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KRISPY KREME DOUGHNUTS INC

FORM 10-K
(Annual Report)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark one)

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

For the fiscal year ended January 30, 2011

OR

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

For the transition period from to

Commission file number 001-16485

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, Winston-Salem, North Carolina	**27103**
(Address of principal executive offices)	*(Zip Code)*

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, No Par Value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller Reporting Company ☐

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

The aggregate market value of voting and non-voting common equity of the registrant held by nonaffiliates of the registrant as of July 30, 2010 was $264.6 million.

Number of shares of Common Stock, no par value, outstanding as of March 25, 2011: 67,527,196.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive proxy statement for the registrant's 2011 Annual Meeting of Shareholders to be held on June 14, 2011 are incorporated by reference into Part III hereof.

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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 2012, fiscal 2011, fiscal 2010 and fiscal 2009 mean the fiscal years ended January 29, 2012, January 30, 2011, January 31, 2010 and February 1, 2009, respectively.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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," "could," "will," "should," "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 international growth strategy;
- our ability to implement our new domestic 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;
- compliance with government regulations relating to food products and franchising;
- our relationships with off-premises customers;
- our ability to protect our trademarks and trade secrets;
- restrictions on our operations and compliance with covenants contained in our secured credit facilities;
- 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;
- increased costs or other effects of new government regulations relating to healthcare benefits; and
- other factors discussed below in Item 1A, "Risk Factors" and in Krispy Kreme's periodic reports and other information filed with the Securities and Exchange Commission (the "SEC").

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

Item 1. BUSINESS.

Company Overview

Krispy Kreme is a leading branded retailer and wholesaler of high-quality doughnuts, complementary beverages and treats and packaged sweets. The Company's principal business, which began in 1937, is owning and franchising Krispy Kreme stores, at which over 20 varieties of high-quality doughnuts, including the Company's Original Glazed ® doughnut, are sold and distributed together with complementary products, and where a broad array of coffees and other beverages are offered.

The Company generates revenues from four business segments: Company stores, domestic franchise stores, international franchise stores, and the KK Supply Chain. The revenues and operating income of each of these segments for each of the three most recent fiscal years is set forth in Note 16 to the Company's consolidated financial statements appearing elsewhere herein.

Company Stores. The Company Stores segment is comprised of the doughnut shops operated by the Company. These stores sell doughnuts and complementary products through the on-premises and off-premises sales channels and come in two formats: factory stores and satellite stores. Factory stores have a doughnut-making production line, and many of them sell products through both on-premises and off-premises sales channels to more fully utilize production capacity. Satellite stores, which serve only on-premises customers, are smaller than most factory stores, and include the hot shop and fresh shop formats. As of January 30, 2011 there were 85 Company stores in 19 states and the District of Columbia, including 69 factory and 16 satellite stores.

Domestic Franchise Stores. The Domestic Franchise segment consists of the Company's domestic store franchise operations. Domestic franchise stores sell doughnuts and complementary products through the on-premise and off-premise sales channels in the same way and using the same store formats as in the Company Stores segment. As of January 30, 2011 there were 144 domestic franchise stores in 28 states, consisting of 102 factory and 42 satellite stores.

International Franchise Stores. The International Franchise segment consists of the Company's international store franchise operations. International franchise stores sell doughnuts and complementary products almost exclusively through the on-premises sales channel in the same way and using the same store formats as in the Company Stores segment, and also using a kiosk format. A portion of sales by the franchisees in Canada, the United Kingdom and in Australia are made to off-premises customers. As of January 30, 2011 there were 417 international franchise stores in 20 countries, consisting of 106 factory and 311 satellite stores.

KK Supply Chain. The KK Supply Chain produces doughnut mixes and manufactures doughnut-making equipment, which all factory stores, both Company and franchise, are required to purchase. In addition, KK Supply Chain sells other ingredients, packaging and supplies, principally to Company-owned and domestic franchise stores.

As of January 30, 2011, there were 229 Krispy Kreme stores operated domestically in 37 states and in the District of Columbia, and there were 417 shops in 20 other countries around the world. Of the 646 total stores, 277 were factory stores and 369 were satellites. The ownership and location of those stores is as follows:

	Domestic	International	Total
Company stores	85	-	85
Franchise stores	144	417	561
Total	229	417	646

The Company and its franchisees sell products through two channels:

- **On-premises sales:** Sales to customers visiting Company and franchise factory and satellite stores, including sales made through drive-thru windows, along with discounted sales to community organizations that in turn sell doughnuts for fundraising purposes. A substantial majority of the doughnuts sold in our shops are consumed elsewhere.

- **Off-premises sales:** Sales of fresh doughnuts and packaged sweets primarily on a branded basis to a variety of retail customers, including convenience stores, grocery stores/mass merchants and other food service and institutional accounts. These customers display and resell the doughnuts from self-service display cases, and in packages merchandised on stand-alone display units. Products are delivered to customer locations by our fleet of delivery trucks operated by a commissioned employee sales force. Distribution through off-premises sales channels generally is limited to stores in the United States. Only a small minority of sales by international franchisees are made to off-premises customers.

Company History

In 1933, Vernon Carver Rudolph, the founder of Krispy Kreme, went to work for his uncle, who had acquired a doughnut shop in Paducah, Kentucky from a French chef originally from New Orleans, which included, among other items, the rights to a secret yeast-raised doughnut recipe. In the mid 1930s, they decided to look for a larger market, and moved their operations to Nashville, Tennessee. Shortly thereafter, Mr. Rudolph acquired the business, together with his father and brother, and they soon opened shops in Charleston, West Virginia and Atlanta, Georgia. At this time, the business focused on selling doughnuts to local grocery stores.

During the early summer of 1937, Mr. Rudolph decided to leave Nashville to open his own doughnut shop. Along with two friends, he set off in a 1936 Pontiac and arrived in Winston-Salem, North Carolina with $25 in cash, a few pieces of doughnut-making equipment, the secret recipe, and the name Krispy Kreme Doughnuts. They used their last $25 to rent a building across from Salem Academy and College in what is now called historic Old Salem.

On July 13, 1937, the first Krispy Kreme doughnuts were made at the new Winston-Salem shop, with the first batch of ingredients purchased on credit. Mr. Rudolph was 21 years of age. Soon afterward, people began stopping by to ask if they could buy hot doughnuts right there on the spot. The demand was so great that Mr. Rudolph opened the shop for retail business by cutting a hole in the wall and selling doughnuts directly to customers, marking the beginning of Krispy Kreme's restaurant business.

In 1939, Mr. Rudolph registered the trademark "Krispy Kreme" with the United States Patent and Trademark Office. The business grew rapidly and the number of shops grew, opened first by family members and later by licensees.

In the 1950s and 1960s, steps were taken to mechanize the doughnut-making process. Proofing, cooking, glazing, screen loading, and cutting became entirely automatic. Most of these doughnut-making processes are still used by Krispy Kreme stores today, although they have been further modernized.

Following Mr. Rudolph's death, in May 1976 Krispy Kreme became a wholly-owned subsidiary of Beatrice Foods Company of Chicago, Illinois. In February 1982, a group of Krispy Kreme franchisees purchased Krispy Kreme from Beatrice Foods.

With new leadership, a renewed focus on the hot doughnut experience became a priority for the Company and led to the birth of the Doughnut Theater®, in which the doughnut-making production line is visible to consumers, creating a multi-sensory experience unique to Krispy Kreme that is an important distinguishing feature of our brand. The Company began to expand outside of the Southeast and opened a store in New York City in 1996. Soon afterward, in 1999, the Company opened its first store in California and began its national expansion. In April 2000, Krispy Kreme held an initial public offering of common stock, and in December 2001, the Company opened its first international store, in Canada, and began its international expansion.

When the Company turned 60 years old in 1997, Krispy Kreme's place as a 20th century American icon was recognized by the induction of Company artifacts into the Smithsonian Institution's National Museum of American History.

The last decade of the 20th century and the early years of the 21st was a period of rapid growth in the number of stores and domestic geographic reach of Krispy Kreme, particularly following the April 2000 initial public offering. In many instances, the Company took minority ownership positions in new franchisees, both domestic and international. Enthusiasm for the brand generated very high average unit sales volumes as Krispy Kreme stores expanded into new geographic territories, and the Company generated significant earnings driven by the domestic store expansion. The initial success of a number of franchisees led the Company to reacquire several franchise markets in the United States in 2003 and early 2004, often at substantial premiums. By late 2003, average unit volumes began to fall as initial sales levels in many new stores proved to be unsustainable, which adversely affected earnings of both the Company and franchisees, leading to a period of retrenchment characterized by over 240 domestic store closings from 2004 through 2009. The Company's revenues fell significantly during this period, principally as a result of store closings by the Company and by franchisees, and the Company incurred significant losses, including almost $300 million in impairment charges and lease termination costs during this period related principally to store closings and to the writeoff of goodwill from the franchise acquisitions.

While the domestic business was going through a period of retrenchment, the Company greatly increased its international development efforts. Those efforts, which are continuing, have resulted in the recruitment of new franchisees in 16 countries since the end of 2004, and those franchisees, together with existing franchisees in four other countries, have opened a cumulative net total of 396 Krispy Kreme stores since the end of 2004. As of January 30, 2011, of the 646 Krispy Kreme stores worldwide, 417 are operated by franchisees outside the United States. Many of those franchisees pioneered the development of new small Krispy Kreme satellite shop formats which, in tandem with traditional factory stores or commissaries, as well as a new small factory store model, serve as the prototype for the small shop business model and hub and spoke distribution system the Company currently is developing to serve domestic markets and reignite growth in the United States.

In fiscal 2011, growth returned to the domestic business. The Company's revenues from domestic customers and the total number of Krispy Kreme shops operating in the United States each rose for the first time since fiscal 2005.

Today, Krispy Kreme enjoys over 65% unaided brand awareness, and our Hot Krispy Kreme Original Glazed Now® sign is an integral contributor to the brand's mystique. In addition, the Doughnut Theater® in factory stores provides a multi-sensory introduction to the brand and reinforces the unique Krispy Kreme experience in 21 countries around the world.

Industry Overview

Krispy Kreme operates within the quick service restaurant, or QSR, segment of the restaurant industry. In the United States, the QSR segment is the largest segment of the restaurant industry and has demonstrated steady growth over a long period of time. According to The NPD Group, Inc.'s CREST® , which tracks consumer usage of the foodservice industry, QSR sales have grown at an annual rate of about 3% over the past 10 years. The NPD Group projects QSR sales to rise 3% in calendar 2011 from the $230 billion posted in calendar 2010.

We believe that the QSR segment is generally less vulnerable to economic downturns than the casual dining segment, due to the value that QSRs deliver to consumers, as well as some "trading to value" by consumers from other restaurant industry segments during adverse economic conditions, as they seek to preserve the "away from home" dining experience on tighter budgets. However, high unemployment, low consumer confidence, tightened credit and other factors have taken their toll on consumers and their ability to increase spending, resulting in fewer visits to restaurants and related dollar growth. As a result, QSR sales may continue to be adversely impacted by the current recessionary environment or sharp increases in commodity or energy prices. The Company believes increased prices of agricultural products and energy are more likely to significantly affect its business than are economic conditions generally, because the Company believes its products are affordable indulgences that appeal to consumers in all economic environments.

Our QSR competitors include Dunkin' Donuts, which has the largest number of outlets in the doughnut retail industry, as well as Tim Hortons and regionally and locally owned doughnut shops and bakeries. Dunkin' Donuts and Tim Hortons have substantially greater financial resources than we do and are expanding to other geographic regions, including areas where we have a significant store presence. We also compete against other retailers who sell sweet treats such as cookie stores and ice cream stores. We compete on elements such as food quality, convenience, location, customer service and value.

In addition to retail doughnut outlets, the domestic doughnut market is comprised of several other sales channels, including grocery store packaged products, in-store bakeries within grocery stores, convenience stores, foodservice and institutional accounts, and vending. Our off-premises competitors include makers of doughnuts and snacks sold through all of these off-premises sales channels. Customer service, including frequency of deliveries and maintenance of fully stocked shelves, is an important factor in successfully competing for convenience store and grocery/mass merchant business. There is an industry trend moving towards expanded fresh product offerings at convenience stores during morning and evening drive times, and products are either sourced from a central commissary or brought in by local bakeries. In the packaged doughnut market, we compete for sales with many sweet treats, including those made by well-known producers, such as Dolly Madison, Entenmann's, Hostess, Little Debbie and Sara Lee, as well as regional brands.

Comprehensive, reliable doughnut industry statistics are not readily available; however, with regard to specific sales channels within the industry, data are available. Information Resources, Inc. data indicate that, during calendar 2010, doughnut industry sales rose approximately 1% year-over-year in grocery stores and rose approximately 2% in convenience stores.

Our international franchisees, which serve the on-premises market almost exclusively, compete against a broad set of global, regional and local retailers of doughnuts and treats such as Dunkin' Donuts, Tim Hortons, Mister Donut and Donut King.

Krispy Kreme Brand Elements

Krispy Kreme has several important brand elements which we believe have created a bond with many of our customers. The key elements are:

One-of-a-kind taste. The taste experience of our doughnuts is the foundation of our concept and the common thread that binds generations of our loyal customers. Our doughnuts are made based on a secret recipe that has been in our Company since 1937. We use premium ingredients, which are blended by our proprietary processing equipment in accordance with our standard operating procedures, to create this unique and very special product.

Doughnut Theater®. Our factory stores typically showcase our Doughnut Theater®, which is designed to produce a multi-sensory customer experience and establish a brand identity. Our goal is to provide our customers with an entertainment experience and to reinforce our commitment to quality and freshness by allowing them to see doughnuts being made.

Hot Krispy Kreme Original Glazed Now® sign. The Hot Krispy Kreme Original Glazed Now® sign, when illuminated, is a signal that our hot Original Glazed® doughnuts are being served. The Hot Krispy Kreme Original Glazed Now® sign is an impulse purchase generator and an integral contributor to our brand. Our Original Glazed® doughnuts are made for several hours every morning and evening, and at other times during the day at our factory stores. We also operate hot shops, which are satellite locations supplied with unglazed doughnuts from a nearby factory store or commissary. Hot shops use tunnel ovens to heat unglazed doughnuts throughout the day, which are then finished using the same glaze waterfall process used at factory stores.

Sharing. Krispy Kreme doughnuts are a popular choice for sharing with friends, family, co-workers and fellow students. Consumer research shows that approximately 70% of purchases at our domestic shops are for sharing occasions; and in Company stores, approximately 60% of retail transactions are for sales of one or more dozen doughnuts. The strength of our brand in shared-use occasions transcends international borders. Sales of dozens comprise a significant portion of shop sales transactions around the world, and the sharing concept is an integral part of our global marketing approach.

Community relationships. We are committed to local community relationships. Our store operators support their local communities through fundraising programs and sponsorship of charitable events. Many of our loyal customers have memories of selling Krispy Kreme doughnuts to raise money for their schools, clubs and community organizations.

Strategic Initiatives

We have developed a number of strategic initiatives designed to foster the Company's growth and improve its profitability. The major initiatives to which we are devoting our efforts are discussed below.

Developing and Testing Domestic Small Shop Formats To Drive Sales and Profitability

We are working to refine our domestic store operating model to focus on small retail shops, including both satellite shops to which we supply doughnuts from a nearby factory store in a hub and spoke distribution model, and shops that manufacture doughnuts but which are smaller and have less capacity than traditional factory stores. The objectives of the small retail shop model are, among other things:

- to stimulate an increase in on-premises sales of doughnuts and complementary products by increasing the number of retail distribution points to provide customers more convenient access to our products;
- to reduce the investment required to produce a given level of sales and reduce operating costs by operating smaller satellite stores supplied by larger, more expensive traditional factory stores;
- to increase the number of markets which can support a factory store through the continuing development of smaller factory store models;
- to achieve greater production efficiencies by centralizing doughnut production to minimize the burden of fixed costs;
- to achieve greater consistency of product quality through a reduction in the number of doughnut-making locations;
- to enable store employees to focus on achieving excellence in customer satisfaction and in-shop consumer experience.

We intend to focus development of Company stores in the Southeast in order to achieve economies of scale and minimize the geographic span of our Company store operations, and to develop the other domestic markets through franchising. We view successful development and demonstration of the small shop hub and spoke economic model as critical to attracting ongoing franchisee investment in the United States. Most of our international franchisees utilize hub and spoke models, and there currently are over 311 satellite locations in operation in 16 foreign countries, which represents approximately 75% of all international franchise shops.

We have completed initial market research in the following markets in the Southeast which we have targeted for development of Company stores in the near term: Piedmont Triad, Raleigh and Charlotte, North Carolina; Columbia, South Carolina; Lexington and Louisville, Kentucky; Nashville, Memphis and Knoxville, Tennessee; and Tidewater, Virginia. We believe there is an opportunity to build over 65 new Krispy Kreme Company shops in these markets.

We chose these markets as our initial focus of small shop development because they are markets in which our brand has been particularly successful, and they have an existing base of Krispy Kreme factory shops from which to build. By choosing markets with these characteristics, we hope to develop small shops and implement the hub and spoke model on a market-wide basis more rapidly than would be possible in larger markets. In addition, there are large population centers in the Southeast which we believe have the capacity to absorb a large number of new Company-owned Krispy Kreme shops, including Washington, D.C. and Atlanta. Moreover, successful development of small factory shop economic models could allow us to locate shops in smaller population towns and areas than has traditionally been possible, which could significantly increase the potential number of franchise stores nationwide.

We opened four new small shops in fiscal 2011, and expect to open between five and ten additional small shops in each of the next two fiscal years.

Enhancing Our Focus on Shop Operations

We believe that we can improve our shop operating margins by improving our operating methods; creating and deploying management tools, including labor cost and food cost management tools; enhancing our hospitality, service and cleanliness standards; and continuously training our people on new methods and standards. Our goal is to drive same store sales and operate our stores more efficiently through a focus on operating excellence and world class guest experience. Late in fiscal 2010, we implemented two new guest experience measures: a new mystery shopper assessment tool performed on a regular schedule, and a new guest reporting tool with industry norms that will allow us to compare ourselves to the best in the QSR industry.

Developing, Testing and Deploying New Products

Sales of doughnuts comprise over 88% of our retail sales. In addition to improving consumer convenience by expanding the number of shops and points of distribution in our markets, we will continue to develop and deploy a brand relevant range of menu offerings to give consumers more reasons to visit Krispy Kreme Shops more often and to improve our sales. We are continuing to test and improve Kool Kreme® soft serve and baked goods. We are in the initial stages of testing KK for You menu offerings, including new products such as low fat yogurt, oatmeal and juices designed to make our menu appeal to a broader spectrum of consumers and to stimulate new use occasions.

Outside the United States, we are working with our franchisees to broaden their menu offerings. Non-doughnut product offerings include the Krispy Kreme Baked Creations® line of baked goods which has been introduced in the Philippines and Korea.

Improving Our Off-Premises Business

Over half of our Company shops' sales are sales to grocers, mass merchants, convenience stores and other off-premises customers. We believe we have less ability to recover higher costs of agricultural commodities in the off-premises channel than we do in the on-premises channel, and we have the additional cost pressures associated with generally rising fuel costs and substantial product returns stemming from the relatively short shelf-life of our signature yeast-raised doughnut. We are focusing on enhancing our product line to increase consumer value by offering products with longer shelf-lives, as well as modernizing our delivery fleet, rationalizing delivery routes, improving our packaging graphics and enhancing customer service to improve the profitability of off-premises distribution,

We believe the Krispy Kreme brand should be represented in off-premises distribution channels. Over time, we expect our off-premises product line to become increasingly differentiated from the products offered in our shops in order to improve the economics of this distribution channel.

Building On Our Success Internationally

Our international franchisees' expansion in the past four years has been outstanding, with international stores growing from 123 to 417 and from 31% of our total store count to 65%. We have been devoting additional resources, principally people, to supporting the growth of our international franchisees, and we expect to devote even more resources to supporting international franchisees in fiscal 2012. Krispy Kreme is now represented in 20 countries outside the United States, and we believe the international growth potential in the coming years is substantial. It is our goal to more than double the number of our international shops over the next five years.

Enhancing Franchisee Support

The success of our franchisees is key to our success. We are devoting additional resources to franchisee operational support, both domestically and internationally, and we expect to expand the level of that support. We are increasing the number of personnel devoted to helping our franchisees succeed, including not only franchisee field support employees, but also additional personnel in the KK Supply Chain to more effectively and rapidly support an increasingly global business. In addition, many of the operational tools developed for our Company shops are being deployed by some of our franchisees to improve their shop economics. During fiscal 2011, we deployed a number of new management tools to our international franchisees, including new operating, site selection and acquisition, market planning and store design manuals, as well as new cost of goods sold, production planning, and labor management tools.

Company Stores Business Segment

Our Company Stores segment is comprised of the operating activities of our Company-owned stores. These stores sell doughnuts and complementary products through the on-premises and off-premises sales channels described above under "Company Overview." Expenses for this business segment include cost of goods sold, store level operating expenses along with direct general and administrative expenses, certain marketing costs and allocated corporate costs.

Products

Doughnuts and Related Products. We currently make and sell over 20 varieties of high-quality doughnuts, including our signature Original Glazed® doughnut. Most of our doughnuts, including our Original Glazed® doughnut, are yeast-raised doughnuts, although we also offer several varieties of cake doughnuts and crullers. We have become known for seasonal doughnuts that come in a variety of non-traditional shapes, including hearts, pumpkins, footballs, eggs and snowmen, and which often feature complementary icings and fillings. We also offer other doughnut varieties on a limited time basis to provide interest to our guests and excitement to our team members. Generally, products for domestic stores are first tested in our Company stores and then rolled out to our franchise stores, although we have approved for testing at franchise locations new products which we believe are compatible with our brand image and which meet our demanding quality standards. Sales of doughnuts comprise approximately 88% of total retail sales, with the balance comprised principally of beverage sales.

Many of the doughnut varieties we offer in our doughnut shops are also distributed through off-premises sales channels. In addition, we offer a number of products exclusively through off-premises channels, including honeybuns, fruit pies, mini-crullers and chocolate products, generally packaged as individually wrapped snacks or packaged in snack bags. We also have introduced products in non-traditional packaging for distribution through grocery stores, mass merchants and convenience stores. Sales of yeast-raised doughnuts comprise approximately 80% of total off-premises sales, with cake doughnuts and all other product offerings as a group each comprising approximately 10% of total off-premises sales.

Complementary products. We continue to develop and test products that complement our brand, including a proprietary soft serve trademarked as Kool Kreme® that is now offered in 17 Company shops and a smaller number of franchise locations. We are testing a variety of baked goods including sweet rolls, pecan rolls, muffins and bagels and have begun a test of alternative tastes including oatmeal, yogurt, granola and juices branded as KK for You.

