

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 28, 2008
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: 333-115046

MRS. FIELDS FAMOUS BRANDS, LLC
(Exact Name of Registrant Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

80-0096938
(IRS Employer Identification No.)

2855 East Cottonwood Parkway, Suite 400
Salt Lake City, Utah
(Address of Principal Executive Offices)

84121-7050
(Zip Code)

Registrant's Telephone Number, Including Area Code: **(801) 736-5600**

Former Name, Former Address and Former Fiscal Year, if changed since last report: Not applicable

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 NO

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 definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). YES NO

On August 11, 2008, 100 common interests of registrant were outstanding, all of which are held by an affiliate. There is no established trading market for registrant's common interests.

MRS. FIELDS FAMOUS BRANDS, LLC

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

MRS. FIELDS FAMOUS BRANDS, LLC

Condensed Consolidated Balance Sheets

(in thousands)

(Unaudited)

	June 28, 2008	December 29, 2007
ASSETS:		
Cash and cash equivalents	\$ 2,847	\$ 11,425
Restricted cash	93,416	19,965
Marketable securities available-for-sale	1,111	2,489
Receivables, net of allowance for doubtful accounts of \$321 and \$347, respectively	4,163	7,954
Amounts due from affiliates	240	56
Inventories	3,095	3,659
Prepaid expenses and other	952	900
Deferred tax asset	632	710
Current assets of discontinued operations	4	-
Total current assets	106,460	47,158
Property and equipment, net	4,974	6,339
Goodwill	9,202	50,274
Trademarks and other intangible assets, net	5,411	8,347
Deferred loan costs, net of accumulated amortization of \$12,665 and \$12,011, respectively	4,263	4,917
Deferred tax asset	4,767	760
Other assets	184	3,003
Total assets	\$ 135,261	\$ 120,798
LIABILITIES AND MEMBER'S DEFICIT:		
Accounts payable	\$ 3,762	\$ 5,989
Accrued liabilities	12,378	13,966
Amounts due to affiliates	32,926	7,610
Current portion of capital lease obligations	61	87
Current portion of deferred revenues	996	807
Current liabilities of discontinued operations	117	-
Total current liabilities	50,240	28,459
Long-term debt	195,747	195,747
Capital lease obligations, net of current portion	270	324
Deferred revenues, net of current portion	285	433
Other liabilities	967	1,066
Total liabilities	247,509	226,029
Commitments and contingencies		
Member's deficit	(112,083)	(104,907)
Accumulated other comprehensive loss	(165)	(324)
Total member's deficit	(112,248)	(105,231)
Total liabilities and member's deficit	\$ 135,261	\$ 120,798

See accompanying notes to unaudited condensed consolidated financial statements.

MRS. FIELDS FAMOUS BRANDS, LLC
Condensed Consolidated Statements of Operations and Comprehensive Loss
(in thousands)
(Unaudited)

	13 Weeks Ended		26 Weeks Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
REVENUES:				
Mrs. Fields	\$ 11,602	\$ 12,173	\$ 24,919	\$ 23,655
Dairy	2,762	3,171	4,551	5,516
Total revenues	<u>14,364</u>	<u>15,344</u>	<u>29,470</u>	<u>29,171</u>
OPERATING COSTS AND EXPENSES:				
Mrs. Fields	11,455	10,554	24,021	20,612
Dairy	844	1,191	2,013	3,033
General and administrative	4,922	2,620	7,735	5,026
Depreciation	493	502	973	988
Amortization	420	519	892	1,036
Impairment of intangible assets	2,091	-	2,091	-
Gain on sale of land held for sale	-	-	-	(128)
Other, net	23	-	(15)	-
Total operating costs and expenses	<u>20,248</u>	<u>15,386</u>	<u>37,710</u>	<u>30,567</u>
Loss from continuing operations	(5,884)	(42)	(8,240)	(1,396)
OTHER EXPENSES, NET:				
Interest expense, net	(5,281)	(5,388)	(10,173)	(10,681)
Impairment of marketable securities	(8,222)	-	(8,222)	-
Loss from continuing operations before benefit for income taxes	(19,387)	(5,430)	(26,635)	(12,077)
Benefit for income taxes	<u>(6,381)</u>	<u>(1,515)</u>	<u>(9,159)</u>	<u>(3,002)</u>
Loss from continuing operations	(13,006)	(3,915)	(17,476)	(9,075)
DISCONTINUED OPERATIONS:				
Income from discontinued operations, net of income taxes of (\$313), \$1,523, \$31,701 and \$3,020, respectively	72	2,548	10,594	5,030
Net loss	<u>\$ (12,934)</u>	<u>\$ (1,367)</u>	<u>\$ (6,882)</u>	<u>\$ (4,045)</u>
COMPREHENSIVE LOSS:				
Net loss	\$ (12,934)	\$ (1,367)	\$ (6,882)	\$ (4,045)
Reversal of loss on marketable securities	994	-	160	-
Foreign currency translation adjustment	-	(2)	(1)	(5)
Comprehensive loss	<u>\$ (11,940)</u>	<u>\$ (1,369)</u>	<u>\$ (6,723)</u>	<u>\$ (4,050)</u>

See accompanying notes to unaudited condensed consolidated financial statements.

MRS. FIELDS FAMOUS BRANDS, LLC
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	26 Weeks Ended	
	June 28, 2008	June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (6,882)	\$ (4,045)
Income from discontinued operations, net of income taxes	(10,594)	(5,030)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,865	2,024
Amortization of deferred loan costs	654	584
Gain on sale of land held for sale	-	(128)
Impairment of intangible assets	2,091	-
Impairment of marketable securities	8,222	-
Deferred income taxes	(4,028)	-
Changes in assets and liabilities:		
Receivables	1,082	2,432
Inventories	(576)	670
Prepaid expenses and other assets	(407)	85
Accounts payable	(1,285)	(6,121)
Accrued liabilities	(646)	(807)
Amounts due to/from affiliates	(6,569)	(511)
Deferred revenues	41	(342)
Other liabilities	(99)	(61)
Total operating cash flows used in continuing operations	(17,131)	(11,250)
Total operating cash flows (used in) provided by discontinued operations	(6,286)	5,121
Net cash used in operating activities	(23,417)	(6,129)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in restricted cash	(73,451)	-
Proceeds from sale of land held for sale	-	278
Purchases of property and equipment	(298)	(35)
Total investing cash flows (used in) provided by continuing operations	(73,749)	243
Total investing cash flows provided by (used in) discontinued operations	88,941	(25)
Net cash provided by investing activities	15,192	218
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital leases	(58)	(58)
Dividends paid to parent	(294)	-
Net cash used in financing activities	(352)	(58)
Effect of foreign exchange rate changes on cash	(1)	(5)
Net decrease in cash and cash equivalents	(8,578)	(5,974)
Cash and cash equivalents at beginning of period	11,425	15,963
Cash and cash equivalents at end of period	\$ 2,847	\$ 9,989

See accompanying notes to unaudited condensed consolidated financial statements.

MRS. FIELDS FAMOUS BRANDS, LLC
Condensed Consolidated Statements of Cash Flows *(continued)*
(in thousands)
(Unaudited)

Supplemental Disclosures of Cash Flow Information:

Cash paid for interest	\$	10,282	\$	10,311
Cash paid for income taxes		1,240		-

**Supplemental Disclosure of Noncash Investing
and Financing Activities:**

Securities received from the sale of assets	\$	3,837	\$	-
Reversal of loss on marketable securities available-for-sale		(160)		-
Distribution to parent under tax allocation agreement		-		743

See accompanying notes to unaudited condensed consolidated financial statements.

MRS. FIELDS FAMOUS BRANDS, LLC
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Description of Business

Mrs. Fields Famous Brands, LLC and subsidiaries (the "Company") is a wholly-owned subsidiary of Mrs. Fields' Original Cookies, Inc. ("MFOC"). MFOC is a wholly-owned subsidiary of Mrs. Fields' Holding Company, Inc. ("MFH") and MFH is a wholly-owned subsidiary of Mrs. Fields' Companies, Inc. ("MFC").

Operating segments are components of the Company for which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and assess performance. This information is reported on the basis that it is used internally for evaluating segment performance.

The Company has the following five reportable operating segments:

- Mrs. Fields Gifts
 - Mrs. Fields Branded Retail
 - Mrs. Fields Franchising
 - Mrs. Fields Licensing
 - Dairy
- } (collectively "Mrs. Fields")

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and Article 10 of Regulation S-X. Accordingly they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation have been included. Income per common interest information is not presented because the Company is wholly-owned by MFOC and, therefore, its common interests are not publicly traded. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended December 29, 2007 contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 28, 2008 (the "Annual Report").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

MRS. FIELDS FAMOUS BRANDS, LLC
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(continued)

3. Going Concern

The accompanying condensed consolidated financial statements of the Company were prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Company's ability to operate profitably and to generate positive cash flows from operations. The Company has suffered recurring net losses and negative cash flows from operations and had a net member's deficit at June 28, 2008 and December 29, 2007. As a result, the Company will be unable to make its scheduled \$10.25 million semi-annual interest payment due September 15, 2008 on its 9 percent senior secured notes (the "9 percent Senior Secured Notes") and 11 ½ senior secured notes (the "11 ½ percent Senior Secured Notes," and together with the 9 percent Senior Secured Notes, the "Senior Secured Notes"). Failure to make any scheduled semi-annual interest payment would constitute an event of default under the indenture governing the Company's Senior Secured Notes (the "Indenture"), which could cause the Senior Secured Notes to become immediately due and payable. The Company does not currently have the ability to repay the Senior Secured Notes should they become due and payable. These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company is pursuing various actions to improve its results of operations, cash flows and financial position. These actions include, but are not limited to, the following:

- restructuring of the Company's Senior Secured Notes; and
- staff reductions and other initiatives to reduce expenses and increase revenues.

Due to the substantial doubt about the Company's ability to continue as a going concern, the Company has not issued a new franchise disclosure document (the "FDD") and it has suspended sales of new franchises until the Company is in a position to issue a new FDD. The Company does not expect to issue a new FDD until it has been able to improve its overall liquidity position, including the restructuring of the Senior Secured Notes. Until the Company issues a new FDD that reflects its most recent financial statements, the Company will be prohibited from selling new franchises, which will adversely affect the Company's business operations and financial condition (see Note 19).

MRS. FIELDS FAMOUS BRANDS, LLC
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(continued)

4. Fair Value Disclosures

On December 30, 2007, the Company adopted the provision of SFAS No. 157 ("SFAS 157"), "Fair Value Measurements," except as it applies to those nonfinancial assets and nonfinancial liabilities for which the effective date has been delayed by one year. The Company measures at fair value certain financial assets and liabilities, including its marketable securities available-for-sale. SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair-value hierarchy:

- Level 1 - Quoted prices for identical instruments in active markets;
- Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Fair Value Measurements as of June 28, 2008				
	Total	Level 1	Level 2	Level 3
Marketable securities				
available-for-sale (in thousands)	\$ 1,111	\$ 1,111	\$ -	\$ -
	\$ 1,111	\$ 1,111	\$ -	\$ -

The adoption of SFAS 157 did not have a material effect on the Company's financial position or results of operations.

5. Accounting Pronouncements Issued Not Yet Adopted

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for acquisitions in fiscal years beginning after December 15, 2008 and will be adopted by the Company on January 4, 2009.

MRS. FIELDS FAMOUS BRANDS, LLC
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(continued)

6. Discontinued Operations

On January 29, 2008 (the "GAC Closing Date"), the Company and its wholly-owned subsidiaries, GACCF, LLC, formerly Great American Cookie Company Franchising, LLC ("GACCF") and GAMAN, LLC, formerly Great American Manufacturing, LLC (together with GACCF, "GAC") completed the sale of substantially all of the assets of GAC to a wholly-owned subsidiary of NexCen Brands, Inc. ("NexCen Brands" and together with its subsidiaries, "NexCen") pursuant to an asset purchase agreement (the "GAC Agreement") for \$93.6 million. The purchase price consisted of \$89.0 million in cash and 1,099,290 shares of NexCen Brands common stock valued at \$4.23 per share. The net cash proceeds from the sale of GAC is considered restricted cash and is reflected as restricted cash in the Company's condensed consolidated financial statements. Under the terms of the GAC Agreement, the NexCen Brands common stock will be held in escrow for nine months, pending satisfaction of certain standard representations and warranties as described in the GAC Agreement. Additionally, the Company paid \$6.7 million of the proceeds from the sale of GAC to certain of GACCF's franchisees at the GAC Closing Date, in satisfaction of rights they held in connection with the sale of the GAC franchise system. The Company was restricted from trading the shares of NexCen Brands common stock until July 2008. Due to the restrictions on the sale of the NexCen Brands common stock, the Company recorded the shares at a 17.5 percent discount from the market value on the date of sale. As of June 28, 2008, the shares were reported as available-for-sale securities in accordance with SFAS No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities" because all shares may be traded within 12 months of June 28, 2008.

On August 7, 2007, the Company and its wholly-owned subsidiaries, PTF, LLC and PMC, LLC, formerly Pretzel Time Franchising, LLC and Pretzelmaker Franchising, LLC, respectively, (collectively, "Pretzels"), completed a sale of certain assets, consisting primarily of identifiable intangible assets of Pretzels, to NexCen for \$29.3 million, consisting of \$22.0 million in cash and 997,671 shares of NexCen Brands common stock valued at \$7.35 per share on the date of the sale. Under the terms of the asset purchase agreement, 533,175 shares were placed in escrow pending satisfaction of certain representations and warranties. 397,121 shares were released from escrow in May 2008. The remaining 136,054 shares will be held in escrow until November 2008. The Company was restricted from trading the shares of NexCen Brands common stock until August 7, 2008 and now only 25 percent of the total number of shares may be traded every three months. Due to the restrictions on the sale of the NexCen Brands common stock, the Company recorded the shares at a 25 percent discount from the fair value on the date of sale. As of June 28, 2008, the shares were reported as available-for-sale securities in accordance with SFAS 115 because all shares may be traded within 12 months of June 28, 2008.

MRS. FIELDS FAMOUS BRANDS, LLC
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(continued)

The key components of income from discontinued operations related to GAC and Pretzels (collectively, "GAC/Pretzels") were as follows (in thousands):

	For the 13 Weeks Ended		For the 26 Weeks Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
GAC/Pretzel revenue	\$ -	\$ 7,488	\$ 1,929	\$ 15,224
GAC/Pretzel operating expenses	(241)	(3,380)	(2,065)	(7,097)
Depreciation	-	(37)	(11)	(77)
Other revenue	-	-	113	-
Income (loss) before income taxes	(241)	4,071	(34)	8,050
Income taxes	(91)	1,523	(12)	3,020
Income (loss) from discontinued operations	<u>(150)</u>	<u>2,548</u>	<u>(22)</u>	<u>5,030</u>
Gain on sale of assets, net of income taxes of (\$222), \$0, \$31,713 and \$0, respectively	<u>222</u>	<u>-</u>	<u>10,616</u>	<u>-</u>
Income from discontinued operations, net of income taxes	<u>\$ 72</u>	<u>\$ 2,548</u>	<u>\$ 10,594</u>	<u>\$ 5,030</u>

As of December 29, 2007, GAC's assets and liabilities are comprised of the following:

- accounts receivables, net of \$2.7 million;
- inventories of \$1.1 million;
- property and equipment, net of \$700,000;
- goodwill of \$41.1 million;
- prepaid and other assets of \$400,000; and
- accounts payable and accrued liabilities of \$1.3 million.

