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

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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 August 3, 2014

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 001-16485

KRISPY KREME DOUGHNUTS, INC.

(*Exact name of registrant as specified in its charter*)

North Carolina	**56-2169715**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
370 Knollwood Street	**27103**
Winston-Salem, North Carolina	*(Zip Code)*
(Address of principal executive offices)	

Registrant's telephone number, including area code:
(336) 725-2981

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 definitions of "large accelerated filer," "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 ☐

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

Number of shares of Common Stock, no par value, outstanding as of August 29, 2014: 64,410,374.

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As used herein, unless the context otherwise requires, "Krispy Kreme," the "Company," "we," "us" and "our" refer to Krispy Kreme Doughnuts, Inc. and its subsidiaries. References to fiscal 2015 and fiscal 2014 mean the fiscal years ending February 1, 2015 and February 2, 2014, respectively.

FORWARD-LOOKING STATEMENTS

This quarterly report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") that relate to our plans, objectives, estimates and goals. Statements expressing expectations regarding our future and projections relating to products, sales, revenues, expenditures, costs and earnings are typical of such statements, and are made under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management's beliefs, assumptions and expectations of our future economic performance, considering the information currently available to management. These statements are not statements of historical fact. Forward-looking statements involve risks and uncertainties that may cause our actual results, performance or financial condition to differ materially from the expectations of future results, performance or financial condition we express or imply in any forward-looking statements. The words "believe," "may," "forecast," "could," "will," "should," "would," "anticipate," "estimate," "expect," "intend," "objective," "seek," "strive" or similar words, or the negative of these words, identify forward-looking statements. Factors that could contribute to these differences include, but are not limited to:

- the quality of Company and franchise store operations;
- our ability, and our dependence on the ability of our franchisees, to execute on our and their business plans;
- our relationships with our franchisees;
- our ability to implement our domestic and international growth strategies;
- our ability to implement our domestic small shop operating model;
- political, economic, currency and other risks associated with our international operations;
- the price and availability of raw materials needed to produce doughnut mixes and other ingredients, and the price of motor fuel;
- our relationships with wholesale customers;
- our ability to protect our trademarks and trade secrets;
- changes in customer preferences and perceptions;
- risks associated with competition;
- risks related to the food service industry, including food safety and protection of personal information;
- compliance with government regulations relating to food products and franchising;
- increased costs or other effects of new government regulations relating to healthcare benefits;
- risks associated with the use and implementation of information technology; and
- other factors discussed in Krispy Kreme's periodic reports and other information filed with the United States Securities and Exchange Commission (the "SEC"), including under Part I, Item 1A, "Risk Factors," in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2014 (the "2014 Form 10-K").

All such factors are difficult to predict, contain uncertainties that may materially affect actual results and may be beyond our control. New factors emerge from time to time, and it is not possible for management to predict all such factors or to assess the impact of each such factor on the Company. Any forward-looking statement speaks only as of the date on which such statement is made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

We caution you that any forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to differ materially from the facts, results, performance or achievements we have anticipated in such forward-looking statements except as required by the federal securities laws.

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED).

KRISPY KREME DOUGHNUTS, INC.

CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

	Three Months Ended		Six Months Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
	(In thousands, except per share amounts)			
Revenues	$ 120,516	$ 112,729	$ 242,096	$ 233,354
Operating expenses:				
Direct operating expenses (exclusive of depreciation and amortization expense shown below)	101,084	93,806	196,256	190,364
General and administrative expenses	6,737	5,655	13,784	11,710
Depreciation and amortization expense	3,033	2,664	6,206	5,484
Impairment charges and lease termination costs	38	4	46	12
Operating income	9,624	10,600	25,804	25,784
Interest income	64	70	235	131
Interest expense	(162)	(354)	(305)	(791)
Loss on retirement of debt	-	(967)	-	(967)
Equity in losses of equity method franchisees	(61)	(60)	(118)	(113)
Other non-operating income and (expense), net	152	(1)	320	(6)
Income before income taxes	9,617	9,288	25,936	24,038
Provision for income taxes	3,865	4,571	10,528	11,322
Net income	$ 5,752	$ 4,717	$ 15,408	$ 12,716
Earnings per common share:				
Basic	$ 0.09	$ 0.07	$ 0.23	$ 0.19
Diluted	$ 0.08	$ 0.07	$ 0.22	$ 0.18

The accompanying notes are an integral part of the financial statements.

KRISPY KREME DOUGHNUTS, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended		Six Months Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
	(In thousands)			
Net income	$ 5,752	$ 4,717	$ 15,408	$ 12,716
Other comprehensive income:				
Unrealized gain on cash flow hedge	-	26	-	36
Less income taxes	-	(10)	-	(14)
	-	16	-	22
Loss on cash flow hedge reclassified to net income, previously charged to other comprehensive income	-	516	-	516
Less income taxes	-	(200)	-	(200)
	-	316	-	316
Total other comprehensive income	-	332	-	338
Comprehensive income	$ 5,752	$ 5,049	$ 15,408	$ 13,054

The accompanying notes are an integral part of the financial statements.

KRISPY KREME DOUGHNUTS, INC.

CONSOLIDATED BALANCE SHEET
(Unaudited)

	August 3, 2014	February 2, 2014
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 35,680	$ 55,748
Receivables	28,391	25,268
Receivables from equity method franchisees	739	675
Inventories	16,954	16,750
Deferred income taxes	23,774	23,847
Other current assets	7,736	5,199
Total current assets	113,274	127,487
Property and equipment	103,780	92,823
Investments in equity method franchisees	-	-
Goodwill and other intangible assets	30,432	24,097
Deferred income taxes	74,146	83,461
Other assets	11,192	10,678
Total assets	$ 332,824	$ 338,546
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of lease obligations	$ 328	$ 344
Accounts payable	16,049	16,788
Accrued liabilities	28,671	29,276
Total current liabilities	45,048	46,408
Lease obligations, less current portion	5,263	1,659
Other long-term obligations and deferred credits	25,923	25,386
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value; 10,000 shares authorized; none issued and outstanding	-	-
Common stock, no par value; 300,000 shares authorized; 64,384 shares and 64,940 shares outstanding, respectively	314,224	338,135
Accumulated other comprehensive income	-	-
Accumulated deficit	(57,634)	(73,042)
Total shareholders' equity	256,590	265,093
Total liabilities and shareholders' equity	$ 332,824	$ 338,546

The accompanying notes are an integral part of the financial statements.

KRISPY KREME DOUGHNUTS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	August 3, 2014	August 4, 2013
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 15,408	$ 12,716
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	6,206	5,484
Deferred income taxes	9,388	10,050
Accrued rent expense	324	411
Loss on retirement of debt	-	967
(Gain) loss on disposal of property and equipment	99	(62)
(Gain) on refranchising	-	(876)
Share-based compensation	2,207	1,867
Provision for doubtful accounts	174	(63)
Amortization of deferred financing costs	54	231
Equity in losses of equity method franchisees	118	113
Unrealized losses on agricultural derivative positions	121	150
Other	6	52
Cash provided by operations	34,105	31,040
Change in assets and liabilities:		
Receivables	(4,197)	(464)
Inventories	(80)	(2,889)
Other current and non-current assets	(2,259)	918
Accounts payable and accrued liabilities	229	(2,378)
Other long-term obligations and deferred credits	(111)	1,241
Net cash provided by operating activities	27,687	27,468
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(13,063)	(12,362)
Proceeds from disposals of property and equipment	196	623
Proceeds from refranchising	-	681
Business acquisition, net of cash acquired	(7,152)	-
Other investing activities	427	433
Net cash used for investing activities	(19,592)	(10,625)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt and lease obligations	(200)	(24,455)
Deferred financing costs	-	(87)
Proceeds from exercise of stock options	6,655	1,686
Repurchase of common shares	(34,618)	-
Net cash used for financing activities	(28,163)	(22,856)
Net decrease in cash and cash equivalents	(20,068)	(6,013)
Cash and cash equivalents at beginning of period	55,748	66,332
Cash and cash equivalents at end of period	$ 35,680	$ 60,319
Supplemental schedule of non-cash investing and financing activities:		
Assets acquired under leasing arrangements	$ 3,781	$ 44

The accompanying notes are an integral part of the financial statements.

KRISPY KREME DOUGHNUTS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Common Shares Outstanding	Common Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
			(In thousands)		
Balance at February 2, 2014	64,940	$ 338,135	$ -	$ (73,042)	$ 265,093
Comprehensive income for the six months ended August 3, 2014	-	-	-	15,408	15,408
Exercise of stock options	1,245	6,655	-	-	6,655
Share-based compensation	60	2,207	-	-	2,207
Repurchase of common shares	(1,861)	(32,773)	-	-	(32,773)
Balance at August 3, 2014	64,384	$ 314,224	$ -	$ (57,634)	$ 256,590
Balance at February 3, 2013	65,356	$ 354,068	$ (338)	$ (107,298)	$ 246,432
Comprehensive income for the six months ended August 4, 2013	-	-	338	12,716	13,054
Exercise of stock options	401	1,686	-	-	1,686
Share-based compensation	17	1,867	-	-	1,867
Balance at August 4, 2013	65,774	$ 357,621	$ -	$ (94,582)	$ 263,039

The accompanying notes are an integral part of the financial statements.

Note 1 — Accounting Policies

Krispy Kreme Doughnuts, Inc. ("KKDI") and its subsidiaries (collectively, the "Company") are engaged in the sale of doughnuts and complementary products through Company-owned stores. The Company also licenses the Krispy Kreme business model and certain of its intellectual property to franchisees in the United States and over 20 other countries around the world, and derives revenue from franchise and development fees and royalties from those franchisees. Additionally, the Company sells doughnut mixes, other ingredients and supplies and doughnut-making equipment to franchisees.

Significant Accounting Policies

BASIS OF PRESENTATION. The consolidated financial statements contained herein should be read in conjunction with the Company's 2014 Form 10-K. The accompanying interim consolidated financial statements are presented in accordance with the requirements of Article 10 of Regulation S-X and, accordingly, do not include all the disclosures required by generally accepted accounting principles in the United States of America ("GAAP") with respect to annual financial statements. The interim consolidated financial statements have been prepared in accordance with the Company's accounting practices described in the 2014 Form 10-K, but have not been audited. In management's opinion, the financial statements include all adjustments, which consist only of normal recurring adjustments, necessary for a fair statement of the Company's results of operations for the periods presented. The consolidated balance sheet data as of February 2, 2014 were derived from the Company's audited financial statements but do not include all disclosures required by GAAP.

BASIS OF CONSOLIDATION. The financial statements include the accounts of KKDI and its subsidiaries.

Investments in entities over which the Company has the ability to exercise significant influence but which the Company does not control, and whose financial statements are not otherwise required to be consolidated, are accounted for using the equity method.

EARNINGS PER SHARE. The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share reflects the additional common shares that would have been outstanding if dilutive potential common shares had been issued, computed using the treasury stock method. Such potential common shares consist of shares issuable upon the exercise of stock options and the vesting of currently unvested restricted stock units.

The following table sets forth amounts used in the computation of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
	(In thousands)			
Numerator: net income	$ 5,752	$ 4,717	$ 15,408	$ 12,716
Denominator:				
Basic earnings per share - weighted average shares outstanding	66,008	67,267	66,265	67,139
Effect of dilutive securities:				
Stock options	2,097	2,920	2,352	2,835
Restricted stock units	620	902	619	859
Diluted earnings per share - weighted average shares outstanding plus dilutive potential common shares	68,725	71,089	69,236	70,833

The sum of the quarterly earnings per share amounts does not necessarily equal earnings per share for the year to date.

Stock options with respect to 295,000 and 277,000 shares for the three months ended August 3, 2014 and August 4, 2013, respectively, and 110,000 unvested restricted stock units for the three months ended August 3, 2014, have been excluded from the computation of the number of shares used to compute diluted earnings per share because their inclusion would be antidilutive.

Stock options with respect to 234,000 and 447,000 shares for the six months ended August 3, 2014 and August 4, 2013, respectively, and 55,000 unvested restricted stock units for the six months ended August 3, 2014, have been excluded from the computation of the number of shares used to compute diluted earnings per share because their inclusion would be antidilutive.

COMPREHENSIVE INCOME. Accounting standards on reporting comprehensive income require that certain items, including foreign currency translation adjustments and mark-to-market adjustments on derivative contracts accounted for as cash flow hedges (which are not reflected in net income) be presented as components of comprehensive income. The cumulative amounts recognized by the Company under these standards are reflected in the consolidated balance sheet as accumulated other comprehensive income, a component of shareholders' equity.

Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (the "FASB") issued an update to its accounting guidance related to share-based compensation. The guidance requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition, and therefore shall not be reflected in determining the fair value of the award at the grant date. The guidance will be effective for annual and interim periods beginning after December 15, 2015 and is not expected to have any effect on the Company's consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, to clarify the principles used to recognize revenue for all entities. The guidance is effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. The Company will evaluate the effects, if any, adoption of this guidance will have on the Company's consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The guidance is effective for annual and interim periods beginning after December 15, 2014, with early adoption permitted. Adoption of this guidance could have an effect on the Company's presentation and disclosure of a future disposal compared to current GAAP.

Note 2 — Segment Information

The Company's operating and reportable segments are Company Stores, Domestic Franchise, International Franchise and KK Supply Chain. The Company Stores segment is comprised of the stores operated by the Company. These stores sell doughnuts and complementary products through both on-premises and wholesale sales channels, although some stores serve only one of these distribution channels. The Domestic Franchise and International Franchise segments consist of the Company's franchise operations. Under the terms of franchise agreements, domestic and international franchisees pay royalties and fees to the Company in return for the use of the Krispy Kreme name and ongoing brand and operational support. Expenses for these segments include costs to recruit new franchisees, to assist in store openings, to support franchisee operations and marketing efforts, as well as allocated corporate costs. The majority of the ingredients and materials used by Company stores are purchased from the KK Supply Chain segment, which supplies doughnut mixes, other ingredients and supplies and doughnut-making equipment to both Company and domestic franchisee-owned stores. Purchases from KK Supply Chain by franchise stores outside the United States consist principally of doughnut mixes.

All intercompany sales by the KK Supply Chain segment to the Company Stores segment are at prices intended to reflect an arms-length transfer price and are eliminated in consolidation. Operating income for the Company Stores segment does not include any profit earned by the KK Supply Chain segment on sales of doughnut mix and other items to the Company Stores segment; such profit is included in KK Supply Chain operating income.

The following table presents the results of operations of the Company's operating and reportable segments for the three and six months ended August 3, 2014 and August 4, 2013. Segment operating income is consolidated operating income before general and administrative expenses, corporate depreciation and amortization, and impairment charges and lease termination costs.

	Three Months Ended		Six Months Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
	(In thousands)			
Revenues:				
Company Stores	$ 78,535	$ 75,689	$ 158,983	$ 157,610
Domestic Franchise	3,296	2,799	6,795	5,670
International Franchise	7,534	6,057	14,115	12,502
KK Supply Chain:				
Total revenues	59,503	57,201	119,815	117,012
Less – intersegment sales elimination	(28,352)	(29,017)	(57,612)	(59,440)
External KK Supply Chain revenues	31,151	28,184	62,203	57,572
Total revenues	$ 120,516	$ 112,729	$ 242,096	$ 233,354
Operating income:				
Company Stores	$ 1,261	$ 1,790	$ 5,677	$ 7,104
Domestic Franchise	1,900	1,526	4,056	2,965
International Franchise	5,111	4,239	9,391	8,770
KK Supply Chain	8,489	8,999	21,243	19,238
Total segment operating income	16,761	16,554	40,367	38,077
General and administrative expenses	(6,737)	(5,655)	(13,784)	(11,710)
Corporate depreciation and amortization expense	(362)	(295)	(733)	(571)
Impairment charges and lease termination costs	(38)	(4)	(46)	(12)
Consolidated operating income	$ 9,624	$ 10,600	$ 25,804	$ 25,784
Depreciation and amortization expense:				
Company Stores	$ 2,457	$ 2,174	$ 5,041	$ 4,528
Domestic Franchise	49	22	95	36
International Franchise	2	1	3	4
KK Supply Chain	163	172	334	345
Corporate	362	295	733	571
Total depreciation and amortization expense	$ 3,033	$ 2,664	$ 6,206	$ 5,484

Segment information for total assets and capital expenditures is not presented as such information is not used in measuring segment performance or allocating resources among segments.

Note 3 — Income Taxes

The Company recognizes deferred income tax assets and liabilities based upon management's expectation of the future tax consequences of temporary differences between the income tax and financial reporting bases of assets and liabilities. Deferred tax liabilities generally represent tax expense recognized for which payment has been deferred, or expenses which have been deducted in the Company's tax returns but which have not yet been recognized as an expense in the financial statements. Deferred tax assets generally represent tax deductions or credits that will be reflected in future tax returns for which the Company has already recorded a tax benefit in its consolidated financial statements.

The Company establishes valuation allowances for deferred income tax assets in accordance with GAAP, which provides that such valuation allowances shall be established unless realization of the income tax benefits is more likely than not.

The valuation allowance of $2.7 million at August 3, 2014 and February 2, 2014 represents the portion of the Company's deferred tax assets management estimates will not be realized in the future. Such assets are associated principally with state net operating loss carryforwards related to states in which the scope of the Company's operations has decreased, which adversely affects the Company's ability to realize the net operating loss carryforwards because the Company has little income earned in or apportioned to those states.

In the second quarter of fiscal 2014, the North Carolina state legislature enacted a prospective reduction in the corporate income tax rate, which caused the Company to revalue its deferred income tax assets to reflect the lower income tax rate. Such revaluation reduced the Company's deferred tax assets by approximately $1.0 million. Because a portion of the deferred tax assets were already subject to a valuation allowance, the revaluation of the assets resulted in a reduction in the necessary valuation allowance of $314,000. The effect of the legislation was therefore to reduce the Company's net deferred tax assets by $686,000; such amount is included in income tax expense for the three and six months ended August 4, 2013.

The realization of deferred income tax assets is dependent on future events. While management believes its forecast of the amount of deferred tax assets expected to be realized is reasonable, actual results inevitably will vary from management's forecasts. Such variances could result in adjustments to the valuation allowance on deferred tax assets in future periods, and such adjustments could be material to the financial statements.

Note 4 — Receivables

The components of receivables are as follows:

	August 3, 2014	February 2, 2014
	(In thousands)	
Receivables:		
Wholesale customers	$ 10,781	$ 9,919
Unaffiliated franchisees	11,311	10,934
Due from third-party distributors	3,859	3,262
Other receivables	2,049	640
Current portion of notes receivable	916	754
	28,916	25,509
Less — allowance for doubtful accounts:		
Wholesale customers	(186)	(191)
Unaffiliated franchisees	(339)	(50)
	(525)	(241)
	$ 28,391	$ 25,268
Receivables from equity method franchisees (Note 6):		
Trade	$ 739	$ 675

The changes in the allowance for doubtful accounts are summarized as follows:

	Six Months Ended	
	August 3, 2014	August 4, 2013
	(In thousands)	
Allowance for doubtful accounts related to receivables:		
Balance at beginning of period	$ 241	$ 615
Provision for doubtful accounts	260	(114)
Net recoveries (chargeoffs)	24	(54)
Balance at end of period	$ 525	$ 447
Allowance for doubtful accounts related to receivables from equity method franchisees:		
Balance at beginning of period	$ -	$ -
Provision for doubtful accounts	(32)	(32)
Net recoveries (chargeoffs)	32	32
Balance at end of period	$ -	$ -

The Company also has notes receivable from franchisees included in "Other assets" in the accompanying consolidated balance sheet, which are summarized in the following table.

	August 3, 2014	February 2, 2014
	(In thousands)	
Notes receivable:		
Notes receivable from franchisees	$ 4,300	$ 3,980
Less — portion due within one year included in receivables	(916)	(754)
Less — allowance for doubtful accounts	-	(54)
	$ 3,384	$ 3,172

Notes receivable at August 3, 2014 and February 2, 2014 consist principally of amounts payable to the Company related to a refranchising transaction, the sale of certain leasehold interests to a franchisee, and to sales of equipment.

The changes in the allowance for doubtful accounts related to notes receivable are summarized as follows:

	Six Months Ended	
	August 3, 2014	August 4, 2013
	(In thousands)	
Balance at beginning of period	$ 54	$ 62
Provision for doubtful accounts	(54)	83
Balance at end of period	$ -	$ 145

In addition to the foregoing notes receivable, the Company had promissory notes totaling approximately $1.9 million at August 3, 2014 and $2.9 million at February 2, 2014 representing principally royalties and fees due to the Company which, as a result of doubt about their collection, the Company has not yet recorded as revenues. The Company collected approximately $900,000 and $320,000 during the three months ended August 3, 2014 and August 4, 2013, respectively (approximately $900,000 and $360,000, during the six months ended August 3, 2014 and August 4, 2013, respectively) related to these promissory notes and recorded such collections in revenues as received.

Finally, the Company has a promissory note receivable from Krispy Kreme of South Florida, LLC ("KKSF") totaling approximately $1.2 million and $1.5 million at August 3, 2014 and February 2, 2014, respectively, arising from the Company's advance to KKSF of approximately $1.6 million in November 2013 to enable KKSF to retire certain indebtedness with respect to which KKSF had been in default since October 2009, payment of which was demanded by the lender in October 2013. The lender also made demand on the Company to perform under its guarantee of such indebtedness. The Company's advance to KKSF was charged against a previously recorded liability for potential payments under the guarantee. Because of the uncertainty of recovery of amounts advanced to KKSF, the note receivable is not reflected as an asset in the accompanying consolidated balance sheet. The Company is recording payments on the note as they are received from KKSF, and reflecting such amounts as a component of other non-operating income. Such collections were approximately $150,000 and $320,000 the three and six months ended August 3, 2014, respectively.

Note 5 — Inventories

The components of inventories are as follows:

	August 3, 2014	February 2, 2014
	(In thousands)	
Raw materials	$ 6,649	$ 6,200
Work in progress	188	114
Finished goods and purchased merchandise	10,117	10,436
	$ 16,954	$ 16,750

Note 6 — Investments in Franchisees

As of August 3, 2014, the Company had an ownership interest in three franchisees, the net carrying value of which was zero. The Company's financial exposures related to franchisees in which the Company has an investment are summarized in the tables below.

	August 3, 2014			
	Company Ownership Percentage	Investment and Advances	Receivables	Loan Guarantees
	(Dollars in thousands)			
Kremeworks, LLC	25.0%	$ 900	$ 345	$ -
Kremeworks Canada, LP	24.5%	-	33	-
Krispy Kreme of South Florida, LLC	35.3%	-	361	-
		900	739	$ -
Less: reserves and allowances		(900)	-	
		$ -	$ 739	

	February 2, 2014			
	Company Ownership Percentage	Investment and Advances	Receivables	Loan Guarantees
	(Dollars in thousands)			
Kremeworks, LLC	25.0%	$ 900	$ 280	$ 140
Kremeworks Canada, LP	24.5%	-	19	-
Krispy Kreme of South Florida, LLC	35.3%	-	376	-
		900	675	$ 140
Less: reserves and allowances		(900)	-	
		$ -	$ 675	

The Company has a 25% interest in Kremeworks, LLC ("Kremeworks"), and had guaranteed 20% of the outstanding principal balance of certain of Kremeworks' bank indebtedness which was paid in full during the second quarter of fiscal 2015.

Note 7 — Credit Facilities and Lease Obligations

Lease obligations consist of the following:

	August 3, 2014	February 2, 2014
	(In thousands)	
Capital lease obligations	$ 2,994	$ 2,003
Financing obligations under build-to-suit transactions	2,597	-
	5,591	2,003
Less: current portion	(328)	(344)
	$ 5,263	$ 1,659

Lease Obligations

The Company leases equipment and facilities under various leasing arrangements.