Beverages. We have a complete beverage program which includes drip coffees, both coffee-based and non-coffee-based frozen drinks, juices, sodas, milks, water and packaged and fountain beverages. We are continuing to develop beverages such as espresso, cappuccino and hot chocolate, and plan to launch a revamped coffee program by the fall of 2011. Sales of beverages comprise approximately 11% of our total retail sales.

Traditional Factory Store Format

Historically, the Krispy Kreme business has been centered around large facilities which operated both as quick service restaurants and as consumer packaged goods distributors, with doughnut-making production lines located in each shop which served both the on-premises and off-premises distribution channels. The operation of these traditional factory stores tends to be complex, and their relatively high initial cost and their location in retail-oriented real estate results in a relatively high level of fixed costs which, in turn, results in high breakeven points.

Traditional factory stores generally are located in freestanding suburban locations generally ranging in size from approximately 2,400 to 8,000 square feet, and typically have the capacity to produce between 2,800 and 16,000 dozen doughnuts daily. The relatively larger factory stores often engage in both on-premises and off-premises sales, with the allocation between such channels dependent on the stores' capacities and the characteristics of the markets in which the stores operate. Relatively smaller traditional factory stores, which typically have less production capacity, serve only on-premises customers. Our newest traditional factory store is located in Pensacola, Florida, and serves both on-premises and off-premises customers. The store was constructed in fiscal 2008; its aggregate cost was approximately $1.8 million, including the core building, building upfit, equipment, furniture and fixtures and signage, but excluding the land, which the Company has owned for many years.

When the production line is producing our Original Glazed® doughnut, we illuminate our Hot Krispy Kreme Original Glazed Now® sign, which is a signal that our hot Original Glazed® doughnuts are being served. Our high volume dayparts are mornings and early evenings. The breakdown of our sales by daypart is approximately as follows (hours between 11:00 p.m. and 6:00 a.m. have been omitted because very few of our stores are open to the public during these hours):

Hours	Percentage of Retail Sales
6 a.m. – 11 a.m.	34%
11 a.m. – 2 p.m.	13%
2 p.m. – 6 p.m.	21%
6 p.m. – 11 p.m.	28%

The factory store category also includes six commissaries, five of which have multiple production lines; each line has the capacity to produce between 4,000 dozen and 16,000 dozen doughnuts daily. The commissaries typically serve off-premises customers exclusively, although some commissaries produce certain products (typically longer shelf-life products such as honeybuns) that are shipped to other factory stores where they are distributed to off-premises customers together with products manufactured at the receiving store.

Historically, the relatively large size and high cost of traditional factory stores limited the density of our stores in many markets, causing many of our consumers to utilize them as "destination" locations, which limited their frequency of use. In addition, each factory store has significant fixed or semi-fixed costs, and margins and profitability are significantly affected by doughnut production and sales volume. Many of our traditional factory stores and commissaries have more capacity to produce doughnuts than is currently is being utilized.

Small Retail Shop Format

In recent years, we have been developing several new small domestic shop formats to serve on-premises customers exclusively, with the goal of permitting us to operate a larger number of stores that are more convenient to our customers, reducing the initial store investment, reducing our per store fixed costs and lowering breakeven points, and leveraging the production capacity in the existing installed base of traditional factory stores. Our international franchisees pioneered the development of the small shop formats, which include small factory stores that operate independently, as well as satellite stores, which are located in proximity to existing traditional factory stores which supply finished and unglazed doughnuts to the satellites using a hub and spoke distribution system. Most of our international franchisee use a hub and spoke distribution model; approximately 75% of Krispy Kreme shops outside the United States are satellite shops, with the fresh shop being the predominant format.

Our consumer research indicates that the typical Krispy Kreme on-premises customer visits Krispy Kreme an average of once a month, and a significant obstacle to more frequent customer visits is our relative lack of convenience. Our consumer demographics are very much in line with the general population in which we do business. Our consumer research also indicates that consumers give us permission to leverage our brand into a variety of complementary products, so long as the quality of those products is consistent with the very high quality perception consumers attribute to our Original Glazed® doughnut.

Small Factory Stores. We have developed a domestic small retail-only factory store which occupies approximately 2,400 square feet and which contains a full doughnut production line, but on a smaller scale than the production equipment in a traditional factory store. We operate two of these small factory stores, and view this format as a viable alternative with which to deliver the Krispy Kreme Doughnut Theater® experience to consumers in relatively smaller geographic markets. Each of our two small factory stores has the capacity to produce approximately 1,000 dozen doughnuts per day, although the small factory store configuration, with minor modification, can accommodate equipment with the capacity to produce approximately 2,400 dozen doughnuts per day. The capital cost of the small factory store we opened in fiscal 2010 was approximately $850,000, including equipment, furniture and fixtures, signage and building upfit. We are continuing to refine the small factory model to reduce the initial capital cost of this format.

Outside the United States, small factory stores are more numerous than larger traditional factory stores. Because many international factory stores are located in urban areas where lease rates are relatively high, these shops tend to be smaller than domestic factory stores. In addition, because international factory shops generally serve only on-premises customers, the space required to support off-premises distribution is not required.

Satellite Stores. In addition, we have developed and are testing domestic satellite stores. All these shops serve only on-premises customers, are smaller than traditional factory stores, and do not contain a doughnut making production line. Satellite stores consist of the hot shop and fresh shop formats, and typically range in size from approximately 900 to 2,400 square feet (exclusive of larger factory stores that have been converted to satellites). In each of these formats, the Company sells doughnuts, beverages and complementary products, with the doughnuts supplied by a nearby traditional factory store or a commissary.

Hot shops utilize tunnel oven doughnut heating and finishing equipment scaled to accommodate on-premises sales volumes. This equipment heats unglazed doughnuts and finishes them using a warm glaze waterfall that is the same as that used in a traditional factory store. Hot shop equipment allows the Company to offer customers our hot Original Glazed® doughnuts throughout the day, and to signal customers that our signature product is available using the Hot Krispy Kreme Original Glazed Now® illuminated sign. Products other than our Original Glazed® doughnut generally are delivered to the hot shop already finished, although in some locations we perform some finishing functions at the hot shop, including application of icings and fillings, to provide consumers with elements of our Doughnut Theater® experience in hot shop locations.

Fresh shops are similar to hot shops, but do not contain doughnut heating and finishing equipment. All of the doughnuts sold at fresh shops are delivered fully finished from the factory hub. The fresh shop format is the predominant satellite format used by our international franchisees, comprising approximately 71% of all international satellite shops.

Hot shops and fresh shops typically are located in shopping centers, and end cap spaces that can accommodate drive-through windows are particularly desirable. We also intend to build and test hot shops in a freestanding format on outparcels of shopping centers and other retail centers, as well as shops in pedestrian-rich environments including urban settings and college and university campuses. We view the hot shop and fresh shop formats as ways to achieve market penetration and greater consumer convenience in a variety of market sizes and settings. Our international franchisees led the initial development of the satellite shop formats, and we have been working to adapt their work to the domestic market.

We opened three new Company-operated small retail shops in fiscal 2011, all of which were hot shops. In addition, the Company acquired from a franchisee a fresh shop located in Pennsylvania Station in New York City, which the Company ultimately intends to refranchise. In fiscal 2010, we opened one small factory store, three hot shops and two fresh shops. The level of sales generated at the two fresh shops did not meet our expectations, and in fiscal 2011 we converted one of the fresh shops to a hot shop and closed the other fresh shop. We plan to open five to ten small retail shops in fiscal 2012, all in the Southeastern United States. While we may open new fresh shops in the future, because we believe the hot doughnut experience is particularly important to consumers in the Southeast, we expect all the Company owned shops opening in fiscal 2012 will offer our hot Original Glazed® doughnuts. The average capital cost of the satellite stores we opened in the past two fiscal years was approximately $430,000, including equipment, furniture and fixtures, signage and building upfit. We are continuing to refine these shop models in order to reduce their initial capital cost.

The ability to accommodate a drive-thru window is an important characteristic in most new shop locations, including both factory stores and satellite shops. Of our 79 shops which serve on-premises customers, 73 have drive-thrus, and drive-thru sales comprise approximately 46% of these shops' retail sales. At some of the shops which produce doughnuts 24 hours per day, we are experimenting with continuous drive-thru operation.

The following table sets forth the type and locations of Company stores as of January 30, 2011.

	Number of Company Stores			
State	Factory Stores	Hot Shops	Fresh Shops	Total
Alabama	3	-	-	3
District of Columbia	-	1	-	1
Florida	4	-	-	4
Georgia	6	4	-	10
Indiana	3	1	-	4
Kansas	3	-	-	3
Kentucky	3	1	-	4
Louisiana	1	-	-	1
Maryland	2	-	-	2
Michigan	3	-	-	3
Mississippi	1	-	-	1
Missouri	4	-	-	4
New York	-	-	1	1
North Carolina	11	3	-	14
Ohio	6	-	-	6
South Carolina	2	1	-	3
Tennessee	7	4	-	11
Texas	3	-	-	3
Virginia	6	-	-	6
West Virginia	1	-	-	1
Total	69	15	1	85

Changes in the number of Company stores during the past three fiscal years are summarized in the table below.

	Number of Company Stores			
	Factory Stores	Hot Shops	Fresh Shops	Total
February 3, 2008	97	5	3	105
Opened	-	-	-	-
Closed	(4)	-	(2)	(6)
Refranchised	(5)	-	(1)	(6)
Change in store type	(5)	5	-	-
February 1, 2009	83	10	-	93
Opened	1	3	2	6
Closed	(10)	(2)	-	(12)
Refranchised	(4)	-	-	(4)
Change in store type	(1)	1	-	-
January 31, 2010	69	12	2	83
Opened	-	3	1	4
Closed	-	(1)	(1)	(2)
Refranchised	-	-	-	-
Change in store type	-	1	(1)	-
January 30, 2011	69	15	1	85

Off-Premises Sales

Off-premises sales accounted for slightly over half of fiscal 2011 revenues in the Company Stores segment. Of the 85 stores operated by the Company as of January 30, 2011, 41 serve the off-premises distribution channel, including six commissaries. We sell our traditional yeast-raised and cake doughnuts in a variety of packages, generally containing from six to 15 doughnuts. In addition, we offer in the off-premises distribution channel a number of doughnuts and complementary products that we do not offer in our restaurants, including honeybuns, mini-crullers, fruit pies and a variety of snack doughnuts. These products typically have longer shelf lives than our traditional doughnuts and are packaged in snack bags or as individually wrapped snacks. Packaged products generally are marketed from Krispy Kreme branded displays, but occasionally are stocked on customers' shelves. We strongly prefer marketing our products from our branded display tables because those displays give our products substantially greater visibility in the store than does on-shelf stocking. In addition to packaged products, we sell individual loose doughnuts through our in-store bakery ("ISB") program, using branded self-service display cases that also contain branded packaging for loose doughnut sales.

The off-premises distribution channel is composed of two principal customer groups: grocers/mass merchants and convenience stores. Substantially all sales to grocers and mass merchants consist of packaged products, while a significant majority of sales to convenience stores consists of loose doughnuts sold through the ISB program.

We deliver doughnuts to off-premises customers using a fleet of delivery trucks operated by a commissioned employee sales force. We typically deliver products to packaged doughnut customers three times per week, on either a Monday/Wednesday/Friday or Tuesday/Thursday/Saturday schedule. ISB customers generally are serviced daily, six times per week. In addition to delivering product, our salespeople are responsible for merchandising our products in the displays and picking up unsold products for return to the Company shop. Our principal products are yeast-raised doughnuts having a short shelf-life, which results in unsold product costs in the off-premises distribution channel, most of which are absorbed by the Company.

The off-premises channel is highly competitive, and the Company has not increased selling prices in recent years sufficiently to recover increased costs, particularly higher costs resulting from rising agricultural commodity costs and higher fuel costs. In addition, a number of customers, mainly convenience store chains, have converted from branded doughnut offerings to vertically-integrated private label systems.

In response to these off-premises trends, the Company has reemphasized marketing of new and existing longer shelf-life products, including products made by third parties, and has developed order management systems to more closely match display quantities and assortments with consumer demand and reduce the amount of unsold product. The goals of these efforts are to reduce spoilage and to increase the average weekly sales derived from each off-premises distribution point. In addition, where possible, the Company has eliminated relatively lower sales volume distribution points and consolidated off-premises sales routes in order to reduce delivery costs and increase the average revenue per distribution point and the average revenue per mile driven.

Store Operations

General store operations. We outline standard specifications and designs for each Krispy Kreme store format and require compliance with our standards regarding the operation of each store, including, but not limited to, varieties of products, product specifications, sales channels, packaging, sanitation and cleaning, signage, furniture and fixtures, image and use of logos and trademarks, training, marketing and advertising. We revised and improved these store operating manuals and deployed them at Company and domestic franchise stores in fiscal 2011.

Our stores generally operate seven days a week, excluding some major holidays. Traditionally, our domestic sales have been slower during the winter holiday season and the summer months.

Quality standards and customer service. We encourage our employees to be courteous, helpful, knowledgeable and attentive. We emphasize the importance of performance by linking a portion of both a Company store manager's and assistant manager's incentive compensation to profitability and customer service. We also encourage high levels of customer service and the maintenance of our quality standards by frequently monitoring our stores through a variety of methods, including periodic quality audits, "mystery shoppers" and a toll-free consumer telephone number. In addition, our customer experience department handles customer comments and conducts routine satisfaction surveys of our on-premises customers.

Management and staffing. Responsibility for our Company Stores segment is jointly vested in two senior vice presidents who report to our chief executive officer. Our Senior Vice President of Company Store Operations focuses on operations at retail-only shops and on both the doughnut production and QSR elements of our stores that serve both on-premises and off-premises customers. Company Stores Operations operates through regional vice presidents, market managers and store management. Through our regional vice presidents and market managers, each of whom is responsible for a specific geographic region, we communicate frequently with all store managers and their staff using store audits, weekly communications by telephone or e-mail and both scheduled and surprise store visits. Our Senior Vice President of Off-Premises Operations is responsible for off-premises distribution at all retail locations serving off-premises customers, and for operation of our six commissaries. The Off-Premises Operations management structure consists principally of a vice president of commissary operations who supervises the operations of our six commissaries through managers at these locations, and a sales organization consisting of national and regional off-premises sales managers who deal with larger customers and in-store sales personnel responsible for managing sales and deliveries to individual customer locations.

We offer a comprehensive manager training program covering the critical skills required to operate a Krispy Kreme store and a training program for all positions in the store. The manager training program includes classroom instruction, computer-based training modules and in-store training.

Our staffing varies depending on a store's size, volume of business and number of sales channels. Stores, depending on the sales channels they serve, have employees handling on-premises sales, processing, production, bookkeeping, sanitation and delivery. Hourly employees, along with route sales personnel, are trained by local store management through hands-on experience and training manuals.

In fiscal 2011, we began enhancing our shops' timekeeping systems by deploying and beginning implementation of new labor scheduling technology to help our shop managers better match staffing levels with consumer traffic.

We currently operate Company stores in 19 states and the District of Columbia. Over time, we plan to refranchise all of our stores in markets outside our traditional base in the Southeastern United States. The franchise rights and other assets in many of these markets were acquired by the Company in business combinations in prior years. Of the 85 stores operated by the Company as of January 30, 2011, approximately 30 stores having fiscal 2011 sales of approximately $77 million are candidates for refranchising at the appropriate time.

Domestic Franchise Business Segment

The Domestic Franchise segment consists of the Company's domestic store franchise operations. This segment derives revenue principally from initial development and franchise fees related to new stores and from royalties on sales by franchise stores. In October 2007, the Company decided to waive initial development and franchise fees for all new stores opened prior to October 1, 2010 by existing franchisees as of October 2007. Domestic Franchise direct operating expenses include costs incurred to recruit new domestic franchisees, to assist with domestic store openings, to assist in the development of domestic marketing and promotional programs, and to monitor and aid in the performance of domestic franchise stores, as well as direct general and administrative expenses and certain allocated corporate costs.

The store formats used by domestic franchisees are very similar to those used by the Company. All domestic franchisees sell products to on-premises customers, and most, but not all, also sell products to off-premises customers. Sales to off-premises customers generally constitute a smaller percentage of a domestic franchisee's total sales than do the Company's sales to off-premises customers. The Company's relatively higher percentage of off-premises sales reflects, among other things, the fact that the Company's KK Supply Chain segment earns a profit on sales of doughnut mixes, other ingredients and supplies that are used by the Company Stores segment to produce products for off-premises customers, which gives the Company a cost advantage not enjoyed by franchisees in serving this relatively lower profit margin distribution channel. Sales to off-premises customers comprised approximately 27% of domestic franchisees' total sales in fiscal 2011.

As of January 30, 2011, domestic franchisees operated 144 stores. During the year then ended, domestic franchisees opened seven stores and closed four stores. Existing development and franchise agreements for territories in the United States provide for the development of approximately 45 additional stores in fiscal 2012 and thereafter.

Domestic franchise stores include stores that we historically have referred to as associate stores and area developer stores, as well as franchisee stores that have opened since the beginning of calendar 2008. The rights of our franchisees to build new stores and to use the Krispy Kreme trademarks and related marks vary by franchisee type and are discussed below.

- ***Associates.*** Associate franchisees are located principally in the Southeast, and their stores have attributes that are similar to Company stores located in the Southeast. Associates typically have many years of experience operating Krispy Kreme stores and selling Krispy Kreme branded products both on-site and off-premises in defined territories. This group of franchisees generally concentrates on growing sales within the current base of stores rather than developing new stores. Under their associate license agreements, associates generally have the exclusive right to open new stores in their geographic territories, but they are not obligated to develop additional stores. We cannot grant new franchises within an associate's territory during the term of the license agreement. Further, we generally cannot sell within an associate's territory any Krispy Kreme branded products, because we have granted those exclusive rights to the franchisee for the term of the license agreement.

  Associates typically have license agreements that expire in 2020. Associates generally pay royalties of 3.0% of on-premises sales and 1.0% of all other sales. Some associates also contribute 1.0% of all sales to the Company-administered public relations and advertising fund, which we refer to as the Brand Fund.

- ***Area developers.*** In the mid-1990s, we franchised territories in the United States, usually defined by metropolitan statistical areas, pursuant to area development agreements. These development agreements established the number of stores to be developed in an area, and the related franchise agreements governed the operation of each store. Most of the area development agreements have expired or have been terminated. Under their franchise agreements, area developers generally have the exclusive right to sell Krispy Kreme branded products within a one-mile radius of their stores and in off-premises accounts that they have serviced in the last 12 months.

  The franchise agreements for area developers have a 15-year term that may be renewed by the Company. These franchise agreements provide for royalties of 4.5% of sales and contributions to the Brand Fund of 1.0% of sales. For fiscal 2009, the Company elected to reduce the royalty rate payable by area developers on off-premises sales from 4.5% to 3.5%, for fiscal 2010, the Company elected to reduce the royalty rate on off-premises sales to 2.5%, and for fiscal 2011, the Company elected to reduce the royalty rate on off-premises sales to 1.75%. The Company further reduced the royalty rate payable on off-premises sales by area developers to 1.5% for fiscal 2012.

  As of January 30, 2011, we had an equity interest in two of the domestic area developers. Where we are an equity investor in an area developer, we contribute equity or guarantee debt of the franchisee generally proportionate to our ownership interest. See Note 17 to the consolidated financial statements appearing elsewhere herein for additional information on our franchisee investments. We do not currently expect to own any equity interests in any future franchisees.

- ***Recent franchisees.*** During the past three fiscal years, the Company has signed new franchise agreements with respect to 44 stores in the United States. Nine of these recent franchise agreements resulted from the expiration of existing agreements, five were related to new stores opened by persons who were franchisees as of the end of fiscal 2008 and six resulted from a change in ownership. The remaining 24 agreements were related to transactions, in which the Company conveyed rights to Company markets to franchisees. Of these agreements, four were related to the refranchising of existing Company stores to franchisees and 20 were related to stores opened by new franchisees. Some of the recent franchisees have signed development agreements, which require the franchisee to build a specified number of stores in an exclusive geography within a specified time period, usually five years or less. The franchise agreements with this group of franchisees have a 15-year term, renewable at the Company's discretion, and they generally do not contemplate off-premises business. Additionally, these franchise agreements generally allow the Company to sell Krispy Kreme branded products in close geographic proximity to the franchisees' stores. These franchise agreements and development agreements are used for all new franchisees and, in general, for the renewal of older franchise agreements and associate license agreements. We are charging recent franchisees the same royalty and Brand Fund rates as those charged to area developer franchisees.

The following table sets forth the type and locations of domestic franchise stores as of January 30, 2011.

State	Number of Domestic Franchise Stores			
	Factory Stores	Hot Shops	Fresh Shops	Total
Alabama	5	2	-	7
Arizona	2	-	9	11
Arkansas	2	-	-	2
California	12	-	3	15
Colorado	2	-	-	2
Connecticut	1	-	3	4
Florida	11	5	1	17
Georgia	7	4	-	11
Hawaii	1	-	-	1
Idaho	1	-	-	1
Illinois	4	-	-	4
Iowa	1	-	-	1
Louisiana	3	-	-	3
Mississippi	2	-	-	2
Missouri	2	1	-	3
Nebraska	1	-	1	2
Nevada	3	1	3	7
New Mexico	1	-	1	2
North Carolina	6	1	-	7
Oklahoma	3	-	1	4
Oregon	2	-	-	2
Pennsylvania	5	1	1	7
South Carolina	6	2	1	9
Tennessee	1	-	-	1
Texas	7	-	1	8
Utah	2	-	-	2
Washington	8	-	-	8
Wisconsin	1	-	-	1
Total	102	17	25	144

The Company has equity interests in two domestic franchisees operating stores in Washington, Oregon, Hawaii and South Florida, as more fully described in Note 17 to the consolidated financial statements appearing elsewhere herein. The Company currently does not expect to own equity interests in franchisees formed in the future.

Changes in the number of domestic franchise stores during the past three fiscal years are summarized in the table below.

	Number of Domestic Franchise Stores			
	Factory Stores	Hot Shops	Fresh Shops	Total
February 3, 2008	118	15	12	145
Opened	1	1	4	6
Closed	(17)	(4)	-	(21)
Refranchised	1	-	1	2
Change in store type	1	1	(2)	-
February 1, 2009	104	13	15	132
Opened	3	-	9	12
Closed	(4)	-	(3)	(7)
Refranchised	4	-	-	4
Change in store type	(3)	1	2	-
January 31, 2010	104	14	23	141
Opened	2	1	4	7
Closed	(3)	-	(1)	(4)
Change in store type	(1)	2	(1)	-
January 30, 2011	102	17	25	144

We generally assist our franchisees with issues such as operating procedures, advertising and marketing programs, public relations, store design, training and technical matters. We also provide an opening team to provide on-site training and assistance both for the week prior to and during the first week of operation for each initial store opened by a new franchisee. The number of opening team members providing this assistance is reduced with each subsequent store opening for an existing franchisee.

