DUNKIN' BRANDS GROUP, INC.
Form 10-K
February 24, 2012
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U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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.

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DUNKIN BRANDS GROUP, INC. AND SUBSIDIARIES

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Forward-Looking Statements

This report on Form 10-K, as well as other written reports and oral statements that we make from time to time, includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding future events or future results and therefore are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms believes, estimates, anticipates, expects, seeks, projects, intends, plans, may, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under Risk Factors and elsewhere in this report and in our other public filings with the Securities and Exchange Commission, or SEC.

Although we base these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods.

Given these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update any forward-looking statements or to publicly announce the results of any revisions to any of those statements to reflect future events or developments.

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PART I

Item 1. Business .

Our Company

We are one of the world s leading franchisors of quick service restaurants (QSRs) serving hot and cold coffee and baked goods, as well as hard serve ice cream. We franchise restaurants under our Dunkin Donuts and Baskin-Robbins brands. With approximately 16,800 points of distribution in 58 countries, we believe that our portfolio has strong brand awareness in our key markets.

We believe that our nearly 100% franchised business model offers strategic and financial benefits. For example, because we do not own or operate a significant number of stores, our Company is able to focus on menu innovation, marketing, franchisee coaching and support, and other initiatives to drive the overall success of our brand. Financially, our franchised model allows us to grow our points of distribution and brand recognition with limited capital investment by us.

We operate our business in four segments: Dunkin Donuts U.S., Dunkin Donuts International, Baskin-Robbins International and Baskin-Robbins U.S. In 2011, our Dunkin Donuts segments generated revenues of $453.0 million, or 75% of our total segment revenues, of which $437.7 million was in the U.S. segment and $15.3 million was in the international segment. In 2011, our Baskin-Robbins segments generated revenues of $150.3 million, of which $108.6 million was in the international segment and $41.7 million was in the U.S. segment. As of December 31, 2011, there were 10,083 Dunkin Donuts points of distribution, of which 7,015 were in the U.S. and 3,068 were international, and 6,711 Baskin-Robbins points of distribution, of which 4,254 were international and 2,457 were in the U.S. Our points of distribution consist of traditional end-cap, in-line and stand-alone restaurants, many with drive thrus, and gas and convenience locations, as well as alternative points of distribution (APODs), such as full- or self-service kiosks in grocery stores, hospitals, airports, offices, colleges and other smaller-footprint properties.

We generate revenue from four primary sources: (i) royalties and fees associated with franchised restaurants; (ii) rental income from restaurant properties that we lease or sublease to franchisees; (iii) sales of ice cream and ice cream products to franchisees in certain international markets; and (iv) other income including fees for the licensing of the Dunkin Donuts brand for products sold in non-franchised outlets (such as retail packaged coffee) and the licensing of the rights to manufacture Baskin-Robbins ice cream to a third party for ice cream and related products sold to U.S. franchisees; as well as refranchising gains, transfer fees from franchisees, revenue from our company-owned restaurants and online training fees.

Our history

Both of our brands have a rich heritage dating back to the 1940s, when Bill Rosenberg founded his first restaurant, subsequently renamed Dunkin Donuts, and Burt Baskin and Irv Robbins each founded a chain of ice cream shops that eventually combined to form Baskin-Robbins. Baskin-Robbins and Dunkin Donuts were individually acquired by Allied Domecq PLC in 1973 and 1989, respectively. The brands were organized under the Allied Domecq Quick Service Restaurants subsidiary, which was renamed Dunkin Brands, Inc. in 2004. Allied Domecq was acquired in July 2005 by Pernod Ricard S.A. Pernod Ricard made the decision to divest Dunkin Brands in order to remain a focused global spirits company. As a result, in March of 2006, we were acquired by investment funds affiliated with Bain Capital Partners, LLC, The Carlyle Group and Thomas H. Lee Partners, L.P. (collectively, the Sponsors) through a holding company that was incorporated in Delaware on November 22, 2005, and was later renamed Dunkin Brands Group, Inc. In July 2011, we issued and sold 22,250,000 shares of common stock and certain of our stockholders sold 3,337,500 shares of common stock at a price of $19.00 per share in our initial public offering (the IPO). Upon the completion of the IPO, our common stock became listed on the NASDAQ Global Select Market under the symbol DNKN.

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Our competitive business strengths

We attribute our success in the QSR segment to the following strengths:

Strong and established brands with leading market positions

We believe our brands have well-established reputations for delivering high-quality beverage and food products at a good value through convenient locations with fast and friendly service. Today both brands are leaders in their respective QSR categories, with aided brand awareness (where respondents are provided with brand names and asked if they have heard of them) of 92% for Baskin-Robbins and 94% for Dunkin Donuts in the U.S., and a growing presence overseas.

In addition to our leading U.S. market positions, for the sixth consecutive year, Dunkin Donuts was recognized in 2012 by Brand Keys, a customer satisfaction research company, as #1 in the U.S. on its Customer Loyalty Engagement Index^{SM} in the coffee category.

Franchised business model provides a platform for growth

Nearly 100% of our locations are franchised, allowing us to focus on our brand differentiation and menu innovation, while our franchisees expand our points of distribution with operational guidance from us. Gross store openings in fiscal 2011 were 374 for Dunkin Donuts U.S., 341 for Dunkin Donuts International, 571 for Baskin-Robbins International and 49 for Baskin-Robbins U.S. Expansion requires limited financial investment by us, given that new store development and substantially all of our store advertising costs are funded by our franchisees. Consequently, we achieved an operating income margin of approximately 33% in fiscal 2011. For our domestic businesses, our revenues are largely derived from royalties based on a percentage of franchisee sales rather than their net income, as well as contractual lease payments and other franchise fees. We seek to mitigate the challenges of a franchised business model, including a lack of direct control over day-to-day operations in our stores and restaurant development, which could prevent us from being able to quickly and unilaterally grow our business or scale back operations, through our team of more than 400 operational employees who support our franchisees and restaurant managers along with our training and monitoring programs.

Store-level economics generate franchisee demand for new Dunkin Donuts restaurants in the U.S.

In the U.S., new traditional format Dunkin Donuts stores opened during fiscal 2010, excluding gas and convenience locations, generated average weekly sales of approximately $16,400, or annualized unit volumes of approximately $855,000, while the average capital expenditure required to open a new traditional restaurant site in the U.S., excluding gas and convenience locations, was approximately $474,000 in 2010. We offer our franchisees significant operational support by aiming to continuously improve restaurant profitability. One example is supporting their supply chain, where we believe we have facilitated approximately $247 million in franchisee cost reductions between fiscal 2008 and 2011 primarily through strategic sourcing, as well as other initiatives, such as rationalizing the number of product offerings to reduce waste and reducing costs on branded packaging by reducing the color mix in graphics. We believe that the majority of these cost savings represent sustainable improvements to our franchisees supply costs, with the remainder dependent upon the outcome of future supply contract re-negotiations, which typically occur every two to four years. However, there can be no assurance that these cost reductions will be sustainable in the future. While we do not directly benefit from improvements in store-level profitability, we believe that strong store-level economics are important to our ability to attract and retain successful franchisees and grow our business. Of our fiscal 2011 openings and existing commitments, approximately 91% have been made by existing franchisees who are able, in many cases, to use cash flow generated from their existing restaurants to fund a portion of their expansion costs.

As a result of Dunkin Donuts franchisee store-level economics and strong brand appeal, we are able to maintain a robust new restaurant pipeline. During 2011, our franchisees opened 243 net new Dunkin Donuts points of distribution in the U.S. Based on the commitments we have secured or expect to secure, we anticipate the opening of approximately 260 to 280 net new points of distribution in the U.S. in 2012. Consistent with our overall points of distribution mix, we expect that approximately 75% of our Dunkin Donuts openings in the U.S. will be traditional format restaurants; however, this percentage may be higher or lower in any given year as a result of specific development initiatives or other factors.

We believe our strong store-level economics and our track record of performance through economic cycles have resulted in a diverse and stable franchisee base, in which the largest franchisee in the U.S. owns no more than 3.6% of the U.S. Dunkin Donuts points of distribution and domestic franchisees operate, on average, 6.1 points of distribution in the U.S. Similarly, no Baskin-Robbins franchisee in the U.S. owns more than 1.0% of the U.S. Baskin-Robbins points of distribution, and domestic franchisees operate, on average, 1.8 points of distribution in the U.S.

Highly experienced management team

Our senior management team has significant QSR, foodservice and franchise company experience. Prior to joining Dunkin Brands, our CEO Nigel Travis served as the CEO of Papa John s International Inc. and previously held numerous senior positions at Blockbuster Inc. and Burger King Corporation. John Costello, our Chief Global Marketing & Innovation Officer, joined Dunkin Brands in 2009 having previously held leadership roles at The Home Depot, Sears, Yahoo!, Nielsen Marketing Research and Procter & Gamble. Paul Twohig, our Dunkin Donuts U.S. Chief Operating Officer, joined in October 2009 having previously held senior positions at Starbucks Corporation and Panera Bread Company. Our CFO Neil Moses joined in November 2010, having previously held numerous senior positions with public companies, including, most recently, CFO of Parametric Technology Corporation. Giorgio Minardi, our President of International, joined Dunkin Brands in February 2012 having previously held senior leadership positions at the Autogrill Group, McDonald s Corporation and Burger King Corporation.

Our growth strategy

We believe there are significant opportunities to grow our brands globally, further support the profitability of our franchisees, expand our leadership in the coffee, baked goods and ice cream categories of the QSR segment of the restaurant industry, and deliver shareholder value by executing on the following strategies:

Increase comparable store sales and profitability in Dunkin Donuts U.S.

Our largest operating segment, Dunkin Donuts U.S., has experienced positive comparable store sales growth in eight of the last ten fiscal years. We ended fiscal year 2011 with comparable store sales growth of 5.1%, which was our highest annual comparable store sales growth since 2005, and 7.4% for the fourth quarter of 2011, which was our highest quarterly performance in the past seven years. We intend to continue building on our comparable store sales growth momentum and improve profitability through the following initiatives:

Further increase coffee and beverage sales. Since the late 1980s, we have transformed Dunkin Donuts into a coffee-focused brand and have developed a significantly enhanced menu of beverage products, including Coolattas®, espressos, iced lattes and flavored coffees. Approximately 60% of Dunkin Donuts U.S. franchisee-reported sales for fiscal 2011 were generated from coffee and other beverages, which we believe generate increased customer visits to our stores and higher unit volumes, and which produce higher margins than our other products. We plan to increase our coffee and beverage revenue through continued new product innovations and related marketing, including advertising campaigns such as America Runs on Dunkin and What are you Drinkin ?

In the summer of 2011, Dunkin Donuts began offering 14-count boxes of authentic Dunkin Donuts coffee in Keurig® K-Cups, exclusively sold at participating Dunkin Donuts restaurants across the U.S. Using coffee sourced and roasted to Dunkin Donuts exacting specifications, Dunkin K-Cup portion packs are available in

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five popular Dunkin Donuts flavors, including Original Blend, Dunkin Decaf, French Vanilla, Hazelnut and Dunkin Dark®. In addition, participating Dunkin Donuts restaurants offer, on occasion, Keurig Single-Cup Brewers for sale. We believe this alliance is a significant long-term growth opportunity that will generate incremental sales and profits for our Dunkin Donuts franchisees. We believe there has been no significant cannibalization of our other coffee business to date from the sale of K-Cups.

Extend leadership in breakfast daypart while growing afternoon daypart. As we maintain and grow our current leading market position in the breakfast daypart through innovative bakery and breakfast sandwich products like the Big N Toasted™ and the Wake-Up Wrap®, we plan to expand Dunkin Donuts position in the afternoon daypart (between 2:00 p.m. and 5:00 p.m.), which currently represents only approximately 12% of our franchisee-reported sales. We believe that our extensive coffee- and beverage-based menu, coupled with new hearty snack introductions, such as bakery sandwiches and tuna and chicken salad sandwiches, positions us for further growth in this daypart. We believe this will require minimal additional capital investment by our franchisees.

Continue to develop enhancements in restaurant operations. We will continue to maintain a highly operations-focused culture to help our franchisees maximize the quality and consistency of their customers in-store experience, as well as to increase franchisee profitability. In support of this, we have enhanced initial and ongoing restaurant manager and crew training programs and developed new in-store planning and tracking technology tools to assist our franchisees. As evidence of our recent success in these areas, over 164,000 respondents, representing approximately 93% of all respondents, to our Guest Satisfaction Survey program in December 2011 rated their overall experience as Satisfied or Highly Satisfied.

Continue Dunkin Donuts U.S. contiguous store expansion

We believe there is a significant opportunity to grow our points of distribution for Dunkin Donuts in the U.S. given the strong potential outside of the Northeast region to increase our per-capita penetration to levels closer to those in our core markets. Our development strategy resulted in 243 net new U.S. store openings in fiscal 2011. In 2012, we expect our franchisees to open an additional 260 to 280 net new points of distribution in the U.S., principally in existing developed markets. We believe that our strategy of focusing on contiguous growth has the potential to, over approximately the next 20 years, more than double our current U.S. footprint and reach a total of 15,000 points of distribution in the U.S. The following table details our per-capita penetration levels in our U.S. regions.

Region	Population (in millions)	Stores[1]	Penetration
Core	36.0	3,768	1:9,560
Eastern Established.	53.8	2,227	1:24,160
Eastern Emerging	88.7	891	1:99,600
West	130.0	129	1:1,008,100

[1] As of December 31, 2011

Increase penetration in existing markets. In our traditional core markets of New England and New York, we now have one Dunkin Donuts store for every 9,560 people. In the near term, we intend to focus our development on other markets east of the Mississippi River, where we currently have only approximately one Dunkin Donuts store for every 99,600 people. In certain established Eastern U.S. markets outside of our core markets, such as Philadelphia, Chicago and South Florida, we have already achieved per-capita penetration of greater than one Dunkin Donuts store for every 24,160 people.

Expand into new markets using a disciplined approach. We believe that the Western part of the U.S. represents a significant growth opportunity for Dunkin Donuts. However, we believe that a disciplined approach to development is the best one for our brand and franchisees. Specifically, in the near term, we intend to focus on

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development in markets that are adjacent to our existing base, and generally move westward in a contiguous fashion to less penetrated markets, providing for marketing and supply chain efficiencies within each new market.

Focus on store-level economics. In recent years, we have undertaken significant initiatives to further enhance store-level economics for our franchisees, including reducing the cash investment for new stores, increasing beverage sales, lowering supply chain costs and implementing more efficient store management systems. We believe these initiatives have further increased franchisee profitability. For example, we reduced the upfront capital expenditure costs to open an end-cap restaurant with a drive-thru by approximately 24% between fiscal 2008 and fiscal 2011. Additionally, between fiscal 2008 and 2011 we believe we have facilitated approximately $247 million in franchisee cost reductions primarily through strategic sourcing, as well as through other initiatives, such as rationalizing the number of product offerings to reduce waste and reducing costs on branded packaging by reducing the color mix in graphics. We recently entered into an agreement with our franchisee-owned supply chain cooperative that provides for a three-year phase in of flat invoice pricing across the franchise system, which, coupled with the cost reductions noted above, should lead to cost savings across the entire franchise system. We believe that this will be one of the drivers of our contiguous development strategy, by improving store-level economics in all markets, but particularly in newer markets where our growth is targeted. Store-level economics have also continued to benefit from increased national marketing and from the introduction of Dunkin K-Cups into our restaurants. We will continue to focus on these initiatives to further enhance operating efficiencies.

Drive accelerated international growth of both brands

We believe there is a significant opportunity to grow our points of distribution for both brands in international markets. Our international expansion strategy has resulted in more than 3,500 net new openings in the last ten years.

The key elements of our future international development strategy are:

Grow in our existing core markets. Our international development strategy for both brands includes growth in our existing core markets. For the Dunkin Donuts brand, we intend to focus on growth in South Korea and the Middle East, where we currently have 857 and 229 points of distribution, respectively. For Baskin-Robbins, we intend to focus on Japan, South Korea, and key markets in the Middle East. We intend to leverage our operational infrastructure to grow our existing store base of 2,651 Baskin-Robbins points of distribution in these markets. During fiscal 2012, we expect our franchisees to open approximately 350 to 450 net new points of distribution internationally, principally in our existing markets. However, there can be no assurance that our franchisees will be successful in opening this number of, or any, additional points of distribution.

Capitalize on other markets with significant growth potential. We intend to expand in certain international focus markets where our brands do not have a significant store presence, but where we believe there is consumer demand for our products as well as strong franchisee partners. In 2011, we announced an agreement with an experienced QSR franchisee to enter the Indian market with our Dunkin Donuts brand. The agreement calls for the development of at least 500 Dunkin Donuts restaurants throughout India, the first of which is expected to open by the second quarter of 2012. By teaming with local operators, we believe we are better able to adapt our brands to local business practices and consumer preferences.

Further develop our franchisee support infrastructure. We plan to increase our focus on providing our international franchisees with operational tools and services that can help them to efficiently operate in their markets and become more profitable. For each of our brands, we plan to focus on improving our native-language restaurant training programs and updating existing restaurants for our new international retail restaurant designs. To accomplish this, we are dedicating additional resources to our restaurant operations support teams in key geographies in order to assist international franchisees in improving their store-level operations.

Increase comparable store sales growth of Baskin-Robbins U.S.

In the U.S., Baskin-Robbins core strengths are its national brand recognition, 65 years of heritage and its #1 position in the QSR industry for servings of hard serve ice cream. While the Baskin-Robbins U.S. segment has experienced decreasing comparable store sales in three of the last four years, due primarily to increased competition and decreased consumer spending, and the number of Baskin-Robbins U.S. stores has decreased since 2008, we believe that we can capitalize on the brand s strengths and generate renewed excitement for the brand, through several initiatives including our recently introduced More Flavors, More Fun™ marketing campaign. In addition, at the restaurant level, we seek to improve sales by focusing on operational and service improvements, by increasing cake and beverage sales, and through product innovation, marketing and technology.

Bill Mitchell leads our Baskin-Robbins U.S. operations, serving as our Senior Vice President and Brand Officer of Baskin-Robbins U.S. Prior to joining us, he served in a variety of management roles over a ten-year period at Papa John s International, and before that, at Popeyes, a division of AFC Enterprises. Since joining Dunkin Brands in August 2010, Mr. Mitchell has led the introduction of technology improvements across the Baskin-Robbins system, which we believe will aid our franchisees in operating their restaurants more efficiently and profitably. Under Mr. Mitchell s leadership, comparable store sales for Baskin-Robbins U.S. increased 0.5% in fiscal 2011, with the fourth quarter of 2011 yielding comparable store sales growth of 5.8%. Further, over 4,400 respondents, representing approximately 90% of all respondents, to our Guest Satisfaction Survey program in December 2011 rated their overall experience as Satisfied or Extremely Satisfied. .

Industry overview

According to Technomic Information Services (Technomic), the QSR segment of the U.S. restaurant industry accounted for approximately $174 billion of the total $361 billion restaurant industry sales in the U.S. in 2010. The U.S. restaurant industry is generally categorized into segments by price point ranges, the types of food and beverages offered, and service available to consumers. QSR is a restaurant format characterized by counter or drive-thru ordering and limited, or no, table service. QSRs generally seek to capitalize on consumer desires for quality and convenient food at economical prices. Technomic reports that, in 2010, QSRs comprised nine of the top ten chain restaurants by U.S. systemwide sales and ten of the top ten chain restaurants by number of units.

Our Dunkin Donuts brand competes in the QSR segment categories and subcategories that include coffee, donuts, muffins, bagels and breakfast sandwiches. In addition, in the U.S., our Dunkin Donuts brand has historically focused on the breakfast daypart, which we define to include the portion of each day from 5:00 a.m. until 11:00 a.m. While, according to Consumer Reported Eating Trends (CREST®) data, the compound annual growth rate for total QSR daypart visits in the U.S. has been flat over the five-year period ended December 2011, the compound annual growth rate for QSR visits in the U.S. during the breakfast daypart averaged 1% over the same five-year period. There can be no assurance that such growth rates will be sustained in the future.

For the twelve months ended December 2011, there were sales of more than 7.4 billion restaurant servings of coffee in the U.S., 79% of which were attributable to the QSR segment according to CREST® data. Over the years, our Dunkin Donuts brand has evolved into a predominantly coffee-based concept, with approximately 60% of Dunkin Donuts U.S. franchisee-reported sales for fiscal year 2011 generated from coffee and other beverages. We believe QSRs, including Dunkin Donuts, are positioned to capture additional coffee market share through an increased focus on coffee offerings.