As of June 28, 2008, current assets and liabilities of discontinued operations are comprised of the following:

- accounts receivables, net of \$4,000; and
- accounts payable and accrued liabilities of \$117,000, of which \$112,000 relates to severance accrued as a result of the sale of GAC .

MRS. FIELDS FAMOUS BRANDS, LLC
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(continued)

The operating cash flows from discontinued operations are comprised of the following (in thousands):

	For the 26 Weeks Ended	
	June 28, 2008	June 30, 2007
Income from discontinued operations, net of tax	\$ 10,594	\$ 5,030
Adjustments to reconcile income from discontinued operations to net cash (used in) provided by discontinued operations:		
Depreciation	11	77
Gain on sale of assets	(42,329)	-
Changes in assets and liabilities:		
Receivables	2,709	685
Inventories	(221)	(255)
Prepaid expenses and other	379	-
Current assets of discontinued operations	(4)	-
Accounts payable	(942)	(390)
Accrued liabilities	(8,301)	(26)
Amounts due to/from affiliates	31,701	-
Current liabilities of discontinued operations	117	-
	<u>\$ (6,286)</u>	<u>\$ 5,121</u>

The investing cash flows from discontinued operations are comprised of the following (in thousands):

	For the 26 Weeks Ended	
	June 28, 2008	June 30, 2007
Proceeds from sale of assets	\$ 89,000	\$ -
Purchases of property and equipment	(59)	(25)
	<u>\$ 88,941</u>	<u>\$ (25)</u>

7. Restricted cash

The Indenture restricts the use of the proceeds from an asset sale, net of expenses of the transaction. The restricted cash must be used in one of the following ways:

- to make an investment in similar assets;
- make investments in the Company; or
- use net proceeds to make an offer to pay down long-term debt within 45 days after the 361st day following the sale of assets.

MRS. FIELDS FAMOUS BRANDS, LLC
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(continued)

The total outstanding amount of net proceeds from the sale of Pretzels and GAC was \$93.4 million at June 28, 2008 and is included in restricted cash. The restricted cash is currently held in an account controlled by the Trustee pursuant to the Indenture.

8. Marketable Securities Available-for-Sale

Marketable securities available-for-sale at June 28, 2008 and December 29, 2007 consist of equity securities of NexCen Brands common stock. Available-for-sale securities are recorded at fair value. The fair values of equity securities are based on quoted market prices at the reporting date for those or similar investments.

Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive loss until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee and the general market condition in the geographic area or industry in which the investee operates. Based upon an evaluation performed as of June 28, 2008, the Company recorded an impairment charge of \$8.2 million related to the holding of NexCen Brands common stock.

The cost, gross unrealized gain and loss and fair value of available-for-sale securities were as follows (in thousands):

	June 28, 2008			
	Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Equity securities	\$ 1,111	\$ -	\$ -	\$ 1,111
	\$ 1,111	\$ -	\$ -	\$ 1,111
	December 29, 2007			
	Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Equity securities	\$ 2,748	\$ -	\$ (259)	\$ 2,489
	\$ 2,748	\$ -	\$ (259)	\$ 2,489

9. Receivables

Most of the Company's receivables are due from domestic and international franchisees, distributors, licensees and corporate customers of Mrs. Fields Gifts and Mrs. Fields Branded Retail. These receivables are comprised of normal trade accounts receivable and longer-term notes receivable. Service charges may be assessed on past due invoices but any revenue associated with these charges is only recognized when collected.

MRS. FIELDS FAMOUS BRANDS, LLC
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(continued)

The Company maintains an allowance for doubtful accounts to cover potential losses. This allowance is the Company's best estimate of the amount of probable collection losses in the Company's existing trade accounts receivable. The Company determines the allowance based upon historical write-off experience and individual facts and circumstances associated with individual debtors. If the assumptions that are used to determine the allowance for doubtful accounts change, the Company may have to provide for a greater level of expense in future periods or reverse amounts provided for in prior periods.

Prior to fiscal 2001, TCBY Systems, LLC ("TCBY"), a wholly-owned subsidiary of the Company, extended credit from time to time to franchisees in exchange for notes receivable. Certain of these notes receivable remain outstanding. Notes receivable from franchisees are primarily collateralized by equipment located at the franchisees' stores. These notes bear interest at market rates applicable at the time the notes were issued and mature at various dates through April 2009. TCBY regularly reviews the notes for non-performance. Notes that are considered non-performing are placed on a non-accrual status when the collectability of principal or interest becomes uncertain. During the 26 weeks ended June 28, 2008 and June 30, 2007, TCBY recognized no interest income pertaining to these notes receivable. These notes are included in receivables in the accompanying condensed consolidated financial statements.

Prior to fiscal 2001, TCBY factored various notes receivable aggregating \$2.1 million. Under the terms of the factoring agreement, TCBY is ultimately responsible to the factoring agent for the realizability of the notes receivable. In the event of non-performance, the factoring agent has recourse against TCBY to a maximum level of \$136,000 and \$182,000 as of June 28, 2008 and December 29, 2007, respectively. The Company has reserved 100 percent for this potential recourse liability and included the reserve in accrued liabilities in the accompanying condensed consolidated balance sheets.

10. Inventories

Inventories, consisting of finished goods, novelties, packaging and raw materials are stated at the lower of cost (first-in, first-out method) or market value. Inventories are comprised of the following (in thousands):

	June 28, 2008	December 29, 2007
Finished goods	\$ 2,027	\$ 1,717
Novelties	586	598
Packaging	309	371
Raw materials	173	973
	\$ 3,095	\$ 3,659

11. Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization.

Depreciation and amortization is computed on a straight-line basis as follows:

Equipment and fixtures	3 - 7 years
Leasehold improvements	2 - 10 years *
Building and building improvements	2 - 15 years

* Based on the lesser of the useful life of the asset or the term of the applicable lease.

MRS. FIELDS FAMOUS BRANDS, LLC
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(continued)

Property and equipment are comprised of the following (in thousands):

	June 28, 2008	December 29, 2007
Equipment and fixtures	\$ 10,763	\$ 11,983
Leasehold improvements	4,854	5,017
Building and building improvements	-	2,008
Land	-	240
	<u>15,617</u>	<u>19,248</u>
Accumulated depreciation	<u>(10,643)</u>	<u>(12,909)</u>
	<u>\$ 4,974</u>	<u>\$ 6,339</u>

Property and equipment at June 28, 2008 and December 29, 2007 included gross assets acquired under capital leases of \$722,000 and \$747,000, respectively, and related accumulated depreciation of \$446,000 and \$385,000, respectively.

Expenditures that materially extend useful lives of property and equipment are capitalized. Routine maintenance, repairs and renewal costs are expensed as incurred. Gains or losses from the sale or retirement of property and equipment are recorded in income from operations.

Included in leasehold improvements at June 28, 2008 and December 29, 2007 is \$1.3 million for tenant improvements provided as lease incentives by the lessor related to the lease for the Company's gifting operations facility, less \$271,000 and \$208,000 of accumulated depreciation, respectively. At June 28, 2008 and December 29, 2007, \$854,000 and \$917,000, respectively, of deferred rent was included in other liabilities and \$125,000 was included in accrued liabilities relating to these lease incentives. The total amount of these leasehold improvements and deferred rent are amortized over the life of the lease.

12. Goodwill, Trademarks and Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values and be reviewed for impairment in accordance with SFAS No. 144 ("SFAS 144"), "Accounting for Impairment or Disposal of Long-Lived Assets."

The following outlines the Company's goodwill by operating segment (in thousands):

	June 28, 2008	December 29, 2007
GAC/Pretzels	\$ -	\$ 41,072
Mrs. Fields Franchising	5,491	5,491
Mrs. Fields Gifts	1,859	1,859
Mrs. Fields Licensing	1,852	1,852
	<u>\$ 9,202</u>	<u>\$ 50,274</u>

MRS. FIELDS FAMOUS BRANDS, LLC
Notes to Condensed Consolidated Financial Statements
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The Mrs. Fields Branded Retail and Dairy operating segments had no goodwill at June 28, 2008 and December 29, 2007. GAC/Pretzels goodwill decreased \$41.1 million as a result of the sale of GAC.

The Company determined that a triggering event had occurred in the second quarter of 2008 under SFAS 144 as a result of the proposed restructuring of the Senior Secured Notes to be effected through a prepackaged plan of reorganization under Chapter 11 of the U.S Bankruptcy Code. The Company tested the goodwill and intangible assets by comparing the reporting unit's fair value with its carrying value. As a result of the impairment test, the Company concluded that the estimated fair value of each reporting unit exceeded its carrying value and no impairment of goodwill existed as of June 28, 2008. The Company determined that an impairment existed for certain intangible assets of the dairy reporting unit and recorded a charge of \$2.1 million during the 26 weeks ended June 28, 2008 to write-down the TCBY trade names.

Trademarks and other intangible assets are comprised of definite-lived assets and are amortized over 5 to 15 years. The following outlines the Company's trademarks and other intangibles (in thousands):

	<u>June 28, 2008</u>	<u>December 29, 2007</u>
Trademarks and trade names	\$ 12,452	\$ 15,305
Recipes	4,150	4,150
Franchise relationships	2,600	2,600
Reacquired franchise and license rights ..	1,000	1,000
	<u>20,202</u>	<u>23,055</u>
Less accumulated amortization	(14,791)	(14,708)
	<u>\$ 5,411</u>	<u>\$ 8,347</u>

13. Accrued Liabilities

Accrued liabilities are comprised of the following (in thousands):

	<u>June 28, 2008</u>	<u>December 29, 2007</u>
Accrued liabilities	\$ 4,528	\$ 5,211
Accrued compensation and benefits	1,816	2,644
Accrued severance	-	77
Accrued interest payable	6,034	6,034
	<u>\$ 12,378</u>	<u>\$ 13,966</u>

Included in accrued compensation and benefits at June 28, 2008 and December 29, 2007 is approximately \$1.0 million and \$1.5 million for accrued bonuses for fiscal years 2008 and 2007, respectively.

The activity in accrued severance for continuing operations for the 13 weeks and 26 weeks ended June 28, 2008 is as follows (in thousands):

	<u>13 Weeks Ended June 28, 2008</u>	<u>26 Weeks Ended June 28, 2008</u>
Beginning balance	\$ 8	\$ 77
Additions	-	36
Payments	(8)	(113)
	<u>\$ -</u>	<u>\$ -</u>

MRS. FIELDS FAMOUS BRANDS, LLC
Notes to Condensed Consolidated Financial Statements
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(continued)

14. Related-Party Transactions

The amounts due to/from affiliates are comprised of the following (in thousands):

	June 28, 2008	December 29, 2007
Amounts due from affiliates:		
MFC	\$ 50	\$ 50
MFOC	190	6
	\$ 240	\$ 56
Amounts due to affiliates:		
MFC - tax sharing	\$ 32,652	\$ 7,336
MFH	274	274
	\$ 32,926	\$ 7,610

The Company has a tax allocation agreement with MFC pursuant to which the Company agreed to make payments to MFC, after taking into account payments the Company makes directly to tax authorities, based on its hypothetical stand-alone consolidated federal income tax liability, determined as if the Company and its subsidiaries constituted its own consolidated group for federal income tax purposes. The Company is not permitted to make payments under the tax allocation agreement in respect to its hypothetical consolidated federal taxable income, to the extent that such payments exceed the consolidated federal income taxes (including estimated taxes) payable in respect to MFC's consolidated federal income tax group, until and only while the Company's ratio of Net Indebtedness to Consolidated EBITDA (each as defined in the Indenture) is less than 3.75:1.0 and the Company is otherwise in compliance with the terms of the Indenture.

The tax allocation agreement with MFC does not allow for the carry-back of net operating losses. Under the tax allocation agreement, the Company's net operating losses must be carried forward when determining payment to MFC.

15. Reportable Segments

Operating segments are components of the Company for which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and assess performance. This information is reported on the basis that it is used internally for evaluating segment performance.

The Company has the following five reportable operating segments:

- Mrs. Fields Gifts
 - Mrs. Fields Branded Retail
 - Mrs. Fields Franchising
 - Mrs. Fields Licensing
 - Dairy
- } (collectively "Mrs. Fields")

The accounting policies for the segments are the same as those discussed in the summary of significant accounting policies in Note 3 to the Company's Annual Report. Sales and transfers between segments are eliminated in consolidation.

The Mrs. Fields Gifts operating segment includes sales generated from the Company's gift catalog and website.

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(continued)

The Mrs. Fields Branded Retail operating segment includes sales generated directly from the sale of Mrs. Fields products through various retail channels.

The Mrs. Fields Licensing operating segment includes licensing activity with third parties for the sale of products bearing the Company's brand names.

The Mrs. Fields Franchising and Dairy operating segments include revenues received either directly or indirectly from cookie and yogurt stores, which are owned and operated by third parties. These revenues include initial franchise or license fees, monthly royalties based on a percentage of a franchisee's gross sales and certain product formulation fees and supplier allowances which are based upon sales to franchisees.

During fiscal year 2007, the Company's GAC/Pretzels operating segment included revenues received either directly or indirectly from cookie and pretzel stores, which were owned and operated by third parties. These revenues included initial franchise or license fees, monthly royalties based on a percentage of a franchisee's gross sales and certain product formulation fees and supplier allowances which were based upon sales to franchisees. As a result of the sale of GAC during the first quarter of 2008, the GAC/Pretzels operating segment's operating results have been included in discontinued operations in the accompanying condensed consolidated financial statements.

The Company evaluates performance of each operating segment based on contribution. Contribution is computed as the difference between the revenues generated by a reportable segment and the selling and occupancy expenses, cost of sales and direct operating expenses related to that reportable operating segment. Contribution is used as a measure of the operating performance of an operating segment. The Company does not allocate any general and administrative expenses, interest expense, or depreciation and amortization to its reportable operating segments.