International Franchise Business Segment

The International Franchise segment consists of the Company's international store franchise operations. The franchise agreements with international area developers typically provide for the payment of royalties of 6.0% of all sales, contributions to the Brand Fund of 0.25% of sales and one-time development and franchise fees ranging from $10,000 to $50,000 per store. Direct operating expenses for this business segment include costs incurred to recruit new international franchisees, to assist with international store openings, to assist in the development of operational tools and store designs, and to monitor and aid in the performance of international franchise stores, as well as direct general and administrative expenses and allocated corporate costs.

The operations of international franchise stores are similar to those of domestic stores, except that substantially all of the sales of international franchise stores are made to on-premises customers. International franchisees pioneered the hub and spoke business model, in which centralized factory stores or commissaries provide fresh doughnuts to satellite locations. Internationally, the fresh shop satellite format predominates, and shops typically are located in pedestrian-rich environments, including transportation hubs and shopping malls. Some of our international franchisees have developed small kiosk formats, which also are typically located in transportation hubs and shopping malls. The satellite shops operated by international franchisees, tend to be smaller than domestic satellite shops, and the international satellite shops have lower average unit volumes than do domestic satellite shops.

Our International Franchisees have renewable development agreements regarding the build-out of Krispy Kreme stores in their territories. Territories are typically country or region-wide, but for large countries, the development territory may encompass only a portion of a country. The international franchise agreements have a renewable 15-year term. These agreements generally do not contemplate off-premises sales, although our franchisees in Canada, Australia and the United Kingdom make such sales. Under these agreements, the Company retains the right to use the trademarks at locations other than the franchise stores.

Product offerings at shops outside the United States include our signature Original Glazed ® doughnut, a core set of doughnut varieties offered in our domestic shops, and a complementary set of localized doughnut varieties tailored to meet the unique taste preferences and dietary norms in the market. Often, our glazes, icings and filling flavors are tailored to meet local palette preferences. We work closely with our franchisees outside the United States to conduct marketing research to understand local tastes and usage occasions, which drives development of new products and marketing approaches.

Internationally, we believe that complementary products such as baked goods, ice cream and other treat products could play an increasingly important role for our franchisees as they penetrate their markets and further establish the Krispy Kreme brand. These items offer franchisees the opportunity to fill and/or strengthen day part offerings to meet a broader set of customer needs. Currently, our franchisee in Australia offers its customers ice cream products including cones, cups, sundaes and milkshakes. In fiscal 2010, we developed Krispy Kreme Baked

Creations®, a baked platform for international markets designed to meet needs across a broad set of markets. Krispy Kreme Baked Creations® was launched in fiscal 2011 in Korea and the Philippines, and there are plans to conduct testing in additional international markets during fiscal 2012.

Beverage offerings at shops outside the United States include a complete program consisting of hot and iced espresso based beverages, frozen drinks, teas, juices, sodas, water and bottled or canned beverages. Drip coffee is also offered in many international markets, but represents a much smaller component of the beverage program relative to the United States due to international consumer preferences. In-store consumption occasions often play a key role in total beverage consumption internationally due to store locations and consumer habits, and we work closely with international franchisees to adapt the store environment and product offerings to take advantage of this dynamic. We continue to look for ways to improve our beverage program and bring cross-market efficiencies to international franchisees.

Markets outside the United States have been a significant source of growth, all of which we plan to develop by franchising. In the past three years, we have focused our international development efforts primarily on opportunities in markets in Asia and the Middle East. In addition to ongoing development efforts in these areas, we began initial franchisee recruitment efforts in Europe in fiscal 2011, and may develop opportunities in South America in fiscal 2012. Existing development and franchise agreements for territories outside the United States provide for the development of over 150 additional stores in fiscal 2012 and thereafter.

The types and locations of international franchise stores as of January 30, 2011 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	12	10	29
Bahrain	2009	2	-	2	5	9
Canada	2002	4	-	1	-	5
China	2010	1	-	-	-	1
Dominican Republic	2011	1	-	-	-	1
Indonesia	2007	2	-	3	4	9
Japan	2007	13	-	8	-	21
Kuwait	2007	3	-	23	2	28
Lebanon	2009	2	-	6	3	11
Malaysia	2010	2	1	1	1	5
Mexico	2004	5	1	25	27	58
Philippines	2007	4	3	12	2	21
Puerto Rico	2009	4	-	-	-	4
Qatar	2008	2	-	3	1	6
Saudi Arabia	2008	8	-	66	9	83
South Korea	2005	31	1	9	-	41
Thailand	2011	2	-	-	-	2
Turkey	2010	1	-	10	2	13
United Arab Emirates	2008	2	-	18	4	24
United Kingdom	2004	11	4	23	8	46
Total		106	11	222	78	417

The Company's franchisee in Japan operates 21 stores, all of which are located either in Tokyo or in areas to the south of that city. As of late March 2011, the natural disaster in Japan has resulted in a curtailment of shop operating hours in Tokyo due to rolling power blackouts, but has not materially affected operations in other areas. There has been some disruption in supplies of ingredients sourced locally, but such disruptions have not resulted in shop closures. Because the ultimate economic effects of the disaster cannot presently be measured, and because the ultimate resolution of environmental uncertainties is not known, it is impossible to predict the ultimate effects the disaster will have on the franchisee's business. For the year ended January 30, 2011, the Company's total revenues from its franchisee in Japan, including royalties, fees and sales by KK Supply Chain, were less than $8 million.

The Company has a total of 161 franchise stores in the Middle East. Certain of the countries in which those stores operate have experienced political unrest in recent months. While this unrest has not yet resulted in any significant effect on the operations of our franchisee in the Middle East, the potential for adverse effects of political risks may be greater in the Middle East than in other parts of the world. For the year ended January 30, 2011, the Company's total revenues from its franchisee in the Middle East, including royalties, fees and sales by KK Supply Chain, were less than $10 million.

The Company has equity interests in the franchisees operating stores in Mexico and Western Canada. The Company currently does not expect to own equity interests in franchisees owned in the future.

Changes in the number of international franchise stores during the past three fiscal years are summarized in the table below.

	Number of International Franchise Stores				
	Factory Stores	Hot Shops	Fresh Shops	Kiosks	Total
February 3, 2008	80	28	52	39	199
Opened	18	2	75	19	114
Closed	(6)	(4)	(5)	(4)	(19)
Refranchised	4	-	-	-	4
Change in store type	(2)	-	4	(2)	-
February 1, 2009	94	26	126	52	298
Opened	9	3	52	18	82
Closed	(7)	-	(9)	(6)	(22)
Change in store type	(1)	(15)	11	5	-
January 31, 2010	95	14	180	69	358
Opened	19	-	56	20	95
Closed	(6)	(3)	(16)	(11)	(36)
Change in store type	(2)	-	2	-	-
January 30, 2011	106	11	222	78	417

KK Supply Chain Business Segment

The Company operates an integrated supply chain to help maintain the consistency and quality of products throughout the Krispy Kreme system. The KK Supply Chain segment buys and processes ingredients it uses to produce doughnut mixes and manufactures doughnut-making equipment that all factory stores are required to purchase.

The Company manufactures doughnut mixes at its facility in Winston-Salem, North Carolina. The Company also manufactures doughnut mix concentrates, which are blended with flour and other ingredients by contract mix manufacturers to produce finished doughnut mix. In February 2009, the Company entered into an agreement with an independent food company to manufacture certain doughnut mixes using concentrate for domestic regions outside the southeastern United States and to provide backup production capability in the event of a business disruption at the Winston-Salem facility.

In addition to traditional doughnut mixes and mixes made from mix concentrate, the Company produces or manages the production of doughnut premix, which is used to produce doughnut mixes in certain international locations. The premix is shipped to Krispy Kreme stores, where it is combined with locally sourced ingredients to produce doughnut mixes for use at the store. The premix and concentrate production models are used to produce doughnut mixes outside the United States in order to reduce the substantial international transportation costs associated with shipping finished mixes, to minimize foreign import taxes, and to help protect the Company’s intellectual property. The Company utilizes contract mix manufacturers in the United Kingdom, Mexico, Japan, Korea and Australia to blend mixes for certain international franchisees using mix concentrates or the premix process.

The KK Supply Chain segment also purchases and sells key supplies, including icings and fillings, other food ingredients, juices, signage, display cases, uniforms and other items to both Company and franchisee-owned stores. In addition, through KK Supply Chain, the Company utilizes volume-buying power, which the Company believes helps lower the cost of supplies to stores and enhances profitability. KK Supply Chain operates a distribution center in Winston-Salem, North Carolina, which supplies domestic stores in the eastern United States and certain international franchise stores with key supplies. The Company has subcontracted with an independent distributor since 2008 to distribute products to the domestic stores not supplied from the Winston-Salem distribution facility, which generally consist of stores west of the Mississippi River. In March 2011, the Company entered into an agreement with another independent distributor to distribute products to the stores currently served by the Winston-Salem distribution center, as well as to handle the export of products to the 20 foreign countries in which the Company’s international franchisees operate. Implementation of the Winston-Salem outsourcing, which is expected to be completed in the third quarter of fiscal 2012, will result in all of KK Supply Chain’s the distribution operations being handled by contract distributors. The Company believes that moving to a 100% outsourced model will enable the Company and its franchisees to benefit from the operating scale of the independent distributors and, in the case of outsourcing of all export functions, minimize the compliance and other risks associated with exporting to a large number of countries with diverse import regulations and procedures.

Substantially all domestic stores purchase all of their ingredients and supplies from the KK Supply Chain, while KK Supply Chain sales to international franchise stores are comprised principally of sales of doughnut mix. The Company is continuously studying its distribution system to reduce the delivered cost of products to both Company and franchise stores. The Company expects to employ increased local sourcing for international franchisees in order to reduce costs, while maintaining control of the doughnut mix manufacturing process.

The Supply Chain business unit is volume-driven, and its economics are enhanced by the opening of new stores and the growth of sales by existing stores.

Revenues by Geographic Region

Set forth below is a table presenting our revenues by geographic region for fiscal 2011, 2010 and 2009. Revenues by geographic region are presented by attributing revenues from customers on the basis of the location to which the Company's products are delivered or, in the case of franchise segment revenues, the location of the franchise store from which the franchise revenue is derived.

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Revenues by geographic region:			
United States	$ 324,934	$ 314,528	$ 333,599
Other North America	5,864	4,231	14,513
Asia/Pacific	18,542	15,469	18,927
Middle East	9,152	8,852	10,477
Europe	3,463	3,440	8,006
Total Revenues	$ 361,955	$ 346,520	$ 385,522

Marketing

Krispy Kreme's approach to marketing is a natural extension of our brand equity, brand attributes, relationship with our customers and our values. During fiscal 2011, we hired a chief marketing officer with extensive experience in the QSR business to lead and unify our marketing programs on a global basis.

Domestic

To build our brand and drive our sales in a manner aligned with our brand values, we will focus our domestic marketing activities in the following areas:

Store Experience. Our factory stores and smaller neighborhood shops are where most guests first experience a hot Original Glazed® doughnut. Customers know that when our Hot Krispy Kreme Original Glazed Now® sign in the store window is illuminated, they can enjoy a hot Original Glazed® doughnut. We believe this experience begins our relationship with our guests and forms the foundation of the Krispy Kreme experience.

Relationship Marketing. The foundation of our marketing efforts starts with building a "relationship" with our team members, guests and communities. Toward that end, many of our brand-building activities are grassroots-based and focused on building relevancy with these groups. These activities include:

- Good neighbor product deliveries to create trial users;
- Sponsorship of local events and nonprofit organizations;
- Friends of Krispy Kreme eMessages sent to guests registered to receive monthly updates about new products, promotions and store openings;
- Fundraising programs designed to assist local charitable organizations in raising money for their non-profit causes which the Company estimates helped raise over $30 million for these organizations during fiscal 2011; and
- Digital, social, viral and interactive efforts including the use of social media such as Facebook and Twitter to communicate product and promotional activity, new store openings and local store marketing programs. We currently have nearly 3 million fans on Facebook.

Public Relations. We utilize public relations and media relations, product placement, event marketing and community involvement as vehicles to generate brand awareness, brand relevancy and trial usage for our products. Our public relations activities create opportunities for media and consumers to interact with the Krispy Kreme brand. Our key messages are as follows:

- Krispy Kreme doughnuts are the preferred doughnut of choice for guests nationwide; and
- Krispy Kreme is a trusted food retailer with a long history of providing superior, innovative products and delivering quality customer service; and
- Krispy Kreme cares about our team members, our guests and the communities we serve.

Marketing, Advertising and Sales Promotion. Local relationship marketing has been central to building our brand, awareness and relevancy. In addition to these grassroots efforts, we will use other media as appropriate to communicate the brand, promotions, limited time offers and activities. These media may include traditional tactics (*e.g.* , free-standing newspaper inserts, direct mail, shared mail, radio, television, out-of-home, and other communications vehicles) and alternative media such as social, viral, and digital (*e.g.* , Facebook, Twitter, blogs, Krispykreme.com, Friends of Krispy Kreme email club, etc.)

These activities may include limited time offerings and shaped doughnut varieties, such as Valentine's Day Hearts, Fall Footballs, Halloween Pumpkins and Holiday Snowmen. We also engage in activities and call attention to and leverage the Krispy Kreme experience and engage the public in non-traditional ways.

International

Krispy Kreme's approach to international marketing utilizes many of the same elements as the domestic marketing approach described above to ensure global consistency. We provide strategic leadership, marketing expertise and consulting on local market issues through dedicated regional resources. In partnership with our franchisees, we assist in local marketing planning, product offering innovation, promotional activation and consumer messaging. In addition, we develop cross-market product, promotional and store event programs to supplement local marketing initiatives, bring marketing efficiencies to international franchisees, and build local marketing capabilities. During fiscal 2010, we initiated a new occasion-based brand thematic campaign with tools to drive consumer brand affinity, build the brand personality and drive purchase frequency. In conjunction with this campaign, we launched a promotional program entitled the "Krispy Kreme International Fave Fan Search" to identify our most passionate fans in nine countries around the world. Program participants submitted entries describing how Krispy Kreme had made their lives special, with winners selected in each country through online voting. Winners from each country participated in our Fave Fan Celebration in Winston-Salem in March 2010, and each designed their own Krispy Kreme doughnut. In addition, we developed exciting new product promotions for Valentine's Day, Halloween and holiday/Winter that were utilized in most international markets. During fiscal 2011, we conducted research in eight markets around the world to assist with global, regional and local marketing planning.

Brand Fund

We administer domestic and international public relations and advertising funds, which we refer to as the Brand Funds. Franchise agreements with domestic area developers and international area developers require these franchisees to contribute 1.0% and 0.25% of their sales, respectively, to the Brand Fund. Company stores contribute to the Brand Fund on the same basis as domestic area developers, as do some associate franchisees. In fiscal 2009, 2010 and 2011, the Company reduced the contribution from its associate and domestic area developer franchisees to 0.75%; the contribution rate will revert to 1.0% in fiscal 2012. Proceeds from the Brand Fund are utilized to develop programs to increase sales and brand awareness and build brand affinity. Brand Fund proceeds are also utilized to measure consumer feedback and the performance of our products and stores. In fiscal 2011, we and our domestic and international franchisees contributed approximately $4.6 million to the Brand Funds.

Competition

Our competitors include retailers of doughnuts, coffee shops and snacks sold through convenience stores, supermarkets, restaurants and retail stores. Domestically, we compete against Dunkin' Donuts, which has the largest number of outlets in the doughnut retail industry, as well as against Tim Hortons and regionally and locally owned doughnut shops, bakeries and distributors. Dunkin' Donuts and Tim Hortons have substantially greater financial resources than we do and are expanding to other geographic regions, including areas where we have a significant store presence. We also compete against other retailers who sell sweet treats such as cookie stores and ice cream stores. We compete on elements such as food quality, convenience, location, customer service and value. Customer service, including frequency of deliveries and maintenance of fully stocked shelves, is an important factor in successfully competing for convenience store and grocery/mass merchant business. There is an industry trend moving towards expanded fresh product offerings at convenience stores during morning and evening drive times, and products are either sourced from a central commissary or brought in by local bakeries.

In the packaged doughnut market, an array of doughnuts is typically merchandised on a free-standing branded display. We compete for sales with many sweet treats, including those made by well-known producers, such as Dolly Madison, Entenmann's and Hostess, and regional brands.

Internationally, our competitors include a broad set of global, regional and local retailers of doughnuts and treats such as Dunkin' Donuts, Mister Donut and Donut King, as well as café and bakery concepts.

We view the uniqueness of our Original Glazed® doughnut as an important factor that distinguishes our brand from competitors, both in the doughnut category and in sweet goods generally.

Trademarks and Trade Names

Our doughnut shops are operated under the Krispy Kreme ® trademark, and we use many federally and internationally registered trademarks and service marks, including Original Glazed ® and Hot Krispy Kreme Original Glazed Now ® and the logos associated with these marks. We have also registered some of our trademarks in approximately 40 other countries. We generally license the use of these trademarks to our franchisees for the operation of their doughnut shops.

Although we are not aware of anyone else using "Krispy Kreme" or "Hot Krispy Kreme Original Glazed Now" as a trademark or service mark in the United States, we are aware that some businesses are using "Krispy" or a phonetic equivalent, such as "Crispie Creme," as part of a trademark or service mark associated with retail doughnut stores. There may be similar uses of which we are unaware that could arise from prior users. When necessary, we aggressively pursue persons who use our trademarks without our consent.

Government Regulation

Environmental regulation. The Company is subject to a variety of federal, state and local environmental laws and regulations. Except for the legal and settlement costs totaling approximately $2.5 million in fiscal 2010 associated with the settlement of litigation relating to alleged damage to a sewer system in Fairfax County, Virginia, such laws and regulations have not had a significant impact on the Company's capital expenditures, earnings or competitive position.

Local regulation. Our stores, both those in the United States and those in international markets, are subject to licensing and regulation by a number of government authorities, which may include health, sanitation, safety, fire, building and other agencies in the states or municipalities in which the stores are located. Developing new doughnut stores in particular areas could be delayed by problems in obtaining the required licenses and approvals or by more stringent requirements of local government bodies with respect to zoning, land use and environmental factors. Our agreements with our franchisees require them to comply with all applicable federal, state and local laws and regulations, and indemnify us for costs we may incur attributable to their failure to comply.

Food product regulation. Our doughnut mixes are produced at our manufacturing facility in Winston-Salem, North Carolina. Production at and shipments from our Winston-Salem facility are subject to the applicable federal and state governmental rules and regulations. Similar state regulations may apply to products shipped from our doughnut stores to convenience stores or groceries/mass merchants.

As is the case for other food producers, numerous other government regulations apply to our products. For example, the ingredient list, product weight and other aspects of our product labels are subject to state and federal regulation for accuracy and content. Most states periodically check products for compliance. The use of various product ingredients and packaging materials is regulated by the United States Department of Agriculture and the Federal Food and Drug Administration. Conceivably, one or more ingredients in our products could be banned, and substitute ingredients would then need to be identified.

International trade. The Company conducts business outside the United States in compliance with all foreign and domestic laws and regulations governing international trade. In connection with our international operations, we typically export our products, principally our doughnut mixes (or products which are combined with other ingredients sourced locally to manufacture mixes) to our franchisees in markets outside the United States. Numerous government regulations apply to both the export of food products from the United States as well as the import of food products into other countries. If one or more of the ingredients in our products are banned, alternative ingredients would need to be identified. Although we intend to be proactive in addressing any product ingredient issues, such requirements may delay our ability to open stores in other countries in accordance with our desired schedule.

Franchise regulation. We must comply with regulations adopted by the Federal Trade Commission (the "FTC") and with several state and foreign laws that regulate the offer and sale of franchises. The FTC's Trade Regulation Rule on Franchising ("FTC Rule") and certain state and foreign laws require that we furnish prospective franchisees with a franchise disclosure document containing information prescribed by the FTC Rule and applicable state and foreign laws and regulations. We register in domestic and foreign jurisdictions that require registration for the sale of franchises. Our domestic franchise disclosure document complies with FTC disclosure requirements, and our international disclosure documents comply with applicable requirements.

We also must comply with a number of state and foreign laws that regulate some substantive aspects of the franchisor-franchisee relationship. These laws may limit a franchisor's ability to: terminate or not renew a franchise without good cause; interfere with the right of free association among franchisees; disapprove the transfer of a franchise; discriminate among franchisees with regard to charges, royalties and other fees; and place new stores near existing franchises.

Bills intended to regulate certain aspects of franchise relationships have been introduced into the United States Congress on several occasions during the last decade, but none have been enacted.

Employment regulations. We are subject to state and federal labor laws that govern our relationship with employees, such as minimum wage requirements, overtime and working conditions and citizenship requirements. Many of our store employees are paid at rates related to the federal minimum wage. Accordingly, further increases in the minimum wage could increase our labor costs. The work conditions at our facilities are regulated by the Occupational Safety and Health Administration and are subject to periodic inspections by this agency. In addition, the enactment of recent legislation and resulting new government regulation relating to healthcare benefits have resulted in increased costs, and may result in additional cost increases and other effects in the future.

Other regulations. We are subject to a variety of consumer protection and similar laws and regulations at the federal, state and local level. Failure to comply with these laws and regulations could subject us to financial and other penalties. We have several contracts to serve United States military bases, which require compliance with certain applicable regulations. The stores which serve these military bases are subject to health and cleanliness inspections by military authorities.

Employees

We employ approximately 3,700 people. Of these, approximately 190 are employed in our headquarters and administrative offices and approximately 140 are employed in our manufacturing and distribution center. In our Krispy Kreme stores, we have approximately 3,370 employees. Of our total workforce, approximately 2,640 are full-time employees, of which approximately 450 are managers and supervisors, including approximately 320 store managers and supervisors.

We are not a party to any collective bargaining agreement although we have experienced occasional unionization initiatives. We believe our relationships with our employees generally are good.

Available Information

We maintain a website at www.krispykreme.com . The information on our website is available for information purposes only and is not incorporated by reference in this Annual Report on Form 10-K.