Our Baskin-Robbins brand competes primarily in QSR segment categories and subcategories that include hard-serve ice cream as well as those that include soft serve ice cream, frozen yogurt, shakes, malts and floats. While both of our brands compete internationally, over 63% of Baskin-Robbins restaurants are located outside of the U.S. and represent the majority of our total international sales and points of distribution.

Our brands

Our brands date back to the 1940s when Bill Rosenberg founded his first restaurant, subsequently renamed Dunkin Donuts, and Burt Baskin and Irv Robbins each founded a chain of ice cream shops that eventually combined to form Baskin-Robbins. Dunkin Donuts and Baskin-Robbins share the same vision of delivering high-quality beverage and food products at a good value through convenient locations.

Dunkin Donuts U.S.

Dunkin Donuts is a leading U.S. QSR concept, with leading market positions in each of the coffee, donut, bagel, muffin and breakfast sandwich categories. Since the late 1980s, Dunkin Donuts has transformed itself into a coffee and beverage-based concept and is the national leader in hot regular coffee, with sales of over 1 billion servings of coffee annually. From the fiscal year ended August 31, 2001 to the fiscal year ended December 31, 2011, Dunkin Donuts U.S. systemwide sales have grown at an 8.7% compound annual growth rate. There can be no assurance that such growth rates will be sustained in the future. Total U.S. Dunkin Donuts points of distribution grew from 3,613 at August 31, 2001 to 7,015 as of December 31, 2011. Approximately 85% of these points of distribution are traditional restaurants consisting of end-cap, in-line and stand-alone restaurants, many with drive-thrus, and gas and convenience locations. In addition, we have APODs, such as full- or self-service kiosks in grocery stores, hospitals, airports, offices and other smaller-footprint properties. We believe that Dunkin Donuts continues to have significant growth potential in the U.S. given its strong brand awareness and variety of restaurant formats. For fiscal year 2011, the Dunkin Donuts franchise system generated U.S. franchisee-reported sales of $5.9 billion, which accounted for approximately 71.0% of our global franchisee-reported sales, and had 7,015 U.S. points of distribution (including more than 3,100 restaurants with drive-thrus) at period end.

Baskin-Robbins U.S.

Baskin-Robbins is the #1 QSR chain in the U.S. for servings of hard-serve ice cream and develops and sells a full range of frozen ice cream treats such as cones, cakes, sundaes and frozen beverages. While our Baskin-Robbins U.S. segment has experienced decreasing comparable store sales in three of the last four fiscal years and the number of Baskin-Robbins stores in the U.S. has decreased in each year since 2008, Baskin-Robbins enjoys 92% aided brand awareness in the U.S., and we believe the brand is known for its innovative flavors, popular Birthday Club program and ice cream flavor library of over 1,000 different offerings. We believe we can capitalize on the brand s strengths and generate renewed excitement for the brand. Baskin-Robbins 31 flavors , offering consumers a different flavor for each day of the month, is recognized by ice cream consumers nationwide. For fiscal year 2011, the Baskin-Robbins franchise system generated U.S. franchisee-reported sales of $496 million, which accounted for approximately 5.9% of our global franchisee-reported sales, and had 2,457 U.S. points of distribution at period end.

International operations

Our international business is primarily conducted via joint ventures and country or territorial license arrangements with master franchisees , who both operate and sub-franchise the brand within their licensed area. Our international franchise system, predominantly located across Asia and the Middle East, generated franchisee-reported sales of $1.9 billion for fiscal year 2011, which represented 23.1% of Dunkin Brands global franchisee-reported sales. Dunkin Donuts had 3,068 restaurants in 31 countries (excluding the U.S.), representing $636 million of international franchisee-reported sales for fiscal year 2011, and Baskin-Robbins had 4,254 restaurants in 48 countries (excluding the U.S.), representing approximately $1.3 billion of international franchisee-reported sales for the same period. From August 31, 2001 to December 31, 2011, total international Dunkin Donuts points of distribution grew from 1,581 to 3,068, and total international Baskin-Robbins points of distribution grew from 2,231 to 4,254. We believe that we have opportunities to continue to grow our Dunkin Donuts and Baskin-Robbins concepts internationally in new and existing markets through brand and menu differentiation.

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Overview of franchising

Franchising is a business arrangement whereby a service organization, the franchisor, grants an operator, the franchisee, a license to sell the franchisor s products and services and use its system and trademarks in a given area, with or without exclusivity. In the context of the restaurant industry, a franchisee pays the franchisor for its concept, strategy, marketing, operating system, training, purchasing power and brand recognition.

Franchisee relationships

One of the ways by which we seek to maximize the alignment of our interests with those of our franchisees is by not deriving additional income through serving as the supplier to our domestic franchisees. In addition, because the ability to execute our strategy is dependent upon the strength of our relationships with our franchisees, we maintain a multi-tiered advisory council system to foster an active dialogue with franchisees. The advisory council system provides feedback and input on all major brand initiatives and is a source of timely information on evolving consumer preferences, which assists new product introductions and advertising campaigns.

Unlike certain other QSR franchise systems, we generally do not guarantee our franchisees financing obligations. As of December 31, 2011, if all of our outstanding guarantees of franchisee financing obligations came due, we would be liable for $6.9 million. We intend to continue our past practice of limiting our guarantee of financing for franchisees.

Franchise agreement terms

For each franchised restaurant, we enter into a franchise agreement covering a standard set of terms and conditions. A prospective franchisee may elect to open either a single-branded distribution point or a multi-branded distribution point. In addition, and depending upon the market, a franchisee may purchase the right to open a franchised restaurant at one or multiple locations (via a store development agreement, or SDA). When granting the right to operate a restaurant to a potential franchisee, we will generally evaluate the potential franchisee s prior food-service experience, history in managing profit and loss operations, financial history, and available capital and financing. We also evaluate potential new franchisees based on financial measures, including (for the smallest restaurant development commitment) a liquid asset minimum of $125,000 for the Baskin-Robbins brand, a liquid asset minimum of $250,000 for the Dunkin Donuts brand, a net worth minimum of $250,000 for the Baskin-Robbins brand, and a net worth minimum of $500,000 for the Dunkin Donuts brand.

The typical franchise agreement in the U.S. has a 20-year term. The majority of our franchisees have entered into prime leases with a third-party landlord. When we sublease properties to franchisees, the sublease generally follows the prime lease term structure. Our leases to franchisees are typically structured to provide a ten-year term and two five-year options to renew.

We help domestic franchisees select sites and develop restaurants that conform to the physical specifications of our typical restaurant. Each domestic franchisee is responsible for selecting a site, but must obtain site approval from us based on accessibility, visibility, proximity to other restaurants, and targeted demographic factors including population density and traffic patterns. Additionally, the franchisee must also refurbish and remodel each restaurant periodically (typically every five and ten years, respectively).

We currently require each domestic franchisee s managing owner and designated manager to complete initial and ongoing training programs provided by us, including minimum periods of classroom and on-the-job training. We monitor quality and endeavor to ensure compliance with our standards for restaurant operations through restaurant visits in the U.S. In addition, a formal restaurant review is conducted throughout our domestic operations at least once per year and comprises two separate restaurant visits. To complement these procedures, we use Guest Satisfaction Surveys in the U.S. to assess customer satisfaction with restaurant operations, such as product quality, restaurant cleanliness and customer service. Within each of our master franchisee and joint venture organizations, training facilities have been established by the master franchisee or joint venture based on our specifications. From those training facilities, the master franchisee or joint venture trains future staff members of the international restaurants. Our master franchisees and joint venture entities also periodically send their primary training managers to the U.S. for re-certification.

Store development agreements

We grant domestic franchisees the right to open one or more restaurants within a specified geographic area pursuant to the terms of SDAs. An SDA specifies the number of restaurants and the mix of the brands represented by such restaurants that a franchisee is obligated to open. Each SDA also requires the franchisee to meet certain milestones in the development and opening of the restaurant and, if the franchisee meets those obligations, we agree, during the term of such SDA, not to operate or franchise new restaurants in the designated geographic area covered by such SDA. In addition to an SDA, a franchisee signs a separate franchise agreement for each restaurant developed under such SDA.

Master franchise model and international arrangements

Master franchise arrangements are used on a limited basis domestically (the Baskin-Robbins brand has five territory franchise agreements for certain Midwestern and Northwestern markets) but more widely internationally for both the Baskin-Robbins brand and the Dunkin Donuts brand. In addition, international arrangements include single unit franchises in Canada (both brands), the United Kingdom and Australia (Baskin-Robbins brand) as well as joint venture agreements in Korea (both brands) and Japan (Baskin-Robbins brand).

Master franchise agreements are the most prevalent international relationships for both brands. Under these agreements, the applicable brand grants the master franchisee the exclusive right to develop and operate a certain number of restaurants within a particular geographic area, such as selected cities, one or more provinces or an entire country, pursuant to a development schedule that defines the number of restaurants that the master franchisee must open annually. Those development schedules customarily extend for five to ten years. If the master franchisee fails to perform its obligations, the exclusivity provision of the agreement terminates and additional franchise agreements may be put in place to develop restaurants.

The master franchisee is required to pay an upfront initial franchise fee for each developed restaurant and, for the Dunkin Donuts brand, royalties. For the Baskin-Robbins brand, the master franchisee is typically required to purchase ice cream from Baskin-Robbins or an approved supplier. In most countries, the master franchisee is also required to spend a certain percentage of gross sales on advertising in such foreign country in order to promote the brand. Generally, the master franchise agreement serves as the franchise agreement for the underlying restaurants operating pursuant to such model. Depending on the individual agreement, we may permit the master franchisee to subfranchise with its territory.

Our brands have presence in the following countries:

	Dunkin Donuts	Baskin-Robbins
Aruba	ü	ü
Australia		ü
Azerbaijan		ü
Bahamas	ü	
Bahrain		ü
Bangladesh		ü
Bulgaria	ü	

Canada	ü	ü
Cayman Islands	ü	
Chile	ü	
China	ü	ü
Colombia	ü	ü
Curacao		ü
Denmark		ü
Dominican Republic		ü
Ecuador	ü	ü
Egypt		ü
England		ü
Georgia		ü
Germany	ü	
Honduras	ü	ü
India	ü	ü
Indonesia	ü	ü
Japan		ü
Kazakhstan		ü
Korea	ü	ü
Kuwait	ü	ü
Latvia		ü
Lebanon	ü	ü
Malaysia	ü	ü
Maldives		ü
Mauritius		ü
Mexico		ü
Nepal		ü
New Zealand	ü	
Oman	ü	ü
Pakistan	ü	
Panama	ü	ü
Peru	ü	
Philippines	ü	
Portugal		ü
Qatar	ü	ü
Russia	ü	ü
Saudi Arabia	ü	ü
Scotland		ü
Singapore	ü	ü
South Africa		ü
Spain	ü	ü
St Maarten		ü
Srilanka		ü
Taiwan	ü	ü
Thailand	ü	ü
UAE	ü	ü
Ukraine		ü
United States	ü	ü
Vietnam		ü
Wales		ü
Yemen		ü

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Franchise fees

In the U.S., once a franchisee is approved, a restaurant site is approved and a franchise agreement is signed, the franchisee will begin to develop the restaurant. Franchisees pay us an initial franchise fee for the right to operate a restaurant for one or more franchised brands. The franchisee is required to pay all or part of the initial franchise fee upfront upon execution of the franchise agreement, regardless of when the restaurant is actually opened. Initial franchise fees vary by brand, type of development agreement and geographic area of development, but generally range from $10,000 to $90,000, as shown in the table below.

Restaurant type	Initial franchise fee*
Dunkin Donuts Single-Branded Restaurant	$ 40,000-80,000
Baskin-Robbins Single-Branded Restaurant	$ 25,000
Baskin-Robbins Express Single-Branded Restaurant	$ 10,000
Dunkin Donuts/Baskin-Robbins Multi-Branded Restaurant	$ 45,000-90,000

* Fees as of December 31, 2011 and excludes alternative points of distribution

In addition to the payment of initial franchise fees, our U.S. Dunkin Donuts brand franchisees, U.S. Baskin-Robbins brand franchisees and our international Dunkin Donuts brand franchisees pay us royalties on a percentage of the gross sales made from each restaurant. In the U.S., the majority of our franchise agreement renewals and the vast majority of our new franchise agreements require our franchisees to pay us a royalty of 5.9% of gross sales. During 2011, our effective royalty rate in the Dunkin Donuts U.S. segment was approximately 5.4% and in the Baskin-Robbins U.S. segment was approximately 5.1%. The arrangements for Dunkin Donuts in the majority of our international markets require royalty payments to us of 5.0% of gross sales. However, many of our larger international partners and our Korean joint venture partner have agreements at a lower rate, resulting in an effective royalty rate in the Dunkin Donuts international segment in 2011 of approximately 2.0%. We typically collect royalty payments on a weekly basis from our domestic franchisees. For the Baskin-Robbins brand in international markets, we do not generally receive royalty payments from our franchisees; instead we receive revenue from such franchisees as a result of our sale of ice cream products to them, and in 2011 our effective royalty rate in this segment was approximately 0.7%. In 2010, we supplemented and modified certain SDAs, and franchise agreements entered into pursuant to such SDAs, for restaurants located in certain new or developing markets, by (i) reducing the royalties for any one or more of the first four years of the term of the franchise agreements depending on the details related to each specific incentive program; (ii) reimbursing the franchisee for certain local marketing activities in excess of the minimum required; and (iii) providing certain development incentives. To qualify for any or all of these incentives, the franchisee must meet certain requirements, each of which are set forth in an addendum to the SDA and the franchise agreement. We believe these incentives will lead to accelerated development in our less mature markets.

Franchisees in the U.S. also pay advertising fees to the brand-specific advertising funds administered by us. Franchisees make weekly contributions, generally 5% of gross sales, to the advertising funds. Franchisees may elect to increase the contribution to support general brand-building efforts or specific initiatives. The advertising funds for the U.S., which received $316.3 million in contributions from franchisees in fiscal year 2011, are almost exclusively franchisee-funded and cover all expenses related to marketing, advertising and promotion, including market research, production, advertising costs, public relations and sales promotions. We use no more than 20% of the advertising funds to cover the administrative expenses of the advertising funds and for other strategic initiatives designed to increase sales and to enhance the reputation of the brands. As the administrator of the advertising funds, we determine the content and placement of advertising, which is done through print, radio, television, online, billboards, sponsorships and other media, all of which is sourced by agencies. Under certain circumstances, franchisees are permitted to conduct their own local advertising, but must obtain our prior approval of content and promotional plans.

Other franchise related fees

We lease and sublease properties to franchisees in the U.S. and in Canada, generating net rental fees when the cost charged to the franchisee exceeds the cost charged to us. For fiscal year 2011, we generated 14.7%, or $92.1 million, of our total revenue from rental fees from franchisees and incurred related occupancy expenses of $51.9 million.

We also receive a license fee from Dean Foods Co. (Dean Foods) as part of an arrangement whereby Dean Foods manufactures and distributes ice cream products to Baskin-Robbins franchisees in the U.S. In connection with our Dean Foods Alliance Agreement, Dunkin Brands receives a license fee based on total gallons of ice cream sold. For fiscal year 2011, we generated 1.2%, or $7.4 million, of our total revenue from license fees from Dean Foods.

We manufacture and supply ice cream products to a majority of the Baskin-Robbins franchisees who operate Baskin-Robbins restaurants located in certain foreign countries and receive revenue associated with those sales. For fiscal year 2011, we generated 15.9%, or $100.1 million, of our total revenue from the sale of ice cream and ice cream products to franchisees in certain foreign countries.

Other revenue sources include income from restaurants owned by us, online training fees, licensing fees earned from the sale of retail packaged coffee, net refranchising gains and other one-time fees such as transfer fees and late fees. For fiscal year 2011, we generated 4.8%, or $30.1 million, of our total revenue from these other sources.

International operations

Our international business is organized by brand and by country and/or region. Operations are primarily conducted through master franchise agreements with local operators. In certain instances, the master franchisee may have the right to sub-franchise. In addition, in Japan and South Korea we have joint ventures with local companies for the Baskin-Robbins brand, and in the case of South Korea, for the Dunkin Donuts brand as well. By teaming with local operators, we believe we are better able to adapt our concepts to local business practices and consumer preferences. We have had an international presence since 1961 when the first Dunkin Donuts restaurant opened in Canada. As of December 31, 2011, there were 4,254 Baskin-Robbins restaurants in 48 countries outside the U.S. and 3,068 Dunkin Donuts restaurants in 31 countries outside the U.S. Baskin-Robbins points of distribution represent the majority of our international presence and accounted for 67% of international franchisee-reported sales and 88% of our international revenues for fiscal year 2011.

Our key markets for both brands are predominantly based in Asia and the Middle East, which accounted for approximately 72.4% and 14.5%, respectively, of international franchisee-reported sales for fiscal year 2011. For fiscal year 2011, $1.9 billion of total franchisee-reported sales were generated by restaurants located in international markets, which represented 23.1% of total franchisee-reported sales, with the Dunkin Donuts brand accounting for $636 million and the Baskin-Robbins brand accounting for $1.3 billion of our international franchisee-reported sales. For the same period, our revenues from international operations totaled $123.8 million, with the Baskin-Robbins brand generating approximately 88% of such revenues.

Overview of key markets

As of December 31, 2011, the top foreign countries and regions in which the Dunkin Donuts brand and/or the Baskin-Robbins brand operated were:

Country	Type	Franchised brand(s)	Number of restaurants
South Korea	Joint Venture	Dunkin Donuts	857
		Baskin-Robbins	983
Japan	Joint Venture	Baskin-Robbins	1,087
Middle East	Master Franchise Agreements	Dunkin Donuts	229
		Baskin-Robbins	581

South Korea

Restaurants in South Korea accounted for approximately 35% of total franchisee-reported sales from international operations for fiscal year 2011. Baskin-Robbins accounted for 54% of such sales. In South Korea, we conduct business through a 33.3% ownership stake in a combination Dunkin Donuts brand/Baskin-Robbins brand joint venture, with South Korean shareholders owning the remaining 66.7% of the joint venture. The joint venture acts as the master franchisee for South Korea, sub-franchising the Dunkin Donuts and Baskin-Robbins brands to franchisees. There are 983 Baskin-Robbins restaurants and 857 Dunkin Donuts restaurants located in South Korea as of December 31, 2011. The joint venture also manufactures and supplies the franchisees operating restaurants located in South Korea with ice cream, donuts and coffee products.

Japan

Restaurants in Japan accounted for approximately 28% of total franchisee-reported sales from international operations for fiscal year 2011, 100% of which came from Baskin-Robbins. We conduct business in Japan through a 43.3% ownership stake in a Baskin-Robbins brand joint venture. Fujiya Co. Ltd. also owns a 43.3% interest in the joint venture, with the remaining 13.4% owned by public shareholders. There were 1,087 Baskin-Robbins restaurants located in Japan as of December 31, 2011, with the joint venture manufacturing and selling ice cream to franchisees operating restaurants in Japan and acting as master franchisee for the country.

Middle East

The Middle East represents another key region for us. Restaurants in the Middle East accounted for approximately 15% of total franchisee-reported sales from international operations for fiscal year 2011. Baskin-Robbins accounted for approximately 80% of such sales. We conduct operations in the Middle East through master franchise arrangements.

Competition

We compete primarily in the QSR segment of the restaurant industry and face significant competition from a wide variety of restaurants, convenience stores and other outlets that provide consumers with coffee, baked goods, sandwiches and ice cream on an international, national, regional and local level. We believe that we compete based on, among other things, product quality, restaurant concept, service, convenience, value perception and price. Our competition continues to intensify as competitors increase the breadth and depth of their product offerings, particularly during the breakfast daypart, and open new units. Although new competitors may emerge at any time due to the low barriers to entry, our competitors include: 7-Eleven, Burger King, Cold Stone Creamery, Dairy Queen, McDonald s, Quick Trip, Starbucks, Subway, Tim Hortons, WaWa and Wendy s, among others. Additionally, we compete with QSRs, specialty restaurants and other retail concepts for prime restaurant locations and qualified franchisees.

Licensing

We derive licensing revenue from agreements with Dean Foods for domestic ice cream sales, with The J.M. Smucker Co. (Smuckers) for the sale of packaged coffee in non-franchised outlets (primarily grocery retail) as well as from other licensees. Dean Foods manufactures and sells ice cream to U.S. Baskin-Robbins brand franchisees and pays us a royalty on each gallon sold. The Dunkin Donuts branded 12 oz. original blend coffee, which is distributed by Smuckers, is the #1 stock-keeping unit nationally in the premium coffee category. According to Nielsen, for the 52 weeks ending December 24, 2011, sales of our 12 oz. original blend, as expressed in total equivalent units and dollar sales, were double that of the next closest competitor.

