DUNKIN' BRANDS GROUP, INC.
Form 10-K/A
March 28, 2012

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from to

Commission file number 001-35258

DUNKIN BRANDS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-4145825**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

130 Royall Street

Canton, Massachusetts 02021

(Address of principal executive offices) (zip code)

(781) 737-3000

(Registrants telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.001 par value per share	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the voting and non-voting stock of the registrant held by non-affiliates of Dunkin Brands Group, Inc. computed by reference to the closing price of the registrant s common stock on the NASDAQ Global Select Market as of July 27, 2011, was approximately $751 million**.**

As of February 17, 2012, 120,153,097 shares of common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for the 2012 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference in Part III, Items 10-14 of this Form 10-K.

EXPLANATORY NOTE

This Amendment No. 2 to Form 10-K (this Amendment) amends the Annual Report on Form 10-K for the fiscal year ended December 31, 2011, originally filed on February 24, 2012 (the Original 10-K) and amended on March 16, 2012 (Amendment No. 1), of Dunkin Brands Group, Inc., a Delaware corporation (the Company , or we). We are filing this Amendment to amend Item 8 to clarify in Note (6) to our consolidated financial statements that, while the Company engaged a third party valuation specialist to assist it in determining the fair value of its investment in BR Korea Co., Ltd., the determination of fair value was made by the Company.

Other than as described above, the financial statements included in this Amendment are unchanged from those included in the Original 10-K.

This Amendment should be read in conjunction with the Original 10-K, Amendment No. 1 and the Company s other filings made with the Securities and Exchange Commission subsequent to the filing of the Original 10-K on February 24, 2012. The Original 10-K has not been amended or updated to reflect events occurring after February 24, 2012, except as specifically set forth in Amendment No. 1 and this Amendment.

PART II

Item 8. Financial Statements and Supplementary Data.
Our financial statements are annexed to this Amendment beginning on page F-1.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial statements: All financial statements are included in Part II, Item 8 of this report.

2. Financial statement schedules:

For fiscal year 2010, our joint ventures BR Korea Co., Ltd. and B-R 31 Ice Cream Co., Ltd. were deemed significant to us under Rule 3-09 of Regulation S-X, and as such the financial statements of these joint ventures are required to be filed as financial statement schedules herein within six months of their fiscal year end. Accordingly, the financial statements of these joint ventures are incorporated by reference to Exhibit 99.1 and 99.2, respectively, to Amendment No. 1 to the Company s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2011, File No. 001-35258, filed with the SEC on March 16, 2012).

All other financial statement schedules are omitted because they are not required or are not applicable, or the required information is provided in the consolidated financial statements or notes described in Item 15(a)(1) above.

3. Exhibits:

Exhibit Number	Exhibit Title
3.1	Form of Second Restated Certificate of Incorporation of Dunkin Brands Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on July 11, 2011)
3.2	Form of Second Amended and Restated Bylaws of Dunkin Brands Group, Inc. (incorporated by reference to Exhibit 3.2 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on July 11, 2011)
4.1	Form of Amended and Restated Registration Rights Agreement among Dunkin Brands Group, Inc. (f/k/a Dunkin Brands Group Holdings, Inc.), Dunkin Brands Holdings, Inc., Dunkin Brands, Inc. and certain Stockholders of Dunkin Brands Group, Inc. (incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on July 11, 2011)
4.2	Specimen Common Stock certificate of Dunkin Brands Group Holdings, Inc. (incorporated by reference to Exhibit 4.6 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on July 11, 2011)
10.1*	Dunkin Brands Group, Inc. (f/k/a Dunkin Brands Group Holdings, Inc.) Amended and Restated 2006 Executive Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.2*	Form of Option Award under 2006 Executive Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.3*	Form of Restricted Stock Award under 2006 Executive Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)

10.4*	Dunkin Brands Group, Inc. 2011 Omnibus Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on July 11, 2011)
10.5*	Form of Option Award under 2011 Omnibus Long-Term Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company s Annual Report on Form 10-K, File No. 001 35258, filed with the SEC on February 24, 2012)
10.6*	Form of Restricted Stock Unit Award under 2011 Omnibus Long-Term Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company s Annual Report on Form 10-K, File No. 001 35258, filed with the SEC on February 24, 2012)
10.7*	Dunkin Brands Group, Inc. Annual Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on July 11, 2011)
10.8*	Amended and Restated Dunkin Brands, Inc. Non-Qualified Deferred Compensation Plan (incorporated by reference to Exhibit 10.6 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.9*	Dunkin Brands, Inc. Short Term Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.10*	Amended and Restated Executive Employment Agreement among Dunkin Brands, Inc., Dunkin Brands Group, Inc. (f/k/a Dunkin Brands Group Holdings, Inc.), and Jon Luther, dated as of December 31, 2008 (incorporated by reference to Exhibit 10.8 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)

Exhibit Number	Exhibit Title
10.11*	Transition Agreement of Jon Luther, dated as of June 30, 2010 (incorporated by reference to Exhibit 10.9 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.12*	First Amended and Restated Executive Employment Agreement between Dunkin Brands, Inc., Dunkin Brands Group, Inc. and Nigel Travis (incorporated by reference to Exhibit 10.10 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.13*	Offer Letter to Neil Moses dated September 27, 2010 (incorporated by reference to Exhibit 10.13to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.14*	Offer Letter to Richard Emmett dated November 23, 2009 (incorporated by reference to Exhibit 10.14 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.15*	Offer Letter to John Costello dated September 30, 2009 (incorporated by reference to Exhibit 10.15 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.16*	Offer Letter to Paul Twohig dated September 10, 2009 (incorporated by reference to Exhibit 10.16 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.17*	Form of amendment to Offer Letters (incorporated by reference to Exhibit 10.16(a) to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on July 11, 2011)
10.18*	Offer Letter to Neal Yanofsky dated May 1, 2011 (incorporated by reference to Exhibit 10.18 to the Company s Annual Report on Form 10-K, File No. 001 35258, filed with the SEC on February 24, 2012)
10.19	Form of Non-Competition/Non-Solicitation/Confidentiality Agreement (incorporated by reference to Exhibit 10.17 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.20	Form of Amended and Restated Investor Agreement among Dunkin Brands Group, Inc. (f/k/a Dunkin Brands Group Holdings, Inc.), Dunkin Brands Holdings, Inc., Dunkin Brands, Inc. and the Investors named therein (incorporated by reference to Exhibit 10.18 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on July 11, 2011)
10.21	Form of Amended and Restated Stockholders Agreement among Dunkin Brands Group, Inc. (f/k/a Dunkin Brands Group Holdings, Inc.), Dunkin Brands Holdings, Inc., Dunkin Brands, Inc. and the Stockholders named therein (incorporated by reference to Exhibit 10.19 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on July 11, 2011)
10.22	Credit Agreement among Dunkin Finance Corp, Dunkin Brands Holdings, Inc., Dunkin Brands, Inc., Barclays Bank PLC and the other lenders party thereto, dated as of November 23, 2010 (incorporated by reference to Exhibit 10.20 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on June 7, 2011)
10.23	Joinder to Credit Agreement dated as of December 3, 2010 (incorporated by reference to Exhibit 10.21 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.24	Amendment 1, dated as of February 18, 2011, to the Credit Agreement among Dunkin Brands, Inc., Dunkin Brands Holdings, Inc., Barclays Bank PLC and the other lenders party thereto (incorporated by reference to Exhibit 10.22 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.25	Amendment 2, dated as of May 25, 2011, to the Credit Agreement among Dunkin Brands, Inc., Dunkin Brands Holdings, Inc., Barclays Bank PLC and the other lenders party thereto (incorporated by reference to Exhibit 10.29 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on June 7, 2011)
10.26	Security Agreement among the Grantors identified therein and Barclays Bank PLC, dated as of December 3, 2010 (incorporated by reference to Exhibit 10.23 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.27	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.24 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on June 7, 2011)
10.28	Lease between LSF3 Royall Street, LLC and Dunkin Donuts Incorporated, dated as of October 29, 2003 (incorporated by reference to Exhibit 10.25 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)

Exhibit Number	Exhibit Title
10.29	Assignment of Lease between Dunkin Donuts Incorporated and Dunkin Brands, Inc., dated as of July 22, 2005 (incorporated by reference to Exhibit 10.26 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.30	Guaranty delivered with LSF3 Royall Street, LLC Lease dated as of October 29, 2003 (incorporated by reference to Exhibit 10.27 to the Company s Registration Statement on Form S-1, File No. 333-173898, filed with the SEC on May 4, 2011)
10.31	Form of Baskin-Robbins Franchise Agreement (incorporated by reference to Exhibit 10.30 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on June 23, 2011)
10.32	Form of Dunkin Donuts Franchise Agreement (incorporated by reference to Exhibit 10.31 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on June 23, 2011)
10.33	Form of Combined Baskin-Robbins and Dunkin Donuts Franchise Agreement (incorporated by reference to Exhibit 10.32 to the Company s Registration Statement on Form S-1, File No. 333-173898, as amended on June 23, 2011)
10.34	Form of Dunkin Donuts Store Development Agreement (incorporated by reference to Exhibit 10.34 to the Company s Annual Report on Form 10-K, File No. 001 35258, filed with the SEC on February 24, 2012)
10.35	Form of Baskin-Robbins Store Development Agreement (incorporated by reference to Exhibit 10.35 to the Company s Annual Report on Form 10-K, File No. 001 35258, filed with the SEC on February 24, 2012)
10.36*	Offer Letter to William Mitchell dated August 2, 2010 (incorporated by reference to Exhibit 10.36 to Amendment No. 1 to the Company s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2011, File No. 001-35258, filed with the SEC on March 16, 2012)
10.37*	Separation Agreement with Neal Yanofsky, dated September 22, 2011 (incorporated by reference to Exhibit 10.37 to Amendment No. 1 to the Company s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2011, File No. 001-35258, filed with the SEC on March 16, 2012)
21.1	Subsidiaries of Dunkin Brands Group, Inc. (incorporated by reference to Exhibit 21.1 to Amendment No. 1 to the Company s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2011, File No. 001-35258, filed with the SEC on March 16, 2012)
23.1	Consent of KPMG LLP
23.2	Consent of Deloitte Anjin LLC (incorporated by reference to Exhibit 23.2 to Amendment No. 1 to the Company s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2011, File No. 001-35258, filed with the SEC on March 16, 2012)
23.3	Consent of PricewaterhouseCoopers Aarata (incorporated by reference to Exhibit 23.3 to Amendment No. 1 to the Company s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2011, File No. 001-35258, filed with the SEC on March 16, 2012)
31.1	Certification pursuant to Section 302 of Sarbanes Oxley Act of 2002 by Chief Executive Officer
31.2	Certification pursuant to Section 302 of Sarbanes Oxley Act of 2002 by Chief Financial Officer
32.1	Certification of periodic financial report pursuant to Section 906 of Sarbanes Oxley Act of 2002
32.2	Certification of periodic financial report pursuant to Section 906 of Sarbanes Oxley Act of 2002
99.1	Audited financial statements of BR Korea Co., Ltd. for the fiscal years ended December 31, 2011, December 31, 2010 and December 31, 2009 (incorporated by reference to Exhibit 99.1 to Amendment No. 1 to the Company s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2011, File No. 001-35258, filed with the SEC on March 16, 2012)
99.2	Financial statements of B-R 31 Ice Cream Co., Ltd. for the fiscal years ended December 31, 2011 (unaudited), December 31, 2010 (audited) and December 31, 2009 (unaudited) (incorporated by reference to Exhibit 99.2 to Amendment No. 1 to the Company s Annual Report on Form 10-K/A for the fiscal year ended December 31, 2011, File No. 001-35258, filed with the SEC on March 16, 2012)
101	The following financial information from the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, formatted in Extensible Business Reporting Language, (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders Equity (Deficit), (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to the Consolidated Financial Statements (incorporated by reference to Exhibit 101 to the Company s Annual Report on Form 10-K, File No. 001 35258, filed with the SEC on February 24, 2012)

* Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 28, 2012

DUNKIN BRANDS GROUP, INC.

By:	/s/ Nigel Travis
Name:	Nigel Travis
Title:	Chief Executive Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Dunkin Brands Group, Inc.:

We have audited the accompanying consolidated balance sheets of Dunkin Brands Group, Inc. and subsidiaries as of December 31, 2011 and December 25, 2010, and the related consolidated statements of operations, comprehensive income, stockholders equity (deficit), and cash flows for the years ended December 31, 2011, December 25, 2010, and December 26, 2009. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dunkin Brands Group, Inc. and subsidiaries as of December 31, 2011 and December 25, 2010, and the results of their operations and their cash flows for the years ended December 31, 2011, December 25, 2010, and December 26, 2009, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Boston, Massachusetts

February 24, 2012

Dunkin Brands Group, Inc. and Subsidiaries

Consolidated balance sheets

(In thousands, except share data)

		December 31, 2011	December 25, 2010
Assets			
Current assets:			
Cash and cash equivalents	$	246,715	134,100
Accounts receivable, net		37,122	35,239
Notes and other receivables, net		21,665	44,704
Assets held for sale		1,266	4,328
Deferred income taxes, net		48,387	12,570
Restricted assets of advertising funds		31,017	25,113
Prepaid income taxes			7,641
Prepaid expenses and other current assets		20,302	20,682
Total current assets		406,474	284,377
Property and equipment, net		185,360	193,273
Investments in joint ventures		164,636	169,276
Goodwill		890,992	888,655
Other intangible assets, net		1,507,219	1,535,657
Restricted cash		269	404
Other assets		69,068	75,646
Total assets	$	3,224,018	3,147,288
Liabilities, Common Stock, and Stockholders Equity (Deficit)			
Current liabilities:			
Current portion of long-term debt	$	14,965	12,500
Capital lease obligations		232	205
Accounts payable		9,651	9,822
Income taxes payable, net		15,630	
Liabilities of advertising funds		50,547	48,213
Deferred income		24,918	26,221
Other current liabilities		200,597	183,594
Total current liabilities		316,540	280,555
Long-term debt, net		1,453,344	1,847,016
Capital lease obligations		4,928	5,160
Unfavorable operating leases acquired		21,440	24,744
Deferred income		16,966	21,326
Deferred income taxes, net		578,660	586,337
Other long-term liabilities		86,204	75,909
Total long-term liabilities		2,161,542	2,560,492
Commitments and contingencies (note 16)			
Common stock, Class L, $0.001 par value; no shares authorized, issued, or outstanding at December 31, 2011; 100,000,000 shares authorized and 22,994,523 shares issued and outstanding at December 25, 2010			840,582

Stockholders equity (deficit):		
Preferred stock, $0.001 par value; 25,000,000 shares authorized; no shares issued and outstanding at December 31, 2011; no shares authorized, issued, or outstanding at December 25, 2010		
Common stock, $0.001 par value; 475,000,000 shares authorized and 120,136,631 shares issued and outstanding at December 31, 2011; 400,000,000 shares authorized and 42,939,360 shares issued and outstanding at December 25, 2010	119	42
Additional paid-in capital	1,478,291	195,212
Treasury stock, at cost		(1,807)
Accumulated deficit	(752,075)	(741,415)
Accumulated other comprehensive income	19,601	13,627
Total stockholders equity (deficit)	745,936	(534,341)
Total liabilities, common stock, and stockholders equity (deficit)	$ 3,224,018	3,147,288

See accompanying notes to consolidated financial statements.