We make available on or through our website certain reports and amendments to those reports, if applicable, that we file with or furnish to the SEC in accordance with the Exchange Act. These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to those reports. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

In addition, many of our corporate governance documents are available on our website. Our Nominating and Corporate Governance Committee Charter is available at www.krispykreme.com/gov_charter.pdf , our Compensation Committee Charter is available at www.krispykreme.com/comp_charter.pdf , our Audit Committee Charter is available at www.krispykreme.com/audit_charter.pdf , our Corporate Governance Guidelines are available at www.krispykreme.com/corpgovernance.pdf , our Code of Business Conduct and Ethics is available at www.krispykreme.com/code_of_ethics.pdf , and our Code of Ethics for Chief Executive and Senior Financial Officers is available at www.krispykreme.com/officers_ethics.pdf . Each of these documents is available in print to any shareholder who requests it by sending a written request to Krispy Kreme Doughnuts, Inc., 370 Knollwood Street, Suite 500, Winston-Salem, NC 27103, Attention: Secretary.

Item 1A. RISK FACTORS.

Our business, operations and financial condition are subject to various risks. Some of these risks are described below, and you should take such risks into account in evaluating us or any investment decision involving our Company. This section does not describe all risks that may be applicable to us, our industry or our business, and it is intended only as a summary of certain material risk factors. More detailed information concerning the risk factors described below is contained in other sections of this Annual Report on Form 10-K.

RISKS RELATING TO OUR BUSINESS

Store profitability is sensitive to changes in sales volume.

Each factory store has significant fixed or semi-fixed costs, and margins and profitability are significantly affected by doughnut sales volume. Because significant fixed and semi-fixed costs prevent us from reducing our operating expenses in proportion with declining sales, our earnings are negatively impacted if sales decline.

A number of factors have historically affected, and will continue to affect, our sales results, including, among other factors:

- Consumer trends, preferences and disposable income;
- Our ability to execute our business strategy effectively;
- Competition;
- General regional and national economic conditions; and
- Seasonality and weather conditions.

Changes in our sales results could cause the price of our common stock to fluctuate substantially.

We rely in part on our franchisees. Disputes with our franchisees, or failures by our franchisees to operate successfully, to develop or finance new stores or build them on suitable sites or open them on schedule, could adversely affect our growth and our operating results.

Franchisees, which are all independent operators and not Krispy Kreme employees, contributed (including through purchases from KK Supply Chain) approximately 32% of our total revenues in fiscal 2011. We rely in part on these franchisees and the manner in which they operate their locations to develop and promote our business. We occasionally have disputes with franchisees. Future disputes could materially adversely affect our business, financial condition and results of operations. We provide training and support to franchisees, but the quality of franchise store operations may be diminished by any number of factors beyond our control. The failure of our franchisees to operate franchises successfully could have a material adverse effect on us, our reputation and our brands, and could materially adversely affect our business, financial condition and results of operations. In addition, although we do not control our franchisees and they operate as independent contractors, actions taken by any of our franchisees may be seen by the public as actions taken by us, which, in turn, could adversely affect our reputation or brands.

Reduced access to financing by our franchisees on reasonable terms, which the Company believes has occurred in the past three years, could adversely affect our future operations by limiting franchisees’ ability to open new stores or leading to additional franchisee store closures, which would in turn reduce our franchise revenues and KK Supply Chain revenues. Most development agreements specify a schedule for opening stores in the territory covered by the agreement. These schedules form the basis for our expectations regarding the number and timing of new Krispy Kreme store openings. In the past, Krispy Kreme has agreed to extend or modify development schedules for certain franchisees and may do so in the future.

Franchisees opened 102 stores and closed 40 stores in fiscal 2011. Royalty revenues and most KK Supply Chain revenues are directly related to sales by franchise stores and, accordingly, the success of franchisees’ operations has a direct effect on our revenues, results of operations and cash flows.

A portion of our growth strategy depends on opening new Krispy Kreme stores both domestically and internationally. Our ability to expand our store base is influenced by factors beyond our and our franchisees’ control, which may slow store development and impair our strategy.

Our recent growth strategy has depended on the opening of new Krispy Kreme stores internationally, although we experienced slight growth in the number of domestic franchise shops in fiscal 2011. Our ability to expand our store base both domestically and internationally is influenced by factors beyond our and our franchisees’ control, which may slow store development and impair our strategy. The success of these new stores will be dependent in part on a number of factors, which neither we nor our franchisees can control.

Our new domestic store operating model may not be successful.

We are working to refine our domestic store operating model to focus on small retail shops, including both satellite shops and shops that manufacture doughnuts but which are smaller and have lower capacity than traditional factory stores. Satellite stores in a market are provided doughnuts from a single traditional factory store or commissary at which all doughnut production for the market takes place. The Company currently plans to open a modest number of new Company-operated small shops in fiscal 2012, and domestic franchisees also may open additional satellite stores and a small number of factory stores, as we work to refine our store formats for new domestic stores. We cannot predict whether this new model will be successful in increasing our profitability.

Political, economic, currency and other risks associated with our international operations could adversely affect our and our international franchisees' operating results.

As of January 30, 2011, there were 417 Krispy Kreme stores operated outside of the United States, all of which were operated by franchisees. Our revenues from international franchisees are exposed to the potentially adverse effects of our franchisees' operations, political instability, currency exchange rates, local economic conditions and other risks associated with doing business in foreign countries. Royalties are based on a percentage of net sales generated by our foreign franchisees' operations. Royalties payable to us by our international franchisees are based on a conversion of local currencies to U.S. dollars using the prevailing exchange rate, and changes in exchange rates could adversely affect our revenues. To the extent that the portion of our revenues generated from international operations increases in the future, our exposure to changes in foreign political and economic conditions and currency fluctuations will increase.

We typically export our products, principally our doughnut mixes and doughnut mix concentrates, to our franchisees in markets outside the United States. Numerous government regulations apply to both the export of food products from the United States as well as the import of food products into other countries. If one or more of the ingredients in our products are banned, alternative ingredients would need to be identified. Although we intend to be proactive in addressing any product ingredient issues, such requirements may delay our ability to open stores in other countries in accordance with our desired schedule.

Our profitability is sensitive to changes in the cost of raw materials.

Although we utilize forward purchase contracts and futures contracts and options on such contracts to mitigate the risks related to commodity price fluctuations, such contracts do not fully mitigate commodity price risk, particularly over the longer term. In addition, the portion of our anticipated future commodity requirements that is subject to such contracts varies from time to time.

Flour, shortening and sugar are our three most significant ingredients. The prices of wheat and soybean oil, which are the principal components of flour and shortening respectively, reached record highs in fiscal 2009. Sugar prices reached a multi-year high in fiscal 2011. Adverse changes in commodity prices could adversely affect the Company's profitability and liquidity.

We are the exclusive supplier of doughnut mixes or mix concentrates to all Krispy Kreme stores worldwide. We also supply other key ingredients and flavors to all domestic Krispy Kreme Company stores. If we have any problems supplying these ingredients, our and our franchisees' ability to make doughnuts will be negatively affected.

We are the exclusive supplier of doughnut mixes for many domestic and international Krispy Kreme stores. As to other stores, we are the exclusive supplier of doughnut mix concentrates that are blended with other ingredients to produce doughnut mixes. We also are the exclusive supplier of other key ingredients and flavors to all domestic Company stores, most domestic franchise stores and some international franchise stores. We manufacture the doughnut mixes and concentrates at our mix manufacturing facility located in Winston-Salem, North Carolina. We distribute doughnut mixes and other key ingredients and flavors from our distribution center in Winston-Salem and using an independent contract distributor for Krispy Kreme shops west of the Mississippi River. We have a backup source to manufacture our doughnut mixes in the event of a loss of our Winston-Salem facility; this backup source currently produces mix for us for distribution in most Krispy Kreme stores west of the Mississippi River. Nevertheless, an interruption of production capacity at our manufacturing facility could impede our ability or that of our franchisees to make doughnuts. In addition, in the event that any of our supplier relationships terminate unexpectedly, even where we have multiple suppliers for the same ingredient, we may not be able to obtain adequate quantities of the same high-quality ingredient at competitive prices.

We are the only manufacturer of substantially all of our doughnut-making equipment. If we have any problems producing this equipment, our stores' ability to make doughnuts will be negatively affected.

We manufacture our custom doughnut-making equipment in one facility in Winston-Salem, North Carolina. Although we have limited backup sources for the production of our equipment, obtaining new equipment quickly in the event of a loss of our Winston-Salem facility would be difficult and would jeopardize our ability to supply equipment to new stores or new parts for the maintenance of existing equipment in established stores on a timely basis.

We have only one supplier of glaze flavoring, and any interruption in supply could impair our ability to make our signature hot Original Glazed ® doughnut.

We utilize a sole supplier for our glaze flavoring. Any interruption in the distribution from our current supplier could affect our ability to produce our signature hot Original Glazed ® doughnut.

We are subject to franchise laws and regulations that govern our status as a franchisor and regulate some aspects of our franchise relationships. Our ability to develop new franchised stores and to enforce contractual rights against franchisees may be adversely affected by these laws and regulations, which could cause our franchise revenues to decline.

As a franchisor, we are subject to regulation by the FTC and by domestic and foreign laws regulating the offer and sale of franchises. Our failure to obtain or maintain approvals to offer franchises would cause us to lose future franchise revenues and KK Supply Chain revenues. In addition, domestic or foreign laws that regulate substantive aspects of our relationships with franchisees may limit our ability to terminate or otherwise resolve conflicts with our franchisees. Because we plan to grow primarily through franchising, any impairment of our ability to develop new franchise stores will negatively affect us and our growth strategy.

Off-premises sales represent a significant portion of our sales. The infrastructure necessary to support off-premises sales results in significant fixed and semi-fixed costs. Also, the loss of one of our large off-premises customers could adversely affect our financial condition and results of operations.

The Company operates a fleet network to support off-premises sales. Declines in off-premises sales without a commensurate reduction in operating expenses, as well as rising fuel costs, may adversely affect our business.

We have several large off-premises customers. Our top two such customers accounted for approximately 13% of total Company store sales during fiscal 2011. The loss of one of our large national off-premises customers could adversely affect our results of operations across all domestic business segments. These customers do not enter into long-term contracts; instead, they make purchase decisions based on a combination of price, product quality, consumer demand and service quality. They may in the future use more of their shelf space, including space currently used for our products, for other products, including private label products. If our sales to one or more of these customers are reduced, this reduction may adversely affect our business.

Our failure or inability to enforce our trademarks could adversely affect the value of our brands.

We own certain common-law trademark rights in the United States, as well as numerous trademark and service mark registrations in the United States and in other jurisdictions. We believe that our trademarks and other intellectual property rights are important to our success and our competitive position. We therefore devote appropriate resources to the protection of our trademarks and aggressively pursue persons who unlawfully and without our consent use or register our trademarks. We have a system in place that is designed to detect potential infringement on our trademarks, and we take appropriate action with regard to such infringement as circumstances warrant. The protective actions that we take, however, may not be sufficient, in some jurisdictions, to secure our trademark rights for some of the goods and services that we offer or to prevent imitation by others, which could adversely affect the value of our trademarks and service marks.

In certain jurisdictions outside the United States, specifically Costa Rica, Guatemala, India, Indonesia, Nigeria, Peru, the Philippines and Venezuela, we are aware that some businesses have registered, used and/or may be using “Krispy Kreme” (or its phonetic equivalent) in connection with doughnut-related goods and services. There may be similar such uses or registrations of which we are unaware and which could perhaps arise from prior users. These uses and/or registrations could limit our operations and possibly cause us to incur litigation costs, or pay damages or licensing fees to a prior user or registrant of similar intellectual property.

Loss of our trade secret recipes could adversely affect our sales.

We derive significant competitive benefit from the fact that our doughnut recipes are trade secrets. Although we take commercially reasonable steps to safeguard our trade secrets, should they become known to competitors, our competitive position could suffer substantially.

Our secured credit facilities impose restrictions and obligations upon us that could limit our ability to operate our business.

Our secured credit facilities impose financial and other restrictive covenants that could limit our ability to plan for and respond to changes in our business. Under our secured credit facilities, we are required to meet certain financial tests, including a maximum leverage ratio and a minimum fixed charge coverage ratio. In addition, we must comply with covenants which, among other things, limit the incurrence of additional indebtedness, liens, investments, dividends, transactions with affiliates, asset sales, acquisitions, capital expenditures, mergers and consolidations, prepayments of other indebtedness and other matters customarily restricted in such agreements. Any failure to comply with these covenants could result in an event of default under our secured credit facilities.

Recent healthcare legislation could adversely affect our business.

Recent Federal legislation regarding government-mandated health benefits may increase our and our domestic franchisees' costs. Due to the breadth and complexity of the healthcare legislation, the lack of implementing regulations and interpretive guidance, and the phased-in nature of the implementation, it is difficult to predict the overall impact of the healthcare legislation on our business and the businesses of our domestic franchisees over the coming years. Possible adverse effects of the legislation include increased costs, exposure to expanded liability and requirements for us to revise the ways in which we conduct business. Our results of operations, financial position and cash flows could be adversely affected. Our domestic franchisees face the potential of similar adverse effects.

RISKS RELATING TO THE FOOD SERVICE INDUSTRY

The food service industry is affected by consumer preferences and perceptions. Changes in these preferences and perceptions may lessen the demand for our doughnuts, which would reduce sales and harm our business.

Food service businesses are often affected by changes in consumer tastes, national, regional and local economic conditions and demographic trends. Individual store performance may be adversely affected by traffic patterns, the cost and availability of labor, purchasing power, availability of products and the type, number and location of competing stores. Our sales have been and may continue to be affected by changing consumer tastes, such as health or dietary preferences that cause consumers to avoid doughnuts in favor of foods that are perceived as healthier. Moreover, because we are primarily dependent on a single product, if consumer demand for doughnuts should decrease, our business would suffer more than if we had a more diversified menu.

The food service industry is affected by litigation, regulation and publicity concerning food quality, health and other issues, which can cause customers to avoid our products and result in liabilities.

Food service businesses can be adversely affected by litigation, by regulation and by complaints from customers or government authorities resulting from food quality, illness, injury or other health concerns or operating issues stemming from one store or a limited number of stores, including stores operated by our franchisees. In addition, class action lawsuits have been filed and may continue to be filed against various food service businesses (including quick service restaurants) alleging, among other things, that food service businesses have failed to disclose the health risks associated with high-fat foods and that certain food service business marketing practices have encouraged obesity. Adverse publicity about these allegations may negatively affect us and our franchisees, regardless of whether the allegations are true, by discouraging customers from buying our products. Because one of our competitive strengths is the taste and quality of our doughnuts, adverse publicity or regulations relating to food quality or other similar concerns affects us more than it would food service businesses that compete primarily on other factors. We could also incur significant liabilities if such a lawsuit or claim results in a decision against us or as a result of litigation costs regardless of the result.

The food service industry is affected by food safety issues, including food tampering or contamination.

Food safety, including the possibility of food tampering or contamination is a concern for any food service business. Any report or publicity linking the Company or one of its franchisees to food safety issues, including food tampering or contamination, could adversely affect our reputation as well as our revenues and profits. Food safety issues could also adversely affect the price and availability of affected ingredients, which could result in disruptions in our supply chain or lower margins for us and our franchisees. Additionally, food safety issues could expose the Company to litigation or governmental investigation.

The food service industry is affected by security risks for individually identifiable data of our guests, web-site users, and employees.

We receive and maintain certain personal information about our guests, web-site users, and employees. The use of this information by us is regulated by applicable law, as well as by certain third party contracts. If our security and information systems are compromised or our business associates fail to comply with these laws and regulations and this information is obtained by unauthorized person or used inappropriately, it could adversely affect our reputation, as well as our operations, their results, and our financial condition. Additionally, we could be subject to litigation or the imposition of penalties. As privacy and information security laws and regulations change, we may incur additional costs to ensure we remain in compliance with these laws and regulations.

Our success depends on our ability to compete with many food service businesses.

We compete with many well-established food service companies. At the retail level, we compete with other doughnut retailers and bakeries, specialty coffee retailers, bagel shops, fast-food restaurants, delicatessens, take-out food service companies, convenience stores and supermarkets. At the wholesale level, we compete primarily with grocery store bakeries, packaged snack foods and vending machine dispensers of snack foods. Aggressive pricing by our competitors or the entrance of new competitors into our markets could reduce our sales and profit margins. Moreover, many of our competitors offer consumers a wider range of products. Many of our competitors or potential competitors have substantially greater financial and other resources than we do which may allow them to react to changes in pricing, marketing and the quick service restaurant industry better than we can. As competitors expand their operations, we expect competition to intensify. In addition, the start-up costs associated with retail doughnut and similar food service establishments are not a significant impediment to entry into the retail doughnut business. We also compete with other employers in our markets for hourly workers and may be subject to higher labor costs.

RISKS RELATING TO OWNERSHIP OF OUR COMMON STOCK

The market price of our common stock has been volatile and may continue to be volatile, and the value of any investment may decline.

The market price of our common stock has been volatile and may continue to be volatile. This volatility may cause wide fluctuations in the price of our common stock, which is listed on the New York Stock Exchange. The market price may fluctuate in response to many factors including:

- Changes in general conditions in the economy or the financial markets;
- Variations in our quarterly operating results or our operating results failing to meet the expectations of securities analysts or investors in a particular period;
- Changes in financial estimates by securities analysts;
- Other developments affecting Krispy Kreme, our industry, customers or competitors; and
- The operating and stock price performance of companies that investors deem comparable to Krispy Kreme.

Our charter, bylaws and shareholder protection rights agreement contain anti-takeover provisions that may make it more difficult or expensive to acquire us in the future or may negatively affect our stock price.

Our articles of incorporation, bylaws and shareholder protection rights agreement contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our board of directors. These provisions may make it more difficult or expensive for a third party to acquire a majority of our outstanding voting common stock. They may also delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our shareholders' receiving a premium over the market price for their common stock.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

Item 2. PROPERTIES.

Stores. As of January 30, 2011, there were 646 Krispy Kreme stores systemwide, of which 85 were Company stores and 561 were operated by franchisees.

- As of January 30, 2011, all of our Company stores, except our six commissaries, had on-premises sales, and 41 of our Company factory stores also engaged in off-premises sales.
- Of the 85 Company stores as of January 30, 2011, we owned the land and building for 42 stores, we owned the building and leased the land for 22 stores and leased both the land and building for 21 stores.

KK Supply Chain facilities. We own a 147,000 square foot mix manufacturing plant and distribution center in Winston-Salem, North Carolina. Additionally, we own a 103,000 square foot facility in Winston-Salem, which we use primarily as our equipment manufacturing facility, but which also includes our research and development and training facilities.

Other properties. Our corporate headquarters is located in Winston-Salem, North Carolina. We occupy approximately 59,000 square feet of this multi-tenant facility under a lease that expires on November 30, 2024, with two five-year renewal options.

Substantially all of the Company's fee simple and leasehold interest in real properties are pledged as collateral for the Company's secured credit facilities.

Item 3. 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.

Other Legal Matters

The Company also is engaged in various legal proceedings arising in the normal course of business. The Company maintains customary insurance policies against certain kinds of such claims and suits, including insurance policies for workers' compensation and personal injury, some of which provide for relatively large deductible amounts.

Item 4. (REMOVED AND RESERVED).

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our common stock is listed on the NYSE under the symbol "KKD." The following table sets forth the high and low sales prices for our common stock in composite trading as reported by the NYSE for the fiscal periods shown.

	High	Low
Year Ended January 31, 2010:		
First Quarter	$ 4.38	$ 1.01
Second Quarter	4.23	2.51
Third Quarter	4.75	2.71
Fourth Quarter	3.94	2.56
Year Ended January 30, 2011:		
First Quarter	$ 5.15	$ 2.76
Second Quarter	4.15	3.25
Third Quarter	6.00	3.55
Fourth Quarter	8.14	5.18

Holders

As of March 25, 2011, there were approximately 15,200 shareholders of record of our common stock.

Dividends

We did not pay any dividends in fiscal 2011 or fiscal 2010. We intend to retain any earnings to finance our business and do not anticipate paying cash dividends in the foreseeable future. Furthermore, the terms of our secured credit facilities prohibit the payment of dividends on our common stock.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information with respect to securities authorized for issuance under all of the Company's equity compensation plans as of January 30, 2011.

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	8,145,600[(1)]	$ 9.77[(2)]	4,441,200[(3)]
Equity compensation plans not approved by security holders	1,200,000[(4)]	$ 7.75	Not applicable

(1) Includes 5,933,700 shares of common stock issuable pursuant to the exercise of outstanding stock options, 839,000 common shares issuable pursuant to restricted stock units granted to employees that have not yet vested, 1,372,900 common shares issuable pursuant to restricted stock units granted to directors that have vested but with respect to which the director has elected to defer issuance of the shares until the completion of the director's service on the Board of Directors. All of these awards were granted under the Company's 2000 Stock Incentive Plan.

(2) Computed solely with respect to outstanding stock options.

(3) Represents shares of common stock which may be issued pursuant to awards under the 2000 Stock Incentive Plan and the Employee Stock Purchase Plan. Under the Employee Stock Purchase Plan, each employee of the Company or any participating subsidiary (other than those whose customary employment was for not more than five months per calendar year) was eligible to participate after the employee completed 12 months of employment, and each participant could elect to purchase shares of Company common stock at the end of quarterly offering periods. The amount of shares that could be purchased was based on the amount of payroll deductions a participant elected to have withheld and applied at the end of the purchase period to the purchase of shares (ranging from 1 to 15% of the participant's base compensation). The purchase price for the shares was the lesser of the fair market value of the shares on the first day of the purchase period or the last day of the purchase period. Effective October 21, 2005, the Company halted purchases under the Employee Stock Purchase Plan.

(4) Represents common shares issuable upon the exercise of a stock warrant granted to an advisory firm in fiscal 2006 in exchange for services and which expires on January 31, 2013.

Recent Sales of Unregistered Securities

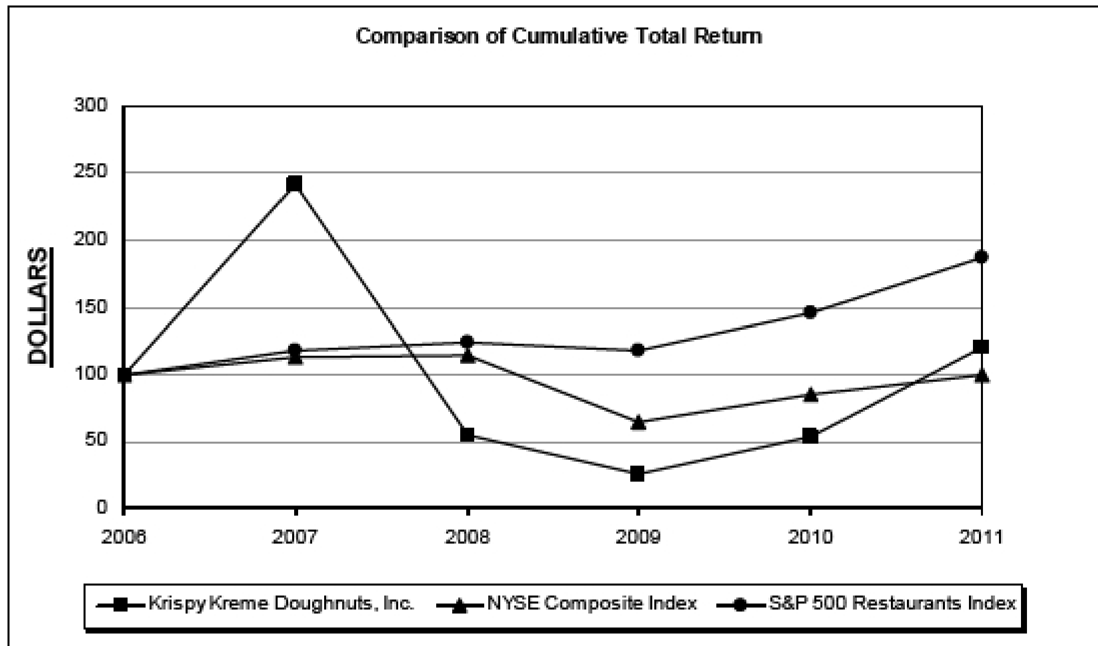
None.

