000
Add/(Deduct) items not using (providing) funds:		
Depreciation and amortization	1,603,000	1,401,000
Deferred income taxes	56,000	(341,000)
Provision for estimated future losses associated with permanently closed locations	195,000	119,000
Changes in working capital items ⁽¹⁾	(8,062,000)	1,837,000
Other—net	(11,000)	(20,000)
Cash provided from (used in) operations	(3,589,000)	5,251,000
Cash dividends	(381,000)	(330,000)
Cash From Operations Retained (Used) in Business	(3,970,000)	4,921,000
Financing Activities:		
Proceeds from long-term borrowings and capital lease obligations	141,000	65,000
Increase in security deposits	28,000	21,000
Exercise of employee stock options	23,000	133,000
Reduction in long-term borrowings and capital lease obligations	(657,000)	(1,044,000)
Reduction in losses of permanently closed locations	(31,000)	(92,000)
Total Cash Available From (Used For) Operations and Financing Activities	(4,466,000)	4,004,000
Investment Activities:		
Additions to property, plant and equipment	3,318,000	3,388,000
Increase in loans to franchise owners	242,000	119,000
Disposals of property, plant and equipment, less gain included in operations	(312,000)	(368,000)
Net Cash Used By Investment Activities	3,248,000	3,139,000
Increase (Decrease) in Cash and Marketable Securities	(7,714,000)	865,000
Cash and Marketable Securities at Beginning of Year	13,079,000	9,534,000
Cash and Marketable Securities at End of First Quarter	\$ 5,365,000	\$10,399,000

	13 Weeks Ended	
	January 26, 1985	January 28, 1984
⁽¹⁾ Analysis of Working Capital Items:		
Accounts and notes receivable	\$ (610,000)	\$ 8,000
Equipment and other inventories	(501,000)	(417,000)
Other current assets	(135,000)	30,000
Accounts payable, accrued expenses and income taxes	(6,816,000)	2,216,000
	\$(8,062,000)	\$ 1,837,000

See Basis of Presentation in Financial Comments section.
 Certain amounts have been reclassified to permit comparison.

Financial Comments

January 26, 1985

Basis of Presentation

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the Company as of January 26, 1985 and January 28, 1984 and the results of its operations and changes in its financial position for the thirteen weeks ended January 26, 1985 and January 28, 1984.

The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements in the Company's Annual Report to Shareholders for the fiscal year ended October 27, 1984.

The results of operations for the thirteen week period ended January 26, 1985 are not necessarily indicative of the results to be expected for the remainder of the fiscal year.

Net income per share is computed on the basis of weighted average shares outstanding, after giving effect to the potential dilutive effect of the exercise of stock options.

Management's Discussion and Analysis

Results of Operations

Net income for the first quarter ended January 26, 1985 was \$2,630,000 or \$.54 per share, or a 17% increase over the \$2,255,000 or \$.46 per share earned during the first quarter ended January 28, 1984.

Revenues amounted to \$24,004,000, reflecting an 11% increase over the \$21,649,000 generated during the corresponding period last year. Worldwide sales have grown 11% from \$126,384,000 for the quarter ended January 28, 1984 to \$140,707,000 for the quarter ended January 26, 1985, mostly due to an increase in quarterly average North American shop sales from \$99,600 to \$106,300 (excluding satellites) and an increase in the number of total shops (including satellites) from 1,299 to 1,362 for the corresponding period. Lack of uniform pricing throughout the system and differences in product mix make it impractical to accurately determine the impact of price increases on sales growth. Directly related to worldwide sales and the number of shops are continuing franchise fee income and rental income which improved 11% and 9%, respectively, over the comparable quarter last year. During the quarter, the Company operated approximately 71 shops compared to 65 shops for the same period last year. The shop sales amounted to \$8,286,000 reflecting a 20% increase over sales generated during the first quarter of fiscal 1984. In addition, on a per shop basis, average sales for Company-operated shops continued to exceed the average sales per shop for all North American shops.

Expenses for the quarter were \$18,996,000 or 10% higher than the \$17,325,000 in expenses for the corresponding quarter a year ago. Selling, general and administrative expenses increased 8%, a result of higher payroll and payroll related costs and various other expenses associated with the Company's continued growth.

Liquidity and Capital Resources

Cash used in operations during the first quarter amounted to \$3,589,000 in addition to the \$3,318,000 used to purchase property, plant and equipment. For the corresponding quarter a year ago, cash flow from operations provided \$5,251,000 compared with capital expenditures of \$3,388,000. The primary reason for the negative cash flow from operations in the first quarter was the use of \$6,816,000 in cash to reduce accounts payable, accrued expenses, and income taxes (all current liabilities). Even with this drain on cash reserves, the Company was able to maintain \$5,365,000 in cash and marketable securities compared to \$10,399,000 for the corresponding period a year ago and \$13,079,000 at October 27, 1984.

Management continues to expect that the majority of its future capital requirements will be met with internally generated cash flow during the year, but does not exclude the possibility of additional borrowings if rates and terms are favorable.



Holiday Merchandising Program

During November and December, 1984, Dunkin' Donuts shops featured a special merchandising program designed to attract customers and increase shop sales and profits during this holiday period. The program included: the Anchor Hocking Kitchen Jar filled with Munchkins® Donut Hole Treats and featuring a special holiday gift box; the 1985 Dunkin' Donuts Calendar filled with over \$50 worth of coupons; and delicious holiday products including Christmas tree and star shaped cookies, seasonal fancies and other bakery products. The holiday program was supported by national mailings of Dunkin' Donuts coupons to millions of households and Network TV advertising featuring our famous and lovable Fred the Franchise Owner.

This holiday sales promotion was well received by our customers and was viewed as an outstanding success by our Franchise Owners. With over 950 shops in the United States participating, approximately 400,000 Kitchen Jars were sold and an estimated 1,500,000 Dunkin' Donuts Calendars were distributed to our customers.



Dunkin' Donuts Celebrates Soup Month

Beginning January, 1985 and continuing into February, 1985, Dunkin' Donuts conducted a soup promotion in which a variety of high quality Souper Soups for lunch and meal time snacks were offered. The program featured the Souper Soup Special which included a hearty bowl of soup (plus one free refill), bread and butter, coffee, and a delicious Dunkin' Donut. Customers could choose among a great selection of soups including: chicken vegetable, beef barley, New England clam chowder and more. The promotion was supported by point of sale materials and Carol Wright coupon mailings to millions of households nationwide. More than 950 Dunkin' Donuts shops in the United States participated in the Soup Month Program.