Dunkin Brands Group, Inc. and subsidiaries

Consolidated statements of operations

(In thousands, except per share data)

	December 31, 2011	December 25, 2010	Fiscal year ended December 26, 2009
Revenues:			
Franchise fees and royalty income	$ 398,474	359,927	344,020
Rental income	92,145	91,102	93,651
Sales of ice cream products	100,068	84,989	75,256
Other revenues	37,511	41,117	25,146
Total revenues	628,198	577,135	538,073
Operating costs and expenses:			
Occupancy expenses franchised restaurants	51,878	53,739	51,964
Cost of ice cream products	72,329	59,175	47,432
General and administrative expenses, net	240,625	223,620	197,005
Depreciation	24,497	25,359	26,917
Amortization of other intangible assets	28,025	32,467	35,994
Impairment charges	2,060	7,075	8,517
Total operating costs and expenses	419,414	401,435	367,829
Equity in net income (loss) of joint ventures:			
Net income, excluding impairment	16,277	17,825	14,301
Impairment charge	(19,752)		
Total equity in net income (loss) of joint ventures	(3,475)	17,825	14,301
Operating income	205,309	193,525	184,545
Other income (expense):			
Interest income	623	305	386
Interest expense	(105,072)	(112,837)	(115,405)
Gain (loss) on debt extinguishment and refinancing transactions	(34,222)	(61,955)	3,684
Other gains, net	175	408	1,066
Total other expense	(138,496)	(174,079)	(110,269)
Income before income taxes	66,813	19,446	74,276
Provision (benefit) for income taxes	32,371	(7,415)	39,268
Net income	$ 34,442	26,861	35,008
Earnings (loss) per share:			
Class L-basic and diluted	$ 6.14	4.87	4.57
Common-basic and diluted	$ (1.41)	(2.04)	(1.69)

See accompanying notes to consolidated financial statements.

Dunkin Brands Group, Inc. and subsidiaries

Consolidated statements of comprehensive income

(In thousands)

			Fiscal year ended
	December 31, 2011	December 25, 2010	December 26, 2009
Net income	$ 34,442	26,861	35,008
Other comprehensive income (loss), net:			
Effect of foreign currency translation, net of deferred taxes of $295, $390, and $411 as of December 31, 2011, December 25, 2010, and December 26, 2009, respectively	6,560	9,624	5,986
Other	(586)	(426)	7
Total other comprehensive income	5,974	9,198	5,993
Comprehensive income	40,416	36,059	41,001

See accompanying notes to consolidated financial statements.

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Dunkin Brands Group, Inc. and subsidiaries

Consolidated statements of stockholders equity (deficit)

(In thousands)

	Common stock					Accumulated other comprehensive income (loss)	
	Shares	Amount	Additional paid-in capital	Treasury stock, at cost	Accumulated deficit		Total
Balance at December 27, 2008	40,977	$ 41	189,407	(727)	(587,698)	(1,564)	(400,541)
Net income					35,008		35,008
Other comprehensive income						5,993	5,993
Accretion of Class L preferred return					(104,560)		(104,560)
Issuance of common stock	124		237				237
Share-based compensation expense	431	1	1,744				1,745
Repurchases of common stock				(387)			(387)
Excess tax benefits from share-based compensation			1,112				1,112
Balance at December 26, 2009	41,532	42	192,500	(1,114)	(657,250)	4,429	(461,393)
Net income					26,861		26,861
Other comprehensive income						9,198	9,198
Accretion of Class L preferred return					(111,026)		(111,026)
Issuance of common stock	28		141				141
Share-based compensation expense	293		1,461				1,461
Repurchases of common stock				(693)			(693)
Excess tax benefits from share-based compensation			1,110				1,110
Balance at December 25, 2010	41,853	42	195,212	(1,807)	(741,415)	13,627	(534,341)
Net income					34,442		34,442
Other comprehensive income						5,974	5,974
Accretion of Class L preferred return					(45,102)		(45,102)
Conversion of Class L shares into common stock	55,653	55	887,786				887,841
Issuance of common stock in connection with initial public offering	22,250	22	389,939				389,961
Issuance of common stock	129		942				942
Exercise of stock options	62		266				266
Share-based compensation expense	105		4,632				4,632
Repurchases of common stock				(173)			(173)
Retirement of treasury stock	(558)		(1,980)	1,980			
Excess tax benefits from share-based compensation			1,494				1,494
Balance at December 31, 2011	119,494	$ 119	1,478,291		(752,075)	19,601	745,936

See accompanying notes to consolidated financial statements.

Dunkin Brands Group, Inc. and subsidiaries

Consolidated statements of cash flows

(In thousands)

			Fiscal year ended
	December 31, 2011	**December 25, 2010**	**December 26, 2009**
Cash flows from operating activities:			
Net income	$ 34,442	26,861	35,008
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	52,522	57,826	62,911
Amortization of deferred financing costs and original issue discount	6,278	6,523	7,394
Loss (gain) on debt extinguishment and refinancing transactions	34,222	61,955	(3,684)
Impact of unfavorable operating leases acquired	(3,230)	(4,320)	(5,027)
Deferred income taxes	(11,363)	(28,389)	18,301
Excess tax benefits from share-based compensation	(1,494)	(1,110)	
Impairment charges	2,060	7,075	8,517
Provision for bad debt	2,019	1,505	7,363
Share-based compensation expense	4,632	1,461	1,745
Equity in net loss (income) of joint ventures	3,475	(17,825)	(14,301)
Dividends received from joint ventures	7,362	6,603	5,010
Other, net	(1,139)	(137)	123
Change in operating assets and liabilities:			
Restricted cash		101,675	(32,520)
Accounts, notes, and other receivables, net	19,123	(11,815)	(17,509)
Other current assets	4,406	6,701	1,832
Accounts payable	85	(1,115)	3,008
Other current liabilities	17,904	29,384	16,698
Liabilities of advertising funds, net	(3,572)	(346)	19,681
Income taxes payable, net	473	1,341	5,737
Deferred income	(5,658)	(12,809)	(4,190)
Other, net	156	(2,040)	(18)
Net cash provided by operating activities	162,703	229,004	116,079
Cash flows from investing activities:			
Additions to property and equipment	(18,596)	(15,358)	(18,012)
Other, net	(1,211)	(249)	
Net cash used in investing activities	(19,807)	(15,607)	(18,012)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	250,000	1,859,375	
Repayment and repurchases of long-term debt	(654,608)	(1,470,985)	(145,183)
Repayment of short-term debt			(64,190)
Payment of deferred financing and other debt-related costs	(20,087)	(34,979)	(613)
Proceeds from initial public offering, net of offering costs	389,961		
Repurchases of common stock	(286)	(3,890)	(3,457)
Dividends paid on Class L common stock		(500,002)	
Change in restricted cash	178	16,144	2,276
Excess tax benefits from share-based compensation	1,494	1,110	
Other, net	3,274	644	2,702
Net cash used in financing activities	(30,074)	(132,583)	(208,465)
Effect of exchange rate changes on cash and cash equivalents	(207)	76	(29)

Increase (decrease) in cash and cash equivalents	112,615	80,890	(110,427)
Cash and cash equivalents, beginning of year	134,100	53,210	163,637
Cash and cash equivalents, end of year	$ 246,715	134,100	53,210
Supplemental cash flow information:			
Cash paid for income taxes	$ 43,143	19,206	15,920
Cash paid for interest	103,147	100,629	107,038
Noncash investing activities:			
Property and equipment included in accounts payable and other current liabilities	1,641	1,822	1,596
Purchase of leaseholds in exchange for capital lease obligation		178	1,381

See accompanying notes to consolidated financial statements.

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements

December 31, 2011 and December 25, 2010

(1) Description of business and organization

Dunkin Brands Group, Inc. (DBGI) and subsidiaries (collectively, the Company) is one of the world s largest franchisors of restaurants serving coffee and baked goods as well as ice cream within the quick service restaurant segment of the restaurant industry. We develop, franchise, and license a system of both traditional and nontraditional quick service restaurants and, in limited circumstances, own and operate individual locations. Through our Dunkin Donuts brand, we develop and franchise restaurants featuring coffee, donuts, bagels, and related products. Through our Baskin-Robbins brand, we develop and franchise restaurants featuring ice cream, frozen beverages, and related products. Additionally, our subsidiaries located in Canada and the United Kingdom (UK) manufacture and/or distribute Baskin-Robbins ice cream products to Baskin-Robbins franchisees and licensees in various international markets.

DBGI is majority-owned by investment funds affiliated with Bain Capital Partners, LLC, The Carlyle Group, and Thomas H. Lee Partners, L.P. (collectively, the Sponsors or BCT).

Throughout these financial statements, the Company, we, us, our, and management refer to DBGI and subsidiaries taken as a whole.

(2) Summary of significant accounting policies

(a) Fiscal year

The Company operates and reports financial information on a 52- or 53-week year on a 13-week quarter basis with the fiscal year ending on the last Saturday in December and fiscal quarters ending on the 13th Saturday of each quarter (or 14th Saturday when applicable with respect to the fourth fiscal quarter). The data periods contained within fiscal years 2011, 2010, and 2009 reflect the results of operations for the 53-week period ended December 31, 2011, and the 52-week periods ended December 25, 2010 and December 26, 2009, respectively.

(b) Basis of presentation and consolidation

The accompanying consolidated financial statements include the accounts of DBGI and subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant transactions and balances between subsidiaries have been eliminated in consolidation.

We consolidate entities in which we have a controlling financial interest, the usual condition of which is ownership of a majority voting interest. We also consider for consolidation an entity, in which we have certain interests, where the controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity (VIE), is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that possesses the power to direct the activities of the VIE that most significantly impact its economic performance and has the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it. The principal entities in which we possess a variable interest include franchise entities, the advertising funds (see note 4), and our investments in joint ventures. We do not possess any ownership interests in franchise entities, except for our investments in various joint

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

ventures that are accounted for under the equity method. Additionally, we generally do not provide financial support to franchise entities in a typical franchise relationship. As our franchise and license arrangements provide our franchisee and licensee entities the power to direct the activities that most significantly impact their economic performance, we do not consider ourselves the primary beneficiary of any such entity that might be a VIE. Based on the results of our analysis of potential VIEs, we have not consolidated any franchise or other entities. The Company s maximum exposure to loss resulting from involvement with potential VIEs is attributable to aged trade and notes receivable balances, outstanding loan guarantees (see note 16(b)), and future lease payments due from franchisees (see note 10).

(c) Accounting estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements and for the period then ended. Significant estimates are made in the calculations and assessments of the following: (a) allowance for doubtful accounts and notes receivables, (b) impairment of tangible and intangible assets, (c) income taxes, (d) real estate reserves, (e) lease accounting estimates, (f) gift certificate breakage, and (g) contingencies. Estimates are based on historical experience, current conditions, and various other assumptions that are believed to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities when they are not readily apparent from other sources. We adjust such estimates and assumptions when facts and circumstances dictate. Actual results may differ from these estimates under different assumptions or conditions. Illiquid credit markets, volatile equity and foreign currency markets, and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions.

(d) Cash and cash equivalents and restricted cash

The Company continually monitors its positions with, and the credit quality of, the financial institutions in which it maintains its deposits and investments. As of December 31, 2011 and December 25, 2010, we maintained balances in various cash accounts in excess of federally insured limits. All highly liquid instruments purchased with an original maturity of three months or less are considered cash equivalents.

As part of the securitization transaction (see note 8), certain cash accounts were established in the name of Citibank, N.A. (the Trustee) for the benefit of Ambac Assurance Corporation (Ambac), the Trustee, and the holders of our ABS Notes, and were restricted in their use. Historically, restricted cash primarily represented (i) cash collections held by the Trustee, (ii) interest, insurer premiums, and commitment fee reserves held by the Trustee related to our ABS Notes (see note 8), (iii) product sourcing and real estate reserves used to pay ice cream product obligations to affiliates and real estate obligations, respectively, (iv) cash collections related to the advertising funds and gift card/certificate programs, and (v) cash collateral requirements associated with our Canadian guaranteed financing arrangements (see note 16(b)). Changes in restricted cash held for interest, insurer premiums, commitment fee reserves, or other financing arrangements are presented as a component of cash flows from financing activities in the accompanying consolidated statements of cash flows. Other changes in restricted cash are presented as a component of operating activities. In connection with the repayment of the ABS Notes in December 2010 (see note 8), the cash restrictions associated with the ABS Notes were released.

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

Cash held related to the advertising funds and the Company s gift card/certificate programs are classified as unrestricted cash as there are no legal restrictions on the use of these funds; however, the Company intends to use these funds solely to support the advertising funds and gift card/certificate programs rather than to fund operations. Total cash balances related to the advertising funds and gift card/certificate programs as of December 31, 2011 and December 25, 2010 were $123.1 million and $82.3 million, respectively.

(e) Fair value of financial instruments

The carrying amounts of accounts receivable, notes and other receivables, assets and liabilities related to the advertising funds, accounts payable, and other current liabilities approximate fair value because of their short-term nature. For long-term receivables, we review the creditworthiness of the counterparty on a quarterly basis, and adjust the carrying value as necessary. We believe the carrying value of long-term receivables of $4.8 million as of December 31, 2011 and December 25, 2010 approximates fair value.

Financial assets and liabilities are categorized, based on the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to the quoted prices in active markets for identical assets and liabilities and lowest priority to unobservable inputs. Observable market data, when available, is required to be used in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 are summarized as follows (in thousands):

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Assets:		
Mutual funds	$ 2,777	
Total assets	$ 2,777	
Liabilities:		
Deferred compensation liabilities	$	6,856
Total liabilities	$	6,856

The mutual funds and deferred compensation liabilities primarily relate to the Dunkin Brands, Inc. Non-Qualified Deferred Compensation Plan (NQDC Plan), which allows for pre-tax salary deferrals for certain qualifying employees (see note 17). Changes in the fair value of the deferred compensation liabilities are derived using quoted prices in active markets of the asset selections made by the participants. The deferred compensation liabilities are classified within Level 2, as defined under U.S. GAAP, because their inputs are derived principally from observable market data by correlation to the hypothetical investments. The Company holds mutual funds, as well as money market funds, to partially offset the Company s liabilities under the NQDC Plan as well as other benefit plans. The changes in the fair value of the mutual funds are derived using quoted prices in active markets for the specific funds. As such, the mutual funds are classified within Level 1, as defined under U.S. GAAP.

(Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

The carrying value and estimated fair value of long-term debt at December 31, 2011 and December 25, 2010 was as follows (in thousands):

	December 31, 2011		December 25, 2010	
Financial liabilities	**Carrying value**	**Estimated fair value**	**Carrying value**	**Estimated fair value**
Term loans	$ 1,468,309	1,447,731	1,243,823	1,266,250
Senior notes			615,693	631,250
	$ 1,468,309	1,447,731	1,859,516	1,897,500

The estimated fair values of our term loans and senior notes are estimated based on current bid and offer prices, if available, for the same or similar instruments. Considerable judgment is required to develop these estimates.

(f) Inventories

Inventories consist of ice cream products. Cost is determined by the first-in, first-out method. Finished products are valued at the lower of cost or estimated net realizable value. Raw materials are valued at the lower of actual or replacement cost. Inventories are included within prepaid expenses and other current assets in the accompanying consolidated balance sheets.

(g) Assets held for sale

Assets held for sale primarily represent costs incurred by the Company for store equipment and leasehold improvements constructed for sale to franchisees, as well as restaurants formerly operated by franchisees waiting to be resold. The value of such restaurants and related assets is reduced to reflect net recoverable values, with such reductions recorded to general and administrative expenses, net in the consolidated statements of operations. Generally, internal specialists estimate the amount to be recovered from the sale of such assets based on their knowledge of the (a) market in which the store is located, (b) results of the Company s previous efforts to dispose of similar assets, and (c) current economic conditions. The actual cost of such assets held for sale is affected by specific factors such as the nature, age, location, and condition of the assets, as well as the economic environment and inflation.

We classify restaurants and their related assets as held for sale and suspend depreciation and amortization when (a) we make a decision to refranchise or sell the property, (b) the stores are available for immediate sale, (c) we have begun an active program to locate a buyer, (d) significant changes to the plan of sale are not likely, and (e) the sale is probable within one year.

(h) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets. Leasehold

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

improvements are depreciated over the shorter of the estimated useful life or the remaining lease term of the related asset. Estimated useful lives are as follows:

	Years
Buildings	20 35
Leasehold improvements	5 20
Store, production, and other equipment	3 10

Routine maintenance and repair costs are charged to expense as incurred. Major improvements, additions, or replacements that extend the life, increase capacity, or improve the safety or the efficiency of property are capitalized at cost and depreciated. Major improvements to leased property are capitalized as leasehold improvements and depreciated. Interest costs incurred during the acquisition period of capital assets are capitalized as part of the cost of the asset and depreciated.

(i) Leases

When determining lease terms, we begin with the point at which the Company obtains control and possession of the leased properties, and we include option periods for which failure to renew the lease imposes a penalty on the Company in such an amount that the renewal appears, at the inception of the lease, to be reasonably assured, which generally includes option periods through the end of the related franchise agreement term. We also include any rent holidays in the determination of the lease term.

We record rent expense and rent income for leases and subleases, respectively, that contain scheduled rent increases on a straight-line basis over the lease term as defined above. In certain cases, contingent rentals are based on sales levels of our franchisees, in excess of stipulated amounts. Contingent rentals are included in rent income and rent expense as they are earned or accrued, respectively.

We occasionally provide to our sublessees, or receive from our landlords, tenant improvement dollars. Tenant improvement dollars paid to our sublessees are recorded as a deferred rent asset. For fixed asset and/or leasehold purchases for which we receive tenant improvement dollars from our landlords, we record the property and equipment and/or leasehold improvements gross and establish a deferred rent obligation. The deferred lease assets and obligations are amortized on a straight-line basis over the determined sublease and lease terms, respectively.

Management regularly reviews sublease arrangements, where we are the lessor, for losses on sublease arrangements. We recognize a loss, discounted using credit-adjusted risk-free rates, when costs expected to be incurred under an operating prime lease exceed the anticipated future revenue stream of the operating sublease. Furthermore, for properties where we do not currently have an operational franchise or other third-party sublessee and are under long-term lease agreements, the present value of any remaining liability under the lease, discounted using credit-adjusted risk-free rates and net of estimated sublease recovery, is recognized as a liability and charged to operations at the time we cease use of the property. The value of any equipment and leasehold improvements related to a closed store is assessed for potential impairment (see note 2(j)).

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

(j) Impairment of long-lived assets

Long-lived assets that are used in operations are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable through undiscounted future cash flows. Recognition and measurement of a potential impairment is performed on assets grouped with other assets and liabilities at the lowest level where identifiable cash flows are largely independent of the cash flows of other assets and liabilities. An impairment loss is the amount by which the carrying amount of a long-lived asset or asset group exceeds its estimated fair value. Fair value is generally estimated by internal specialists based on the present value of anticipated future cash flows or, if required, by independent third-party valuation specialists, depending on the nature of the assets or asset group.

(k) Investments in joint ventures

The Company accounts for its joint venture interests in B-R 31 Ice Cream Co., Ltd. (BR Japan) and BR-Korea Co., Ltd. (BR Korea) in accordance with the equity method. As a result of the acquisition of the Company by BCT on March 1, 2006 (BCT Acquisition), the Company recorded a step-up in the basis of our investments in BR Japan and BR Korea. The basis difference is comprised of amortizable franchise rights and related tax liabilities and nonamortizable goodwill. The franchise rights and related tax liabilities are amortized in a manner that reflects the estimated benefits from the use of the intangible asset over a period of 14 years. The franchise rights were valued based on an estimate of future cash flows to be generated from the ongoing management of the contracts over their remaining useful lives.

(l) Goodwill and other intangible assets

Goodwill and trade names (indefinite lived intangibles) have been assigned to our reporting units, which are also our operating segments, for purposes of impairment testing. All of our reporting units have indefinite lived intangibles associated with them.

We evaluate the remaining useful life of our trade names to determine whether current events and circumstances continue to support an indefinite useful life. In addition, all of our indefinite lived intangible assets are tested for impairment annually. The trade name intangible asset impairment test consists of a comparison of the fair value of each trade name with its carrying value, with any excess of carrying value over fair value being recognized as an impairment loss. The goodwill impairment test consists of a comparison of each reporting unit s fair value to its carrying value. The fair value of a reporting unit is an estimate of the amount for which the unit as a whole could be sold in a current transaction between willing parties. If the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its implied fair value. We have selected the first day of our fiscal third quarter as the date on which to perform our annual impairment test for all indefinite lived intangible assets. We also test for impairment whenever events or circumstances indicate that the fair value of such indefinite lived intangibles has been impaired.

Other intangible assets consist primarily of franchise and international license rights (franchise rights), ice cream manufacturing and territorial franchise agreement license rights (license rights), and operating lease interests acquired related to our prime leases and subleases (operating leases acquired). Franchise rights recorded in the consolidated balance sheets were valued using an excess earnings approach. The valuation of

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

franchise rights was calculated using an estimation of future royalty income and related expenses associated with existing franchise contracts at the acquisition date. Our valuation included assumptions related to the projected attrition and renewal rates on those existing franchise arrangements being valued. License rights recorded in the consolidated balance sheets were valued based on an estimate of future revenues and costs related to the ongoing management of the contracts over the remaining useful lives. Favorable and unfavorable operating leases acquired were recorded on purchased leases based on differences between contractual rents under the respective lease agreements and prevailing market rents at the lease acquisition date. Favorable operating leases acquired are included as a component of other intangible assets in the consolidated balance sheets. Due to the high level of lease renewals made by Dunkin Donuts franchisees, all lease renewal options for the Dunkin Donuts leases were included in the valuation of the favorable operating leases acquired. Amortization of franchise rights, license rights, and favorable operating leases acquired is recorded as amortization expense in the consolidated statements of operations and amortized over the respective franchise, license, and lease terms using the straight-line method.

Unfavorable operating leases acquired related to our prime and subleases are recorded in the liability section of the consolidated balance sheets and are amortized into rental expense and rental income, respectively, over the base lease term of the respective leases using the straight-line method. The weighted average amortization period for all unfavorable operating leases acquired is 14 years.

Management makes adjustments to the carrying amount of such intangible assets and unfavorable operating leases acquired if they are deemed to be impaired using the methodology for long-lived assets (see note 2(j)), or when such license or lease agreements are reduced or terminated.

(m) Contingencies

The Company records reserves for legal and other contingencies when information available to the Company indicates that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Predicting the outcomes of claims and litigation and estimating the related costs and exposures involve substantial uncertainties that could cause actual costs to vary materially from estimates. Legal costs incurred in connection with legal and other contingencies are expensed as the costs are incurred.

(n) Foreign currency translation

We translate assets and liabilities of non-U.S. operations into U.S. dollars at rates of exchange in effect at the balance sheet date and revenues and expenses at the average exchange rates prevailing during the period. Resulting translation adjustments are recorded as a separate component of comprehensive income and stockholders equity (deficit), net of deferred taxes. Foreign currency translation adjustments primarily result from our joint ventures, as well as subsidiaries located in Canada, the UK, Australia, and Spain. Business transactions resulting in foreign exchange gains and losses are included in the consolidated statements of operations.

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

(o) Revenue recognition

Franchise fees and royalty income

Domestically, the Company sells individual franchises as well as territory agreements in the form of store development agreements (SDA agreements) that grant the right to develop restaurants in designated areas. Our franchise and SDA agreements typically require the franchisee to pay an initial nonrefundable fee and continuing fees, or royalty income, based upon a percentage of sales. The franchisee will typically pay us a renewal fee if we approve a renewal of the franchise agreement. Such fees are paid by franchisees to obtain the rights associated with these franchise or SDA agreements. Initial franchise fee revenue is recognized upon substantial completion of the services required of the Company as stated in the franchise agreement, which is generally upon opening of the respective restaurant. Fees collected in advance are deferred until earned, with deferred amounts expected to be recognized as revenue within one year classified as current deferred income in the consolidated balance sheets. Royalty income is based on a percentage of franchisee gross sales and is recognized when earned, which occurs at the franchisees point of sale. Renewal fees are recognized when a renewal agreement with a franchisee becomes effective. Occasionally, the Company offers incentive programs to franchisees in conjunction with a franchise, SDA, or renewal agreement and, when appropriate, records the costs of such programs as reductions of revenue.

For our international business, we sell master territory and/or license agreements that typically allow the master licensee to either act as the franchisee or to sub-franchise to other operators. Master license and territory fees are generally recognized over the term of the development agreement or as stores are opened, depending on the specific terms of the agreement. Royalty income is based on a percentage of franchisee gross sales and is recognized when earned, which generally occurs at the franchisees point of sale. Renewal fees are recognized when a renewal agreement with a franchisee or licensee becomes effective.

Rental income

Rental income for base rentals is recorded on a straight-line basis over the lease term, including the amortization of any tenant improvement dollars paid (see note 2(i)). The difference between the straight-line rent amounts and amounts receivable under the leases is recorded as deferred rent assets in current or long-term assets, as appropriate. Contingent rental income is recognized as earned, and any amounts received from lessees in advance of achieving stipulated thresholds are deferred until such threshold is actually achieved. Deferred contingent rentals are recorded as deferred income in current liabilities in the consolidated balance sheets.

Sales of ice cream products

Our subsidiaries in Canada and the UK manufacture and/or distribute Baskin-Robbins ice cream products to Baskin-Robbins franchisees and licensees in Canada and other international locations. Revenue from the sale of ice cream is recognized when title and risk of loss transfers to the buyer, which is generally upon shipment.

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

Other revenues

Other revenues include fees generated by licensing our brand names and other intellectual property, retail stores sales at company-owned restaurants, and gains, net of losses and transactions costs, from the sales of our restaurants to new or existing franchisees. Licensing fees are recognized when earned, which is generally upon sale of the underlying products by the licensees. Retail store revenues at company-owned restaurants are recognized when payment is tendered at the point of sale, net of sales tax and other sales-related taxes. Gains on the refranchise or sale of a restaurant are recognized when the sale transaction closes, the franchisee has a minimum amount of the purchase price in at-risk equity, and we are satisfied that the buyer can meet its financial obligations to us. If the criteria for gain recognition are not met, we defer the gain to the extent we have any remaining financial exposure in connection with the sale transaction. Deferred gains are recognized when the gain recognition criteria are met.

(p) Allowance for doubtful accounts

We monitor the financial condition of our franchisees and licensees and record provisions for estimated losses on receivables when we believe that our franchisees or licensees are unable to make their required payments. While we use the best information available in making our determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond our control. Included in the allowance for doubtful notes and accounts receivables is a provision for uncollectible royalty, lease, and licensing fee receivables.

(q) Share-based payment

We measure compensation cost at fair value on the date of grant for all stock-based awards and recognize compensation expense over the service period that the awards are expected to vest. The Company has elected to recognize compensation cost for graded-vesting awards subject only to a service condition over the requisite service period of the entire award.

(r) Income taxes

Deferred tax assets and liabilities are recorded for the expected future tax consequences of items that have been included in our consolidated financial statements or tax returns. Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts of assets and liabilities and the respective tax bases of assets and liabilities using enacted tax rates that are expected to apply in years in which the temporary differences are expected to reverse. The effects of changes in tax rates on deferred tax assets and liabilities are recognized in the consolidated statements of operations in the year in which the law is enacted. Valuation allowances are provided when the Company does not believe it is more likely than not that it will realize the benefit of identified tax assets.

A tax position taken or expected to be taken in a tax return is recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Estimates of interest and penalties on unrecognized tax benefits are recorded in the provision (benefit) for income taxes.

(Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

(s) Comprehensive income

Comprehensive income is primarily comprised of net income, foreign currency translation adjustments, unrealized gains and losses on investments, and pension adjustments for changes in funded status, and is reported in the consolidated statements of comprehensive income, net of taxes, for all periods presented.

(t) Deferred financing costs

Deferred financing costs primarily represent capitalizable costs incurred related to the issuance and refinancing of the Company s long-term debt (see note 8). Deferred financing costs are being amortized over a weighted average period of approximately 7 years, based on projected required repayments, using the effective interest rate method.

(u) Concentration of credit risk

The Company is subject to credit risk through its accounts receivable consisting primarily of amounts due from franchisees and licensees for franchise fees, royalty income, and sales of ice cream products. In addition, we have note and lease receivables from certain of our franchisees and licensees. The financial condition of these franchisees and licensees is largely dependent upon the underlying business trends of our brands and market conditions within the quick service restaurant industry. This concentration of credit risk is mitigated, in part, by the large number of franchisees and licensees of each brand and the short-term nature of the franchise and license fee and lease receivables. At December 31, 2011, one master licensee accounted for approximately 17% of total accounts receivable, net. No other individual franchisee or master licensee accounts for more than 10% of total revenues or accounts and notes receivable.