In certain leasing arrangements, the Company is involved in the construction of leased stores and is deemed the owner of the leased stores for accounting purposes during the construction period. The Company records the related assets and liabilities for construction costs incurred under these built-to-suit leasing arrangements during the construction period. Upon completion of the leased store, the Company considers whether the assets and liabilities qualify for derecognition under the sale-leaseback accounting guidance. These leasing arrangements do not qualify for sale-leaseback treatment and, accordingly, the Company records the transactions as financing obligations and allocates the lease payments between interest expense and amortization of the obligations and depreciates the assets over their estimated useful lives.

At August 3, 2014, the Company had property and equipment and lease obligations related to build-to-suit leasing arrangements of approximately $2.6 million.

2013 Revolving Credit Facility

On July 12, 2013, the Company entered into a $40 million revolving secured credit facility (the "2013 Revolving Credit Facility") which matures in July 2018. The 2013 Revolving Credit Facility is secured by a first lien on substantially all of the personal property assets of the Company and certain of its domestic subsidiaries. No borrowings were made on the 2013 Revolving Credit Facility on the closing date, and the Company repaid the $21.7 million remaining balance of the 2011 Term Loan and terminated the 2011 Secured Credit Facilities described below. The Company recorded a pretax charge of approximately $967,000 in the second quarter of fiscal 2014 to write off the unamortized deferred debt issuance costs related to the terminated facility and to reflect the termination of a related interest rate hedge.

Interest on borrowings under the 2013 Revolving Credit Facility is payable either at LIBOR or the Base Rate (which is the greatest of the prime rate, the Fed funds rate plus 0.50%, or the one-month LIBOR rate plus 1.00%), in each case plus the Applicable Percentage. The Applicable Percentage for LIBOR loans ranges from 1.25% to 2.15%, and for Base Rate loans ranges from 0.25% to 1.15%, in each case depending on the Company's leverage ratio. As of August 3, 2014, the Applicable Margin was 1.25%.

The 2013 Revolving Credit Facility contains provisions which permit the Company to obtain letters of credit, issuance of which constitutes usage of the lending commitments and reduces the amount available for cash borrowings. At closing, $9.2 million of letters of credit were issued under the 2013 Revolving Credit Facility to replace letters of credit issued under the terminated credit facilities, all of which secure the Company's reimbursement obligations to insurers under the Company's self-insurance programs. At August 3, 2014, the Company had approximately $8.7 million of letters of credits outstanding.

The Company is required to pay a fee equal to the Applicable Percentage for LIBOR-based loans on the outstanding amount of letters of credit. There also is a fee on the unused portion of the 2013 Revolving Credit Facility lending commitment, ranging from 0.15% to 0.35%, depending on the Company's leverage ratio.

The 2013 Revolving Credit Facility requires the Company to meet certain financial tests, including a maximum leverage ratio and a minimum fixed charge coverage ratio. The leverage ratio is required to be not greater than 2.25 to 1.0 and the fixed charge coverage ratio is required to be not less than 1.3 to 1.0.

As of August 3, 2014, the Company's leverage ratio was 0.2 to 1.0 and the fixed charge coverage ratio was 3.5 to 1.0.

The leverage ratio is calculated by dividing total debt as of the end of each fiscal quarter by Consolidated EBITDA for the Reference Period (each consisting of the four most recent fiscal quarters). For this purpose, debt includes not only indebtedness reflected in the consolidated balance sheet, but also, among other things, the amount of undrawn letters of credit, the principal balance of indebtedness of third parties to the extent such indebtedness is guaranteed by the Company, and any amounts reasonably expected to be paid with respect to any other guaranty obligations. The fixed charge coverage ratio is calculated for each Reference Period by dividing (a) the sum of (i) Consolidated EBITDA, plus (ii) Cash Lease Payments, minus (iii) cash income taxes, minus (iv) unfinanced capital expenditures, minus (v) purchases, redemptions, retirements, and cash dividend payments or other distributions in respect of the Company's common stock in excess of certain amounts, and minus (vi) the purchase price of all acquisitions of all or substantially all of the assets of any Krispy Kreme store or franchisee shops by (b) Consolidated Fixed Charges.

"Consolidated EBITDA" is a non-GAAP measure and is defined in the 2013 Revolving Credit Facility to mean, for each Reference Period, generally, consolidated net income or loss, exclusive of unrealized gains and losses on hedging instruments, gains or losses on asset dispositions, and provisions for payments on guarantee obligations, plus the sum of interest expense, income taxes, depreciation, rent expense and lease termination costs, and certain non-cash charges; and minus the sum of non-cash credits, interest income, Cash Lease Payments, and payments on guaranty obligations in excess of $1 million during the Reference Period or $3 million in the aggregate.

"Cash Lease Payments" means the sum of cash paid or required to be paid for obligations under operating leases for real property and equipment (net of sublease income), lease payments on closed stores (but excluding payments in settlement of future obligations under terminated operating leases), and cash payments in settlement of future obligations under terminated operating leases to the extent the aggregate amount of such payments exceeds $1.5 million during a Reference Period or $5.0 million in the aggregate.

"Consolidated Fixed Charges" means the sum of cash interest expense, Cash Lease Payments, and scheduled principal payments of indebtedness.

The operation of the restrictive financial covenants described above may limit the amount the Company may borrow under the 2013 Revolving Credit Facility. The restrictive covenants did not limit the Company's ability to borrow the full $31.3 million of unused credit under the 2013 Revolving Credit Agreement as of August 3, 2014.

The 2013 Revolving Credit Facility also contains covenants which, among other things, generally limit (with certain exceptions): liquidations, mergers, and consolidations; the incurrence of additional indebtedness (including guarantees); the incurrence of additional liens; the sale, assignment, lease, conveyance or transfer of assets; certain investments; dividends and stock redemptions or repurchases in excess of certain amounts; transactions with affiliates; engaging in materially different lines of business; certain sale-leaseback transactions; and other activities customarily restricted in such agreements. The 2013 Revolving Credit Facility also prohibits the transfer of cash or other assets to the Parent Company, whether by dividend, loan or otherwise, but provides for exceptions to enable the Parent Company to pay taxes, directors' fees and operating expenses, as well as exceptions to permit dividends in respect of the Company's common stock and stock redemptions and repurchases, to the extent permitted by the 2013 Revolving Credit Facility.

The 2013 Revolving Credit Facility also contains customary events of default including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other indebtedness in excess of $5 million, certain events of bankruptcy and insolvency, judgment defaults in excess of $5 million and the occurrence of a change of control.

Borrowings and issuances of letters of credit under the 2013 Revolving Credit Facility are subject to the satisfaction of usual and customary conditions, including the accuracy of representations and warranties and the absence of defaults.

2011 Secured Credit Facilities

On January 28, 2011, the Company entered into secured credit facilities (the "2011 Secured Credit Facilities"), consisting of a $25 million revolving credit line (the "2011 Revolver") and a $35 million term loan (the "2011 Term Loan"), each of which were scheduled to mature in January 2016. The 2011 Secured Credit Facilities were secured by a first lien on substantially all of the assets of the Company and its domestic subsidiaries. On July 12, 2013, the 2011 Term Loan was paid in full and the 2011 Secured Credit Facilities were terminated.

Interest on borrowings under the 2011 Secured Credit Facilities was payable either at LIBOR or the Base Rate (which is the greatest of the prime rate, the Fed funds rate plus 0.50%, or the one-month LIBOR rate plus 1.00%), in each case plus the Applicable Percentage. The Applicable Percentage for LIBOR loans ranged from 2.25% to 3.00%, and for Base Rate loans ranged from 1.25% to 2.00%, in each case depending on the Company's leverage ratio.

On March 3, 2011, the Company entered into an interest rate derivative contract having an aggregate notional principal amount of $17.5 million. The derivative contract entitled the Company to receive from the counterparty the excess, if any, of the three-month LIBOR rate over 3.00% for each of the calendar quarters in the period beginning April 2012 and ending December 2015. The Company accounted for this derivative contract as a cash flow hedge. The contract was terminated in July 2013 following the retirement in full of the 2011 Term Loan. In the second quarter of fiscal 2014, the $516,000 unrealized loss on the contract previously included in AOCI was reclassified to earnings in the consolidated statement of income because the hedged forecasted transaction (interest on the 2011 Term Loan) would not occur.

The 2011 Revolver contained provisions which permitted the Company to obtain letters of credit, issuance of which constituted usage of the lending commitments and reduced the amount available for cash borrowings.

The Company was required to pay a fee equal to the Applicable Percentage for LIBOR-based loans on the outstanding amount of letters of credit, as well as a fronting fee of 0.125% of the amount of such letter of credit. There also was a fee on the unused portion of the 2011 Revolver lending commitment ranging from 0.35% to 0.65%, depending on the Company's leverage ratio.

Note 8 — Commitments and Contingencies

Except as disclosed below, the Company currently is not a party to any material legal proceedings.

Pending Litigation

K^2 Asia Litigation

On April 7, 2009, a Cayman Islands corporation, K^2 Asia Ventures, and its owners filed a lawsuit in Forsyth County, North Carolina Superior Court against the Company, its franchisee in the Philippines, and other persons associated with the franchisee. The suit alleges that the Company and the other defendants conspired to deprive the plaintiffs of claimed "exclusive rights" to negotiate franchise and development agreements with prospective franchisees in the Philippines, and seeks unspecified damages. The Company therefore does not know the amount or range of possible loss related to this matter. The Company believes that these allegations are false and intends to vigorously defend against the lawsuit. On July 26, 2013, the Superior Court dismissed the Philippines-based defendants for lack of personal jurisdiction. The plaintiffs appealed that decision and the Court of Appeals affirmed that decision on August 19, 2014.

The Company does not believe it is probable that a loss has been incurred with respect to this matter, and accordingly no liability related to it has been reflected in the accompanying financial statements.

Other Legal Matters

The Company also is engaged in various legal proceedings arising in the normal course of business. The Company maintains insurance policies against certain kinds of such claims and suits, including insurance policies for workers' compensation and personal injury, all of which are subject to deductibles. While the ultimate outcome of these matters could differ from management's expectations, management currently does not believe their resolution will have a material adverse effect on the Company's financial condition or results of operations.

Other Commitments and Contingencies

The Company's primary bank had issued letters of credit on behalf of the Company totaling $8.7 million at August 3, 2014, substantially all of which secure the Company's reimbursement obligations to insurers under the Company's self-insurance arrangements.

Note 9 — Shareholders' Equity

Share-Based Compensation for Employees and Directors

The Company measures and recognizes compensation expense for share-based payment ("SBP") awards based on their fair values. The fair value of SBP awards for which employees and directors render the requisite service necessary for the award to vest is recognized over the related vesting period.

The aggregate cost of SBP awards charged to earnings for the three and six months ended August 3, 2014 and August 4, 2013 is set forth in the following table. The Company did not realize any excess tax benefits from the exercise of stock options or the vesting of restricted stock units during any of the periods.

	Three Months Ended		Six Months Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
	(In thousands)			
Costs charged to earnings related to:				
Stock options	$ 226	$ 218	$ 561	$ 435
Restricted stock units	814	703	1,646	1,432
Total costs	$ 1,040	$ 921	$ 2,207	$ 1,867
Costs included in:				
Direct operating expenses	$ 460	$ 471	$ 1,163	$ 967
General and administrative expenses	580	450	1,044	900
Total costs	$ 1,040	$ 921	$ 2,207	$ 1,867

Repurchases of Common Stock

In fiscal 2014, the Company's Board of Directors authorized the repurchase of up to $50 million of the Company's common stock and increased such authorization to $80 million in the first quarter of fiscal 2015. The authorization has no expiration date.

The Company generally permits holders of restricted stock unit awards to satisfy their obligations to reimburse the Company for the minimum required statutory withholding taxes arising from the vesting of such awards by surrendering vested common shares in lieu of reimbursing the Company in cash.

The following table summarizes repurchases of common stock for the three and six months ended August 3, 2014. The Company did not repurchase any shares of the Company's common stock during the three and six months ended August 4, 2013.

	Three Months Ended			
	August 3, 2014		August 4, 2013	
	Shares	Common Stock	Shares	Common Stock
	(In thousands)			
Shares repurchased under share repurchase authorization	403	$ 7,304	-	$ -
Shares surrendered in reimbursement for withholding taxes	21	334	-	-
	424	$ 7,638	-	$ -

	Six Months Ended			
	August 3, 2014		August 4, 2013	
	Shares	Common Stock	Shares	Common Stock
	(In thousands)			
Shares repurchased under share repurchase authorization	1,840	$ 32,439	-	$ -
Shares surrendered in reimbursement for withholding taxes	21	334	-	-
	1,861	$ 32,773	-	$ -

Through August 3, 2014, the Company had cumulatively repurchased approximately 3,025,800 shares under the repurchase authorization at an average price of $18.10 per share, for a total cost of $54.8 million. Repurchases of approximately $34.6 million of the share repurchases were settled during the six months ended August 3, 2014.

Note 10 — Impairment Charges and Lease Termination Costs

The components of impairment charges and lease termination costs are as follows:

	Three Months Ended		Six Months Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
	(In thousands)			
Impairment of long-lived assets	$ -	$ -	$ -	$ -
Lease termination costs:				
Provision for termination costs	40	4	48	12
Less - reversal of previously recorded accrued rent expense	(2)	-	(2)	-
Net provision	38	4	46	12
Total impairment charges and lease termination costs	$ 38	$ 4	$ 46	$ 12

The Company tests long-lived assets for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. These events and changes in circumstances include store closing and refranchising decisions, the effects of changing costs on current results of operations, observed trends in operating results, and evidence of changed circumstances observed as a part of periodic reforecasts of future operating results and as part of the Company's annual budgeting process. When the Company concludes that the carrying value of long-lived assets is not recoverable (based on future projected undiscounted cash flows), the Company records impairment charges to reduce the carrying value of those assets to their estimated fair values.

Lease termination costs represent the estimated fair value of liabilities related to unexpired leases, after reduction by the amount of accrued rent expense, if any, related to the leases, and are recorded when the lease contracts are terminated or, if earlier, the date on which the Company ceases use of the leased property. The fair value of these liabilities are estimated as the excess, if any, of the contractual payments required under the unexpired leases over the current market lease rates for the properties, discounted at a credit-adjusted risk-free rate over the remaining term of the leases. The provision for lease termination costs also includes adjustments to liabilities recorded in prior periods arising from changes in estimated sublease rentals and from settlements with landlords.

The transactions reflected in the accrual for lease termination costs are summarized as follows:

	Three Months Ended		Six Months Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
	(In thousands)			
Balance at beginning of period	$ 167	$ 625	$ 178	$ 646
Provision for lease termination costs:				
Provisions associated with leased properties, net of estimated sublease rentals	44	-	44	-
Adjustments to previously recorded provisions resulting from settlements with lessors and adjustments of previous estimates	(10)	(2)	(5)	-
Accretion of discount	6	6	9	12
Total provision	40	4	48	12
Payments on unexpired leases, including settlements with lessors	(31)	(21)	(50)	(50)
Balance at end of period	$ 176	$ 608	$ 176	$ 608

Included in the lease termination accrual at August 3, 2014 was $112,000 expected to be paid within one year.

Note 11 — Fair Value Measurements

The accounting standards for fair value measurements define fair value as the price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The accounting standards for fair value measurements establish a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 - Observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement of the assets or liabilities. These include certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at August 3, 2014 and February 2, 2014.

	August 3, 2014(1)		
	Level 1	Level 2	Level 3
	(In thousands)		
Assets:			
401(k) mirror plan assets	$ 2,879	$ -	$ -
Liabilities:			
Agricultural commodity futures contracts	$ 434	$ -	$ -

	February 2, 2014(1)		
	Level 1	Level 2	Level 3
	(In thousands)		
Assets:			
401(k) mirror plan assets	$ 2,585	$ -	$ -
Liabilities:			
Agricultural commodity futures contracts	$ 313	$ -	$ -

(1) There were no transfers of financial assets or liabilities among the levels within the fair value hierarchy during the six months ended August 3, 2014 or the year ended February 2, 2014.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

There were no material nonrecurring fair value measurements recorded during the three and six months ended August 3, 2014 and August 4, 2013.

Fair Values of Financial Instruments at the Balance Sheet Dates

The carrying values and approximate fair values of certain financial instruments as of August 3, 2014 and February 2, 2014 were as follows:

	August 3, 2014		February 2, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Assets:				
Cash and cash equivalents	$ 35,680	$ 35,680	$ 55,748	$ 55,748
Receivables	28,391	28,391	25,268	25,268
Receivables from equity method franchisees	739	739	675	675
Liabilities:				
Accounts payable	16,049	16,049	16,788	16,788
Agricultural commodity futures contracts	434	434	313	313
Lease obligations (including current portion)	5,591	5,591	2,003	2,003

The carrying values of all financial instruments approximate their fair values at August 3, 2014 and February 2, 2014.

Note 12 — Derivative Instruments

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are commodity price risk and interest rate risk. The Company does not hold or issue derivative instruments for trading purposes.

The Company is exposed to credit-related losses in the event of non-performance by the counterparties to its derivative instruments. The Company mitigates this risk of nonperformance by dealing with highly rated counterparties.

Additional disclosure about the fair value of derivative instruments is included in Note 11.

Commodity Price Risk

The Company is exposed to the effects of commodity price fluctuations in the cost of ingredients of its products, of which flour, sugar and shortening are the most significant. In order to bring greater stability to the cost of ingredients, from time to time the Company purchases exchange-traded commodity futures contracts, and options on such contracts, for raw materials which are ingredients of its products or which are components of such ingredients, including wheat and soybean oil. The Company is also exposed to the effects of commodity price fluctuations in the cost of gasoline used by its delivery vehicles. To mitigate the risk of fluctuations in the price of its gasoline purchases, the Company may purchase exchange-traded commodity futures contracts and options on such contracts. The difference between the cost, if any, and the fair value of commodity derivatives is reflected in earnings because the Company has not designated any of these instruments as hedges. Gains and losses on these contracts are intended to offset losses and gains on the hedged transactions in an effort to reduce the earnings volatility resulting from fluctuating commodity prices. The settlement of commodity derivative contracts is reported in the consolidated statement of cash flows as a cash flow from operating activities. At August 3, 2014, the Company had commodity derivatives with an aggregate contract volume of approximately 1.2 million bushels of wheat. Other than the requirement to meet minimum margin requirements with respect to the commodity derivatives, there are no collateral requirements related to such contracts.

Interest Rate Risk

The Company is exposed to market risk from increases in interest rates on any borrowings outstanding under its secured revolving credit facility. As of August 3, 2014, there were no borrowings outstanding under such facility. During the second quarter of fiscal 2014, the Company repaid in full the remaining balance of its 2011 Term Loan.

On March 3, 2011, the Company entered into an interest rate derivative contract having an aggregate notional principal amount of $17.5 million. The derivative contract entitled the Company to receive from the counterparty the excess, if any, of the three-month LIBOR rate over 3.00% for each of the calendar quarters in the period beginning April 2012 and ending December 2015. The Company accounted for this derivative contract as a cash flow hedge. The contract was terminated in July 2013 following the retirement in full of the 2011 Term Loan. In the second quarter of fiscal 2014, as a result of the termination of the contract, the $516,000 unrealized loss on the contract previously included in AOCI was reclassified to earnings in the consolidated statement of income because the hedged forecasted transaction (interest on the 2011 Term Loan) would not occur.

Quantitative Summary of Derivative Positions and Their Effect on Results of Operations

The following table presents the fair values of derivative instruments included in the consolidated balance sheet as of August 3, 2014 and February 2, 2014:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Liability Derivatives Fair Value August 3, 2014	February 2, 2014
		(In thousands)	
Agricultural commodity futures contracts	Accrued liabilities	$ 434	$ 313

The effects of derivative instruments on the consolidated statement of income for the three and six months ended August 3, 2014 and August 4, 2013 were as follows:

Derivatives Not Designated as Hedging Instruments	Location of Derivative Gain or (Loss) Recognized in Income	Amount of Derivative Gain or (Loss) Recognized in Income — Three Months Ended August 3, 2014	Three Months Ended August 4, 2013	Six Months Ended August 3, 2014	Six Months Ended August 4, 2013
		(In thousands)			
Agricultural commodity futures contracts	Direct operating expenses	$ (1,341)	$ (410)	$ 103	$ (580)

Derivatives Designated as a Cash Flow Hedge	Location of Derivative Gain or (Loss) Recognized in Income	Amount of Derivative Gain or (Loss) Recognized in Income — Three Months Ended August 3, 2014	Three Months Ended August 4, 2013	Six Months Ended August 3, 2014	Six Months Ended August 4, 2013
		(In thousands)			
Interest rate derivative	Interest expense	$ -	$ (20)	$ -	$ (39)
Interest rate derivative	Loss on retirement of debt	$ -	$ (516)	$ -	$ (516)

Derivatives Designated as a Cash Flow Hedge	Derivative Gain or (Loss) Recognized in OCI	Amount of Derivative Gain or (Loss) Recognized in OCI — Three Months Ended August 3, 2014	Three Months Ended August 4, 2013	Six Months Ended August 3, 2014	Six Months Ended August 4, 2013
		(In thousands)			
Interest rate derivative	Change in fair value of derivative	$ -	$ 26	$ -	$ 36
	Less - income tax effect	-	(10)	-	(14)
		-	16	-	22
	Loss on cash flow hedge reclassified to net income, previously charged to other comprehensive income	-	516	-	516
	Less - income tax effect	-	(200)	-	(200)
		-	316	-	316
	Net change in amount recognized in OCI	$ -	$ 332	$ -	$ 338

Note 13 — Acquisitions and Divestitures

Acquisition of Krispy Kreme Shops

On June 17, 2014, the Company acquired the business and operating assets of its franchisee in Birmingham, Alabama, consisting of four Krispy Kreme shops that had fiscal 2014 sales of approximately $9 million. The acquired assets also include the seller's franchise rights for 13 counties in Alabama. The total consideration was approximately $7.5 million cash. In connection with the acquisition, the Company entered into leases with the seller for three of the shops and assumed a lease with an unrelated party on the fourth shop.

The Company recorded charges to earnings related to the acquisition of $431,000 in the quarter ended August 3, 2014, which are included in direct operating expenses. The charges include $343,000 for the settlement of the pre-existing franchise contract between the Company and the franchisee, certain terms of which were unfavorable, from the Company's point of view, to current market terms. The charge was determined by discounting to present value as of the acquisition date the excess of royalties on the acquired business's sales at the Company's current prevailing royalty rates over the lower royalties otherwise payable by the former franchisee pursuant to the terminated franchise agreement. The discount rate used reflected both the time value of money and the level of risk associated with achievement of the related cash flows. The Company also expensed transaction costs related to the acquisition of $88,000.

The cost of the acquired business was allocated as follows:

	(In thousands)
Purchase price allocated to:	
Working capital, exclusive of cash	$ (5)
Property and equipment	710
Reacquired franchise rights associated with the Company stores segment	3,853
Goodwill associated with the Company Stores segment	2,594
	$ 7,152

Amounts allocated to reacquired franchise rights are being amortized by charges to earnings on a straight-line basis through March 2020, which was the expiration date of the terminated franchise agreement. All of the goodwill recognized in the acquisition for financial reporting purposes is expected to be deductible for income tax purposes.

The results of operations of the acquired business subsequent to the acquisition had no material effect on the Company's consolidated results of operations. The Company's results of operations for the three and six months ended August 4, 2013, computed on a pro forma basis assuming the acquisition had been consummated at the beginning of those periods, would not be materially different from the Company's historical results of operations and, accordingly, have been omitted.

In December 2013, the Company acquired the land, building and doughnut-making equipment at a facility in Illinois that had fiscal 2014 sales of approximately $3 million. The aggregate purchase price for the facility was approximately $1.6 million cash, all of which was allocated to property and equipment. The facility was being operated as a Krispy Kreme shop pursuant to a management agreement approved by the Company between the facility's former owner and one of the Company's franchisees. The management agreement was terminated in connection with the Company's acquisition of the facility, and was replaced by an operating agreement between the Company and the franchisee. Pursuant to the operating agreement, the Company agreed to permit the franchisee to continue to operate the facility for its account through June 2014 in exchange for monthly rental payments, and the payment of amounts based on the facility's sales equivalent to the amounts that would be payable to the Company if the facility were subject to a franchise agreement. The Company assumed operation of the facility for its own account in July 2014. The Company's results of operations for the three and six months ended August 4, 2013, computed on a pro forma basis assuming the acquisition had been consummated at the beginning of those periods, would not be materially different from the Company's historical results of operations and, accordingly, have been omitted.