Purchases of Equity Securities

No purchases were made by or on behalf of the Company of its equity securities during the fourth quarter of fiscal 2011.

Stock Performance Graph

The performance graph shown below compares the percentage change in the cumulative total shareholder return on our common stock against the cumulative total return of the NYSE Composite Index and Standard & Poor's Restaurants Index for the period from January 29, 2006 through January 30, 2011. The graph assumes an initial investment of $100 and the reinvestment of dividends.



	January 29, 2006	January 28, 2007	February 3, 2008	February 1, 2009	January 31, 2010	January 30, 2011
Krispy Kreme Doughnuts, Inc.	$100.00	$241.65	$ 54.22	$ 26.08	$ 52.91	$119.89
NYSE Composite Index	100.00	113.07	114.59	64.18	85.03	99.59
S&P 500 Restaurants Index	100.00	117.24	123.75	117.82	146.02	187.24

Item 6. SELECTED FINANCIAL DATA.

The following selected financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Company's consolidated financial statements appearing elsewhere herein. The Company's fiscal year ends on the Sunday closest to January 31, which periodically results in a 53-week year. Fiscal 2008 contained 53 weeks.

	Year Ended				
	January 30, 2011	January 31, 2010	February 1, 2009	February 3, 2008	January 28, 2007
	(In thousands, except per share and number of stores data)				
STATEMENT OF OPERATIONS DATA:					
Revenues	$ 361,955	$ 346,520	$ 385,522	$ 430,370	$ 461,195
Operating expenses:					
Direct operating expenses (exclusive of depreciation expense shown below)	313,475	297,859	348,044	381,026	391,242
General and administrative expenses	21,870	22,793	23,460	26,355	48,913
Depreciation expense	7,389	8,191	8,709	18,433	21,046
Impairment charges and lease termination costs	4,066	5,903	548	62,073	12,519
Settlement of litigation	-	-	-	(14,930)	15,972
Operating income (loss)	15,155	11,774	4,761	(42,587)	(28,497)
Interest income	207	93	331	1,422	1,627
Interest expense	(6,359)	(10,685)	(10,679)	(9,796)	(20,334)
Loss on refinancing of debt	(1,022)	-	-	(9,622)	-
Equity in income (losses) of equity method franchisees	547	(488)	(786)	(933)	(842)
Other non-operating income and (expense), net	329	(276)	2,815	(3,211)	7,021
Income (loss) before income taxes	8,857	418	(3,558)	(64,727)	(41,025)
Provision for income taxes	1,258	575	503	2,324	1,211
Net income (loss)	$ 7,599	$ (157)	$ (4,061)	$ (67,051)	$ (42,236)
Earnings (loss) per common share:					
Basic	$ 0.11	$ -	$ (0.06)	$ (1.05)	$ (0.68)
Diluted	$ 0.11	$ -	$ (0.06)	$ (1.05)	$ (0.68)
BALANCE SHEET DATA (AT END OF YEAR):					
Working capital (deficit) (1)	$ 22,576	$ 21,550	$ 36,190	$ 32,862	$ (3,052)
Total assets	169,926	165,276	194,926	202,351	349,492
Long-term debt, less current maturities	32,874	42,685	73,454	75,156	105,966
Total shareholders' equity	76,428	62,767	57,755	56,624	78,962
Number of stores at end of year:					
Company	85	83	93	105	113
Franchise	561	499	430	344	282
Systemwide	646	582	523	449	395

(1) Reflects a liability, net of amounts recoverable from insurance companies, of approximately $51.8 million as of January 28, 2007, related to the settlement of certain litigation. This liability was satisfied in March 2007 through the issuance of shares of common stock and warrants to acquire shares of common stock.

Item 7. 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 each of the three fiscal years in the period ended January 30, 2011.

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
Change in Same Store Sales (on-premises sales only):			
Company stores	4.0%	3.5%	(0.7)%
Domestic Franchise stores	4.5	0.9	(3.3)
International Franchise stores	(8.8)	(24.2)	(23.4)
International Franchise stores, in constant dollars (1)	(13.9)	(21.1)	(18.6)
Change in Same Store Customer Count - Company stores (retail sales only)	1.8%	N/A	N/A
Off-Premises Metrics (Company stores only):			
Average weekly number of doors served:			
Grocers/mass merchants	5,664	5,634	6,306
Convenience stores	5,122	5,285	5,985
Average weekly sales per door:			
Grocers/mass merchants	$ 260	$ 242	$ 219
Convenience stores	206	208	217
Systemwide Sales (in thousands): (2)			
Company stores	$ 244,324	$ 243,387	$ 263,888
Domestic Franchise stores	238,890	220,629	235,558
International Franchise stores	325,192	263,601	273,054
International Franchise stores, in constant dollars (3)	325,192	276,808	274,589
Average Weekly Sales Per Store (in thousands): (4) (5)			
Company stores:			
Factory stores:			
Commissaries — off-premises	$ 175.3	$ 155.7	$ 164.6
Dual-channel stores:			
On-premises	30.2	26.1	23.5
Off-premises	42.0	31.4	29.3
Total	72.2	57.5	52.8
On-premises only stores	30.7	31.9	30.6
All factory stores	64.6	57.2	54.5
Satellite stores	18.6	18.1	17.8
All stores	56.9	52.2	50.8
Domestic Franchise stores:			
Factory stores	$ 40.4	$ 37.1	$ 39.3
Satellite stores	12.2	14.8	15.4
International Franchise stores:			

Factory stores	$ 42.3	$ 36.2	$ 46.7
Satellite stores	9.1	9.4	12.3

(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 year ended January 31, 2010 and February 1, 2009 to U.S. dollars based upon the weighted average of the exchange rates prevailing in the year ended January 30, 2011.

(4) Includes sales between Company and franchise stores.

(5) Metrics for the year ended January 30, 2011 include only stores open at January 30, 2011 and metrics for the year ended January 31, 2010 and February 1, 2009 include only stores open at January 31, 2010.

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 56 consecutive weeks during the current year (but only to the extent such sales occurred in the 57 th 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 57 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 off-premises 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 stores. The Company believes systemwide sales data are useful in assessing the overall performance of the Krispy Kreme brand and, ultimately, the performance of the Company. 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 January 30, 2011, January 31, 2010 and February 1, 2009.

	January 30, 2011	January 31, 2010	February 1, 2009
Number of Stores Open At Year End:			
Company stores:			
Factory:			
Commissaries	6	6	6
Dual-channel stores	35	38	51
On-premises only stores	28	25	26
Satellite stores	16	14	10
Total Company stores	85	83	93
Domestic Franchise stores:			
Factory stores	102	104	104
Satellite stores	42	37	28
Total Domestic Franchise stores	144	141	132
International Franchise stores:			
Factory stores	106	95	94
Satellite stores	311	263	204
Total International Franchise stores	417	358	298
Total systemwide stores	646	582	523

The following table sets forth data about the number of store operating weeks for the year ended January 30, 2011, January 31, 2010 and February 1, 2009.

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
Store Operating Weeks:			
Company stores:			
Factory stores:			
Commissaries	316	312	312
Dual-channel stores	1,820	2,541	3,191
On-premises only stores	1,456	1,217	1,196
Satellite stores	786	592	487
Domestic Franchise stores: [1]			
Factory stores	5,275	5,324	5,098
Satellite stores	1,985	1,449	1,085
International Franchise stores: [1]			
Factory stores	4,305	4,303	3,714
Satellite stores	14,581	11,177	7,274

(1) Metrics for the year ended January 30, 2011 include only stores open at January 30, 2011 and metrics for the year ended January 31, 2010 and the year ended February 1, 2009 include only stores open at January 31, 2010.

FISCAL 2011 COMPARED TO FISCAL 2010

Overview

Total revenues rose by 4.5% for the year ended January 30, 2011 compared to the year ended January 31, 2010. The Company refranchised three stores in Northern California and one store in South Carolina in fiscal 2010. Those refranchisings had the effect of reducing consolidated revenues because the sales of these refranchised stores (which are no longer reported as revenues by the Company) exceed the royalties and KK Supply Chain sales recorded by the Company subsequent to the refranchisings. Excluding the Company's revenues related to the refranchised stores in both periods, total revenues rose 6.5% in the year ended January 30, 2011.

A reconciliation of total revenues as reported to adjusted total revenues exclusive of the effects of refranchising follows:

	Year Ended	
	January 30, 2011	January 31, 2010
	(In thousands)	
Total revenues as reported	$ 361,955	$ 346,520
Sales by refranchised stores	-	(8,993)
Royalties from refranchised stores	(319)	(65)
KK Supply Chain sales to refranchised stores	(2,682)	(398)
Adjusted total revenues exclusive of the effects of refranchising	$ 358,954	$ 337,064

The Company believes that adjusted total revenues exclusive of the effects of refranchising, a non-GAAP measure, is a useful measure because it enables comparisons of the Company's revenues that are unaffected by the Company's decisions to sell operating Krispy Kreme stores to franchisees instead of continuing to operate the stores as Company locations. In addition, this comparison is one of the performance metrics adopted by the compensation committee of the Company's board of directors to determine the amount of incentive compensation potentially payable to the Company's executive officers for fiscal 2011.

Consolidated operating income increased to $15.2 million in the year ended January 30, 2011 from $11.8 million in the year ended January 31, 2010. Consolidated net income was $7.6 million in the year ended January 30, 2011 compared to a net loss of $157,000 in the year ended January 31, 2010.

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).

	Year Ended	
	January 30, 2011	January 31, 2010
	(Dollars in thousands)	
Revenues by business segment:		
Company Stores	$ 245,841	$ 246,373
Domestic Franchise	8,527	7,807
International Franchise	18,282	15,907
KK Supply Chain:		
Total revenues	181,594	162,127
Less - intersegment sales elimination	(92,289)	(85,694)
External KK Supply Chain revenues	89,305	76,433
Total revenues	$ 361,955	$ 346,520
Segment revenues as a percentage of total revenues:		
Company Stores	67.9%	71.1%
Domestic Franchise	2.4	2.3
International Franchise	5.1	4.6
KK Supply Chain (external sales)	24.7	22.1
	100.0%	100.0%
Operating income (loss):		
Company Stores	$ (4,238)	$ 2,288
Domestic Franchise	3,498	3,268
International Franchise	12,331	9,896
KK Supply Chain	30,213	25,962
Total segment operating income	41,804	41,414
Unallocated general and administrative expenses	(22,583)	(23,737)
Impairment charges and lease termination costs	(4,066)	(5,903)
Consolidated operating income	$ 15,155	$ 11,774

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).

	Year Ended		Percentage of Total Revenues Year Ended	
	January 30, 2011	January 31, 2010	January 30, 2011	January 31, 2010
	(In thousands)			
Revenues:				
On-premises sales:				
Retail sales	$ 100,021	$ 103,856	40.7%	42.2%
Fundraising sales	14,063	13,481	5.7	5.5
Total on-premises sales	114,084	117,337	46.4	47.6
Off-premises sales:				
Grocers/mass merchants	76,173	70,952	31.0	28.8
Convenience stores	52,898	55,451	21.5	22.5
Other off-premises	2,686	2,371	1.1	1.0
Total off-premises sales	131,757	128,774	53.6	52.3
Other revenues	-	262	-	0.1
Total revenues	245,841	246,373	100.0	100.0
Operating expenses:				
Cost of sales:				
Food, beverage and packaging	91,114	84,551	37.1	34.3
Shop labor	48,901	48,714	19.9	19.8
Delivery labor	21,189	21,280	8.6	8.6
Employee benefits	17,974	19,145	7.3	7.8
Total cost of sales	179,178	173,690	72.9	70.5
Vehicle costs (1)	13,914	11,491	5.7	4.7
Occupancy (2)	8,947	10,140	3.6	4.1
Utilities expense	5,692	5,737	2.3	2.3
Depreciation expense	5,641	6,293	2.3	2.6
Settlement of litigation	-	1,700	-	0.7
Other operating expenses	19,064	19,114	7.8	7.8
Total store level costs	232,436	228,165	94.5	92.6
Store operating income	13,405	18,208	5.5	7.4
Other segment operating costs (3)	13,143	9,567	5.3	3.9
Allocated corporate overhead	4,500	6,353	1.8	2.6
Segment operating income (loss)	$ (4,238)	$ 2,288	(1.7)%	0.9%

(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, off-premises selling expenses and support functions.

A reconciliation of Company Stores segment sales from fiscal 2010 to fiscal 2011 follows:

	On-Premises	Off-Premises	Total
		(In thousands)	
Sales for the year ended January 31, 2010	$ 117,337	$ 128,774	$ 246,111
Fiscal 2010 sales at refranchised stores	(6,247)	(2,746)	(8,993)
Fiscal 2010 sales at closed stores	(5,031)	(1,479)	(6,510)

Fiscal 2011 sales at closed stores	708	-	708
Increase in sales at mature stores (open stores only)	4,275	7,208	11,483
Increase in sales at stores opened in fiscal 2010	1,146	-	1,146
Sales at stores opened in fiscal 2011	1,896	-	1,896
Sales for the year ended January 30, 2011	$ 114,084	$ 131,757	$ 245,841

Sales at Company Stores decreased 0.1% in fiscal 2011 from fiscal 2010 due to store closings and refranchisings, partially offset by an increase in sales from existing stores and stores opened in fiscal 2010 and 2011. Excluding the effects of refranchising, Company Stores sales increased 3.7%.

The following table presents sales metrics for Company stores:

	Year Ended	
	January 30, 2011	January 31, 2010
On-premises:		
Change in same store sales	4.0%	3.5%
Change in same store customer count (retail sales only)	1.8%	N/A
Off-premises:		
Grocers/mass merchants:		
Change in average weekly number of doors	0.5%	(10.7)%
Change in average weekly sales per door	7.4%	10.5%
Convenience stores:		
Change in average weekly number of doors	(3.1)%	(11.7)%
Change in average weekly sales per door	(1.0)%	(4.1)%

On-premises sales

Same store sales at Company stores rose 4.0% in fiscal 2011 over fiscal 2010, of which the Company estimates approximately 3.4 percentage points is attributable to price increases. Additionally, the same store sales increase in fiscal 2011 reflects increased customer traffic partially offset by a decrease in the average guest check.

The Company is implementing programs intended to improve on-premises sales, including increased focus on local store marketing efforts, improved employee training, store refurbishment efforts and the introduction of new products.

Off-premises sales

Off-premises sales increased 2.3% to $131.8 million in fiscal 2011 from $128.8 million in fiscal 2010. The Company's sales increase was slightly greater than that of the doughnut industry as a whole, according to industry data.

Sales to grocers and mass merchants increased to $76.2 million, with a 7.4% increase in average weekly sales per door and a 0.5% increase in the average number of doors served. The Company believes that average weekly sales per door in the grocer/mass merchant channel have grown as a result of, among other things, improved customer service, introduction of additional price points, and a redesign of product packaging to improve its shelf appeal. Convenience store sales fell due to both a decline in the average number of doors served and in the average weekly sales per door. Among other reasons, sales to convenience stores declined in fiscal 2011 as a result of two large customers implementing in-house doughnut programs in fiscal 2010 to replace the Company's products; the loss of doors associated with those two customers, each of which had relatively high average sales per door, accounted for approximately 1.7 percentage points of the 3.1% decline in the average number of convenience store doors served for the year ended January 30, 2011. The Company is implementing strategies designed to improve sales through convenience stores, including offering additional price points and increasing the quantity and assortment of packaged products offered in this channel. In addition, the Company is seeking to shift customers in the convenience store channel to sales agreements which provide that the Company will absorb unsold product rather than the retailer. While this strategy will increase the cost of product returns, the Company believes that increase will be more than offset by higher unit pricing and, because the Company will have much greater control over product assortment and quantities merchandised, increased unit sales from both existing products and packaged products not traditionally offered through convenience stores.

The Company started implementing price increases for some products offered in the off-premises channel late in the first quarter of fiscal 2011, and substantially completed implementing the price increases in the second quarter. Those price increases affect products comprising approximately 30% of off-premises sales. The average price increase on those products was approximately 8%.

Declines in the average weekly sales per door adversely affect profitability because of the increased significance of delivery costs in relation to sales. The Company continues to implement steps intended to increase sales, increase average per door sales and reduce costs in the off-premises channel. These steps include improved route management and route consolidation (including elimination of or reduction in the number of stops at relatively low volume doors), new sales incentives and performance-based pay programs, increased emphasis on relatively longer shelf-life products and the development of order management systems to more closely match merchandised quantities and assortments with consumer demand.

Costs and expenses

Cost of sales as a percentage of revenues rose by 2.4 percentage points from fiscal 2010 to 72.9% of revenues in fiscal 2011, principally reflecting an increase in the cost of food, beverage and packaging. The cost of sugar rose approximately 21% from fiscal 2010 as a result of price increases implemented by KK Supply Chain to reflect the expiration of a favorable sugar supply contract. In addition, the cost of shortening and other ingredients also rose year over year. While on-premises and off-premises price increases approximated the amount of the cost increases, the substantially equal revenue and cost increases resulted in higher material costs measured as a percentage of revenues. In addition to higher ingredient costs, an increase in product returns in the off-premises channel also increased product costs as a percentage of revenues.

Prices of agricultural commodities have been volatile in recent years, and that volatility continued in fiscal 2011. Notwithstanding that volatility, the trend in the Company's costs for doughnut mix, shortening and sugar has been upward in recent years. In particular, the Company's cost of sugar has been dramatically higher in fiscal 2011 as a result of the expiration earlier this year of a favorable KK Supply Chain sugar supply contract.

In the third quarter of fiscal 2011, KK Supply Chain extended its sugar supply contract, supplies under which are expected to be exhausted in the second quarter of fiscal 2012; such extension is expected to cover the Company's sugar requirements for the balance of fiscal 2012 and approximately half of the estimated requirements for fiscal 2013. The extension is expected to increase the Company Stores segment's cost of sugar by approximately $2 million in the second half of fiscal 2012. The cost increase under the contract in fiscal 2013 is less than the increase in the second half of fiscal 2012 because the contract price declines in fiscal 2013 compared to fiscal 2012.

In addition to an increase in the cost of sugar, the Company currently anticipates significant increases in the cost of doughnut mix, shortening and other ingredients in fiscal 2012 as a result of higher commodity prices. The Company estimates that cost increases for packaging and ingredients other than sugar in fiscal 2012 will be approximately **$** 10 million. With the exception of sugar, the Company has not yet fixed the prices of a significant percentage of its raw materials and ingredients for the third and fourth quarters of fiscal 2012 and, accordingly, further changes in the prices of commodities may cause the Company's estimate of fiscal 2012 ingredient cost increases to change. The Company is implementing price increases in both the on-premises and off-premises distribution channels in order to mitigate these cost increases, and is also pursuing other means to mitigate these increases, including changes to its production methods and processes. Because the effects of price increases on sales volumes cannot reliably be predicted or measured, the price increases the Company has instituted may not be sufficient to recover higher ingredient costs.

Employee benefits as a percentage of revenues declined by 0.5 percentage points from fiscal 2010 to 7.3% of revenues fiscal 2011, principally due to lower store incentive provisions in fiscal 2011 compared to the prior year.

Vehicle costs as a percentage of revenues rose from 4.7% of revenues in 2010 to 5.7% of revenues in fiscal 2011, principally as a result of higher rental expense on leased delivery trucks as a result of the Company replacing a portion of its aging delivery fleet. Fuel costs were also higher in fiscal 2011. These increases were partially offset by a decrease in repairs and maintenance expense in fiscal 2011. Favorable adjustments to self-insurance reserves for vehicle liability claims in fiscal 2010 were approximately $370,000 higher than in fiscal 2011, as described below.

The Company is self-insured for workers' compensation, automobile 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 Note 1 to the consolidated financial statements appearing elsewhere herein, and updates actuarial valuations of its self-insurance reserves at least annually. 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. The Company recorded favorable adjustments to its self-insurance claims liabilities related to prior years of approximately $1.8 million in fiscal 2011, of which $1.2 million was recorded in the fourth quarter, and $3.2 million in 2010, of which $2.0 million was recorded in the fourth quarter. Of the $1.8 million in favorable adjustments recorded in fiscal 2011, $1.4 million relates to workers' compensation liability claims and is included in employee benefits in the table above, $300,000 relates to vehicle liability claims and is included in vehicle costs in the table above, and $90,000 relates to general liability claims and is included in other operating expenses. Of the $3.2 million in favorable adjustments recorded in fiscal 2010, $2.1 million relates to workers' compensation liability claims, $660,000 relates to vehicle liability claims and $390,000 relates to general liability claims.

During fiscal 2010, the Company Stores segment recorded charges totaling $1.7 million (of which $950,000 was recorded in the fourth quarter) for the settlement of environmental and wage/hour litigation.

The Company is implementing programs intended to improve store operations and reduce costs as a percentage of revenues, including improved employee training and the introduction of food and labor cost management tools.

Other segment operating costs as a percentage of revenues rose by 1.4 percentage points from fiscal 2010 to 5.3% of revenues in fiscal 2011 reflecting, among other things, increased spending on marketing costs not charged to stores and off-premises selling and support expenses. Additionally, beginning in fiscal 2011, the Company began allocating to the business segments the legal fees and expenses directly related to their businesses; such costs were included in general and administrative expenses in prior years. Such fees and expenses totaled approximately $450,000 in the Company Stores segment for the year ended January 30, 2011 and are included in other segment operating costs.

The Company Stores segment closed or refranchised a total of 18 stores since the end of fiscal 2009, none of which have been accounted for as discontinued operations because the Company continues to have significant continuing involvement in the markets in which the stores were or are located, through either continuing operations of other stores in or serving the market, or through its role as a franchisor. In order to assist readers in understanding the results of operations of the Company's ongoing stores, the following table presents the components of revenues and expenses for stores operated by the Company as of January 30, 2011, and excludes the revenues and expenses for stores closed and refranchised prior to that date. Percentage amounts may not add to totals due to rounding.