(v) Recent accounting pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued new guidance, which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not need to perform the two-step impairment test for that reporting unit. This guidance is effective for the Company beginning in fiscal year 2012. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In June 2011, the FASB issued new guidance to increase the prominence of other comprehensive income in financial statements. This guidance provides the option to present the components of net income and comprehensive income in either one single statement or in two consecutive statements reporting net income and other comprehensive income. The Company adopted this guidance in fiscal year 2011 and presents the components of net income and comprehensive income in two consecutive statements. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In May 2011, the FASB issued new guidance to clarify existing fair value guidance and to develop common requirements for measuring fair value and for disclosing information about fair value measurements in

 (Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

accordance with GAAP and International Financial Reporting Standards. This guidance is effective for the Company beginning in fiscal year 2012. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In December 2010, the FASB issued new guidance to amend the criteria for performing the second step of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires performing the second step if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. This new guidance was effective for the Company beginning in fiscal year 2011. The adoption of this guidance did not have any impact on our goodwill assessment or our consolidated financial statements.

(w) Subsequent events

Subsequent events have been evaluated up through the date that these consolidated financial statements were filed.

(3) Franchise fees and royalty income

Franchise fees and royalty income consisted of the following (in thousands):

			Fiscal year ended
	December 31, 2011	**December 25, 2010**	**December 26, 2009**
Royalty income	$ 363,458	332,770	317,692
Initial franchise fees, including renewal income	35,016	27,157	26,328
Total franchise fees and royalty income	$ 398,474	359,927	344,020

The changes in franchised and company-owned points of distribution were as follows:

			Fiscal year ended
	December 31, 2011	**December 25, 2010**	**December 26, 2009**
Systemwide Points of Distribution:			
Franchised points of distribution in operation - beginning of year	16,162	15,375	14,846
Franchises opened	1,335	1,618	1,601
Franchises closed	(735)	(815)	(1,055)
Net transfers from (to) company-owned points of distribution	1	(16)	(17)
Franchised points of distribution in operation - end of year	16,763	16,162	15,375
Company-owned points of distribution - end of year	31	31	18
Total systemwide points of distribution - end of year	16,794	16,193	15,393

 (Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

(4) Advertising funds

On behalf of certain Dunkin Donuts and Baskin-Robbins advertising funds, the Company collects a percentage, which is generally 5% of gross retail sales from Dunkin Donuts and Baskin-Robbins franchisees, to be used for various forms of advertising for each brand. In most of our international markets, franchisees manage their own advertising expenditures, which are not included in the advertising fund results.

The Company administers and directs the development of all advertising and promotion programs in the advertising funds for which it collects advertising fees, in accordance with the provisions of our franchise agreements. The Company acts as, in substance, an agent with regard to these advertising contributions. We consolidate and report all assets and liabilities held by these advertising funds as restricted assets of advertising funds and liabilities of advertising funds within current assets and current liabilities, respectively, in the consolidated balance sheets. The assets and liabilities held by these advertising funds consist primarily of receivables, accrued expenses, and other liabilities related specifically to the advertising funds. The revenues, expenses, and cash flows of the advertising funds are not included in the Company s consolidated statements of operations or consolidated statements of cash flows because the Company does not have complete discretion over the usage of the funds. Contributions to these advertising funds are restricted to advertising, product development, public relations, merchandising, and administrative expenses and programs to increase sales and further enhance the public reputation of each of the brands.

At December 31, 2011 and December 25, 2010, the Company had a net payable of $19.5 million and $23.1 million, respectively, to the various advertising funds.

To cover administrative expenses of the advertising funds, the Company charges each advertising fund a management fee for such items as rent, accounting services, information technology, data processing, product development, legal, administrative support services, and other operating expenses, which amounted to $5.7 million, $5.6 million, and $6.2 million for fiscal years 2011, 2010, and 2009, respectively. Such management fees are included in the consolidated statements of operations as a reduction in general and administrative expenses, net.

The Company also made discretionary contributions to certain advertising funds, which amounted to $2.0 million, $1.2 million, and $1.2 million for fiscal years 2011, 2010, and 2009, respectively, for the purpose of supplementing national and regional advertising in certain markets.

(5) Property and equipment

Property and equipment at December 31, 2011 and December 25, 2010 consisted of the following (in thousands):

	December 31, 2011	December 25, 2010
Land	$ 30,706	30,485
Buildings	43,380	40,093
Leasehold improvements	161,167	160,369
Store, production, and other equipment	50,105	49,072
Construction in progress	3,543	3,917
	288,901	283,936
Accumulated depreciation and amortization	(103,541)	(90,663)
	$ 185,360	193,273

 (Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

The Company recognized impairment charges on leasehold improvements, typically due to termination of the underlying lease agreement, and other corporately-held assets of $1.4 million, $4.8 million, and $6.8 million during fiscal years 2011, 2010, and 2009, respectively, which are included in impairment charges in the consolidated statements of operations.

(6) Investments in joint ventures

The Company s ownership interests in its joint ventures as of December 31, 2011 and December 25, 2010 were as follows:

		Ownership
Entity	**December 31, 2011**	**December 25, 2010**
BR Japan	43.3%	43.3%
BR Korea	33.3	33.3

Summary financial information for the joint venture operations on an aggregated basis was as follows (in thousands):

	December 31, 2011	**December 25, 2010**
Current assets	$ 195,977	184,608
Current liabilities	92,758	86,969
Working capital	103,219	97,639
Property, plant, and equipment, net	147,929	102,405
Other assets	156,061	141,574
Long-term liabilities	55,514	19,084
Joint venture equity	$ 351,695	322,534

			Fiscal year ended
	December 31, 2011	**December 25, 2010**	**December 26, 2009**
Revenues	$ 659,319	580,671	495,146
Net income	44,156	47,664	41,577

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

The comparison between the carrying value of our investments and the underlying equity in net assets of investments is presented in the table below (in thousands):

	BR Japan December 31, 2011	BR Japan December 25, 2010	BR Korea December 31, 2011	BR Korea December 25, 2010
Carrying value of investment	$ 103,830	94,326	60,806	74,950
Underlying equity in net assets of investment	56,319	49,854	73,839	69,037
Carrying value in excess of (less than) the underlying equity in net assets(a)	$ 47,511	44,472	(13,033)	5,913

(a) The excess carrying values over the underlying equity in net assets of BR Japan as of December 31, 2011 and December 25, 2010 and BR Korea as of December 25, 2010 is primarily comprised of amortizable franchise rights and related tax liabilities and nonamortizable goodwill, all of which were established in the BCT Acquisition. The deficit of cost relative to the underlying equity in net assets of BR Korea as of December 31, 2011 is primarily comprised of an impairment of long-lived assets, net of tax, recorded in fiscal year 2011.

Equity in net income (loss) of joint ventures in the consolidated statements of operations for fiscal years 2011, 2010, and 2009 includes $868 thousand, $897 thousand, and $899 thousand, respectively, of net expense related to the amortization of intangible franchise rights and related deferred tax liabilities noted above. As required under the equity method of accounting, such net expense is recorded in the consolidated statements of operations directly to equity in net income (loss) of joint ventures and not shown as a component of amortization expense.

During the fourth quarter of 2011, management concluded that indicators of potential impairment were present related to our investment in BR Korea based on continued declines in the operating performance and future projections of the Korea Dunkin Donuts business. Accordingly, the Company engaged an independent third-party valuation specialist to assist the Company in determining the fair value of our investment in BR Korea. The valuation was completed using a combination of discounted cash flow and income approaches to valuation. Based in part on the fair value determined by the independent third-party valuation specialist, the Company determined that the carrying value of the investment in BR Korea exceeded fair value by $19.8 million, and as such the Company recorded an impairment charge in that amount in the fourth quarter of 2011. The impairment charge was allocated to the underlying goodwill, intangible assets, and long-lived assets of BR Korea, and therefore resulted in a reduction in depreciation and amortization, net of tax, of $1.0 million, in fiscal year 2011, which is recorded within equity in net income (loss) of joint ventures in the consolidated statements of operations.

Total estimated amortization expense, net of deferred tax benefits, to be included in equity in net income of joint ventures for fiscal years 2012 through 2016 is as follows (in thousands):

Fiscal year:	
2012	$ 710
2013	634
2014	553
2015	467
2016	375

(Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

(7) Goodwill and other intangible assets

The changes and carrying amounts of goodwill by reporting unit were as follows (in thousands):

Goodwill	**Dunkin Donuts U.S.**	**Dunkin Donuts International**	**Baskin-Robbins International**	**Total**
Balances at December 26, 2009:				
Goodwill	$ 1,148,016	10,275	24,037	1,182,328
Accumulated impairment charges	(270,441)		(24,037)	(294,478)
Net balance at December 26, 2009	877,575	10,275		887,850
Goodwill acquired	780			780
Effects of foreign currency adjustments		25		25
Balances at December 25, 2010:				
Goodwill	1,148,796	10,300	24,037	1,183,133
Accumulated impairment charges	(270,441)		(24,037)	(294,478)
Net balance at December 25, 2010	878,355	10,300		888,655
Goodwill acquired	2,344			2,344
Effects of foreign currency adjustments		(7)		(7)
Balances at December 31, 2011:				
Goodwill	1,151,140	10,293	24,037	1,185,470
Accumulated impairment charges	(270,441)		(24,037)	(294,478)
Net balance at December 31, 2011	$ 880,699	10,293		890,992

The goodwill acquired during fiscal years 2011 and 2010 is related to the acquisition of certain company-owned points of distribution.

Other intangible assets at December 31, 2011 consisted of the following (in thousands):

	Weighted average amortization period (years)	**Gross carrying amount**	**Accumulated amortization**	**Net carrying amount**
Definite lived intangibles:				
Franchise rights	20	$ 383,786	(119,091)	264,695
Favorable operating leases acquired	14	83,672	(34,725)	48,947
License rights	10	6,230	(3,623)	2,607

Indefinite lived intangible:				
Trade names	N/A	1,190,970		1,190,970
		$ 1,664,658	(157,439)	1,507,219

(Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

Other intangible assets at December 25, 2010 consisted of the following (in thousands):

	Weighted average amortization period (years)	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite lived intangibles:				
Franchise rights	20	$ 385,309	(100,296)	285,013
Favorable operating leases acquired	13	90,406	(33,965)	56,441
License rights	10	6,230	(2,997)	3,233
Indefinite lived intangible:				
Trade names	N/A	1,190,970		1,190,970
		$ 1,672,915	(137,258)	1,535,657

The changes in the gross carrying amount of other intangible assets from December 25, 2010 to December 31, 2011 is primarily due to the impact of foreign currency fluctuations and the impairment of favorable operating leases acquired resulting from lease terminations. Impairment of favorable operating leases acquired, net of accumulated amortization, totaled $624 thousand, $2.3 million, and $1.7 million, for fiscal years 2011, 2010, and 2009, respectively, and is included in impairment charges in the consolidated statements of operations.

Total estimated amortization expense for other intangible assets for fiscal years 2012 through 2016 is as follows (in thousands):

Fiscal year:	
2012	$ 26,760
2013	26,192
2014	25,681
2015	25,326
2016	22,378

(8) Debt

Debt at December 31, 2011 and December 25, 2010 consisted of the following (in thousands):

	December 31, 2011	December 25, 2010
Term loans	$ 1,468,309	1,243,823
Senior notes		615,693

Total debt	1,468,309	1,859,516
Less current portion of long-term debt	14,965	12,500
Total long-term debt	$ 1,453,344	1,847,016

(Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

Senior credit facility

The Company s senior credit facility consists of $1.50 billion aggregate principal amount term loans and a $100.0 million revolving credit facility, which were entered into by DBGI s subsidiary, Dunkin Brands, Inc. (DBI) in November 2010. The term loans and revolving credit facility mature in November 2017 and November 2015, respectively. As of December 31, 2011 and December 25, 2010, $11.2 million of letters of credit were outstanding against the revolving credit facility.

Borrowings under the senior credit facility bear interest at a rate per annum equal to an applicable margin plus, at our option, either (1) a base rate determined by reference to the highest of (a) the Federal Funds rate plus 0.5%, (b) the prime rate, (c) the LIBOR rate plus 1%, and (d) 2.00% or (2) a LIBOR rate provided that LIBOR shall not be lower than 1.00%. The applicable margin under the term loan facility is 2.00% for loans based upon the base rate and 3.00% for loans based upon the LIBOR rate. In addition, we are required to pay a 0.50% commitment fee per annum on the unused portion of the revolver and a fee for letter of credit amounts outstanding of 3.00%. The effective interest rate for term loans, including the amortization of original issue discount and deferred financing costs, was 4.4% at December 31, 2011.

Repayments are required to be made under the term loans equal to $15.0 million per calendar year, payable in quarterly installments through September 2017, with the remaining principal balance due in November 2017. Additionally, following the end of each fiscal year, if DBI s leverage ratio, which is a measure of DBI s cash income to outstanding debt, exceeds 4.00x, the Company is required to prepay an amount equal to 25% of excess cash flow (as defined in the senior credit facility) for such fiscal year. Under the terms of the senior credit facility, the first excess cash flow payment is due in the first quarter of fiscal year 2012 based on fiscal year 2011 excess cash flow and leverage ratio. In December 2011, the Company made an additional principal payment of $11.8 million to be applied to the 2011 excess cash flow payment that is due in the first quarter of 2012. Based on fiscal year 2011 excess cash flow, considering all payments made, the excess cash flow payment required in the first quarter of 2012 is $2.9 million, which may be deducted from future minimum required principal payments. Other events and transactions, such as certain asset sales and incurrence of debt, may trigger additional mandatory prepayments.

The senior credit facility contains certain financial and nonfinancial covenants, which include restrictions on liens, investments, additional indebtedness, asset sales, certain dividend payments, and certain transactions with affiliates. At December 31, 2011 and December 25, 2010, the Company was in compliance with all of its covenants under the senior credit facility.

Certain of the Company s wholly owned domestic subsidiaries guarantee the senior credit facility. All obligations under the senior credit facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all assets of DBI and the subsidiary guarantors.

During 2011, the Company increased the size of the term loans from $1.25 billion to $1.50 billion. The incremental proceeds of the term loans were used to repay $250.0 million of the Company s senior notes. Additionally, the Company completed two separate re-pricing transactions to reduce the stated interest rate on the senior credit facility. As a result of the additional term loan borrowings and the re-pricings of the term loans, the Company recorded a loss on debt extinguishment and refinancing transactions of $8.2 million in fiscal year 2011, which includes debt extinguishment of $477 thousand related to the write-off of original issuance discount and deferred financing costs, and $7.7 million of costs paid to creditors and third parties.

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

The term loans were issued with an original issue discount of $6.3 million. Total debt issuance costs incurred and capitalized in relation to the senior credit facility were $32.6 million. Total amortization of original issue discount and debt issuance costs related to the senior credit facility was $5.3 million and $323 thousand for fiscal years 2011 and 2010, respectively, which is included in interest expense in the consolidated statements of operations.

Senior notes

DBI issued $625.0 million face amount senior notes in November 2010 with a maturity of December 2018 and interest payable semi-annually at a rate of 9.625% per annum.

The senior notes were issued with an original issue discount of $9.4 million. Total debt issuance costs incurred and capitalized in relation to the senior notes were $15.6 million. Total amortization of original issue discount and debt issuance costs related to the senior notes was $1.0 million and $182 thousand for fiscal years 2011 and 2010, respectively, which is included in interest expense in the consolidated statements of operations.