Segment revenues and contribution are presented in the following table (in thousands):

	For the 13 Weeks Ended		For the 26 Weeks Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Revenues:				
Mrs. Fields Gifts	\$ 3,627	\$ 5,087	\$ 9,398	\$ 9,982
Mrs. Fields Branded Retail	6,115	5,156	11,611	9,659
Mrs. Fields Franchising	1,798	1,815	3,630	3,699
Mrs. Fields Licensing	62	115	280	315
Total Mrs. Fields	<u>11,602</u>	<u>12,173</u>	<u>24,919</u>	<u>23,655</u>
Dairy	<u>2,762</u>	<u>3,171</u>	<u>4,551</u>	<u>5,516</u>
	<u>\$ 14,364</u>	<u>\$ 15,344</u>	<u>\$ 29,470</u>	<u>\$ 29,171</u>
Contribution:				
Mrs. Fields Gifts	\$ (653)	\$ (100)	\$ (854)	\$ (584)
Mrs. Fields Branded Retail	122	346	248	740
Mrs. Fields Franchising	665	1,222	1,290	2,546
Mrs. Fields Licensing	13	151	214	341
Total Mrs. Fields	<u>147</u>	<u>1,619</u>	<u>898</u>	<u>3,043</u>
Dairy	<u>1,918</u>	<u>1,980</u>	<u>2,538</u>	<u>2,483</u>
	<u>\$ 2,065</u>	<u>\$ 3,599</u>	<u>\$ 3,436</u>	<u>\$ 5,526</u>

MRS. FIELDS FAMOUS BRANDS, LLC
Notes to Condensed Consolidated Financial Statements
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The reconciliation of contribution to loss from continuing operations before benefit for income taxes is as follows (in thousands):

	For the 13 Weeks Ended		For the 26 Weeks Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Contribution	\$ 2,065	\$ 3,599	\$ 3,436	\$ 5,526
General and administrative expenses	(4,922)	(2,620)	(7,735)	(5,026)
Depreciation and amortization	(913)	(1,021)	(1,865)	(2,024)
Impairment of intangible assets	(2,091)	-	(2,091)	-
Gain on sale of land held for sale	-	-	-	128
Interest expense, net	(5,281)	(5,388)	(10,173)	(10,681)
Impairment of marketable securities	(8,222)	-	(8,222)	-
Other, net	(23)	-	15	-
Loss from continuing operations before benefit for income taxes	<u>\$ (19,387)</u>	<u>\$ (5,430)</u>	<u>\$ (26,635)</u>	<u>\$ (12,077)</u>

Segment assets are presented in the following table (in thousands):

	June 28, 2008	December 29, 2007
Mrs. Fields Gifts	\$ 7,292	\$ 8,777
Mrs. Fields Branded Retail	4,346	2,925
Mrs. Fields Franchising	9,310	9,960
Mrs. Fields Licensing	1,959	2,261
Total Mrs. Fields	<u>22,907</u>	<u>23,923</u>
GAC/Pretzels	-	45,799
Dairy	<u>3,554</u>	<u>5,388</u>
Total Segment Identified Assets	<u>26,461</u>	<u>75,110</u>
Non-Segment Identified Assets	108,800	45,688
Total Assets	<u>\$ 135,261</u>	<u>\$ 120,798</u>

The fixed assets and inventories of the Company primarily relate to the Company's branded retail and gifts business segments. Assets relating to franchising and licensing activities are primarily amounts due from franchisees and licensees and intangible assets, such as trademarks, trade names, recipes, franchise relationships and goodwill relating to franchising concepts.

Revenues from franchisees, customers and licensees within the United States of America were \$13.1 million and \$26.3 million or 91.0 percent and 89.3 percent of total revenues for the 13 weeks and 26 weeks ended June 28, 2008, respectively, and \$13.8 million and \$26.8 million or 89.8 percent and 91.8 percent of total revenues for the 13 weeks and 26 weeks ended June 30, 2007, respectively. Revenues from international franchisees, customers and licensees were \$1.3 million and \$3.2 million or 9.0 percent and 10.7 percent of total revenues for the 13 weeks and 26 weeks ended June 28, 2008, respectively, and \$1.6 million and \$2.4 million or 10.1 percent and 8.2 percent of total revenues for the 13 weeks and 26 weeks ended June 30, 2007, respectively. Revenues from any single foreign country were not material. Providing geographical information regarding long-lived assets is impracticable.

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Notes to Condensed Consolidated Financial Statements
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(continued)

The Mrs. Fields Gifts operating segment has one customer that accounted for approximately \$400,000 and \$1.5 million or 10.9 percent and 15.6 percent of revenues for the 13 weeks and 26 weeks ended June 28, 2008, respectively, and \$1.6 million and \$2.4 million or 31.3 percent and 23.7 percent of revenues for the 13 weeks and 26 weeks ended June 30, 2007, respectively. No other customers accounted for more than five percent of Mrs. Fields Gifts operating segment revenues.

The Mrs. Fields Branded Retail operating segment is not dependent upon any single customer.

The Mrs. Fields and Dairy business units are not dependent upon any single franchisee.

The Mrs. Fields Licensing operating segment, for the 13 weeks and 26 weeks ended June 28, 2008 and June 30, 2007, respectively, had:

- a licensee that accounted for approximately (\$41,000) and \$108,000 or (65.9) percent and 38.5 percent for the 13 weeks and 26 weeks ended June 28, 2008, respectively, and \$31,000 and \$115,000 or 27.3 percent and 36.5 percent for the 13 weeks and 26 weeks ended June 30, 2007, respectively, of the total revenues of the licensing segment;
- a licensee that accounted for approximately \$69,000 and \$107,000 or 111.2 percent and 38.2 percent for the 13 weeks and 26 weeks ended June 28, 2008, respectively, and \$32,000 and \$64,000 or 27.6 percent and 20.1 percent for the 13 weeks and 26 weeks ended June 30, 2007, respectively, of the total revenues of the licensing segment; and
- a licensee that accounted for approximately \$27,000 and \$57,000 or 42.9 percent and 20.2 percent for the 13 weeks and 26 weeks ended June 28, 2008, respectively, and \$30,000 and \$60,000 or 26.1 percent and 19.0 percent for the 13 weeks and 26 weeks ended June 30, 2007, respectively, of the total revenues of the licensing segment.

16. Commitments and Contingencies

The Company and its products are subject to regulation by numerous governmental authorities, including, without limitation, federal, state and local laws and regulations governing franchising, health, sanitation, environmental protection, safety and hiring and employment practices.

In the ordinary course of business, the Company is involved in routine litigation, including franchise disputes and trademark disputes. The Company is not a party to any legal proceedings that, in the opinion of management, after consultation with legal counsel, is material to its business, financial condition or consolidated results of operations.

17. Supplemental Condensed Consolidating Financial Information

Long-term debt includes the Senior Secured Notes that were issued by the Company and Mrs. Fields Financing Company, Inc. ("Mrs. Fields Financing") as co-issuers. Mrs. Fields Financing is a wholly-owned finance subsidiary of the Company. The Senior Secured Notes are fully and unconditionally guaranteed on a joint and several basis by all of the Company's domestic subsidiaries other than immaterial subsidiaries. The Company has no independent assets or operations. Therefore, supplemental financial information on a condensed consolidating basis of the guarantor subsidiaries is not required. There are no restrictions on the Company's ability to obtain cash dividends or other distributions of funds from the guarantor subsidiaries, except those imposed by applicable law.

MRS. FIELDS FAMOUS BRANDS, LLC
Notes to Condensed Consolidated Financial Statements
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(continued)

18. Income Taxes

The Company is organized as a single member limited liability company and did not elect to be taxed as a corporation for federal income tax purposes. As such, for federal income tax purposes, the Company is "disregarded" and is treated as a division of MFOC, its sole member. Although the Company is not a tax-paying entity, the assets of the Company could be subject to income tax claims against any member of its parent's consolidated group.

The Company recognizes interest and penalties related to unrecognized tax benefits in interest expense. There have been no interest or penalties recognized in the financial statements of the Company.

The Company entered into a tax allocation agreement with MFC pursuant to which the Company agreed to make payments to MFC, after taking into account payments the Company makes directly to tax authorities, based on the Company's stand-alone consolidated federal income tax liability, determined as if the Company and its subsidiaries constituted their own consolidated group for federal income tax purposes. The Company will not be permitted to make these payments to MFC, unless the MFC federal tax liability equals or exceeds the Company's stand-alone federal tax liability, until it meets certain financial ratios and is otherwise in compliance with the terms of the Indenture.

19. Subsequent Events

Plan of Reorganization

On August 13, 2008, the Company entered into amended support agreements (the "Support Agreements") with the members of a committee of holders of the Senior Secured Notes owning approximately 78 percent of the outstanding Senior Secured Notes (the "Noteholder Committee") providing for a restructuring of the Senior Secured Notes to be effected through a prepackaged plan of reorganization (the "Plan") under Chapter 11 of the U.S. Bankruptcy Code which would exchange for the Senior Secured Notes a combination of cash, new senior secured notes due 2014 and 87.5 percent of the common equity of the Company's parent company, Mrs. Fields' Original Cookies, Inc. This restructuring is subject to various conditions, including approval of the Plan from at least a majority in number of the holders of the Senior Secured Notes, which condition is not met by the members of the Noteholder Committee alone, and therefore there can be no assurance that it will be successfully completed. If the restructuring is completed, the Company will have significantly less indebtedness.

Resignation of Chief Executive Officer

On July 10, 2008, the president and chief executive officer (the "CEO") of the Company, delivered a letter (the "Notice of Termination") in which he notified the Company that he was terminating his employment with the Company. In his letter, the former CEO asserted that his termination is with "Good Reason" (as that term is defined under his employment agreement with the Company) and that accordingly, he was entitled to immediate payment of all salary, bonuses and benefits accruing to the date of termination, specified severance payments and a portion of the bonus payable with respect to calendar year 2008. The Notice of Termination did not address whether the former CEO intended to also terminate his positions as a manager of the Company and as a manager or director, employee and officer of subsidiaries of the Company. However, the Company believes that the former CEO's status as an employee and officer of the Company was terminated automatically by reason of his termination as an employee of the Company and the Company believes that it was likely the former CEO's intention that his termination also be deemed to constitute his resignation as a manager of the Company and a director or manager of its subsidiaries. The accompanying condensed consolidated financial statements do not include any amounts for severance which may or may not ultimately be determined to be due the former CEO.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that do not relate solely to historical fact. They include, but are not limited to, any statement that may predict, forecast, indicate or imply future results, performance, achievements or events. They may contain words such as "believe," "anticipate," "expect," "estimate," "plan," "continue," "will," "may" or words or phrases of similar meaning. Forward-looking statements involve risks and uncertainties, including, but not limited to, economic, competitive and governmental factors outside of our control, that may cause actual results to differ materially from trends, plans or expectations set forth in the forward-looking statements. Factors you should consider that could cause these differences include all factors described elsewhere in this report and in detail under "Item 1A. Risk Factors."

You are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this report may not occur.

Recent Developments

Plan of Reorganization

On August 13, 2008, we entered into amended support agreements (the "Support Agreements") with the members of a committee of holders (the "Noteholder Committee") of the 9 percent senior secured notes (the "9 percent Senior Secured Notes") and 11 ½ percent senior secured notes (the "11 ½ percent Senior Secured Notes," and together with the 9 percent Senior Secured Notes, the "Senior Secured Notes") owning approximately 78 percent of the outstanding Senior Secured Notes providing for a restructuring of the Senior Secured Notes to be effected through a prepackaged plan of reorganization (the "Plan") under Chapter 11 of the U.S. Bankruptcy Code which would exchange for the a combination of cash, new senior secured notes due 2014 and 87.5 percent of the common equity of our parent company, Mrs. Fields' Original Cookies, Inc. This restructuring is subject to various conditions, including approval of the Plan from at least a majority in number of the holders of the Senior Secured Notes, which condition is not met by the members of the Noteholder Committee alone, and therefore there can be no assurance that it will be successfully completed. If the restructuring is completed, we will have significantly less indebtedness.

Resignation of Chief Executive Officer

On July 10, 2008, Stephen Russo, a director and the president and chief executive officer of the Company, delivered a letter to us (the "Notice of Termination") in which he notified us that he was terminating his employment with the Company. In his letter, Mr. Russo asserted that his termination is with "Good Reason" (as that term is defined under his employment agreement with the Company) and that accordingly, he was entitled to immediate payment of all salary, bonuses and benefits accruing to the date of termination, specified severance payments and a portion of the bonus payable with respect to calendar year 2008. The Notice of Termination did not address whether he intended to also terminate his positions as a manager of the Company and as a manager or director, employee and officer of subsidiaries of the Company. However, we believe that Mr. Russo's status as an employee and officer of the Company was terminated automatically by reason of his termination as an employee of the Company and we believe that it was likely Mr. Russo's intention that his termination also be deemed to constitute his resignation as a manager of the Company and a director or manager of its subsidiaries. The accompanying condensed consolidated financial statements do not include any amounts for severance which may or may not ultimately be determined to be due Mr. Russo.

Appointment in Interim Co-CEO's

On July 15, 2008, the Board of Managers of the Company appointed Michael R. Ward and John Lauck as Interim Co-Chief Executive Officers to fill the role vacated by Stephen Russo, our former Chief Executive Officer, as discussed above. In his new role, Mr. Ward will take on the added duties of overseeing financial and accounting matters as well as the Company's previously announced Restructuring and he will continue to serve as Executive Vice President, Chief Legal Officer and Secretary of the Company and retain responsibility for areas over which he already had responsibility. In his new role, Mr. Lauck will be primarily responsible for the day-to-day operations of the TCBY organization and the Mrs. Fields organization (other than those for which Mr. Ward has already had responsibility) and Mr. Lauck will continue to serve as the President of the Mrs. Fields organization. Mr. Ward and Mr. Lauck have not entered into additional arrangements with the Company, nor do they have any agreement to receive any additional compensation in conjunction with their new roles.

Sales of New Franchises

Due to the substantial doubt about our ability to continue as a going concern, we have not issued a new franchise disclosure document ("FDD") and we have suspended sales of new franchises until we are in a position to issue a new FDD. We do not expect to issue a new FDD until we have additional information about alternatives to improve our overall liquidity position, including restructuring the Senior Secured Notes. Until we issue a new FDD that reflects our most recent financial statements, we will be prohibited from selling new franchises, which will adversely affect our business operations and financial condition.

Impairment of Intangible Assets

We determined that a triggering event had occurred in the second quarter of 2008 under Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for Impairment or Disposal of Long-Lived Assets", as a result of the proposed restructuring of the Senior Secured Notes to be effected through a prepackaged plan of reorganization under Chapter 11 of the U.S Bankruptcy Code. Therefore, we recorded a charge of \$2.1 million during the second quarter of 2008 to write-down the TCBY trade names.

Executive Summary

We are a well established franchisor in the premium snack food industry, featuring Mrs. Fields® and TCBY® as our core brands. Through our franchisees' retail stores, we are one of the largest retailers of freshly baked, on-premises specialty cookies and brownies in the United States of America (the "United States") and the largest retailer of soft-serve frozen yogurt with live active cultures in the United States. In addition, we operate a gifts and branded retail business and have entered into licensing arrangements to leverage awareness of our brands among our retail customer base. As of June 28, 2008, our franchise systems operated through a network of 1,268 retail concept locations throughout the United States and in 21 foreign countries.