	Stores in Operation at January 30, 2011			
			Percentage of Total Revenues	
	Year Ended		Year Ended	
	January 30, 2011	January 31, 2010	January 30, 2011	January 31, 2010
	(In thousands)			
Revenues:				
On-premises sales:				
Retail sales	$ 99,403	$ 93,191	40.6%	40.4%
Fundraising sales	13,973	12,868	5.7	5.6
Total on-premises sales	113,376	106,059	46.3	45.9
Off-premises sales:				
Grocers/mass merchants	76,173	68,335	31.1	29.6
Convenience stores	52,898	53,888	21.6	23.3
Other off-premises	2,686	2,326	1.1	1.0
Total off-premises sales	131,757	124,549	53.7	53.9
Other revenues	-	262	-	0.1
Total revenues	245,133	230,870	100.0	100.0
Operating expenses:				
Cost of sales:				
Food, beverage and packaging	90,805	79,055	37.0	34.2
Shop labor	48,658	44,745	19.8	19.4
Delivery labor	21,188	20,470	8.6	8.9
Employee benefits	17,903	17,534	7.3	7.6
Total cost of sales	178,554	161,804	72.8	70.1
Vehicle costs	13,885	10,896	5.7	4.7
Occupancy	8,592	8,447	3.5	3.7
Utilities expense	5,635	5,112	2.3	2.2
Depreciation expense	5,596	5,981	2.3	2.6
Other operating expenses	18,938	18,801	7.7	8.1
Total store level costs	231,200	211,041	94.3	91.4
Store operating income - ongoing stores	13,933	19,829	5.7%	8.6%
Store operating loss - closed and refranchised stores	(528)	(1,621)		

Store operating income	$ 13,405	$ 18,208

Domestic Franchise

	Year Ended	
	January 30, 2011	January 31, 2010
	(In thousands)	
Revenues:		
Royalties	$ 7,932	$ 7,542
Development and franchise fees	120	50
Other	475	215
Total revenues	8,527	7,807
Operating expenses:		
Segment operating expenses	4,409	4,016
Depreciation expense	220	71
Allocated corporate overhead	400	452
Total operating expenses	5,029	4,539
Segment operating income	$ 3,498	$ 3,268

Domestic Franchise revenues increased 9.2% to $8.5 million in fiscal 2011 from $7.8 million in fiscal 2010. The increase reflects higher domestic royalty revenues resulting from an increase in sales by domestic franchise stores from approximately $221 million in fiscal 2010 to $239 million in fiscal 2011. Approximately $8.1 million of the increase in sales by domestic franchisees is the result of refranchising Company stores. Domestic Franchise same store sales rose 4.5% fiscal 2011.

Domestic Franchise 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 Franchise operating expenses rose in fiscal 2011 compared to fiscal 2010 primarily due to an increase in legal fees and expenses directly related to the Domestic Franchise segment. Beginning in fiscal 2011, the Company began allocating to the business segments the legal fees and expenses directly related to their businesses; such costs were included in general and administrative expenses in prior years. Such fees and expenses totaled approximately $850,000 in the Domestic Franchise segment for fiscal 2011, the majority of which represented legal costs relating to the Company’s termination of the franchise agreements of one of its domestic franchisees. The increase was partially offset by a decrease in bad debt expense in fiscal 2011 compared to fiscal 2010. Bad debt expense was approximately $125,000 in fiscal 2010, compared to a net credit of $200,000 in fiscal 2011 resulting principally from recoveries of accounts previously written off. A net credit in bad debt expense should not be expected to recur frequently. Additionally, during fiscal 2010, the Company recorded charges of approximately $150,000 to the Domestic Franchise segment for the settlement of certain litigation.

Domestic franchisees opened seven stores and closed four stores in fiscal 2011. 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

	Year Ended	
	January 30, 2011	January 31, 2010
	(In thousands)	
Revenues:		
Royalties	$ 16,539	$ 14,164
Development and franchise fees	1,743	1,743
Total revenues	18,282	15,907
Operating expenses:		
Segment operating expenses	4,644	4,926
Depreciation expense	7	-
Allocated corporate overhead	1,300	1,085
Total operating expenses	5,951	6,011
Segment operating income	$ 12,331	$ 9,896

International Franchise royalties increased 16.8%, driven by an increase in sales by international franchise stores from $264 million in fiscal 2010 to $325 million in fiscal 2011. 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 $15.5 million in fiscal 2011 compared to fiscal 2010, which positively affected international royalty revenues by approximately $900,000 in fiscal 2011 compared to fiscal 2010. The Company did not recognize as revenue approximately $1.6 million and $680,000 of uncollected royalties which accrued during fiscal 2011 and fiscal 2010, respectively, because the Company did not believe collection of these royalties was reasonably assured. Substantially all of the unrecognized royalties in fiscal 2011 related to the Company's Australian franchisee, which went through a voluntary administration process (similar to a bankruptcy filing in the U.S.) in October and November 2010. In connection with that process, the franchisee closed 24 of the 53 shops the franchisee operated prior to the reorganization.

International Franchise same store sales, measured on a constant currency basis to remove the effects of changing exchange rates between foreign currencies and the U.S. dollar ("constant dollar same store sales"), fell 13.9%. The decline in International Franchise same store sales reflects, among other things, waning honeymoon effects from the large number of new stores opened internationally in recent years and the cannibalization effects on initial stores in new markets of additional store openings in those markets. "Honeymoon effect" means the common pattern for many start-up restaurants in which a flurry of activity due to start-up publicity and natural curiosity is followed by a decline during which a steady repeat customer base develops. "Cannibalization effect" means the tendency for new stores to become successful, in part or in whole, by "stealing" sales from existing stores in the same market.

Constant dollar same store sales in established markets fell 6.9% in fiscal 2011 and fell 22.7% in new markets. "Established markets" means countries in which the first Krispy Kreme store opened before fiscal 2006. Sales at stores in established markets comprised approximately 60% of aggregate constant dollar same store sales. While the Company considers countries in which Krispy Kreme has operated for at least six years to be established markets, franchisees in those markets continue to develop their business; these franchisees opened 204 of the 474 international stores opened in the last six fiscal years.

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 declined in fiscal 2011 compared to fiscal 2010 primarily due to a decrease in the bad debt provision to a net credit of approximately $200,000 in fiscal 2011 compared to an expense of $605,000 in fiscal 2010. The credit in fiscal 2011 resulted principally from recoveries of accounts previously written off. A net credit in bad debt expense should not be expected to recur frequently. This decrease was partially offset by an increase in resources devoted to the development and support of franchisees outside the United States and to higher incentive compensation provisions.

Beginning in fiscal 2011, the Company began allocating to the business segments the legal fees and expenses directly related to their businesses; such costs were included in general and administrative expenses in prior years. Such fees and expenses totaled approximately $640,000 in the International Franchise segment for 2011.

International franchisees opened 95 stores and closed 36 stores in fiscal 2011. 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).

	Year Ended		Percentage of Total Revenues Before Intersegment Sales Elimination Year Ended	
	January 30, 2011	January 31, 2010	January 30, 2011	January 31, 2010
	(In thousands)			
Revenues:				
Doughnut mixes	$ 62,333	$ 58,332	34.3%	36.0%
Other ingredients, packaging and supplies	112,147	97,622	61.8	60.2
Equipment	6,281	6,173	3.5	3.8
Fuel surcharge	833	-	0.5	-
Total revenues before intersegment sales elimination	181,594	162,127	100.0	100.0
Operating expenses:				
Cost of sales:				
Cost of goods produced and purchased	120,555	108,194	66.4	66.7
(Gain) loss on agricultural derivatives	(544)	308	(0.3)	0.2
Inbound freight	3,629	3,483	2.0	2.1
Total cost of sales	123,640	111,985	68.1	69.1
Distribution costs:				
Outbound freight	10,337	10,007	5.7	6.2
Other distribution costs	3,736	3,372	2.1	2.1
Total distribution costs	14,073	13,379	7.7	8.3
Other segment operating costs	11,760	8,751	6.5	5.4
Depreciation expense	808	883	0.4	0.5
Allocated corporate overhead	1,100	1,167	0.6	0.7
Total operating costs	151,381	136,165	83.4	84.0
Segment operating income	$ 30,213	$ 25,962	16.6%	16.0%

KK Supply Chain revenues before intersegment sales elimination increased $19.5 million, or 12.0%, in fiscal 2011 compared to fiscal 2010. The increase reflects selling price increases for sugar and certain other ingredients instituted by KK Supply Chain in order to pass along to Company and franchise stores increases in KK Supply Chain's cost of sugar, flour and shortening. The increase also reflects higher unit volumes of most product categories compared to last year resulting from higher sales by Domestic and International Franchise stores.

The Company utilizes a fuel surcharge program to recoup additional freight costs resulting from increases in fuel costs. Charges under the program are based upon the price of diesel fuel, with the price benchmark reset each fiscal year.

An increasing percentage of franchise store sales is attributable to sales by franchisees outside North America. Many of the ingredients and supplies used by international franchisees are acquired locally instead of from KK Supply Chain. Accordingly, KK Supply Chain revenues are less correlated with sales by international franchisees than with sales by domestic franchisees.

The decrease in cost of goods produced and purchased as a percentage of sales in fiscal 2011 compared to fiscal 2010 reflects, among other things, an increase in the percentage of doughnut mix sales composed of mix concentrates, which carry higher profit margins than sales of finished doughnut mixes. Mix concentrates have higher profit margins than finished doughnut mixes because the Company attempts to maintain the gross profit on sales of mix concentrates and on finished mixes relatively constant when measured on a finished mix equivalent basis.

Distribution costs as a percentage of total revenues fell in fiscal 2011 compared to fiscal 2010 as a result of freight cost reductions resulting from contracting with a third party manufacturer to produce doughnut mix for stores in the Western United States.

Other segment operating costs include segment management, purchasing, customer service and support, laboratory and quality control costs, and research and development expenses. These costs also include a charge of $270,000 in fiscal 2011 compared to a net credit in bad debt expense of approximately $930,000 in fiscal 2010. The net credit in fiscal 2010 principally reflected sustained improved payment performance and/or reduced credit exposure with respect to a small number of franchisees. A net credit in bad debt expense should not be expected to recur frequently.

Franchisees opened 102 stores and closed 40 stores in fiscal 2011. 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.

General and Administrative Expenses

General and administrative expenses were $21.9 million, or 6.0% of total revenues, in fiscal 2011 compared to $22.8 million, or 6.6% of total revenues, in fiscal 2010. General and administrative expenses decreased in fiscal 2011 compared to fiscal 2010, reflecting the allocation to the segments of legal fees and expenses directly related to their operations that were included in general and administrative expenses prior to fiscal 2011. Such legal fees and expenses allocated to the segments totaled approximately $2.1 million in fiscal 2011. General and administrative expenses for fiscal 2010 included professional fees and expenses of approximately $1.7 million related to the settlement in late fiscal 2010 of certain environmental litigation. General and administrative expenses in fiscal 2010 also reflect one-time credits of approximately $2.5 million representing recoveries of costs incurred in prior periods in connection with certain securities and shareholder derivative litigation settled in October of 2006, of which $1.3 million was recorded in the fourth quarter of fiscal 2010. General and administrative expenses in fiscal 2011 also include approximately $2.8 million of incentive compensation provisions to reflect fiscal 2011 results (with an additional charge of approximately $3.5 million included in direct operating expenses). In fiscal 2010, general and administrative expenses include approximately $2.6 million of incentive compensation provisions to reflect fiscal 2010 results (with an additional charge of approximately $2.2 million included in direct operating expenses).

Impairment Charges and Lease Termination Costs

Impairment charges and lease termination costs were $4.1 million in fiscal 2011 compared to $5.9 million in fiscal 2010. The components of these charges are set forth in the following table:

	Year Ended	
	January 30, 2011	**January 31, 2010**
	(In thousands)	
Impairment charges:		
Impairment of long-lived assets - current period charges	$ 3,437	$ 3,108
Impairment of long-lived assets - adjustments to previously recorded estimates	(173)	-
Impairment of reacquired franchise rights	40	40
Recovery from bankruptcy estate of former subsidiary	-	(482)
Total impairment charges	3,304	2,666
Lease termination costs	762	3,237
	$ 4,066	$ 5,903

Impairment charges relate principally to Company Stores. 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. Impairment charges relate to stores expected to be closed or refranchised, as well as to stores management believes will not generate sufficient future cash flows to enable the Company to recover the carrying value of the stores' assets, but which management has not yet decided to close. 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. The fair values of these assets are estimated based on the present value of estimated future cash flows, on independent appraisals and, in the case of any assets the Company is negotiating to sell, based on the Company's negotiations with unrelated third-party buyers. Impairment charges for fiscal 2010 reflect a one-time recovery of $482,000 from the bankruptcy estate of Freedom Rings, LLC, a former subsidiary of the Company which filed for bankruptcy in fiscal 2006, as more fully described in Note 12 to the consolidated financial statements appearing elsewhere herein.

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 were 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. In fiscal 2011, the Company recorded lease termination charges of $762,000, representing a change in estimated sublease rentals on stores previously closed and charges related to two store closures and a store relocation, partially offset by the reversal of previously recorded accrued rent related to those stores. In fiscal 2010, the Company recorded lease termination charges of $3.2 million related principally to the termination of two leases having rental rates substantially above the current market levels.

The Company intends to refranchise certain geographic markets, expected to consist principally of, but not necessarily limited to, markets outside the Company's traditional base in the Southeastern United States. The franchise rights and other assets in many of these markets were acquired by the Company in business combinations in prior years.

In fiscal 2010, the Company refranchised three operating Company stores to a new franchisee, as more fully described under "Recent Accounting Pronouncements" in Note 1 to the consolidated financial statements appearing elsewhere herein, and a fourth operating store to an existing franchisee. No gain or loss was recorded on the former transaction, while the second transaction resulted in an asset impairment charge of $193,000, as well as receipt of cash proceeds of $1.7 million from the sale of the store. The Company cannot predict the likelihood of refranchising any additional stores or markets or the amount of proceeds, if any, which might be received therefrom, including the amounts which might be realized from the sale of store assets and the execution of any related franchise agreements. Refranchising could result in the recognition of additional impairment losses on the related assets.

Interest Income

Interest income increased to $207,000 in fiscal 2011 from $93,000 in fiscal 2010 primarily as a result of interest accrued on the note receivable arising from the refranchising of three Company stores in Northern California.

Interest Expense

The components of interest expense are as follows:

	Year Ended	
	January 30, 2011	January 31, 2010
	(In thousands)	
Interest accruing on outstanding indebtedness	$ 4,312	$ 5,789
Letter of credit and unused revolver fees	1,136	1,240
Fees associated with credit agreement amendments	-	925
Write-off of deferred financing costs associated with credit agreement amendments	-	89
Amortization of deferred financing costs	696	770
Mark-to-market adjustments on interest rate derivatives	-	559
Amortization of unrealized losses on interest rate derivatives	152	1,151
Other	63	162
	$ 6,359	$ 10,685

The decrease in interest accruing on outstanding indebtedness principally reflects the reduction of principal outstanding under the Company's term loan. The resulting reduction in interest expense was partially offset by the effects of higher lender margin and fees resulting from amendments to the Company's Secured Credit Facilities in April 2009. The April 2009 Amendments to the credit facilities increased the interest rate on the Company's outstanding borrowings and letters of credit by 200 basis points annually. The interest rate derivative contracts which gave rise to the mark-to-market adjustments and the amortization of unrealized losses on interest rate derivatives expired in April 2010. On January 28, 2011, the Company refinanced its secured credit facilities as described under "Liquidity and Capital Resources" below and in Note 9 to the consolidated financial statements appearing elsewhere herein. This refinancing is expected to result in a significant decrease in interest expense in fiscal 2012 compared to fiscal 2011.

Loss on Refinancing of Debt

During the fourth quarter of fiscal 2011, the Company closed the 2011 Secured Credit Facilities described below under "Liquidity and Capital Resources — Cash Flows From Financing Activities" and used the proceeds to retire other indebtedness, as more fully described in Note 9 to the consolidated financial statements appearing elsewhere herein. The Company recorded a loss on the refinancing of approximately $1.0 million, consisting of an $865,000 write-off of unamortized deferred financing costs related to the retired debt and $160,000 related to other expenses.

Equity in Income (Losses) of Equity Method Franchisees

The Company recorded equity in the earnings of equity method franchisees of $547,000 in fiscal 2011 compared to losses of $488,000 in fiscal 2010. This caption represents the Company's share of operating results of equity method franchisees which develop and operate Krispy Kreme stores. The improvement in the results of operations of the equity method franchisees reflects a significant improvement in the results of operations of KK Mexico, which has, with the assistance and support of the Company, implemented a number of measures designed to improve its operations and reduce costs.

Provision for Income Taxes

The provision for income taxes was $1.3 million and $575,000 in fiscal 2011 and fiscal 2010, respectively. Each of these amounts includes, among other things, adjustments to the valuation allowance for deferred income tax assets to maintain such allowance at an amount sufficient to reduce the Company's aggregate net deferred income tax assets to zero, and a provision for income taxes estimated to be payable or refundable currently. The portion of the income tax provision represented by taxes estimated to be payable currently was approximately $1.5 million and $900,000 in fiscal 2011 and fiscal 2010, respectively, the majority of which represents foreign withholding taxes related to royalties and franchise fees paid by international franchisees. The current income tax provision for fiscal 2010 also includes a credit of $560,000 representing anticipated federal tax refunds resulting from an additional carryback of net operating losses made possible by the Worker, Homeownership and Business Assistance Act of 2009.

The Company has maintained a valuation allowance on deferred income tax assets equal to the entire excess of those assets over the Company's deferred income tax liabilities since fiscal 2005 because of the uncertainty surrounding the realization of those assets. Such valuation allowance totaled $159 million as of January 30, 2011. Such uncertainty reflects the substantial cumulative losses incurred by the Company since fiscal 2005. However, the Company earned a cumulative pretax profit of $5.7 million during the three most recent fiscal years, including a pretax profit of $8.9 million in fiscal 2011. If the Company again generates significant core earnings (generally meaning pretax earnings adjusted for non-recurring items) in fiscal 2012, then, absent other factors indicating a contrary conclusion, it is likely the Company will conclude it is appropriate to reverse a portion of the valuation allowance to earnings in the fourth quarter of fiscal 2012. If such a reversal is recorded, it appears unlikely that the reversal will equal the entire $159 million valuation allowance recorded as of January 30, 2011, although it is likely the amount will be material to the Company's results of operations. Any reversal will have no effect on the Company's cash flows.

While any reversal of a portion of the valuation allowance will have a positive effect on the Company's results of operations in the period in which any reversal is recorded, any reversal will most likely have the effect of reducing the Company's earnings in subsequent periods as a result of an increase in the provision for income taxes in such periods. This negative effect on earnings in subsequent periods occurs because the reversal will reflect the recognition of future income tax benefits in the period in which the reversal is recorded; absent the reversal of the valuation allowance, such tax benefits would be recognized in the future periods in which their realization occurs upon the generation of taxable income. Accordingly, subsequent to any reversal of a portion of the valuation allowance, the Company's effective income tax rate, which currently bears no relationship to pretax income, is likely to more closely reflect the blended federal and state income tax rates to which the Company's earnings are subject.

Net Income

The Company reported net income of $7.6 million for fiscal 2011 compared to a net loss of $157,000 for fiscal 2010.

FISCAL 2010 COMPARED TO FISCAL 2009

Overview

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

	Year Ended	
	January 31, 2010	February 1, 2009
	(Dollars in thousands)	
Revenues by business segment:		
Company Stores	$ 246,373	$ 265,890
Domestic Franchise	7,807	8,042
International Franchise	15,907	17,495
KK Supply Chain:		
Total revenues	162,127	191,456
Less - intersegment sales elimination	(85,694)	(97,361)
External KK Supply Chain revenues	76,433	94,095
Total revenues	$ 346,520	$ 385,522
Segment revenues as a percentage of total revenues:		
Company Stores	71.1%	69.0%
Domestic Franchise	2.3	2.1
International Franchise	4.6	4.5
KK Supply Chain (external sales)	22.1	24.4
	100.0%	100.0%
Operating income (loss):		
Company Stores	$ 2,288	$ (9,813)
Domestic Franchise	3,268	4,965
International Franchise	9,896	11,550
KK Supply Chain	25,962	23,269
Total segment operating income	41,414	29,971
Unallocated general and administrative expenses	(23,737)	(24,662)
Impairment charges and lease termination costs	(5,903)	(548)
Consolidated operating income	$ 11,774	$ 4,761

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).

	Year Ended		Percentage of Total Revenues Year Ended	
	January 31, 2010	February 1, 2009	January 31, 2010	February 1, 2009
	(In thousands)			
Revenues:				
On-premises sales:				
Retail sales	$ 103,856	$ 107,142	42.2%	40.3%
Fundraising sales	13,481	13,260	5.5	5.0
Total on-premises sales	117,337	120,402	47.6	45.3
Off-premises sales:				
Grocers/mass merchants	70,952	75,556	28.8	28.4
Convenience stores	55,451	67,071	22.5	25.2
Other off-premises	2,371	2,861	1.0	1.1
Total off-premises sales	128,774	145,488	52.3	54.7
Other revenues	262	-	0.1	-
Total revenues	246,373	265,890	100.0	100.0
Operating expenses:				
Cost of sales:				
Food, beverage and packaging	84,551	96,208	34.3	36.2
Shop labor	48,714	53,113	19.8	20.0
Delivery labor	21,280	25,419	8.6	9.6
Employee benefits	19,145	21,269	7.8	8.0
Total cost of sales	173,690	196,009	70.5	73.7
Vehicle costs (1)	11,491	16,877	4.7	6.3
Occupancy (2)	10,140	12,225	4.1	4.6
Utilities expense	5,737	7,236	2.3	2.7
Depreciation expense	6,293	6,402	2.6	2.4
Settlement of litigation	1,700	-	0.7	-
Other operating expenses	19,114	21,079	7.8	7.9
Total store level costs	228,165	259,828	92.6	97.7
Store operating income	18,208	6,062	7.4	2.3
Other segment operating costs (3)	9,567	10,031	3.9	3.8
Allocated corporate overhead	6,353	5,844	2.6	2.2
Segment operating income (loss)	$ 2,288	$ (9,813)	0.9%	(3.7)%

(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, off-premises selling expenses and support functions.

