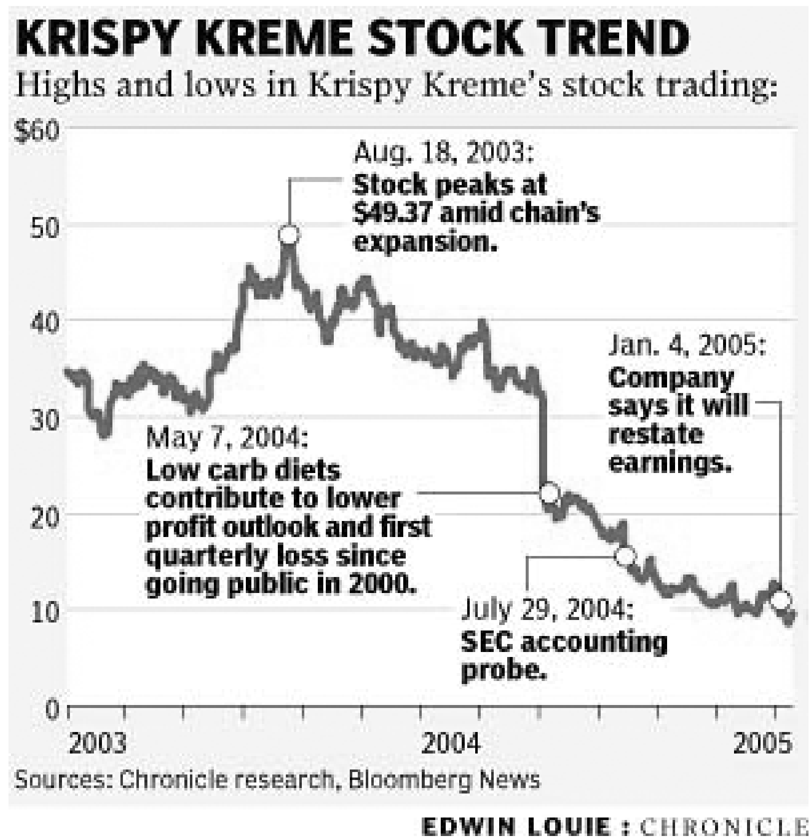
HOUSTON CHRONICLE

Jan. 19, 2005, 12:42AM

Enron's turnaround leader in bankruptcy to take over as troubled Krispy Kreme's CEO

By TOM FOWLER

The turnaround specialist who guided Enron through its bankruptcy has been chosen to help crumbling Krispy Kreme Doughnuts get back in shape.



Stephen Cooper was named CEO on Tuesday of the company known best for its gooey, glazed goods, replacing Scott Livengood, who will continue to serve as a consultant to the company for about $46,000 per month.

Steven Panagos, another principal with Cooper's company, Kroll Zolfo Cooper, was named president and chief operating officer at the Winston-Salem, N.C. company.

Cooper will continue in his role as interim CEO of Enron, where observers say most of his difficult work came to an end late last year with the approval of the company's bankruptcy plan.

Flagging sales, a federal securities investigation and a plummeting stock price have plagued Krispy Kreme in the past year. While the arrival of Cooper helped boost the stock 10 percent to $9.61 on Tuesday, the company also warned that weekly sales per store were down 18 percent for the eight weeks that ended Dec. 26.

The sales problems, combined with costs related to pending class-action lawsuits and the Securities and Exchange Commission investigation, have Cooper and management considering store closures, the company said in a news release.

"We get the feeling we haven't heard the worst of it yet at Krispy Kreme," said **Hugh Larratt-Smith**, a principal at **Trimingham Americas**, a firm that specializes in company turnarounds.

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The 67-year-old doughnut company went public in 2000 with much fanfare, and the stock climbed quickly. A massive growth spurt followed as it opened dozens of new stores in new markets coast to coast. The opening of new stores became events, attracting hundreds of confectionery fans and media attention.

In May 2004, Krispy Kreme reported its first-ever quarterly loss, blaming it on the popularity of low-carbohydrate diets like Atkins. The shares, which traded as high as $50, plummeted.

The company later admitted the SEC was probing how it accounted for franchise buybacks. Shareholder lawsuits soon followed, alleging that Krispy Kreme executives knew sales were sagging by early 2003 but attempted to hide them by routinely padding sales figures to wholesale customers.

The company appeared to have fallen into a common trap for fast-growing companies. As Krispy Kreme doughnuts became available at hundreds of grocery and convenience food stores, the novelty of the product wore thin.

"They debased their brand," **Larratt-Smith** said. "Krispy Kreme rode the indulgence wave, counting on people to treat themselves to a doughnut like they would a Godiva chocolate."

Krispy Kreme also relied too heavily on doughnuts and failed to include other offerings, like sandwiches, to keep customers coming back.

Cooper's first job at Krispy Kreme will likely be to get full disclosure of all the company's problems, analysts say. Beyond the sales slump looms the SEC investigation into accounting practices, which may provide more surprises.

While it may seem that Cooper is being stretched thin by holding the CEO title at Enron and Krispy Kreme, observers say his role at Enron is likely minimal now.

"The hard part of the bankruptcy is all over for him now," says Nancy Rapoport, dean of the University of Houston Law Center. "It's a good time for him to think about what's next for him."

Cooper and more than 30 associates from his firm have already earned more than $63 million in salary and fees.

Cooper is still awaiting word from the Enron bankruptcy court on a $25 million "success fee."

The fee was to be considered by the court last year but has been delayed until this November, when the court will consider all other final fee requests