Our business is divided into two business units for financial reporting purposes: Mrs. Fields (defined below) and TCBY ("Dairy"). As discussed elsewhere in this report, we sold our Pretzel Time® and Pretzelmaker® brands (collectively, the "Pretzel Brands") in August 2007 and we sold our Great American Cookie brand in January 2008 (together with Pretzels, "GAC/Pretzels"). The results of operations from these businesses prior to the dates the businesses were sold are included in discontinued operations in the condensed consolidated statements of operations and comprehensive loss (see Note 6).

We have the following five reportable operating segments:

- Mrs. Fields Gifts
 - Mrs. Fields Branded Retail
 - Mrs. Fields Franchising
 - Mrs. Fields Licensing
- } (collectively "Mrs. Fields")
- Dairy

Mrs. Fields and Dairy represented 84.6 percent and 15.4 percent of total revenues, respectively, for the 26 weeks ended June 28, 2008 and 81.1 percent and 18.9 percent of total revenues, respectively, for the 26 weeks ended June 30, 2007.

As of June 28, 2008, our store portfolio consisted of 888 domestic franchised locations, 293 international franchised locations and 87 licensed locations. Our franchisees' and licensees' concept locations by brand are distributed as follows:

	Domestic Franchised	International Franchised	Licensed Locations	Total
Mrs. Fields	305	89	25	419
TCBY - traditional stores	291	-	-	291
TCBY - non-traditional stores	287	204	60	551
Yovana - test stores	-	-	2	2
Beriyo by TCBY - test stores	5	-	-	5
Dairy subtotal	583	204	62	849
Total	<u>888</u>	<u>293</u>	<u>87</u>	<u>1,268</u>

The previous table counts each concept location individually. For example, if a physical location had a Mrs. Fields store and a TCBY store together, it would be counted as two concept locations in the table above. If actual physical stores were counted rather than concept locations, total store counts would be reduced by 63 locations to 1,205.

During the 26 weeks ended June 28, 2008, our store portfolio declined from 1,608 concept locations to 1,268 concept locations, as follows:

	Total Company			
	Domestic Franchised	International Franchised	Licensed Locations	Total
Balance at December 29, 2007 ..	1,238	275	95	1,608
New development openings	18	25	-	43
Permanent closings	(71)	(6)	(8)	(85)
Sale of GAC	(302)	(1)	-	(303)
Other openings, net	5	-	-	5
Balance at June 28, 2008	<u>888</u>	<u>293</u>	<u>87</u>	<u>1,268</u>

The following tables provide additional detail of new development openings, permanent closings and other openings and closings of our concept locations during the 26 weeks ended June 28, 2008:

	Domestic Franchised				
	Mrs. Fields	GAC/Pretzels	Traditional Dairy	Non- Traditional Dairy	Total
Balance at December 29, 2007 ..	318	296	311	313	1,238
New development openings	8	6	4	-	18
Permanent closings	(21)	-	(24)	(26)	(71)
Sale of GAC	-	(302)	-	-	(302)
Other openings, net	-	-	5	-	5
Balance at June 28, 2008	<u>305</u>	<u>-</u>	<u>296</u>	<u>287</u>	<u>888</u>

International Franchised				
	Mrs. Fields	GAC/Pretzels	Non- Traditional Dairy	Total
Balance at December 29, 2007 ..	84	1	190	275
New development openings	9	-	16	25
Permanent closings	(3)	-	(3)	(6)
Sale of GAC	-	(1)	-	(1)
Other openings (closings), net ...	(1)	-	1	-
Balance at June 28, 2008	<u>89</u>	<u>-</u>	<u>204</u>	<u>293</u>

Licensed Locations			
	Mrs. Fields	Non- Traditional Dairy	Total
Balance at December 29, 2007 ..	25	70	95
Permanent closings	-	(8)	(8)
Balance at June 28, 2008	<u>25</u>	<u>62</u>	<u>87</u>

We are experiencing a trend of declining store counts. We have implemented a number of strategies designed to reverse this trend, including identifying stores that are at risk of closure for operational issues, lease or franchise agreement expiration and working with franchisees to relocate, transfer or correct operational deficiencies. We are also testing programs to refresh, remodel or re-concept some of our concept locations, as more fully discussed elsewhere in this report. There can be no assurance that our strategies will succeed. If store counts continue to decline, our business operations and financial condition could continue to be adversely affected.

Due to the substantial doubt about our ability to continue as a going concern, we have not issued a new FDD and we have suspended sales of new franchises until we are in a position to issue a new FDD. We do not expect to issue a new FDD until we have additional information about alternatives to improve our overall liquidity position, including restructuring our Senior Secured Notes. Until we issue a new FDD that reflects our most recent financial statements, we will be prohibited from selling new franchises, which will adversely affect our business operations and financial condition.

Throughout this discussion, we refer to the total weeks that our franchised locations operate in any given period as "franchised unit weeks" and use that term comparatively when describing factors that may affect performance. Fewer franchised locations translate naturally to fewer total franchised unit weeks that our franchisees operate and contribute revenues to us. The Dairy operating segment is comprised of both larger, traditional locations and a significant number of smaller, non-traditional locations. We measure franchised unit weeks differently for the Dairy operating segment, based on our calculation that it takes approximately three average non-traditional locations to equal the revenues of one average traditional location. We therefore refer to "traditional equivalent unit weeks" to describe the total number of weeks that TCBY franchised locations operate in any given period, adjusted to account for the different impact that non-traditional TCBY store openings and closings may have when compared to similar events affecting traditional TCBY stores.

Results of Operations

The following table sets forth, for the periods indicated, certain information relating to our operations and percentage changes from period to period (in thousands):

	13 Weeks Ended			26 Weeks Ended		
	June 28, 2008	June 30, 2007	% Change	June 28, 2008	June 30, 2007	% Change
REVENUES:						
Mrs. Fields Gifts	\$ 3,627	\$ 5,087	(28.7)	\$ 9,398	\$ 9,982	(5.9)
Mrs. Fields Branded Retail	6,115	5,156	18.6	11,611	9,659	20.2
Mrs. Fields Franchising	1,798	1,815	(0.9)	3,630	3,699	(1.9)
Mrs. Fields Licensing	62	115	(46.1)	280	315	(11.1)
Total Mrs. Fields	11,602	12,173	(4.7)	24,919	23,655	5.3
Dairy	2,762	3,171	(12.9)	4,551	5,516	(17.5)
Total revenues	14,364	15,344	(6.4)	29,470	29,171	1.0
OPERATING COSTS AND EXPENSES:						
Mrs. Fields Gifts	4,280	5,187	(17.5)	10,252	10,566	(3.0)
Mrs. Fields Branded Retail	5,993	4,810	24.6	11,363	8,919	27.4
Mrs. Fields Franchising	1,133	593	91.1	2,340	1,153	102.9
Mrs. Fields Licensing	49	(36)	NM	66	(26)	NM
Total Mrs. Fields	11,455	10,554	8.5	24,021	20,612	16.5
Dairy	844	1,191	(29.1)	2,013	3,033	(33.6)
General and administrative	4,922	2,620	87.9	7,735	5,026	53.9
Depreciation	493	502	(1.8)	973	988	(1.5)
Amortization	420	519	(19.1)	892	1,036	(13.9)
Impairment of intangible assets	2,091	-	NM	2,091	-	NM
Gain on sale of land held for sale	-	-	NM	-	(128)	(100.0)
Other, net	23	-	NM	(15)	-	NM
Total operating costs and expenses	20,248	15,386	31.6	37,710	30,567	23.4
Loss from continuing operations	(5,884)	(42)	NM	(8,240)	(1,396)	490.3
OTHER EXPENSE, NET:						
Interest expense, net	(5,281)	(5,388)	(2.0)	(10,173)	(10,681)	(4.8)
Impairment of marketable securities	(8,222)	-	NM	(8,222)	-	NM
Loss from continuing operations before benefit for income taxes	(19,387)	(5,430)	257.0	(26,635)	(12,077)	120.5
Benefit for income taxes	(6,381)	(1,515)	321.2	(9,159)	(3,002)	205.1
Loss from continuing operations	(13,006)	(3,915)	232.2	(17,476)	(9,075)	92.6
DISCONTINUED OPERATIONS:						
Income from discontinued operations, net of income taxes of (\$313), \$1,523, \$31,701 and \$3,020, respectively	72	2,548	NM	10,594	5,030	110.6
Net loss	\$ (12,934)	\$ (1,367)	NM	\$ (6,882)	\$ (4,045)	70.1
Cash flows from operating activities, including discontinued operations	\$ (3,073)	\$ 4,391	NM	\$ (23,417)	\$ (6,129)	282.1
Cash flows from investing activities, including discontinued operations	\$ 3,018	\$ (48)	NM	\$ 15,192	\$ 218	NM
Cash flows from financing activities, including discontinued operations	\$ (320)	\$ (28)	NM	\$ (352)	\$ (58)	NM

NM - Calculation not meaningful.

**13 Weeks Ended June 28, 2008
Compared to the 13 Weeks Ended June 30, 2007**

Loss From Continuing Operations — Overview. Loss from continuing operations was \$5.9 million for the 13 weeks ended June 28, 2008, an increase of \$5.9 million from a loss of \$0 for the 13 weeks ended June 30, 2007. The increase in loss from continuing operations was primarily due to the following:

- impairment of intangible assets for Dairy of \$2.1 million;
- decreased contribution from our business units of \$1.6 million; and
- increased general and administrative expenses of \$2.3 million.

The foregoing increases in loss from continuing operations were partially offset by decreased amortization of \$100,000.

The decrease in contribution from our business units of \$1.6 million is comprised of the following decreases:

- Mrs. Fields business unit contribution decrease of \$1.5 million; and
- Dairy business unit contribution decrease of \$100,000.

Business Unit Contribution. Mrs. Fields contribution is comprised of the following:

- sales of products through our gift catalog and website, less direct operating expenses in our Mrs. Fields Gifts operating segment;
- net sales of our branded products through retail channels by us and through food brokers, less related cost of sales and direct selling and operating expenses in our Mrs. Fields Branded Retail operating segment;
- royalties from existing franchises less direct operating expenses in our Mrs. Fields Franchising operating segment; and
- licensing fees received from third parties for the sale of products bearing our brand names less direct operating expenses in our Mrs. Fields Licensing operating segment.

Our Dairy business unit contribution is comprised of sales of new franchises and royalties from existing franchises less direct operating expenses.

The following table sets forth the contribution from each of our business units (in thousands):

	For the 13 Weeks Ended	
	June 28, 2008	June 30, 2007
Mrs. Fields	\$ 147	\$ 1,619
Dairy	1,918	1,980
	\$ 2,065	\$ 3,599

Mrs. Fields

The following table details the revenues and operating expenses of the Mrs. Fields business unit (in thousands):

	For the 13 Weeks Ended		% Change
	June 28, 2008	June 30, 2007	
Mrs. Fields Gifts	\$ 3,627	\$ 5,087	(28.7)
Mrs. Fields Branded Retail	6,115	5,156	18.6
Mrs. Fields Franchising	1,798	1,815	(0.9)
Mrs. Fields Licensing	62	115	(46.1)
Total Mrs. Fields revenues	11,602	12,173	(4.7)
Mrs. Fields Gifts	4,280	5,187	(17.5)
Mrs. Fields Branded Retail	5,993	4,810	24.6
Mrs. Fields Franchising	1,133	593	91.1
Mrs. Fields Licensing	49	(36)	NM
Total Mrs. Fields operating expenses	11,455	10,554	8.5
Total Mrs. Fields contribution	\$ 147	\$ 1,619	(90.9)

Mrs. Fields Gifts

Mrs. Fields Gifts Revenues. Mrs. Fields Gifts revenues were \$3.6 million for the 13 weeks ended June 28, 2008, a decrease of \$1.5 million or 28.7 percent from \$5.1 million for the 13 weeks ended June 30, 2007. These revenues consisted of sales through our catalog and website as well as affiliations with other websites and sales to large corporate customers for gifting purposes. This decrease in revenues was primarily due to the following decreases:

- national accounts revenues of \$1.1 million primarily due to a decline in purchases from our largest corporate customer;
- catalog driven sales and strategic partners revenues of \$300,000 primarily due to the Easter holiday occurring in the first quarter in 2008 compared to the second quarter in 2007; and
- other revenues of \$100,000.

Mrs. Fields Gifts Expenses. Mrs. Fields Gifts expenses are comprised of cost of sales for products sold, selling and promotional expenses and direct operating expenses of this segment. Mrs. Fields Gifts expenses were \$4.3 million for the 13 weeks ended June 28, 2008, a decrease of \$900,000 or 17.5 percent from \$5.2 million for the 13 weeks ended June 30, 2007. This decrease in expenses was primarily due to the following decreases:

- cost of sales of \$700,000 due to decreased revenues and product mix;
- catalog and advertising expenses of \$100,000 due to the timing of the Easter holiday;
- other operating expenses of \$100,000.

Mrs. Fields Branded Retail

Mrs. Fields Branded Retail Revenues. Mrs. Fields Branded Retail revenues were \$6.1 million for the 13 weeks ended June 28, 2008, an increase of \$900,000 or 18.6 percent from \$5.2 million for the 13 weeks ended June 30, 2007. Mrs. Fields Branded Retail revenues consist of sales of Mrs. Fields branded shelf stable cookies directly through retail channels. The increase in sales was primarily related to new customers and increased activity in the drug store channel.

Mrs. Fields Branded Retail Expenses. Mrs. Fields Branded Retail expenses is comprised of cost of sales for product sold, selling and promotional expenses and other direct operating expenses of this segment. Mrs. Fields Branded Retail expenses were \$6.0 million for the 13 weeks ended June 28, 2008, an increase of \$1.2 million or 24.6 percent from \$4.8 million for the 13 weeks ended June 30, 2007. This increase in expenses was primarily due to the following increases:

- cost of sales of \$1.0 million due to increased revenues and increased commodity prices;
- advertising and promotion expenses of \$100,000 related to product demos, sampling and broker fees; and
- other operating expenses of \$100,000.

Mrs. Fields Franchising

The following table details the year over year ("YOY") percentage increase in same store sales for our Mrs. Fields Franchising segment:

	For the 13 Weeks Ended	
	June 28,	June 30,
	2008	2007
Mrs. Fields	0.9	0.0

Our Mrs. Fields concept's YOY same store sales were up 0.9 percent due to increased visit frequency and training by our field operations team, an increase in Big Cookie Cake sales and increases in the sales of our Breezer products.

Mrs. Fields Franchising Revenues. Mrs. Fields Franchising revenues were \$1.8 million for the 13 weeks ended June 28, 2008 and the 13 weeks ended June 30, 2007. Although franchising revenues were consistent in both periods, franchising revenues decreased as a result of approximately 200 or 5.4 percent fewer unit weeks and the Easter holiday occurring in the first quarter in 2008 compared to the second quarter in 2007, offset by the increase in same store YOY sales.