Asset Divestitures

On July 11, 2013, the Company refranchised three Company-owned stores in the Dallas market to a new franchisee. The aggregate purchase price for the assets was $681,000 cash. The three stores had total sales of approximately $7 million in fiscal 2013, of which approximately 45% represented wholesale sales. The franchise agreements with the new franchisee do not include wholesale sales rights. The Company Stores segment recorded a gain of $876,000 on the refranchising transaction, which was included in direct operating expenses in the second quarter of fiscal 2014. The gain includes approximately $462,000 related to the sale of equipment, and approximately $414,000 related to the reversal of accrued rent expense related to a store lease assigned to the franchisee where the Company was relieved of the primary lease obligation. The Company leased the other two stores, which the Company owns, to the franchisee. In connection with the refranchising, the Company executed a development agreement with the franchisee to develop 15 additional Krispy Kreme locations in the market through fiscal 2019. In July 2014, the Company received a notice that the franchisee intends to exercise its option to acquire the two stores it leased from the Company; the aggregate purchase price is $2.1 million cash.

On February 22, 2013, the Company refranchised three stores in the Kansas/Missouri market to a new franchisee who was a former employee of the Company; the Company closed a fourth store in the market in January 2013 in anticipation of the transaction. The aggregate purchase price of the assets was approximately $1.1 million, evidenced by a 7% promissory note payable in installments equal to 3.5% of the stores' sales beginning in February 2013. The four stores had total sales of approximately $9 million in fiscal 2013. The Company did not record a significant gain or loss on this refranchising transaction.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere herein.

Results of Operations

The following table sets forth operating metrics for the three and six months ended August 3, 2014 and August 4, 2013.

	Three Months Ended		Six Months Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
Change in Same Store Sales (on-premises sales only):				
Company stores	1.1 %	10.5 %	(0.2)%	11.4 %
Domestic Franchise stores	3.8 %	12.0 %	4.2 %	11.9 %
International Franchise stores	(1.0)%	(11.2)%	(2.8)%	(9.6)%
International Franchise stores, in constant dollars[1]	(2.4)%	(7.1)%	(2.3)%	(5.8)%
Change in Same Store Customer Count - Company stores (retail sales only)	0.8 %	8.0 %	(1.8)%	9.7 %
Average guest check - Company stores (retail sales only)	$ 7.67	$ 7.68	$ 7.56	$ 7.49
Wholesale Metrics (Company stores only):				
Average weekly number of doors served:				
Grocers/mass merchants	5,305	5,283	5,255	5,327
Convenience stores	4,702	4,503	4,648	4,492
Average weekly sales per door:				
Grocers/mass merchants	$ 352	$ 353	$ 357	$ 359
Convenience stores	250	262	251	264
Systemwide Sales (in thousands):[2]				
Company stores	$ 77,806	$ 74,893	$157,624	$156,014
Domestic Franchise stores	84,096	78,616	171,807	159,602
International Franchise stores	114,706	102,971	229,217	213,226
International Franchise stores, in constant dollars[3]	114,706	104,958	229,217	213,137
Average Weekly Sales Per Store (in thousands):[4] [5]				
Company stores:				
Factory stores:				
Commissaries — wholesale	$ 214.9	$ 203.4	$ 213.6	$ 203.3
Dual-channel stores:				
On-premises	36.4	34.8	38.2	37.9
Wholesale	48.5	50.4	49.2	51.1
Total	84.9	85.2	87.4	89.0
On-premises only stores	34.4	37.2	36.3	38.9
All factory stores	70.6	75.1	72.8	78.0
Satellite stores	21.2	20.7	22.2	22.0
All stores	60.9	62.5	63.0	65.0
Domestic Franchise stores:				
Factory stores	$ 50.5	$ 51.9	$ 51.7	$ 53.1
Satellite stores	17.6	18.1	18.3	18.3
International Franchise stores:				
Factory stores	$ 40.5	$ 38.3	$ 40.6	$ 39.7
Satellite stores	9.2	9.3	9.4	9.9

(1) Represents the change in International Franchise same store sales computed by reconverting franchise store sales in each foreign currency to U.S. dollars at a constant rate of exchange for each period.
(2) Excludes sales among Company and franchise stores.
(3) Represents International Franchise store sales computed by reconverting International Franchise store sales for the three and six months ended August 4, 2013 to U.S. dollars based upon the weighted average of the exchange rates prevailing in the three and six months ended August 3, 2014.
(4) Includes sales between Company and franchise stores.
(5) Metrics for the three and six months ended August 3, 2014 and August 4, 2013 include only stores open at the respective period end.

In the first quarter of fiscal 2015, the Company revised its methodology for computing its same store sales metric. Under the revised methodology, shops are included in the same store sales computation after 18 months of operation, compared to 13 months under the former methodology. The Company believes that deferring stores' entry into the same store sales metric until week 79 results in a more meaningful measurement of comparable sales because, in most cases, substantially all of the elevated sales levels typically experienced in the initial weeks following the opening of a new Krispy Kreme shop will no longer be reflected in the metric.

All same store sales change metrics in this current report reflect the new methodology for all periods. The Company filed a Current Report on Form 8-K on May 8, 2014 providing quarterly tables showing the change in same store sales for Company, domestic franchise and international franchise shops for fiscal 2012 through fiscal 2014 calculated using the revised computational methodology and using the former methodology.

The change in "same store sales" is computed by dividing the aggregate on-premises sales (including fundraising sales) during the current year period for all stores which had been open for more than 78 consecutive weeks during the current year (but only to the extent such sales occurred in the 79th or later week of each store's operation) by the aggregate on-premises sales of such stores for the comparable weeks in the preceding year. Once a store has been open for at least 79 consecutive weeks, its sales are included in the computation of same store sales for all subsequent periods. In the event a store is closed temporarily (for example, for remodeling) and has no sales during one or more weeks, such store's sales for the comparable weeks during the earlier or subsequent period are excluded from the same store sales computation. The change in same store customer count is similarly computed, but is based upon the number of retail transactions reported in the Company's point-of-sale system.

For wholesale sales, "average weekly number of doors" represents the average number of customer locations to which product deliveries were made during a week, and "average weekly sales per door" represents the average weekly sales to each such location.

Systemwide sales, a non-GAAP financial measure, include sales by both Company and franchise Krispy Kreme stores. The Company believes systemwide sales data are useful in assessing consumer demand for the Company's products, the overall success of the Krispy Kreme brand and, ultimately, the performance of the Company. All of the Company's royalty revenues are computed as percentages of sales made by the Company's domestic and international franchisees, and substantially all of KK Supply Chain's external sales of doughnut mixes and other ingredients ultimately are determined by demand for the Company's products at franchise stores. Accordingly, sales by the Company's franchisees have a direct effect on the Company's royalty and KK Supply Chain revenues, and therefore on the Company's profitability. The Company's consolidated financial statements appearing elsewhere herein include sales by Company stores, sales to franchisees by the KK Supply Chain business segment, and royalties and fees received from franchise stores based on their sales, but exclude sales by franchise stores to their customers.

The following table sets forth data about the number of systemwide stores as of August 3, 2014 and August 4, 2013.

	August 3, 2014	August 4, 2013
Number of Stores Open At Period End:		
Company stores:		
Factory:		
Commissaries	7	7
Dual-channel stores	33	31
On-premises only stores	42	34
Satellite stores	21	21
Total Company stores	103	93
Domestic Franchise stores:		
Factory stores	109	105
Satellite stores	51	45
Total Domestic Franchise stores	160	150
International Franchise stores:		
Factory stores	128	119
Satellite stores	493	427
Total International Franchise stores	621	546
Total systemwide stores	884	789

The following table sets forth data about the number of store operating weeks for the three and six months ended August 3, 2014 and August 4, 2013.

	Three Months Ended		Six Months Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
Store Operating Weeks:				
Company stores:				
Factory stores:				
Commissaries	91	91	182	182
Dual-channel stores	414	430	817	878
On-premises only stores	529	427	1,036	840
Satellite stores	255	273	488	539
Domestic Franchise stores:(1)				
Factory stores	1,416	1,320	2,810	2,627
Satellite stores	684	576	1,359	1,136
International Franchise stores:(1)				
Factory stores	1,408	1,359	2,788	2,705
Satellite stores	6,216	5,391	12,120	10,497

(1) Metrics for the three and six months ended August 3, 2014 and August 4, 2013 include only stores open at the respective period end.

The following table sets forth the types and locations of Company stores as of August 3, 2014.

	Number of Company Stores			
State	Factory Stores	Hot Shops	Fresh Shops	Total
Alabama	4	3	-	7
District of Columbia	-	1	-	1
Florida	6	-	-	6
Georgia	11	4	-	15
Illinois	1	-	-	1
Indiana	3	1	-	4
Kansas	2	-	-	2
Kentucky	3	1	-	4
Louisiana	1	-	-	1
Maryland	2	-	-	2
Michigan	3	-	-	3
Mississippi	1	-	-	1
Missouri	1	-	-	1
New York	-	-	1	1
North Carolina	14	4	-	18
Ohio	6	-	-	6
South Carolina	6	2	-	8
Tennessee	11	2	-	13
Virginia	6	2	-	8
West Virginia	1	-	-	1
Total	82	20	1	103

Changes in the number of Company stores during the three and six months ended August 3, 2014 and August 4, 2013 are summarized in the table below.

	Number of Company Stores			
	Factory Stores	Hot Shops	Fresh Shops	Total
Three months ended August 3, 2014				
May 4, 2014	78	18	1	97
Opened	1	-	-	1
Closed	-	-	-	-
Change in store type	1	(1)	-	-
Transferred from Domestic Franchise	2	3	-	5
August 3, 2014	82	20	1	103
Six months ended August 3, 2014				
February 2, 2014	76	18	1	95
Opened	3	-	-	3
Closed	-	-	-	-
Change in store type	1	(1)	-	-
Transferred from Domestic Franchise	2	3	-	5
August 3, 2014	82	20	1	103
Three months ended August 4, 2013				
May 5, 2013	74	20	1	95
Opened	2	-	-	2
Closed	(1)	-	-	(1)
Transferred to Domestic Franchise	(3)	-	-	(3)
August 4, 2013	72	20	1	93
Six months ended August 4, 2013				
February 3, 2013	76	20	1	97
Opened	3	-	-	3
Closed	(1)	-	-	(1)
Transferred to Domestic Franchise	(6)	-	-	(6)
August 4, 2013	72	20	1	93

The following table sets forth the types and locations of domestic franchise stores as of August 3, 2014.

State	Number of Domestic Franchise Stores			
	Factory Stores	Hot Shops	Fresh Shops	Total
Alabama	4	-	-	4
Arizona	2	5	-	7
Arkansas	2	-	-	2
California	15	11	3	29
Colorado	2	-	-	2
Connecticut	1	-	3	4
Delaware	1	-	-	1
Florida	12	7	1	20
Georgia	5	3	-	8
Hawaii	1	-	-	1
Idaho	1	-	-	1
Illinois	2	-	-	2
Iowa	1	-	1	2
Kansas	1	-	-	1
Louisiana	2	-	-	2
Mississippi	3	1	-	4
Missouri	4	1	-	5
Nebraska	1	-	1	2
Nevada	3	-	2	5
New Jersey	-	1	-	1
New Mexico	1	1	1	3
North Carolina	7	1	-	8
Oklahoma	2	-	-	2
Oregon	2	-	-	2
Pennsylvania	4	3	1	8
South Carolina	6	2	-	8
Tennessee	1	-	-	1
Texas	14	2	-	16
Utah	2	-	-	2
Washington	6	-	-	6
Wisconsin	1	-	-	1
Total	109	38	13	160

Changes in the number of domestic franchise stores during the three and six months ended August 3, 2014 and August 4, 2013 are summarized in the table below.

	Number of Domestic Franchise Stores			
	Factory Stores	Hot Shops	Fresh Shops	Total
Three months ended August 3, 2014				
May 4, 2014	109	40	14	163
Opened	2	1	-	3
Closed	-	-	(1)	(1)
Transferred to Company Stores	(2)	(3)	-	(5)
August 3, 2014	109	38	13	160
Six months ended August 3, 2014				
February 2, 2014	107	37	15	159
Opened	4	4	-	8
Closed	-	-	(2)	(2)
Transferred to Company Stores	(2)	(3)	-	(5)
August 3, 2014	109	38	13	160
Three months ended August 4, 2013				
May 5, 2013	102	30	14	146
Opened	-	1	-	1
Closed	-	-	-	-
Transferred from Company Stores	3	-	-	3
August 4, 2013	105	31	14	150
Six months ended August 4, 2013				
February 3, 2013	99	29	14	142
Opened	-	2	-	2
Closed	-	-	-	-
Transferred from Company Stores	6	-	-	6
August 4, 2013	105	31	14	150

The types and locations of international franchise stores as of August 3, 2014 are summarized in the table below.

	Number of International Franchise Stores					
Country	Fiscal Year First Store Opened	Factory Stores	Hot Shops	Fresh Shops	Kiosks	Total
Australia	2004	6	1	6	6	19
Bahrain	2009	1	-	1	-	2
Canada	2002	4	-	2	-	6
Dominican Republic	2011	1	-	2	-	3
India	2013	4	-	8	2	14
Indonesia	2007	1	-	6	8	15
Japan	2007	17	-	38	3	58
Kuwait	2007	1	-	7	6	14
Lebanon	2009	1	-	1	-	2
Malaysia	2010	2	-	2	6	10
Mexico	2004	9	1	39	67	116
Philippines	2007	7	3	34	7	51
Puerto Rico	2009	7	-	-	-	7
Qatar	2008	1	-	-	-	1
Russia	2014	2	-	2	2	6
Saudi Arabia	2008	10	-	67	20	97
Singapore	2014	2	-	2	-	4
South Korea	2005	31	-	58	-	89
Taiwan	2014	2	-	-	1	3
Thailand	2011	3	2	4	5	14
Turkey	2010	1	-	12	9	22
United Arab Emirates	2008	2	-	9	7	18
United Kingdom	2004	13	2	27	8	50
Total		128	9	327	157	621

Changes in the number of international franchise stores during the three and six months ended August 3, 2014 and August 4, 2013 are summarized in the table below.

	Number of International Franchise Stores				
	Factory Stores	Hot Shops	Fresh Shops	Kiosks	Total
Three months ended August 3, 2014					
May 4, 2014	126	9	310	150	595
Opened	3	-	20	7	30
Closed	(1)	-	(3)	-	(4)
August 3, 2014	128	9	327	157	621
Six months ended August 3, 2014					
February 2, 2014	125	9	296	144	574
Opened	5	-	34	14	53
Closed	(2)	-	(3)	(1)	(6)
August 3, 2014	128	9	327	157	621
Three months ended August 4, 2013					
May 5, 2013	121	9	271	131	532
Opened	1	-	11	7	19
Closed	(2)	-	(3)	-	(5)
Change in store type	(1)	-	1	-	-
August 4, 2013	119	9	280	138	546
Six months ended August 4, 2013					
February 3, 2013	120	9	257	123	509
Opened	4	-	27	15	46
Closed	(4)	-	(5)	-	(9)
Change in store type	(1)	-	1	-	-
August 4, 2013	119	9	280	138	546

Three months ended August 3, 2014 compared to three months ended August 4, 2013

The following discussion of the Company's results of operations should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere herein.

Non-GAAP Measures

The Company has substantial net operating loss carryforwards and, accordingly, the Company's cash payments for income taxes are not significant and are expected to remain insignificant for the foreseeable future. See "Provision for Income Taxes" below.

Management evaluates the Company's results of operations using, among other measures, adjusted net income and adjusted earnings per share, which reflect the provision for income taxes only to the extent such taxes are currently payable in cash. In addition, management excludes from adjusted net income charges and credits that are unusual and infrequently occurring. Management believes adjusted net income and adjusted earnings per share are useful performance measures because they more closely measure the cash flows generated by the Company's operations and the trends in those cash flows than do GAAP net income and earnings per share, and because they exclude the effects of transactions that are not indicative of the Company's ongoing results of operations.

In the second quarter of fiscal 2014, the Company recorded a charge of $967,000 related to the retirement of its secured credit facilities, consisting of the writeoff of unamortized deferred financing costs related to the Company's term loan, which was retired in full, and the termination of an interest rate hedge related to the term loan. Charges of this nature are not expected to recur on a regular basis.

The following presentation of adjusted net income, the related reconciliation of adjusted net income to GAAP net income, and the presentation of adjusted earnings per share are intended to illustrate the material difference between the Company's income tax expense and income taxes currently payable, and to facilitate comparisons of second quarter fiscal 2015 results with the Company's results for the second quarter of fiscal 2014 in light of the costs incurred in connection with the retirement of the term loan. These non-GAAP performance measures are consistent with other measurements made by management in the operation of the business which do not consider income taxes except to the extent to which those taxes currently are payable, for example, capital allocation decisions and incentive compensation measurements that are made on a pretax basis.

	Three Months Ended	
	August 3, 2014	August 4, 2013
	(In thousands, except per share amounts)	
Net income, as reported	$ 5,752	$ 4,717
Loss on retirement of debt	-	967
Provision for deferred income taxes	3,226	3,945
Adjusted net income	$ 8,978	$ 9,629
Adjusted earnings per common share:		
Basic	$ 0.14	$ 0.14
Diluted	$ 0.13	$ 0.14
Weighted average shares outstanding:		
Basic	66,008	67,267
Diluted	68,725	71,089

Overview

Total revenues rose by 6.9% to $120.5 million for the three months ended August 3, 2014 compared to $112.7 million for the three months ended August 4, 2013. Consolidated operating income was $9.6 million compared to $10.6 million, and consolidated net income was $5.8 million compared to $4.7 million.

Revenues by business segment (expressed in dollars and as a percentage of total revenues) are set forth in the table below (percentage amounts may not add to totals due to rounding).

	Three Months Ended	
	August 3, 2014	August 4, 2013
	(Dollars in thousands)	
Revenues by business segment:		
Company Stores	$ 78,535	$ 75,689
Domestic Franchise	3,296	2,799
International Franchise	7,534	6,057
KK Supply Chain:		
Total revenues	59,503	57,201
Less - intersegment sales elimination	(28,352)	(29,017)
External KK Supply Chain revenues	31,151	28,184
Total revenues	$ 120,516	$ 112,729
Segment revenues as a percentage of total revenues:		
Company Stores	65.2 %	67.1 %
Domestic Franchise	2.7	2.5
International Franchise	6.3	5.4
KK Supply Chain (external sales)	25.8	25.0
	100.0 %	100.0 %
Segment operating results:		
Company Stores	$ 1,261	$ 1,790
Domestic Franchise	1,900	1,526
International Franchise	5,111	4,239
KK Supply Chain	8,489	8,999
Total segment operating income	16,761	16,554
General and administrative expenses	(6,737)	(5,655)
Corporate depreciation and amortization expense	(362)	(295)
Impairment charges and lease termination costs	(38)	(4)
Consolidated operating income	9,624	10,600
Interest income	64	70
Interest expense	(162)	(354)
Loss on retirement of debt	-	(967)
Equity in losses of equity method franchisee	(61)	(60)
Other non-operating income and (expense), net	152	(1)
Income before income taxes	9,617	9,288
Provision for income taxes	3,865	4,571
Consolidated net income	$ 5,752	$ 4,717

A discussion of the revenues and operating results of each of the Company's four business segments follows, together with a discussion of income statement line items not associated with specific segments.

Company Stores

The components of Company Stores revenues and expenses (expressed in dollars and as a percentage of total revenues) are set forth in the table below (percentage amounts may not add to totals due to rounding).

	Three Months Ended		Percentage of Total Revenues Three Months Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
	(In thousands)			
Revenues:				
On-premises sales:				
Retail sales	$ 36,124	$ 33,581	46.0 %	44.4 %
Fundraising sales	2,696	2,559	3.4	3.4
Total on-premises sales	38,820	36,140	49.4	47.7
Wholesale sales:				
Grocers/mass merchants	23,977	23,937	30.5	31.6
Convenience stores	14,565	14,647	18.5	19.4
Other wholesale	1,173	965	1.5	1.3
Total wholesale sales	39,715	39,549	50.6	52.3
Total revenues	78,535	75,689	100.0	100.0
Operating expenses:				
Cost of sales:				
Food, beverage and packaging	29,619	29,045	37.7	38.4
Shop labor	14,547	13,881	18.5	18.3
Delivery labor	6,211	6,151	7.9	8.1
Employee benefits	4,739	5,578	6.0	7.4
Total cost of sales	55,116	54,655	70.2	72.2
Vehicle costs(1)	4,274	4,235	5.4	5.6
Occupancy(2)	2,712	2,455	3.5	3.2
Utilities expense	1,682	1,582	2.1	2.1
Depreciation and amortization expense	2,457	2,174	3.1	2.9
Business acquisition charges	431	-	0.5	-
Gain on refranchising	-	(876)	-	(1.2)
Other store operating expenses	5,984	5,039	7.6	6.7
Total store level costs	72,656	69,264	92.5	91.5
Store operating income	5,879	6,425	7.5	8.5
Other segment operating costs(3)	3,543	3,560	4.5	4.7
Allocated corporate overhead	1,075	1,075	1.4	1.4
Segment operating income	$ 1,261	$ 1,790	1.6 %	2.4 %

(1) Includes fuel, maintenance and repairs, rent, taxes and other costs of operating the delivery fleet, exclusive of depreciation.
(2) Includes rent, property taxes, common area maintenance charges, insurance, building maintenance and other occupancy costs, exclusive of utilities and depreciation.
(3) Includes marketing costs not charged to stores, segment management costs, wholesale selling expenses and support functions.

Sales at Company Stores increased 3.8% to $78.5 million in the second quarter of fiscal 2015 from $75.7 million in the second quarter of fiscal 2014.

A reconciliation of Company Stores segment sales from the second quarter of fiscal 2014 to the second quarter of fiscal 2015 follows:

	On-Premises	Wholesale	Total
		(In thousands)	
Sales for the three months ended August 4, 2013	$ 36,140	$ 39,549	$ 75,689
Fiscal 2014 sales at closed stores	(440)	(201)	(641)
Fiscal 2014 sales at stores refranchised in fiscal 2014	(739)	(580)	(1,319)
Increase in sales at established stores (open stores only)	473	427	900
Increase in sales at stores opened in fiscal 2014	931	-	931
Sales at stores acquired in fiscal 2015	1,032	520	1,552
Sales at stores opened in fiscal 2015	1,423	-	1,423
Sales for the three months ended August 3, 2014	$ 38,820	$ 39,715	$ 78,535

On-premises sales

On-premises sales increased 7.4% to $38.8 million in the second quarter of fiscal 2015.

The following table presents on-premises sales metrics for Company stores:

	Three Months Ended	
	August 3, 2014	August 4, 2013
On-premises:		
Change in same store sales	1.1 %	10.5 %
Change in same store customer count (retail sales only)	0.8 %	8.0 %
Average guest check (retail sales only)	$ 7.67	$ 7.68

The components of the change in same store sales at Company stores are as follows:

	Three Months Ended	
	August 3, 2014	August 4, 2013
Change in same store sales:		
Retail pricing	1.8 %	3.8 %
Guest check average (exclusive of the effects of pricing)	(1.4)	(0.5)
Customer count	0.7	7.3
Fundraising pricing	0.5	-
Other	(0.5)	(0.1)
Total	1.1 %	10.5 %

Retail and fundraising price increases implemented in the first quarter of fiscal 2015 drove increases in same store sales of 1.8 and 0.5 percentage points, respectively, exclusive of any effects of higher pricing on unit volumes; such effects are difficult to measure reliably. On February 3, 2014, the Company implemented retail price increases affecting items comprising approximately 70% of retail sales; the average price increase on these items was approximately 3%. The Company implemented somewhat larger retail price increases approximately one year earlier. On March 3, 2014, the Company implemented a fundraising price increase of approximately 9%.