Marketing

We coordinate domestic advertising and marketing at the national and local levels. The goals of our marketing strategy include driving comparable store sales and brand differentiation, increasing our total coffee and beverage sales, protecting and growing our morning daypart sales, and growing our afternoon daypart sales. Generally, our domestic franchisees contribute 5% of weekly gross retail sales to fund brand specific advertising funds. The funds are used for various national and local advertising campaigns including print, radio, television, online, mobile, billboards and sponsorships. Over the past ten years, our U.S. franchisees have invested approximately $2.0 billion on advertising to increase brand awareness and restaurant performance across both brands. Additionally, we have various pricing strategies, so that our products appeal to a broad range of customers.

The supply chain

Domestic

We do not typically supply products to our domestic franchisees. With the exception of licensing fees paid by Dean Foods on domestic ice cream sales, we do not typically derive revenues from product distribution. Our franchisees suppliers include Rich Products Corp., Dean Foods Co., PepsiCo, Inc., Green Mountain Coffee Roasters, Inc. and Silver Pail Dairy, Ltd. In addition, our franchisees primary coffee roasters currently are New England Tea & Coffee Co., Inc., Mother Parkers Tea & Coffee Inc., S&D Coffee, Inc. and Sara Lee Corporation, and their primary donut mix suppliers currently are General Mills, Inc. and Otis Spunkmeyer, Inc. Our franchisees also purchase coffee from Massimo Zanetti Beverage USA, Inc. and donut mix from CSM Bakery Products NA, Inc., Custom Blends and EFCO Products, Inc. We periodically review our relationships with licensees and approved suppliers and evaluate whether those relationships continue to be on competitive or advantageous terms for us and our franchisees.

Purchasing

Purchasing for the Dunkin Donuts brand is facilitated by National DCP, LLC (the NDCP), which is a Delaware limited liability company operated as a cooperative owned by its franchisee members. The NDCP is managed by a staff of supply chain professionals who report directly to the NDCP s Executive Management Team, members of which in turn report directly to the NDCP s Board of Directors. The NDCP has over 1,000 employees including executive leadership, sourcing professionals, warehouse staff, and drivers. The NDCP Board has eight franchisee members. In addition, the Vice President, Strategic Manufacturing & Supply from Dunkin Brands, Inc. is a voting member of the NDCP board. The NDCP engages in purchasing, warehousing and distribution of food and supplies on behalf of participating restaurants and some international markets. The NDCP program provides franchisee members nationwide the benefits of scale while fostering consistent product quality across the Dunkin Donuts brand. We do not control the NDCP and have only limited contractual rights associated with supplier certification, quality assurance and protection of our intellectual property.

Manufacturing of Dunkin Donuts bakery goods

Centralized production is another element of our supply chain that is designed to support growth for the Dunkin Donuts brand. Centralized manufacturing locations (CMLs) are franchisee-owned and -operated facilities for the centralized production of donuts and bakery goods. The CMLs deliver freshly baked products to Dunkin Donuts restaurants on a daily basis and are designed to provide consistent quality products while simplifying restaurant-level operations. As of December 31, 2011, there were 99 CMLs (of varying size and capacity) in the U.S. CMLs are an important part of franchise economics, and we believe the brand is supportive of profit building initiatives as well as protecting brand quality standards and consistency.

Certain of our Dunkin Donuts brand restaurants produce donuts and bakery goods on-site rather than relying upon CMLs. Many of such restaurants, known as full producers, also supply other local Dunkin Donuts restaurants that do not have access to CMLs. In addition, in newer markets, Dunkin Donuts brand restaurants rely on donuts and bakery goods that are finished in restaurants. We believe that this just baked on demand donut manufacturing platform enables the Dunkin Donuts brand to more efficiently expand its restaurant base in newer markets where franchisees may not have access to a CML.

Baskin-Robbins ice cream

Prior to 2000, we manufactured and sold ice cream products to substantially all of our Baskin-Robbins brand franchisees. Beginning in 2000, we made the strategic decision to outsource the manufacturing and distribution of ice cream products for the domestic Baskin-Robbins brand franchisees to Dean Foods. The transition to this outsourcing arrangement was completed in 2003. We believe that this outsourcing arrangement was an important strategic shift and served the dual purpose of further strengthening our relationships with franchisees and allowing us to focus on our core franchising operations.

International

Dunkin Donuts

International Dunkin Donuts franchisees are responsible for sourcing their own supplies, subject to compliance with our standards. They also produce their own donuts following the Dunkin Donuts brand s approved processes. In certain countries, our international franchisees source virtually everything locally within their market while in others our international franchisees may source virtually everything from the NDCP. Where supplies are sourced locally, we help identify and approve those suppliers. Supplies that cannot be sourced locally are sourced through the NDCP. In addition, we assist our international franchisees in identifying regional and global suppliers with the goal of leveraging the purchasing volume for pricing and product continuity advantages.

Baskin-Robbins

The Baskin-Robbins global manufacturing network is comprised of 14 facilities, one of which, an ice cream manufacturing facility in Peterborough, Ontario (the Peterborough Facility), is owned and operated by us. These facilities supply both our international and our domestic markets with ice cream products. The Peterborough Facility serves many of our international markets, including the Middle East, Australia, China, Southeast Asia and Latin America. Certain international franchisees rely on third party-owned facilities to supply ice cream and ice cream products to them, including a facility near Cork, Ireland, which supplies restaurants in Europe and the Middle East. The Baskin-Robbins brand restaurants in India and Russia are supported by master franchisee-owned facilities in those respective countries while the restaurants in Japan and South Korea are supported by the joint venture-owned facilities located within each country.

Research and development

New product innovation is a critical component of our success. We believe the development of successful new products for both brands attracts new customers, increases comparable store sales and allows franchisees to expand into other dayparts. New product research and development is located in a state-of-the-art facility at our headquarters in Canton, Massachusetts. The facility includes a sensory lab, a quality assurance lab and a demonstration test kitchen. We rely on our internal culinary team, which uses consumer research, to develop and test new products.

Operational support

Substantially all of our executive management, finance, marketing, legal, technology, human resources and operations support functions are conducted from our global headquarters in Canton, Massachusetts. In the U.S. and Canada, our franchise operations for both brands are organized into regions, each of which is headed by a regional vice president and directors of operations supported by field personnel who interact directly with the franchisees. Our international businesses, excluding Canada, are organized by brand, and each brand has dedicated marketing and restaurant operations support teams. These teams, which are organized by geographic regions, work with our master licensees and joint venture partners to improve restaurant operations and restaurant-level economics. Management of a franchise restaurant is the responsibility of the franchisee, who is trained in our techniques and is responsible for ensuring that the day-to-day operations of the restaurant are in compliance with our operating standards. We have implemented a computer-based disaster recovery program to address the possibility that a natural (or other form of) disaster may impact the IT systems located at our Canton, Massachusetts headquarters.

Regulatory matters

Domestic

We and our franchisees are subject to various federal, state and local laws affecting the operation of our respective businesses, including various health, sanitation, fire and safety standards. In some jurisdictions our restaurants are required by law to display nutritional information about our products. Each restaurant is subject to licensing and regulation by a number of governmental authorities, which include zoning, health, safety, sanitation, building and fire agencies in the jurisdiction in which the restaurant is located. Franchisee-owned NDCP and CMLs are licensed and subject to similar regulations by federal, state and local governments.

We and our franchisees are also subject to the Fair Labor Standards Act and various other laws governing such matters as minimum wage requirements, overtime and other working conditions and citizenship requirements. A significant number of food-service personnel employed by franchisees are paid at rates related to the federal minimum wage.

Our franchising activities are subject to the rules and regulations of the Federal Trade Commission (FTC) and various state laws regulating the offer and sale of franchises. The FTC s franchise rule and various state laws require that we furnish a franchise disclosure document (FDD) containing certain information to prospective franchisees and a number of states require registration of the FDD with state authorities. We are operating under exemptions from registration in several states based on our experience and aggregate net worth. Substantive state laws that regulate the franchisor-franchisee relationship exist in a substantial number of states, and bills have been introduced in Congress from time to time that would provide for federal regulation of the franchisor-franchisee relationship. The state laws often limit, among other things, the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise and the ability of a franchisor to designate sources of supply. We believe that our FDDs for each of our Dunkin Donuts brand and our Baskin-Robbins brand, together with any applicable state versions or supplements, and franchising procedures, comply in all material respects with both the FTC franchise rule and all applicable state laws regulating franchising in those states in which we have offered franchises.

International

Internationally, we and our franchisees are subject to national and local laws and regulations that often are similar to those affecting us and our franchisees in the U.S., including laws and regulations concerning franchises, labor, health, sanitation and safety. International Baskin-Robbins brand and Dunkin Donuts brand restaurants are also often subject to tariffs and regulations on imported commodities and equipment, and laws regulating foreign investment. We believe that the international disclosure statements, franchise offering documents and franchising procedures for our Baskin-Robbins brand and Dunkin Donuts brand comply in all material respects with the laws of the applicable countries.

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Environmental

Our operations, including the selection and development of the properties we lease and sublease to our franchisees and any construction or improvements we make at those locations, are subject to a variety of federal, state and local laws and regulations, including environmental, zoning and land use requirements. Our properties are sometimes located in developed commercial or industrial areas and might previously have been occupied by more environmentally significant operations, such as gasoline stations and dry cleaners. Environmental laws sometimes require owners or operators of contaminated property to remediate that property, regardless of fault. While we have been required to, and are continuing to, clean up contamination at a limited number of our locations, we have no known material environmental liabilities.

Employees

As of December 31, 2011, excluding employees at our company-owned restaurants, we employed 1,128 people, 1,022 of whom were based in the U.S. and 106 of whom were based in other countries. Of our domestic employees, 431 worked in the field and 591 worked at our corporate headquarters or our satellite office in California. Of these employees, 159, who are almost exclusively in marketing positions, were paid by certain of our advertising funds. In addition, our Peterborough Facility employed 71 full-time employees as of December 31, 2011. Other than the 46 employees in our Peterborough Facility who are represented by the National Automobile, Aerospace, Transportation & General Workers Union of Canada, Local 462, none of our employees is represented by a labor union, and we believe our relationships with our employees are healthy.

Our franchisees are independent business owners, so they and their employees are not included in our employee count.

Additional Information

The Company makes available, free of charge, through its internet website www.dunkinbrands.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after electronically filing such material with the Securities and Exchange Commission. You may read and copy any materials filed with the Securities and Exchange Commission at the Securities and Exchange Commission s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. This information is also available at www.sec.gov. The reference to these website addresses does not constitute incorporation by reference of the information contained on the websites and should not be considered part of this document.

Item 1A: Risk Factors.

Risks related to our business and industry

Our financial results are affected by the operating results of our franchisees.

We receive a substantial majority of our revenues in the form of royalties, which are generally based on a percentage of gross sales at franchised restaurants, rent and other fees from franchisees. Accordingly, our financial results are to a large extent dependent upon the operational and financial success of our franchisees. If sales trends or economic conditions worsen for franchisees, their financial results may deteriorate, and our royalty, rent and other revenues may decline, and our accounts receivable and related allowance for doubtful accounts may increase. In addition, if our franchisees fail to renew their franchise agreements, our royalty revenues may decrease which in turn could materially and adversely affect our business and operating results.

Our franchisees could take actions that could harm our business.

Our franchisees are contractually obligated to operate their restaurants in accordance with the operations, safety and health standards set forth in our agreements with them. However, franchisees are independent third parties whom we do not control. The franchisees own, operate and oversee the daily operations of their restaurants. As a result, the ultimate success and quality of any franchised restaurant rests with the franchisee. If franchisees do not successfully operate restaurants in a manner consistent with required standards, franchise fees paid to us and royalty income will be adversely affected and brand image and reputation could be harmed, which in turn could materially and adversely affect our business and operating results.

Although we believe we generally enjoy a positive working relationship with the vast majority of our franchisees, active and/or potential disputes with franchisees could damage our brand reputation and/or our relationships with the broader franchisee group.

Sub-franchisees could take actions that could harm our business and that of our master franchisees.

In certain of our international markets, we enter into agreements with master franchisees that permit the master franchisee to develop and operate restaurants in defined geographic areas. As permitted by our master franchisee agreements, certain master franchisees elect to sub-franchise rights to develop and operate restaurants in the geographic area covered by the master franchisee agreement. Our master franchisee agreements contractually obligate our master franchisees to operate their restaurants in accordance with specified operations, safety and health standards and also require that any sub-franchise agreement contain similar requirements. However, we are not party to the agreements with the sub-franchisees and, as a result, are dependent upon our master franchisees to enforce these standards with respect to sub-franchised restaurants. As a result, the ultimate success and quality of any sub-franchised restaurant rests with the master franchisee. If sub-franchisees do not successfully operate their restaurants in a manner consistent with required standards, franchise fees and royalty income paid to the applicable master franchisee and, ultimately, to us could be adversely affected, and our brand image and reputation may be harmed, which could materially and adversely affect our business and operating results.

Our success depends substantially on the value of our brands.

Our success is dependent in large part upon our ability to maintain and enhance the value of our brands, our customers connection to our brands and a positive relationship with our franchisees. Brand value can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity or result in litigation. Some of these incidents may relate to the way we manage our relationship with our franchisees, our growth strategies, our development efforts in domestic and foreign markets, or the ordinary course of our, or our franchisees , business. Other incidents may arise from events that are or may be beyond our ability to control and may damage our brands, such as actions taken (or not taken) by one or more franchisees or their employees relating to health, safety, welfare or otherwise; litigation and claims; security breaches or other fraudulent activities associated with our electronic payment systems; and illegal activity targeted at us or others. Consumer demand for our products and our brands value could diminish significantly if any such incidents or other matters erode consumer confidence in us or our products, which would likely result in lower sales and, ultimately, lower royalty income, which in turn could materially and adversely affect our business and operating results.

The quick service restaurant segment is highly competitive, and competition could lower our revenues.

The QSR segment of the restaurant industry is intensely competitive. The beverage and food products sold by our franchisees compete directly against products sold at other QSRs, local and regional beverage and food operations, specialty beverage and food retailers, supermarkets and wholesale suppliers, many bearing recognized brand names and having significant customer loyalty. In addition to the prevailing baseline level of competition, major market players in noncompeting industries may choose to enter the restaurant industry. Key competitive factors include the number and location of restaurants, quality and speed of service, attractiveness of facilities, effectiveness of advertising, marketing and operational programs, price, demographic patterns and trends, consumer preferences and spending patterns, menu diversification, health or dietary preferences and perceptions and new product development. Some of our competitors have substantially greater financial and other resources than us, which may provide them with a competitive advantage. In addition, we compete within the restaurant industry and the QSR segment not only for customers but also for qualified franchisees. We cannot guarantee the retention of any, including the top-performing, franchisees in the future, or that we will maintain the ability to attract, retain, and motivate sufficient numbers of franchisees of the same caliber, which could materially and adversely affect our business and operating results. If we are unable to maintain our competitive position, we could experience lower demand for products, downward pressure on prices, the loss of market share and the inability to attract, or loss of, qualified franchisees, which could result in lower franchise fees and royalty income, and materially and adversely affect our business and operating results.

We cannot predict the impact that the following may have on our business: (i) new or improved technologies, (ii) alternative methods of delivery or (iii) changes in consumer behavior facilitated by these technologies and alternative methods of delivery.

Advances in technologies or alternative methods of delivery, including advances in vending machine technology and home coffee makers, or certain changes in consumer behavior driven by these or other technologies and methods of delivery could have a negative effect on our business. Moreover, technology and consumer offerings continue to develop, and we expect that new or enhanced technologies and consumer offerings will be available in the future. We may pursue certain of those technologies and consumer offerings if we believe they offer a sustainable customer proposition and can be successfully integrated into our business model. However, we cannot predict consumer acceptance of these delivery channels or their impact on our business. In addition, our competitors, some of whom have greater resources than us, may be able to benefit from changes in technologies or consumer acceptance of alternative methods of delivery, which could harm our competitive position. There can be no assurance that we will be able to successfully respond to changing consumer preferences, including with respect to new technologies and alternative methods of delivery, or to effectively adjust our product mix, service offerings and marketing and merchandising initiatives for products and services that address, and anticipate advances in, technology and market trends. If we are not able to successfully respond to these challenges, our business, financial condition and operating results could be harmed.

Economic conditions adversely affecting consumer discretionary spending may negatively impact our business and operating results.

We believe that our franchisees sales, customer traffic and profitability are strongly correlated to consumer discretionary spending, which is influenced by general economic conditions, unemployment levels and the availability of discretionary income. Recent economic developments have weakened consumer confidence and impacted spending of discretionary income. Our franchisees sales are dependent upon discretionary spending by consumers; any reduction in sales at franchised restaurants will result in lower royalty payments from franchisees to us and adversely impact our profitability. If the economic downturn continues for a prolonged period of time or becomes more pervasive, our business and results of operations could be materially and adversely affected. In addition, the pace of new restaurant openings may be slowed, and restaurants may be forced to close, reducing the restaurant base from which we derive royalty income. As long as the weak economic environment continues, our franchisees sales and profitability and our overall business and operating results could be adversely affected.

Our substantial indebtedness could adversely affect our financial condition.

We have a significant amount of indebtedness. As of December 31, 2011, we had total indebtedness of approximately $1.5 billion, excluding $11.2 million of undrawn letters of credit and $88.8 million of unused commitments under our senior credit facility.

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Subject to the limits contained in the credit agreement governing our senior credit facility and our other debt instruments, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could intensify. Specifically, our high level of debt could have important consequences, including:

- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flow to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flow available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to adverse changes in general economic, industry and competitive conditions;
- exposing us to the risk of increased interest rates as certain of our borrowings, including borrowings under the senior credit facility, are at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors or competitors with comparable debt at more favorable interest rates; and
- increasing our cost of borrowing.

Our variable rate debt exposes us to interest rate risk which could adversely affect our cash flow.

The borrowings under our senior credit facility bear interest at variable rates. Other debt we incur also could be variable rate debt. If market interest rates increase, variable rate debt will create higher debt service requirements, which could adversely affect our cash flow. While we may in the future enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk.

The terms of our indebtedness restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

The credit agreement governing our senior credit facility contains a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on our ability to:

- incur certain liens;
- incur additional indebtedness and guarantee indebtedness;
- pay dividends or make other distributions in respect of, or repurchase or redeem, capital stock;

- prepay, redeem or repurchase certain debt;
- make investments, loans, advances and acquisitions;
- sell or otherwise dispose of assets, including capital stock of our subsidiaries;
- enter into transactions with affiliates;
- alter the businesses we conduct;
- enter into agreements restricting our subsidiaries ability to pay dividends; and
- consolidate, merge or sell all or substantially all of our assets.

In addition, the restrictive covenants in the credit agreement governing our senior credit facility require us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control.

A breach of the covenants under the credit agreement governing our senior credit facility could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the credit agreement governing our senior credit facility would permit the lenders under our senior credit facility to terminate all commitments to extend further credit under that facility. Furthermore, if we were unable to repay the amounts due and payable under our senior credit facility, those lenders could proceed against the collateral granted to them to secure that indebtedness, which could force us into bankruptcy or liquidation. In the event our lenders accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness.

If our operating performance declines, we may in the future need to obtain waivers from the required lenders under our senior credit facility to avoid being in default. If we breach our covenants under our senior credit facility and seek a waiver, we may not be able to obtain a waiver from the required lenders. If this occurs we would be in default under our senior credit facility, the lenders could exercise their rights, as described above, and we could be forced into bankruptcy or liquidation.

Infringement, misappropriation or dilution of our intellectual property could harm our business.

We regard our Dunkin Donuts® and Baskin-Robbins® trademarks as having significant value and as being important factors in the marketing of our brands. We have also obtained trademark protection for several of our product offerings and advertising slogans, including America Runs on Dunkin® and What are you Drinkin®? We believe that these and other intellectual property are valuable assets that are critical to our success. We rely on a combination of protections provided by contracts, as well as copyright, patent, trademark, and other laws, such as trade secret and unfair competition laws, to protect our intellectual property from infringement, misappropriation or dilution. We have registered certain trademarks and service marks and have other trademark and service mark registration applications pending in the U.S. and foreign jurisdictions. However, not all of the trademarks or service marks that we currently use have been registered in all of the countries in which we do business, and they may never be registered in all of those countries. Although we monitor trademark portfolios both internally and through external search agents and impose an obligation on franchisees to notify us upon learning of potential infringement, there can be no assurance that we will be able to adequately maintain, enforce and protect our trademarks or other intellectual property rights. We are aware of names and marks similar to our service marks being used by other persons in certain geographic areas in which we have restaurants. Although we believe such uses will not adversely affect us, further or currently unknown unauthorized uses or other infringement of our trademarks or service marks could diminish the value of our brands and may adversely affect our business. Effective intellectual property protection may not be available in every country in which we have or intend to open or franchise a restaurant. Failure to adequately protect our intellectual property rights could damage our brands and impair our ability to compete effectively. Even where we have effectively secured statutory protection for our trade secrets and other intellectual property, our competitors may misappropriate our intellectual property and our employees, consultants and suppliers may breach their contractual obligations not to reveal our confidential information, including trade secrets. Although we have taken measures to protect our intellectual property, there can be no assurance that these protections will be adequate or that third parties will not independently develop products or concepts that are substantially similar to ours. Despite our efforts, it may be possible for third-parties to reverse-engineer, otherwise obtain, copy, and use information that we regard as proprietary. Furthermore, defending or enforcing our trademark rights, branding practices and other intellectual property, and seeking an injunction and/or compensation for misappropriation of confidential information, could result in the expenditure of significant resources and divert the attention of management, which in turn may materially and adversely affect our business and operating results.