Mrs. Fields Franchising Expenses. Mrs. Fields Franchising expenses are comprised of operation and supervision expenses incurred to provide support, direction and supervision to the franchisees; development and support expenses including product development costs, expenses relating to new franchise development, marketing and advertising, bad debt expense and other direct franchising expenses. These expenses were \$1.1 million for the 13 weeks ended June 28, 2008, an increase of \$500,000 or 91.1 percent from \$600,000 for the 13 weeks ended June 30, 2007. This increase in expenses was primarily due to the following increases:

- compensation and related costs of \$300,000 in order to implement the planned strategy of increasing operations and development headcount;
- professional fees of \$100,000; and
- other operating expenses of \$100,000.

Mrs. Fields Licensing

Mrs. Fields Licensing Revenues. Mrs. Fields Licensing revenues were \$100,000 for the 13 weeks ended June 28, 2008 and June 30, 2007. Although licensing revenues were consistent in both periods, the mix of licensing revenues reflected a decrease in licensing royalties earned under a licensing agreement for the sale of Mrs. Fields branded boxed chocolates, offset by increases in licensing royalties earned under a licensing agreement for the sale of Mrs. Fields branded ice cream sandwiches.

Mrs. Fields Licensing Expenses. Mrs. Fields Licensing expenses are comprised of compensation, selling and promotional expenses, bad debt and other direct operating expenses of this segment. These expenses were negligible for the 13 weeks ended June 28, 2008 and June 30, 2007.

Dairy

The following table details the YOY percentage increase (decrease) in same store sales for our Dairy Franchising segment:

	<u>For the 13 Weeks Ended</u>	
	<u>June 28,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
TCBY	2.2	(1.3)

Our Dairy Franchising segment's YOY same store sales increased 2.2 percent for the 13 weeks ended June 28, 2008. This increase was mainly due to the shift of the Easter holiday into the first quarter of 2008 compared the second quarter of 2007, which historically has been a low volume Sunday for the Dairy segment, and also due to a shift in our 2008 promotional spending which focuses on the key selling season of April through August.

Dairy Franchising Revenues. Dairy franchising revenues were \$2.8 million for the 13 weeks ended June 28, 2008, a decrease of \$400,000 or 12.9 percent from \$3.2 million for the 13 weeks ended June 30, 2007. This decrease in revenues was primarily due to the following decreases:

- product formulation revenues of \$700,000 generated by purchases of TCBY products by franchisees; and
- initial franchise fees of \$100,000.

The foregoing decreases in revenues were partially offset by increased royalties of \$400,000 resulting from an increase in royalty rates. The overall decrease in franchising revenues was principally attributable to pricing discounts offered to franchisees as an incentive to remodel their stores and approximately 1,200 or 18.6 percent fewer unit weeks, partially offset by an increase in royalty rates and the increase in YOY same store sales.

Dairy Franchising Expenses. Dairy franchising expenses were \$800,000 for the 13 weeks ended June 28, 2008, a decrease of \$400,000 or 29.1 percent from \$1.2 million for the 13 weeks ended June 30, 2007. This decrease in expenses was primarily due to the following decreases:

- brand initiatives of \$300,000 incurred in the second quarter of 2007 to test the Beriyo and Yovana concepts and to prepare for the TCBY new store décor initiative that didn't occur in 2008; and
- decreased other operating expenses of \$100,000.

Other

General and Administrative Expenses. General and administrative expenses were \$4.9 million for the 13 weeks ended June 28, 2008, an increase of \$2.3 million or 87.9 percent from \$2.6 million for the 13 weeks ended June 30, 2007. This increase in general and administrative expenses was primarily attributable to the following:

- costs incurred of \$2.2 million related to the restructuring of our debt through a prepackaged plan of reorganization.;
- increased professional fees of \$200,000 paid to third parties for consulting on process improvement initiatives, internal control assistance and Sarbanes-Oxley compliance test work; partially offset by
- decreased legal fees of \$100,000.

Depreciation and Amortization Expense. Depreciation expense was \$500,000 for the 13 weeks ended June 28, 2008 and June 30, 2007. Amortization expense was \$400,000 for the 13 weeks ended June 28, 2008, a decrease of \$100,000 from \$500,000 for the 13 weeks ended June 30, 2007.

Impairment of intangible assets. Impairment of intangible assets was \$2.1 million for the 13 weeks ended June 28, 2008 related to TCBY trade names. This impairment was the result of the proposed restructuring of the Senior Secured Notes to be effected through a prepackaged plan of reorganization under Chapter 11 of the U.S Bankruptcy Code.

Impairment of marketable securities. Impairment of marketable securities was \$8.2 million for the 13 weeks ended June 28, 2008 resulting from an other-than-temporary decline in the market price of the Nexcen common stock received as part of the proceeds from the sales of assets of GAC/Pretzels in the third quarter of 2007 and the first quarter of 2008.

Discontinued Operations. Income from discontinued operations was 100,000 for the 13 weeks ended June 28, 2008, a decrease of \$2.4 million from income of \$2.5 million for the 13 weeks ended June 30, 2007. This decrease was primarily due to the sale of GAC/Pretzels in the third quarter of 2007 and the first quarter of 2008.

26 Weeks Ended June 28, 2008
Compared to the 26 Weeks Ended June 30, 2007

Loss From Continuing Operations — Overview. Loss from continuing operations was \$8.2 million for the 26 weeks ended June 28, 2008, an increase of \$6.8 million or 490.3 percent from \$1.4 million for the 26 weeks ended June 30, 2007. The increase in loss from continuing operations was primarily due to the following:

- impairment of intangible assets for Dairy of \$2.1 million;
- decreased contribution from our business units of \$2.0 million;
- increased general and administrative expenses of \$2.7 million; and
- gain on sale of land held for sale of \$100,000 that occurred in 2007.

The foregoing increases in loss from continuing operations were partially offset by decreased amortization of \$100,000.

The decrease in contribution from our business units of \$2.0 million is comprised of the following:

- Mrs. Fields business unit contribution decrease of \$2.1 million; and
- Dairy business unit contribution increase of \$100,000.

Business Unit Contribution. Mrs. Fields contribution is comprised of the following:

- sales of products through our gift catalog and website, less direct operating expenses in our Mrs. Fields Gifts operating segment;
- net sales of our branded products through retail channels by us and through food brokers, less related cost of sales and direct selling and operating expenses in our Mrs. Fields Branded Retail operating segment;
- sales of new franchises and royalties from existing franchises less direct operating expenses in our Mrs. Fields Franchising operating segment; and
- licensing fees received from third parties for the sale of products bearing our brand names less direct operating expenses in our Mrs. Fields Licensing operating segment.

Our Dairy business unit contribution is comprised of sales of new franchises and royalties from existing franchises less direct operating expenses.

The following table sets forth the contribution from each of our business units (in thousands):

	For the 26 Weeks Ended	
	June 28, 2008	June 30, 2007
Mrs. Fields	\$ 898	\$ 3,043
Dairy	2,538	2,483
	\$ 3,436	\$ 5,526

Mrs. Fields

The following table details the revenues and operating expenses of the Mrs. Fields business unit (in thousands):

	For the 26 Weeks Ended		% Change
	June 28, 2008	June 30, 2007	
Mrs. Fields Gifts	\$ 9,398	\$ 9,982	(5.9)
Mrs. Fields Branded Retail	11,611	9,659	20.2
Mrs. Fields Franchising	3,630	3,699	(1.9)
Mrs. Fields Licensing	280	315	(11.1)
Total Mrs. Fields revenues	24,919	23,655	5.3
Mrs. Fields Gifts	10,252	10,566	(3.0)
Mrs. Fields Branded Retail	11,363	8,919	27.4
Mrs. Fields Franchising	2,340	1,153	102.9
Mrs. Fields Licensing	66	(26)	NM
Total Mrs. Fields operating expenses	24,021	20,612	16.5
Total Mrs. Fields contribution	\$ 898	\$ 3,043	(70.5)

Mrs. Fields Gifts

Mrs. Fields Gifts Revenues. Mrs. Fields Gifts revenues were \$9.4 million for the 26 weeks ended June 28, 2008, a decrease of \$600,000 or 5.9 percent from \$10.0 million for the 26 weeks ended June 30, 2007. These revenues consist of sales through our catalog and website as well as affiliations with other websites and sales to large corporate customers for gifting purposes. This decrease in revenues was primarily attributable to the following decreases:

- national accounts revenues of \$700,000 primarily due to a decline in purchases from our largest corporate customer;
- strategic partners revenues of \$100,000; and
- other revenues of \$100,000.

The foregoing decreases in revenues were partially offset by increased search engine revenues of \$300,000 primarily due to a continuing trend of customers preferring to make their purchases online.

Mrs. Fields Gifts Expenses. Mrs. Fields Gifts expenses are comprised of cost of sales for products sold, selling and promotional expenses and direct operating expenses of this segment. Mrs. Fields Gifts expenses were \$10.3 million for the 26 weeks ended June 28, 2008, a decrease of \$300,000 or 3.0 percent from \$10.6 million for the 26 weeks ended June 30, 2007. The decrease in expenses was due to a decrease in cost of sales of \$600,000 primarily due to decreased revenues and product mix, partially offset by increased catalog and advertising expenses of \$300,000 due to increased circulation of our catalogs.

Mrs. Fields Branded Retail

Mrs. Fields Branded Retail Revenues. Mrs. Fields Branded Retail revenues were \$11.6 million for the 26 weeks ended June 28, 2008, an increase of \$1.9 million or 20.2 percent from \$9.7 million for the 26 weeks ended June 30, 2007. Mrs. Fields Branded Retail revenues consist of sales of Mrs. Fields branded shelf stable cookies directly through retail channels. The increase in sales is primarily related to new customers and increased activity in the drug store channel.

Mrs. Fields Branded Retail Expenses. Mrs. Fields Branded Retail expenses is comprised of cost of sales for product sold, selling and promotional expenses and other direct operating expenses of this segment. Mrs. Fields Branded Retail expenses were \$11.4 million for the 26 weeks ended June 28, 2008, an increase of \$2.5 million or 27.4 percent from \$8.9 million for the 26 weeks ended June 30, 2007. This increase in expenses was primarily due to the following increases:

- cost of sales of \$2.0 million due to increased revenues and increased commodity prices;
- advertising and promotion expenses of \$300,000 related to product demos, sampling and broker fees; and
- other operating expenses of \$200,000.

Mrs. Fields Franchising

The following table details the YOY percentage increase (decrease) in same store sales for our Mrs. Fields Franchising segment:

	For the 26 Weeks Ended	
	June 28,	June 30,
	2008	2007
Mrs. Fields	0.1	(1.8)

Our Mrs. Fields concept's YOY same store sales were up 0.1 percent due to increased visit frequency and training by our field operations team, an increase in Big Cookie Cake sales and increases in the sales of our Breezer products.

Mrs. Fields Franchising Revenues. Mrs. Fields Franchising revenues were \$3.6 million for the 26 weeks ended June 28, 2008, a decrease of \$100,000 or 1.9 percent from \$3.7 million for the 26 weeks ended June 30, 2007. This decrease in revenues was primarily attributable to approximately 700 or 7.4 percent fewer unit weeks partially offset by the increase in same store YOY sales.

Mrs. Fields Franchising Expenses. Mrs. Fields Franchising expenses are comprised of operation and supervision expenses incurred to provide support, direction and supervision to the franchisees; development and support expenses including product development costs, expenses relating to new franchise development, marketing and advertising, bad debt expense and other direct franchising expenses. These expenses were \$2.3 million for the 26 weeks ended June 28, 2008, an increase of \$1.1 million or 102.9 percent from \$1.2 million for the 26 weeks ended June 30, 2007. This increase in expenses was primarily due to the following increases:

- compensation and related costs of \$800,000 in order to implement the planned strategy of increasing operations and development headcount;
- professional fees of \$100,000; and
- other operating expenses of \$200,000.

Mrs. Fields Licensing

Mrs. Fields Licensing Revenues. Mrs. Fields Licensing revenues were \$300,000 for the 26 weeks ended June 28, 2008 and June 30, 2007. Although total licensing revenues were consistent in both periods, the mix of licensing revenues reflected a decrease in licensing royalties earned under licensing agreements for the sale of Mrs. Fields branded boxed chocolates, TCBY branded yogurt covered pretzels and royalties earned under our terminated licensing agreement for the sale of Mrs. Fields branded chocolate chips. These decreases were offset by increases in licensing royalties earned under a licensing agreement for the sale of Mrs. Fields branded ice cream sandwiches.

Mrs. Fields Licensing Expenses. Mrs. Fields Licensing expenses are comprised of compensation, selling and promotional expenses, bad debt and other direct operating expenses of this segment. These expenses were negligible for the 26 weeks ended June 28, 2008 and June 30, 2007.

Dairy

The following table details the YOY percentage increase (decrease) in same store sales for our Dairy Franchising segment:

	<u>For the 26 Weeks Ended</u>	
	<u>June 28,</u> <u>2008</u>	<u>June 30,</u> <u>2007</u>
TCBY	0.1	(2.4)

Our Dairy Franchising segments YOY same store sales increased 0.1 percent for the 26 weeks ended June 28, 2008. This slight increase was achieved due to a shift in our 2008 promotional spending, which focuses on the key selling season of April through August and occurred despite the continued challenging overall economic conditions in the United States.

Dairy Franchising Revenues. Dairy Franchising revenues were \$4.6 million for the 26 weeks ended June 28, 2008, a decrease of \$900,000 or 17.5 percent from \$5.5 million for the 26 weeks ended June 30, 2007. This decrease in revenues was due to the following decreases:

- product formulation revenues generated by purchases of TCBY products by franchisees of \$1.3 million; and
- initial franchise fees of \$100,000.

The foregoing decreases in revenues were partially offset by increased royalties of \$500,000 due to increased royalty rates. The overall decrease in revenues were principally attributable to pricing discounts offered to franchisees as an incentive to remodel their stores and approximately 2,500 or 19.3 percent fewer unit weeks, partially offset by the increase in YOY same store sales.

Dairy Franchising Expenses. Dairy Franchising expenses were \$2.0 million for the 26 weeks ended June 28, 2008, a decrease of \$1.0 million or 33.6 percent from \$3.0 million for the 26 weeks ended June 30, 2007. This decrease in expenses was primarily due to the following decreases:

- brand initiatives of \$1.0 million incurred in the first quarter of 2007 to test the Beriyo and Yovana concepts and to prepare for the TCBY new store décor initiative; and
- bad debt expense of \$100,000.

The foregoing decreases in expenses were partially offset by increases in compensation and related costs of \$100,000 primarily due to the addition of a president during the 4th quarter of 2007.

Other

General and Administrative Expenses. General and administrative expenses were \$7.7 million for the 26 weeks ended June 28, 2008, an increase of \$2.7 million or 53.9 percent from \$5.0 million for the 26 weeks ended June 30, 2007. This increase in general and administrative expenses was primarily attributable to the following increases:

- costs incurred of \$2.2 million related to the restructuring of our debt through a prepackaged plan of reorganization;
- professional fees of \$300,000 paid to third parties for consulting on process improvement initiatives, internal control assistance and Sarbanes-Oxley compliance test work;
- bonus expense of \$200,000 primarily due to bonuses paid in the first quarter of 2008 to certain individuals to compensate them for their contributions to the sale of GAC; and
- legal fees of \$100,000.