In conjunction with the additional term loan borrowings during 2011, the Company repaid $250.0 million of senior notes. Using funds raised by the Company s initial public offering (see note 12) in August 2011, the Company repaid the full remaining principal balance on the senior notes. In conjunction with the repayment of senior notes, the Company recorded a loss on debt extinguishment of $26.0 million, which includes the write-off of original issuance discount and deferred financing costs totaling $22.8 million, as well as prepayment premiums and third-party costs of $3.2 million.

ABS Notes

On May 26, 2006, certain of the Company s subsidiaries (the Co-Issuers) entered into a securitization transaction. In connection with this securitization transaction, the Co-Issuers issued 5.779% Fixed Rate Series 2006-1 Senior Notes, Class A-2 (Class A-2 Notes) with an initial principal amount of $1.5 billion and 8.285% Fixed Rate Series 2006-1 Subordinated Notes, Class M-1 (Class M-1 Notes) with an initial principal amount of $100.0 million. In addition, the Company also issued Class A-1 Notes (the Class A-1 Notes, together with the Class A-2 Notes and the Class M-1 Notes, the ABS Notes), which permitted the Co-Issuers to draw up to a maximum of $100.0 million on a revolving basis.

Total debt issuance costs incurred and capitalized in relation to the ABS Notes were $72.9 million, of which $6.0 million and $7.4 million was amortized to interest expense during fiscal years 2010 and 2009, respectively.

During fiscal year 2009, the Company repurchased and retired outstanding Class A-2 Notes with a total face value of $153.7 million. The Class A-2 Notes were repurchased using available cash for a total repurchase price of $142.7 million. As a result of these repurchases, the Company recorded a net gain on debt extinguishment of $3.7 million, which includes the write-off of deferred financing costs of $4.8 million and pre-payment premiums paid to Ambac of $2.5 million.

In 2010, all outstanding ABS Notes were repaid in full with proceeds from the term loans and senior notes, as well as available cash. As a result, a net loss on debt extinguishment of $62.0 million was recorded, which includes the write-off of deferred financing costs of $37.4 million, make whole payments of $23.6 million, and other professional and legal costs.

Maturities of long-term debt

Excluding the impact of excess cash flow payments required by the senior credit facility as discussed above, the aggregate maturities of long-term debt for each of the next five calendar years are $15.0 million.

(9) Other current liabilities

Other current liabilities at December 31, 2011 and December 25, 2010 consisted of the following (in thousands):

	December 31, 2011	December 25, 2010
Gift card/certificate liability	$ 144,965	123,078
Accrued salary and benefits	31,001	21,307
Accrued professional and legal costs	8,085	9,839
Accrued interest	659	6,129
Other	15,887	23,241
Total other current liabilities	$ 200,597	183,594

During fiscal years 2011, 2010, and 2009, the Company recognized $412 thousand, $521 thousand, and $3.2 million, respectively, of income related to gift certificate breakage within general and administrative expenses, net. The gift certificate breakage amount recognized was based upon historical redemption patterns and represents the remaining balance of gift certificates for which the Company believes the likelihood of redemption by the customer is remote. The Company determined during fiscal year 2009 that sufficient historical patterns existed to estimate breakage and therefore recognized a cumulative adjustment for all gift certificates outstanding as of December 26, 2009.

(10) Leases

The Company is the lessee on certain land leases (the Company leases the land and erects a building) or improved leases (lessor owns the land and building) covering restaurants and other properties. In addition, the Company has leased and subleased land and buildings to others. Many of these leases and subleases provide for future rent escalation and renewal options. In addition, contingent rentals, determined as a percentage of annual sales by our franchisees, are stipulated in certain prime lease and sublease agreements. The Company is generally obligated for the cost of property taxes, insurance, and maintenance relating to these leases. Such costs are typically charged to the sublessee based on the terms of the sublease agreements. The Company also leases certain office equipment and a fleet of automobiles under noncancelable operating leases.

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

Included in the Company s consolidated balance sheets are the following amounts related to capital leases (in thousands):

	December 31, 2011	December 25, 2010
Leased property under capital leases (included in property and equipment)	$ 5,097	5,303
Less accumulated depreciation	(1,510)	(1,379)
	$ 3,587	3,924
Capital lease obligations:		
Current	$ 232	205
Long-term	4,928	5,160
	$ 5,160	5,365

Capital lease obligations exclude that portion of the minimum lease payments attributable to land, which are classified separately as operating leases. Interest expense associated with the capital lease obligations is computed using the incremental borrowing rate at the time the lease is entered into and is based on the amount of the outstanding lease obligation. Depreciation on capital lease assets is included in depreciation expense in the consolidated statements of operations. Interest expense related to capital leases for fiscal years 2011, 2010, and 2009 was $481 thousand, $505 thousand, and $493 thousand, respectively.

Included in the Company s consolidated balance sheets are the following amounts related to assets leased to others under operating leases, where the Company is the lessor (in thousands):

	December 31, 2011	December 25, 2010
Land	$ 26,624	26,914
Buildings	38,472	37,680
Leasehold improvements	146,209	147,139
Store, production, and other equipment	62	245
Construction in progress	823	1,403
	212,190	213,381
Accumulated depreciation and amortization	(66,622)	(58,341)
	$ 145,568	155,040

(Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

Future minimum rental commitments to be paid and received by the Company at December 31, 2011 for all noncancelable leases and subleases are as follows (in thousands):

	Capital leases	Payments Operating leases	Receipts Subleases	Net leases
Fiscal year:				
2012	$ 691	52,965	(60,251)	(6,595)
2013	702	51,475	(59,164)	(6,987)
2014	721	49,985	(58,150)	(7,444)
2015	754	45,186	(56,942)	(11,002)
2016	758	44,236	(56,653)	(11,659)
Thereafter	5,429	373,328	(390,432)	(11,675)
Total minimum rental commitments	9,055	$ 617,175	(681,592)	(55,362)
Less amount representing interest	3,895			
Present value of minimum capital lease obligations	$ 5,160			

Rental expense under operating leases associated with franchised locations is included in occupancy expenses franchised restaurants in the consolidated statements of operations. Rental expense under operating leases for all other locations, including corporate facilities and company-owned restaurants, is included in general and administrative expenses, net, in the consolidated statements of operations. Total rental expense for all operating leases consisted of the following (in thousands):

	December 31, 2011	December 25, 2010	Fiscal year ended December 26, 2009
Base rentals	$ 52,214	53,704	51,819
Contingent rentals	4,510	4,093	3,711
	$ 56,724	57,797	55,530

Total rental income for all leases and subleases consisted of the following (in thousands):

	December 31, 2011	December 25, 2010	Fiscal year ended December 26, 2009

Base rentals	$ 66,061	66,630	67,825
Contingent rentals	26,084	24,472	25,826
	$ 92,145	91,102	93,651

(Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

The impact of the amortization of our unfavorable operating leases acquired resulted in an increase in rental income and a decrease in rental expense as follows (in thousands):

			Fiscal year ended
	December 31, 2011	**December 25, 2010**	**December 26, 2009**
Increase in rental income	$ 1,392	1,806	2,157
Decrease in rental expense	1,838	2,514	2,870
Total increase in operating income	$ 3,230	4,320	5,027

Following is the estimated impact of the amortization of our unfavorable operating leases acquired for each of the next five years (in thousands):

	Decrease in rental expense	**Increase in rental income**	**Total increase in operating income**
Fiscal year:			
2012	$ 1,286	1,026	2,312
2013	1,118	937	2,055
2014	1,062	845	1,907
2015	958	793	1,751
2016	902	655	1,557

(11) Segment information

The Company is strategically aligned into two global brands, Dunkin Donuts and Baskin-Robbins, which are further segregated between U.S. operations and international operations. As such, the Company has determined that it has four operating segments, which are its reportable segments: Dunkin Donuts U.S., Dunkin Donuts International, Baskin-Robbins U.S., and Baskin-Robbins International. Dunkin Donuts U.S., Baskin-Robbins U.S., and Dunkin Donuts International primarily derive their revenues through royalty income, franchise fees, and rental income. Baskin-Robbins U.S. also derives revenue through license fees from a third-party license agreement. Baskin-Robbins International primarily derives its revenues from the manufacturing and sales of ice cream products, as well as royalty income, franchise fees, and license fees. The operating results of each segment are regularly reviewed and evaluated separately by the Company s senior management, which includes, but is not limited to, the chief executive officer and the chief financial officer. Senior management primarily evaluates the performance of its segments and allocates resources to them based on earnings before interest, taxes, depreciation, amortization, impairment charges, gains and losses on debt extinguishment and refinancing transactions, other gains and losses, and unallocated corporate charges, referred to as segment profit. When senior management reviews a balance sheet, it is at a consolidated level. The accounting policies applicable to each segment are consistent with those used in the consolidated financial statements.

Subsequent to December 25, 2010, and as part of fiscal year 2011 management reporting, intersegment royalties and rental income earned from company-owned restaurants are now eliminated from Dunkin Donuts U.S. segment revenues. Revenues for all periods presented in the tables below have been restated to reflect these changes.

 (Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

Revenues for all operating segments include only transactions with unaffiliated customers and include no intersegment revenues. Revenues reported as Other include retail sales for company-owned restaurants, as well as revenue earned through arrangements with third parties in which our brand names are used and revenue generated from online training programs for franchisees that are not allocated to a specific segment. Revenues by segment were as follows (in thousands):

			Revenues
		Fiscal year ended	
	December 31, 2011	December 25, 2010	December 26, 2009
Dunkin Donuts U.S.	$ 437,728	400,337	387,262
Dunkin Donuts International	15,253	14,128	12,326
Baskin-Robbins U.S.	41,763	42,920	46,293
Baskin-Robbins International	108,579	91,285	80,764
Total reportable segments	603,323	548,670	526,645
Other	24,875	28,465	11,428
Total revenues	$ 628,198	577,135	538,073

Revenues for foreign countries are represented by the Dunkin Donuts International and Baskin-Robbins International segments above. No individual foreign country accounted for more than 10% of total revenues for any fiscal year presented.

For purposes of evaluating segment profit, Dunkin Donuts U.S. includes the net operating income earned from company-owned restaurants. Expenses included in Corporate and other in the segment profit table below include corporate overhead costs, such as payroll and related benefit costs and professional services, as well the impairment charge recorded in fiscal year 2011 related to our investment in BR Korea (see note 6). Segment profit by segment was as follows (in thousands):

			Segment profit
		Fiscal year ended	
	December 31, 2011	December 25, 2010	December 26, 2009
Dunkin Donuts U.S.	$ 334,308	293,132	275,961
Dunkin Donuts International	11,528	14,573	12,628
Baskin-Robbins U.S.	20,904	27,607	33,459
Baskin-Robbins International	43,533	41,596	41,212
Total reportable segments	410,273	376,908	363,260
Corporate and other	(150,382)	(118,482)	(107,287)
Interest expense, net	(104,449)	(112,532)	(115,019)
Depreciation and amortization	(52,522)	(57,826)	(62,911)
Impairment charges	(2,060)	(7,075)	(8,517)
Gain (loss) on debt extinguishment and refinancing transactions	(34,222)	(61,955)	3,684

Other gains (losses), net	175	408	1,066
Income before income taxes	$ 66,813	19,446	74,276

(Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

Equity in net income (loss) of joint ventures, including amortization on intangibles resulting from the BCT Acquisition, is included in segment profit for the Dunkin Donuts International and Baskin-Robbins International reportable segments. Expenses included in Other in the segment profit table below represent the impairment charge recorded in fiscal year 2011 related to our investment in BR Korea (see note 6). Equity in net income (loss) of joint ventures by reportable segment was as follows (in thousands):

	Equity in net income of joint ventures		
	Fiscal year ended		
	December 31, 2011	December 25, 2010	December 26, 2009
Dunkin Donuts International	$ 840	3,913	3,718
Baskin-Robbins International	14,461	13,912	10,583
Total reportable segments	15,301	17,825	14,301
Other	(18,776)		
Total equity in net income (loss) of joint ventures	$ (3,475)	17,825	14,301

Depreciation and amortization is not included in segment profit for each reportable segment. However, depreciation and amortization is included in the financial results regularly provided to the Company s senior management. Depreciation and amortization by reportable segments was as follows (in thousands):

	Depreciation and amortization		
	Fiscal year ended		
	December 31, 2011	December 25, 2010	December 26, 2009
Dunkin Donuts U.S.	$ 20,068	21,802	24,035
Dunkin Donuts International	130	129	143
Baskin-Robbins U.S.	522	760	1,079
Baskin-Robbins International	866	1,183	1,173
Total reportable segments	21,586	23,874	26,430
Corporate and other	30,936	33,952	36,481
Total depreciation and amortization	$ 52,522	57,826	62,911

Property and equipment, net by geographic region as of December 31, 2011 and December 25, 2010 are based on the physical locations within the indicated geographic regions and are as follows (in thousands):

	December 31, 2011	December 25, 2010

United States	$	179,616	187,862
International		5,744	5,411
	$	185,360	193,273

(Continued)

(12) Stockholders equity

(a) Public Offerings

On August 1, 2011, the Company completed an initial public offering in which the Company sold 22,250,000 shares of common stock at an initial public offering price of $19.00 per share, less underwriter discounts and commissions, resulting in net proceeds to the Company of approximately $390.0 million after deducting underwriter discounts and commissions and expenses paid or payable by the Company. Additionally, the underwriters exercised, in full, their option to purchase 3,337,500 additional shares, which were sold by certain existing stockholders. The Company did not receive any proceeds from the sales of shares by the existing stockholders. The Company used a portion of the net proceeds from the initial public offering to repay the remaining $375.0 million outstanding under the senior notes, with the remaining net proceeds being used for working capital and general corporate purposes.

On November 22, 2011, certain existing stockholders sold 22,000,000 shares of our common stock at a price of $25.62 per share, less underwriting discounts and commissions, in a secondary public offering. Additionally, the underwriters exercised their option to purchase an additional 1,937,986 shares, which were also sold by certain existing stockholders. The Company did not receive any proceeds from the sales of shares by the existing stockholders. The Company incurred approximately $984 thousand of expenses in connection with the offering, which were paid by the Company in accordance with the registration rights and coordination agreement (see note 18(a)).

(b) Common Stock

Prior to the initial public offering, our charter authorized the Company to issue two classes of common stock, Class L and common. The rights of the holders of Class L and common shares were identical, except with respect to priority in the event of a distribution, as defined. The Class L common stock was entitled to a preference with respect to all distributions by the Company until the holders of Class L common stock had received an amount equal to the Class L base amount of approximately $41.75 per share, plus an amount sufficient to generate an internal rate of return of 9% per annum on the Class L base amount, compounded quarterly. Thereafter, the Class L and common stock shared ratably in all distributions by the Company. Class L common stock was classified outside of permanent equity in the consolidated balance sheets at its preferential distribution amount, as the Class L stockholders controlled the timing and amount of distributions. The Class L preferred return of 9% per annum, compounded quarterly, was added to the Class L preferential distribution amount each period and recorded as an increase to accumulated deficit. Dividends paid on the Class L common stock reduced the Class L preferential distribution amount.