Although we monitor and restrict franchisee activities through our franchise and license agreements, franchisees may refer to our brands improperly in writings or conversation, resulting in the dilution of our intellectual property. Franchisee noncompliance with the terms and conditions of our franchise or license agreements may

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reduce the overall goodwill of our brands, whether through the failure to meet health and safety standards, engage in quality control or maintain product consistency, or through the participation in improper or objectionable business practices. Moreover, unauthorized third parties may use our intellectual property to trade on the goodwill of our brands, resulting in consumer confusion or dilution. Any reduction of our brands goodwill, consumer confusion, or dilution is likely to impact sales, and could materially and adversely impact our business and operating results.

Under certain license agreements, our subsidiaries have licensed to Dunkin Brands the right to use certain trademarks, and in connection with those licenses, Dunkin Brands monitors the use of trademarks and the quality of the licensed products. While courts have generally approved the delegation of quality-control obligations by a trademark licensor to a licensee under appropriate circumstances, there can be no guarantee that these arrangements will not be deemed invalid on the ground that the trademark owner is not controlling the nature and quality of goods and services sold under the licensed trademarks.

The restaurant industry is affected by consumer preferences and perceptions. Changes in these preferences and perceptions may lessen the demand for our products, which could reduce sales by our franchisees and reduce our royalty revenues.

The restaurant industry is affected by changes in consumer tastes, national, regional and local economic conditions and demographic trends. For instance, if prevailing health or dietary preferences cause consumers to avoid donuts and other products we offer in favor of foods that are perceived as more healthy, our franchisees sales would suffer, resulting in lower royalty payments to us, and our business and operating results would be harmed.

If we fail to successfully implement our growth strategy, which includes opening new domestic and international restaurants, our ability to increase our revenues and operating profits could be adversely affected.

Our growth strategy relies in part upon new restaurant development by existing and new franchisees. We and our franchisees face many challenges in opening new restaurants, including:

- availability of financing;
- selection and availability of suitable restaurant locations;
- competition for restaurant sites;
- negotiation of acceptable lease and financing terms;
- securing required domestic or foreign governmental permits and approvals;
- consumer tastes in new geographic regions and acceptance of our products;
- employment and training of qualified personnel;
- impact of inclement weather, natural disasters and other acts of nature; and
- general economic and business conditions.

In particular, because the majority of our new restaurant development is funded by franchisee investment, our growth strategy is dependent on our franchisees (or prospective franchisees) ability to access funds to finance such development. We do not provide our franchisees with direct financing, and therefore, their ability to access borrowed funds generally depends on their independent relationships with various financial institutions. If our franchisees (or prospective franchisees) are not able to obtain financing at commercially reasonable rates, or at all, they may be unwilling or unable to invest in the development of new restaurants, and our future growth could be adversely affected.

To the extent our franchisees are unable to open new stores as we anticipate, our revenue growth would come primarily from growth in comparable store sales. Our failure to add a significant number of new restaurants or grow comparable store sales would adversely affect our ability to increase our revenues and operating income and could materially and adversely harm our business and operating results.

Increases in commodity prices may negatively affect payments from our franchisees and licensees.

Coffee and other commodity prices are subject to substantial price fluctuations, stemming from variations in weather patterns, shifting political or economic conditions in coffee-producing countries and delays in the supply chain. In particular, the cost of commodity inputs for a number of goods, including ice cream and coffee, rose in fiscal 2011. If commodity prices rise, franchisees may experience reduced sales, due to decreased consumer demand at retail prices that have been raised to offset increased commodity prices, which may reduce franchisee profitability. Any such decline in franchisee sales will reduce our royalty income, which in turn may materially and adversely affect our business and operating results.

Through our wholly-owned subsidiary Dunkin Brands Canada Ltd. (DBCL), we manufacture ice cream at a facility located in Peterborough, Ontario, Canada (the Peterborough Facility). We sell such ice cream to certain international franchisees for their resale. As a result, we are subject to risks associated with dairy products and sugar, the primary ingredients used in the production of ice cream at the Peterborough Facility, including price fluctuations and interruptions in the supply chain of these commodities. If the prices of these commodities rise, we may increase the cost of ice cream sold to such international franchisees, but only after a thirty-day notice period required under our franchise agreements, during which our margin on such sales would decline.

Our joint ventures in Japan and South Korea (the International JVs), as well as our licensees in Russia and India, do not rely on the Peterborough Facility and, instead, manufacture ice cream products independently. Each of the International JVs owns a manufacturing facility in its country of operation. The revenues derived from the International JVs differ fundamentally from those of other types of franchise arrangements in the system because the income that we receive from the International JVs is based in part on the profitability, rather than the gross sales, of the restaurants operated by the International JVs. Accordingly, in the event that the International JVs experience staple-ingredient-price increases that adversely affect the profitability of the restaurants operated by the International JVs, that decrease in profitability would reduce distributions by the International JVs to us, which, in turn, could materially and adversely impact our business and operating results.

Shortages of coffee could adversely affect our revenues.

If coffee consumption continues to increase worldwide or there is a disruption in the supply of coffee due to natural disasters, political unrest or other calamities, the global coffee supply may fail to meet demand. If coffee demand is not met, franchisees may experience reduced sales which, in turn, would reduce our royalty income. Such a reduction in our royalty income may materially and adversely affect our business and operating results.

We and our franchisees rely on computer systems to process transactions and manage our business, and a disruption or a failure of such systems or technology could harm our ability to effectively manage our business.

Network and information technology systems are integral to our business. We utilize various computer systems, including our FAST System and our EFTPay System, which are customized, web-based systems. The FAST System is the system by which our U.S. and Canadian franchisees report their weekly sales and pay their corresponding royalty fees and required advertising fund contributions. When sales are reported by a U.S. or Canadian franchisee, a withdrawal for the authorized amount is initiated from the franchisee s bank after 12 days (from the week ending or month ending date). The FAST System is critical to our ability to accurately track sales and compute royalties due from our U.S. and Canadian franchisees. The EFTPay System is used by our U.S. and Canadian franchisees to make payments against open, non-fee invoices (i.e., all invoices except royalty and

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advertising funds). When a franchisee selects an invoice and submits the payment, on the following day a withdrawal for the selected amount is initiated from the franchisee s bank. Despite the implementation of security measures, our systems, including the FAST System and the EFTPay System, are subject to damage and/or interruption as a result of power outages, computer and network failures, computer viruses and other disruptive software, security breaches, catastrophic events and improper usage by employees. Such events could result in a material disruption in operations, a need for a costly repair, upgrade or replacement of systems, or a decrease in, or in the collection of, royalties paid to us by our franchisees. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability which could materially affect our results of operations.

Interruptions in the supply of product to franchisees and licensees could adversely affect our revenues.

In order to maintain quality-control standards and consistency among restaurants, we require through our franchise agreements that our franchisees obtain food and other supplies from preferred suppliers approved in advance. In this regard, we and our franchisees depend on a group of suppliers for ingredients, foodstuffs, beverages and disposable serving instruments including, but not limited to, Rich Products Corp., Dean Foods Co., DBCL, PepsiCo, Inc. and Silver Pail Dairy, Ltd. as well as five primary coffee roasters and three primary donut mix suppliers. In 2011, we and our franchisees purchased products from over 450 approved domestic suppliers, with approximately 15 of such suppliers providing half, based on dollar volume, of all products purchased domestically. We look to approve multiple suppliers for most products, and require any single sourced supplier, such as PepsiCo, Inc., to have audited contingency plans in place to ensure continuity of supply. In addition we believe that, if necessary, we could obtain readily available alternative sources of supply for each product that we currently source through a single supplier. To facilitate the efficiency of our franchisees supply chain, we have historically entered into several preferred-supplier arrangements for particular food or beverage items.

The Dunkin Donuts system is supported domestically by the franchisee-owned purchasing and distribution cooperative known as the National Distributor Commitment Program. We have a long-term agreement with the National DCP, LLC (the NDCP) for the NDCP to provide substantially all of the goods needed to operate a Dunkin Donuts restaurant in the U.S. The NDCP also supplies some international markets. The NDCP aggregates the franchisee demand, sends requests for proposals to approved suppliers and negotiates contracts for approved items. The NDCP also inventories the items in its four regional distribution centers and ships products to franchisees at least one time per week. We do not control the NDCP and have only limited contractual rights under our agreement with the NDCP associated with supplier certification and quality assurance and protection of our intellectual property. While the NDCP maintains contingency plans with its approved suppliers and has a contingency plan for its own distribution function to restaurants, our franchisees bear risks associated with the timeliness, solvency, reputation, labor relations, freight costs, price of raw materials and compliance with health and safety standards of each supplier (including DBCL and those of the International JVs) including, but not limited to, risks associated with contamination to food and beverage products. We have little control over such suppliers other than DBCL, which produces ice cream for resale by us. Disruptions in these relationships may reduce franchisee sales and, in turn, our royalty income.

Overall difficulty of suppliers (including DBCL and those of the International JVs) meeting franchisee product demand, interruptions in the supply chain, obstacles or delays in the process of renegotiating or renewing agreements with preferred suppliers, financial difficulties experienced by suppliers, or the deficiency, lack, or poor quality of alternative suppliers could adversely impact franchisee sales which, in turn, would reduce our royalty income and could materially and adversely affect our business and operating results.

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We may not be able to recoup our expenditures on properties we sublease to franchisees.

Pursuant to the terms of certain prime leases we have entered into with third-party landlords, we may be required to construct or improve a property, pay taxes, maintain insurance and comply with building codes and other applicable laws. The subleases we enter into with franchisees related to such properties typically pass through such obligations, but if a franchisee fails to perform the obligations passed through to them, we will be required to perform those obligations, resulting in an increase in our leasing and operational costs and expenses. Additionally, in some locations, we may pay more rent and other amounts to third-party landlords under a prime lease than we receive from the franchisee who subleases such property. Typically, our franchisees rent is based in part on a percentage of gross sales at the restaurant, so a downturn in gross sales would negatively affect the level of the payments we receive.

If the international markets in which we compete are affected by changes in political, social, legal, economic or other factors, our business and operating results may be materially and adversely affected.

As of December 31, 2011, we had 7,322 restaurants located in 57 foreign countries. The international operations of our franchisees may subject us to additional risks, which differ in each country in which our franchisees operate, and such risks may negatively affect our result in a delay in or loss of royalty income to us.

The factors impacting the international markets in which restaurants are located may include:

- recessionary or expansive trends in international markets;
- changes in foreign currency exchange rates and hyperinflation or deflation in the foreign countries in which we or the International JVs operate;
- the imposition of restrictions on currency conversion or the transfer of funds;
- availability of credit for our franchisees, licensees and International JVs to finance the development of new restaurants;
- increases in the taxes paid and other changes in applicable tax laws;
- legal and regulatory changes and the burdens and costs of local operators compliance with a variety of laws, including trade restrictions and tariffs;
- interruptions in the supply of product;
- increases in anti-American sentiment and the identification of the Dunkin Donuts brand and Baskin-Robbins brand as American brands;
- political and economic instability; and
- natural disasters and other calamities.

Any or all of these factors may reduce distributions from our International JVs or other international partners and/or royalty income, which in turn may materially and adversely impact our business and operating results.

Termination of an arrangement with a master franchisee could adversely impact our revenues.

Internationally, and in limited cases domestically, we enter into relationships with master franchisees to develop and operate restaurants in defined geographic areas. Master franchisees are granted exclusivity rights with respect to larger territories than the typical franchisee, and in particular cases, expansion after minimum requirements are met is subject to the discretion of the master franchisee. In fiscal 2009, 2010 and 2011, we derived approximately 14.1%, 14.6%, and 15.1%, respectively, of our total revenues from master franchisee arrangements. The termination of an arrangement with a master franchisee or a lack of expansion by certain master franchisees could result in the delay of the development of franchised restaurants, or an interruption in the

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operation of one of our brands in a particular market or markets. Any such delay or interruption would result in a delay in, or loss of, royalty income to us whether by way of delayed royalty income or delayed revenues from the sale of ice cream products by us to franchisees internationally, or reduced sales. Any interruption in operations due to the termination of an arrangement with a master franchisee similarly could result in lower revenues for us, particularly if we were to determine to close restaurants following the termination of an arrangement with a master franchisee.

Our contracts with the U.S. military are non-exclusive and may be terminated with little notice.

We have contracts with the U.S. military, including with the Army & Air Force Exchange Service and the Navy Exchange Service Command. These military contracts are predominantly between the U.S. military and Baskin-Robbins. We derive revenue from the arrangements provided for under these contracts mainly through the sale of ice cream to the U.S. military (rather than through royalties) for resale on base locations and in field operations. While revenues derived from arrangements with the U.S. military represented less than 1% of our total revenues and less than 4% of our international revenues for 2011, because these contracts are non-exclusive and cancellable with minimal notice and have no minimum purchase requirements, revenues attributable to these contracts may vary significantly year to year. Any changes in the U.S. military s domestic or international needs, or a decision by the U.S. military to use a different supplier, could result in lower revenues for us.

Fluctuations in exchange rates affect our revenues.

We are subject to inherent risks attributed to operating in a global economy. Most of our revenues, costs and debts are denominated in U.S. dollars. However, sales made by franchisees outside of the U.S. are denominated in the currency of the country in which the point of distribution is located, and this currency could become less valuable prior to calculation of our royalty payments in U.S. dollars as a result of exchange rate fluctuations. As a result, currency fluctuations could reduce our royalty income. Unfavorable currency fluctuations could result in a reduction in our revenues. Cost of ice cream produced in the Peterborough Facility in Canada, as well as income we earn from our joint ventures, is also subject to currency fluctuations. These currency fluctuations affecting our revenues and costs could adversely affect our business and operating results.

Adverse public or medical opinions about the health effects of consuming our products, as well as reports of incidents involving food-borne illnesses or food tampering, whether or not accurate, could harm our brands and our business.

Some of our products contain caffeine, dairy products, sugar and other active compounds, the health effects of which are the subject of increasing public scrutiny, including the suggestion that excessive consumption of caffeine, dairy products, sugar and other active compounds can lead to a variety of adverse health effects. There has also been greater public awareness that sedentary lifestyles, combined with excessive consumption of high-calorie foods, have led to a rapidly rising rate of obesity. In the U.S. and certain other countries, there is increasing consumer awareness of health risks, including obesity, as well as increased consumer litigation based on alleged adverse health impacts of consumption of various food products. While we offer some healthier beverage and food items, including reduced fat items, an unfavorable report on the health effects of caffeine or other compounds present in our products, or negative publicity or litigation arising from other health risks such as obesity, could significantly reduce the demand for our beverages and food products.

Similarly, instances or reports, whether true or not, of unclean water supply, food-borne illnesses and food tampering have in the past severely injured the reputations of companies in the food processing, grocery and QSR segments and could in the future affect us as well. Any report linking us or our franchisees to the use of unclean water, food-borne illnesses or food tampering could damage our brands value immediately, severely hurt sales of beverages and food products, and possibly lead to product liability claims. In addition, instances of food-borne illnesses or food tampering, even those occurring solely at the restaurants of competitors, could, by resulting in negative publicity about the foodservice or restaurant industry, adversely affect our sales on a regional or global basis. A decrease in customer traffic as a result of these health concerns or negative publicity could materially and adversely affect our brands and our business.

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We may not be able to enforce payment of fees under certain of our franchise arrangements.

In certain limited instances, a franchisee may be operating a restaurant pursuant to an unwritten franchise arrangement. Such circumstances may arise where a franchisee arrangement has expired and new or renewal agreements have yet to be executed or where the franchisee has developed and opened a restaurant but has failed to memorialize the franchisor-franchisee relationship in an executed agreement as of the opening date of such restaurant. In certain other limited instances, we may allow a franchisee in good standing to operate domestically pursuant to franchise arrangements which have expired in their normal course and have not yet been renewed. As of December 31, 2011, approximately 1% of our stores were operating without a written agreement. There is a risk that either category of these franchise arrangements may not be enforceable under federal, state and local laws and regulations prior to correction or if left uncorrected. In these instances, the franchise arrangements may be enforceable on the basis of custom and assent of performance. If the franchisee, however, were to neglect to remit royalty payments in a timely fashion, we may be unable to enforce the payment of such fees which, in turn, may materially and adversely affect our business and operating results. While we generally require franchise arrangements in foreign jurisdictions to be entered into pursuant to written franchise arrangements, subject to certain exceptions, some expired contracts, letters of intent or oral agreements in existence may not be enforceable under local laws, which could impair our ability to collect royalty income, which in turn may materially and adversely impact our business and operating results.

Our business activities subject us to litigation risk that could affect us adversely by subjecting us to significant money damages and other remedies or by increasing our litigation expense.

In the ordinary course of business, we are the subject of complaints or litigation from franchisees, usually related to alleged breaches of contract or wrongful termination under the franchise arrangements. In addition, we are, from time to time, the subject of complaints or litigation from customers alleging illness, injury or other food-quality, health or operational concerns and from suppliers alleging breach of contract. We may also be subject to employee claims based on, among other things, discrimination, harassment or wrongful termination. Finally, litigation against a franchisee or its affiliates by third parties, whether in the ordinary course of business or otherwise, may include claims against us by virtue of our relationship with the defendant-franchisee. In addition to decreasing the ability of a defendant-franchisee to make royalty payments and diverting our management resources, adverse publicity resulting from such allegations may materially and adversely affect us and our brands, regardless of whether such allegations are valid or whether we are liable. Our international operations may be subject to additional risks related to litigation, including difficulties in enforcement of contractual obligations governed by foreign law due to differing interpretations of rights and obligations, compliance with multiple and potentially conflicting laws, new and potentially untested laws and judicial systems and reduced or diminished protection of intellectual property. A substantial unsatisfied judgment against us or one of our subsidiaries could result in bankruptcy, which would materially and adversely affect our business and operating results.

Our business is subject to various laws and regulations and changes in such laws and regulations, and/or failure to comply with existing or future laws and regulations, could adversely affect us.

We are subject to state franchise registration requirements, the rules and regulations of the Federal Trade Commission (the FTC), various state laws regulating the offer and sale of franchises in the U.S. through the provision of franchise disclosure documents containing certain mandatory disclosures and certain rules and requirements regulating franchising arrangements in foreign countries. Although we believe that the Franchisors Franchise Disclosure Documents, together with any applicable state-specific versions or supplements, and franchising procedures that we use comply in all material respects with both the FTC guidelines and all applicable state laws regulating franchising in those states in which we offer new franchise arrangements, noncompliance could reduce anticipated royalty income, which in turn may materially and adversely affect our business and operating results.

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Our franchisees are subject to various existing U.S. federal, state, local and foreign laws affecting the operation of the restaurants including various health, sanitation, fire and safety standards. Franchisees may in the future become subject to regulation (or further regulation) seeking to tax or regulate high-fat foods or requiring the display of detailed nutrition information, which would be costly to comply with and could result in reduced demand for our products. In connection with the continued operation or remodeling of certain restaurants, the franchisees may be required to expend funds to meet U.S. federal, state and local and foreign regulations. Difficulties in obtaining, or the failure to obtain, required licenses or approvals could delay or prevent the opening of a new restaurant in a particular area or cause an existing restaurant to cease operations. All of these situations would decrease sales of an affected restaurant and reduce royalty payments to us with respect to such restaurant.

The franchisees are also subject to the Fair Labor Standards Act of 1938, as amended, and various other laws in the U.S. and in foreign countries governing such matters as minimum-wage requirements, overtime and other working conditions and citizenship requirements. A significant number of our franchisees food-service employees are paid at rates related to the U.S. federal minimum wage, and past increases in the U.S. federal minimum wage have increased labor costs, as would future increases. Any increases in labor costs might result in franchisees inadequately staffing restaurants. Understaffed restaurants could reduce sales at such restaurants, decrease royalty payments and adversely affect our brands.