The foregoing increases in expenses were partially offset by a decrease in compensation and related costs of \$100,000 primarily due to the decrease in corporate headcount resulting from the sale of GAC.

Depreciation and Amortization Expense. Depreciation expense was \$1.0 million for the 26 weeks ended June 28, 2008 and June 30, 2007. Amortization expense was \$900,000 for the 26 weeks ended June 28, 2008, a decrease of \$100,000 from \$1.0 million for the 26 weeks ended June 30, 2007.

Impairment of intangible assets. Impairment of intangible assets was \$2.1 million for the 26 weeks ended June 28, 2008 related to TCBY trade names. This impairment was the result proposed restructuring of the Senior Secured Notes to be effected through a prepackaged plan of reorganization under Chapter 11 of the U.S Bankruptcy Code.

Impairment of marketable securities. Impairment of marketable securities was \$8.2 million for the 26 weeks ended June 28, 2008 resulting from an other-than-temporary decline in the market price of the Nexcen common stock received as part of the proceeds from the sales of assets of GAC/Pretzels in the third quarter of 2007 and the first quarter of 2008.

Discontinued Operations. Income from discontinued operations was \$10.6 million for the 26 weeks ended June 28, 2008, an increase of \$5.6 million from \$5.0 million for the 26 weeks ended June 30, 2007. This increase was primarily due to the gain related to the sale of GAC of \$10.6 million partially offset by a reduction in contribution of the GAC/Pretzels reportable operating segment.

Consolidated Financial Condition

Total assets at June 28, 2008 were \$135.3 million, an increase of \$14.5 million or 12.0 percent from \$120.8 million at December 29, 2007. This increase in assets was primarily due to the following increases:

- restricted cash of \$73.5 million resulting from the sale of GAC and Pretzels;
- prepaid expenses of \$100,000; and
- deferred tax asset of \$3.9 million.

The foregoing increases in assets were partially offset by the following decreases:

- cash and cash equivalents of \$8.6 million primarily due to the semi-annual interest payment of \$10.25 million made in March 2008;
- marketable securities available for sale and other assets of \$4.0 million due to the impairment of the Nexcen common stock received as proceeds on the sale of GAC/Pretzels;
- accounts receivable, of \$3.8 million primarily due to receivables associated with our GAC and gifts segments;
- inventories of \$600,000 primarily due to the sale of GAC;
- property and equipment of \$1.4 million primarily due to the sale of GAC;
- goodwill of \$41.1 million resulting from the sale of GAC;
- trademarks and other intangible assets, net of \$2.9 million primarily related to the impairment of the TCBY intangible assets and amortization;
- deferred loan costs of \$600,000 related to amortization;

Total liabilities at June 28, 2008 were \$247.5 million, an increase of \$21.5 million or 9.5 percent from \$226.0 million at December 29, 2007. This increase in liabilities was primarily due to the following increases:

- amounts due to affiliates of \$25.3 million primarily the result of amounts due to our parent under the tax sharing agreement; and
- current liabilities of discontinued operations of \$100,000.

The foregoing increases in liabilities were partially offset by the following decreases:

- accounts payable of \$2.2 million;
- accrued liabilities of \$1.6 million, primarily related to the semi-annual interest payment made in March 2008; and
- capital lease obligations of \$100,000.

Consolidated Cash Flows for the 26 Weeks Ended June 28, 2008 Compared to June 30, 2007

Net cash flows used in operating activities from continuing operations were \$17.1 million for the 26 weeks ended June 28, 2008, an increase in cash used of \$5.8 million from net cash flows used in operating activities from continuing operations of \$11.3 million for the 26 weeks ended June 30, 2007. This increase in cash used in operating activities from continuing operations was primarily due to the following:

- decrease in contribution by our operating segments of \$2.0 million;
- increase in general and administrative expenses of \$2.7 million; and
- decrease in cash used for working capital assets and liabilities of \$1.1 million.

Net cash flows used in investing activities from continuing operations were \$73.7 million for the 26 weeks ended June 28, 2008, an increase in cash used of \$73.9 million from cash provided by investing activities from continuing operations of \$200,000 for the 26 weeks ended June 30, 2007. This increase in cash used in investing activities from continuing operations was primarily due to the following increases:

- restricted cash of \$73.4 million;
- proceeds from the sale of land of \$300,000 that occurred in 2007; and
- purchases of property and equipment of \$200,000.

Net cash flows used in financing activities were negligible for the 26 weeks ended June 28, 2008 and for the 26 weeks ended June 30, 2007 and relate to principal payments on capital leases.

Liquidity and Capital Resources

Our principal sources of liquidity are cash on hand and cash flows generated from operations. At June 28, 2008, we had \$2.8 million of cash on hand, excluding the \$93.4 million of restricted cash. We expect that our principal uses of cash will be for working capital, capital expenditures and interest payments of \$20.5 million on our Senior Secured Notes, of which \$10.25 million will be due on September 15, 2008 and March 15, 2009. In addition, to the extent we have cash available and it is permitted by the indenture governing our Senior Notes (the "Indenture"), we may pay dividends to our parent companies for uses such as acquisitions, debt repayments and dividends. We do not expect to be required, but we may offer, to repurchase a portion of the Senior Secured Notes as described below.

We are highly leveraged. At June 28, 2008, we had \$195.7 million of long-term debt represented by the Senior Secured Notes. The Senior Secured Notes mature on March 15, 2011, with interest payable semi-annually on March 15 and September 15. Due to borrowing restrictions under the Indenture, our ability to obtain additional debt financing is significantly limited. The Senior Secured Notes require us to offer to repurchase a portion of the notes at 100 percent of the principal amount, plus accrued and unpaid interest thereon to the date of purchase, with 50 percent of our "excess cash flow," as defined in the Indenture agreement, when the ratio of our net indebtedness to consolidated EBITDA is above 3.75 to 1.0 and the cumulative unpaid excess cash flow offer amount exceeds \$10.0 million. We do not anticipate that our "excess cash flow" will exceed the levels that would require us to offer to repurchase a portion of the notes described above.

The condensed consolidated financial statements, contained elsewhere in this report, were prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, our ability to operate profitably and to generate positive cash flows from operations. We have suffered recurring net losses and negative cash flows from operations and had a net member's deficit at June 28, 2008 and December 29, 2007. As a result, we will be unable to make our scheduled \$10.25 million semi-annual interest payment due September 15, 2008 on our Senior Secured Notes. Failure to make any scheduled semi-annual interest payment would constitute an event of default under the Indenture, which could cause the Senior Secured Notes to become immediately due and payable. We do not currently have the ability to repay the Senior Secured Notes should they become due and payable. These matters raise substantial doubt about our ability to continue as a going concern. We are pursuing various actions to improve its results of operations, cash flows and financial position. These actions include, but are not limited to, the following:

- restructuring of our Senior Secured Notes; and
- staff reductions and other initiatives to reduce expenses and increase revenues.

Due to the substantial doubt about our ability to continue as a going concern, we have not issued a new FDD and it has suspended sales of new franchises until we are in a position to issue a new FDD. We do not expect to issue a new FDD until we have been able to improve our overall liquidity position, including the restructuring of the Senior Secured Notes. Until we issue a new FDD that reflects our most recent financial statements, we will be prohibited from selling new franchises, which will adversely affect our business operations and financial condition.

On August 13, 2008, we entered into amended Support Agreements with the Noteholder Committee providing for a restructuring of the Senior Secured Notes to be effected through the Plan under Chapter 11 of the U.S. Bankruptcy Code which would exchange for the Senior Secured Notes a combination of cash, new senior secured notes due 2014 and 87.5 percent of the common equity of our parent company, Mrs. Fields' Original Cookies, Inc. This restructuring is subject to various conditions, including approval of the Plan from at least a majority in number of the holders of the Senior Secured Notes, which condition is not met by the members of the Noteholder Committee alone, and therefore there can be no assurance that it will be successfully completed. If the restructuring is completed, we will have significantly less indebtedness.

Inflation

The impact of inflation on our business has not been significant in recent years. Some of our employees are paid hourly wages at the federal minimum wage level. Minimum wage increases will negatively impact our payroll costs in the short term, but management believes such impact can be offset in the long term through lower staffing of operations and, if necessary, through product price increases.

Seasonality

Our sales and contribution from franchisees' store operations are highly seasonal, but our brands experience counteracting seasonal effects. Our Mrs. Fields stores, primarily located in malls, tend to mirror customer traffic flow trends in malls, which increase significantly during the fourth quarter, primarily between Thanksgiving and the end of the calendar year. Holiday gift purchases also are a significant factor in increased sales in the fourth quarter. However, our Dairy stores experience their strongest sales periods during the warmer months from late Spring through early Fall, which helps to balance the impact of seasonality on our operations. The combined revenues for each quarter of the Mrs. Fields Franchising and Dairy Franchising operating segments as a percentage of total combined revenues for these two operating segments for the fiscal year ended December 29, 2007 were 24.2 percent for the first quarter, 28.5 percent for the second quarter, 25.6 percent for the third quarter and 21.7 percent for the fourth quarter.

Our sales and contribution from our Mrs. Fields Gifts operating segment are highly seasonal primarily due to holiday gift purchases that increase sales during the fourth quarter. Sales in the fourth quarter of fiscal year 2007 were \$17.6 million, which represented 56.8 percent of total sales of the gifts segment for the year ended December 29, 2007.

Critical Accounting Policies

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses in our consolidated financial statements. Management has reviewed with our Audit Committee the accounting policies that we use to prepare our consolidated financial statements and believes that the following policies are the most important to the portrayal of our financial condition and the results of our operations while requiring the use of judgments and estimates about the effects of matters that are inherently uncertain.

Revenue Recognition. We recognize revenues from our initial franchising fees and licensing fees when all material services or conditions relating to the franchising or licensing have been substantially performed or satisfied, which is generally upon the opening of a store by a franchisee or licensee. Franchise and license royalties, which are based on a percentage of gross store sales, are recognized as earned, which is generally upon sale of product by franchisees or licensees. Minimum royalty payments under certain licensing agreements are deferred and recognized on a straight-line basis over the term of the agreement. Revenues, net of sales discounts and allowances, from the sale of branded retail products such as cookie dough and shelf stable cookies to grocery stores and wholesale clubs are recognized upon delivery and included in branded retail revenues. Revenues, net of state and local sales tax, from gift sales are recognized at the time of shipment.

We receive cash payments for product formulation fees and allowances from suppliers based on the amount of product purchased directly by our distributors and franchisees. These product formulation fees and allowances include cash payments to us for the right to use our proprietary formulations and recipes to manufacture the frozen dough and yogurt these suppliers sell to our franchisees. Formulation fees and allowances are recorded as franchising revenues within the Mrs. Fields Franchising and Dairy operating segments upon shipment of product to our distributors or franchisees. Gross formulation fees and allowances included in revenues in our operating segments are as follows (in thousands):

	For the 13 Weeks Ended		For the 26 Weeks Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Mrs. Fields	\$ 488	\$ 472	\$ 947	\$ 888
Dairy	1,813	2,111	2,946	3,639
	<u>\$ 2,301</u>	<u>\$ 2,583</u>	<u>\$ 3,893</u>	<u>\$ 4,527</u>

In March 2003, we received \$2.0 million from a supplier as an advance to maintain and expand beverage concepts at our franchised store locations. This advance is being recognized as revenue on a ratable basis over the six-year term of the agreement.

Impairment of Goodwill. Goodwill is not amortized, but is subject to an annual assessment for impairment, or more frequently if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. The two-step approach to assess our goodwill impairment requires that we first compare the estimated fair value of each reporting unit with goodwill to the carrying amount of the reporting unit's assets and liabilities, including its goodwill. If the fair value of the reporting unit is below its carrying amount, then the second step of the impairment test is performed, in which the current fair value of the reporting unit's assets and liabilities will determine the current implied fair value of the reporting unit's goodwill.

On an annual basis (during the fourth quarter), or more frequently if circumstances indicate potential impairment, we perform an assessment for impairment of our goodwill associated with our reporting units, by comparing the reporting unit's fair value with its carrying value. The estimated fair value of goodwill is affected by, among other things, operating results, our business plan for the future, estimated results of future operations and the comparable companies and transactions that are used to estimate the fair value of our goodwill. To the extent that the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its implied fair value. Changes in our business plan or operating results that are different than the projections used to develop the reporting unit's fair value may have an impact on the valuation of goodwill.

In conducting our impairment analyses, we perform analyses and tests of our goodwill with respect to our reporting units. The test methods employed involve assumptions concerning useful lives of intangible assets, interest and discount rates, projections and other assumptions of future business conditions. The assumptions employed are based on management's judgment using internal and external data.

Impairment of Long-lived and Certain Identifiable Intangible Assets. We review our long-lived assets for impairment when circumstances indicate that the carrying value of an asset may not be fully recovered by the undiscounted net cash flow generated over the remaining life of the related asset or group of assets. If the cash flows generated by the asset are not sufficient to recover the remaining carrying value of the asset, we are required to write down the value of the asset to its estimated fair value. In evaluating whether the asset will generate sufficient cash flow to recover its carrying value, we estimate the amount of cash flow that will be generated by the asset and the remaining life of the asset. In making our estimate, we consider the performance trends related to the asset, the likelihood that the trends will continue or change, at the asset grouping level for which there are identifiable independent cash flows.

Allowance for Doubtful Accounts. We sell products to and receive royalties from our franchisees and sell products to other customers. Sometimes these franchisees and customers are unable or unwilling to pay for the products that they receive or royalties that they owe. Factors that affect our ability to collect amounts that are due to us include the financial strength of a franchisee or customer and its operations, the economic strength of the mall where the franchisee is located and the overall strength of the retail economy. We are required to establish an estimated allowance for the amounts included in accounts receivable that we will not be able to collect in the future. To establish this allowance, we evaluate the customer's or franchisee's financial strength, payment history, reported sales and the availability of collateral to offset potential losses. If the assumptions that are used to determine the allowance for doubtful accounts change, we may have to provide for a greater level of expense in future periods or reverse amounts provided in prior periods.

Deferred Income Tax Assets. Deferred income tax assets are assessed for recoverability and valuation allowances are provided as necessary to reduce deferred income tax assets to amounts expected to be realized. Should expectations of taxable income change in future periods, it may become necessary to change the valuation allowance, which could affect our results of operations in the period such determination is made. We record an income tax provision or benefit at a rate that is based on expected results for the fiscal year. If future changes in market conditions cause actual results to be more or less favorable, adjustments to the effective income tax rate on a quarterly basis could be required.

Inventories. In assessing the realizability of inventories, we make judgments as to future demand requirements and product expiration dates. The inventory requirements change based on projected customer demand, which changes due to fluctuations in market conditions and product life cycles.