Sales at Company stores decreased in fiscal 2010 from fiscal 2009 due to store closings and refranchisings. The increase in on-premises sales from stores opened in fiscal 2010 was offset by a decline in off-premises sales at existing stores. The following table presents sales metrics for Company stores (off–premises metrics for fiscal 2009 excludes data for the four stores in Eastern Canada refranchised by the Company in December 2008):

	Year Ended	
	January 31, 2010	February 1, 2009
On-premises:		
Change in same store sales	3.5%	(0.7)%
Off-premises:		
Grocers/mass merchants:		
Change in average weekly number of doors	(10.7)%	(8.0)%
Change in average weekly sales per door	10.5%	(4.8)%
Convenience stores:		
Change in average weekly number of doors	(11.7)%	(5.0)%
Change in average weekly sales per door	(4.1)%	(10.7)%

On-premises sales

Same store sales at Company stores rose 3.5% in fiscal 2010 over fiscal 2009. Price testing at approximately one-third of the Company's stores initiated at the beginning of the second quarter of fiscal 2010 contributed approximately 1.4 percentage points to the increase. In addition, the improvement in same store sales reflects generally lower use of couponing and other price promotions in fiscal 2010, as well as generally lower values of coupons and other price promotions.

Off-premises sales

Sales to grocers and mass merchants in fiscal 2009 include approximately $3.8 million of off-premises sales of four stores in Eastern Canada that the Company refranchised in December 2008. Exclusive of the sales of the Canadian stores that were refranchised, sales to grocers and mass merchants decreased slightly to $71 million, with the 10.7% decline in the average number of doors served offset by a 10.5% increase in the average weekly sales per door. Convenience store sales fell due to both a decline in the average number of doors served and in the average weekly sales per door. Among other reasons, sales to convenience stores have declined as a result of several large customers implementing in-house doughnut programs to replace the Company's products. Declines in the average weekly sales per door adversely affect profitability because of the increased significance of delivery costs in relation to sales.

Costs and expenses

Cost of sales as a percentage of revenues improved by 3.2 percentage points from fiscal 2009, falling to 70.5% of revenues in fiscal 2010. Lower costs for doughnut mix and shortening drove the improvement. Lower costs of flour and shortening resulting from lower agricultural commodity costs enabled KK Supply Chain to reduce prices on these key items in fiscal 2010. While the cost of doughnut mix and other ingredients was relatively stable during fiscal 2010, Company Stores' cost of sugar rose approximately 20% in the fourth quarter as a result of price increases resulting from the expiration of a favorable KK Supply Chain sugar supply contract.

Improved route management and the implementation of performance-based pay programs in the off-premises channel drove a 1.0 percentage point decrease in delivery labor as a percentage of off-premises sales in fiscal 2010 compared to fiscal 2009.

Vehicle costs as a percentage of revenues improved 1.6 percentage points from 6.3% of revenues in fiscal 2009 to 4.7% of revenues in fiscal 2010. Lower fuel prices and improved route management and route consolidation drove the improvement in vehicle costs.

The Company is self-insured for workers' compensation, vehicle and general liability claims, but maintains stop-loss coverage for individual claims exceeding certain amounts, as more fully described under "Fiscal 2011 Compared to Fiscal 2010 — Company Stores —Costs and Expenses," above, and in Note 1 to the consolidated financial statements appearing elsewhere herein. The Company recorded favorable adjustments to its self-insurance claims liabilities related to prior years of approximately $3.2 million in fiscal 2010, of which $2.0 million was recorded in the fourth quarter, and $1.8 million in fiscal 2009, of which $1.0 million was recorded in the fourth quarter. Of the $3.2 million in favorable adjustments recorded in fiscal 2010, $2.1 million relates to workers' compensation liability claims and is included in employee benefits in the table above, $660,000 relates to vehicle liability claims and is included in vehicle costs, and $390,000 relates to general liability claims and is included in other operating expenses. Of the $1.8 million in favorable adjustments recorded in fiscal 2009, $1.6 million relates to workers' compensation liability claims and $240,000 relates to general liability claims.

During fiscal 2010, the Company Stores segment recorded charges totaling $1.7 million (of which $950,000 was recorded in the fourth quarter) for the settlement of environmental and wage/hour litigation.

Domestic Franchise

	Year Ended	
	January 31, 2010	February 1, 2009
	(In thousands)	
Revenues:		
Royalties	$ 7,542	$ 7,810
Development and franchise fees	50	3
Other	215	229
Total revenues	7,807	8,042
Operating expenses:		
Segment operating expenses	4,016	2,838
Depreciation expense	71	86
Allocated corporate overhead	452	153
Total operating expenses	4,539	3,077
Segment operating income	$ 3,268	$ 4,965

Domestic Franchise revenues decreased 2.9% to $7.8 million in fiscal 2010 from $8.0 million in fiscal 2009, driven by a decline in domestic royalty revenues resulting from a decrease in sales by domestic franchise stores from approximately $236 million in fiscal 2009 to $221 million in fiscal 2010.

Domestic franchise same store sales rose 0.9% in fiscal 2010. Generally, same store sales at Associate franchise stores, which are located principally in the Southeast, rose during the year, while same store sales at Area Developer franchise stores fell.

Domestic Franchise 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 Franchise operating expenses rose in fiscal 2010 compared to fiscal 2009, primarily due to increased resources devoted to the development and support of domestic franchisees, higher incentive compensation provisions of approximately $245,000 and an increase in bad debt provisions to approximately $125,000 related principally to a single domestic franchisee. Additionally, during fiscal 2010, the Company recorded charges of approximately $150,000 to the Domestic Franchise segment for the settlement of certain litigation.

Domestic franchisees opened 12 stores and closed seven stores in fiscal 2010. 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

	Year Ended	
	January 31, 2010	February 1, 2009
	(In thousands)	
Revenues:		
Royalties	$ 14,164	$ 14,942
Development and franchise fees	1,743	2,460
Other	-	93
Total revenues	15,907	17,495
Operating expenses:		
Segment operating expenses	4,926	5,016
Allocated corporate overhead	1,085	929
Total operating expenses	6,011	5,945
Segment operating income	$ 9,896	$ 11,550

International Franchise royalties declined $778,000, driven by a decrease in sales by international franchise stores from $273 million in fiscal 2009 to $264 million in fiscal 2010. Changes in the rates of exchange between the U.S. dollar and the foreign currencies in which the Company's international franchisees do business reduced sales by international franchisees measured in U.S. dollars by approximately $11.7 million in fiscal 2010 compared to fiscal 2009, which adversely affected international royalty revenues by approximately $700,000. Additionally, the Company did not recognize as revenue approximately $680,000 and $920,000 of uncollected royalties which accrued during fiscal 2010 and 2009, respectively, because the Company did not believe collection of these royalties was reasonably assured.

International Franchise same store sales, measured on a constant currency basis to remove the effects of changing exchange rates between foreign currencies and the U.S. dollar, fell 21.1%. The decline in International Franchise same store sales reflects the large number of new stores opened internationally over the past two years, the cannibalization effects on initial stores in new markets of additional store openings in those markets, and the overall softness in global economic conditions, particularly in more developed markets.

International development and franchise fees decreased $717,000 in fiscal 2010 due to fewer store openings by international franchisees in fiscal 2010 than in fiscal 2009.

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 rose in the fiscal 2010 compared to fiscal 2009 primarily due to increased resources devoted to the development and support of franchisees outside the United States and to higher incentive compensation provisions of $455,000. These increases were partially offset by a decrease in the bad debt provision to $605,000 in fiscal 2010 compared to $1.3 million in fiscal 2009.

International franchisees opened 82 stores and closed 22 stores in fiscal 2010. 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).

	Year Ended		Percentage of Total Revenues Before Intersegment Sales Elimination Year Ended	
	January 31, 2010	February 1, 2009	January 31, 2010	February 1, 2009
	(In thousands)			
Revenues:				
Doughnut mixes	$ 58,332	$ 73,312	36.0%	38.3%
Other ingredients, packaging and supplies	97,622	106,054	60.2	55.4
Equipment	6,173	8,749	3.8	4.6
Fuel surcharge	-	3,341	-	1.7
Total revenues before intersegment sales elimination	162,127	191,456	100.0	100.0
Operating expenses:				
Cost of sales:				
Cost of goods produced and purchased	108,194	131,020	66.7	68.4
Gain on agricultural derivatives	308	574	0.2	0.3
Inbound freight	3,483	7,550	2.1	3.9
Total cost of sales	111,985	139,144	69.1	72.7
Distribution costs:				
Outbound freight	10,007	13,806	6.2	7.2
Other distribution costs	3,372	3,357	2.1	1.8
Total distribution costs	13,379	17,163	8.3	9.0
Other segment operating costs	8,751	9,496	5.4	5.0
Depreciation expense	883	1,019	0.5	0.5
Allocated corporate overhead	1,167	1,365	0.7	0.7
Total operating costs	136,165	168,187	84.0	87.8
Segment operating income	$ 25,962	$ 23,269	16.0%	12.2%

KK Supply Chain revenues before intersegment sales elimination fell $29.3 million, or 15.3%, in fiscal 2010 compared to fiscal 2009. The decrease reflects lower unit sales of doughnut mixes, ingredients and supplies by KK Supply Chain resulting from lower sales by Company and domestic franchise stores. The decline also reflects selling price reductions for doughnut mixes and certain other ingredients instituted by KK Supply Chain in fiscal 2010 in order to pass along to Company and franchise stores reductions in KK Supply Chain's cost of flour and shortening. Finally, in fiscal 2009, the Company utilized a fuel surcharge program to recoup additional freight costs resulting from increased fuel costs. Charges under the program were based upon the price of diesel fuel; the price benchmark was reset in fiscal 2010 and no fuel surcharges were made under the program in fiscal 2010.

An increasing percentage of franchise store sales is attributable to sales by franchisees outside North America. Many of the ingredients and supplies used by international franchisees are acquired locally instead of from KK Supply Chain. Accordingly, KK Supply Chain revenues are less correlated with sales by international franchisees than with sales by domestic franchisees.

Cost of sales as a percentage of revenues fell in fiscal 2010 compared to fiscal 2009. The most significant reason for the decrease was the reduced selling price of doughnut mix in fiscal 2010 resulting principally from lower flour costs. While the selling prices of doughnut mixes in fiscal 2010 were lower than in fiscal 2009 as a result of lower raw materials costs, overall gross margins widened because the Company attempts to maintain the gross profit on sales of doughnut mixes relatively constant on a per unit basis. Lower inbound freight costs reflect a decrease in freight rates resulting from lower fuel prices. In addition, the Company closed its California distribution center in fiscal 2009 and engaged an independent contractor to supply Company and franchise stores west of the Mississippi; the inbound freight cost associated with goods delivered by the contractor is reflected in the fee paid to the contractor, which is included in other distribution costs.

Outbound freight costs fell in fiscal 2010 compared to fiscal 2009, reflecting both lower unit sales volumes and reduced costs resulting from lower fuel prices. In addition, outbound freight in fiscal 2009 includes a charge of approximately $1.7 million (approximately 0.9% of KK Supply Chain revenues before intersegment sales elimination) related to payments made by the Company to its former third-party freight consolidator which were improperly not remitted to the freight carriers by the freight consolidator. The actions of the third-party freight consolidator, which filed for bankruptcy protection, resulted in a loss to the Company which the Company has not recovered.

Other segment operating costs include segment management, purchasing, customer service and support, and laboratory and quality control costs, as well as research and development expenses. These costs include a net credit of approximately $935,000 for bad debt expense in fiscal 2010 and a net credit of approximately $950,000 in fiscal 2009. The net credits principally reflect sustained improved payment performance and/or reduced credit exposure with respect to a small number of franchisees and, in fiscal 2009, a recovery of receivables previously written off. Net credits in bad debt expense should not be expected to occur on a regular basis.

Domestic and international franchisees opened 94 stores and closed 29 stores in fiscal 2010. The majority 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.

General and Administrative Expenses

General and administrative expenses were $22.8 million, or 6.6% of total revenues, in fiscal 2010 compared to $23.5 million, or 6.1% of total revenues, in fiscal 2009. General and administrative expenses in fiscal 2010 include approximately $2.6 million of incentive compensation provisions to reflect fiscal 2010 results (with an additional charge of approximately $2.2 million included in direct operating expenses); there were no incentive compensation provisions in general and administrative expenses for fiscal 2009. General and administrative expenses in fiscal 2010 reflect higher legal costs compared to fiscal 2009, including legal fees of approximately $1.7 million related to the resolved environmental litigation.

General and administrative expenses include professional fees and other costs, together with related insurance recoveries, associated with certain securities litigation and related investigations, including costs arising from the Company's obligation to indemnify certain former officers of the Company for costs incurred by them in connection with those matters, all of which have been settled. Those costs and expenses were a net credit of approximately $1.8 million in fiscal 2010 and a charge of approximately $1.3 million in fiscal 2009. The net credit in fiscal 2010 reflects insurance reimbursements of approximately $2.5 million of costs incurred in prior periods in connection with such litigation and investigations, of which $1.3 million was recorded in the fourth quarter.

Impairment Charges and Lease Termination Costs

Impairment charges and lease termination costs were $5.9 million in fiscal 2010 compared to $548,000 in fiscal 2009.

	Year Ended	
	January 31, 2010	February 1, 2009
	(In thousands)	
Impairment charges:		
Impairment of long-lived assets - current period charges	$ 3,108	$ 1,050
Impairment of reacquired franchise rights	40	-
Recovery from bankruptcy estate of former subsidiary	(482)	-
Total impairment charges	2,666	1,050
Lease termination costs	3,237	(502)
	$ 5,903	$ 548

The Company tests long-lived assets for impairment and records lease termination costs as described under "Fiscal 2011 Compared to Fiscal 2010 — Impairment and Lease Termination Costs," above.

Impairment charges related to long-lived assets totaled $3.1 million in fiscal 2010 and $1.1 million in fiscal 2009, of which approximately $3.1 million and $900,000, respectively, related principally to underperforming stores. In addition, impairment charges for fiscal 2010 reflect a one-time cash recovery of $482,000 from the bankruptcy estate of Freedom Rings, LLC, a former subsidiary of the Company which filed for bankruptcy in fiscal 2006

In fiscal 2010, the Company recorded lease termination charges related to closed stores of approximately $3.2 million, compared to a net credit related to lease terminations of $502,000 in fiscal 2009. The charges in fiscal 2010 relate principally to terminations of two leases having rental rates substantially above current market levels. In fiscal 2009, changes in estimated sublease rentals on a closed store that was subsequently refranchised and the realization of proceeds on an assignment of another closed store lease resulted in a credit in the lease termination provision. This credit, along with the reversal of previously recorded accrued rent associated with stores closed, partially offset by charges related to other closed store leases, resulted in a net credit in the provision for lease termination costs in fiscal 2009.

Interest Income

Interest income decreased to $93,000 in fiscal 2010 from $331,000 in fiscal 2009 due to lower short term interest rates and lower average cash balances in fiscal 2010 compared to fiscal 2009.

Interest Expense

The components of interest expense are as follows:

	Year Ended	
	January 31, 2010	February 1, 2009
	(In thousands)	
Interest accruing on outstanding indebtedness	$ 5,789	$ 6,402
Letter of credit and unused revolver fees	1,240	1,082
Fees associated with credit agreement amendments	925	261
Write-off of deferred financing costs associated with credit agreement amendments	89	289
Amortization of deferred financing costs	770	543
Mark-to-market adjustments on interest rate derivatives	559	798
Amortization of unrealized losses on interest rate derivatives	1,151	969
Payment to counterparty on interest rate cap derivative	-	124
Other	162	211
	$ 10,685	$ 10,679

The decrease in interest accruing on outstanding indebtedness reflects the reduction in outstanding principal balance of the Company's term loans described in Note 9 to the consolidated financial statements appearing elsewhere herein. That reduction in interest expense was partially offset by the effects of higher lender margin and fees resulting from amendments to the Company's Secured Credit Facilities in April 2009. The April 2009 amendments to the credit facilities increased the interest rate on the Company's outstanding borrowings and letters of credit by 200 basis points annually, and the Company incurred fees and costs associated with those amendments and with similar amendments in April 2008, as described in Note 9.

The interest rate derivative contracts which gave rise to the mark-to-market adjustments and the amortization of unrealized losses on interest rate derivatives expired in April 2010.

Equity in Losses of Equity Method Franchisees

Equity in losses of equity method franchisees totaled $488,000 in fiscal 2010 compared to $786,000 in fiscal 2009. 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 in fiscal 2010 includes a charge of approximately $500,000 to reflect a decline in the value of an investment in an Equity Method Franchisee that management concluded was other than temporary, as described in Note 17 to the consolidated financial statements appearing elsewhere herein.

Other non-operating income and expense in fiscal 2009 includes a non-cash gain of approximately $2.8 million relating to the disposition of the Company's Canadian subsidiary in connection with the refranchising of the Company's four stores in Eastern Canada, substantially all of which represents the cumulative foreign currency translation adjustment related to the Canadian operations which, prior to the sale of the stores, had been reflected, net of tax, in accumulated other comprehensive income.

In addition, other non-operating income and expense in fiscal 2009 includes a non-cash gain of $931,000 on the disposal of an investment in an Equity Method Franchisee, largely offset by a $900,000 charge for collectibility risk on a note receivable from another Equity Method Franchisee, as described in Note 17 to the consolidated financial statements appearing elsewhere herein.

Provision for Income Taxes

The provision for income taxes was $575,000 and $503,000 in fiscal 2010 and fiscal 2009, respectively. Each of these amounts includes, among other things, adjustments to the valuation allowance for deferred income tax assets to maintain such allowance at an amount sufficient to reduce the Company's aggregate net deferred income tax assets to zero, and a provision for income taxes estimated to be payable or refundable currently. The portion of the income tax provision represented by taxes estimated to be payable currently was approximately $900,000 and $1.6 million in fiscal 2010 and fiscal 2009, respectively, the majority of which represents foreign withholding taxes related to royalties and franchise fees paid by international franchisees. The current income tax provision for fiscal 2010 also includes a credit of $560,000 representing anticipated federal tax refunds resulting from an additional carryback of net operating losses made possible by the Worker, Homeownership and Business Assistance Act of 2009.

The deferred income tax provision for fiscal 2009 includes $1.2 million of deferred income tax expense related to the cumulative foreign currency translation gain associated with the Company's operations in Eastern Canada which, prior to the sale of the operations in the fourth quarter of fiscal 2009 and the resulting recognition of the currency gain, was included in accumulated other comprehensive income. In addition, as a result of the dissolution of one of the Company's foreign subsidiaries and the resolution of related income tax uncertainties during fiscal 2009, the Company recorded a credit of approximately $1.8 million to the provision for income taxes to the Company's accruals for uncertain tax positions.

Net Loss

The Company reported a net loss of $157,000 in fiscal 2010 compared to a net loss of $4.1 million in fiscal 2009.

LIQUIDITY AND CAPITAL RESOURCES

The following table presents a summary of the Company's cash flows from operating, investing and financing activities for fiscal 2011, fiscal 2010 and fiscal 2009:

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Net cash provided by operating activities	$ 20,508	$ 19,827	$ 16,593
Net cash used for investing activities	(8,572)	(2,175)	(4,296)
Net cash used for financing activities	(10,181)	(32,975)	(1,422)
Effect of exchange rate changes on cash	-	-	(72)
Net increase (decrease) in cash and cash equivalents	$ 1,755	$ (15,323)	$ 10,803

Cash Flows from Operating Activities

Net cash provided by operating activities was $20.5 million, $19.8 million and $16.6 million in fiscal 2011, 2010 and 2009 respectively.

Cash payments on leases related to closed stores were approximately $3.3 million higher in fiscal 2010 than in fiscal 2011. Net cash provided by operating activities for fiscal 2011 reflects the payment of approximately $4.8 million of incentive compensation earned in fiscal 2010; there were no corresponding payments in 2010. In addition, cash provided by operating activities in fiscal 2011 reflects the payment of approximately $2.0 million to a landlord in connection with the renegotiation and renewal of the lease for the Company's headquarters. An increase in KK Supply Chain revenues and higher royalty revenues resulting from growth in the number of franchisees, as well as higher off-premises sales, resulted in a $2.6 million increase in accounts receivable in fiscal 2011. The balance in the change in cash flows from operating activities reflects normal fluctuations in working capital.

Cash Flows from Investing Activities

Net cash used for investing activities was approximately $8.6 million, $2.2 million and $4.3 million in fiscal 2011, 2010 and 2009, respectively.

Cash used for capital expenditures increased to approximately $9.7 million in fiscal 2011 from $8.0 million in fiscal 2010, reflecting increased store refurbishment efforts in existing stores, the construction of new stores in fiscal 2011 and the investment in information technology systems.

In connection with the closing of 2011 Secured Credit Facilities described below, the Company deposited into escrow $1.8 million related to properties with respect to which the Company has agreed to furnish to the lenders certain documentation on or before January 31, 2012, with amounts to be released from escrow upon the Company's furnishing such documentation. If the Company does not furnish all of the documentation by January 31, 2012, then the amount remaining in escrow on that date will be used to make a prepayment of principal on the 2011 Term Loan described below.

In fiscal 2011, 2010 and 2009, the Company realized proceeds from the sale of property and equipment of $2.9 million, $5.8 million and $748,000, respectively, from the sale of closed stores or refranchised stores.

Cash Flows from Financing Activities

Net cash used by financing activities was $10.2 million in fiscal 2011, compared to $33.0 million in fiscal 2010 and $1.4 million in fiscal 2009.

On January 28, 2011, the Company closed the 2011 Secured Credit Facilities, which consist of the $35 million 2011 Term Loan and the $25 million Revolver. The proceeds of the 2011 Term Loan were used to retire the approximately $35 million outstanding term loan balance under the Company's prior secured credit facilities, which were terminated. The 2011 Revolver is intended to be used to support outstanding letters of credit, which currently total approximately $12.5 million, with the balance available for working capital and other general corporate needs, if any. The Company paid approximately $1.5 million in fees and expenses in connection with the 2011 Secured Credit Facilities, of which approximately $1.3 was capitalized as deferred financing costs and the balance of approximately $160,000 was charged to expense and is included in "Loss on refinancing of debt" in the accompanying consolidated statement of operations.

Prior to the refinancing, during fiscal 2011, the Company repaid $8.3 million of outstanding term loan and capitalized lease indebtedness, consisting of approximately $700,000 of scheduled principal amortization, $2.6 million of prepayments from the sale of a closed store, and a discretionary prepayment of $5 million. During fiscal 2010, the Company repaid approximately $31.7 million of outstanding term loan and capitalized lease indebtedness, consisting of approximately $1.1 million of scheduled principal amortization, a prepayment of $20 million in connection with amendments to the Company's prior credit facilities, and a discretionary prepayment of $5 million. Additionally, the Company paid approximately $1.9 million in fees to its lenders in fiscal 2010 in connection with amendments to the prior credit facilities. Of such aggregate amount, approximately $954,000 was capitalized as deferred financing costs and the balance of approximately $925,000 was charged to interest expense.