Our and our franchisees operations and properties are subject to extensive U.S. federal, state and local laws and regulations, including those relating to environmental, building and zoning requirements. Our development of properties for leasing or subleasing to franchisees depends to a significant extent on the selection and acquisition of suitable sites, which are subject to zoning, land use, environmental, traffic and other regulations and requirements. Failure to comply with legal requirements could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability. We may incur investigation, remediation or other costs related to releases of hazardous materials or other environmental conditions at our properties, regardless of whether such environmental conditions were created by us or a third party, such as a prior owner or tenant. We have incurred costs to address soil and groundwater contamination at some sites and continue to incur nominal remediation costs at some of our other locations. If such issues become more expensive to address, or if new issues arise, they could increase our expenses, generate negative publicity, or otherwise adversely affect us.

Our tax returns and positions are subject to review and audit by foreign, federal, state and local taxing authorities, and adverse outcomes resulting from examination of our income or other tax returns could adversely affect our operating results and financial condition.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. The federal income tax returns of the Company for fiscal years 2006 through 2009 are currently under audit by the Internal Revenue Service (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 s proposed adjustments. (See Note 15 of the notes to our audited consolidated financial statements included herein). As described in Note 15 of the notes to our audited consolidated financial statements included herein, 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 fiscal years 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.

We are subject to a variety of additional risks associated with our franchisees.

Our franchise system subjects us to a number of risks, any one of which may impact our ability to collect royalty payments from our franchisees, may harm the goodwill associated with our brands, and/or may materially and adversely impact our business and results of operations.

Bankruptcy of U.S. Franchisees. A franchisee bankruptcy could have a substantial negative impact on our ability to collect payments due under such franchisee s franchise arrangements and, to the extent such franchisee is a lessee pursuant to a franchisee lease/sublease with us, payments due under such franchisee lease/sublease. In a franchisee bankruptcy, the bankruptcy trustee may reject its franchise arrangements and/or franchisee lease/sublease pursuant to Section 365 under the United States bankruptcy code, in which case there would be no further royalty payments and/or franchisee lease/sublease payments from such franchisee, and there can be no assurance as to the proceeds, if any, that may ultimately be recovered in a bankruptcy proceeding of such franchisee in connection with a damage claim resulting from such rejection.

Franchisee Changes in Control. The franchise arrangements prohibit changes in control of a franchisee without our consent as the franchisor, except in the event of the death or disability of a franchisee (if a natural person) or a principal of a franchisee entity. In such event, the executors and representatives of the franchisee are required to transfer the relevant franchise arrangements to a successor franchisee approved by the franchisor. There can be, however, no assurance that any such successor would be found or, if found, would be able to perform the former franchisee s obligations under such franchise arrangements or successfully operate the restaurant. If a successor franchisee is not found, or if the successor franchisee that is found is not as successful in operating the restaurant as the then-deceased or disabled franchisee or franchisee principal, the sales of the restaurant could be adversely affected.

Franchisee Insurance. The franchise arrangements require each franchisee to maintain certain insurance types and levels. Certain extraordinary hazards, however, may not be covered, and insurance may not be available (or may be available only at prohibitively expensive rates) with respect to many other risks. Moreover, any loss incurred could exceed policy limits, and policy payments made to franchisees may not be made on a timely basis. Any such loss or delay in payment could have a material and adverse effect on a franchisee s ability to satisfy its obligations under its franchise arrangement, including its ability to make royalty payments.

Some of Our Franchisees are Operating Entities. Franchisees may be natural persons or legal entities. Our franchisees that are operating companies (as opposed to limited purpose entities) are subject to business, credit, financial and other risks, which may be unrelated to the operations of the restaurants. These unrelated risks could materially and adversely affect a franchisee that is an operating company and its ability to make its royalty payments in full or on a timely basis, which in turn may materially and adversely affect our business and operating results.

Franchise Arrangement Termination; Nonrenewal. Each franchise arrangement is subject to termination by us as the franchisor in the event of a default, generally after expiration of applicable cure periods, although under certain circumstances a franchise arrangement may be terminated by us upon notice without an opportunity to cure. The default provisions under the franchise arrangements are drafted broadly and include, among other things, any failure to meet operating standards and actions that may threaten our licensed intellectual property.

In addition, each franchise agreement has an expiration date. Upon the expiration of the franchise arrangement, we or the franchisee may, or may not, elect to renew the franchise arrangements. If the franchisee arrangement is renewed, the franchisee will receive a successor franchise arrangement for an additional term. Such option, however, is contingent on the franchisee s execution of the then-current form of franchise arrangements (which may include increased royalty payments, advertising fees and other costs), the satisfaction of certain conditions (including modernization of the restaurant and related operations) and the payment of a renewal fee. If a franchisee is unable or unwilling to satisfy any of the foregoing conditions, the expiring franchise arrangements will terminate upon expiration of the term of the franchise arrangements.

Product Liability Exposure. We require franchisees to maintain general liability insurance coverage to protect against the risk of product liability and other risks and demand strict franchisee compliance with health and safety regulations. However, franchisees may receive through the supply chain (from central manufacturing locations (CMLs), NDCP or otherwise), or produce defective food or beverage products, which may adversely impact our brands goodwill.

Americans with Disabilities Act. Restaurants located in the U.S. must comply with Title III of the Americans with Disabilities Act of 1990, as amended (the ADA). Although we believe newer restaurants meet the ADA construction standards and, further, that franchisees have historically been diligent in the remodeling of older restaurants, a finding of noncompliance with the ADA could result in the imposition of injunctive relief, fines, an award of damages to private litigants or additional capital expenditures to remedy such noncompliance. Any imposition of injunctive relief, fines, damage awards or capital expenditures could adversely affect the ability of a franchisee to make royalty payments, or could generate negative publicity, or otherwise adversely affect us.

Franchisee Litigation. Franchisees are subject to a variety of litigation risks, including, but not limited to, customer claims, personal-injury claims, environmental claims, employee allegations of improper termination and discrimination, claims related to violations of the ADA, religious freedom, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, as amended (ERISA) and intellectual-property claims. Each of these claims may increase costs and limit the funds available to make royalty payments and reduce the execution of new franchise arrangements.

Potential Conflicts with Franchisee Organizations. Although we believe our relationship with our franchisees is open and strong, the nature of the franchisor-franchisee relationship can give rise to conflict. In the U.S., our approach is collaborative in that we have established district advisory councils, regional advisory councils and a national brand advisory council for each of the Dunkin Donuts brand and the Baskin-Robbins brand. The councils are comprised of franchisees, brand employees and executives, and they meet to discuss the strengths, weaknesses, challenges and opportunities facing the brands as well as the rollout of new products and projects. Internationally, our operations are primarily conducted through joint ventures with local licensees, so our relationships are conducted directly with our licensees rather than separate advisory committees. No material disputes exist in the U.S. or internationally at this time.

Failure to retain our existing senior management team or the inability to attract and retain new qualified personnel could hurt our business and inhibit our ability to operate and grow successfully.

Our success will continue to depend to a significant extent on our executive management team and the ability of other key management personnel to replace executives who retire or resign. We may not be able to retain our

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executive officers and key personnel or attract additional qualified management personnel to replace executives who retire or resign. Failure to retain our leadership team and attract and retain other important personnel could lead to ineffective management and operations, which could materially and adversely affect our business and operating results.

If we or our franchisees or licensees are unable to protect our customers credit card data, we or our franchisees could be exposed to data loss, litigation, and liability, and our reputation could be significantly harmed.

Privacy protection is increasingly demanding, and the introduction of electronic payment methods exposes us and our franchisees to increased risk of privacy and/or security breaches as well as other risks. In connection with credit card sales, our franchisees (and we from our company-operated restaurants) transmit confidential credit card information by way of secure private retail networks. Although we use private networks, third parties may have the technology or know-how to breach the security of the customer information transmitted in connection with credit card sales, and our franchisees and our security measures and those of our technology vendors may not effectively prohibit others from obtaining improper access to this information. If a person is able to circumvent these security measures, he or she could destroy or steal valuable information or disrupt our operations. Any security breach could expose us to risks of data loss, litigation, liability, and could seriously disrupt our operations. Any resulting negative publicity could significantly harm our reputation and could materially and adversely affect our business and operating results.

Catastrophic events may disrupt our business.

Unforeseen events, including war, terrorism and other international, regional or local instability or conflicts (including labor issues), embargos, public health issues (including tainted food, food-borne illnesses, food tampering, or water supply or widespread/pandemic illness such as the avian or H1N1 flu), and natural disasters such as earthquakes, tsunamis, hurricanes, or other adverse weather and climate conditions, whether occurring in the U.S. or abroad, could disrupt our operations or that of our franchisees, or suppliers; or result in political or economic instability. For example, the March 2011 earthquake and tsunami in Japan resulted in the temporary closing of a number of Baskin-Robbins restaurants, two of which remained closed as of December 31, 2011. These events could reduce traffic in our restaurants and demand for our products; make it difficult or impossible for our franchisees to receive products from their suppliers; disrupt or prevent our ability to perform functions at the corporate level; and/or otherwise impede our or our franchisees ability to continue business operations in a continuous manner consistent with the level and extent of business activities prior to the occurrence of the unexpected event or events, which in turn may materially and adversely impact our business and operating results.

Risks related to our common stock

We are a controlled company within the meaning of the NASDAQ Marketplace Rules and, as a result, we qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to stockholders of companies that are subject to such requirements.

The Sponsors continue to control a majority of the voting power of our outstanding common stock. As a result, we continue to be a controlled company within the meaning of the corporate governance standards of The NASDAQ Global Select Market. Under these rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a controlled company and may elect not to comply with certain corporate governance requirements, including:

- the requirement that a majority of the board of directors consist of independent directors;

- the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities, or otherwise have director nominees selected by vote of a majority of the independent directors;

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- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities; and

- the requirement for an annual performance evaluation of the nominating/corporate governance and compensation committees.

We intend to continue to utilize these exemptions for so long as the Sponsors continue to control a majority of the voting power of our outstanding common stock. As a result, we do not have a majority of independent directors, our compensation committee does not consist entirely of independent directors, and the board committees are not subject to annual performance evaluations. In addition, we do not have a nominating and corporate governance committee. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of The NASDAQ Global Select Market.

Our stock price could be extremely volatile and, as a result, you may not be able to resell your shares at or above the price you paid for them.

Since our initial public offering in July 2011, the price of our common stock, as reported by NASDAQ, has ranged from a low of $23.24 on December 15, 2011 to a high of $31.94 on August 1, 2011. In addition, the stock market in general has been highly volatile. As a result, the market price of our common stock is likely to be similarly volatile, and investors in our common stock may experience a decrease, which could be substantial, in the value of their stock, including decreases unrelated to our operating performance or prospects, and could lose part or all of their investment. The price of our common stock could be subject to wide fluctuations in response to a number of factors, including those described elsewhere herein and others such as:

- variations in our operating performance and the performance of our competitors;

- actual or anticipated fluctuations in our quarterly or annual operating results;

- publication of research reports by securities analysts about us or our competitors or our industry;

- our failure or the failure of our competitors to meet analysts projections or guidance that we or our competitors may give to the market;

- additions and departures of key personnel;

- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;

- the passage of legislation or other regulatory developments affecting us or our industry;

- speculation in the press or investment community;

- changes in accounting principles;

- terrorist acts, acts of war or periods of widespread civil unrest;

- natural disasters and other calamities; and

- changes in general market and economic conditions.

As we operate in a single industry, we are especially vulnerable to these factors to the extent that they affect our industry or our products, or to a lesser extent our markets. In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management s attention and resources, and could also require us to make substantial payments to satisfy judgments or to settle litigation.

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There may be sales of a substantial amount of our common stock by our current stockholders, and these sales could cause the price of our common stock to fall.

As of December 31, 2011, there were 120,136,631 shares of common stock outstanding. Approximately 55.3% of our outstanding common stock is held by investment funds affiliated with the Sponsors.

Sales of substantial amounts of our common stock in the public market, or the perception that such sales will occur, could adversely affect the market price of our common stock and make it difficult for us to raise funds through securities offerings in the future. The shares sold in the IPO and secondary offering in November 2011 are eligible for immediate sale in the public market without restriction by persons other than our affiliates.

Certain holders of shares of our common stock may require us to register their shares for resale under the federal securities laws, and holders of additional shares of our common stock would be entitled to have their shares included in any such registration statement, all subject to reduction upon the request of the underwriter of the offering, if any. Registration of those shares would allow the holders to immediately resell their shares in the public market. Any such sales, or anticipation thereof, could cause the market price of our common stock to decline.

In addition, we have registered shares of common stock that are reserved for issuance under our 2011 Omnibus Long-Term Incentive Plan.

Provisions in our charter documents and Delaware law may deter takeover efforts that you feel would be beneficial to stockholder value.

In addition to the Sponsors beneficial ownership of a controlling percentage of our common stock, our certificate of incorporation and bylaws and Delaware law contain provisions which could make it harder for a third party to acquire us, even if doing so might be beneficial to our stockholders. These provisions include a classified board of directors and limitations on actions by our stockholders. In addition, our board of directors has the right to issue preferred stock without stockholder approval that could be used to dilute a potential hostile acquiror. Our certificate of incorporation also imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock other than the Sponsors. As a result, you may lose your ability to sell your stock for a price in excess of the prevailing market price due to these protective measures and efforts by stockholders to change the direction or management of the company may be unsuccessful.

Because certain of our officers hold restricted stock or option awards that will vest upon a change of control if the Sponsors achieve certain minimum rates of return on their initial investment in us, these officers may have interests in us that conflict with yours.

As of December 31, 2011, certain of our officers held, in the aggregate, 580,214 shares of restricted stock and options to purchase 2,693,274 shares that are subject to vesting upon a change of control if the Sponsors achieve certain minimum rates of return on their initial investment in us. As a result, these officers may view certain change of control transactions more favorably than an investor due to the vesting opportunities available to them and, as a result, may have an economic incentive to support a transaction that you may not believe to be favorable to stockholders.

The Sponsors will continue to have significant influence over us, including control over decisions that require the approval of stockholders, which could limit your ability to influence the outcome of key transactions, including a change of control.

We are currently controlled by the Sponsors. Investment funds affiliated with the Sponsors beneficially own approximately 55.3% of our outstanding common stock. For as long as the Sponsors continue to beneficially own shares of common stock representing more than 50% of the voting power of our common stock, they will be able

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to direct the election of all of the members of our board of directors and could exercise a controlling influence over our business and affairs, including any determinations with respect to mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional common stock or other equity securities, the repurchase or redemption of common stock and the payment of dividends. Similarly, these entities will have the power to determine matters submitted to a vote of our stockholders without the consent of our other stockholders, will have the power to prevent a change in our control and could take other actions that might be favorable to them. Even if their ownership falls below 50%, the Sponsors will continue to be able to strongly influence or effectively control our decisions. In addition, each of the Sponsors will have a contractual right to nominate two directors to our board for as long as such Sponsor owns at least 10% of our outstanding common stock (and one director for so long as such Sponsor owns at least 3% of our outstanding common stock) and the Sponsors will have certain contractual rights to have their nominees serve on our compensation committee.

Additionally, the Sponsors are in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. One or more of the Sponsors may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

Because we do not currently pay cash dividends on our common stock, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.

We may retain future earnings, if any, for future operation, expansion and debt repayment, and do not currently pay any cash dividends. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our board of directors may deem relevant. In addition, our ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness we or our subsidiaries incur, including our senior credit facility. As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than that which you paid for it.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters, located in Canton, Massachusetts, houses substantially all of our executive management and employees who provide our primary corporate support functions: legal, marketing, technology, human resources, public relations, financial and research and development.

Our Peterborough Facility manufactures ice cream products for sale in certain international markets.

As of December 31, 2011, we owned 96 properties and leased 952 locations across the U.S. and Canada, a majority of which we leased or subleased to franchisees. For fiscal year 2011, we generated 14.7%, or $92.1 million, of our total revenue from rental fees from franchisees who lease or sublease their properties from us.

The remaining balance of restaurants selling our products are situated on real property owned by franchisees or leased directly by franchisees from third-party landlords. All international restaurants (other than 13 located in Canada) are owned by licensees and their sub-franchisees or leased by licensees and their sub-franchisees directly from a third-party landlord.

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Nearly 100% of Dunkin Donuts and Baskin-Robbins restaurants are owned and operated by franchisees. We have construction and site management personnel who oversee the construction of restaurants by outside contractors. The restaurants are built to our specifications as to exterior style and interior decor. As of December 31, 2011, the number of Dunkin Donuts restaurants totaled 10,083, operating in 36 states and the District of Columbia in the U.S. and 31 foreign countries. Baskin-Robbins restaurants totaled 6,711, operating in 44 states and the District of Columbia in the U.S. and 48 foreign countries. All but 31 of the Dunkin Donuts and Baskin-Robbins restaurants were franchisee-operated. The following table illustrates restaurant locations by brand and whether they are operated by the Company or our franchisees.

	Franchisee-owned restaurants	Company-owned restaurants
Dunkin Donuts US*	6,990	25
Dunkin Donuts International	3,068	
Total Dunkin Donuts*	10,058	25
Baskin-Robbins US*	2,451	6
Baskin-Robbins International	4,254	
Total Baskin-Robbins*	6,705	6
Total US	9,441	31
Total International	7,322	

* Combination restaurants, as more fully described below, count as both a Dunkin Donuts and a Baskin-Robbins restaurant.

Dunkin Donuts and Baskin-Robbins restaurants operate in a variety of formats. Dunkin Donuts traditional restaurant formats include free standing restaurants, end-caps (i.e., end location of a larger multi-store building) and gas and convenience locations. A free-standing building typically ranges in size from 1,200 to 2,500 square feet, and may include a drive-thru window. An end-cap typically ranges in size from 1,000 to 2,000 square feet and may include a drive-thru window. Dunkin Donuts also has other restaurants designed to fit anywhere, consisting of small full-service restaurants and/or self-serve kiosks in offices, hospitals, colleges, airports, grocery stores and drive-thru-only units on smaller pieces of property (collectively referred to as alternative points of distributions or APODs). APODs typically range in size between 400 to 1,800 square feet. The majority of our Dunkin Donuts restaurants have their fresh baked goods delivered to them from franchisee-owned and -operated CMLs.

Baskin-Robbins traditional restaurant formats include free standing restaurants and end-caps. A free-standing building typically ranges in size from 600 to 1,200 square feet, and may include a drive-thru window. An end-cap typically ranges in size from 800 to 1,200 square feet and may include a drive-thru window. We also have other restaurants, consisting of small full-service restaurants and/or self-serve kiosks (collectively referred to as APODs). APODs typically range in size between 400 to 1,000 square feet.

In the U.S., Baskin-Robbins can also be found in 1,158 combination restaurants (combos) that also include a Dunkin Donuts restaurant in either a free-standing or end-cap. These combos, which we count as both a Dunkin Donuts and a Baskin-Robbins point of distribution, typically range from 1,400 to 3,500 square feet.

Of the 9,441 U.S. franchised restaurants, 89 were sites owned by the Company and leased to franchisees, 883 were leased by us, and in turn, subleased to franchisees, with the remainder either owned or leased directly by the franchisee. Our land or land and building leases are generally for terms of ten to 20 years, and often have one or more five-year or ten-year renewal options. In certain lease agreements, we have the option to purchase, or the right of first refusal to purchase, the real estate. Certain leases require the payment of additional rent equal to a percentage (ranging from 2.0% to 13.5%) of annual sales in excess of specified amounts.

Of the sites owned or leased by the Company in the U.S., 25 are locations that no longer have a Dunkin Donuts or Baskin-Robbins restaurant (surplus properties). Some of these surplus properties have been sublet to other parties while the remaining are currently vacant.

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We have 13 leased franchised restaurant properties and 4 surplus leased properties in Canada. We also have leased office space in Australia, China, Spain and the United Kingdom.

The following table sets forth the Company s owned and leased office, warehouse, manufacturing and distribution facilities, including the approximate square footage of each facility. None of these owned properties, or the Company s leasehold interest in leased property, is encumbered by a mortgage.

Location	Type	Owned/Leased	Approximate Sq. Ft.
Peterborough, Ontario, Canada (ice cream facility)	Manufacturing	Owned	52,000
Canton, MA	Office	Leased	175,000
Braintree, MA (training facility)	Office	Owned	15,000
Burbank, CA (training facility)	Office	Leased	19,000
Shanghai, China (regional office space)	Office	Leased	1,700
Various (regional sales offices)	Office	Leased	Range of 150 to 300

Item 3. Legal Proceedings.