Immediately prior to the initial public offering, each outstanding share of Class L common stock converted into approximately 0.2189 of a share of common stock plus 2.2149 shares of common stock, which was determined by dividing the Class L preference amount, $38.8274, by the initial public offering price net of the estimated underwriting discount and a pro rata portion, based upon the number of shares sold in the offering, of the estimated offering-related expenses. As such, the 22,866,379 shares of Class L common stock that were outstanding at the time of the offering converted into 55,652,782 shares of common stock.

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Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

The changes in Class L common stock were as follows (in thousands):

	Fiscal year ended					
	December 31, 2011		December 25, 2010		December 26, 2009	
	Shares	Amount	Shares	Amount	Shares	Amount
Common stock, Class L, beginning of year	22,995	$ 840,582	22,981	$ 1,232,001	22,918	$ 1,127,863
Issuance of Class L common stock	65	2,270	14	754	63	2,648
Repurchases of Class L common stock		(113)		(3,197)		(3,070)
Retirement of treasury stock	(194)					
Cash dividends paid				(500,002)		
Accretion of Class L preferred return		45,102		111,026		104,560
Conversion of Class L shares to common shares	(22,866)	(887,841)				
Common stock, Class L, end of year		$	22,995	$ 840,582	22,981	$ 1,232,001

On December 3, 2010, the board of directors declared an aggregate dividend in the amount of $500.0 million, or $21.93 per share, payable on that date in accordance with the Company s charter to the holders of Class L common stock as of that date. The dividend was recorded as a reduction to Class L common stock.

Common shares issued and outstanding included in the consolidated balance sheets include vested and unvested restricted shares. Common stock in the consolidated statement of stockholders equity (deficit) excludes unvested restricted shares.

(c) Treasury stock

During fiscal years 2011, 2010, and 2009, the Company repurchased a total of 23,624 shares, 193,800 shares, and 201,372 shares, respectively, of common stock and 3,266 shares, 65,414 shares, and 72,859 shares, respectively, of Class L shares that were originally sold and granted to former employees of the Company. The Company accounts for treasury stock under the cost method, and as such recorded increases in common treasury stock of $173 thousand, $693 thousand, and $387 thousand during fiscal years 2011, 2010, and 2009, respectively, based on the fair market value of the shares on the respective dates of repurchase. On April 26, 2011, the Company retired all of its treasury stock, resulting in a $2.0 million reduction in common treasury stock and additional paid-in-capital.

(d) Accumulated other comprehensive income

The components of accumulated other comprehensive income were as follows (in thousands):

	Effect of foreign currency translation	Other	Accumulated other comprehensive income
Balances at December 25, 2010	$ 14,350	(723)	13,627
Other comprehensive income	6,560	(586)	5,974

Balances at December 31, 2011	$ 20,910	(1,309)	19,601

(Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

(13) Equity incentive plans

The Company s 2006 Executive Incentive Plan, as amended, (the 2006 Plan) provides for the grant of stock-based and other incentive awards. A maximum of 12,191,145 shares of common stock may be delivered in satisfaction of awards under the 2006 Plan, of which a maximum of 5,012,966 shares may be awarded as nonvested (restricted) shares and a maximum of 7,178,179 may be delivered in satisfaction of stock options.

The Dunkin Brands Group, Inc. 2011 Omnibus Long-Term Incentive Plan (the 2011 Plan) was adopted in July 2011, and is the only plan under which the Company currently grants awards. A maximum of 7,000,000 shares of common stock may be delivered in satisfaction of awards under the 2011 Plan.

Total share-based compensation expense, which is included in general and administrative expenses, net, consisted of the following (in thousands):

			Fiscal year ended
	December 31, 2011	December 25, 2010	December 26, 2009
Restricted shares	$ 2,739	639	1,684
2006 Plan stock options executive	1,626	703	
2006 Plan stock options nonexecutive	202	119	61
2011 Plan stock options	32		
Other	33		
Total share-based compensation	$ 4,632	1,461	1,745
Total related tax benefit	$ 1,852	619	676

Nonvested (restricted) shares

The Company historically issued restricted shares of common stock to certain executive officers of the Company. The restricted shares generally vest in three separate tranches with different vesting conditions. In addition to the vesting conditions described below, all three tranches of the restricted shares provide for partial or full accelerated vesting upon change in control. Restricted shares that do not vest are forfeited to the Company.

Tranche 1 shares generally vest in four or five equal annual installments based on a service condition. The weighted average requisite service period for the Tranche 1 shares is approximately 4.4 years, and compensation cost is recognized ratably over this requisite service period.

The Tranche 2 shares generally vest in five annual installments beginning on the last day of the fiscal year of grant based on a service condition and performance conditions linked to annual EBITDA targets, which were not achieved for fiscal years 2009, 2010, and 2011 and are not expected to be achieved in future years. As the Tranche 2 shares vest in installments and contain a performance condition, these shares are treated as five separate awards with five separate vesting dates and requisite service periods. The requisite service periods for these Tranche 2 shares are generally one year. Total compensation cost for the Tranche 2 shares is determined based on the most likely outcome of the performance conditions and the number of awards expected to vest based on those outcomes.

(Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

Tranche 3 shares generally vest in four annual installments based on a service condition, a performance condition, and market conditions. The Tranche 3 shares did not become eligible to vest until achievement of the performance condition, which is defined as an initial public offering or change in control. These events were not considered probable of occurring until such events actually occurred. The market condition relates to the achievement of a minimum investor rate of return on the Sponsor s shares ranging from 20% to 24% as of specified measurement dates, which occur on the six month anniversary of an initial public offering and every three months thereafter, or on the date of a change in control. As the Tranche 3 shares require the satisfaction of multiple vesting conditions, the requisite service period is the longest of the explicit, implicit, and derived service periods of the service, performance, and market conditions. As the performance condition could not be deemed probable of occurring until an initial public offering or change of control event was completed, no compensation cost was recognized related to the Tranche 3 shares prior to fiscal year 2011. Upon completion of the initial public offering in fiscal year 2011, $2.6 million of expense was recorded related to approximately 0.8 million Tranche 3 restricted shares that were outstanding at the date of the initial public offering. The entire value of the outstanding Tranche 3 shares was recorded upon completion of the initial public offering as the requisite service period, which was equivalent to the implicit service period of the performance condition, had been delivered.

A summary of the changes in the Company s restricted shares during fiscal year 2011 is presented below:

	Number of shares	Weighted average grant-date fair value
Restricted shares at December 25, 2010	1,085,827	$ 4.28
Granted	65,000	19.00
Vested	(104,779)	4.62
Forfeited	(402,906)	6.67
Restricted shares at December 31, 2011	643,142	4.21

The fair value of each restricted share was estimated on the date of grant based on recent transactions and third-party valuations of the Company s common stock. As of December 31, 2011, there was $26 thousand of total unrecognized compensation cost related to the Tranche 1 restricted shares. Unrecognized compensation cost related to the Tranche 1 shares is expected to be recognized over a weighted average period of approximately 1.4 years. The total potential unrecognized compensation cost related to the Tranche 2 shares is $59 thousand. As the performance condition for Tranche 2 shares is not deemed probable of occurring, it is unlikely the compensation cost will be recognized. There is no unrecognized compensation cost related to the Tranche 3 shares. The total grant-date fair value of shares vested during fiscal years 2011, 2010, and 2009, was $484 thousand, $1.3 million, and $1.9 million, respectively.

2006 Plan stock options executive

During fiscal years 2011 and 2010, the Company granted options to executives to purchase 828,040 and 4,750,437 shares of common stock, respectively, under the 2006 Plan. The executive options vest in two separate tranches, 30% allocated as Tranche 4 and 70% allocated as Tranche 5, each with different vesting conditions. In addition to the vesting conditions described below, both tranches provide for partial accelerated vesting upon change in control. The maximum contractual term of the executive options is ten years.

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Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

The Tranche 4 executive options generally vest in equal annual amounts over a five-year period subsequent to the grant date, and as such are subject to a service condition. Certain options provide for accelerated vesting at the date of grant, with 20% of the Tranche 4 options vesting on each subsequent anniversary of the grant date over a three or four-year period. The requisite service periods over which compensation cost is being recognized ranges from three to five years.

The Tranche 5 executive options become eligible to vest based on continued service periods of three to five years that are aligned with the Tranche 4 executive options (Eligibility Percentage). Vesting does not actually occur until the achievement of a performance condition, which is the sale of shares by the Sponsors. Additionally, the options are subject to a market condition related to the achievement of specified investor returns to the Sponsors upon a sale of shares. Upon a sale of shares by the Sponsors and assuming the requisite service has been provided, Tranche 5 options vest in proportion to the percentage of the Sponsors shares sold by them (Performance Percentage), but only if the aggregate return on those shares sold is two times the Sponsors original purchase price. Actual vesting is determined by multiplying the Eligibility Percentage by the Performance Percentage. Additionally, 100% of the Tranche 5 options vest, assuming the requisite service has been provided, if the aggregate amount of cash received by the Sponsors through sales, distributions, or dividends is two times the original purchase price of all shares purchased by the Sponsors. As the Tranche 5 options require the satisfaction of multiple vesting conditions, the requisite service period is the longest of the explicit, implicit, and derived service periods of the service, performance, and market conditions. Based on the sale of shares by the Sponsors in connection with public offerings completed in 2011, the cumulative Performance Percentage as of December 31, 2011 was 28.5% resulting in compensation expense of $1.1 million being recorded in fiscal year 2011. No Tranche 5 shares vested prior to fiscal year 2011, and therefore no compensation expense related to Tranche 5 shares was recorded in fiscal years 2010 or 2009.

The fair value of the Tranche 4 options was estimated on the date of grant using the Black-Scholes option pricing model. The fair value of the Tranche 5 options was estimated on the date of grant using a combination of lattice models and Monte Carlo simulations. These models are impacted by the Company s stock price and certain assumptions related to the Company s stock and employees exercise behavior. Additionally, the value of the Tranche 5 options is impacted by the probability of achievement of the market condition. The following weighted average assumptions were utilized in determining the fair value of executive options granted during fiscal years 2011 and 2010:

	Fiscal year ended	
	December 31, 2011	**December 25, 2010**
Weighted average grant-date fair value of share options granted	$6.27	$1.51
Significant assumptions:		
Tranche 4 options:		
Risk-free interest rate	2.1% 2.7%	2.0% 2.8%
Expected volatility	47.0% 72.0%	58.0%
Dividend yield		
Expected term (years)	6.5	5.6 6.5
Tranche 5 options:		
Risk-free interest rate	2.3% 3.2%	2.3% 3.4%
Expected volatility	47.0% 72.0%	43.1% 66.4%
Dividend yield		

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Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

The expected term of the Tranche 4 options was estimated utilizing the simplified method. We utilized the simplified method because the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. The simplified method was used for all stock options that require only a service vesting condition, including all Tranche 4 options, for all periods presented. The risk-free interest rate assumption was based on yields of U.S. Treasury securities in effect at the date of grant with terms similar to the expected term. Expected volatility was estimated based on historical volatility of peer companies over a period equivalent to the expected term. Additionally, the Company did not anticipate paying dividends on the underlying common stock at the date of grant.

As share-based compensation expense recognized is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures of generally 10% per year. Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical and forecasted turnover, and actual forfeitures have not had a material impact on share-based compensation expense.

A summary of the status of the Company s executive stock options as of December 31, 2011 and changes during fiscal year 2011 are presented below:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value (in millions)
Share options outstanding at December 25, 2010	4,474,606	$ 3.09	9.2	
Granted	828,040	10.01		
Exercised	(22,986)	3.64		
Forfeited or expired	(440,930)	8.92		
Share options outstanding at December 31, 2011	4,838,730	3.74	8.3	$ 102.8
Share options exercisable at December 31, 2011	710,942	3.04	8.2	15.6

Executive stock options granted during fiscal year 2011 consisted of the following:

Grant Date	Number of awards granted	Option exercise price	Fair value of underlying common stock
3/9/2011	637,040	$ 7.31	$ 7.31
7/26/2011	191,000	$ 19.00	$ 19.00

Prior to the initial public offering, the fair value of the common stock underlying the options granted was determined based on a contemporaneous valuation performed by an independent third-party valuation specialist in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*.

As of December 31, 2011, there was $1.6 million of total unrecognized compensation cost related to Tranche 4 options, which is expected to be recognized over a weighted average period of approximately 3.2 years. As of December 31, 2011, there was $590 thousand of total unrecognized compensation cost related to the 28.5% of

(Continued)

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

Tranche 5 options for which the performance condition had been achieved but the requisite service had not yet been provided, which is expected to be recognized over a weighted average period of approximately 3.5 years. The total unrecognized compensation cost related to the remaining 71.5% of Tranche 5 options is $4.7 million, and will not be recognized until the related performance condition is deemed probable of occurring.

2006 Plan stock options nonexecutive and 2011 Plan stock options

During fiscal years 2011, 2010, and 2009, the Company granted options to nonexecutives to purchase 50,491 shares, 222,198 shares, and 14,908 shares, respectively, of common stock under the 2006 Plan. Additionally, during fiscal year 2011, the Company granted options to certain employees to purchase 292,700 shares of common stock under the 2011 Plan. The nonexecutive options and 2011 Plan options vest in equal annual amounts over either a four- or five-year period subsequent to the grant date, and as such are subject to a service condition, and also fully vest upon a change of control. The requisite service period over which compensation cost is being recognized is either four or five years. The maximum contractual term of the nonexecutive and 2011 Plan options is ten years.

The fair value of nonexecutive and 2011 Plan options was estimated on the date of grant using the Black-Scholes option pricing model. This model is impacted by the Company s stock price and certain assumptions related to the Company s stock and employees exercise behavior. The following weighted average assumptions were utilized in determining the fair value of nonexecutive and 2011 Plan options granted during fiscal years 2011, 2010, and 2009:

			Fiscal year ended
	December 31, 2011	**December 25, 2010**	**December 26, 2009**
Weighted average grant-date fair value of share options granted	$10.27	2.88	0.79
Weighted average assumptions:			
Risk-free interest rate	1.2%-2.7%	2.1%	2.3%
Expected volatility	43.0%-72.0%	58.0%	37.0%
Dividend yield			
Expected term (years)	6.25-6.5	6.5	6.5

The expected term was estimated utilizing the simplified method. We utilized the simplified method because the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. The risk-free interest rate assumption was based on yields of U.S. Treasury securities in effect at the date of grant with terms similar to the expected term. Expected volatility was estimated based on historical volatility of peer companies over a period equivalent to the expected term. Additionally, the Company did not anticipate paying dividends on the underlying common stock at the date of grant.