The positive effects of the fiscal 2015 pricing actions on same store sales (2.3 percentage points in the aggregate) and a 0.7 percentage point gain from higher customer traffic were partially offset by non-pricing changes in the average guest check, which reduced same store sales by 1.4 percentage points. The Company believes a decrease in average guest check resulting from an increase in consumer incentives in the second quarter was partially offset by a positive change in sales mix. The Company believes that normal cannibalization effects from new stores in some markets in which the Company is opening additional stores negatively affected traffic at existing shops in those markets, which adversely affected same store customer traffic during the quarter. “Cannibalization effect” means the tendency for new stores to generate sales, at least in part, by “shifting” sales from existing stores in the same market. The Company’s goal is to increase total sales of its products and the Company’s profitability in each market it serves by adding additional Krispy Kreme shops in markets the Company believes it has not fully penetrated.

The Company believes that growth in same store customer traffic was an important contributor to the expansion of operating margin in the Company Stores segment in fiscal 2013 and fiscal 2014. The contribution to same store sales from higher customer traffic has declined from its peak of 11.2% in the fourth quarter of fiscal 2013. The Company continuously evaluates and adjusts it marketing, promotional and operational activities and techniques with the goal of increasing customer traffic in its shops, which management believes will continue to be an important factor in the profitability of the Company Stores business segment.

Wholesale sales

The following table presents wholesale sales metrics for Company stores:

	Three Months Ended	
	August 3, 2014	August 4, 2013
Wholesale:		
Grocers/mass merchants:		
Change in average weekly number of doors	0.4 %	(5.4)%
Change in average weekly sales per door	(0.3) %	9.6 %
Convenience stores:		
Change in average weekly number of doors	4.4 %	0.7 %
Change in average weekly sales per door	(4.6) %	6.5 %

Sales to grocers and mass merchants were flat at approximately $24.0 million, with a 0.4% increase in the average number of doors served offset by a 0.3% decline in average weekly sales per door. Sales of packaged products comprise substantially all of the Company's sales to grocers and mass merchants.

Sales to convenience stores were flat at $14.6 million, reflecting a 4.6% decrease in the average weekly sales per door offset by a 4.4% increase in the average number of doors served. The majority of the door growth in the second quarter of fiscal 2015 reflects new doors at existing customers and an increase in doors resulting from the acquisition of stores in the Birmingham, Alabama market, partially offset by a reduction of doors from the refranchising of stores in the Dallas market in fiscal 2014. Sales of loose unpackaged products comprise approximately 80% of sales to convenience store customers, with the balance comprised of sales of packaged products.

Costs and expenses

Total cost of sales as a percentage of revenues decreased by 2.0 percentage points from the second quarter of fiscal 2014 to 70.2% of revenues in the second quarter of fiscal 2015.

The cost of food, beverage and packaging as a percentage of revenues decreased 0.7 percentage points to 37.7% in the second quarter of fiscal 2015. The decrease reflects, among other things, a greater percentage of sales derived from on-premises customers compared to the second quarter of fiscal 2014. The cost of food, beverage and packaging as a percentage of sales is often greater in the wholesale distribution channel compared to the on-premises channel because average product selling prices generally are lower in the wholesale distribution channel and because of the effect of returns in the wholesale distribution channel. Input costs of food, beverage and packaging were, in the aggregate, largely unchanged in the second quarter of fiscal 2015 compared to the prior year period.

KK Supply Chain, which sells doughnut mixes, other ingredients and supplies to Company and franchise stores, has entered into contracts to purchase the majority its remaining fiscal 2015 flour and shortening requirements, and all of its estimated sugar requirements. For fiscal 2016, KK Supply Chain has entered into contracts to purchase substantially all of its estimated sugar requirements.

Employee benefits as a percentage of revenues decreased from 7.4% in the second quarter of fiscal 2014 to 6.0% in the second quarter of fiscal 2015, principally due to lower healthcare costs in the second quarter of fiscal 2015 compared to the second quarter of fiscal 2014. The Company is self-insured for healthcare costs (subject to stop-loss coverage for large individual claims); accordingly, variations from period to period in the number and severity of medical claims directly affect the Company's results of operations.

The Company is self-insured for workers' compensation, vehicle and general liability claims, but maintains stop-loss coverage for individual claims exceeding certain amounts. The Company provides for claims under these self-insured programs using actuarial methods as described in the 2014 Form 10-K, and periodically updates actuarial valuations of its self-insurance reserves. Such periodic actuarial valuations result in changes over time in the estimated amounts which ultimately will be paid for claims under these programs to reflect the Company's actual claims experience for each policy year as well as trends in claims experience over multiple years. Such claims, particularly workers' compensation claims, often are paid over a number of years following the year in which the insured events occur, and the estimated ultimate cost of each year's claims accordingly is adjusted over time as additional information becomes available. As a result of the Company's periodic update of its actuarial valuation, the Company recorded favorable adjustments to its self-insurance claims liabilities related to prior policy years of approximately $780,000 in the second quarter of fiscal 2015 and $550,000 in the second quarter of fiscal 2014. The $780,000 favorable adjustment recorded in the second quarter of fiscal 2015 includes a favorable adjustment relating to workers' compensation liability claims of approximately $630,000 included in employee benefits, a favorable adjustment relating to vehicle liability claims of approximately $90,000 included in vehicle costs, and a favorable adjustment relating to general liability claims of approximately $60,000 included in other operating costs. The $550,000 favorable adjustment recorded in the second quarter of fiscal 2014 includes a favorable adjustment relating to workers' compensation liability claims of approximately $390,000 included in employee benefits, a favorable adjustment relating to vehicle liability claims of approximately $50,000 included in vehicle costs, and a favorable adjustment relating to general liability claims of approximately $110,000 included in other operating costs.

Depreciation expense increased due to construction of new stores and store refurbishments at existing stores.

During the second quarter of fiscal 2015, the Company recorded charges of $431,000 related to the acquisition of the business and operating assets of its franchisee in Birmingham, Alabama as more fully described in Note 13 to the consolidated financial statements included elsewhere herein. The charges principally reflect the settlement as part of the acquisition of the pre-existing franchise contract between the Company and the franchisee, certain terms of which were unfavorable, from the Company's point of view, to current market terms of $343,000 and transaction costs related to the acquisition of $88,000.

During the second quarter of fiscal 2014, the Company refranchised three stores in the Dallas market to a new franchisee as more fully described in Note 13 to the consolidated financial statements appearing elsewhere herein. The Company recorded a gain of $876,000 on the refranchising transaction.

Other store level operating expenses increased to $6.0 million (7.6% of revenues) in the second quarter of fiscal 2015 from $5.0 million (6.7% of revenues) in the second quarter of fiscal 2014. The increase reflects, among other things, higher marketing and promotional activities during the quarter.

Other segment operating costs in the second quarter of fiscal 2014 included approximately $285,000 in legal costs related to the litigation associated with the Company's former landlord in Lorton, Virginia which was settled in the fourth quarter of fiscal 2014.

Many other segment operating costs are fixed or semi-fixed in nature and, accordingly, segment profit margins are sensitive to changes in sales volumes.

The Patient Protection and Affordable Care Act (the "Act") requires large employers to offer health care benefits to all full-time employees, or face financial penalties. To avoid these penalties, the health benefits must provide a specified "minimum value" and be "affordable," each as defined in the Act. The penalties associated with the Act, also known as the "employer mandate," have been delayed generally from January 2014 to January 2015. In addition to the employer mandate, under the Act, most persons will be required to obtain health care insurance or face individual financial penalties, which are scheduled to increase over time.

The Company employs persons to whom the Company will be required to offer benefits that meet the minimum value and affordability standards (or pay penalties), but to whom the Company does not currently offer such benefits. In addition, the Company currently offers the required minimum value benefits to certain other employees who do not currently elect to participate in the Company's insurance plans. Assuming the provisions of the Act are implemented as currently enacted, the number of employees covered by the Company's health care plans is likely to increase in 2015, which would cause the Company's health care costs to rise. The Company does not know the amount by which its costs will increase assuming the above provisions of the Act are implemented because, among other reasons, the Company does not know how many additional employees will elect to obtain health insurance benefits from the Company. In addition, certain regulatory guidance which could have an effect on the Company's incremental costs associated with the Act either has not been issued or, if issued, has been revised.

However, management currently does not expect the Company's aggregate incremental costs associated with the Act will exceed its current costs by more than $5 million annually, and the Company currently estimates its incremental costs will be substantially less than such amount. The Company is continuing to study and evaluate the requirements of the Act, and management's estimate of the additional costs associated with it is expected to change as the Company gains additional information and makes further decisions regarding the Act's requirements. In addition, the Company has implemented and expects to continue to implement benefit cost reduction actions designed to mitigate the costs imposed on the Company by the Act. The Company's goal is to prevent the Act's requirements from having a material adverse effect on the Company's results of operations.

Domestic Franchise

	Three Months Ended	
	August 3, 2014	August 4, 2013
	(In thousands)	
Revenues:		
Royalties	$ 2,971	$ 2,671
Development and franchise fees	125	-
Other	200	128
Total revenues	3,296	2,799
Operating expenses:		
Segment operating expenses	1,247	1,151
Depreciation expense	49	22
Allocated corporate overhead	100	100
Total operating expenses	1,396	1,273
Segment operating income	$ 1,900	$ 1,526

Domestic Franchise revenues increased 17.8% to $3.3 million in the second quarter of fiscal 2015. The increase reflects higher domestic royalty revenues resulting from a 7.0% increase in sales by domestic franchise stores from $79 million in the second quarter of fiscal 2014 to $84 million in the second quarter of fiscal 2015, as well as higher development and franchise fees resulting from an increase in store openings. Domestic Franchise same store sales rose 3.8% in the second quarter of fiscal 2015.

Certain franchisees' license agreements provide that the franchisees may develop, with the Company's consent, additional Krispy Kreme shops within the franchise territory without payment of initial franchise or development fees. Accordingly, some shop openings by domestic franchisees do not result in the recognition of such fees.

The increase in other Domestic Franchise revenues principally reflects rental income charged to a franchisee for stores leased or subleased to the franchisees in connection with the Dallas refranchising transaction in the second quarter of fiscal 2014 and rental income charged to another franchisee in connection with the Company's acquisition of the land, building and doughnut-making equipment at a facility in Illinois in December 2013 as more fully described in Note 13 to the consolidated financial statements appearing elsewhere herein. The Company assumed operation of this facility for its own account in July 2014. The Company has received a notice that its Dallas franchisee intends to exercise its option to purchase the two stores leased to it by the Company.

Domestic Franchise segment operating expenses include costs to recruit new domestic franchisees, to assist in domestic store openings, and to monitor and aid in the performance of domestic franchise stores, as well as allocated corporate costs.

Domestic franchisees opened three stores and closed one in the second quarter of fiscal 2015. As of August 3, 2014, development agreements for territories in the United States provide for the development of approximately 100 additional stores through fiscal 2021. Royalty revenues are directly related to sales by franchise stores and, accordingly, the success of franchisees' operations has a direct effect on the Company's revenues, results of operations and cash flows.

International Franchise

	Three Months Ended	
	August 3, 2014	August 4, 2013
	(In thousands)	
Revenues:		
Royalties	$ 7,044	$ 5,812
Development and franchise fees	490	245
Total revenues	7,534	6,057
Operating expenses:		
Segment operating expenses	2,121	1,517
Depreciation expense	2	1
Allocated corporate overhead	300	300
Total operating expenses	2,423	1,818
Segment operating income	$ 5,111	$ 4,239

International Franchise royalties increased 21.2%, driven by an increase in sales by international franchise stores from $103 million in the second quarter of fiscal 2014 to $115 million in the second quarter of fiscal 2015. Changes in the rates of exchange between the U.S. dollar and the foreign currencies in which the Company's international franchisees do business increased sales by international franchisees measured in U.S. dollars by approximately $2.2 million in the second quarter of fiscal 2015 compared to the second quarter of fiscal 2014, which positively affected international royalty revenues by approximately $130,000. Excluding the effects of exchange rates, sales by international franchisees rose 9.3%. The Company recognized royalty revenue of approximately $900,000 and $320,000 collected during the second quarter of fiscal 2015 and 2014, respectively, related to franchisee sales in prior periods which had not previously been recorded as revenue due to the uncertainty surrounding the collection of these royalties. Substantially all of the amounts relate to a single franchisee. There is no prescribed repayment schedule for the remaining $1.9 million owed to the Company by the franchisee and the Company therefore cannot predict the amount or timing of future payments, if any, on this obligation. Accordingly, the Company has not recognized such amount in the financial statements.

International Franchise same store sales, measured on a constant currency basis to eliminate the effects of changing exchange rates between foreign currencies and the U.S. dollar ("constant dollar same store sales"), fell 2.4%. The decline in International Franchise same store sales reflects, among other things, the normal cannibalization effects on initial stores in new markets of additional store openings in those markets.

Constant dollar same store sales in established markets fell 0.3% in the second quarter of fiscal 2015 and fell 4.6% in new markets. "Established markets" means countries in which the first Krispy Kreme store opened before fiscal 2007. Sales at stores in established markets comprised 54% of aggregate constant dollar same store sales for the second quarter of fiscal 2015. While the Company considers countries in which Krispy Kreme first opened before fiscal 2007 to be established markets, franchisees in those markets continue to develop their business. Of the 582 international shops currently in operation that opened since the beginning of fiscal 2007, 241 shops are in these established markets.

International Franchise operating expenses include costs to recruit new international franchisees, to assist in international store openings, and to monitor and aid in the performance of international franchise stores, as well as allocated corporate costs. International Franchise operating expenses increased to $2.1 million in the second quarter of fiscal 2015 from $1.5 million in the second quarter of fiscal 2014, principally reflecting higher personnel and personnel-related costs and other costs to support continuing and anticipated international growth. Operating expenses in the second quarter of fiscal 2015 include a provision for potential uncollectible accounts of approximately $180,000 related to a single franchisee, compared to a net credit in bad debt expense of approximately $120,000 in the second quarter of fiscal 2014 resulting principally from recoveries of accounts previously written-off.

International franchisees opened 30 stores and closed four stores in the second quarter of fiscal 2015. As of August 3, 2014, development agreements for territories outside the United States provide for the development of approximately 340 additional stores through fiscal 2019. Royalty revenues are directly related to sales by franchise stores and, accordingly, the success of franchisees' operations has a direct effect on the Company's revenues, results of operations and cash flows.

KK Supply Chain

The components of KK Supply Chain revenues and expenses (expressed in dollars and as a percentage of total revenues before intersegment sales elimination) are set forth in the table below (percentage amounts may not add to totals due to rounding).

	Three Months Ended		Percentage of Total Revenues Before Intersegment Sales Elimination Three Months Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
	(In thousands)			
Revenues:				
Doughnut mixes	$ 21,061	$ 19,885	35.4 %	34.8 %
Other ingredients, packaging and supplies	34,925	34,109	58.7	59.6
Equipment	2,814	2,523	4.7	4.4
Fuel surcharge	703	684	1.2	1.2
Total revenues before intersegment sales elimination	59,503	57,201	100.0	100.0
Operating expenses:				
Cost of sales:				
Cost of goods produced and purchased	40,540	39,308	68.1	68.7
Loss on agricultural derivatives	1,341	410	2.3	0.7
Inbound freight	1,714	1,611	2.9	2.8
Total cost of sales	43,595	41,329	73.3	72.3
Distribution costs	3,678	3,528	6.2	6.2
Other segment operating costs	3,278	2,873	5.5	5.0
Depreciation expense	163	172	0.3	0.3
Allocated corporate overhead	300	300	0.5	0.5
Total operating costs	51,014	48,202	85.7	84.3
Segment operating income	$ 8,489	$ 8,999	14.3 %	15.7 %

Sales of doughnut mixes rose 5.9% year-over-year in the second quarter of fiscal 2015, principally due to higher unit volumes partially offset by slightly lower selling prices.

Sales of other ingredients, packaging and supplies, made principally to Company and Domestic Franchise stores, rose 2.4% year-over-year in the second quarter of fiscal 2015 due to higher unit volumes partially offset by slightly lower selling prices.

While systemwide sales at Company and Domestic Franchise stores rose in the second quarter of fiscal 2015 compared to the second quarter of the preceding fiscal year, a greater percentage of such sales was to on-premises customers compared to wholesale customers. On-premises sales at Company and Domestic Franchise stores generate proportionately lower KK Supply Chain sales than do sales to wholesale customers.

KK Supply Chain utilizes a fuel surcharge program. Charges under the program are based upon the excess, if any, of the price of diesel fuel over a pre-established base level, with the base level generally adjusted annually.

KK Supply Chain cost of sales increased to 73.3% of revenues in the second quarter of fiscal 2015 from 72.3% of revenues in the second quarter of the preceding fiscal year. Substantially all of the increase reflects net losses on agricultural derivative positions of $1.3 million in the second quarter of fiscal 2015 compared to net losses of $410,000 in the second quarter of fiscal 2014. The Company has not designated any of its derivative positions as cash flow hedges and, accordingly, changes in the market value of those positions are reflected in earnings as they occur.

Other segment operating costs include segment management, purchasing, customer service and support, laboratory and quality control costs, and research and development expenses.

Franchisees opened 33 stores and closed five stores in the second quarter of fiscal 2015. A substantial portion of KK Supply Chain's revenues are directly related to sales by franchise stores and, accordingly, the success of franchisees' operations has a direct effect on the Company's revenues, results of operations and cash flows.

A significant portion of franchise store sales is attributable to sales by franchisees outside the United States. The Company sells doughnut mixes, either manufactured by the Company in the United States or blended by contract mix manufacturers using concentrates supplied by the Company, to all its international franchisees. Most of these franchisees purchase substantially all other ingredients, packaging and supplies through sourcing arrangements approved by the Company. Accordingly, KK Supply Chain revenues are less correlated with sales by international franchisees than with sales by domestic franchisees, which purchase substantially all of their ingredients from KK Supply Chain. Like all international businesses, the Company and its international franchisees must address the risks of international trade, including taxes, tariffs, duties and transportation costs, which can affect the franchisees' product costs and therefore indirectly affect the pace of development. The Company, in cooperation with its international franchisees, continually seeks to mitigate the impact of these factors. For example, the Company has developed premix and concentrate doughnut mix production models, and has been continuously pursuing alternative sourcing arrangements in various markets.

General and Administrative Expenses

General and administrative expenses consist of costs incurred in various functional areas whose activities are not associated exclusively with an individual business segment. Such costs include expenses associated with finance and accounting; internal and external financial reporting, including financial planning and analysis; internal audit; human resources; risk management; information technology; training; corporate office occupancy; public company costs; and executive management. Certain personnel and other costs in some of these functional areas (for example, some of the costs of information technology and human resources) are associated primarily with the operation of individual business segments, and are allocated to those segments as allocated corporate costs. General and administrative expenses in the consolidated statement of income are presented net of such allocated costs, which are reflected in the results of operations of the four operating segments. Such allocated costs totaled $1.8 million in the second quarter of fiscal 2015 and 2014.

General and administrative expenses increased to $6.7 million in the second quarter of fiscal 2015 from $5.7 million in the second quarter of fiscal 2014, and as a percentage of revenues increased to 5.6% from 5.0%.

General and administrative expenses include incremental costs of approximately $900,000 in the second quarter of fiscal 2015 related to the implementation of a new enterprise resource planning system. There were no comparable costs in the second quarter of fiscal 2014.

The increase in general and administrative expenses in the second quarter of fiscal 2015 also reflects higher executive compensation costs related to the transition to a new chief executive officer, partially offset by a decrease in provisions for incentive compensation.

Interest Expense

The components of interest expense are as follows:

	Three Months Ended	
	August 3, 2014	August 4, 2013
	(In thousands)	
Interest accruing on outstanding term loan indebtedness	$ -	$ 106
Letter of credit and unused revolver fees	40	61
Amortization of cost of interest rate derivatives	-	20
Amortization of deferred financing costs	27	107
Other (including interest on lease obligations)	95	60
	$ 162	$ 354

On July 12, 2013, the Company retired its secured credit facilities and repaid the $21.7 million remaining balance of its term loan as described in Note 7 to the consolidated financial statements appearing elsewhere herein.

Loss on Retirement of Debt

The Company recorded a charge of $967,000 in the second quarter of fiscal 2014 related to the retirement of the Company's secured credit facilities, consisting of a $451,000 write-off of unamortized deferred financing costs related principally to the Company's term loan, which was retired in full, and a $516,000 write-off related to the termination of an interest rate hedge related to the term loan. The $516,000 charge related to the interest rate hedge was reclassified from accumulated other comprehensive income to "Loss on retirement of debt" in the consolidated statement of income because the hedged forecasted transaction (interest on the term loan) would not occur.

Equity in Losses of Equity Method Franchisees

The Company recorded equity in the losses of equity method franchisees of $61,000 in the second quarter of fiscal 2015 compared to losses of $60,000 in the second quarter of fiscal 2014. This caption represents the Company's share of operating results of equity method franchisees which develop and operate Krispy Kreme stores.

Other Non-Operating Income and (Expense), Net

Other non-operating income and (expense), net in the second quarter of fiscal 2015 includes payments of approximately $150,000 received from an equity method franchisee in reimbursement for amounts paid by the Company in fiscal 2014 pursuant to the Company's guarantee of the investee's indebtedness. Such repayments are being reflected in income as received due to the uncertainty of their continued collection as more fully described in Note 4 to the consolidated financial statements appearing elsewhere herein.

Provision for Income Taxes

The Company's effective tax rate for the second quarter of fiscal 2015 was 40% compared to 49% for the second quarter of fiscal 2014. Included in income tax expense for the second quarter of fiscal 2014 is a charge of approximately $686,000 (approximately 7.4% of pretax income) to revalue the Company's deferred income tax assets to reflect a reduction in the North Carolina corporate income tax rate enacted by the North Carolina state legislature during the second quarter of fiscal 2014, as described in Note 3 to the consolidated financial statements appearing elsewhere herein.

The portion of the income tax provision representing taxes estimated to be payable currently was $639,000 and $626,000 in the second quarter of fiscal 2015 and fiscal 2014, respectively, consisting principally of foreign withholding taxes related to royalties and franchise fees paid to the Company by international franchisees. The current provision for income taxes also reflects adjustments to accruals for uncertain tax positions, including potential interest and penalties which could result from the resolution of such uncertainties.

The Company's estimated annual effective income tax rate on GAAP ordinary income for fiscal 2015 is 40%. Management's estimate of the fiscal 2015 effective income tax rate is subject to revision in subsequent quarters as additional information becomes available.

See "Results of Operations – Three months ended August 3, 2014 compared to three months ended August 4, 2013 – Non-GAAP Measures" above for non-GAAP financial information and related reconciliation to GAAP measures intended to illustrate the material difference between the Company's income tax expense and income taxes currently payable. These non-GAAP performance measures are consistent with other measurements made by management in the operation of the business which do not consider income taxes except to the extent to which those taxes currently are payable, for example, capital allocation decisions and incentive compensation measurements that are made on a pretax basis.

Net Income

The Company reported net income of $5.8 million for the three months ended August 3, 2014 and $4.7 million for the three months ended August 4, 2013.

Six months ended August 3, 2014 compared to six months ended August 4, 2013

The following discussion of the Company's results of operations should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere herein.

Non-GAAP Measures

The Company has substantial net operating loss carryforwards and, accordingly, the Company's cash payments for income taxes are not significant and are expected to remain insignificant for the foreseeable future. See "Provision for Income Taxes" below.

Management evaluates the Company's results of operations using, among other measures, adjusted net income and adjusted earnings per share, which reflect the provision for income taxes only to the extent such taxes are currently payable in cash. In addition, management excludes from adjusted net income charges and credits that are unusual and infrequently occurring. Management believes adjusted net income and adjusted earnings per share are useful performance measures because they more closely measure the cash flows generated by the Company's operations and the trends in those cash flows than do GAAP net income and earnings per share, and because they exclude the effects of transactions that are not indicative of the Company's ongoing results of operations.