We are engaged in several matters of litigation arising in the ordinary course of our 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 us. At December 31, 2011, contingent liabilities totaling $4.7 million were included in other current liabilities in the consolidated balance sheet to reflect our estimate of the potential loss which may be incurred in connection with these matters.

While we intend to vigorously defend our 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.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock has been listed on the NASDAQ Global Select Market under the symbol DNKN since July 27, 2011. Prior to that time, there was no public market for our common stock. The following table sets forth for the periods indicated the high and low sale prices of our common stock on the NASDAQ Global Select Market.

Fiscal Quarter	High	Low
2011		
Third Quarter (13 weeks ended September 24, 2011)(1)	$ 31.94	$ 24.97
Fourth Quarter (14 weeks ended December 31, 2011)	$ 29.93	$ 23.24

(1) Represents period from July 27, 2011, the date of our initial public offering, through the end of the quarter
On February 17, 2012, we had 203 holders of record of our common stock.

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Dividend policy

On December 3, 2010, we paid a cash dividend of $500.0 million on the outstanding shares of our Class L common stock. We do not currently pay regular dividends on our common stock. However, we evaluate our dividend policy on a regular basis and may, subject to compliance with the covenants contained in our senior credit facility and other considerations, determine to pay dividends in the future.

Securities authorized for issuance under our equity compensation plans

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	5,492,105	$ 5.02	10,830,978
Equity compensation plans not approved by security holders			
TOTAL	5,492,105	$ 5.02	10,830,978

Performance Graph

The following graph depicts the total return to shareholders from July 27, 2011, the date our common stock became listed on the NASDAQ Global Select Market, through December 31, 2011, relative to the performance of the Standard & Poor s 500 Index and the Standard & Poor s 500 Consumer Discretionary Sector, a peer group. The graph assumes an investment of $100 in our common stock and each index on July 27, 2011 and the reinvestment of dividends paid since that date. The stock price performance shown in the graph is not necessarily indicative of future price performance.

	7/27/2011	12/31/2011
Dunkin Brands Group, Inc. (DNKN)	$ 100.00	$ 99.92
S&P 500	$ 100.00	$ 94.42
S&P Consumer Discretionary	$ 100.00	$ 95.65

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Recent Sales of Unregistered Securities.

During the year ended December 31, 2011, we issued and sold 589,342.89 shares of Class A Common Stock and 65,482.54 shares of Class L Common Stock in 2011 for aggregate consideration of $3,213,883. These shares were issued without registration in reliance on the exemptions afforded by Section 4(2) of the Securities Act of 1933, as amended, and Rules 506 and 701 promulgated thereunder.

The foregoing share numbers do not reflect the 1-for-4.568 reverse split and reclassification of our Class A common stock on July 8, 2011, or the conversion of our Class L common stock in connection with our initial public offering.

Item 6. Selected Financial Data.

The following table sets forth our selected historical consolidated financial and other data, and should be read in conjunction with Management s discussion and analysis of financial condition and results of operations and the consolidated financial statements and the related notes thereto appearing elsewhere in this Annual Report on Form 10-K. The selected historical financial data has been derived from our audited consolidated financial statements. Historical results are not necessarily indicative of the results to be expected for future periods. The data in the following table related to adjusted operating income, adjusted net income, points of distribution, comparable store sales growth, franchisee-reported sales, company-owned store sales, and systemwide sales growth are unaudited for all periods presented. The data for fiscal year 2011 reflects the results of operations for a 53-week period. All other periods presented reflect the results of operations for 52-week periods.

	Fiscal Year				
	2007	2008	2009	2010	2011
	($ in thousands, except per share data or as otherwise noted)				
Consolidated Statements of Operations Data:					
Franchise fees and royalty income	$ 325,441	349,047	344,020	359,927	398,474
Rental income	98,860	97,886	93,651	91,102	92,145
Sales of ice cream products	63,777	71,445	75,256	84,989	100,068
Other revenues	28,857	26,551	25,146	41,117	37,511
Total revenues	516,935	544,929	538,073	577,135	628,198
Amortization of intangible assets	39,387	37,848	35,994	32,467	28,025
Impairment charges(1)	4,483	331,862	8,517	7,075	2,060
Other operating costs and expenses(2)	311,005	330,281	323,318	361,893	389,329
Total operating costs and expenses	354,875	699,991	367,829	401,435	419,414
Equity in net income (loss) of joint ventures(3)	12,439	14,169	14,301	17,825	(3,475)
Operating income (loss)	174,499	(140,893)	184,545	193,525	205,309
Interest expense, net	(111,677)	(115,944)	(115,019)	(112,532)	(104,449)
Gain (loss) on debt extinguishment and refinancing transactions			3,684	(61,955)	(34,222)
Other gains (losses), net	3,462	(3,929)	1,066	408	175
Income (loss) from continuing operations before income taxes	66,284	(260,766)	74,276	19,446	66,813
Income (loss) from continuing operations	39,331	(269,898)	35,008	26,861	34,442
Net income (loss)(4)	$ 34,699	(269,898)	35,008	26,861	34,442
Earnings (loss) per share:					
Class L basic and diluted	$ 4.12	4.17	4.57	4.87	6.14
Common basic and diluted	$ (1.48)	(8.95)	(1.69)	(2.04)	(1.41)

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	Fiscal Year				
	2007	2008	2009	2010	2011
	($ in thousands, except per share data or as otherwise noted)				
Consolidated Balance Sheet Data:					
Total cash, cash equivalents, and restricted cash(5)	$ 147,968	251,368	171,403	134,504	246,984
Total assets	3,608,753	3,341,649	3,224,717	3,147,288	3,224,018
Total debt(6)	1,603,561	1,668,410	1,451,757	1,864,881	1,473,469
Total liabilities	2,606,011	2,614,327	2,454,109	2,841,047	2,478,082
Common stock, Class L(7)	1,033,450	1,127,863	1,232,001	840,582	
Total stockholders equity (deficit)(7)	(30,708)	(400,541)	(461,393)	(534,341)	745,936
Other Financial Data:					
Capital expenditures	$ 37,542	27,518	18,012	15,358	18,596
Adjusted operating income(8)	218,369	228,817	229,056	233,067	270,740
Adjusted net income(8)	61,021	69,719	59,504	87,759	101,744
Points of Distribution(9):					
Dunkin Donuts U.S.	5,769	6,395	6,566	6,772	7,015
Dunkin Donuts International	2,219	2,440	2,620	2,988	3,068
Baskin-Robbins U.S.	2,763	2,692	2,597	2,547	2,457
Baskin-Robbins International	3,111	3,321	3,610	3,886	4,254
Total distribution points	13,862	14,848	15,393	16,193	16,794
Comparable Store Sales Growth (U.S. Only)(10):					
Dunkin Donuts	1.3%	(0.8)%	(1.3)%	2.3%	5.1%
Baskin-Robbins	0.3%	(2.2)%	(6.0)%	(5.2)%	0.5%
Franchisee-Reported Sales ($ in millions)(11):					
Dunkin Donuts U.S.	$ 4,792	5,004	5,174	5,403	5,919
Dunkin Donuts International	476	529	508	584	636
Baskin-Robbins U.S.	572	560	524	494	496
Baskin-Robbins International	723	800	970	1,158	1,292
Total Franchisee-Reported Sales	$ 6,563	6,893	7,176	7,639	8,343
Company-Owned Store Sales ($ in millions)(12):					
Dunkin Donuts U.S.	$		2	17	12
Baskin-Robbins U.S.					1
Systemwide Sales Growth(13):					
Dunkin Donuts U.S.	5.7%	4.4%	3.4%	4.7%	9.4%
Dunkin Donuts International	8.5%	11.1%	(4.0)%	15.0%	9.1%
Baskin-Robbins U.S.	(1.3)%	(2.1)%	(6.4)%	(5.5)%	0.4%
Baskin-Robbins International	9.7%	10.7%	21.3%	19.4%	11.6%
Total Systemwide Sales Growth	5.6%	5.0%	4.1%	6.7%	9.1%

(1) Fiscal year 2008 includes $294.5 million of goodwill impairment charges related to Dunkin Donuts U.S. and Baskin-Robbins International, as well as a $34.0 million trade name impairment related to Baskin-Robbins U.S.

(2) Includes fees paid to the Sponsors of $3.0 million for each of the fiscal years 2007, 2008, 2009, and 2010, and $16.4 million for fiscal year 2011 under a management agreement, which was terminated in connection with our IPO.

(3) 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 $976,000. Amounts also include amortization expense, net of tax, related to intangible franchise rights established in purchase accounting of $1.8 million, $907,000, $899,000, $897,000 and $868,000 for fiscal years 2007, 2008, 2009, 2010, and 2011, respectively.

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(4) We completed the sale of our Togo s brand on November 30, 2007. Net income for fiscal year 2007 includes a loss from discontinued operations of $4.6 million related to the Togo s operations and sale.

(5) Amounts as of December 29, 2007, December 27, 2008, and December 26, 2009 include cash held in restricted accounts pursuant to the terms of the securitization indebtedness. Following the redemption and discharge of the securitization indebtedness in fiscal year 2010, such amounts are no longer restricted. The amounts also include cash held as advertising funds or reserved for gift card/certificate programs. Our cash, cash equivalents, and restricted cash balance at December 27, 2008 increased primarily as a result of short-term borrowings.

(6) Includes capital lease obligations of $3.6 million, $4.2 million, $5.4 million, $5.4 million, and $5.2 million as of December 29, 2007, December 27, 2008, December 26, 2009, December 25, 2010, and December 31, 2011, respectively.

(7) Prior to our IPO in fiscal year 2011, the Company had two classes of common stock, Class L and common. Class L common stock was classified outside of permanent equity at its preferential distribution amount, as the Class L stockholders controlled the timing and amount of distributions. Immediately prior to our IPO, each share of Class L common stock converted into 2.4338 shares of common stock, and the preferential distribution amount of Class L common stock at the date of conversion was reclassified into additional paid-in capital within permanent equity.

(8) Adjusted operating income and adjusted net income are non-GAAP measures reflecting operating income and net income adjusted for amortization of intangible assets, impairment charges, Sponsor management agreement termination fee, and secondary offering costs, and, in the case of adjusted net income, loss on debt extinguishment and refinancing transactions, net of the tax impact of such adjustments. The Company uses adjusted operating income and adjusted net income as key performance measures for the purpose of evaluating performance internally. We also believe adjusted operating income and adjusted net income provide our investors with useful information regarding our historical operating results. These non-GAAP measurements are not intended to replace the presentation of our financial results in accordance with GAAP. Use of the terms adjusted operating income and adjusted net income may differ from similar measures reported by other companies. Adjusted operating income and adjusted net income are reconciled from operating income (loss) and net income (loss), respectively, determined under GAAP as follows:

	Fiscal Year				
	2007	**2008**	**2009**	**2010**	**2011**
	(Unaudited, $ in thousands)				
Operating income (loss)	$ 174,499	(140,893)	184,545	193,525	205,309
Adjustments:					
Sponsor termination fee					14,671
Amortization of other intangible assets	39,387	37,848	35,994	32,467	28,025
Impairment charges	4,483	331,862	8,517	7,075	2,060
Korea joint venture impairment, net(i)					18,776
Secondary offering costs					1,899
Adjusted operating income	$ 218,369	228,817	229,056	233,067	270,740
Net income (loss)	$ 34,699	(269,898)	35,008	26,861	34,442
Adjustments:					
Sponsor termination fee					14,671
Amortization of other intangible assets	39,387	37,848	35,994	32,467	28,025
Impairment charges	4,483	331,862	8,517	7,075	2,060
Korea joint venture impairment, net(i)					18,776
Secondary offering costs					1,899
Loss (gain) on debt extinguishment and refinancing transactions			(3,684)	61,955	34,222
Tax impact of adjustments(ii)	(17,548)	(30,093)	(16,331)	(40,599)	(32,351)
Adjusted net income	$ 61,021	69,719	59,504	87,759	101,744

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(i) Amount consists of an impairment of the investment in the Korea joint venture of $19.8 million, less a reduction in depreciation and amortization, net of tax, of $976,000 resulting from the allocation of the impairment charge to the underlying intangible and long-lived assets of the joint venture.

(ii) Tax impact of adjustments calculated at a 40% effective tax rate for each period presented, excluding the goodwill impairment charge in fiscal year 2008, as the goodwill is not deductible for tax purposes, and the Korea joint venture impairment in fiscal year 2011 as there was no tax impact related to that charge.

(9) Represents period end points of distribution.

(10) Represents the growth in average weekly sales for franchisee- and company-owned restaurants that have been open at least 54 weeks that have reported sales in the current and comparable prior year week.

(11) Franchisee-reported sales include sales at franchisee restaurants, including joint ventures.

(12) Company-owned store sales include sales at restaurants owned and operated by Dunkin Brands.

(13) Systemwide sales growth represents the percentage change in sales at both franchisee- and company-owned restaurants from the comparable period of the prior year. Changes in systemwide sales are driven by changes in average comparable store sales and changes in the number of restaurants.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of our financial condition and results of operations should be read in conjunction with the selected financial data and the audited financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements about our markets, the demand for our products and services and our future results and involves numerous risks and uncertainties. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and generally contain words such as believes, expects, may, will, should, seeks, approximately, intends, plans, estimates, or anticipates or similar expressions. Our forward-looking statements are subject to risks and uncertainties, which may cause actual results to differ materially from those projected or implied by the forward-looking statement. Forward-looking statements are based on current expectations and assumptions and currently available data and are neither predictions nor guarantees of future events or performance. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. See Risk factors for a discussion of factors that could cause our actual results to differ from those expressed or implied by forward-looking statements.

Introduction and overview

We are one of the world s leading franchisors of quick service restaurants (QSRs) serving hot and cold coffee and baked goods, as well as hard serve ice cream. We franchise restaurants under our Dunkin Donuts and Baskin-Robbins brands. With 16,794 points of distribution in 58 countries, we believe that our portfolio has strong brand awareness in our key markets. QSR is a restaurant format characterized by counter or drive-thru ordering and limited or no table service. As of December 31, 2011, Dunkin Donuts had 10,083 global points of distribution with restaurants in 36 U.S. states and the District of Columbia and in 31 foreign countries. Baskin-Robbins had 6,711 global points of distribution as of the same date, with restaurants in 44 U.S. states and the District of Columbia and in 48 foreign countries.

We are organized into four reporting segments: Dunkin Donuts U.S., Dunkin Donuts International, Baskin-Robbins U.S., and Baskin-Robbins International. We generate revenue from four primary sources: (i) royalty income and franchise fees associated with franchised restaurants, (ii) rental income from restaurant properties that we lease or sublease to franchisees, (iii) sales of ice cream products to franchisees in certain international markets, and (iv) other income including fees for the licensing of our brands for products sold in non-franchised outlets, the licensing of the right to manufacture Baskin-Robbins ice cream sold to U.S. franchisees, refranchising gains, transfer fees from franchisees, revenue from our company-owned restaurants, and online training fees.

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Approximately 63% of our revenue for fiscal year 2011 was derived from royalty income and franchise fees. Sales of ice cream products to Baskin-Robbins franchisees in certain international markets accounted for 16% of our revenue for fiscal year 2011. An additio 2008, 2,200,000 unregistered common shares, valued at $32,490 or $0.015 per share, were issued for the acquisition of mining claims in the Comstock Lode District.

In May 2008, a vendor was issued 5.53 million shares valued at $88,480 or $0.016 per share, for services.

Note 12. - Earnings Per Share

Basic earnings per share is computed by dividing net income, after deducting preferred stock dividends accumulated during the period, by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income, after deducting preferred stock dividends accumulated during the period, by the weighted average number of shares of common stock and dilutive common stock equivalent shares outstanding. The amount of preferred stock dividends is zero in all periods presented. For both the three and six months ended June 30, 2008, there were approximately 1,122 million of common stock equivalent shares excluded from the dilutive earnings per share calculation because they were anti-dilutive. For the three and six months ended June 30, 2007, the amount of anti-dilutive shares were 12,036 million and 12,035 million, respectively. The following is a reconciliation of the number of shares used in the basic and diluted computation of net income per share (in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Weighted average number of common shares outstanding - basic	3,078	1,266	2,998	1,176
Dilution from convertible debt, stock options and warrants	1,122	12,036	1,122	12,035
Weighted average number of common shares outstanding - diluted	4,200	13,302	4,120	3,621

Note 13. Subsequent Events

On July 10, 2008, the Company amended $2,175,000 principal amount of unsecured promissory notes issued to Longview Fund, L.P. through the issuance of an Amended and Restated Promissory Note issued by the Company in favor of Longview Fund, L.P. The amended terms are as follows:

Expiration Date:	July 10, 2011
Interest Rate:	11%, payable in arrears in cash or stock (at a 15% discount to market price, calculated as a 5 day trailing VWAP)
Conversion:	The principal amount of the Note and interest thereon is convertible into Goldspring Common Stock at a price of $.0175 per share.
Anti Dilution:	Full ratchet

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Item 2. Management's Discussion and Analysis or Plan of Operations

The following discussion provides information that we believe is relevant to an assessment and understanding of the consolidated results of operations and financial condition of our company. It should be read in conjunction with the Consolidated Financial Statements and accompanying Notes.

Overview

We are a North American precious metals mining company with a fully permitted gold and silver test mine in northern Nevada. Our Company was formed in mid-2003, and we acquired the Plum Comstock Lode property in November 2003. In our relatively short history, we secured permits, built an infrastructure and brought the Plum exploration project into test mining production. Since 2005, we have started acquiring additional properties around in the Comstock Lode District in Nevada, expanding our footprint and creating opportunities for exploration, as well as acquiring rights to other properties through leases. We are an emerging company, looking to build on our success through the acquisition of other mineral properties in the Comstock Lode District with reserves and or exploration potential. The Company's objectives are to optimize production, increase reserves through exploration and acquisitions, expand its footprint in the Comstock, and maximize shareholder value.

In the first quarter of 2007, we temporarily ceased mining activity while we focus on delineating the ore body and exploratory drilling that should lead to a comprehensive mine plan and, ultimately, to more efficient mining in the future.

The Company turned a corner during 2007 with the final settlement of the Parent litigation and settlement of the Degerstrom litigation, both of which had caused a drain of financial and human resources that severely drained Company resources. Given the end of this litigation, change in Board composition and continued challenges in capital raising efforts, the Company's management determined that there is a need to reevaluate the Company's business plan with a view toward the best way to maximize shareholder value and protection of our secured creditors.

In detail, this evaluation is covered the following matters:

o   Expanding our footprint in the Comstock Region and other acquisition opportunities

o   Further exploration in the Comstock Region to accomplish the above, including a decision to review the geology of the Hartford complex in a more detailed manner

o   Completion of the Plum Mine reserve report

o   Strategic acquisitions in other areas of North America (subsequently redirected toward the Comstock Lode)

Adjustments to this analysis have been made over the past few months, all with the goal to best utilize the Company's limited financial resources to increase shareholder value and to focus on raising additional capital to reinstate operations.

Post the mine shutdown in the first quarter 2007, the Company focused its attention on ore body delineation, metallurgic testing and exploration. In December 2007 the Company commenced developmental drilling in the Hartford Complex to delineate the ore body in this area. This developmental drilling program is scheduled to be completed in three phases of 100 holes per phase. The goal is to define and map the ore body and to prepare geologic cross sections to be utilized to complete the reserve report, create a mine plan using geostatistics and extensive drill hole data.

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There is also ongoing exhaustive metallurgic testing to attempt to maximize recovery of the high grade fraction of the ore and to determine optimum size to continue heap leaching. The Company is also assessing whether a mill could be added to increase overall recovery.

The exploration drilling program, which is heavily dependent on funds availability, commenced in December 2007. The Company is scheduled to continue with the exploration drilling program throughout 2008 and plans to complete the first one hundred hole drilling phase by the end of December 2008.

Assuming sufficient funds are raised in a timely manner, the Company’s goal would be to reopen the Mine during the first half of 2009. In order to resume production, the Company must complete a reserve report certified by a qualified third party; complete a comprehensive mine plan; and complete a mining schedule, all of which are dependent upon ability to secure sufficient funds to procure the mining fleet.

There are also risks involved in the fact that one individual and his affiliates, as of June 30, 2008, beneficially own in excess of 21% of our voting stock. Pursuant to financing agreements, this convertible debt holder and his affiliates with a 61 day notice can waive the 4.9% ownership restriction, allowing him to convert 100% of his convertible debt and related interest, which totals $8,507,662 at June 30, 2008, into our common shares. This group, if they waive the ownership restriction and convert all convertible debt and related interest into our voting common stock, may take actions that could conflict with your interests. This includes the election of Company directors, approval of actions generally requiring the approval of the holders of our voting stock, including adopting amendments to our articles of incorporation and bylaws and approving mergers, certain acquisitions or sales of all or substantially all of our assets, which could delay or prevent someone from acquiring or merging with us or limit the ability of our other stockholders to approve transactions that they may deem to be in their best interests.