Legal and Regulatory. We record liabilities for legal and regulatory matters when the contingency is both probable and reasonably estimable. We are involved in several legal and regulatory matters. After consultation with legal counsel, we believe that the ultimate dispositions of these matters will not have a material negative impact on our financial position, liquidity or results of operations. However, there can be no assurance that we will be successful in our efforts to satisfactorily resolve these matters and the ultimate outcome could result in a material negative impact on our financial position, liquidity or results of operations.

Accounting Pronouncements Issued Not Yet Adopted

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Accounting Standards ("SFAS") No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for acquisitions in fiscal years beginning after December 15, 2008 and will be adopted by us on January 4, 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in market risks since the end of our fiscal year ended December 29, 2007. For more information, please read Item 7A and the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 28, 2008.

Item 4. Controls and Procedures

Management, with the participation of the Interim Co-Chief Executive Officers ("Interim Co-CEO's") and the Chief Accounting Officer (the "CAO"), evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Interim Co-CEO's and the CAO concluded that our disclosure controls and procedures, as of the end of the period covered by this report, were not operating effectively to provide reasonable assurance that the information required to be disclosed by us in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. However, management has performed additional procedures in connection with the preparation of this report and the condensed consolidated financial statements contained herein to provide reasonable assurance that this report contains all of the information required to be disclosed. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during our fiscal quarter ended June 28, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We and our products are subject to regulation by numerous governmental authorities, including, without limitation, federal, state and local laws and regulations governing franchising, health, sanitation, environmental protection, safety and hiring and employment practices.

In the ordinary course of business, we are involved in routine litigation, including franchise disputes and trademark disputes. We are not a party to any legal proceedings that, in the opinion of management, after consultation with legal counsel, is material to its business, financial condition or results of operations.

Item 1A. Risk Factors

The following risk factors, among others, could cause our financial performance to differ significantly from the goals, plans, objectives, intentions and expectations expressed in this report. If any of the following risks and uncertainties or other risks and uncertainties not currently known to us or not currently considered to be material actually occur, our business, financial condition or operating results could be harmed substantially.

Risks Related to Our Business

The results of operations of our business in the future will depend upon the effectiveness of our business strategy and whether we are able to successfully implement our business strategy, the implementation of which depends on factors that are beyond our control.

We believe we have a sound business strategy that will enable us to grow our revenues and profitability. We believe that the implementation of our business strategy is key to enabling us to grow our revenues and profitability and, ultimately, our future success.

Our liquidity situation is so restricted and inadequate to meet our fiscal year 2008 obligations that we will be filing for protection under Chapter 11 under the Bankruptcy Code in the near future.

Concerns over our ability to generate cash flows in amounts sufficient to meet our scheduled semi-annual interest payments, including payments of \$10.25 million due in September 2008, raise substantial doubt about our ability to continue as a going concern. As a result, we will need to file for protection under Chapter 11 under the Bankruptcy Code in the near future. In an effort to address this liquidity issue, we are seeking to implement a financial restructuring through a "prepackaged" plan of reorganization pursuant to agreements entered into with a committee of holders (the "Noteholder Committee") of our 9 percent senior secured notes and our 11 ½ percent senior secured notes (collectively, the "Senior Secured Notes") which are described elsewhere in this report. Completion of the proposed restructuring is subject to various conditions, many of which are beyond our control or the control of the Noteholder Committee. Accordingly, there can be no assurance that the proposed restructuring will be completed successfully. If it is not successfully completed, we anticipate that our liquidity situation will continue to deteriorate and that we may not be able to implement an alternative plan of reorganization under Chapter 11. If neither the "prepackaged plan" nor an alternative plan of reorganization is successfully completed, the Company may need to be liquidated. Either an alternative reorganization or a liquidation is likely to have inferior recoveries as compared to the recoveries of the "prepackaged plan" to the holders of the Senior Secured Notes and to our other creditors.

From time to time, we may be restricted from selling our franchises.

The sale of franchises is regulated by various state laws as well as by the Federal Trade Commission (the "FTC"). The FTC requires that franchisors make extensive disclosure in a franchise disclosure document (the "FDD") to prospective franchisees but does not require registration. However, a number of states require annual registration of the FDD with state authorities or other disclosure in connection with franchise offers and sales. In addition, several states have "franchise relationship laws" or "business opportunity laws" that limit the ability of the franchisors to terminate agreements or to withhold consent to renewal or transfer of these agreements.

There are certain events that require us to make certain disclosures to state authorities. Further, renewal of the FDD registrations is required in several states within a certain period of time following our fiscal year end. From time to time in the future, there will be periods of time after certain events, such as material changes to our officers, or financial performance, or commencement of material litigation, or in connection with renewal during which we may be prohibited from selling our franchises in certain states. Without limiting the foregoing, our financial condition requires us to defer collection of certain fees in some states until the store opens. If we are unable to sell our franchises for an extended period of time in certain states, our business operations or financial condition could be adversely affected.

Due to the substantial doubt about our ability to continue as a going concern, we do not expect to issue a new FDD until we have additional information about alternatives to improve our overall liquidity position, including the possibility of restructuring our Senior Secured Notes. Until we issue a new FDD that reflects our most recent financial statements, we will be prohibited from selling new franchises, which will adversely affect our business operations and financial condition.

Our ability to attract new franchisees, retain existing franchisees and locate and procure favorable store locations is critical to the success of our business.

We compete with a broad segment of other business opportunities and franchise companies for franchisees. There is also aggressive competition from many sources for favorable sites for new stores, both within and outside the mall environment. Many of our competitors have greater resources or more favorable business models than ours with which to attract new investors and procure sites. If we are unable to attract new or existing franchisees to purchase new franchises, or represent a competitive opportunity for leaseholders, it will limit our ability to develop new franchised locations.

A decline in mall traffic and other events signaling or related to a downturn in the United States of America (the "United States") economy could cause our Mrs. Fields brand franchise income to decrease materially.

We believe that the amount and proximity of pedestrian traffic near our Mrs. Fields brand stores strongly influence sales of our products, which we believe are frequently impulse purchases. In recent years, we believe visits to major shopping malls, where at June 28, 2008 the majority of our Mrs. Fields franchisees' stores are located, have experienced periods of decline. This trend has had a negative impact on our revenues. We cannot predict whether this trend will not continue or that this trend can be offset by increased sales per customer. Decrease in mall traffic, and other events that signal or arise from a downturn in the United States economy, such as continued increases in energy costs and other expenses that negatively affect consumer spending, could adversely affect our financial condition and results of operations.

We have experienced a number of franchise store closures since fiscal year 2005. If this trend continues, our financial position and results of operations could continue to be adversely affected.

Since the end of fiscal year 2005, 7 retail concept locations were closed by Mrs. Fields' Original Cookies, Inc. ("MFOC") and 807 retail concept locations were closed by other franchisees. These closures represent 32.8 percent of the total number of stores open at the beginning of fiscal year 2006. In comparison, 289 retail concept locations have opened since the end of fiscal year 2005.

Since the end of fiscal year 2005, the number of Mrs. Fields brand locations has decreased by 18.2 percent, the number of TCBY brand traditional locations has decreased by 31.2 percent and the number of TCBY brand non-traditional locations has decreased by 34.6 percent. Additional store closures could occur in the future and we may be unable to successfully open additional new stores in the future. If this trend continues, our financial condition and results of operations may be adversely affected.

Due to the substantial doubt about our ability to continue as a going concern, we have not issued a new FDD and we have suspended sales of new franchises until we are in a position to issue a new FDD. We do not expect to issue a new FDD until we have additional information about alternatives to improve our overall liquidity position, including restructuring the Senior Secured Notes. Until we issue a new FDD that reflects our most recent financial statements, we will be prohibited from selling new franchises, which will adversely affect our business operations and financial condition.

We believe our brand identity is critical to the success of our business. If we are unable to use any of our trademarks or to protect our trade secrets, our sales and our results of operations will be adversely affected.

We believe that our trademarks have significant value and are important to the marketing of our retail outlets and products and the operations of our franchisees' stores, gifts segment and licensing strategy. Most of our trademarks are federally registered before the United States Patent and Trademark Office and registered or pending in many foreign countries. However, we cannot be sure that our trademarks cannot be circumvented or that our trademarks do not or will not violate the proprietary rights of others. If a challenge to one of our trademarks is successful, we could be prevented from continuing to use that trademark. A negative ruling concerning our use or the validity or enforceability of one of our trademarks would adversely affect our sales of the related products and our operating results. In addition, we cannot be sure that we will have the financial resources necessary to police the use of our trademarks by our franchisees and licensees or enforce or defend our trademarks, which could result in incorrect or unauthorized use of our trademarks. Moreover, we may not be able to use or register our existing trademarks abroad due to the application of foreign laws, which would force us to adopt new trademarks for use in those jurisdictions that initially will not be as recognizable as our existing marks. Despite our efforts to protect our trade secrets, unauthorized parties may attempt to obtain and use information regarding our proprietary recipes and our means of protecting our trade secret rights may not be adequate. The occurrence of any of these factors could diminish the value of our trademark portfolio or trade secrets and negatively impact our sales, business operations and strategies.

We depend heavily on our suppliers and distributors.

We depend on several primary suppliers, including Countryside Baking, Inc. and Oak State Products, Inc., which supply products for our Mrs. Fields franchise system, gifts and branded retail business. We also depend on two main suppliers for production of our TCBY branded yogurt products under Supply Agreements with Scott Brothers Dairy, Inc. and Yarnell Ice Cream Company, Inc. We also depend on our primary distributors for distribution of perishable and non-perishable items to our franchisees.

Our reliance on our suppliers and distributors subjects us to a number of risks, including possible delays or interruptions in supplies, diminished control over quality and a potential lack of adequate raw material capacity. Any disruption in the supply of or degradation in the quality of the raw materials provided by our suppliers could have a material adverse effect on our business, operating results and financial condition. In addition, such disruptions in supply or degradations in quality could have a long-term detrimental impact on our efforts to develop a strong brand identity and a loyal consumer base. If any supplier or distributor fails to perform as anticipated, or if there is a termination or any disruption in any of these relationships for any reason, it could have a material adverse effect on our results of operations.

Our information systems are an integral part of our gifts segment business. Systems disruptions and failures could cause our customers to become dissatisfied with us and may impair our business.

Our ability to maintain our website, network system and telecommunications equipment in working order and to reasonably protect them from interruption is critical to the success of our gifts business segment. Our website must accommodate regular traffic, deliver information and complete transactions. Our customers, advertisers and business alliances may become dissatisfied by any systems failure that interrupts our ability to provide our products and services to them.

We believe that our relationship with our franchisees and retail licensees is critical to the success of our business. If these franchise and retail license agreements were to be terminated or if we are unable to maintain these relationships, our sales and our results of operations would be adversely affected.

We believe our relationships with our franchisees and our licensees are a critical component in the success of our business. As required by state and federal franchise disclosure rules, we must provide all prospective franchisees with the name and contact information for each of the concept's existing franchisees. Prospects often contact existing franchisees as part of their due diligence before making a franchise purchase decision. If our relationship with existing franchisees is strained, it may slow or suspend franchise development with new franchisees, as well as curtail additional development with existing franchisees. Strained relationships with existing franchisees can also contribute to additional or accelerated closure of existing stores, particularly upon transfer or expiration of franchise agreements and leases.

We may be harmed by actions taken by our franchisees or licensees that are beyond our control.

Our franchisees and licensees generally are independent business owners and are not our employees. We require our franchisees and licensees to adhere to strict production, display, storage and marketing specifications and procedures and we provide training and support to franchisees, but the quality of franchised store operations or licensed products may be diminished by any number of factors beyond our control. Consequently, franchisees may not operate stores or licensees may not produce or market licensed products in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other store personnel. If they do not, our image, reputation and brand may suffer and our franchise and license revenues as well as our ability to attract prospective franchisees may be adversely affected.

We are vulnerable to fluctuations in the cost, availability and quality of our ingredients.

The cost, availability and quality of the ingredients we use to prepare our products in our gifts and branded retail operations are subject to a range of factors, many of which are beyond our control. Fluctuations in economic and political conditions, weather and demand could adversely affect the costs of ingredients that we and our suppliers use to make our products, which may in turn affect the costs that our customers and franchisees may be required to pay for our branded products. Significant price increases may in turn contribute to decreases in customer counts in our gifting and branded retail business, as well as decreases in store profits and increases in store closures. We have no control over fluctuations in the price of commodities and we may not be able to pass through any cost increases to our customers. We are dependent on frequent deliveries of fresh ingredients, thereby subjecting us to the risk of shortages or interruptions in supply. All of these factors could cause adverse market conditions which could adversely affect our financial results.

Our branded retail business is still relatively new and exists in a very competitive environment.

The sale of snack products to grocery, club stores and similar distribution channels is highly competitive and subject to ongoing expenses related to slotting fees, advertising credits and discounts. Similarly, the business relies on relationships with vendors, brokers and customers. We commenced this business in July 2006, and as with any relatively new business, we cannot predict with any certainty the costs associated with operating the branded retail group or the revenues we expect to generate.

We may have difficulty retaining key management personnel, which could make it difficult for us to implement the business strategy that current management has developed.

Our success depends on the continued services of our senior management. In addition, our continued growth depends, in part, on attracting and retaining skilled managers and employees as well as management's ability to effectively utilize our key personnel. On July 10, 2008, Stephen Russo resigned from his position as our President and Chief Executive Officer. On July 15, 2008, we appointed Michael R. Ward and John Lauck as our Interim Co-Chief Executive Officers to fill the role vacated by Mr. Russo. If Mr. Ward or Mr. Lauck or any other senior management personnel leaves us, we may have difficulty in implementing our business strategy and may fail to achieve expected profits as a result. We cannot be sure that management's efforts to integrate, utilize, attract and retain personnel will be successful.

Our failure to respond to demographic trends, changes in consumer preferences and other factors and our failure to implement new marketing strategies could have a material adverse effect on our results of operations.

The specialty and snack food industry is affected by changes in consumer preferences, tastes and eating habits, local, regional, national and international economic conditions, demographic trends and mall traffic patterns. A number of factors, including increased food, labor and benefits costs, the availability of experienced management and hourly employees and difficulties or delays in developing and introducing new products to suit consumer preferences, may adversely affect the specialty retail industry in general and our franchise outlets in particular. Our failure to anticipate, identify and respond to changing consumer preferences and economic conditions and the failure of our customers to respond favorably to our marketing or new products could have a material adverse effect on our results of operations.

We believe our TCBY brand has struggled to stay relevant and differentiated from its competitors. We believe it is important to the brand's growth to reposition it in a way that capitalizes on yogurt's current popularity and revitalize it through new store design and venues. Our recent development and introduction of new products, such as the Beriyo smoothie line, and the new store design for TCBY traditional stores are integral parts of our plans to accomplish this repositioning. However, we do not know how successful we will be in developing or implementing this plan or the extent to which the capital investment required of us and our franchisees to implement such a plan will be available when needed. If we are unable to successfully implement this or any other aspect of our business strategy, our business operations and our financial condition could be adversely affected.