As share-based compensation expense recognized is based on awards ultimately expected to vest, it has been reduced for annualized estimated forfeitures of 10-13%. Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical and forecasted turnover, and actual forfeitures have not had a material impact on share-based compensation expense.

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Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

A summary of the status of the Company s nonexecutive and 2011 Plan options as of December 31, 2011 and changes during fiscal year 2011 is presented below:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value (in millions)
Share options outstanding at December 25, 2010	360,107	$ 4.89	8.5	
Granted	343,191	23.34		
Exercised	(38,674)	4.73		
Forfeited or expired	(16,867)	5.66		
Share options outstanding at December 31, 2011	647,757	14.65	8.9	$ 6.7
Share options exercisable at December 31, 2011	105,885	4.86	6.7	2.1

Nonexecutive and 2011 Plan options granted during fiscal year 2011 consisted of the following:

Grant Date	Number of awards granted	Option exercise price	Fair value of underlying common stock
3/9/2011	21,891	$ 7.31	$ 7.31
7/26/2011	28,600	$ 19.00	$ 19.00
12/12/2011	160,000	$ 25.18	$ 25.18
12/21/2011	132,700	$ 24.69	$ 24.69

Prior to the initial public offering, the fair value of the common stock underlying the options granted was determined based on a contemporaneous valuation performed by an independent third-party valuation specialist in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. Subsequent to July 27, 2011, the fair value of the common stock underlying the options granted was determined based on the closing price of the Company s common stock on the NASDAQ Global Select Market on the date of grant.

As of December 31, 2011, there was $3.4 million of total unrecognized compensation cost related to nonexecutive and 2011 Plan options. Unrecognized compensation cost is expected to be recognized over a weighted average period of approximately 3.9 years.

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Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

(14) Earnings per Share

The computation of basic and diluted earnings per common share is as follows (in thousands, except share and per share amounts):

			Fiscal year ended
	December 31, 2011	**December 25, 2010**	**December 26, 2009**
Net income basic and diluted	$ 34,442	26,861	35,008
Allocation of net income (loss) to common stockholders basic and diluted:			
Class L	$ 140,212	111,026	104,560
Common	(105,770)	(84,165)	(69,552)
Weighted average number of common shares basic and diluted:			
Class L	22,845,378	22,806,796	22,859,274
Common	74,835,697	41,295,866	41,096,393
Earnings (loss) per common share basic and diluted:			
Class L	$ 6.14	4.87	4.57
Common	(1.41)	(2.04)	(1.69)

As the Company had both Class L and common stock outstanding during each of the periods presented and Class L has preference with respect to all distributions, earnings per share is calculated using the two-class method, which requires the allocation of earnings to each class of common stock. The numerator in calculating Class L basic and diluted earnings per share is the Class L preference amount accrued at 9% per annum during the period presented plus, if positive, a pro rata share of an amount equal to consolidated net income less the Class L preference amount. The Class L preferential distribution amounts accrued were $45.1 million, $111.0 million, and $104.6 million during fiscal years 2011, 2010, and 2009, respectively. The Class L preferential distribution amounts for fiscal year 2011 declined from the prior years due to the conversion of the Class L shares into common stock immediately prior to the Company s initial public offering that was completed on August 1, 2011, as well as the dividend paid to holders of Class L shares on December 3, 2010, which reduced the Class L per-share preference amount on which the 9% annual return is calculated. Additionally, the numerator in calculating the Class L basic and diluted earnings per share for fiscal year 2011 includes an amount representing the excess of the fair value of the consideration transferred to the Class L shareholders upon conversion to common stock over the carrying amount of the Class L shares at the date of conversion, which occurred immediately prior to the Company s initial public offering. As the carrying amount of the Class L shares was equal to the Class L preference amount, the excess fair value of the consideration transferred to the Class L shareholders was equal to the fair value of the additional 0.2189 of a share of common stock into which each Class L share converted (Class L base share), which totaled $95.1 million, calculated as follows:

Class L shares outstanding immediately prior to the initial public offering	22,866,379
Number of common shares received for each Class L share	0.2189
Common stock received by Class L shareholders, excluding preferential distribution	5,005,775
Common stock fair value per share (initial public offering price per share)	$ 19.00
Fair value of Class L base shares (in thousands)	$ 95,110

(Continued)

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Notes to consolidated financial statements (continued)

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The weighted average number of Class L shares in the Class L earnings per share calculation represents the weighted average from the beginning of the period up through the date of conversion of the Class L shares into common shares.

The weighted average number of common shares in the common diluted earnings per share calculation excludes all restricted stock and stock options outstanding during the respective periods, as they would be antidilutive. As of December 31, 2011, there were 643,142 unvested common restricted stock awards and 5,486,487 options to purchase common stock outstanding that may be dilutive in the future. Of those amounts, there were 636,752 common restricted stock awards and 2,422,628 options to purchase common stock that were performance-based and for which the performance criteria have not yet been met. There were no Class L common stock equivalents outstanding during fiscal years 2011, 2010, and 2009.

(15) Income taxes

Income before income taxes was attributed to domestic and foreign taxing jurisdictions as follows (in thousands):

			Fiscal year ended
	December 31, 2011	December 25, 2010	December 26, 2009
Domestic operations	$ 70,034	2,270	54,804
Foreign operations	(3,221)	17,176	19,472
Income before income taxes	$ 66,813	19,446	74,276

The components of the provision (benefit) for income taxes were as follows (in thousands):

			Fiscal year ended
	December 31, 2011	December 25, 2010	December 26, 2009
Current:			
Federal	$ 34,282	11,497	8,575
State	5,733	5,339	8,585
Foreign	3,719	4,138	3,807
Current tax provision	$ 43,734	20,974	20,967
Deferred:			
Federal	$ (11,567)	(16,916)	15,773
State	892	(10,397)	2,239
Foreign	(688)	(1,076)	289
Deferred tax provision (benefit)	(11,363)	(28,389)	18,301

Provision (benefit) for income taxes	$ 32,371	(7,415)	39,268

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Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

The provision for income taxes from continuing operations differed from the expense computed using the statutory federal income tax rate of 35% due to the following:

			Fiscal year ended
	December 31, 2011	December 25, 2010	December 26, 2009
Computed federal income tax expense, at statutory rate	35.0%	35.0%	35.0%
Permanent differences:			
Impairment of investment in BR Korea	9.8		
Other permanent differences	0.9	1.7	0.5
State income taxes	6.9	1.8	4.8
Benefits and taxes related to foreign operations	(6.8)	(33.4)	(6.9)
Changes in enacted tax rates	3.0	(27.2)	
Change in valuation allowance			7.8
Uncertain tax positions	1.9	(16.1)	12.3
Other	(2.2)	0.1	(0.6)
	48.5%	(38.1)%	52.9%

During fiscal year 2011, the Company recognized deferred tax expense of $1.9 million due to enacted changes in future state income tax rates. During fiscal year 2010, the Company recognized a deferred tax benefit of $5.7 million, due to changes in the estimated apportionment of income among the states in which the Company earns income and enacted changes in future state income tax rates. These changes in estimates and enacted tax rates affect the tax rate expected to be in effect in future periods when the deferred tax assets and liabilities reverse.

The components of deferred tax assets and liabilities were as follows (in thousands):

	December 31, 2011		December 25, 2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Current:				
Allowance for doubtful accounts	$ 1,114		1,774	
Deferred gift cards and certificates	23,312		2,544	
Rent	4,811		2,147	
Deferred revenue	4,555		7,757	
Accrued expenses	6,685		3,142	
Capital loss	18,876			
Other	1,614		998	
	60,967		18,362	
Valuation allowance	(12,580)		(5,792)	
Total current	48,387		12,570	

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Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

	December 31, 2011		December 25, 2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Noncurrent:				
Capital leases	1,970		492	
Rent	1,767		1,465	
Property and equipment		14,106		11,992
Deferred compensation and long-term incentive accrual	4,048		1,825	
Deferred revenue	5,417		7,833	
Real estate reserves	1,495		1,669	
Franchise rights and other intangibles		588,761		600,481
Unused foreign tax credits	8,459			
Capital loss			18,876	
Other	7,347		7,060	
	30,503	602,867	39,220	612,473
Valuation allowance	(6,296)		(13,084)	
Total noncurrent	24,207	602,867	26,136	612,473
	$ 72,594	602,867	38,706	612,473

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income, and projections for future taxable income over the periods for which the deferred tax assets are deductible, management believes, as of December 31, 2011, it is more likely than not that the Company will realize the benefits of the deferred tax assets, except as discussed below.

As of December 31, 2011 and December 25, 2010, the valuation allowance for deferred tax assets was $18.9 million. These valuation allowance amounts relate to deferred tax assets for capital loss carryforwards and are recorded because it is more likely than not that there will not be sufficient capital gain income in future periods to utilize the capital loss carryforwards. Any future reversal of the valuation allowance related to these capital loss carryforwards will be recorded to the provision for income taxes in the consolidated statements of operations. The capital loss carryforwards will expire in 2012.

The Company has not recognized a deferred tax liability of $6.1 million for the undistributed earnings of foreign operations, net of foreign tax credits, relating to our foreign joint ventures that arose in fiscal year 2011 and prior years because the Company currently does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future. A deferred tax liability will be recognized when the Company is no longer able to demonstrate that it plans to permanently reinvest undistributed earnings. As of December 31, 2011 and December 25, 2010, the undistributed earnings of these joint ventures were approximately $108.2 million and $97.9 million, respectively.

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

At December 31, 2011 and December 25, 2010, the total amount of unrecognized tax benefits related to uncertain tax positions was $41.4 million and $17.5 million, respectively. At December 31, 2011 and December 25, 2010, the Company had approximately $16.9 million and $12.1 million, respectively, of accrued interest and penalties related to uncertain tax positions. During fiscal years 2011, 2010, and 2009, the Company recorded $3.1 million, $0.6 million, and $6.2 million, respectively, in income tax expense to accrue for potential interest and penalties related to uncertain tax positions. At December 31, 2011, December 25, 2010, and December 26, 2009, there were $17.4 million, $13.5 million, and $23.6 million, respectively, of unrecognized tax benefits that if recognized would impact the annual effective tax rate.

The Company s major tax jurisdictions are the United States and Canada. For Canada, the Company has open tax years dating back to tax years ended August 2003. In the United States, the Company is currently under audits in certain state jurisdictions for tax periods after August 2003. The audits are in various stages as of December 31, 2011. It is uncertain that these audits will conclude in 2012 and quantification of an estimated impact on the total amount of unrecognized tax benefits cannot be made at this time. For U.S. federal taxes, the Company has open tax years dating back to 2006. In addition, the Internal Revenue Service (IRS) is conducting an examination of certain tax positions related to the utilization of capital losses. During 2010, the Company made a payment of approximately $6.0 million to the IRS for this issue. The payment did not have a material impact on the Company s financial position.

The federal income tax returns of the Company for fiscal years 2006 through 2009 are currently under audit by the IRS, and the IRS has proposed adjustments for fiscal years 2006 and 2007 to increase our taxable income as it relates to our gift card program, specifically to record taxable income upon the activation of gift cards. We have filed a protest to the IRS proposed adjustments. If the IRS were to prevail in this matter the proposed adjustments would result in additional taxable income of approximately $58.9 million for fiscal years 2006 and 2007 and approximately $26.8 million of additional federal and state taxes and interest owed, net of federal and state benefits. If the IRS prevails, a cash payment would be required, and the additional taxable income would represent temporary differences that will be deductible in future years. Therefore, the potential tax expense attributable to the IRS adjustments for 2006 and 2007 would be limited to $3.1 million, consisting of federal and state interest, net of federal and state benefits. In addition, if the IRS were to prevail in respect of fiscal years 2006 and 2007, it is likely to make similar claims for years subsequent to fiscal 2007 and the potential additional federal and state taxes and interest owed, net of federal and state benefits, for fiscal years 2008 through 2010, computed on a similar basis to the IRS method used for fiscal years 2006 and 2007, and factoring in the timing of our gift card uses and activations, would be approximately $19.7 million. The corresponding potential tax expense impact attributable to these later fiscal years, 2008 through 2010, would be approximately $0.8 million. During the fourth quarter of 2011, representatives of the Company met with the IRS appeals officer. Based on that meeting, the Company proposed a settlement related to this issue and is awaiting a response from the IRS. If our settlement proposal is accepted as presented, we expect to make a cash tax payment in an amount that is less than the amounts proposed by the IRS to cumulatively adjust our tax method of accounting for our gift card program through the tax year ended December 25, 2010. No assurance can be made that a settlement can be reached, or that we will otherwise prevail in the final resolution of this matter. An unfavorable outcome from any tax audit could result in higher tax costs, penalties, and interests, thereby negatively and adversely impacting our financial condition, results of operations, or cash flows.

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

A summary of the changes in the Company s unrecognized tax benefits is as follows (in thousands):

			Fiscal year ended
	December 31, 2011	**December 25, 2010**	**December 26, 2009**
Balance at beginning of year	$ 17,549	27,092	16,861
Increases related to prior year tax positions	23,922	792	8,580
Increases related to current year tax positions		1,373	1,823
Decreases related to prior year tax positions		(4,721)	
Decreases related to settlements		(6,622)	
Lapses of statutes of limitations	(43)	(534)	(828)
Effect of foreign currency adjustments	(49)	169	656
Balance at end of year	$ 41,379	17,549	27,092

(16) Commitments and contingencies

(a) Lease commitments

The Company is party to various leases for property, including land and buildings, leased automobiles and office equipment under noncancelable operating and capital lease arrangements (see note 10).

(b) Guarantees

The Company has established agreements with certain financial institutions whereby the Company s franchisees can obtain financing with terms of approximately five to ten years for various business purposes. Substantially all loan proceeds are used by the franchisees to finance store improvements, new store development, new central production locations, equipment purchases, related business acquisition costs, working capital, and other costs. In limited instances, the Company guarantees a portion of the payments and commitments of the franchisees, which is collateralized by the store equipment owned by the franchisee. Under the terms of the agreements, in the event that all outstanding borrowings come due simultaneously, the Company would be contingently liable for $6.9 million and $7.7 million at December 31, 2011 and December 25, 2010, respectively. At December 31, 2011 and December 25, 2010, there were no amounts under such guarantees that were due. The fair value of the guarantee liability and corresponding asset recorded on the consolidated balance sheets was $754 thousand and $874 thousand, respectively, at December 31, 2011 and $1.0 million and $1.5 million, respectively, at December 25, 2010. The Company assesses the risk of performing under these guarantees for each franchisee relationship on a quarterly basis. As of December 31, 2011 and December 25, 2010, the Company had recorded reserves for such guarantees of $390 thousand and $1.2 million, respectively.