Results of Operations and Operational Plan

Our Comstock Lode Mine, which is located in Storey County, Nevada, went into test mining production in late third quarter 2004. We have not established reserves on this exploration project. Therefore, all of our activities on this property are considered test mining or exploratory in nature. In November 2005, we retained mining engineer Jim Golden, who became our COO in 2006, to conduct a comprehensive review of all aspects of the Comstock Lode Mine operation, including the overall mine plan, with the objective of further improving efficiency, increasing production, and reducing costs. Furthermore, TechBase of Colorado, with the help of our consultants, is expected to complete a detailed mine plan and an initial 43-101 reserve report for the Comstock Lode mine in the third quarter 2008. We believe that these steps coupled with our exploratory drilling of the Hartford Complex will improve our overall performance at the Comstock Lode Mine.

We had planned to commence our exploratory drilling program in mid 2007 if capital resources allowed; however, due to insufficient funds, this was delayed until the December 2007. In late 2007, we retained Dwight Juras, Ph. D. geologist, to assist in overseeing our exploration program at the Comstock Lode Mine and in the Comstock Lode district. Mr. Juras has over thirty years of diverse geological and exploration experience in the mining industry. He has worked for several major mining companies. We have allocated a budget of $2,000,000 to explore and develop our claims at the Comstock Lode Mine. Exploratory drilling started in late 2007 and is scheduled to continue throughout 2008. Initial drilling has been in the Hartford Complex, and drilling consists of surface mine drilling down to a depth of 400 feet and covers approximately 40 acres. We intend to target our exploration toward expanding our mineralized material inventory at our Hartford Complex property in the Comstock Lode District and toward developing new mineral properties in the Comstock. The successful location of additional mineralized material on the existing property would allow us to expand the size and the lifespan of the Comstock Lode mining project, exclusive of new property acquisitions. It is our belief that we possess an advantage with our status as likely the only heap leach gold mining permit holder in the area. This permit is relatively difficult to obtain, and it is one that we can expand to include new areas in the event we locate and wish to process new deposits.

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Among the exploration and business development activities that are in process:

- Ore body delineation
- Reserve definition
- Completion of reserve report
- Development of comprehensive mine plan from exploration results
- Increase of ore reserves
- Augment ability to mine and operate at more efficient levels
- Intent to resume mine operations after completion of the initial 43-101 reserve report and the comprehensive mine plan.
- Expansion of existing footprint in the Comstock region

Expansion of team of experts to study geology and metallurgy, as well as develop mine plan, define reserves and complete initial 43-101 reserve report

Secure funds to commence drilling

The Company hired Orbit Garant Drilling to perform exploration and developmental drilling at the Comstock project, and four holes were drilled by the end of December, with third party laboratory testing yielding encouraging ore grades from samples tested from the first four holes. The Company also hired two mining engineers and a Ph. D. geologist as consultants to its team to further augment its expertise in all facets of mining, including metallurgy. In order to fund its exploration efforts, the Company, since early December 2007, has raised in excess of $4,500,000 (of which $1,820,000 has been funded to date) in capital to finance the exploratory drilling.

First Six Months of 2008 Developments

The Company has drilled a total of 57 holes in its 100 hole Phase 1exploratory program through July 2008 at the Hartford Complex,. The purpose of this program is to define the boundaries of the ore bodies and to produce a comprehensive reserve report and mine plan by the end of the 2008 calendar year. The total estimated cost of this plan is $2,000,000 of which $1,000,000 has been expended to date. With the total $2.5 million committed by a related party in new loans to us through the end of 2008 (of which $1,000,000 has already been funded), no additional funds should be needed to complete Phase 1.

Initial report results are encouraging. The initial resource report released in June after obtaining 3rd party assays on 38 drill holes completed to date indicated a resource of 4,926,000 tons grading 0.080 ounces per ton gold containing 392,000 ounces at a cutoff grade of 0.030 ounces per ton. The resource is highlighted by 930,000 tons grading 0.209 ounces per ton gold containing 194,000 ounces of gold using a 0.100 ounces per ton gold cutoff grade. A 43-101 reserve report is expected to be completed during the third quarter of 2008. The Company intends to expand the exploration program beyond the Hartford Complex in the second half of 2008.

Summary Exploratory Drilling Results Table

The chart below details the results of the assay testing, which was conducted by an independent third-party laboratory. The encouraging assay results received from the drilling program have expanded the surface area and the depth of the identified body of mineralized material in the Hartford Complex. To date, the Company’s drilling program results at the Hartford Complex since December 2007 are summarized in the table below.

Drill Hole Number	Intercept in Feet	Gold Grade (ounces per ton Au)	Silver Grade (ounces per ton Ag)
48	0’-90’	0.041	0.86
47	0’-85’	0.040	0.81
	0’-15’	0.012	0.50
	105’-115’	0.019	0.06
	220’-305’	0.058	0.46
46	325’-350	0.031	0.07
	90’-95’	0.257	1.64
	165’-255’	0.012	0.08
45	255’-345’	0.077	0.82
	215’-275’	0.172	1.19
	230’-235’	1.559	6.35
	345’-430’	0.064	0.06
44	355’-370’	0.242	0.20
43	335’-410’	0.010	0.43
42	615’-715	Low grade ore	Low grade ore
	10’-25’	0.030	0.17
	135’-155’	0.137	0.61
	185’-270’	0.015	0.04
	295’-405’	0.037	0.61
41	540’-560’	0.025	0.31
	210’-260’	0.238	0.16
	235’-240’	1.937	0.70
40	325’-340’	0.043	0.68
	0’-120’	0.031	0.43
	120’-170’	0.009	0.37
39	170’-210’	0.04	1.00
	0’-20’	0.087	0.83
	60’-170’	0.025	0.38
	190’-235’	0.031	0.73
38	400’-425’	0.021	0.35
37	0’-155’	0.032	0.53
	95’-110’	0.191	0.18
	175’-195’	0.019	0.20
	205’-255	0.044	0.31
	285’-315’	0.025	0.08
	330’-400’	0.025	0.09
	410’-520’	0.173	1.08
36	585’-625’	0.010	0.04
35	0’-15’	0.030	0.63
	170’-190’	0.033	0.16

320’-380’	0.026	0.16
400’-420’	0.016	0.35
465’-560’	0.014	0.52

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	0’-10’	0.055	0.95
	195’-205’	0.025	0.12
	305’-335’	0.021	0.41
	365’-420’	0.029	0.58
34	540’-550’	0.020	0.44
	0’-15’	0.019	0.16
	30’-40’	0.05	0.21
	160’-170’	0.025	0.72
	240’-250’	0.045	0.08
	310’-325’	0.015	0.50
	365’-380’	0.025	0.02
33	395’-420’	0.025	0.02
	0’-60’	0.039	0.27
	195’-265’	0.026	0.33
	295’-315’	0.019	0.25
	420’-460’	0.020	0.15
32	555’-585’	0.017	0.74
	0’-15’	0.053	1.67
	225’-370’	0.041	0.12
	390’-420’	0.014	0.06
31	575’-635’	0.080	0.52
	0’-55’	0.037	0.63
	280’-350’	0.017	0.31
	375’-410’	0.060	0.22
30	570’-630’	0.020	0.89
	0’-15’	0.040	0.63
	405’-485’	0.113	2.09
	495’-570’	0.017	0.19
29	600’-640’	0.078	0.32
	0’-15’	0.023	0.78
	65’-210’	0.083	0.63
	255’-290’	0.051	0.60
28	310’-410	0.020	0.65
	0’-20’	0.044	0.94
	140’-150’	0.063	0.56
	175’-255’	0.044	0.38
27	315’-495’	0.040	1.13
	0’-25’	0.025	0.88
	240’-375’	0.065	0.41
26	395’-435’	0.029	0.69
	0’-60’	0.033	0.80
	135’-150’	0.034	0.06
	165’-230’	0.029	0.50
	315’-330’	0.014	0.09
25	525’-595’	0.015	0.14
	0’-25’	0.052	0.64
	150’-235’	0.103	0.54
24	285’-420’	0.022	1.03
	75’-235’	0.058	0.78
23	260’-300’	0.030	1.04

	0’-20’	0.012	0.24
	30’-40’	0.134	1.57
22	70’-140	0.040	0.43
21	210’-305’	0.046	0.61
	70’-75’	0.013	0.04
20	390’-395’	0.015	0.04

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	0’-45’	0.010	0.13
	140’-180’	0.045	0.63
19	205’-230’	0.013	0.56
	0’-40’	0.010	0.29
18	260’-265’	0.022	1.63
17	60’-130’	0.031	0.50
16	290’-300’	0.088	0.07
	385’-535	0.047	0.07
	555’-755’	0.032	0.25
15	10’-25’	0.054	1.74
	115’-320’	0.118	1.32
	325’-365’	0.029	3.53
14	10’- 40’	0.034	0.72
	55’-80’	0.109	0.75
	210’-225’	0.082	0.08
	290’-330	0.091	0.23
13	0’-70’	0.025	0.34
12	0’-60’	0.012	0.18
	445’-460’	0.062	0.14
11	175’-265’	0.043	0.47
	285’-350’	0.076	1.28
10	20’-400’	0.109	0.66
09	10’-25’	0.054	1.74
	115’-320’	0.118	1.32
	325’-350’	0.030	0.02
08	40’-55’	0.037	0.17
	85’-150’	0.060	1.04
07	15’ - 185’	0.068	1.5
06	35’-55’	0.029	1.27
	120’-130’	0.164	1.19
	135’-215’	0.033	0.29
	245’-275’	0.037	1.29
	275’-325’	0.003	1.71
05	30’-65’	0.038	0.90
	120’-265’	0.045	1.27
04	50’-60’	0.006	0.09
03	55’-90’	0.031	0.81
02	160’ - 275’	0.074	0.69
01	65’ - 135’	0.052	0.64

All of the assays referenced herein and the data derived there from have been performed and analyzed by American Assay of Reno, Nevada, a laboratory independent of GoldSpring, utilizing industry standard analytical methods.

In addition to the drilling program, the Company is continuing to work on the completion of a comprehensive mine plan. The results of the drilling program, combined with the mine plan, will form the basis for a 43-101 report. The Company hopes to complete its initial 43-101 report in the third quarter 2008. Completing the mine plan and the initial 43-101 report and obtaining the required funding are the key elements in the Company’s plan to return to production in the first half of 2009. In determining the optimum time to resume production, the Company will seek advice from its team of mining industry experts.

The Company continued to expand its footprint in the Comstock Lode in the first half of 2008. During the six month period, the company acquired or staked approximately 70 new claims, bringing its total claims in the area to approximately 250. The average claim covers an area of 20 acres. The Company intends to acquire additional properties and claims in the Comstock Lode region through the remainder of 2008 if suitable financing can be arranged.

With the appointment of two new directors in the first quarter of 2008 (Rob Faber, the Company's CEO, and Scott Jolcover, a former Company employee with significant mining experience in the region), the Company has commenced the task of rebuilding its Board, which lost several independent Directors in early 2007. The Company looks to continue expanding its Board during 2008 to include independent directors. In early March 2008, the Company appointed a new metallurgical team with resources and expertise geared toward efficiency maximization in anticipation of recommencement of production, which was scheduled for the second half of 2008 and due to funding delays, which have been remedied, will commence in the first half of 2009. The Company secured $1,500,000 in the first quarter of 2008 for further drilling and general corporate expenses and $2,500,000 in the second quarter of which $1,000,000 has been funded with the balance being funded by the end of calendar year 2008.

Comparative Financial Information

Below we set forth a summary of comparative financial information the three months and six months ended June 30, 2008 and 2007.

Comparative Financial Information

Three Months Ended June 30, 2008

	Quarter ended June 30, 2008	Quarter ended June 30, 2007	Difference
Revenue	$ -	$ 149,886	$ (149,886)
Depletion and amortization	60,000	80,836	(20,836)
Reclamation, Exploration and Test Mining Expense	792,308	167,074	635,234
General and Administration	802,805	146,489	656,316
Consulting and Professional Service	27,940	77,979	(50,039)
Derivative Change in fair value	(130,604)	(137,286)	(6,682)
Interest Expense	588,119	800,228	(212.109)
Other, net	192,479	-	192,479
Net Loss	$ (2,333,047)	(975,434)	$ 1,457,612

During the three months ended June 30, 2008, we did not sell any precious metals compared to 229 ounces of gold, at an average price $654, that was sold during the three months ended June 30, 2007. During the first quarter 2007, we decided to temporarily cease mining operation allowing us to focus on delineating the ore body and exploratory drilling. Mining activities continue to be suspended and thus there were no precious metals sold during the second quarter 2008.

Test Mining Expenses in the three months ended June 30, 2008 were $898,333 more than in the three months ended June 30, 2007. The expense increase reflects our exploratory drilling program which commenced in December 2007.

General and administrative expenses for the three months ended June 30, 2008 were $656,316 more than for the three months ended June 30, 2007. The increase in G&A reflects the impact of the implementation of SFAS (Statement of Financial Accounting Standards) No. 123R Share Based Compensation, specifically the stock options granted to the officers of the Company.

Consulting and professional service fees were $50,039 less for the three months ended June 30, 2008 than for the three months ended June 30, 2007. The decrease is mainly due to the settlement of the N.A. Degerstrom litigation in December 2007.

Derivative Change in fair value for the three months ended June 30, 2008 was $6,682 less than for the three months ended June 30, 2007. This decrease is due to quarterly review of embedded derivatives.

Interest expense for the three months ended June 30, 2008 was $212,109 less than for the three months ended June 30, 2007. This variance reflects the issuance of additional lower interest bearing notes. At June 30, 2008, our Company had approximately $13,985,408 of outstanding debt bearing an average interest rate of 20%, and at June 30, 2007, our Company had approximately $13,649,924 of outstanding debt bearing an average interest rate of 24%.

Other, net for the three months ended June 30, 2008 was $88,479 less than in the three months ended June 30, 2007. This amount primarily reflects the settlement of the N.A. Degerstrom litigation and adjustments to debt obligations.

Six Months Ended June 30, 2008

	Six months ended June 30, 2008	Six months ended June 30, 2007	Difference
Revenue	$ -	$ 349,791	$ (349,791)
Depletion and amortization	120,000	143,890	(23,890)
Reclamation, Exploration and Test Mining Expense	1,44,401	543,068	898,333
General and Administration	1,103,007	280,129	822,878
Consulting and Professional Service	58,959	136,645	(77,686)
Derivative Change in fair value	130,604	(260,892)	391,496
Interest Expense	1,329,310	1,604,301	(274,991)
Other, net	(551,907)	-	(655,907)
Net Loss	$ (3,631,374)	(2,097,350)	$ 1,534,024

During the six months ended June 30, 2008, we did not sell any precious metals compared to 536 ounces of gold, at an average price $650, that was sold during the six months ended June 30, 2007. During the first quarter 2007, we decided to temporarily cease mining operation allowing us to focus on delineating the ore body and exploratory drilling. Mining activities continue to be suspended, until we complete our exploratory drill program at the Hartford Complex and we complete our resource report and our mine plan. We anticipate mine production to begin during the first half of 2009.

Test Mining Expenses in the six months ended June 30, 2008 were $898,333 more than in the six months ended June 30, 2007. The expense increase reflects our exploratory drilling program which commenced in December 2007.

General and administrative expenses for the six months ended June 30, 2008 were $822,878 more than for the six months ended June 30, 2007. The increase in G&A reflects the impact of the implementation of SFAS (Statement of Financial Accounting Standards) No. 123R Share Based Compensation, specifically the stock options granted to the officers of the Company and the stock grant given to the Company's outside directors.

Consulting and professional service fees were $77,686 less for the six months ended June 30, 2008 than for the six months ended June 30, 2007. The decrease is mainly due to the settlement of the N.A. Degerstrom litigation in December 2007.

Derivative Change in fair value for the six months ended June 30, 2008 was $391,496 more than for the six months ended June 30, 2007. This increase is due to our quarterly review of embedded derivatives.
Interest expense for the six months ended June 30, 2008 was $279,991 less than for the six months ended June 30, 2007. This variance reflects the issuance of additional lower interest bearing notes. At June 30, 2008, our Company had approximately $13,985,408 of outstanding debt bearing an average interest rate of 20%, and at June 30, 2007, our Company had approximately $13,649,924 of outstanding debt bearing an average interest rate of 24%.

Other, net for the six months ended June 30, 2008 was $655,907 less than in the six months ended June 30, 2007. This amount primarily reflects the settlement of the N.A. Degerstrom litigation and adjustments to debt obligations.

Liquidity and Capital Resources

We are actively seeking additional capital to meet our working capital needs and to grow our business. We recognize that our cash resources are limited. Our continued existence and plans for future growth depend on our ability to obtain the capital necessary to operate, through the generation of revenue or the issuance of additional debt or equity. In 2007, we raised an aggregate of $1,700,000 through three financing transactions. In the six three months of 2008, we completed additional financing transactions, which provided us with $2,320,000 in net funding. We have also received additional net funding of $650,000 in the third quarter of 2008. While this additional funding may meet our immediate working capital needs, if we are not able to generate sufficient revenues and cash flows or obtain additional or alternative funding, we will be unable to continue as a going concern. We have yet to realize an operating profit at our Plum Mine location at which there is currently no production. We do not anticipate recommencing mining activities until the first or second quarter of 2009, so we will be dependent upon third party and related party financings for working capital until at least the third quarter of 2009. As disclosed in the report of our independent registered public accounting firm in our financial statements included in this Form 10-KSB for the year ended December 31, 2007, our recurring losses and negative cash flow from operations raise substantial doubt about our ability to continue as a going concern.

At the date of filing, we have specific commitments for additional financing for up to $2,000,000 from a related party; however, we have no further financing commitments above the $2,000,000, and additional capital will be necessary to implement our revised business plan. We are diligently seeking additional sources of funding. Additionally, without additional funding, it is unlikely that we will be able to remain in operation long enough to have the time necessary to fully implement the business plan.

Once we recommence production our operations will be significantly affected by changes in the market price of gold. Gold prices can fluctuate widely and may be affected by numerous factors, such as expectations for inflation, levels of interest rates, currency exchange rates, central bank sales, forward selling or other hedging activities, demand for precious metals, global or regional political and economic crises, and production costs in major gold-producing regions. The aggregate effect of these factors, all of which are beyond our control, is impossible for us to predict. The demand for and supply of gold affect gold prices, but not necessarily in the same manner as supply and demand affect the prices of other commodities. The supply of gold consists of a combination of new mineral production and existing stocks of bullion and fabricated gold held by governments, public and private financial institutions, industrial organizations, and private individuals. As the amount produced in any single year constitutes a small portion of the total potential supply of gold, normal variations in current production do not have a significant impact on the supply of gold or on its price. If gold prices decline substantially, it could adversely affect the realizable value of our assets and potential future results of operations and cash flow.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

An investment in our common stock involves risk. You should carefully consider the following risk factors.

Our exposure to market risk for changes in interest rates relates primarily to the market-driven increase or decrease in interest rates, and the impact of those changes on the Company’s ability to realize a return on invested or available funds. We ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in short term high-credit investment grade securities and/or commercial checking and savings accounts.

ITEM 4T. CONTROLS AND PROCEDURES

A. Disclosure

As of the end of the period covered by this Annual Report on Form 10-Q, management performed, with the participation of our Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the report we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s forms, and that such information is accumulated and communicated to our management including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on the evaluation and the identification of the significant deficiencies in our internal control over financial reporting described below, which we do not believe to be material weaknesses, our Chief Executive Officer and our Chief Financial Officer concluded that, as of June 30, 2008, our disclosure controls and procedures were effective.

B. Internal Control over Financial Reporting

Our certifying officers (principal executive and accounting officers) are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14). Our Chief Executive Officer and Chief Financial Officer have:

a) designed a framework to evaluate the effectiveness of our internal control over our financial reporting as required by paragraph (c) of Rule 13a-15 or Rule 15d-15 through the use of ongoing review and checks and balances for all transactions and decisions; we have designed disclosure controls and procedures to ensure that material information relating to our affairs, including our consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of our disclosure controls and procedures as of the filing date of this quarterly report (the "Evaluation Date"); and

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c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

Management's assessment of the effectiveness of our internal control over financial reporting is for the year ended December 31, 2007. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework* and *Internal Control over Financial Reporting-Guidance for Smaller Public Companies.*

There have been no changes in our internal controls or in other factors that could affect these controls including any corrective actions with regard to deficiencies and material weaknesses. As there has been no change in our internal controls since disclosure in our Form 10-KSB for the year ending December 31, 2007, filed with the Securities and Exchange Commission, on April 15, 2008, we reiterate the following significant deficiencies which also existed as of December 31, 2007.