In the second quarter of fiscal 2014, the Company recorded a charge of $967,000 related to the retirement of its secured credit facilities, consisting of the writeoff of unamortized deferred financing costs related to the Company's term loan, which was retired in full, and the termination of an interest rate hedge related to the term loan. Charges of this nature are not expected to recur on a regular basis.

The following presentation of adjusted net income, the related reconciliation of adjusted net income to GAAP net income, and the presentation of adjusted earnings per share are intended to illustrate the material difference between the Company's income tax expense and income taxes currently payable, and to facilitate comparisons of the first six months of fiscal 2015 results with the Company's results for the first six months of fiscal 2014 in light of the costs incurred in connection with the retirement of the term loan. These non-GAAP performance measures are consistent with other measurements made by management in the operation of the business which do not consider income taxes except to the extent to which those taxes currently are payable, for example, capital allocation decisions and incentive compensation measurements that are made on a pretax basis.

	Six Months Ended	
	August 3, 2014	August 4, 2013
	(In thousands, except per share amounts)	
Net income, as reported	$ 15,408	$ 12,716
Loss on retirement of debt	-	967
Provision for deferred income taxes	9,388	10,050
Adjusted net income	$ 24,796	$ 23,733
Adjusted earnings per common share:		
Basic	$ 0.37	$ 0.35
Diluted	$ 0.36	$ 0.34
Weighted average shares outstanding:		
Basic	66,265	67,139
Diluted	69,236	70,833

Overview

Total revenues rose 3.7% to $242.1 million for the six months ended August 3, 2014 compared to $233.4 million for the six months ended August 4, 2013. Consolidated operating income was $25.8 million at both periods, and consolidated net income was $15.4 million compared to $12.7 million.

Revenues by business segment (expressed in dollars and as a percentage of total revenues) are set forth in the table below (percentage amounts may not add to totals due to rounding).

	Six Months Ended	
	August 3, 2014	August 4, 2013
	(Dollars in thousands)	
Revenues by business segment:		
Company Stores	$ 158,983	$ 157,610
Domestic Franchise	6,795	5,670
International Franchise	14,115	12,502
KK Supply Chain:		
Total revenues	119,815	117,012
Less - intersegment sales elimination	(57,612)	(59,440)
External KK Supply Chain revenues	62,203	57,572
Total revenues	$ 242,096	$ 233,354
Segment revenues as a percentage of total revenues:		
Company Stores	65.7 %	67.5 %
Domestic Franchise	2.8	2.4
International Franchise	5.8	5.4
KK Supply Chain (external sales)	25.7	24.7
	100.0 %	100.0 %
Segment operating results:		
Company Stores	$ 5,677	$ 7,104
Domestic Franchise	4,056	2,965
International Franchise	9,391	8,770
KK Supply Chain	21,243	19,238
Total segment operating income	40,367	38,077
General and administrative expenses	(13,784)	(11,710)
Corporate depreciation and amortization expense	(733)	(571)
Impairment charges and lease termination costs	(46)	(12)
Consolidated operating income	25,804	25,784
Interest income	235	131
Interest expense	(305)	(791)
Loss on retirement of debt	-	(967)
Equity in losses of equity method franchisee	(118)	(113)
Other non-operating income and (expense), net	320	(6)
Income before income taxes	25,936	24,038
Provision for income taxes	10,528	11,322
Consolidated net income	$ 15,408	$ 12,716

A discussion of the revenues and operating results of each of the Company's four business segments follows, together with a discussion of income statement line items not associated with specific segments.

Company Stores

The components of Company Stores revenues and expenses (expressed in dollars and as a percentage of total revenues) are set forth in the table below (percentage amounts may not add to totals due to rounding).

	Six Months Ended		Percentage of Total Revenues Six Months Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
	(In thousands)			
Revenues:				
On-premises sales:				
Retail sales	$ 72,231	$ 69,598	45.4 %	44.2 %
Fundraising sales	7,675	7,336	4.8	4.7
Total on-premises sales	79,906	76,934	50.3	48.8
Wholesale sales:				
Grocers/mass merchants	48,103	49,171	30.3	31.2
Convenience stores	28,993	29,538	18.2	18.7
Other wholesale	1,981	1,967	1.2	1.2
Total wholesale sales	79,077	80,676	49.7	51.2
Total revenues	158,983	157,610	100.0	100.0
Operating expenses:				
Cost of sales:				
Food, beverage and packaging	59,149	59,411	37.2	37.7
Shop labor	28,357	27,655	17.8	17.5
Delivery labor	12,330	12,448	7.8	7.9
Employee benefits	10,398	10,924	6.5	6.9
Total cost of sales	110,234	110,438	69.3	70.1
Vehicle costs(1)	8,537	8,658	5.4	5.5
Occupancy(2)	5,312	5,017	3.3	3.2
Utilities expense	3,145	2,988	2.0	1.9
Depreciation expense	5,041	4,528	3.2	2.9
Business acquisition charges	431	-	0.3	-
Gain on refranchising	-	(876)	-	(0.6)
Other store operating expenses	11,752	10,333	7.4	6.6
Total store level costs	144,452	141,086	90.9	89.5
Store operating income	14,531	16,524	9.1	10.5
Other segment operating costs(3)	6,704	7,270	4.2	4.6
Allocated corporate overhead	2,150	2,150	1.4	1.4
Segment operating income	$ 5,677	$ 7,104	3.6 %	4.5 %

(1) Includes fuel, maintenance and repairs, rent, taxes and other costs of operating the delivery fleet, exclusive of depreciation.
(2) Includes rent, property taxes, common area maintenance charges, insurance, building maintenance and other occupancy costs, exclusive of utilities and depreciation.
(3) Includes marketing costs not charged to stores, segment management costs, wholesale selling expenses and support functions.

Sales at Company Stores increased 0.9% to $159.0 million in the first six months ended August 3, 2014 from $157.6 million in the first six months ended August 4, 2013.

A reconciliation of Company Stores segment sales for the six months ended August 4, 2013 to the six months ended August 3, 2014 follows:

	On-Premises	Wholesale	Total
		(In thousands)	
Sales for the six months ended August 4, 2013	$ 76,934	$ 80,676	$ 157,610
Fiscal 2014 sales at closed stores	(1,286)	(892)	(2,178)
Fiscal 2014 sales at stores refranchised in fiscal 2014	(2,075)	(1,715)	(3,790)
Increase (decrease) in sales at established stores (open stores only)	(520)	488	(32)
Increase in sales at stores opened in fiscal 2014	3,752	-	3,752
Sales at stores acquired in fiscal 2015	1,032	520	1,552
Sales at stores opened in fiscal 2015	2,069	-	2,069
Sales for the six months ended August 3, 2014	$ 79,906	$ 79,077	$ 158,983

On-premises sales

On-premises sales increased 3.9% to $79.9 million in the first six months of fiscal 2015.

The following table presents on-premises sales metrics for Company stores:

	Six Months Ended	
	August 3, 2014	August 4, 2013
On-premises:		
Change in same store sales	(0.2) %	11.4 %
Change in same store customer count (retail sales only)	(1.8) %	9.7 %
Average guest check (retail sales only)	$ 7.56	$ 7.49

The components of the change in same store sales at Company stores are as follows:

	Six Months Ended	
	August 3, 2014	August 4, 2013
Change in same store sales:		
Retail pricing	2.1 %	3.3 %
Guest check average (exclusive of the effects of pricing)	(1.1)	(0.4)
Customer count	(1.6)	8.4
Fundraising pricing	0.5	-
Other	(0.1)	0.1
Total	(0.2) %	11.4 %

Retail and fundraising price increases implemented in the first quarter of fiscal 2015 drove increases in same store sales of 2.1 and 0.5 percentage points, respectively, exclusive of any effects of higher pricing on unit volumes; such effects are difficult to measure reliably. On February 3, 2014, the Company implemented retail price increases affecting items comprising approximately 70% of retail sales; the average price increase on these items was approximately 3%. The Company implemented somewhat larger retail price increases approximately one year earlier. On March 3, 2014, the Company implemented a fundraising price increase of approximately 9%.

The positive effects of the fiscal 2015 pricing actions on same store sales (2.6 percentage points in the aggregate) were offset by a decline in non-pricing changes in the average guest check, which reduced same store sales by 1.1 percentage points and customer traffic, which reduced same store sales by 1.6 percentage points. The Company believes a decrease in average guest check resulting from an increase in consumer incentives in first six months of fiscal 2015 was partially offset by a positive change in sales mix. The Company believes that severe and unusual weather in many of the geographic areas in which the Company's shops are located adversely affected traffic during the first quarter of fiscal 2015. In addition, the Company believes that normal cannibalization effects from new stores in some markets in which the Company is opening additional stores negatively affected traffic at existing shops in those markets, which adversely affected same store customer traffic during the first six months of fiscal 2015. The Company's goal is to increase total sales of its products and the Company's profitability in each market it serves by adding additional Krispy Kreme shops in markets the Company believes it has not fully penetrated.

The Company believes that growth in same store customer traffic was an important contributor to the expansion of operating margin in the Company Stores segment in fiscal 2013 and fiscal 2014. The contribution to same store sales from higher customer traffic has declined from its peak of 11.2% in the fourth quarter of fiscal 2013. Lower traffic reduced same store sales by 1.6 percentage points in the first six months of fiscal 2015, at least in part due to the adverse effects of weather conditions in the first quarter. The Company continuously evaluates and adjusts it marketing, promotional and operational activities and techniques with the goal of increasing customer traffic in its shops, which management believes will continue to be an important factor in the profitability of the Company Stores business segment.

Wholesale sales

The following table presents wholesale sales metrics for Company stores:

	Six Months Ended	
	August 3, 2014	August 4, 2013
Wholesale:		
Grocers/mass merchants:		
Change in average weekly number of doors	(1.4) %	(4.8) %
Change in average weekly sales per door	(0.6) %	12.5 %
Convenience stores:		
Change in average weekly number of doors	3.5 %	(0.9) %
Change in average weekly sales per door	(4.9) %	6.9 %

Sales to grocers and mass merchants decreased 2.2% to $48.1 million, reflecting a 0.6% decline in average weekly sales per door and a 1.4% decline in the average number of doors served. The decline in the average number of doors served in the grocery/mass merchant channel reflects the refranchising of stores in the Kansas/Missouri and Dallas markets in fiscal 2014 partially offset by the increase in doors resulting from the acquisition of stores in the Birmingham, Alabama market in the second quarter of fiscal 2015. Sales of packaged products comprise substantially all of the Company's sales to grocers and mass merchants.

Sales to convenience stores decreased 1.8% to $29.0 million, reflecting a 4.9% decrease in average weekly sales per door, partially offset by a 3.5% increase in the average number of doors served. The majority of the door growth in the first six months of fiscal 2015 reflects new doors at existing customers and the increase in doors resulting from the acquisition of stores in the Birmingham, Alabama market in the second quarter of fiscal 2015. The increase in the average number of doors served in the convenience store channel was partially offset by the reduction of doors associated with the refranchising of stores in the Kansas/Missouri and Dallas markets in fiscal 2014. Sales of loose unpackaged products comprise approximately 80% of sales to convenience store customers, with the balance comprised of sales of packaged products.

Costs and expenses

Total cost of sales as a percentage of revenues decreased by 0.8 percentage points from the first six months of fiscal 2014 to 69.3% in the first six months of fiscal 2015.

The cost of food, beverage and packaging as a percentage of revenues decreased by 0.5 percentage points from the first six months of fiscal 2014. The decrease reflects, among other things, a greater percentage of sales derived from on-premises customers compared to first six months of fiscal 2014. The cost of food, beverage and packaging as a percentage of sales is often greater in the wholesale distribution channel compared to the on-premises channel because average product selling prices generally are lower in the wholesale distribution channel and because of the effect of returns in the wholesale distribution channel. Input costs of food, beverage and packaging were, in the aggregate, largely unchanged in the first six months of fiscal 2015 compared to the prior year period.

KK Supply Chain, which sells doughnut mixes, other ingredients and supplies to Company and franchise stores, has entered into contracts to purchase the majority of its remaining fiscal 2015 flour and shortening requirements, and all of its estimated sugar requirements. For fiscal 2016, KK Supply Chain has entered into contracts to purchase substantially all of its estimated sugar requirements.

The Company is self-insured for workers' compensation, vehicle and general liability claims, but maintains stop-loss coverage for individual claims exceeding certain amounts. The Company provides for claims under these self-insured programs using actuarial methods as described in the 2014 Form 10-K, and periodically updates actuarial valuations of its self-insurance reserves. Such periodic actuarial valuations result in changes over time in the estimated amounts which ultimately will be paid for claims under these programs to reflect the Company's actual claims experience for each policy year as well as trends in claims experience over multiple years. Such claims, particularly workers' compensation claims, often are paid over a number of years following the year in which the insured events occur, and the estimated ultimate cost of each year's claims accordingly is adjusted over time as additional information becomes available. As a result of the Company's periodic update of its actuarial valuation, the Company recorded favorable adjustments to its self-insurance claims liabilities related to prior policy years of approximately $780,000 in the first six months of fiscal 2015 and $550,000 in the first six months of fiscal 2014. The $780,000 favorable adjustment recorded in the first six months of fiscal 2015 includes a favorable adjustment relating to workers' compensation liability claims of approximately $630,000 included in employee benefits, a favorable adjustment relating to vehicle liability claims of approximately $90,000 included in vehicle costs, and a favorable adjustment relating to general liability claims of approximately $60,000 included in other operating costs. The $550,000 favorable adjustment recorded in the first six months of fiscal 2014 includes a favorable adjustment relating to workers' compensation liability claims of approximately $390,000 included in employee benefits, a favorable adjustment relating to vehicle liability claims of approximately $50,000 included in vehicle costs, and a favorable adjustment relating to general liability claims of approximately $110,000 included in other operating costs.

Depreciation expense increased due to construction of new stores and store refurbishments at existing stores.

During the second quarter of fiscal 2015, the Company recorded charges of $431,000 related to the acquisition of the business and operating assets of its franchisee in Birmingham, Alabama as more fully described in Note 13 to the consolidated financial statements included elsewhere herein. The charges principally reflect the settlement as part of the acquisition of the pre-existing franchise contract between the Company and the franchisee, certain terms of which were unfavorable, from the Company's point of view, to current market terms of $343,000 and transaction costs related to the acquisition of $88,000.

During the second quarter of fiscal 2014, the Company refranchised three stores in the Dallas market to a new franchisee as more fully described in Note 13 to the consolidated financial statements appearing elsewhere herein. The Company recorded a gain of $876,000 on the refranchising transaction.

Other store operating expenses increased to $11.8 million (7.4% of revenues) in the first six months of fiscal 2015 from $10.3 million (6.6% of revenues) in the first six months of fiscal 2014. The increase reflects, among other things, higher marketing and promotional activities during the first six months of fiscal 2015 compared to the first six months of fiscal 2014, particularly in the second quarter.

Other segment operating costs in the six months of fiscal 2014 included approximately $720,000 in legal costs related to the litigation associated with the Company's former landlord in Lorton, Virginia which was settled in the fourth quarter of fiscal 2014.

Many store level operating costs are fixed or semi-fixed in nature and, accordingly, store profit margins are sensitive to changes in sales volumes.

Domestic Franchise

	Six Months Ended	
	August 3, 2014	August 4, 2013
	(In thousands)	
Revenues:		
Royalties	$ 6,053	$ 5,410
Development and franchise fees	295	25
Other	447	235
Total revenues	6,795	5,670
Operating expenses:		
Segment operating expenses	2,444	2,469
Depreciation expense	95	36
Allocated corporate overhead	200	200
Total operating expenses	2,739	2,705
Segment operating income	$ 4,056	$ 2,965

Domestic Franchise revenues increased 19.8% to $6.8 million in the first six months of fiscal 2015. The increase reflects higher domestic royalty revenues resulting from a 7.6% increase in sales by domestic franchise stores from approximately $160 million in the first six months of fiscal 2014 to $172 million in the first six months of fiscal 2015, as well as higher development and franchise fees resulting from an increase in store openings. Domestic Franchise same store sales rose 4.2% in the first six months of fiscal 2015.

The increase in other revenues principally reflects rental income charged to two franchisees for stores leased or subleased to the franchisees in connection with the Kansas/Missouri and Dallas refranchising transactions in the first and second quarters of fiscal 2014, respectively, and rental income charged to another franchisee in connection with the Company's acquisition of the land, building and doughnut-making equipment at a facility in Illinois in December 2013 as more fully described in Note 13 to the consolidated financial statements appearing elsewhere herein. The Company assumed operation of this facility for its own account in July 2014. The Company has received a notice that its Dallas franchisee intends to exercise its option to purchase the two stores leased to it by the Company.

Domestic Franchise segment operating expenses include costs to recruit new domestic franchisees, to assist in domestic store openings, and to monitor and aid in the performance of domestic franchise stores, as well as allocated corporate costs.

Domestic franchisees opened eight stores and closed two in the first six months of fiscal 2015. As of August 3, 2014, development agreements for territories in the United States provide for the development of approximately 100 additional stores through fiscal 2021. Royalty revenues are directly related to sales by franchise stores and, accordingly, the success of franchisees' operations has a direct effect on the Company's revenues, results of operations and cash flows.

International Franchise

	Six Months Ended	
	August 3, 2014	August 4, 2013
	(In thousands)	
Revenues:		
Royalties	$ 13,292	$ 11,862
Development and franchise fees	823	640
Total revenues	14,115	12,502
Operating expenses:		
Segment operating expenses	4,121	3,128
Depreciation expense	3	4
Allocated corporate overhead	600	600
Total operating expenses	4,724	3,732
Segment operating income	$ 9,391	$ 8,770

International Franchise royalties increased 12.1%, driven by a 7.5% increase in sales by international franchise stores from $213 million in the first six months of fiscal 2014 to $229 million in the first six months of fiscal 2015. Changes in the rates of exchange between the U.S. dollar and the foreign currencies in which the Company's international franchisees do business had no significant effect on sales by international franchisees measured in U.S. dollars in the first six months of fiscal 2015 compared to the first six months of fiscal 2014. The Company recognized royalty revenue of approximately $900,000 and $360,000 collected during the first six months of fiscal 2015 and 2014, respectively, related to franchisee sales in prior periods which had not previously been recorded as revenue due to the uncertainty surrounding the collection of these royalties. Substantially all of the amounts relate to a single franchisee. There is no prescribed repayment schedule for the remaining $1.9 million owed to the Company by the franchisee and the Company therefore cannot predict the amount or timing of future payments, if any, on this obligation. Accordingly, the Company has not recognized such amount in the financial statements.

International Franchise same store sales, measured on a constant currency basis to eliminate the effects of changing exchange rates between foreign currencies and the U.S. dollar ("constant dollar same store sales"), fell 2.3%. The decline in International Franchise same store sales reflects, among other things, the normal cannibalization effects on initial stores in new markets of additional store openings in those markets.

Constant dollar same store sales in established markets rose 0.1% in the first six months of fiscal 2015 and fell 4.8% in new markets. "Established markets" means countries in which the first Krispy Kreme store opened before fiscal 2007. Sales at stores in established markets comprised 53% of aggregate constant dollar same store sales for the first six months of fiscal 2015. While the Company considers countries in which Krispy Kreme first opened before fiscal 2007 to be established markets, franchisees in those markets continue to develop their business. Of the 582 international shops currently in operation that opened since the beginning of fiscal 2007, 241 shops are in these established markets.

International Franchise operating expenses include costs to recruit new international franchisees, to assist in international store openings, and to monitor and aid in the performance of international franchise stores, as well as allocated corporate costs. International Franchise operating expenses increased in the first six months of fiscal 2015 to $4.1 million compared to $3.1 million in the first six months of fiscal 2014, principally reflecting higher personnel and personnel-related costs and other costs to support continuing and anticipated international growth, as well as a provision for potential uncollectible accounts of approximately $180,000 in the first six months of fiscal 2015 related to a single franchisee.

International franchisees opened 53 stores and closed six stores in the first six months of fiscal 2015. As of August 3, 2014, development agreements for territories outside the United States provide for the development of approximately 340 additional stores through fiscal 2019. Royalty revenues are directly related to sales by franchise stores and, accordingly, the success of franchisees' operations has a direct effect on the Company's revenues, results of operations and cash flows.

KK Supply Chain

The components of KK Supply Chain revenues and expenses (expressed in dollars and as a percentage of total revenues before intersegment sales elimination) are set forth in the table below (percentage amounts may not add to totals due to rounding).

	Six Months Ended		Percentage of Total Revenues Before Intersegment Sales Elimination Six Months Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
	(In thousands)			
Revenues:				
Doughnut mixes	$ 42,293	$ 41,345	35.3 %	35.3 %
Other ingredients, packaging and supplies	70,519	68,971	58.9	58.9
Equipment	5,532	5,200	4.6	4.4
Fuel surcharge	1,471	1,496	1.2	1.3
Total revenues before intersegment sales elimination	119,815	117,012	100.0	100.0
Operating expenses:				
Cost of sales:				
Cost of goods produced and purchased	80,609	79,768	67.3	68.2
(Gain) loss on agricultural derivatives	(103)	580	(0.1)	0.5
Inbound freight	3,484	3,236	2.9	2.8
Total cost of sales	83,990	83,584	70.1	71.4
Distribution costs	7,452	7,401	6.2	6.3
Other segment operating costs	6,196	5,844	5.2	5.0
Depreciation expense	334	345	0.3	0.3
Allocated corporate overhead	600	600	0.5	0.5
Total operating costs	98,572	97,774	82.3	83.6
Segment operating income	$ 21,243	$ 19,238	17.7 %	16.4 %

Sales of doughnut mixes increased 2.3% year-over-year in the first six months of fiscal 2015, principally due to higher unit volumes partially offset by slightly lower selling prices.

Sales of other ingredients, packaging and supplies, made principally to Company and Domestic Franchise stores, rose 2.2% year-over-year in the first six months of fiscal 2015 due to higher unit volumes partially offset by slightly lower selling prices.

While systemwide sales at Company and Domestic Franchise stores rose in the first six months of fiscal 2015 compared to the first six months of the preceding fiscal year, a greater percentage of such sales was to on-premises customers compared to wholesale customers. On-premises sales at Company and Domestic Franchise stores generate proportionately lower KK Supply Chain sales than do sales to wholesale customers.

KK Supply Chain utilizes a fuel surcharge program. Charges under the program are based upon the excess, if any, of the price of diesel fuel over a pre-established base level, with the base level generally adjusted annually.

KK Supply Chain cost of sales decreased to 70.1% of revenues in the first six months of fiscal 2015 from 71.4% of revenues in the first six months of fiscal 2014. KK Supply Chain had net gains on agricultural derivative positions of $103,000 in the first six months of fiscal 2015 compared to net losses of $580,000 in the first six months of fiscal 2014. The Company has not designated any of its derivative positions as cash flow hedges and, accordingly, changes in the market value of those positions are reflected in earnings as they occur.

Other segment operating costs include segment management, purchasing, customer service and support, laboratory and quality control costs, and research and development expenses.

Franchisees opened 61 stores and closed eight stores in the first six months of fiscal 2015. A substantial portion of KK Supply Chain's revenues are directly related to sales by franchise stores and, accordingly, the success of franchisees' operations has a direct effect on the Company's revenues, results of operations and cash flows.

A significant portion of franchise store sales is attributable to sales by franchisees outside the United States. The Company sells doughnut mixes, either manufactured by the Company in the United States or blended by contract mix manufacturers using concentrates supplied by the Company, to all its international franchisees. Most of these franchisees purchase substantially all other ingredients, packaging and supplies through sourcing arrangements approved by the Company. Accordingly, KK Supply Chain revenues are less correlated with sales by international franchisees than with sales by domestic franchisees, which purchase substantially all of their ingredients from KK Supply Chain. Like all international businesses, the Company and its international franchisees must address the risks of international trade, including taxes, tariffs, duties and transportation costs, which can affect the franchisees' product costs and therefore indirectly affect the pace of development. The Company, in cooperation with its international franchisees, continually seeks to mitigate the impact of these factors. For example, the Company has developed premix and concentrate doughnut mix production models, and has been continuously pursuing alternative sourcing arrangements in various markets.