The Company has entered into a third-party guarantee with a distribution facility of franchisee products that ensures franchisees will purchase a certain volume of product over a ten-year period. As product is purchased by the Company s franchisees over the term of the agreement, the amount of the guarantee is reduced. As of December 31, 2011 and December 25, 2010, the Company was contingently liable for $7.8 million and $8.6 million, respectively, under this guarantee. Based on current internal forecasts, the Company believes the franchisees will achieve the required volume of purchases, and therefore, the Company would not be required

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

to make payments under this agreement. Additionally, the Company has various supply chain contracts that provide for purchase commitments or exclusivity, the majority of which result in the Company being contingently liable upon early termination of the agreement or engaging with another supplier. Based on prior history and the Company s ability to extend contract terms, we have not recorded any liabilities related to these commitments. As of December 31, 2011, we were contingently liable under such supply chain agreements for approximately $23.9 million.

As a result of assigning our interest in obligations under property leases as a condition of the refranchising of certain restaurants and the guarantee of certain other leases, we are contingently liable on certain lease agreements. These leases have varying terms, the latest of which expires in 2026. As of December 31, 2011 and December 25, 2010, the potential amount of undiscounted payments the Company could be required to make in the event of nonpayment by the primary lessee was $10.5 million and $7.2 million, respectively. Our franchisees are the primary lessees under the majority of these leases. The Company generally has cross-default provisions with these franchisees that would put them in default of their franchise agreement in the event of nonpayment under the lease. We believe these cross-default provisions significantly reduce the risk that we will be required to make payments under these leases. Accordingly, we do not believe it is probable that the Company will be required to make payments under such leases, and we have not recorded a liability for such contingent liabilities.

(c) Letters of credit

At December 31, 2011 and December 25, 2010, the Company had standby letters of credit outstanding for a total of $11.2 million. There were no amounts drawn down on these letters of credit.

(d) Legal matters

The Company is engaged in several matters of litigation arising in the ordinary course of its business as a franchisor. Such matters include disputes related to compliance with the terms of franchise and development agreements, including claims or threats of claims of breach of contract, negligence, and other alleged violations by the Company. At December 31, 2011 and December 25, 2010, contingent liabilities totaling $4.7 million and $4.2 million, respectively, were included in other current liabilities in the consolidated balance sheets to reflect the Company s estimate of the potential loss which may be incurred in connection with these matters. While the Company intends to vigorously defend its positions against all claims in these lawsuits and disputes, it is reasonably possible that the losses in connection with these matters could increase by up to an additional $6.0 million based on the outcome of ongoing litigation or negotiations.

(17) Retirement plans

401(k) Plan

Employees of the Company, excluding employees of certain international subsidiaries, participate in a defined contribution retirement plan, the Dunkin Brands, Inc. 401(k) Retirement Plan (401(k) Plan), under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, employees may contribute up to 80% of their pre-tax eligible compensation, not to exceed the annual limits set by the IRS. The 401(k) Plan allows the

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

Company to match participants contributions in an amount determined in the sole discretion of the Company. The Company matched participants contributions during fiscal years 2011 and 2010 and January through February 2009, up to a maximum of 4% of the employee s salary. The Company provided a 1% match for participants contributions that were made between March and December 2009. Employer contributions for fiscal years 2011, 2010, and 2009, amounted to $2.7 million, $2.1 million, and $1.1 million, respectively. The 401(k) Plan also provides for an additional discretionary contribution of up to 2% of eligible wages for eligible participants based on the achievement of specified performance targets. No such discretionary contributions were made during fiscal years 2011, 2010, and 2009.

NQDC Plan

The Company, excluding employees of certain international subsidiaries, also offers to a limited group of management and highly compensated employees, as defined by the Employee Retirement Income Security Act (ERISA), the ability to participate in the NQDC Plan. The NQDC Plan allows for pre-tax contributions of up to 50% of a participant s base annual salary and other forms of compensation, as defined. The Company credits the amounts deferred with earnings based on the investment options selected by the participants and holds investments to partially offset the Company s liabilities under the NQDC Plan. The NQDC Plan liability, included in other long-term liabilities in the consolidated balance sheets, was $6.9 million and $7.4 million at December 31, 2011 and December 25, 2010, respectively. As of December 31, 2011 and December 25, 2010, total investments held for the NQDC Plan were $3.2 million and $4.3 million, respectively, and have been recorded in other assets in the consolidated balance sheets.

Canadian Pension Plan

The Company sponsors a contributory defined benefit pension plan in Canada, The Baskin-Robbins Employees Pension Plan (Canadian Pension Plan), which provides retirement benefits for the majority of its employees.

The components of net pension expense were as follows (in thousands):

			Fiscal year ended
	December 31, 2011	December 25, 2010	December 26, 2009
Service cost	$ 222	155	99
Interest cost	340	316	276
Expected return on plan assets	(306)	(287)	(242)
Amortization of net actuarial loss	54	26	
Net pension expense	$ 310	210	133

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

The table below summarizes other balances for fiscal years 2011, 2010, and 2009 (in thousands):

			Fiscal year ended
	December 31, 2011	December 25, 2010	December 26, 2009
Change in benefit obligation:			
Benefit obligation, beginning of year	$ 6,042	5,087	3,532
Service cost	222	155	99
Interest cost	340	316	276
Employee contributions	81	69	51
Benefits paid	(479)	(218)	(196)
Actuarial (gain) loss	(95)	417	675
Foreign currency (gain) loss, net	(61)	216	650
Benefit obligation, end of year	$ 6,050	6,042	5,087
Change in plan assets:			
Fair value of plan assets, beginning of year	$ 4,797	4,247	3,162
Expected return on plan assets	306	287	395
Employer contributions	798	310	278
Employee contributions	81	69	51
Benefits paid	(479)	(218)	(196)
Actuarial loss	(505)	(74)	
Foreign currency gain (loss), net	(53)	176	557
Fair value of plan assets, end of year	$ 4,945	4,797	4,247
Reconciliation of funded status:			
Funded status	$ (1,105)	(1,245)	(840)
Net amount recognized at end of period	$ (1,105)	(1,245)	(840)
Amounts recognized in the balance sheet consist of:			
Accrued benefit cost	$ (1,105)	(1,245)	(840)
Net amount recognized at end of period	$ (1,105)	(1,245)	(840)

The investments of the Canadian Pension Plan consisted of one pooled investment fund (pooled fund) at December 31, 2011 and December 25, 2010. The pooled fund is comprised of numerous underlying investments and is valued at the unit fair values supplied by the fund s administrator, which represents the fund s proportionate share of underlying net assets at market value determined using closing market prices. The pooled fund is considered Level 2, as defined by U.S. GAAP, because the inputs used to calculate the fair value are derived principally from observable market data. The objective of the pooled fund is to generate both capital growth and income, while maintaining a relatively low level of risk. To achieve its objectives, the pooled fund invests in a number of underlying funds that have holdings in a number of different asset classes while also investing directly in equities and fixed instruments issued from around the world. The Canadian Pension

(Continued)

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Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

Plan assumes a concentration of risk as it is invested in only one investment. The risk is mitigated as the pooled fund consists of a diverse range of underlying investments. The allocation of the assets within the pooled fund consisted of the following:

	December 31, 2011	December 25, 2010
Equity securities	58%	59%
Debt securities	39	40
Other	3	1

The actuarial assumptions used in determining the present value of accrued pension benefits at December 31, 2011 and December 25, 2010 were as follows:

	December 31, 2011	December 25, 2010
Discount rate	5.25%	5.50%
Average salary increase for pensionable earnings	3.25	3.25

The actuarial assumptions used in determining the present value of our net periodic benefit cost were as follows:

	December 31, 2011	December 25, 2010	December 26, 2009
Discount rate	5.50%	6.00%	7.25%
Average salary increase for pensionable earnings	3.25	3.25	3.25
Expected return on plan assets	6.00	6.50	7.00

The expected return on plan assets was determined based on the Canadian Pension Plan s target asset mix, expected long-term asset class returns based on a mean return over a 30-year period using a Monte Carlo simulation, the underlying long-term inflation rate, and expected investment expenses.

The accumulated benefit obligation was $5.1 million and $5.0 million at December 31, 2011 and December 25, 2010, respectively. We recognize a net liability or asset and an offsetting adjustment to accumulated other comprehensive income to report the funded status of the Canadian Pension Plan.

We anticipate contributing approximately $600 thousand to this plan in 2012. Expected benefit payments for the next five years and thereafter are as follows (in thousands):

Fiscal year:	
2012	$ 242
2013	240
2014	237
2015	233
2016	229
Thereafter	1,478
	$ 2,659

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Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

Baskin-Robbins SERP

In 1991, we established a supplemental executive retirement plan (SERP) for a select group of Baskin-Robbins executives who constituted a top hat group as defined by ERISA. Assets of the SERP are held in a Rabbi Trust (Trust). The SERP assets are invested primarily in money market funds and are included in our consolidated balance sheets within other assets since the Trust permits our creditors to access our SERP assets in the event of our insolvency. The SERP assets of $804 thousand and $909 thousand, and corresponding liabilities of $1.7 million and $1.6 million, at December 31, 2011 and December 25, 2010, respectively, are included in other assets, and other long-term liabilities, in the accompanying consolidated balance sheets.

(18) Related-party transactions

(a) Sponsors

Prior to the closing of the Company s initial public offering on August 1, 2011, the Company was charged an annual management fee by the Sponsors of $1.0 million per Sponsor, payable in quarterly installments. In connection with the completion of the initial public offering in August 2011, the Company incurred an expense of approximately $14.7 million related to the termination of the Sponsor management agreement. Including this termination fee, the Company recognized $16.4 million, $3.0 million, and $3.0 million of expense during fiscal years 2011, 2010, and 2009, respectively, related to Sponsor management fees, which is included in general and administrative expenses, net in the consolidated statements of operations. At December 25, 2010, the Company had $500 thousand of prepaid management fees to the Sponsors, which were recorded in prepaid expenses and other current assets in the consolidated balance sheets.

At December 31, 2011 and December 25, 2010, certain affiliates of the Sponsors held $64.8 million and $70.6 million, respectively, of term loans, net of original issue discount, issued under the Company s senior credit facility. The terms of these loans are identical to all other term loans issued to lenders in the senior credit facility.

Our Sponsors have a controlling interest in our Company as well as several other entities. The existence of such common ownership and management control could result in differences within our operating results or financial position than if the entities were autonomous. The Company made payments to entities under common control totaling approximately $979 thousand, $769 thousand, and $664 thousand during the fiscal years 2011, 2010, and 2009, respectively, primarily for the purchase of training services and leasing of restaurant space. At December 31, 2011 and December 25, 2010, the company owed these entities $127 thousand and $48 thousand, respectively, which was recorded in accounts payable and other current liabilities in the consolidated balance sheets.

We have entered into an investor agreement with the Sponsors and also entered into a registration rights and coordination agreement with certain shareholders, including the Sponsors. Pursuant to these agreements, subject to certain exceptions and conditions, our Sponsors may require us to register their shares of common stock under the Securities Act of 1933, and they will have the right to participate in certain future registrations of securities by us.

Dunkin Brands Group, Inc. and subsidiaries

Notes to consolidated financial statements (continued)

December 31, 2011 and December 25, 2010

(b) Joint ventures

The Company received royalties from its joint ventures as follows (in thousands):

			Fiscal year ended
	December 31, 2011	**December 25, 2010**	**December 26, 2009**
BR Japan	$ 2,473	2,110	1,786
BR Korea	3,371	2,990	2,637
	$ 5,844	5,100	4,423

At December 31, 2011 and December 25, 2010, the Company had $1.0 million of royalties receivable from its joint ventures which were recorded in accounts receivable, net of allowance for doubtful accounts, in the consolidated balance sheets.

The Company made net payments to its joint ventures totaling approximately $2.8 million, $1.5 million, and $409 thousand, in fiscal years 2011, 2010, and 2009, respectively, primarily for the purchase of ice cream products and incentive payments.

(c) Board of Directors

Certain family members of one of our directors hold an ownership interest in an entity that owns and operates Dunkin Donuts restaurants and holds the right to develop additional restaurants under store development agreements. During fiscal year 2011, the Company received $713 thousand in royalty, rental, and other payments from this entity. No amounts were received during fiscal years 2010 or 2009.

(19) Allowance for Doubtful Accounts

The changes in the allowance for doubtful accounts were as follows (in thousands):

	Accounts receivable	**Notes and other receivables**
Balance at December 27, 2008	$ 5,377	254
Provision for doubtful accounts, net	3,792	3,571
Write-offs and other	(3,401)	(2,480)
Balance at December 26, 2009	5,768	1,345
Provision for doubtful accounts, net	13	1,492
Write-offs and other	(263)	(394)
Balance at December 25, 2010	5,518	2,443
Provision for doubtful accounts, net	745	1,274
Write-offs and other	(3,550)	(1,396)

Balance at December 31, 2011	$ 2,713	2,321

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Notes to consolidated financial statements

December 31, 2011 and December 25, 2010

(20) Quarterly financial data (unaudited)

				Three months ended
	March 26, 2011	June 25, 2011	September 24, 2011	December 31, 2011(1)
	(In thousands, except per share data)			
Total revenues	$ 139,213	156,972	163,508	168,505
Operating income (2)(3)	44,836	61,794	54,112	44,567
Net income (loss) (2)(3)(4)	(1,723)	17,162	7,412	11,591
Earnings (loss) per share:				
Class L basic and diluted	0.85	0.83	4.46	n/a
Common basic and diluted	(0.51)	(0.04)	(1.01)	0.10

				Three months ended
	March 27, 2010	June 26, 2010	September 25, 2010	December 25, 2010
	(In thousands, except per share data)			
Total revenues	$ 127,412	150,416	149,531	149,776
Operating income	36,685	57,886	54,574	44,380
Net income (loss) (5)	5,938	17,337	18,842	(15,256)
Earnings (loss) per share:				
Class L basic and diluted	1.21	1.23	1.25	1.18
Common basic and diluted	(0.53)	(0.26)	(0.24)	(1.02)

(1) The fourth quarter of fiscal year 2011 reflects the results of operations for a 14-week period. All other quarterly periods reflect the results of operations for 13-week periods.

(2) The third quarter of fiscal year 2011 includes an expense of approximately $14.7 million related to the termination of the Sponsor management agreement incurred in connection with the completion of the initial public offering in August 2011 (see note 18).

(3) The fourth quarter of fiscal year 2011 includes an impairment of the investment in the Korea joint venture of $19.8 million, less a reduction in depreciation and amortization, net of tax, resulting from the impairment of the underlying intangible and long-lived assets of $1.0 million (see note 6).

(4) During fiscal year 2011, the Company made additional term loan borrowings of $250.0 million and repaid in full the $625.0 million of senior notes (see note 8). In connection with these additional term loan borrowings and repayments of senior notes, the Company recorded losses on debt extinguishment and refinancing transactions of $11.0 million, $5.2 million, and $18.1 million, in the first, second, and third quarters of fiscal year 2011, respectively.

(5) During fiscal year 2010, all outstanding ABS Notes were repaid in full with proceeds from the term loans and senior notes, as well as available cash (see note 8). As a result, losses on debt extinguishment of $3.7 million and $58.3 million were recorded in the second and fourth quarters of fiscal year 2010, respectively.