We have identified conditions as of June 30, 2008 that we believe are significant deficiencies in internal controls that include: 1) a lack of segregation of duties in accounting and financial reporting activities; and 2) the lack of a sufficient number of qualified accounting personnel. We previously had added a clerk to assist with duties; however, we do not believe this is sufficient to remedy the deficiencies. We are currently seeking to add an outside consultant to assist with CFO and controller - level duties, and intend to retain such a consultant by December 31, 2008. We believe that the presence of this additional qualified accounting personnel will allow us to effectively correct the lack of segregation of duties in accounting and financial reporting activities.

Our former Chief Financial Officer became our Chief Executive Officer in September 2004. Our Company has not hired another individual to act as Chief Financial Officer. We believe the absence of a full-time Chief Financial Officer or Chief Accounting Officer has resulted in a significant deficiency with respect to the lack of qualified accounting personnel. We have been able to mitigate this deficiency by engaging outside consultants to assist the Company in its accounting activities, but believe that the only effective long-term solution to our accounting needs is to hire a qualified CFO. Due to our budgetary constraints and the small size of our company we are uncertain as to when we will be able to accomplish this; hence, our endeavor to hire a consultant is critical.

We do not believe that these deficiencies constitute material weaknesses because of (i) additional accounting support through the office consolidation with Plum Mine and (ii) the use of outside consultants. During the quarter ended September 30, 2008, we established an audit committee composed of three board members, two of which can be considered independent board members. We have also identified an audit committee member as a “financial expert”. The audit committee intends to develop an audit committee charter, within the next six months. To further enhance the effectiveness of our financial reporting, we have engaged the services of ProLianze Group, LLC to assist management in the preparation and review of its quarterly and annual public filings. ProLianze Group provides consulting services to supplement the accounting and financial capabilities of smaller public companies. We estimate the annual cost of these remedial actions which include compensation, fees, additional insurance, board meetings, travel and record keeping costs to be approximately $60,000.

There have been no changes during the quarter ended June 30, 2008 in our Company's internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rules 13a-15(d) and 15d-15(d) that have material affected, or are reasonably likely to materially affect, our internal controls over our financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in lawsuits, claims, investigations and proceedings, including pending opposition proceedings involving patents that arise in the ordinary course of business. There are no matters pending that we expect to have a material adverse impact on our business, results of operations, financial condition or cash flows.

The Settlement of Degerstrom Suit

On April 11, 2006, in the First Judicial District Court, Storey County, Nevada, wherein N.A. Degerstrom, Inc. ("Degerstrom") sued the Company on various counts, including breach of contract, *quantum merit*, foreclosure of mechanic's lien, and assertion that the Degerstrom lien has priority over all other liens on the Plum Mine property. The litigation was settled in early December 2007. Under the settlement agreement, GoldSpring paid Degerstrom $250,000 and both parties agree to dismiss their claims against the other. The agreement was subject to GoldSpring remitting $100,000 by December 11, 2007 and the balance of $150,000 by January 31, 2008. The Company made the final payment on January 31, 2008.

Item 1A. Risk Factors

An investment in our common stock involves risk. You should carefully consider the following risk factors, in addition to those discussed elsewhere in this report, in evaluating our company, its business, and prospects. The following risks could cause our business, financial condition, and operating results to be materially and adversely affected.

We have limited resources and our inability to obtain additional financing could negatively affect our growth and success.

We have incurred substantial losses since our inception, and we are currently experiencing a cash flow deficiency from operations. Our current cash flow and capital resources are limited, and we may require additional funds to pursue our business. We may not be able to secure further financing in the future. If we are not able to obtain additional financing on reasonable terms, we may not be able to execute our business strategy, conduct our operations at the level desired, or even to continue business.

We have received a qualified report from our independent auditors

The report by the independent auditors on our financial statements indicates that our financial statements have been prepared assuming that we will continue as a going concern. The report indicates that our recurring losses from operations and working capital deficit raise substantial doubt about our ability to continue as a going concern.

Inability to raise sufficient funds to increase growth

Our recent financings have only provided capital to continue existing operations but not to continue significant exploration and growth. Without the ability to attract sufficient amounts of capital at any one time, it is unlikely that we can achieve profitability in the foreseeable future.

We have invested capital in high-risk mineral projects where we have not conducted sufficient exploration and engineering studies.

We have invested capital in various mineral properties and projects in North America where we may not have conducted sufficient exploration and engineering studies to minimize the risk of project failure to the extent that is typical in the mining industry. Our mineral projects involve high risks because we have not invested substantial sums in the characterization of mineralized material, geologic analysis, metallurgical testing, mine planning, and economic analysis to the same extent that other mining companies might deem reasonable. Standard industry practice calls for a mining company to prepare a formal mine plan and mining schedule and have these documents reviewed by a third party specialist. We do not have a formal mine plan that has been reviewed by a third party specialist. Because we have not established proven or probable reserves, there can be no assurance that we will be able to produce sufficient gold to recover our investment and operating costs.

Our corporate officers lack sufficient technical training and mining experience.

Our corporate officers lack technical training and experience in operating a mine. Although Jim Golden, our COO, is a licensed mining engineer, with substantial mining experience, we may lack sufficient qualified support personnel to effectively manage our mining operation. Without sufficient training or experience in all areas, our corporate officers may not be fully aware of all of the specific requirements related to working within the mining industry. The decisions of our corporate officers may not take into account standard engineering or managerial approaches that operating mining companies commonly use. Consequently, our operations, earnings, and ultimate financial success could suffer irreparable harm due to corporate officers' lack of experience in the mining industry.

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We will not be successful unless we recover precious metals and sell them for a profit.

Our success depends on our ability to recover precious metals, process them, and successfully sell them for more than the cost of production. The success of this process depends on the market prices of metals in relation to our costs of production. We may not always be able to generate a profit on the sale of gold or other minerals because we can only maintain a level of control over our costs and have no ability to control the market prices. The total cash costs of production at any location are frequently subject to great variation from year to year as a result of a number of factors, such as the changing composition of ore grade or mineralized material production, and metallurgy and exploration activities in response to the physical shape and location of the ore body or deposit. In addition costs are affected by the price of commodities, such as fuel and electricity. Such commodities are at times subject to volatile price movements, including increases that could make production at certain operations less profitable. A material increase in production costs or a decrease in the price of gold or other minerals could adversely affect our ability to earn a profit on the sale of gold or other minerals.

We do not have proven or probable reserves, and there is no assurance that the quantities of precious metals we produce will be sufficient to recover our investment and operating costs.

Our success depends on our ability to produce sufficient quantities of precious metals to recover our investment and operating costs. We do not have proven or probable reserves. There can be no assurance that our exploration activities will result in the discovery of sufficient quantities of mineralized material to lead to a commercially successful operation.

The costs of our exploration and acquisition activities are substantial, and there is no assurance that the quantities of minerals we discover or acquire will justify commercial operations or replace reserves established in the future.

Mineral exploration, particularly for gold and other precious metals, is highly speculative in nature, involves many risks, and frequently is nonproductive. There can be no assurance that our exploration and acquisition activities will be commercially successful. Once gold mineralization is discovered, it may take a number of years from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to acquire existing gold properties, to establish ore reserves through drilling and analysis, to develop metallurgical processes to extract metal from the ore, and in the case of new properties, to develop the processing facilities and infrastructure at any site chosen for mineral exploration. There can be no assurance that any gold reserves or mineralized material that may be discovered or acquired in the future will be in sufficient quantities or of adequate grade to justify commercial operations or that the funds required for mineral production operation can be obtained on a timely or reasonable basis. Mineral exploration companies must continually replace mineralized material or reserves depleted by production. As a result, there can be no assurance that we will be successful in replacing any reserves or mineralized material acquired or established in the future.

The price of gold fluctuates on a regular basis and a downturn in price could negatively impact our operations and cash flow.

Our operations are significantly affected by changes in the market price of gold. Gold prices can fluctuate widely and may be affected by numerous factors, such as expectations for inflation, levels of interest rates, currency exchange rates, central bank sales, forward selling or other hedging activities, demand for precious metals, global or regional political and economic crises, and production costs in major gold-producing regions, such as South Africa and the former Soviet Union. The aggregate effect of these factors, all of which are beyond our control, is impossible for us to predict. The demand for and supply of gold affect gold prices, but not necessarily in the same manner as supply and demand affect the prices of other commodities. The supply of gold consists of a combination of new mineral production and existing stocks of bullion and fabricated gold held by governments, public and private financial institutions, industrial organizations, and private individuals. As the amount produced in any single year constitutes a small portion of the total potential supply of gold, normal variations in current production do not have a significant impact on the supply of gold or on its price. If gold prices decline substantially, it could adversely affect the realizable value of our assets and potential future results of operations and cash flow.

The use of hedging instruments may not prevent losses being realized on subsequent price decreases or may prevent gains being realized from subsequent price increases.

We may from time to time sell some future production of gold pursuant to hedge positions. If the gold price rises above the price at which future production has been committed under these hedge instruments, we will have an opportunity loss. However, if the gold price falls below that committed price, our revenues will be protected to the extent of such committed production. In addition, we may experience losses if a hedge counterparty defaults under a contract when the contract price exceeds the gold price. As of the date of filing of this report, we have no open hedge positions.

Since our business consists of exploring for or acquiring gold prospects, the drop in the price of gold will negatively affect our asset values, cash flows, potential revenues and profits.

We plan to pursue opportunities to acquire properties with gold mineralized material or reserves with exploration potential. The price that we pay to acquire these properties will be influenced, in large part, by the price of gold at the time of the acquisition. Our potential future revenues are expected to be derived from the production and sale of gold from these properties or from the sale of some of these properties. The value of any gold reserves and other mineralized material, and the value of any potential mineral production therefrom, will vary in direct proportion to variations in those mineral prices. The price of gold has fluctuated widely as a result of numerous factors beyond our control. The effect of these factors on the price of gold, and therefore the economic viability of any of our projects, cannot accurately be predicted. Any drop in the price of gold would negatively affect our asset values, cash flows, potential revenues, and profits.

We compete with other mineral exploration and mining companies

We compete with other mineral exploration and mining companies or individuals, including large, established mining companies with substantial capabilities and financial resources, to acquire rights to mineral properties containing gold and other minerals. There is a limited supply of desirable mineral lands available for claim staking, lease, or other acquisition. There can be no assurance that we will be able to acquire mineral properties against competitors with substantially greater financial resources than we have.

Our activities are inherently hazardous and any exposure may exceed our insurance limits or may not be insurable.

Mineral exploration and operating activities are inherently hazardous. Operations in which we have direct or indirect interests will be subject to all the hazards and risks normally incidental to exploration and production of gold and other metals, any of which could result in work stoppages, damage to property, and possible environmental damage. The nature of these risks is such that liabilities might exceed any liability insurance policy limits. It is also possible that the liabilities and hazards might not be insurable, or we could elect not to insure ourselves against such liabilities because of the high premium costs, in which event, we could incur significant costs that could have a material adverse effect on our financial condition.

We do not have proven or probable reserves, and our mineral calculations are only estimates; any material change may negatively affect the economic viability of our properties.

Substantial expenditures are required to acquire existing gold properties with established reserves or to establish proven or probable reserves through drilling and analysis. We do not anticipate expending sums for additional drilling and analysis to establish proven or probable reserves on our properties. We drill in connection with our mineral exploration activities and not with the purpose of establishing proven and probable reserves. Therefore, our activity must be called exploration or test mining. While we estimate the amount of mineralized material we believe exists on our properties, our calculations are estimates only, subject to uncertainty due to factors, including the quantity and grade of ore, metal prices, and recoverability of minerals in the mineral recovery process. There is a great degree of uncertainty attributable to the calculation of any mineralized material, particularly where there has not been significant drilling, mining, and processing. Until the mineralized material located on our properties is actually mined and processed, the quantity and quality of the mineralized material must be considered as an estimate only. In addition, the quantity of mineralized material may vary depending on metal prices. Any material change in the quantity of mineralized material may negatively affect the economic viability of our properties. In addition, there can be no assurance that we will achieve the same recoveries of metals contained in the mineralized material as in small-scale laboratory tests or that we will be able to duplicate such results in larger scale tests under on-site conditions or during production.

Our operations are subject to strict environmental regulations, which result in added costs of operations and operational delays.

Our operations are subject to environmental regulations, which could result in additional costs and operational delays. All phases of our operations are subject to environmental regulation. Environmental legislation is evolving in some countries and jurisdictions in a manner that may require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors, and employees. There is no assurance that any future changes in environmental regulation will not negatively affect our projects.

We have no insurance for environmental problems.

Insurance against environmental risks, including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production, has not been available generally in the mining industry. We have no insurance coverage for most environmental risks. In the event of a problem, the payment of environmental liabilities and costs would reduce the funds available to us for future operations. If we are unable to fund fully the cost of remedying an environmental problem, we might be required to enter into an interim compliance measure pending completion of the required remedy.

We are subject to federal laws that require environmental assessments and the posting of bonds, which add significant costs to our operations and delays in our projects.

The Bureau of Land Management requires that mining operations on lands subject to its regulation obtain an approved plan of operations subject to environmental impact evaluation under the National Environmental Policy Act. Any significant modifications to the plan of operations may require the completion of an environmental assessment or Environmental Impact Statement prior to approval. Mining companies must post a bond or other surety to guarantee the cost of post-mining reclamation. These requirements could add significant additional cost and delays to any mining project undertaken by us. Our mineral exploration operations are required to be covered by reclamation bonds deemed adequate by regulators to cover these risks. We believe we currently maintain adequate reclamation bonds for our operations.

Changes in state laws, which are already strict and costly, can negatively affect our operations by becoming stricter and costlier.

At the state level, mining operations in Nevada are regulated by the Nevada Division of Environmental Protection, or NDEP. Nevada state law requires our Nevada projects to hold Nevada Water Pollution Control Permits, which dictate operating controls and closure and post-closure requirements directed at protecting surface and ground water. In addition, we are required to hold Nevada Reclamation Permits required under Nevada law. These permits mandate concurrent and post-mining reclamation of mines and require the posting of reclamation bonds sufficient to guarantee the cost of mine reclamation. Other Nevada regulations govern operating and design standards for the construction and operation of any source of air contamination and landfill operations. Any changes to these laws and regulations could have a negative impact on our financial performance and results of operations by, for example, requiring changes to operating constraints, technical criteria, fees or surety requirements.

Title claims against our properties could require us to compensate parties, if successful, and divert management's time from operations.

There may be challenges to our title in the properties in which we hold material interests. If there are title defects with respect to any of our properties, we might be required to compensate other persons or perhaps reduce our interest in the effected property. The validity of unpatented mineral claims, which constitute most of our holdings in the United States, is often uncertain and may be contested by the federal government and other parties. The validity of an unpatented mineral claim, in terms of both its location and its maintenance, depends on strict compliance with a complex body of federal and state statutory and decisional law. Although we have attempted to acquire satisfactory title to our properties, we have not obtained title opinions or title insurance with respect to the acquisition of the unpatented mineral claims. While we have no pending claims or litigation pending contesting title to any of our properties, there is nothing to prevent parties from challenging our title to any of our properties. While we believe we have satisfactory title to our properties, some risk exists that some titles may be defective or subject to challenge. Also, in any such case, the investigation and resolution of title issues would divert management's time from ongoing exploration programs.

We have never paid a cash dividend on our common stock and do not expect to pay cash dividends in the foreseeable future.

We have never paid cash dividends, and we do not plan to pay cash dividends in the foreseeable future. Consequently, your only opportunity to achieve a return on your investment in us will be if the market price of our common stock appreciates and you sell your shares at a profit. There is no assurance that the price of our common stock that will prevail in the market after this offering will ever exceed the price that you pay.

Our business depends on a limited number of key personnel, the loss of whom could negatively affect us.

Robert Faber, Chief Executive Officer, President and acting-Chief Financial Officer is important to our success. If he becomes unable or unwilling to continue in his present position, our business and financial results could be materially negatively affected.

If we fail to adequately manage our growth, we may not be successful in growing our business and becoming profitable.

We plan to expand our business and the number of employees over the next 12 months. In particular, we intend to hire additional operational personnel. Our inability to hire and retain additional qualified employees could have a negative impact on our chances of success.

The issuance of securities by us may not have complied with or violated federal and state securities laws and, as a result, the holders of these shares and warrants may have rescission rights.

Securities issued by us may not have complied with applicable federal and state securities laws, the result of which is that the holders of these securities may have rescission rights that could require us to reacquire the securities.

Outstanding convertible securities and warrants may result in substantial dilution.

At June 30, 2008, we had outstanding 3,150,855,369 shares of common stock. In addition, we had outstanding convertible notes and various common stock purchase warrants. At June 30, 2008, these notes and warrants were convertible into or exercisable for a total of approximately 1.3 billion additional shares of our common stock, subject to further anti-dilution provisions.

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Our stock is a penny stock and trading of our stock may be restricted by the SEC's penny stock regulations, which may limit a stockholder's ability to buy and sell our stock.

Our stock is a penny stock. The Securities and Exchange Commission has adopted Rule 15g-9, which generally defines "penny stock" to be any equity security that has a market price (as defined) less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers that sell to persons other than established customers and "accredited investors." The term "accredited investor" refers generally to institutions with assets in excess of $5,000,000 or individuals with a net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that, prior to a transaction in a penny stock not otherwise exempt from these rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock. NASD sales practice requirements may also limit a stockbroker's ability to buy or sell our stock.

In addition to the "penny stock" rules promulgated by the Securities and Exchange Commission, the NASD has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives, and other information. Under interpretation of these rules, the NASD believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The NASD requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy or sell our stock and have an adverse effect on the market for our shares.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Pursuant to the November 27, 2006 Executive Employment Agreement with Robert T. Faber, its CEO, Mr. Faber was issued 80,000,000 stock options at an exercise price of $.01119 on January 9, 2008. The stock options have an expiration date of January 8, 2013.

In January 2008, our two outside directors were issued, in aggregate, twenty million shares of our unregistered common stock as director compensation. The value of the common shares at the time of issuance was $234,400, averaging $0.012 per share.

On February 20, 2008, Goldspring raised $500,000 through a private placement to accredited investors. In consideration we issued 50,000,000 shares of our unregistered Common Stock at $0.01 per share. The proceeds from this private placement were used to fund exploratory drilling and for general working capital.

In March 2008, two consultants were issued a total of two million shares, valued at $25,760 or $0.013, for services performed.

During the first and second quarter 2008, 2,200,000 unregistered common shares, valued at $32,490 or $0.015 per share, were issued for the acquisition of mining claims in the Comstock Lode District.

In May 2008, a vendor was issued 5.53 million shares valued at $88,480 or $0.016 per share, for services.

Item 3. Defaults Upon Senior Securities

June 30, 2008, the Company is in default of the terms on several outstanding notes payable with several of its note holders with principal balance due of $11,322,966 and accrued interest of $3,506,657. Because we are in default, the entire note balances have been recorded as current liabilities. None of the notes have been called.

Included in the default amount at June 30, 2008 is note principal of $1,375,000 and interest of $589,096 that is part of the Amended and Restated Promissory Note in favor of Longview Fund, L.P. dated July 10, 2008. The Company is no longer in default these amounts.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

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

(1) Financial statements filed as part of this Report:

Consolidated Balance Sheet as of June 30, 2008(Unaudited)

Consolidated Statement of Operations for the three-month periods ended June 30, 2008 and 2007 (Unaudited)

Consolidated Statement of Cash Flows for the three-month periods ended June 30, 2008 and 2007 (Unaudited)

Notes to Financial Statements

(2) Exhibits filed as part of this Report:

Exhibit Number	Exhibit
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports filed on Form 8-K during the quarter ended June 30, 2008:

Current Report of Form 8-K filed on January 2, 2008.

Current Report of Form 8-K filed on January 28 2008.
Current Report of Form 8-K filed on February 7, 2008.
Current Report of Form 8-K filed on March 26, 2008.
Current Report of Form 8-K filed on April 29, 2008.
Current Report of Form 8-K filed on June 5, 2008.
Current Report of Form 8-K filed on June 11, 2008.

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SIGNATURES

Pursuant to the requirements 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.

GOLDSPRING, INC.
(Registrant)

Date: November __, 2008	By:	/s/ Robert T. Faber	
		Name:	Robert T. Faber
		Title:	President and Chief Executive Officer
	By:	/s/ Robert T. Faber	
		Name:	Robert T. Faber
		Title:	Chief Financial Officer

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