General and Administrative Expenses

General and administrative expenses consist of costs incurred in various functional areas whose activities are not associated exclusively with an individual business segment. Such costs include expenses associated with finance and accounting; internal and external financial reporting, including financial planning and analysis; internal audit; human resources; risk management; information technology; training; corporate office occupancy; public company costs; and executive management. Certain personnel and other costs in some of these functional areas (for example, some of the costs of information technology and human resources) are associated primarily with the operation of individual business segments, and are allocated to those segments as allocated corporate costs. General and administrative expenses in the consolidated statement of income are presented net of such allocated costs, which are reflected in the results of operations of the four operating segments. Such allocated costs totaled $3.6 million in first six months of fiscal 2015 and 2014.

General and administrative expenses increased to $13.8 million in the first six months of fiscal 2015 from $11.7 million in the first six months of fiscal 2014, and as a percentage of revenues increased to 5.7% from 5.0%.

General and administrative expenses include incremental costs of approximately $1.4 million in the first six months of fiscal 2015 related to the implementation of a new enterprise resource planning system. There were no comparable costs in the first six months of fiscal 2015.

The increase in general and administrative expenses in the first six months of fiscal 2015 also reflects an increase in executive compensation costs related to the transition to a new chief executive officer, partially offset by a decrease in provisions for incentive compensation.

Interest Income

Interest income increased to $235,000 in the first six months of fiscal 2015 from $131,000 in the first six months of fiscal 2014. The increase reflects interest income related to a note receivable arising from the sale to a franchisee of leasehold interests in three stores recognized in the third quarter of fiscal 2014. In addition, interest income includes $75,000 and $25,000 received in the first quarter of fiscal 2015 and 2014, respectively, from notes receivable from equity method franchisees, Kremeworks and Kremeworks Canada, which are fully reserved or which were written off in earlier years (see Note 6).

Interest Expense

The components of interest expense are as follows:

	Six Months Ended	
	August 3, 2014	August 4, 2013
	(In thousands)	
Interest accruing on outstanding term loan indebtedness	$ -	$ 259
Letter of credit and unused revolver fees	81	135
Amortization of cost of interest rate derivatives	-	39
Amortization of deferred financing costs	54	231
Other (including interest on lease obligations)	170	127
	$ 305	$ 791

On July 12, 2013, the Company retired its secured credit facilities and repaid the $21.7 million remaining balance of its term loan as described in Note 7 to the consolidated financial statements appearing elsewhere herein.

Loss on Retirement of Debt

The Company recorded a charge of $967,000 in the first six months of fiscal 2014 on the retirement of its secured credit facilities, consisting of a $451,000 write-off of unamortized deferred financing costs related principally to the Company's term loan, which was retired in full, and a $516,000 write-off related to the termination of an interest rate hedge related to the term loan. The $516,000 charge related to the interest rate hedge was reclassified from accumulated other comprehensive income to "Loss on retirement of debt" in the consolidated statement of income because the hedged forecasted transaction (interest on the term loan) would not occur.

Equity in Losses of Equity Method Franchisees

The Company recorded equity in the losses of equity method franchisees of $118,000 in the first six months of fiscal 2015 compared to losses of $113,000 in the first six months of fiscal 2014. This caption represents the Company's share of operating results of equity method franchisees which develop and operate Krispy Kreme stores.

Other Non-Operating Income and (Expense), Net

Other non-operating income and (expense), net in the first six months of fiscal 2015 includes payments of approximately $320,000 received from an equity method franchisee in reimbursement for amounts paid by the Company in fiscal 2014 pursuant to the Company's guarantee of the investee's indebtedness. Such repayments are being reflected in income as received due to the uncertainty of their continued collection as more fully described in Note 4 to the consolidated financial statements appearing elsewhere herein.

Provision for Income Taxes

The Company's effective tax rate for the first six months of fiscal 2015 was 41% compared to 47% for the first six months of fiscal 2014. Included in income tax expense for the six months ended August 4, 2013 is a charge of approximately $686,000 (approximately 2.9% of pretax income) to revalue the Company's deferred income tax assets to reflect a reduction in the North Carolina corporate income tax rate enacted by the North Carolina state legislature during the second quarter of 2014, as described in Note 3 to the consolidated financial statements appearing elsewhere herein.

The provision for income taxes for the six months ended August 4, 2013 also includes a charge of approximately $575,000 (2.4% of pretax income) to correct an error in accruals for uncertain tax positions that originated in the fourth quarter of fiscal 2012. The error and its correction were not material to the results of any period; accordingly, the error was corrected in the first quarter of fiscal 2014 and prior financial statements were not restated.

The portion of the income tax provision representing taxes estimated to be payable currently was $1.1 million and $1.3 million in the first six months of fiscal 2015 and fiscal 2014, respectively, consisting principally of foreign withholding taxes related to royalties and franchise fees paid to the Company by international franchisees. The current provision for income taxes also reflects adjustments to accruals for uncertain tax positions, including potential interest and penalties which could result from the resolution of such uncertainties.

The Company's estimated annual effective income tax rate on GAAP ordinary income for fiscal 2015 is 40%. Management's estimate of the fiscal 2015 effective income tax rate is subject to revision in subsequent quarters as additional information becomes available.

See “Results of Operations – Six months ended August 3, 2014 compared to six months ended August 4, 2013 – Non-GAAP Measures” above for non-GAAP financial information and related reconciliation to GAAP measures intended to illustrate the material difference between the Company’s income tax expense and income taxes currently payable. These non-GAAP performance measures are consistent with other measurements made by management in the operation of the business which do not consider income taxes except to the extent to which those taxes currently are payable, for example, capital allocation decisions and incentive compensation measurements that are made on a pretax basis.

Net Income

The Company reported net income of $15.4 million for the six months ended August 3, 2014 compared to $12.7 million for the six months ended August 4, 2013.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the Company’s cash flows from operating, investing and financing activities for the first six months of fiscal 2015 and fiscal 2014.

	Six Months Ended	
	August 3, 2014	August 4, 2013
	(In thousands)	
Net cash provided by operating activities	$ 27,687	$ 27,468
Net cash used for investing activities	(19,592)	(10,625)
Net cash used for financing activities	(28,163)	(22,856)
Net decrease in cash and cash equivalents	$ (20,068)	$ (6,013)

Cash Flows from Operating Activities

Net cash provided by operating activities increased $219,000 in the first six months of fiscal 2015 from the comparable fiscal 2014 period. Cash provided by operations before changes in assets and liabilities rose $3.1 million to $34.1 million in the first six months of fiscal 2015 compared to $31.0 million in the first six months of fiscal 2014 due to improved operating performance. The increase in inventory in the first six months of fiscal 2014 reflects higher equipment inventory levels and a temporary rise in certain inventories related to a change in certain ingredients. Additionally, in the first six months of fiscal 2014, the Company recovered a cash deposit of $2.0 million related to the lease of its corporate headquarters; such recovery is reflected in the increase in other current and non-current assets in fiscal 2014. The remainder of the change in cash flows from operating activities principally reflects normal fluctuations in the timing of routine cash receipts and disbursements.

Cash Flows from Investing Activities

Net cash used for investing activities was $19.6 million in the first six months of fiscal 2015 compared to $10.6 million in the first six months of fiscal 2014.

Cash used for capital expenditures increased to $13.1 million in the first six months of fiscal 2015 from $12.4 million in the first six months of fiscal 2014. The components of capital expenditures were approximately as follows:

	Six Months Ended	
	August 3, 2014	August 4, 2013
	(In thousands)	
New store construction	$ 7,409	$ 5,268
Store remodels and betterments	2,633	2,509
Capital leases on stores acquired	1,052	-
Other store equipment, including vehicles and point-of-sale and handheld equipment	1,562	2,534
Corporate office remodel	11	1,512
Corporate information technology	3,030	1,639
Other	938	310
Total capital expenditures	16,635	13,772
Assets acquired under leasing arrangements	(3,781)	(44)
Net change in unpaid capital expenditures included in accounts payable and accrued liabilities	209	(1,366)
Cash used for capital expenditures	$ 13,063	$ 12,362

The Company currently expects capital expenditures (including assets acquired using capital leases) to range from $30 million to $35 million in fiscal 2015. The Company intends to fund these capital expenditures from cash provided by operating activities, from existing cash balances and, to a lesser extent, through leases.

In June 2014, the Company acquired the business and operating assets of its franchisee in Birmingham, Alabama, consisting of four Krispy Kreme shops in exchange for $7.2 million cash, as more fully described in Note 13 to the consolidated financial statements appearing elsewhere herein.

In the first six months of fiscal 2014, the Company refranchised three Company-owned stores in the Dallas market to a new franchisee. The aggregate purchase price for the assets was $681,000 cash, as more fully described in Note 13.

Cash Flows from Financing Activities

Net cash used by financing activities was $28.2 million in the first six months of fiscal 2015 compared to $22.9 million in the first six months of fiscal 2014.

During the first six months of fiscal 2014, the Company repaid approximately $24.5 million of outstanding term loan and capitalized lease indebtedness. The Company repaid the $21.7 million remaining outstanding balance of its term loan in connection with the retirement of its credit facilities described in Note 7 in the consolidated financial statements appearing elsewhere herein. Additional payments included approximately $1.1 million of scheduled principal amortization, $930,000 of prepayments from the sale of assets, and $730,000 of prepayments from the proceeds from the exercise of stock options.

The Company’s Board of Directors has authorized the repurchase of up to $80 million of the Company's common stock. Through August 3, 2014, the Company repurchased 3,025,800 shares under the authorization at an average price of $18.10 per share, for a total cost of $54.8 million. During the first six months ended August 3, 2014, the Company repurchased 1,840,300 shares under the authorization at an average price of $17.63 per share, for a total cost of $32.4 million. Repurchases of approximately $34.6 million of the share repurchases were settled during the first six months ended August 3, 2014.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes from the disclosures in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in the 2014 Form 10-K.

Item 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of August 3, 2014, the end of the period covered by this Quarterly Report on Form 10-Q, management performed, under the supervision and with the participation of the Company’s chief executive officer and chief financial officer, an evaluation of the effectiveness of the Company’s disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. The Company’s disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Company’s chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures. Based on this evaluation, the Company’s chief executive officer and chief financial officer have concluded that, as of August 3, 2014, the Company’s disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

During the quarter ended August 3, 2014, there were no changes in the Company’s internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

Pending Matters

Except as disclosed below, the Company currently is not a party to any material legal proceedings.

K^2 Asia Litigation

On April 7, 2009, a Cayman Islands corporation, K^2 Asia Ventures, and its owners filed a lawsuit in Forsyth County, North Carolina Superior Court against the Company, its franchisee in the Philippines, and other persons associated with the franchisee. The suit alleges that the Company and the other defendants conspired to deprive the plaintiffs of claimed "exclusive rights" to negotiate franchise and development agreements with prospective franchisees in the Philippines, and seeks unspecified damages. The Company believes that these allegations are false and intends to vigorously defend against the lawsuit. On July 26, 2013, the Superior Court dismissed the Philippines-based defendants for lack of personal jurisdiction. The plaintiffs appealed that decision and the Court of Appeals affirmed that decision on August 19, 2014.

Item 1A. RISK FACTORS.

There have been no material changes from the risk factors disclosed in Part I, Item 1A, "Risk Factors," in the 2014 Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Period	Total Number of Shares (or units) Purchased (a)(1)	Average Price Paid per Share (or unit) (b)	Total Number of Shares (or units) Purchased as Part of Publicly Announced Plans or Programs (c)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (d)
May 5, 2014 through June 1, 2014	385,982	$ 18.12	385,982	$ 25,528,172
June 2, 2014 through June 29, 2014	17,327	17.88	17,327	25,218,298
June 30, 2014 through August 3, 2014	-	-	-	25,218,298
Total	403,309	$ 18.11	403,309	

(1) On July 15, 2013, the Company announced the Board of Directors' authorization to repurchase up to $50 million of the Company's common stock. On March 12, 2014, the Company announced an increase in such authorization to $80 million. The authorization has no expiration date. Through August 3, 2014, the Company had repurchased a total of approximately 3,025,800 shares under the repurchase authorization at an average price of $18.10 per share, for a total cost of approximately $54.8 million. During the three months ended August 3, 2014, the Company repurchased 403,309 shares under the authorization at an average price of $18.11 per share, for a total cost of approximately $7.3 million. During the six months ended August 3, 2014, the Company repurchased 1,840,334 shares under the authorization at an average price of $17.63 per share, for a total cost of approximately $32.4 million. Due to the Company's incorporation in North Carolina, which does not recognize treasury shares, the shares repurchased are canceled at the time of repurchase.

Item 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable.

Item 5. OTHER INFORMATION.

None.

Item 6. EXHIBITS.

The exhibits filed with this Quarterly Report on Form 10-Q are set forth in the Exhibit Index on page 62 and are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		Krispy Kreme Doughnuts, Inc.
Date: September 12, 2014	By:	/s/ Douglas R. Muir
	Name:	Douglas R. Muir
	Title:	Chief Financial Officer
		(Duly Authorized Officer and Principal Financial Officer)

Exhibit Index

3.1	—	Restated Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K filed on April 15, 2010)
3.2	—	Articles of Amendment dated June 18, 2013 to the Restated Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on June 19, 2013)
3.3	—	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 15, 2008)
10.1*	—	Employment Agreement, dated as of May 13, 2014, among Krispy Kreme Doughnuts, Inc., Krispy Kreme Doughnut Corporation and Anthony N. Thompson (incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 13, 2014)
10.2*	—	Incentive Stock Option Agreement, dated June 2, 2014, between Krispy Kreme Doughnuts, Inc. and Anthony N. Thompson related to commencement of employment
10.3*	—	Restricted Stock Unit Agreement, dated June 2, 2014, between Krispy Kreme Doughnuts, Inc. and Anthony N. Thompson related to commencement of employment
31.1	—	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2	—	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1	—	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	—	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101		The following materials from our Quarterly Report on Form 10-Q for the quarter ended August 3, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statement of Income for the three and six months ended August 3, 2014, and August 4, 2013; (ii) the Consolidated Statement of Comprehensive Income for the three and six months ended August 3, 2014 and August 4, 2013; (iii) the Consolidated Balance Sheet as of August 3, 2014 and February 2, 2014; (iv) the Consolidated Statement of Cash Flows for the six months ended August 3, 2014 and August 4, 2013; (v) the Consolidated Statement of Changes in Shareholders' Equity for the six months ended August 3, 2014 and August 4, 2013; and (vi) the Notes to the Condensed Consolidated Financial Statements

* Identifies management contracts and executive compensation plans or similar arrangements required to be filed as exhibits pursuant to Item 6 of this Quarterly Report on Form 10-Q.

Our SEC file number for documents filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is 001-16485.

2012 STOCK INCENTIVE PLAN
KRISPY KREME DOUGHNUTS, INC.
INCENTIVE STOCK OPTION AGREEMENT

THIS INCENTIVE STOCK OPTION AGREEMENT (the "Agreement") is made as of June 2, 2014 (the "Grant Date"), by and between Krispy Kreme Doughnuts, Inc., a North Carolina corporation (the "Company"), and Anthony N. Thompson (the "Participant").

WITNESSETH:

WHEREAS, the Board of Directors and shareholders of the Company have approved the Krispy Kreme Doughnuts, Inc. 2012 Stock Incentive Plan (the "Plan"), for the purposes of and subject to the provisions set forth in the Plan; and

WHEREAS, pursuant to authority granted to it in the Plan, the Compensation Committee of the Board of Directors of the Company (the "Committee") has, on behalf of the Company, granted to the Participant an incentive stock option to purchase shares of Common Stock of the Company, as set forth below; and

WHEREAS, this Agreement evidences the grant of such option pursuant to the Plan.

NOW, THEREFORE, in consideration of the foregoing, of the mutual promises set forth below and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

1. **Summary of Grant**

Number of Shares: **78,288**
Option Price: **$19.00**
Date of Grant: **June 2, 2014**
Expiration Date: **June 2, 2024**

2. **Grant of Option**

This Agreement sets forth the terms of an incentive stock option (the "Option") granted to the Participant to purchase from the Company, during the period specified in Sections 3 and 4 of this Agreement, a total of 78,288 shares of Common Stock (the "Shares"), at the purchase price of $19.00 per share (the "Option Price"), in accordance with the terms and conditions stated in this Agreement. To the extent that the Option is designated as an incentive stock option and such Option or portion thereof does not qualify as an incentive stock option, the Option or portion thereof shall be treated as a nonqualified stock option.

3. **Vesting and Exercise of Option**

(a) The Option shall vest and become exercisable in increments in accordance with the schedule set forth below, provided that the Option shall vest and become exercisable with respect to an increment as specified only if the Participant has not incurred a Termination of Employment prior to the vesting date with respect to such increment:

(i) no portion of the Option shall vest or become exercisable prior to the first anniversary of the Grant Date;

(ii) on the first anniversary of the Grant Date, the Option shall vest and become exercisable with respect to 25% of the number of Shares subject to the Option (as indicated in Section 1);

(iii) on the second anniversary of the Grant Date, the Option shall vest and become exercisable with respect to an additional 25% of the number of Shares subject to the Option (for a total of 50% of the number of Shares subject to the Option);

(iv) on the third anniversary of the Grant Date, the Option shall vest and become exercisable with respect to an additional 25% of the number of Shares subject to the Option (for a total of 75% of the number of Shares subject to the Option); and

(v) on the fourth anniversary of the Grant Date, the Option shall vest and become exercisable with respect to the remaining 25% of the number of Shares subject to the Option (for a total of 100% of the number of Shares subject to the Option).

(b) Notwithstanding the vesting provisions described above, the Option shall vest and become exercisable with respect to 100% of the Shares upon the Participant's Termination of Employment if the Participant's Termination of Employment is due to his or her Retirement, death or Disability or as may otherwise be provided pursuant to the terms of that certain Employment Agreement dated as of May 13, 2014 between the Company, Krispy Kreme Doughnut Corporation and the Participant (the "Employment Agreement"), the terms of which Employment Agreement are hereby incorporated by reference and made a part of this Agreement.

(c) In addition, the following provisions shall apply in the event of a Change in Control (except to the extent otherwise provided in the Employment Agreement):

(i) To the extent the successor company does not assume or substitute for the Option (or the Company is the ultimate parent corporation and does not continue the Option) on substantially equivalent terms (as determined by the Committee), the Option will become vested and exercisable in full upon the effective date of the Change in Control.

(ii) Further, in the event that the Option is substituted, assumed or continued, the Option will become vested and exercisable in full if the Participant incurs a Termination of Employment within six months before (in which case vesting shall not occur until the effective date of the Change in Control) or two years after the effective date of a Change in Control if such Termination of Employment (A) is by the Company not for Cause or (B) is by the Participant for Good Reason. In the event that vesting of the Option is accelerated as a result of a Termination of Employment related to a Change in Control as provided herein, the Committee or the Board of Directors, in its discretion, may send the Participant prior written notice of the effectiveness of such event and the last day on which the Participant may exercise the Option. In such event, the Participant may, upon compliance with all of the terms of this Agreement and the Plan, purchase any or all of the Shares with respect to which the Option is vested and exercisable on or prior to the last day specified in such notice, and, to the extent the Option is not exercised, it shall (unless the Committee or the Board of Directors determines otherwise) terminate at 5:00 P.M., Winston-Salem, North Carolina time, on the last day specified in such notice. If no such notice is given, the Option shall terminate as provided in Section 4(f) herein. For the purposes herein, (X) "Good Reason" shall have the meaning set forth in Section 21(c) of the Agreement; and (Y) "Company" shall include the successor to the Company's business or assets, or if all or substantially all of the voting stock of the Company is held by another public company, such public company.

The schedule set forth above is cumulative, so that Shares as to which the Option has become vested and exercisable pursuant to the provisions above may be purchased pursuant to exercise of the Option at any date subsequent to vesting but prior to termination of the Option. The Option may be exercised at any time and from time to time to purchase up to the number of Shares as to which it is then vested and exercisable.

4. **Termination of Option**

Unless adjusted by the Committee in its sole discretion or as otherwise provided in the Plan, the Option shall remain exercisable as specified in Section 3 above until 5:00 p.m., Winston-Salem, North Carolina time, on the earliest to occur of the dates specified below, upon which date the Option shall terminate:

(a) the date all of the Shares are purchased pursuant to the terms of this Agreement;

(b) upon the expiration of three months following the Participant's Termination of Employment for any reason other than his or her Retirement, death, Disability, or for Cause;

(c) upon the expiration of 360 days following the Participant's Termination of Employment on account of his or her Disability;

(d) upon the expiration of 360 days following the Participant's Termination of Employment on account of his or her death;

(e) immediately upon the Participant's Termination of Employment for Cause;

(f) on the last date specified in the notice described in Section 3 above in the event of a Termination of Employment by the Participant for Good Reason or by the Company other than for Cause within six months before or two years after the effective date of a Change in Control; provided that, if no such notice is given, the Option shall terminate on the one year anniversary of the date of the Participant's Termination of Employment;

(g) on the ten year anniversary of the Grant Date (the "Expiration Date"); or

(h) on the ten year anniversary of the Grant Date in the event of the Participant's Termination of Employment on account of Retirement.

Upon its termination, the Option shall have no further force or effect and the Participant shall have no further rights under the Option or to any Shares which have not been purchased pursuant to the prior exercise of the Option.

5. **Manner of Exercise of Option**

(a) ***Exercise.*** The Option may be exercised only by (i) the Participant's delivery of a written notice of exercise to the Company, setting forth the number of Shares with respect to which the Option is to be exercised and (ii) the payment to the Company, pursuant to the terms of this Agreement, of an amount equal to the Option Price multiplied by the number of Shares being purchased as specified in the Participant's notice of exercise (the "Purchase Price"). The Participant's notice of exercise shall be given in the manner specified in Section 10 but any exercise of the Option shall be effective only when the items required by the preceding sentence are actually received by the Company. The notice of exercise shall be in the form attached to this Agreement or in another form provided by the Company. Notwithstanding anything to the contrary in this Agreement, the Option may be exercised only if compliance with Applicable Law can be effected, with the Committee being the final arbitrator thereof, in its sole and absolute discretion, in the event of any dispute between the Company and the Participant with regard to the interpretation of such laws.

(b) ***Form of Payment.*** Payment of the Purchase Price may be made by (i) cash or cash equivalent; (ii) authorizing a third party to sell a portion of the Shares acquired upon exercise of the Option and remit to the Company a sufficient portion of the sales proceeds to pay the full Purchase Price (that is, a broker-assisted "cashless exercise"); (iii) unless prohibited by the Committee, by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the Option Price or portion thereof, (iv) unless prohibited by the Committee, by withholding Shares subject to the Option having an aggregate Fair Market Value at the time of exercise equal to the Option Price or portion thereof, or (v) combining the above methods.

(c) ***Issuance and Delivery of Shares.*** As soon as practicable following receipt of such notice of exercise and payment, the Company shall notify the Participant of any payment required under subsection (d) below. The Company shall deliver a certificate or certificates for the Shares to the Participant (or provide other evidence of ownership of the Shares, such as tracking through book entry) as soon as practicable after the Participant has made any payment required under subsection (d) below. Shares issued pursuant to the exercise of the Option will be issued only in the name of the Participant and may not be transferred into the name of any agent of or nominee for Participant until such time as the Participant has complied with the terms of this Agreement.

(d) ***Taxes and Withholding.***

(i) The Participant shall be responsible for all federal, state, local, and foreign income taxes payable with respect to the Option and the exercise thereof. The Participant acknowledges that he or she may incur substantial tax liability arising out of the exercise of the Option and that the Company has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for the Participant.

(ii) The Company shall have the power and right to deduct or withhold, or require the Participant to remit to the Company in cash, an amount sufficient to satisfy federal, state, local, and foreign taxes (including but not limited to the Participant's FICA obligation), if any, required by law to be withheld with respect to any taxable event arising in connection with the Option. In lieu of the payment specified in this paragraph, the Participant may satisfy the obligation, in whole or in part, by the methods specified in subsection (b)(i) and (ii) above. In addition, unless the Committee determines otherwise and subject to such conditions as may be established by the Committee, the Participant may elect to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares with a Fair Market Value equal to (but not in excess of) the minimum statutory tax required to be withheld. The right to satisfy this obligation by cashless exercise or the withholding of Shares may be withdrawn by the approval of the Committee.