We have also initiated efforts to revitalize our Mrs. Fields brand, including a new store design for franchises. While these efforts are designed to strengthen and revitalize the Mrs. Fields brand to help our franchisees achieve a higher level of profitable sales, we cannot be certain that these efforts will have this effect.

There is intense competition in the specialty food retailers industry.

The specialty retail food and snack food industry is highly competitive with respect to price, service, location and food quality and within the industry we compete with cookie, baked goods, frozen yogurt and ice cream retailers, as well as other confectionary, sweet snack and specialty foods retailers, many of which have greater resources than we do. Consequently, we cannot be certain that we can compete successfully with these other food retailers. We will also face competition from NexCen Brands, Inc., who recently acquired the GAC and Pretzel Brand concepts formerly owned and operated by us.

In addition to the risks we face from current competitors, we cannot be certain that we can successfully compete with any new entrants into the specialty retail food and snack food industry who may introduce new and successful products or marketing. Our inability to compete adequately would have a material adverse effect on our results of operations.

Adverse publicity, particularly about health concerns, could reduce our sales and adversely affect results of operations.

Our ability to compete depends in part on maintaining our reputation with consumers. We could be adversely affected by publicity resulting from food quality, illness, injury or other health concerns, including food borne illness claims or operating issues stemming from one store, a limited number of stores or even a competitor's store. In addition, we use ingredients in several of our products, such as nuts, to which some people may have allergies, and butter and cream, which are high in fat. There may be adverse publicity about the health risks relating to these or other ingredients. Adverse publicity about these factors could reduce sales of our products and adversely affect results of operations.

Our international operations are exposed to various risks that could have a material adverse effect on our results of operations and financial condition.

We have franchised and licensed retail stores in numerous foreign countries. While most of our operations are in the United States, through our franchised retail store locations and our branded retail activities, we also have operations in numerous other regions, including operations in Canada, Mexico, Australia, South America, the Caribbean, the Middle East and Asia, representing approximately 4.8 percent of our total revenue during fiscal year 2007. We expect to expand into additional regions in the future. Our international operations are subject to many additional risks, including:

- the burden of complying with multiple and possibly conflicting laws and any unexpected changes in regulatory requirements;
- import and export restrictions and tariffs;
- additional expenses relating to the difficulties and costs of staffing and managing international operations;
- litigation in foreign jurisdictions;
- potentially adverse tax consequences;
- increased competition as a result of subsidies to local companies;
- political instability or war;
- cultural differences;

- the impact of business cycles and economic instability; and
- increased expense as a result of inflation.

Any one of these factors could have a material adverse affect on our sales of products or services to our international customers and curtail our expansion strategy.

Government regulation of our business could adversely affect the results of our operations.

Numerous governmental authorities have issued regulations that apply to us and our franchisees' stores, including, without limitation, federal, state and local laws and regulations governing health, sanitation, environmental protection, safety, hiring and employment practices, including laws, such as the Fair Labor Standards Act, governing such matters as minimum wages, overtime and other working conditions. The FDA administers regulations that apply to our products. If we fail to obtain or retain the required food licenses or to comply with applicable governmental regulations or if there is any increase in employee benefit costs or other costs associated with employees, our costs could increase as we attempt to comply with regulations. Our revenues could decrease if we or our suppliers are unable to manufacture or if our franchisees or licensees are unable to sell products in locations in which we do not have required licenses, or if existing or new regulation leads to material changes in the quality, taste, consumer appeal, or availability of our products. Our products, the manufacturers and their manufacturing facilities are also subject to periodic inspection. Discovery of problems may reduce our results of operations because of costs of compliance or inability to manufacture or sell products for failure to comply with regulations.

In addition, the sale of franchises is regulated by various state laws as well as by the FTC. The FTC requires that franchisors make extensive disclosure in a FDD to prospective franchisees, but does not require registration. However, a number of states require registration of the FDD with state authorities or other disclosure in connection with franchise offers and sales. In addition, several states have "franchise relationship laws" or "business opportunity laws" that limit the ability of the franchisors to terminate agreements or to withhold consent to renewal or transfer of these agreements. While we believe that we are in compliance with existing regulations in the jurisdictions where we currently offer franchises, we cannot predict the effect of any future legislation or regulation on our business operations or financial condition. Additionally, bills have occasionally been introduced in Congress which would provide for federal regulation of aspects of franchisor-franchisee relationships. We cannot predict what effect those regulations could have on our business.

Any interruption in funding sources used by franchisees to purchase and develop our franchises could adversely impact our ability to market franchises.

Many of our franchisees must obtain loans to purchase and develop our franchises. One significant source of this funding is the U.S. Small Business Administration ("SBA"). Any suspension of funding or delays in approval of the SBA's funding budget will affect our franchisees' ability to obtain funding from this significant source and adversely impact our ability to market franchises. Recent developments in the mortgage and finance industries have adversely affected some sources of funding and may also make it more difficult for franchisees to obtain funding for current operations and new development.

Litigation, including product liability litigation, could reduce our results of operations or increase our losses because of the cost of paying on successful claims and we may not be able to continue to obtain adequate insurance.

We are involved in routine litigation in the ordinary course of business, including franchise disputes. Although we have not been significantly adversely affected in the past by litigation, there can be no assurance as to the effect of any future disputes.

Although we currently are not subject to any product liability litigation, we could experience product liability litigation in the future involving our products. Our quality control program is designed to maintain high standards for the food and materials and food preparation procedures used by franchised stores. Products are periodically inspected by our personnel at both the point of sale locations and the manufacturing facilities to ensure that they conform to our standards. In addition to insurance held by our suppliers, we maintain insurance relating to personal injury and product liability in amounts that we consider adequate for the retail food industry. While we have been able to obtain insurance in the past, there can be no assurance that we will be able to maintain these insurance policies in the future. Consequently, any successful claim against us, in an amount materially exceeding our coverage, could adversely affect our results of operations and financial condition.

Our operating results are subject to quarterly fluctuations and seasonality.

Our operating results are subject to quarterly and seasonal fluctuations. Our sales and income from franchisees' store operations are seasonal given the significant impact of the high number of mall-based locations. At these locations, sales tend to mirror customer traffic flow trends in malls, which increase significantly during the fourth quarter, primarily between Thanksgiving and the end of the calendar year. Holiday gift purchases also are a significant factor in increased sales in the fourth quarter. However, our TCBY franchised stores tend to have their strongest sales periods during the warmer months from late Spring through early Fall, which helps to balance the impact of seasonality on our operations. In addition, by marketing our Mrs. Fields' cookie brand around holidays that occur in late Winter and early Spring, such as Valentine's Day and Easter, as well as holidays in the late Fall, such as Halloween, we hope to continue to decrease the impact of seasonality on our cash flow. However, we may not be successful in decreasing the impact of seasonality on our cash flow. If we are unable to manage seasonal fluctuations of cash flow, our financial condition and results of operations may be adversely affected.

We recently sold our Pretzel Brands and GAC brands. The sale of these businesses could increase our exposure to quarterly and seasonal fluctuations.

Risks Related to Our Substantial Indebtedness

Our substantial level of indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under our Senior Secured Notes.

In addition to the information below, please see disclosures set out under the second risk factor on page 43 which details our need to seek to implement a financial restructuring through a prepackaged plan of reorganization and the risks involved with this course of action.

We have substantial indebtedness represented by our Senior Secured Notes. In addition, subject to restrictions in the indenture governing the Senior Secured Notes (the "Indenture"), we may incur additional indebtedness.

Our high level of indebtedness could have important consequences, including the following:

- our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be limited;
- we must use a substantial portion of our cash flow from operations to pay interest and required principal on the Senior Secured Notes and, to the extent incurred, our other indebtedness, which will reduce the funds available to us for operations and other purposes;
- our high level of indebtedness could place us at a competitive disadvantage compared to our competitors that may have proportionately less debt;
- our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate may be limited; and
- our high level of indebtedness makes us more vulnerable to economic downturns and adverse developments in our business.

We expect to obtain the money to pay our expenses and to pay the amounts due under the Senior Secured Notes and our other debt primarily from our operations. Our ability to meet our expenses and make these payments thus depends on our future performance, which will be affected by financial, business, economic and other factors, many of which we cannot control. Excluding cash received upon the sale of certain businesses, our available cash has decreased since fiscal year 2006. Our business may not generate sufficient cash flow from operations in the future and our currently anticipated growth in revenue and cash flow may not be realized, either or both of which could result in our being unable to repay indebtedness, including the Senior Secured Notes or to fund other liquidity needs. If we do not have enough money, we may be required to attempt to refinance all or part of our then existing debt (including the Senior Secured Notes), sell assets or borrow more money. However, we may not be able to accomplish any of these alternatives on terms acceptable to us, or at all. In addition, the terms of existing or future debt agreements, including the Indenture, may restrict us from adopting any of these alternatives. The failure to generate sufficient cash flow or to achieve any of these alternatives could have a material adverse effect on our business and our ability to pay the amounts due under the Senior Secured Notes.

The Indenture imposes significant operating and financial restrictions, which may prevent us from pursuing certain business opportunities and taking certain actions.

The Indenture imposes significant operating and financial restrictions on us. These restrictions limit, among other things, our ability to:

- incur additional indebtedness;
- repay subordinated indebtedness prior to stated maturities;
- pay dividends on or redeem or repurchase our stock;
- issue capital stock;
- make investments;
- create liens;
- sell certain assets or merge with or into other companies;
- enter into certain transactions with stockholders and affiliates;
- sell stock in our subsidiaries;
- restrict dividends, distributions or other payments from our subsidiaries; and
- otherwise conduct necessary corporate activities.

To the extent that we wish to conduct these restricted activities, we must do so in strict accordance with the provisions of the Indenture. These restrictions could adversely affect our ability to finance our future operations or capital needs and pursue available business opportunities. A breach of any of these restrictions could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders could elect to declare the indebtedness, together with accrued interest and fees, to be immediately due and payable and proceed against any collateral securing that indebtedness, which includes substantially all of our assets. Acceleration of our other indebtedness could result in a default under the terms of the Indenture and our assets may not be sufficient to satisfy our obligations under our indebtedness, including the Senior Secured Notes.

Our parent companies may take actions that conflict with noteholder, franchisee and other interests.

As a result of its direct control of our ultimate parent company and indirect control of Mrs. Fields' Holding Company, Inc. and MFOC, Capricorn has the power to elect our managers, to appoint members of management and to approve all actions requiring the approval of the holders of our common interests, including adopting amendments to our certificate of formation and limited liability company agreement as well as approving mergers, acquisitions or sales of all or substantially all of our assets. The actions may conflict with the interests of bondholders, franchisees and others. Similarly, the interests of our parent companies could conflict with other stakeholder interests. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of MFOC as a holder of equity might conflict with holders of the Senior Secured Notes. Our parent companies also may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investment, even though such transactions might materially adversely affect our financial condition and results of operations.

Item 6. Exhibits

- 10.1 Form of Support Agreement, including Restructuring Term Sheet, dated June 3, 2008 among Mrs. Fields Famous Brands, LLC, Mrs. Fields Financing Company, Inc. and certain holders of the Company's Senior Secured Notes (incorporated by reference to Exhibit 10.1 of our current report on form 8-K filed on June 6, 2008).
- 10.2 Amendment to Restructuring Term Sheet, dated July 11, 2008 by and among Mrs. Fields Famous Brands, LLC, Mrs. Fields Financing Company, Inc., Mrs. Fields Original Cookies, Inc. and certain holders of the Company's Senior Secured Notes (incorporated by reference to Exhibit 10.2 of our current report on form 8-K filed on July 15, 2008).
- 10.3 Disclosure Statement for the joint prepackaged plan of reorganization under Chapter 11 of the Bankruptcy Code of Mrs. Fields Original Cookies, Inc. and certain subsidiaries dated August 15, 2008 (incorporated by reference to Exhibit 10.3 of our current report on form 8-K filed on August 15, 2008).
- 31.1 Certification of Interim Co-Chief Executive Officer Pursuant to Rule 13a-15(e) or 15d-15(e) of the Exchange Act, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Interim Co-Chief Executive Officer Pursuant to Rule 13a-15(e) or 15d-15(e) of the Exchange Act, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3 Certification of Chief Accounting Officer Pursuant to Rule 13a-15(e) or 15d-15(e) of the Exchange Act, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Interim Co-Chief Executive Officers and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

MRS. FIELDS FAMOUS BRANDS, LLC

/s/ Michael R. Ward
Michael R. Ward
Executive Vice President and Interim Co-Chief Executive Officer
(Principal Executive Officer)

August 18, 2008
Date

/s/ John Lauck
John Lauck
President of Mrs. Fields and Interim Co-Chief Executive Officer
(Principal Executive Officer)

August 18, 2008
Date

/s/ Steven K. Passey
Steven K. Passey
Chief Accounting Officer and Treasurer
(Principal Financial Officer)

August 18, 2008
Date

SARBANES-OXLEY SECTION 302(a) CERTIFICATION

I, Michael R. Ward, Executive Vice President and Interim Co-Chief Executive Officer of Mrs. Fields Famous Brands, LLC, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mrs. Fields Famous Brands, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13s-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 18, 2008

/s/ Michael R. Ward
Michael R. Ward
Executive Vice President
and Interim Co-Chief Executive Officer
(Principal Executive Officer)

SARBANES-OXLEY SECTION 302(a) CERTIFICATION

I, John Lauck, President of Mrs. Fields and Interim Co-Chief Executive Officer of Mrs. Fields Famous Brands, LLC, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mrs. Fields Famous Brands, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13s-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 18, 2008

/s/ John Lauck
John Lauck
President of Mrs. Fields and
Interim Co-Chief Executive Officer
(Principal Executive Officer)

SARBANES-OXLEY SECTION 302(a) CERTIFICATION

I, Steven K. Passey, Chief Accounting Officer of Mrs. Fields Famous Brands, LLC, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mrs. Fields Famous Brands, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13s-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 18, 2008

/s/ Steven K. Passey
Steven K. Passey
Chief Accounting Officer and Treasurer
(Principal Financial Officer)

**Certification Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Mrs. Fields Famous Brands, LLC (the "Company") on Form 10-Q for the 13 weeks ended June 28, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to each officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 18, 2008

/s/ Michael R. Ward
Michael R. Ward
Interim Co-Chief Executive Officer
(Principal Executive Officer)

/s/ John Lauck
John Lauck
Interim Co-Chief Executive Officer
(Principal Executive Officer)

/s/ Steven K. Passey
Steven K. Passey
Chief Accounting Officer
(Principal Financial Officer)

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this statement required by Section 906 has been provided to Mrs. Fields Famous Brands, LLC and will be retained by Mrs. Fields Famous Brands, LLC and furnished to the Securities and Exchange Commission or its staff upon request.