(e) ***Delay In Issuance of Shares.*** Anything in this Agreement to the contrary notwithstanding, if, at any time specified herein for the issuance of Shares to the Participant, any law, or any regulation or requirement of the Securities and Exchange Commission or other governmental authority having jurisdiction over such matter shall require either the Company or the Participant to take any action in connection with the Shares then to be issued, the issuance of such Shares shall be deferred until such action shall have been taken; the Company shall be under no obligation to take such action; and the Company shall have no liability whatsoever as a result of the non-issuance of such Shares, except to refund to the Participant any consideration tendered in respect of the Purchase Price.

(f) ***Stop Transfer Instructions.*** The Company may impose stop-transfer instructions with respect to any Shares (or other securities) subject to any restriction set forth in this Agreement until the restriction has been satisfied or terminates.

6. **Nontransferability**

To the extent that the Option is designated as an incentive stock option, the Option shall not be transferable (including by sale, assignment, pledge, or hypothecation) other than by will or the laws of intestate succession, or, in the Committee's discretion, as may otherwise be permitted in accordance with Treas. Reg. Section 1.421-1(b)(2) or Treas. Reg. Section 1.421-2(c) or any successor provisions thereto. To the extent that the Option is treated as a nonqualified stock option, the Option shall not be transferable (including by sale, assignment, pledge, or hypothecation) other than by will or the laws of intestate succession, except for transfers without consideration if and to the extent permitted by the Committee in a manner consistent with the registration provisions of the Securities Act. Except as may be permitted by the preceding sentences, the Option shall be exercisable during the Participant's lifetime only by the Participant or his or her guardian or legal representative. The designation of a beneficiary in accordance with the Plan does not constitute a transfer.

7. **No Rights as a Shareholder**

The Participant shall not have any rights as a shareholder with respect to the Shares subject to his or her Option until the issuance of such Shares to the Participant pursuant to the exercise of the Option.

8. **No Right to Employment or Future Grants; Compliance with Applicable Law**

(a) Nothing in this Agreement shall be construed as constituting a commitment, guarantee, agreement, or understanding of any kind or nature that the Company, any Subsidiary, or other Affiliate shall continue to employ the Participant, nor shall this Agreement affect in any way the right of the Company, any Subsidiary, or other Affiliate to terminate the employment or other service of the Participant at any time and for any reason. By the Participant's execution of this Agreement, the Participant acknowledges and agrees that the Participant's employment or other service to the Company, any Subsidiary, or other Affiliate is "at will." The Participant acknowledges and agrees that the award and acceptance of the Option pursuant to this Agreement does not entitle the Participant to future grants under the Plan or any other plan.

(b) The Company may impose such restrictions on the Option, the Shares, and any other benefits underlying the Option as it may deem advisable, including, without limitation, restrictions under the federal securities laws, the requirements of any securities exchange or similar organization, and any blue sky, state, or foreign securities laws applicable to such securities. The Company shall not be obligated to issue, deliver, or transfer Shares, make any other distribution of benefits under the Plan, or take any other action, unless such delivery, distribution, or action is in compliance with Applicable Law (including but not limited to the requirements of the Securities Act). The Company will be under no obligation to register the Shares or other securities with the Securities and Exchange Commission or to effect compliance with the exemption, registration, qualification, or listing requirements of any state or foreign securities laws or securities exchange or similar organization, and the Company will have no liability for any inability or failure to do so. The Company may cause a restrictive legend or legends to be placed on any certificate issued pursuant to the Option hereunder in such form as may be prescribed from time to time by Applicable Law or as may be advised by legal counsel.

9. **Successors and Assigns**

(a) This Agreement shall be binding upon and inure to the benefit of any assignee or successor in interest to the Company, whether by merger, consolidation, or the sale of all or substantially all of the Company's assets.

(b) This Agreement shall be binding upon and inure to the benefit of the Participant and his or her legal representative and any person to whom the Option may be transferred by will, the applicable laws of intestate succession, or otherwise in accordance with the terms of the Plan.

10. **Notices**

Any and all notices under this Agreement shall be in writing, and sent by hand delivery or by certified or registered mail (return receipt requested and first-class postage prepaid), in the case of the Company, to its principal executive offices to the attention of the Chief Financial Officer, and, in the case of the Participant, to the Participant's address as shown on the Company's records.

11. **Entire Agreement**

The parties hereto agree that this Agreement sets forth all of the promises, agreements, conditions, understandings, warranties, and representations between the parties with respect to the Option and the Shares and that there are no promises, agreements, conditions, understandings, warranties, or representations, oral or written, express or implied between the parties with respect to the Option and the Shares other than as set forth in this Agreement and in the Plan.

12. **Amendment of Agreement**

This Agreement may be modified, amended, suspended, or terminated, and any terms or conditions may be waived, but only by a written instrument executed by the parties hereto and otherwise in accordance with the Plan. Notwithstanding the foregoing, the Committee shall have unilateral authority to amend the Agreement (without the Participant's consent) to the extent necessary to comply with Applicable Law or changes to Applicable Law (including but in no way limited to Code Section 409A, Code Section 422, and federal securities laws).

13. **Severability**

The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions, and any partially unenforceable provision to the extent enforceable in any jurisdiction, shall nevertheless be binding and enforceable.

14. **Waiver**

The waiver by the Company of a breach of any provision of this Agreement by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.

15. **Plan Controls**

This Agreement and the Option are subject in all respects to the terms and conditions of the Plan (which are incorporated herein by reference). Except as otherwise expressly set forth herein, the capitalized terms used in this Agreement shall have the same definitions as set forth in the Plan. To the extent that any conflict may exist between any term or provision of this Agreement and any term or provision of the Plan, such term or provision of the Plan shall control, unless the Committee determines otherwise.

16. **Agreement to be Bound by Plan**

The Participant acknowledges that the Participant fully understands his or her rights under the Plan, and that the Participant agrees to be bound by all terms and conditions of the Plan. The Participant acknowledges that the Participant has received a copy of the Plan prospectus.

17. **Authority of Committee**

All determinations made by the Committee with respect to the interpretation, construction, and application of any provision of this Agreement shall be final, conclusive, and binding on the parties.

18. **Covenants and Representations of Participant**

The Participant represents, warrants, covenants, and agrees with the Company as follows:

(a) The Participant has not relied upon the Company with respect to any tax consequences related to the Option or the Shares. The Participant assumes full responsibility for all such tax consequences and the filing of all tax returns and elections the Participant may be required or find desirable to file in connection therewith.

(b) The Participant will not distribute or resell any Shares (or other securities) issuable upon exercise of the Option granted hereby in violation of Applicable Law. The Participant shall comply with all provisions of the Company's Securities Trading Policy, as in effect from time to time.

(c) The agreements, representations, warranties, and covenants made by the Participant herein with respect to the Option shall also extend and apply to all of the Shares issued to the Participant from time to time pursuant to exercise of the Option. Acceptance by the Participant of any certificate representing the Shares (or other evidence of beneficial ownership) shall constitute a confirmation by the Participant that all such agreements, representations, warranties, and covenants made herein continue to be true and correct at that time.

(d) As a condition to receiving this award, the Participant agrees to abide by the Company's Stock Ownership and Equity Retention Policy, Compensation Recovery Policy, and/or other similar policies, each as in effect from time to time and to the extent applicable to the Participant. In addition, the Participant shall be subject to such compensation recovery, recoupment, forfeiture, or other similar provisions as may apply to the Participant under Applicable Law.

19. **Limitation of Liability**

The liability of the Company under this Agreement and in the award of the Option hereunder is limited to the obligations set forth herein with respect to such award, and nothing herein contained shall be interpreted as imposing any liability in favor of the Participant or any others with respect to any loss, cost, or expense which the Participant or any others may incur in connection with or arising out of any transaction involving the Option or the Shares.

20. **Governing Law**

This Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of North Carolina, without giving effect to the principles of conflicts of laws, and in accordance with applicable federal laws.

21. **Definitions**

(a) ***"Retirement"*** shall mean the Participant's Termination of Employment at a time when the sum of the Participant's age and years of employment with the Company, its Subsidiaries, or other Affiliates equals or exceeds 65, provided that the Participant shall have attained a minimum age of 55.

(b) ***"Termination of Employment"*** means the discontinuance of the Participant's service relationship with the Company, its Subsidiaries, or another Affiliate, including but not limited to service as an employee of the Company, its Subsidiaries, or another Affiliate, as a non-employee member of the Board of Directors of the Company, or as a consultant or advisor to the Company, its Subsidiaries, or another Affiliate. Except to the extent provided otherwise in an agreement or determined otherwise by the Committee, a Termination of Employment shall not be deemed to have occurred if the Participant transfers among the various entities constituting the Company and its Subsidiaries, so long as there is no interruption in the provision of service by the Participant to the Company and its Subsidiaries. The Participant shall not be deemed to have incurred a Termination of Employment if the Participant is on military leave, sick leave, or other bona fide leave of absence approved by the Company of 180 days or fewer (or any longer period during which the Participant is guaranteed reemployment by statute or contract). In the event the Participant's leave of absence exceeds this period, he or she will be deemed to have incurred a Termination of Employment on the day following the expiration date of such period, unless determined otherwise by the Committee.

(c) ***"Good Reason"*** shall have the meaning assigned such term in the employment agreement, if any, between the Participant and the Company, a Subsidiary, or an Affiliate, provided, however that if there is no such employment agreement in which such term is defined, "Good Reason" shall mean any of the following acts by the Company, a Subsidiary, or an Affiliate within the six-month period before or the two-year period after the effective date of a Change in Control, without the consent of the Participant (in each case, other than an isolated, insubstantial, and inadvertent action not taken in bad faith and which is remedied by the Company, a Subsidiary, or an Affiliate promptly after receipt of notice thereof given by the Participant): (i) the assignment to the Participant of duties or responsibilities materially inconsistent with, or a material diminution in, the Participant's position, authority, duties, or responsibilities as in effect on the date of the Change in Control, (ii) a material reduction in the Participant's base salary as in effect on the date of the Change in Control, (iii) except with regard to international employees, the relocation, without consent, of the Participant's principal place of employment more than 25 miles from the location at which the Participant was stationed immediately prior to the Change in Control, or (iv) any material breach of any employment agreement between the Participant and the Company, a Subsidiary, or an Affiliate; provided that any event described in clauses (i) through (iv) above shall constitute Good Reason only if the Company fails to rescind or cure such event within 30 days after receipt from the Participant of written notice of the event which constitutes Good Reason; and provided, further, that Good Reason shall cease to exist for an event or condition described in clauses (i) through (iv) above on the 60th day following the latter of its occurrence or the Participant's knowledge thereof, unless the Participant has given the Company written notice thereof prior to such date.

22. **Forfeiture in the Event of Competition and/or Solicitation or other Detrimental Acts**

In return for granting the Option to the Participant, the Participant agrees to the following restrictions:

(a) The Participant expressly agrees and covenants that during the Restricted Period (as defined below), the Participant shall not, without the prior written consent of the Company, directly or indirectly:

(i) own, manage, control, participate in, consult with, become employed by, or otherwise render services to any Competitive Business (as defined below) in the Territory (as defined below), except that it shall not be considered a violation of this clause for the Participant to be a passive owner of not more than two percent of the outstanding stock of any class of any corporation which is publicly traded, so long as the Participant has no active participation in the business of such corporation;

(ii) induce or attempt to induce any customer, supplier, client, or other business relation of the Company or its Affiliates to cease doing business with the Company or its Affiliates if such cessation could reasonably be expected to result in material harm to the Company;

(iii) induce or attempt to induce any employee of the Company or its Affiliates to leave the employ of the Company or its Affiliates, or in any way interfere with the relationship between the Company or its Affiliates and any person employed by them; or

(iv) violate the Company's Securities Trading Policy.

(b) The Participant expressly agrees and covenants that the Participant will not, without the prior written consent of the Company, directly or indirectly, disclose or use at any time before or after the Participant's Termination of Employment any Confidential Information (as defined below) of which the Participant is or becomes aware, whether or not such information is developed by the Participant, except to the extent such disclosure or use is directly related to and appropriate in connection with the Participant's performance of duties assigned to the Participant by the Company or its Affiliates. Under all circumstances and at all times, the Participant will take all appropriate steps to safeguard Confidential Information in his or her possession and to protect it against disclosure, misuse, espionage, loss, and theft.

(c) If the Committee determines that the Participant has violated any provisions of this Section 22 or that the Participant's employment has been terminated for Cause, then the Participant agrees and covenants that:

(i) The Participant shall automatically forfeit any rights the Participant may have with respect to the Option or underlying Shares as of the date of such determination; and

(ii) if the Participant has exercised all or any part of the Option within the twelve-month period immediately preceding a violation of this Section 22 or termination of the Participant's employment for Cause, upon the Company's demand, the Participant shall immediately deliver to the Company (A) any Shares acquired upon exercise of the Option, if the Participant still owns the Shares (at which time the Company will deliver to the Participant an amount equal to the Purchase Price for such Shares), or (B) if the Participant no longer owns the Shares, an amount equal to the Gain realized by the Participant upon such exercise. For the purposes herein, "Gain" shall be equal to the disposition price per Share of any Shares sold or disposed of, multiplied by the number of Shares sold or disposed of, minus the Purchase Price paid for the Shares, and less any taxes paid which are not refundable or for which the Participant does not otherwise receive a tax credit or other form of reimbursement.

(d) Definitions. For purposes of this Section 22, the following definitions shall apply:

(i) ***"Competitive Business"*** means any business listed on Exhibit A hereto.

(ii) ***"Confidential Information"*** means information that is not generally known to the public and that was or is used, developed, or obtained by the Company or its Affiliates in connection with the business of the Company or its Affiliates and which constitutes trade secrets or information which they have attempted to protect, which may include, but is not limited to, trade "know-how," customer information, supplier information, cost and pricing information, marketing and sales techniques, strategies, and programs, computer programs and software, and financial information. It shall not include information (A) required to be disclosed by court or administrative order; (B) lawfully obtainable from other sources or which is in the public domain through no fault of Participant; or (C) the disclosure of which is consented to in writing by the Company.

(iii) ***"Restricted Period"*** means the period during which the Participant is employed by the Company or an Affiliate and twelve months following the date that the Participant ceases to be employed by the Company or an Affiliate for any reason whatsoever.

(iv) ***"Territory"*** means:

(A) The entire United States and any other country where the Company or any of its Subsidiaries, joint venturers, franchisees, or Affiliates has operated a retail facility at which the Company's products have been sold at any time in the one-year period ending on the last day of the Participant's employment with the Company or its Affiliates;

(B) In the event that the preceding clause shall be determined by judicial action to define too broad a territory to be enforceable, then "Territory" shall mean the entire United States;

(C) In the event that the preceding clauses shall be determined by judicial action to define too broad a territory to be enforceable, then "Territory" shall mean the states in the United States where the Company or any of its Subsidiaries, joint venturers, franchisees, or Affiliates has operated a retail facility at which the Company's products have been sold at any time in the one-year period ending on the last day of the Participant's employment with the Company or its Affiliates;

(D) In the event that the preceding clauses shall be determined by judicial action to define too broad a territory to be enforceable, then "Territory" shall mean the area that includes all of the areas that are within a 50-mile radius of any retail store location in the United States at which the Company's products have been sold at any time in the one-year period ending on the last day of the Participant's employment with the Company or its Affiliates; and

(E) In the event that the preceding clauses shall be determined by judicial action to define too broad a territory to be enforceable, then "Territory" shall mean the entire state of North Carolina.

(e) The Company may require the Participant, in connection with the exercise of the Option, to certify in a manner acceptable to the Company that the Participant has not violated the terms of this Section 22 and may decline to give effect to such exercise if the Participant fails so to certify. If the Participant is required to repay any Gain to the Company pursuant to this Section 22, the Participant shall pay such amount in such manner and on such terms and conditions as the Company may require, and the Company shall be entitled to withhold or set-off against any other amount owed to the Participant by the Company or any of its Affiliates (other than any amount owed to the Participant under any retirement plan intended to be qualified under Code Section 401(a)) up to any amount sufficient to satisfy any unpaid obligation of the Participant under this Section 22.

(f) The Participant acknowledges and agrees that the period, scope, and geographic areas of restriction imposed upon the Participant by the provisions of Section 22 are fair and reasonable and are reasonably required for the protection of the Company. In the event that any part of this Agreement, including, without limitation, Section 22, is held to be unenforceable or invalid, the remaining parts of Section 22 and this Agreement shall nevertheless continue to be valid and enforceable as though the invalid portions were not a part of this Agreement. If any one of the provisions in this Section 22 is held to be excessively broad as to period, scope, and geographic areas, any such provision shall be construed by limiting it to the extent necessary to be enforceable under Applicable Law.

(g) The Participant acknowledges that breach by the Participant of this Agreement would cause irreparable harm to the Company and that, in the event of such breach, the Company shall have, in addition to monetary damages and other remedies at law, the right to an injunction, specific performance, and other equitable relief to prevent violations of the Participant's obligations hereunder.

23. **Reserved.**

24. **Limitation on Incentive Stock Options.**

In no event shall there first become exercisable by the Participant in any one calendar year incentive stock options granted by the Company or any Parent or Subsidiary with respect to shares having an aggregate Fair Market Value (determined at the time an incentive stock option is granted) greater than $100,000. To the extent that any incentive stock option is first exercisable by the Participant in excess of such limitation, the excess shall be considered a nonqualified stock option.

25. **Notice of Disposition.**

To the extent that the Option is designated as an incentive stock option, if shares of Common Stock acquired upon exercise of the Option are disposed of within two years following the date of grant or one year following the transfer of such shares to the Participant upon exercise, the Participant shall, promptly following such disposition, notify the Company in writing of the date and terms of such disposition and provide such other information regarding the disposition as the Committee may reasonably require.

[Signature Page to Follow]

IN WITNESS WHEREOF, the Company and the Participant have executed this Agreement hereto as of the day and year first above written.

KRISPY KREME DOUGHNUTS, INC.

By: /s/ Douglas R. Muir

Title: Chief Executive Officer

PARTICIPANT

Signature: /s/ Anthony N. Thompson

Printed Name: Anthony N. Thompson

Exhibit A

The following businesses, together with their Subsidiaries, affiliates and successors in interest, are the "Competitive Businesses" for purposes of this Agreement:

Dunkin Brands Inc.
Tim Hortons, Inc.
George Weston Limited
Flowers Foods, Inc.
McKee Foods Corporation
Bimbo Bakeries USA, Inc.
Hostess Brands, LLC
Panera Bread Company
Starbucks
Dewey's Bakery
Salem Baking Company
Dawn Food Products, Inc.
CSM Bakery Products

And any other business that derives more than fifty percent (50%) of its revenues from the indirect or direct sale of coffee, doughnuts and/or bakery or sweet goods.

The Company reserves the right to modify or amend this Exhibit A at any time and from time to time.

STOCK OPTION EXERCISE FORM

This form must be completed and returned to Krispy Kreme's Chief Financial Officer on or before 1:00 p.m. Winston-Salem, North Carolina time on date of exercise.

SECTION I

NAME (please print):

SOCIAL SECURITY NO.:

HOME ADDRESS:

WORK ADDRESS:

HOME TELEPHONE:

WORK TELEPHONE:

SECTION II: I wish to exercise the following options:

A GRANT DATE	B NUMBER OF OPTIONS	C EXERCISE PRICE	D TOTAL PURCHASE PRICE: (COLUMN B x COLUMN C)
TOTAL			

SECTION III
I elect to pay for my shares (check one):

☐ Broker assisted Cashless Exercise

☐ Cash Purchase by Check (payable to Krispy Kreme Doughnuts, Inc.)

☐ Share delivery

☐ Share withholding

SECTION IV
I elect to pay my taxes on this transaction (check one):

☐ Sell shares to cover taxes (Broker assisted Cashless Exercise)

☐ Check (payable to Krispy Kreme Doughnuts, Inc.)

☐ Share withholding

Signature

Date of Exercise

Return form to: KRISPY KREME DOUGHNUTS, INC.
ATTN: Chief Financial Officer
370 Knollwood Street
Winston-Salem, NC 27103
Phone: 336-725-2981

KRISPY KREME DOUGHNUTS, INC.
2012 STOCK INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT

THIS AGREEMENT (the "Agreement") is made as of June 2, 2014, by and between Krispy Kreme Doughnuts, Inc., a North Carolina corporation (the "Company"), and Anthony N. Thompson (the "Participant").

W I T N E S S E T H:

WHEREAS, the Board of Directors and shareholders of the Company have approved the Krispy Kreme Doughnuts, Inc. 2012 Stock Incentive Plan, as it may be amended (the "Plan"), for the purposes and subject to the provisions set forth in the Plan; and

WHEREAS, the Plan provides for the grant of restricted stock units; and

WHEREAS, pursuant to authority granted to it in the Plan, the Compensation Committee of the Board of Directors of the Company (the "Committee") has, on behalf of the Company, granted to the Participant restricted stock units with respect to the Common Stock of the Company, as set forth below; and

WHEREAS, this Agreement evidences the grant of restricted stock units under the Plan.

NOW, THEREFORE, in consideration of the foregoing, of the mutual promises set forth below and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

1. Award of Restricted Stock Units

This Agreement sets forth the terms of an award to the Participant of 100,000 restricted stock units (the "Restricted Stock Units" or the "Award"), subject to, and in accordance with, the restrictions, terms, and conditions set forth in the Plan and this Agreement. The grant date of this award of Restricted Stock Units is June 2, 2014 (the "Grant Date"). Each Restricted Stock Unit will entitle the Participant to receive one share of Common Stock at the time, and subject to the conditions, set forth herein and in the Plan.

2. Vesting of Award; Forfeiture

If the Participant remains employed by the Company, the Participant shall become vested in the Restricted Stock Units in four installments beginning on June 2, 2015, and continuing on the next three anniversaries of such date (each such date shall be a "Vesting Date"), all as set forth below:

Date	*Number of Restricted Stock Units that Vest on Such Date*
6/2/15	**25,000**
6/2/16	**25,000**
6/2/17	**25,000**
6/2/18	**25,000**

Any unvested Restricted Stock Units shall be automatically forfeited upon the Participant's Termination of Employment for any reason (whether by the Company or the Participant and whether voluntary or involuntary) other than a Termination of Employment due to the Participant's death or Disability, or a Termination of Employment after becoming Retirement Eligible, or as provided in Section 7 herein in the event of a Change in Control or as provided pursuant to the terms of that certain Employment Agreement dated as of May 13, 2014 between the Company, Krispy Kreme Doughnut Corporation and the Participant (the "Employment Agreement"). In the event (a) of a Termination of Employment of the Participant due to his or her death or Disability, or (b) the Participant becomes Retirement Eligible, his or her Restricted Stock Units shall become immediately vested in full, provided, however, that distribution of the shares of Common Stock subject to such Restricted Stock Units shall be made only as provided in Section 4 herein. For purposes of this Agreement, employment with a Subsidiary or other Affiliate of the Company shall be considered employment with the Company. Unless otherwise provided by the Committee, all amounts receivable in connection with any adjustments to the Common Stock under Section 4.4 of the Plan shall be subject to the vesting schedule in this Section 2. For clarity, the terms of the Employment Agreement relating to the Award are hereby incorporated by reference and made a part of this Agreement.

3. <u>No Rights as a Shareholder</u>

Prior to vesting of the Restricted Stock Units and delivery of the shares of Common Stock to the Participant, the Participant shall not have any rights or privileges of a shareholder as to the shares of Common Stock underlying such Award. Specifically, the Participant shall not have the right to receive dividends or the right to vote such shares of Common Stock prior to vesting of the Restricted Stock Units and delivery of a certificate(s) (or other evidence of ownership, such as book entry) for the shares of Common Stock.

4. <u>Distribution of Common Stock</u>

Subject to the terms of Sections 8 and 24, and except as otherwise provided in this Section 4, the Company shall distribute to the Participant (or his or her heirs in the event of the Participant's death) at the time of vesting of the Restricted Stock Units (as provided in Section 2 or Section 7 hereof), a number of shares of Common Stock equal to the number of Restricted Stock Units then held by the Participant that became vested at such time. Shares of Common Stock or any other benefit subject to the Restricted Stock Units shall, upon vesting of the Restricted Stock Units pursuant to Section 2 or Section 7 (and except as otherwise provided in Section 2 and Section 4 herein in the event of Retirement Eligibility), be issued and distributed to the Participant (or his or her beneficiary) no later than the later of (a) the 15th day of the third month following the Participant's first taxable year in which the amount is no longer subject to a substantial risk of forfeiture, or (b) the 15th day of the third month following the end of the Company's first taxable year in which the amount is no longer subject to a substantial risk of forfeiture, or otherwise in accordance with Code Section 409A. Shares subject to the Restricted Stock Units which become vested upon the Participant's becoming Retirement Eligible shall be distributed upon the first to occur of (i) each Vesting Date(s) as specified in Section 2 herein, (ii) the date of the Participant's Termination of Employment (that is, the date of the Participant's separation from service, as defined under Code Section 409A) after becoming Retirement Eligible, (iii) the date of the Participant's death, (iv) the date of the Participant's Disability (as defined under Code Section 409A), or (v) the date of the Participant's Termination of Employment by the Company not for Cause or by the Participant for Good Reason within two years after the effective date of a Change in Control (as defined under Code Section 409A). Shares to be distributed as provided in the preceding sentence (following vesting due to Retirement Eligibility) shall be distributed within 90 days of the first to occur of the dates described in (i) through (v) of the preceding sentence (provided that in no event shall the Participant have the right to designate the taxable year in which such distribution shall occur).

5. Certificates

Except as otherwise provided in Section 4 herein (regarding Retirement Eligibility) upon the vesting of the Restricted Stock Units pursuant to the terms hereof and the satisfaction of any withholding tax liability pursuant to Section 8 hereof, certificates evidencing the shares of Common Stock required to be delivered pursuant to the terms hereof shall be delivered to the Participant or other evidence of ownership of such shares of Common Stock shall be provided to the Participant, such as tracking through book entry.

6. Nontransferability

Unless the Committee determines otherwise, no grant of, nor any right or interest of the Participant in or to, the Award may be assigned, encumbered, or transferred except, in the event of the death of Participant, by will or the laws of intestate succession.

7. Change in Control

Notwithstanding the other provisions of the Agreement, the following provisions shall apply in the event of a Change in Control (except to the extent otherwise provided pursuant to the Employment Agreement):

(a) To the extent the successor company does not assume or substitute for the Award (or the Company is the ultimate parent corporation and does not continue the Award) on substantially equivalent terms (as determined by the Committee), the Award will become vested in full upon the effective date of the Change in Control.

(b) Further, in the event that the Award is substituted, assumed or continued, the Award will become vested in full if the Participant incurs a Termination of Employment within six months before (in which case vesting shall not occur until the effective date of the Change in Control) or two years after the effective date of a Change in Control if such Termination of Employment (i) is by the Company not for Cause or (ii) is by the Participant for Good Reason. For the purposes herein, (A) “Good Reason” shall have the meaning set forth in Section 22(c) of the Agreement; and (B) “Company” shall include the successor to the Company’s business or assets, or if all or substantially all of the voting stock of the Company is held by another public company, such public company.

8. Taxes and Withholding

(a) The Participant shall be responsible for all federal, state, local, and foreign income taxes payable with respect to the Award. The Participant acknowledges that he or she may incur substantial tax liability arising out of the grant, vesting, and/or settlement of the Award and that the Company has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for the Participant.

(b) The Company shall have the right to retain and withhold from any distribution of Common Stock in respect of Restricted Stock Units the minimum amount of taxes (including but not limited to the Participant's FICA obligation) required by any government to be withheld or otherwise deducted and paid with respect to such Restricted Stock Units. At its discretion, the Company may require the Participant to immediately pay the Company in cash or reimburse the Company for any such taxes required to be withheld and may withhold any distribution in whole or in part until the Company is so paid or reimbursed. In lieu thereof, the Company shall have the right to withhold from any other cash amounts due to the Participant an amount equal to such taxes required to be withheld or withhold and cancel (in whole or in part) with respect to the Restricted Stock Units a number of shares of Common Stock having a market value equal to the amount of such taxes. In addition, unless the Committee determines otherwise and subject to such conditions as may be established by the Committee, the Participant may elect to satisfy the withholding requirement, in whole or in part, by having the Company withhold shares of Common Stock with a Fair Market Value equal to the minimum statutory tax required to be withheld. The right to withhold shares of Common Stock with a Fair Market Value equal to (but not in excess of) the minimum statutory tax required to be withheld to satisfy the withholding requirement may be withdrawn by the approval of the Committee.

9. Amendment of Agreement

This Agreement may be modified, amended, suspended, or terminated, and any terms or conditions may be waived, but only by a written instrument executed by the parties hereto and otherwise in accordance with the Plan. Notwithstanding the foregoing, the Committee shall have unilateral authority to amend the Agreement (without the Participant's consent) to the extent necessary to comply with Applicable Law or changes to Applicable Law (including but in no way limited to Code Section 409A and federal securities laws).

10. Severability

The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions, and any partially unenforceable provision to the extent enforceable in any jurisdiction, shall nevertheless be binding and enforceable.

11. Notices

Any and all notices under this Agreement shall be in writing, and sent by hand delivery or by certified or registered mail (return receipt requested and first-class postage prepaid), in the case of the Company, to its principal executive offices to the attention of the Chief Financial Officer, and, in the case of the Participant, to the Participant's address as shown on the Company's records.

12. Successors and Assigns

(a) This Agreement shall be binding upon and inure to the benefit of any assignee or successor in interest to the Company, whether by merger, consolidation, or the sale of all or substantially all of the Company's assets.

(b) This Agreement shall be binding upon and inure to the benefit of the Participant and his or her legal representative and any person to whom the Restricted Stock Units may be transferred by will, the applicable laws of intestate succession, or otherwise in accordance with the terms of the Plan.

13. Agreement to be Bound by Plan

The Participant hereby acknowledges that the Participant fully understands his or her rights under the Plan and that the Participant agrees to be bound by all the terms and provisions of the Plan. The Participant acknowledges that the Participant has received a copy of the Plan prospectus.

14. Plan Controls

This Agreement and the Award are subject in all respects to the terms and conditions of the Plan (which are incorporated herein by reference). Except as otherwise expressly set forth herein, the capitalized terms used in this Agreement shall have the same definitions as set forth in the Plan. To the extent that any conflict may exist between any term or provision of this Agreement and any term or provision of the Plan, such term or provision of the Plan shall control, unless the Committee determines otherwise.

15. No Right to Employment or Future Grants; Compliance with Applicable Law

(a) Nothing in this Agreement shall be construed as constituting a commitment, guarantee, agreement, or understanding of any kind or nature that the Company, any Subsidiary, or any Affiliate shall continue to employ the Participant, nor shall this Agreement affect in any way the right of the Company, any Subsidiary, or an Affiliate to terminate the employment or other service of the Participant at any time and for any reason. By the Participant's execution of this Agreement, the Participant reaffirms and acknowledges and agrees that the Participant's employment or other service to the Company, any Subsidiary, or any Affiliate is "at will." The Participant acknowledges and agrees that the award and acceptance of Restricted Stock Units pursuant to this Agreement does not entitle the Participant to future grants under the Plan or any other plan.

(b) The Company may impose such restrictions on the Restricted Stock Units, the shares of Common Stock underlying the Award and any other benefits underlying the Award as it may deem advisable, including, without limitation, restrictions under the federal securities laws, the requirements of any securities exchange or similar organization, and any blue sky, state, or foreign securities laws applicable to such securities. The Company shall not be obligated to issue, deliver, or transfer shares of Common Stock, make any other distribution of benefits under the Plan, or take any other action, unless such delivery, distribution, or action is in compliance with Applicable Law (including but not limited to the requirements of the Securities Act). The Company will be under no obligation to register the shares of Common Stock or other securities with the Securities and Exchange Commission or to effect compliance with the exemption, registration, qualification, or listing requirements of any state or foreign securities laws, or any securities exchange or similar organization, and the Company will have no liability for any inability or failure to do so. The Company may cause a restrictive legend or legends to be placed on any certificate issued pursuant to the Award in such form as may be prescribed from time to time by Applicable Law or as may be advised by legal counsel.

16. <u>Covenants and Representations of Participant</u>

The Participant represents, warrants, covenants, and agrees with the Company as follows:

(a) The Participant has not relied upon the Company with respect to any tax consequences related to the Award or shares of Common Stock subject thereto. The Participant assumes full responsibility for all such tax consequences and the filing of all tax returns the Participant may be required to file in connection therewith.

(b) The Participant will not distribute or resell any Common Stock (or other securities) issuable hereunder in violation of Applicable Law. The Participant shall comply with all provisions of the Company's Securities Trading Policy, as in effect from time to time.

(c) The agreements, representations, warranties, and covenants made by the Participant herein with respect to the Restricted Stock Units shall also extend and apply to all of the shares of Common Stock issued to the Participant from time to time pursuant to the Restricted Stock Units. Acceptance by the Participant of any certificate representing shares of Common Stock (or other evidence of beneficial ownership) shall constitute a confirmation by the Participant that all such agreements, representations, warranties, and covenants made herein continue to be true and correct at that time.

(d) As a condition to receiving this Award, the Participant agrees to abide by the Company's Stock Ownership and Equity Retention Policy, Compensation Recovery Policy, and/or other similar policies, each as in effect from time to time and to the extent applicable to the Participant. In addition, the Participant shall be subject to such compensation recovery, recoupment, forfeiture, or other similar provisions as may apply to the Participant under Applicable Law.

17. Governing Law

This Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of North Carolina, without giving effect to the principles of conflicts of laws, and in accordance with applicable federal laws.

18. Waiver

The waiver by the Company of a breach of any provision of this Agreement by the Participant shall not operate or be construed as a waiver of any subsequent breach by the Participant.

19. Limitation of Liability

The liability of the Company under this Agreement and in the award of the Restricted Stock Units hereunder is limited to the obligations set forth herein with respect to such Award, and nothing herein contained shall be interpreted as imposing any liability in favor of the Participant or any others with respect to any loss, cost, or expense which the Participant or others may incur in connection with or arising out of any transaction involving the Restricted Stock Units or the shares of Common Stock subject thereto.

20. Entire Agreement

The parties hereto agree that this Agreement sets forth all of the promises, agreements, conditions, understandings, warranties, and representations between the parties with respect to the Award and that there are no promises, agreements, conditions, understandings, warranties, or representations, oral or written, express or implied between the parties with respect to the Award other than as set forth in this Agreement and in the Plan.

21. Authority of Committee

All determinations made by the Committee with respect to the interpretation, construction, and application of any provision of this Agreement shall be final, conclusive, and binding on the parties.

22. Definitions

(a) ***"Retirement Eligible"*** or ***"Retirement Eligibility"*** shall mean a time when the sum of the Participant's age and years of employment with the Company, its Subsidiaries, or other Affiliates equals or exceeds 65, provided that the Participant shall have attained a minimum age of 55.

(b) ***"Termination of Employment"*** means the discontinuance of the Participant's service relationship with the Company, its Subsidiaries, or another Affiliate, including but not limited to service as an employee of the Company, its Subsidiaries, or another Affiliate, as a non-employee member of the Board of Directors of the Company, or as a consultant or advisor to the Company, its Subsidiaries, or another Affiliate. Except to the extent provided otherwise in an agreement or determined otherwise by the Committee, a Termination of Employment shall not be deemed to have occurred if the Participant transfers among the various entities constituting the Company and its Subsidiaries, so long as there is no interruption in the provision of service by the Participant to the Company and its Subsidiaries. The determination of whether a Participant has incurred a Termination of Employment shall be made by the Committee in its discretion. The Participant shall not be deemed to have incurred a Termination of Employment if the Participant is on military leave, sick leave, or other bona fide leave of absence approved by the Company of 180 days or fewer (or any longer period during which the Participant is guaranteed reemployment by statute or contract). In the event the Participant's leave of absence exceeds this period, he or she will be deemed to have incurred a Termination of Employment on the day following the expiration date of such period, unless determined otherwise by the Committee.

(c) ***"Good Reason"*** shall have the meaning assigned to such term in the employment agreement, if any, between the Participant and the Company, a Subsidiary, or an Affiliate, provided, however that if there is no such employment agreement in which such term is defined, "Good Reason" shall mean any of the following acts by the Company, a Subsidiary, or an Affiliate within the six-month period before or two-year period after the effective date of a Change in Control, without the consent of the Participant (in each case, other than an isolated, insubstantial, and inadvertent action not taken in bad faith and which is remedied by the Company, a Subsidiary, or an Affiliate promptly after receipt of notice thereof given by the Participant): (i) the assignment to the Participant of duties or responsibilities materially inconsistent with, or a material diminution in, the Participant's position, authority, duties, or responsibilities as in effect on the date of the Change in Control, (ii) a material reduction in the Participant's base salary as in effect on the date of the Change in Control, (iii) except with regard to international employees, the relocation, without consent, of the Participant's principal place of employment more than 25 miles from the location at which the Participant was stationed immediately prior to the Change in Control, or (iv) any material breach of any employment agreement between the Participant and the Company, a Subsidiary, or an Affiliate; provided that any event described in clauses (i) through (iv) above shall constitute Good Reason only if the Company fails to rescind or cure such event within 30 days after receipt from the Participant of written notice of the event which constitutes Good Reason; and provided, further, that Good Reason shall cease to exist for an event or condition described in clauses (i) through (iv) above on the 60th day following the latter of its occurrence or the Participant's knowledge thereof, unless the Participant has given the Company written notice thereof prior to such date.

23. <u>Forfeiture in the Event of Competition and/or Solicitation or other Detrimental Acts</u>

In return for granting the Restricted Stock Units to the Participant, the Participant agrees to the following restrictions.

(a) The Participant expressly agrees and covenants that during the Restricted Period (as defined below), the Participant shall not, without the prior written consent of the Company, directly or indirectly:

(i) own, manage, control, participate in, consult with, become employed by, or otherwise render services to any Competitive Business (as defined below) in the Territory (as defined below), except that it shall not be considered a violation of this clause for the Participant to be a passive owner of not more than two percent of the outstanding stock of any class of any corporation which is publicly traded, so long as the Participant has no active participation in the business of such corporation;

(ii) induce or attempt to induce any customer, supplier, client, or other business relation of the Company or its Affiliates to cease doing business with the Company or its Affiliates if such cessation could reasonably be expected to result in material harm to the Company;

(iii) induce or attempt to induce any employee of the Company or its Affiliates to leave the employ of the Company or its Affiliates, or in any way interfere with the relationship between the Company or its Affiliates and any person employed by them; or

(iv) violate the Company's Securities Trading Policy.

(b) The Participant expressly agrees and covenants that the Participant will not, without the prior written consent of the Company, directly or indirectly, disclose or use at any time before or after the Participant's Termination of Employment any Confidential Information (as defined below) of which the Participant is or becomes aware, whether or not such information is developed by the Participant, except to the extent such disclosure or use is directly related to and appropriate in connection with the Participant's performance of duties assigned to the Participant by the Company or its Affiliates. Under all circumstances and at all times, the Participant will take all appropriate steps to safeguard Confidential Information in his or her possession and to protect it against disclosure, misuse, espionage, loss, and theft.

(c) If the Committee determines that the Participant has violated any provisions of this Section 23 or that the Participant's employment has been terminated for Cause, then the Participant agrees and covenants that:

(i) the Participant shall automatically forfeit any rights the Participant may have with respect to the Award or the underlying shares of Common Stock as of the date of such determination; and

(ii) if the Participant has received a distribution of all or any part of the Common Stock subject to the Award within the twelve-month period immediately preceding a violation of this Section 23 or termination of the Participant's employment for Cause, upon the Company's demand, the Participant shall immediately deliver to the Company (A) the shares of Common Stock subject to the Award which have been distributed during such period (without the payment by the Company of any consideration for such shares), if the Participant still owns such shares, or (B) if the Participant no longer owns such shares of Common Stock, an amount equal to the Gain realized by the Participant with respect to the shares of Common Stock subject to the Award. For the purposes herein, "Gain" shall be equal to the disposition price per share of any shares of Common Stock received pursuant to the Award which shares were sold or disposed of, multiplied by the number of such shares sold or disposed of, and less any taxes paid which are not refundable or for which the Participant does not otherwise receive a tax credit or other form of reimbursement.

(d) Definitions. For purposes of this Section 23 the following definitions shall apply:

(i) ***"Competitive Business"*** means any business listed on Exhibit A hereto.

(ii) ***"Confidential Information"*** means information that is not generally known to the public and that was or is used, developed, or obtained by the Company or its Affiliates in connection with the business of the Company or its Affiliates and which constitutes trade secrets or information which they have attempted to protect, which may include, but is not limited to, trade "know-how," customer information, supplier information, cost and pricing information, marketing and sales techniques, strategies and programs, computer programs and software, and financial information. It shall not include information (A) required to be disclosed by court or administrative order; (B) lawfully obtainable from other sources or which is in the public domain through no fault of Participant; or (C) the disclosure of which is consented to in writing by the Company.

(iii) ***"Restricted Period"*** means the period during which the Participant is employed by the Company or an Affiliate and twelve months following the date that Participant ceases to be employed by the Company or an Affiliate for any reason whatsoever.

(iv) ***"Territory"*** means:

(A) The entire United States and any other country where the Company or any of its Subsidiaries, joint venturers, franchisees, or Affiliates has operated a retail facility at which the Company's products have been sold at any time in the one-year period ending on the last day of the Participant's employment with the Company or its Affiliates;

(B) In the event that the preceding clause shall be determined by judicial action to define too broad a territory to be enforceable, then "Territory" shall mean the entire United States;

(C) In the event that the preceding clauses shall be determined by judicial action to define too broad a territory to be enforceable, then "Territory" shall mean the states in the United States where the Company or any of its Subsidiaries, joint venturers, franchisees, or Affiliates has operated a retail facility at which the Company's products have been sold at any time in the one-year period ending on the last day of the Participant's employment with the Company or its Affiliates;

(D) In the event that the preceding clauses shall be determined by judicial action to define too broad a territory to be enforceable, then "Territory" shall mean the area that includes all of the areas that are within a 50-mile radius of any retail store location in the United States at which the Company's products have been sold at any time in the one-year period ending on the last day of the Participant's employment with the Company or its Affiliates; and

(E) In the event that the preceding clauses shall be determined by judicial action to define too broad a territory to be enforceable, then "Territory" shall mean the entire state of North Carolina.

(e) The Company may require the Participant, in connection with the distribution of shares of Common Stock underlying the Award, to certify in a manner acceptable to the Company that the Participant has not violated the terms of this Section 23 and may decline to distribute such shares if the Participant fails so to certify. If the Participant is required to repay any amount to the Company pursuant to this Section 23, the Participant shall pay such amount in such manner and on such terms and conditions as the Company may require, and the Company shall be entitled to withhold or set-off against any other amount owed to the Participant by the Company or any of its Affiliates (other than any amount owed to the Participant under any retirement plan intended to be qualified under Code Section 401(a)) up to any amount sufficient to satisfy any unpaid obligation of the Participant under this Section 23.

(f) The Participant acknowledges and agrees that the period, scope, and geographic areas of restriction imposed upon the Participant by the provisions of Section 23 are fair and reasonable and are reasonably required for the protection of the Company. In the event that any part of this Agreement, including, without limitation, this Section 23, is held to be unenforceable or invalid, the remaining parts of Section 23 and this Agreement shall nevertheless continue to be valid and enforceable as though the invalid portions were not a part of this Agreement. If any one of the provisions in this Section 23 is held to be excessively broad as to period, scope, and geographic areas, any such provision shall be construed by limiting it to the extent necessary to be enforceable under Applicable Law.

(g) The Participant acknowledges that breach by the Participant of this Agreement would cause irreparable harm to the Company and that, in the event of such breach, the Company shall have, in addition to monetary damages and other remedies at law, the right to an injunction, specific performance, and other equitable relief to prevent violations of the Participant's obligations hereunder.

24. Code Section 409A

If and to the extent that Code Section 409A is deemed to apply to the Award, it is intended that this Agreement and the Award shall, to the extent practicable, be construed in accordance therewith. Notwithstanding any provision to the contrary in this Agreement, if the Participant is deemed on the date of his or her "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company to be a "specified employee" (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment that is considered deferred compensation under Code Section 409A payable on account of a "separation from service" that is required to be delayed pursuant to Code Section 409A(a)(2)(B) (after taking into account any applicable exceptions to such requirement), such payment shall be made on the date that is the earlier of (i) the expiration of the six month period measured from the date of the Participant's "separation from service" (with such payments to be made during the seventh month following the "separation from service", or, if earlier, (ii) the date of the Participant's death, or otherwise permitted under Code Section 409A (the "Delay Period"). Upon the expiration of the Delay Period, all payments delayed pursuant to this Section 24 shall be paid to the Participant in a lump sum. Notwithstanding any provision of this Agreement to the contrary, for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment constituting deferred compensation for purposes of Code Section 409A, references to the Participant's "termination of employment" (and corollary terms) with the Company shall be construed to refer to the Participant's "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company. In the event that the Award, this Agreement, or the Plan is deemed not to comply with Code Section 409A, then neither the Company, the Board of Directors, the Committee, nor its designees or agents will be responsible to the Participant or any person for actions, decisions, or determinations made in good faith.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

KRISPY KREME DOUGHNUTS, INC.

By: /s/ Douglas R. Muir
Title: Chief Financial Officer

PARTICIPANT

Signature: /s/ Anthony N. Thompson
Printed Name: Anthony N. Thompson

Exhibit A

The following businesses, together with their Subsidiaries, affiliates and successors in interest, are the "Competitive Businesses" for purposes of this Agreement:

Dunkin Brands Inc.
Tim Hortons, Inc.
George Weston Limited
Flowers Foods, Inc.
McKee Foods Corporation
Bimbo Bakeries USA, Inc.
Hostess Brands, LLC
Panera Bread Company
Starbucks
Dewey's Bakery
Salem Baking Company
Dawn Food Products, Inc.
CSM Bakery Products

And any other business that derives more than fifty percent (50%) of its revenues from the indirect or direct sale of coffee, doughnuts and/or bakery or sweet goods.

The Company reserves the right to modify or amend this Exhibit A at any time and from time to time.

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Tony Thompson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Krispy Kreme Doughnuts, Inc.;

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 officer(s) 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 13a-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 evaluation; 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 officer(s) 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: September 12, 2014

/s/ Tony Thompson

Tony Thompson

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Douglas R. Muir, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Krispy Kreme Doughnuts, Inc.;

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 officer(s) 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 13a-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 evaluation; 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 officer(s) 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: September 12, 2014

/s/ Douglas R. Muir

Douglas R. Muir
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

I, Tony Thompson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the accompanying Quarterly Report on Form 10-Q of Krispy Kreme Doughnuts, Inc. (the “Company”) for the fiscal quarter ended August 3, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tony Thompson
Tony Thompson
Chief Executive Officer

Date: September 12, 2014

This certification shall not be deemed to be “filed” for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended, and will not be incorporated by reference into any registration statement filed under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated therein by reference.

A signed original of this written statement required by Section 906 has been provided to Krispy Kreme Doughnuts, Inc. and will be retained by Krispy Kreme Doughnuts, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

I, Douglas R. Muir, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the accompanying Quarterly Report on Form 10-Q of Krispy Kreme Doughnuts, Inc. (the "Company") for the fiscal quarter ended August 3, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Douglas R. Muir
Douglas R. Muir
Chief Financial Officer

Date: September 12, 2014

This certification shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended, and will not be incorporated by reference into any registration statement filed under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated therein by reference.

A signed original of this written statement required by Section 906 has been provided to Krispy Kreme Doughnuts, Inc. and will be retained by Krispy Kreme Doughnuts, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.