In fiscal 2009, the Company received $3.1 million in proceeds from the exercise of stock options. During the same period, present and former employees surrendered common shares having an aggregate fair value of $2.1 million to pay the exercise price of options exercised and to reimburse the Company for the minimum statutory withholding taxes paid by the Company on behalf of present and former employees arising from such exercise and from the vesting of restricted stock awards.

Capital Resources, Contractual Obligations and Off-Balance Sheet Arrangements

In addition to cash flow generated from operations, the Company utilizes other capital resources and financing arrangements to fund its business. A discussion of these capital resources and financing techniques is included below.

Debt

The Company continuously monitors its funding requirements for general working capital purposes and other financing and investing activities. In the last three fiscal years, management focused on reducing or eliminating the Company's investments in franchisees and the related guarantees of franchisees' obligations, reducing outstanding debt, and on restructuring the Company's borrowing arrangements to maintain credit availability and lower financing costs to facilitate accomplishing the Company's business restructuring initiatives.

The 2011 Secured Credit Facilities described above and in Note 9 to the consolidated financial statements appearing elsewhere herein are the Company's principal source of external financing. The 2011 Secured Credit Facilities contain significant financial covenants. Based on the Company's current working capital and the fiscal 2012 operating plan, management believes the Company can comply with the financial covenants and that the Company can meet its projected operating, investing and financing cash requirements.

The operation of the financial covenants described above could limit the amount the Company may borrow under the 2011 Revolver. In addition, the maximum amount which may be borrowed under the 2011 Revolver is reduced by the amount of outstanding letters of credit, which totaled approximately $12.5 million as of January 30, 2011 all of which secure the Company's reimbursement obligations to insurers under the Company's self- insurance arrangements. The maximum unused borrowing capacity available to the Company as of January 30, 2011 was approximately $12.5 million. The restrictive covenants did not limit the Company's ability to borrow the full $12.5 million of unused credit under the 2011 Revolver at that date.

The 2011 Secured Credit Facilities also contain customary events of default including without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other indebtedness in excess of $2.5 million, certain events of bankruptcy and insolvency, judgment defaults in excess of $2.5 million and the occurrence of a change of control.

Leases

The Company conducts some of its operations from leased facilities and leases certain equipment. Generally, these leases have initial terms of two to 20 years and contain provisions for renewal options of five to 15 years. In determining whether to enter into a lease for an asset, the Company evaluates the nature of the asset and the associated lease terms to determine if leasing is an effective financing tool.

Off-Balance Sheet Arrangements

The Company's only off-balance sheet arrangements, as defined by Item 303(a)(4) of SEC Regulation S-K, consist principally of the Company's guarantees of indebtedness of certain franchisees, as discussed in Notes 11 and 17 to the consolidated financial statements appearing elsewhere herein.

Contractual Cash Obligations at January 30, 2011

The Company's contractual cash obligations as of January 30, 2011 are as follows:

		Payments Due In			
	Total Amount	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(In thousands)		
Long-term debt (excluding capital lease obligations), including current maturities	$ 35,000	$ 2,333	$ 4,666	$ 28,001	$ -
Interest payment obligations (1)	8,857	1,626	3,228	4,003	-
Capital lease obligations	387	180	207	-	-
Operating lease obligations	117,977	10,064	14,402	11,962	81,549
Purchase obligations	73,514	51,998	20,932	584	-
Contingent guarantee obligations (2)	3,169	3,169	-	-	-
Other long-term obligations, including current portion, reflected on the Company's balance sheet:					
Self-insurance claims, principally worker's compensation	11,780	3,642	3,426	1,633	3,079
401(k) mirror plan liability	796	-	-	-	796
Total	$ 251,480	$ 73,012	$ 46,861	$ 46,183	$ 85,424

(1) Estimated interest payments for variable rate debt are based upon the forward LIBOR interest rate curve as of January 28, 2011. On March 3, 2011, the Company paid approximately $602,000 to enter into an interest rate derivative contract to hedge the Company's exposure to higher interest rates, as more fully described in Note 9 to the consolidated financial statements appearing elsewhere herein. This payment is not reflected in the table above.

(2) Amounts represent 100% of the Company's aggregate exposure at January 30, 2011 under loan guarantees related to franchisees in which the Company has an ownership interest. The timing of the potential payment is based upon the maturity of the guaranteed indebtedness. No demand has been made on the Company to perform under any of the guarantees.

The preceding table of contractual cash obligations excludes income tax liabilities of approximately $520,000 as of at January 30, 2011 for unrecognized tax benefits due to uncertainty in predicting the timing of any such related payments.

Capital Requirements

In the next five years, the Company plans to use cash primarily for the following activities:

- Working capital and other general corporate purposes;
- Opening new Company stores in selected markets, principally small retail shops;
- Remodeling and relocation of selected older Company shops;
- Investing in equipment to support the off-premises distribution channel;
- Maintaining and enhancing the KK Supply Chain manufacturing and distribution capabilities; and
- Investing in systems and technology

The Company's capital requirements for these activities may be significant. The amount of these capital requirements will depend on many factors including the Company's overall performance, the pace of store expansion and Company store remodels and other infrastructure needs. The amount of capital expenditures may be constrained by the operation of restrictive financial covenants to the Company's 2011 Secured Credit Facilities. The Company currently estimates that its capital expenditures for fiscal 2012 will be in the range of $13 million to $17 million. The most significant capital expenditures currently planned for fiscal 2012 are between five and ten new stores, refurbishments to existing stores, replacement of aging delivery vehicles, refurbishment of the Company's corporate headquarters, new point-of-sale hardware to replace existing hardware that is approaching the end of its useful life, new handheld hardware and software to replace existing assets used in distribution to off-premises customers that is approaching the end of their useful lives, and ongoing smaller, routine capital expenditures. The Company plans to fund these expenditures principally using cash provided by operations and current cash resources, although the Company may choose to lease certain anticipated asset acquisitions. The landlord of the Company's corporate headquarters is obligated to fund the first $1.8 million of the headquarters refurbishing costs.

Inflation

The Company does not believe that general price inflation has had a material effect on its results of operations in recent years. However, prices of agricultural commodities and fuel have been volatile in recent years. Those price changes, which have generally trended upward, have had a significant effect on the cost of flour, shortening and sugar, the three most significant ingredients used in the production of the Company's products, as well as on the cost of gasoline consumed by the Company's off-premises delivery fleet.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations is based upon its financial statements that have been prepared in accordance with GAAP. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures, including disclosures of contingencies and uncertainties. GAAP provides the framework from which to make these estimates, assumptions and disclosures. The Company chooses accounting policies within GAAP that management believes are appropriate to accurately and fairly report the Company's operating results and financial position in a consistent manner. Management regularly assesses these policies in light of changes in facts and circumstances and discusses the selection of accounting policies and significant accounting judgments with the Audit Committee of the Board of Directors. The Company believes that application of the following accounting policies involves judgments and estimates that are among the more significant used in the preparation of the financial statements, and that an understanding of these policies is important to understanding the Company's financial condition and results of operations.

Allowance for Doubtful Accounts

Accounts receivable arise primarily from royalties earned on sales by the Company's franchisees, sales by KK Supply Chain to our franchisees of equipment, mix and other supplies necessary to operate a Krispy Kreme store, as well as from off-premises sales by company stores to convenience and grocery stores and other customers. During the three fiscal years in the period ended January 30, 2011, some of the Company's franchisees experienced financial difficulties or for other reasons did not comply with the normal payment terms for settlement of amounts due to the Company. The Company has recorded provisions for doubtful accounts related to its accounts receivable, including receivables from franchisees, in amounts which management believes are sufficient to provide for losses estimated to be sustained on realization of these receivables. Such estimates inherently involve uncertainties and assessments of the outcome of future events, and changes in facts and circumstances may result in adjustments to the provision for doubtful accounts.

Goodwill and Identifiable Intangible Assets

The Financial Accounting Standards Board ("FASB") guidance related to goodwill and other intangible assets addresses the accounting and reporting of goodwill and other intangible assets subsequent to their acquisition. This guidance requires intangible assets with definite lives to be amortized over their estimated useful lives, while those with indefinite lives and goodwill are not subject to amortization but must be tested

annually for impairment, or more frequently if events and circumstances indicate potential impairment.

For intangible assets with indefinite lives, the Company performs the annual test for impairment as of December 31. The impairment test for indefinite-lived intangible assets involves comparing the fair value of such assets with their carrying value, with any excess of carrying value over fair value recorded as an impairment charge. The goodwill impairment test involves determining the fair values of the reporting units to which goodwill is assigned and comparing those fair values to the reporting units' carrying values, including goodwill. To determine fair value for each reporting unit, the Company uses the discounted cash flows that the reporting unit can be expected to generate in the future. This valuation method requires management to project revenues, operating expenses, working capital investment, capital spending and cash flows for the reporting units over a multi-year period, as well as determine the weighted average cost of capital to be used as a discount rate. The Company also considers the estimated fair values of its reporting units relative to the Company's overall market capitalization in connection with its goodwill impairment assessment. Significant management judgment is involved in preparing these estimates. Changes in projections or estimates could significantly change the estimated fair value of reporting units. In addition, if management uses different assumptions or estimates in the future or if conditions exist in future periods that are different than those anticipated, operating results and the balances of goodwill could be affected by impairment charges. There were no goodwill impairment charges in fiscal 2011, 2010 or 2009. As of January 30, 2011, the remaining goodwill had a carrying value of $23.5 million, all of which was associated with the Domestic and International Franchise segments, each of which consists of a single reporting unit. The risk of goodwill impairment would increase in the event that the franchise segment operating results were to significantly deteriorate or the overall market capitalization of the Company were to decline below the book value of the Company's shareholders' equity.

Asset Impairment

When an asset group (typically a store) is identified as underperforming or when a decision is made to abandon an asset group or to close a store, the Company makes an assessment of the potential impairment of the related assets. The assessment is based upon a comparison of the carrying amount of the assets, primarily property and equipment, to the estimated undiscounted cash flows expected to be generated from those assets. To estimate cash flows, management projects the net cash flows anticipated from continuing operation of the asset group or store until its closing or abandonment, as well as cash flows, if any, anticipated from disposal of the related assets. If the carrying amount of the assets exceeds the sum of the undiscounted cash flows, the Company records an impairment charge in an amount equal to the excess of the carrying value of the assets over their estimated fair value.

Determining undiscounted cash flows and the fair value of an asset group involves estimating future cash flows, revenues, operating expenses and disposal values. The projections of these amounts represent management's best estimates at the time of the review. If different cash flows had been estimated, property and equipment balances and related impairment charges could have been affected. Further, if management uses different assumptions or estimates in the future or if conditions exist in future periods that are different than those anticipated, future operating results could be affected. In addition, the sale of assets whose carrying value has been reduced by impairment charges could result in the recognition of gains or losses to the extent the sales proceeds realized differ from the reduced carrying amount of the assets. In fiscal 2011, fiscal 2010 and fiscal 2009, the Company recorded impairment charges related to long-lived assets totaling approximately $3.3 million, $3.1 million and $1.1 million, respectively. Additional impairment charges may be necessary in future years.

Insurance

The Company is subject to workers' compensation, vehicle and general liability claims. The Company is self-insured for the cost of all workers' compensation, vehicle and general liability claims up to the amount of stop-loss insurance coverage purchased by the Company from commercial insurance carriers. The Company maintains accruals for the estimated cost of claims on an undiscounted basis, without regard to the effects of stop-loss coverage, using actuarial methods which evaluate known open and incurred but not reported claims and consider historical loss development experience. In addition, the Company records receivables from the insurance carriers for claims amounts estimated to be recovered under the stop-loss insurance policies when these amounts are estimable and probable of collection. The Company estimates such stop-loss receivables using the same actuarial methods used to establish the related claims accruals, and taking into account the amount of risk transferred to the carriers under the stop-loss policies. Many estimates and assumptions are involved in estimating future claims, and differences between future events and prior estimates and assumptions could affect future operating results and result in adjustments to these loss accruals and related insurance receivables.

Income Taxes

The Company recognizes deferred 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 already have been deducted in the Company's tax return but which have not yet been recognized as an expense in the consolidated 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.

At January 30, 2011, the Company had a valuation allowance against deferred income tax assets of $159 million, representing the total amount of such assets in excess of the Company's deferred income tax liabilities. The Company has operated at a cumulative profit over the past three fiscal years; however, substantially all of that profit was earned in fiscal 2011, the most recently completed year. While the Company is encouraged by the $8.9 million pretax profit earned in fiscal 2011 and by the favorable trend in the Company's financial results over the past three years, management believes it is appropriate to obtain confirmatory evidence that the improvement in the Company's results of operations is sustainable, and that realization of at least some of the deferred income tax assets is more likely than not, before reversing a portion of the valuation allowance to earnings.

The Company intends to review its conclusions about the appropriate amount of its deferred income tax asset valuation allowance in light of circumstances existing in future periods. Given the nature of the confirmatory evidence the Company seeks, management does not expect to review its conclusions until late in fiscal 2012, at which time the Company's fiscal 2012 results largely will be known. If the Company again generates significant core earnings (generally meaning pretax earnings adjusted for non-recurring items) in fiscal 2012, then, absent other factors indicating a contrary conclusion, it is likely the Company will conclude it is appropriate to reverse a portion of the valuation allowance to earnings in the fourth quarter of fiscal 2012. If such a reversal is recorded, it appears unlikely that the reversal will equal the entire $159 million valuation allowance recorded as of January 30, 2011, although it is likely the amount will be material to the Company's results of operations. Any reversal will have no effect on the Company's cash flows.

While any reversal of a portion of the valuation allowance will have a positive effect on the Company's results of operations in the period in which any reversal is recorded, any reversal will most likely have the effect of reducing the Company's earnings in subsequent periods as a result of an increase in the provision for income taxes in such periods. This negative effect on earnings in subsequent periods occurs because the reversal will reflect the recognition of future income tax benefits in the period in which the reversal is recorded; absent the reversal of the valuation allowance, such tax benefits would be recognized in the future periods in which their realization occurs upon the generation of taxable income. Accordingly, subsequent to any reversal of a portion of the valuation allowance, the Company's effective income tax rate, which currently bears no relationship to pretax income, is likely to more closely reflect the blended federal and state income tax rates to which the Company's earnings are subject.

The determination of income tax expense and the related balance sheet accounts, including valuation allowances for deferred income tax assets, requires management to make estimates and assumptions regarding future events, including future operating results and the outcome of tax-related contingencies. If future events are different from those assumed or anticipated, the amount of income tax assets and liabilities, including valuation allowances for deferred income tax assets, could be materially affected.

Guarantee Liabilities

The Company has guaranteed a portion of certain loan obligations of certain franchisees in which the Company owns an interest. The Company assesses the likelihood of making any payments under the guarantees and records estimated liabilities for anticipated payments when the Company believes that an obligation to perform under the guarantees is probable and the amount can be reasonably estimated. No liabilities for the guarantees were recorded at the time they were issued because the Company believed the value of the guarantees was immaterial. As of January 30, 2011, the Company has recorded liabilities of approximately $2.2 million related to such loan guarantees. The aggregate outstanding principal balance of loans subject to the Company's guarantees was approximately $3.2 million at that date. Assessing the probability of future guarantee payments involves estimates and assumptions regarding future events, including the future operating results of the franchisees. If future events are different from those assumed or anticipated, the amounts estimated to be paid pursuant to such guarantees could change, and additional provisions to record such liabilities could be required.

Investments in Franchisees

The Company has investments in certain Equity Method Franchisees, the value of which cannot be verified by reference to quoted market prices. The Company's assessment of the realizability of these investments involves assumptions concerning future events, including the future operating results of the franchisees. If future events are different from those assumed or anticipated by the Company, the assessment of realizability of the recorded investments in these entities could change, and impairment provisions related to these investments could be required. During the years ended January 31, 2010 and February 1, 2009, the Company recorded impairment charges of $500,000 and $957,000, respectively, related to investments in Equity Method Franchisees. There were no impairment charges related to investments in Equity Method Franchisees in fiscal 2011. As of January 30, 2011, the Company's investment in Equity Method Franchisees was $1.7 million.

Stock-Based Compensation

The Company measures and recognizes compensation expense for share-based payment awards based on their fair values. Because options granted to employees differ from options on the Company's common shares traded in the financial markets, the Company cannot determine the fair value of options granted to employees based on observed market prices. Accordingly, the Company estimates the fair value of stock options subject only to service conditions using the Black-Scholes option valuation model, which requires inputs including interest rates, expected dividends, volatility measures and employee exercise behavior patterns. Some of the inputs the Company uses are not market-observable and must be estimated. The fair value of stock options which contain market conditions as well as service conditions is estimated using Monte Carlo simulation techniques. In addition, the Company must estimate the number of awards which ultimately will vest, and periodically adjusts such estimates to reflect actual vesting events. Use of different estimates and assumptions would produce different option values, which in turn would affect the amount of compensation expense recognized.

The Black-Scholes model is capable of considering the specific features included in the options granted to the Company's employees that are subject only to service conditions. However, there are other models which could be used to estimate their fair value, and techniques other than Monte Carlo simulation could be used to estimate the value of stock options which are subject to both service and market conditions. If the Company were to use different models, the option values would differ despite using the same inputs. Accordingly, using different assumptions coupled with using different valuation models could have a significant impact on the fair value of employee stock options.

Recent Accounting Pronouncements

In the third quarter of fiscal 2010, the Company refranchised three stores in Northern California to a new franchisee. The aggregate sales price of the stores' assets was approximately $1.1 million, which was evidenced by a promissory note payable to the Company bearing interest at 7% and payable in weekly installments equal to a percentage of the stores' retail sales, secured by the all the assets of the three stores. The Company did not report the refranchising as a divestiture of the stores and continued to consolidate the stores' financial statements for post-acquisition periods because the new franchisee was a variable interest entity of which the Company was the primary beneficiary under GAAP then existing.

Effective February 1, 2010, the first day of fiscal 2011, the Company adopted new accounting standards related to the consolidation of variable-interest entities require an enterprise to qualitatively assess the determination of the primary beneficiary of a variable interest entity ("VIE") based on whether the enterprise has the power to direct matters that most significantly impact the activities of the VIE and has the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. Under the new accounting standards, the Company is no longer the primary beneficiary of the new franchisee, which required the Company to deconsolidate the franchisee and recognize a divestiture of the stores. The cumulative effect of adoption of the new standards has been reflected as a $1.3 million credit to the opening balance of retained earnings as of February 1, 2010. Adoption of the standards had no material effect on the Company's financial position, results of operations or cash flows.

In the first quarter of fiscal 2009, the Company adopted new accounting standards with respect to financial assets and liabilities measured at fair value on both a recurring and non-recurring basis and with respect to nonfinancial assets and liabilities measured on a recurring basis. In the first quarter of fiscal 2010, the Company adopted new accounting standards with respect to nonrecurring measurements of nonfinancial assets and liabilities. Adoption of these standards had no material effect on the Company's financial position or results of operations. See Note 20 to the consolidated financial statements appearing elsewhere herein for additional information regarding fair value measurements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

The Company is exposed to market risk from increases in interest rates on its outstanding debt. All of the borrowings under the Company's secured credit facilities bear interest at variable rates based upon either the prime rate, the Fed funds rate or LIBOR. The interest cost of the Company's debt may be affected by changes in these short-term interest rates and increases in those rates may adversely affect the Company's results of operations.

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 entitles 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 intends to account for this derivative contract as a cash flow hedge.

As of January 30, 2011, the Company had approximately $35 million in borrowings outstanding. A hypothetical increase of 100 basis points in short-term interest rates would result in an approximately $350,000 increase in annual interest expense on the Company's term debt. The Company has sought to limit its exposure to rising short-term interest rates by entering into the derivative contract described above. The Company's credit facilities and the related interest rate derivative are described in Note 9 to the consolidated financial statements appearing elsewhere herein.

Currency Risk

The substantial majority of the Company's revenue, expense and capital purchasing activities are transacted in U.S. dollars. The Company's investment in its franchisee operating in Mexico exposes the Company to exchange rate risk. In addition, although royalties from international franchisees are payable to the Company in U.S. dollars, those royalties are computed based on local currency sales, and changes in the rate of exchange between the U.S. dollar and the foreign currencies used in the countries in which the international franchisees operate affect the Company's royalty revenues. Because royalty revenues are derived from a relatively large number of foreign countries, and royalty revenues are not highly concentrated in a small number of such countries, the Company believes that the relatively small size of any currency hedging activities would adversely affect the economics of hedging strategies and, accordingly, the Company historically has not attempted to hedge these exchange rate risks.

For the year ended January 30, 2011, the Company's international franchisees had sales of approximately $325 million, and the Company's related royalty revenues were approximately $16 million. A hypothetical 10% change in the average rate of exchange between the U.S. dollar and the currencies in which the Company's international franchisees do business would have a corresponding effect on the Company's international royalty revenues of approximately $1.6 million.

Commodity Price Risk

The Company is exposed to the effects of commodity price fluctuations on the cost of ingredients of its products, of which flour, sugar and shortening are the most significant. In order to secure adequate supplies of materials and bring greater stability to the cost of ingredients, the Company routinely enters into forward purchase contracts and other purchase arrangements with suppliers. Under the forward purchase contracts, the Company commits to purchasing agreed-upon quantities of ingredients at agreed-upon prices at specified future dates. The outstanding purchase commitment for these commodities at any point in time typically ranges from one month's to two years' anticipated requirements, depending on the ingredient. Other purchase arrangements typically are contractual arrangements with vendors (for example, with respect to certain beverages and ingredients) under which the Company is not required to purchase any minimum quantity of goods, but must purchase minimum percentages of its requirements for such goods from these vendors with whom it has executed these contracts.

In addition to entering into forward purchase contracts, 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 typically assigns the futures contract to a supplier in connection with entering into a forward purchase contract for the related ingredient.

The Company operates a large fleet of delivery vehicles and is exposed to the effects of changes in gasoline prices. In fiscal 2010, the Company began periodically using futures and options on futures to hedge a portion of its exposure to rising gasoline prices.

Commodity Derivatives Outstanding at January 30, 2011

Quantitative information about the Company's unassigned option contracts and futures contracts and options on such contracts as of January 30, 2011, which mature in fiscal 2012, is set forth in the table below.

	Contract Volume	Weighted Average Contract Price or Strike Price	Aggregate Contract Price or Strike Price	Aggregate Fair Value
		(Dollars in thousands, except average prices)		
Futures contracts:				
Wheat	180,000 bu.	$ 8.88	$ 1,598	$ 144

Although the Company utilizes forward purchase contracts and futures contracts and options on such contracts to mitigate the risks related to commodity price fluctuations, such contracts do not fully mitigate price risk. In addition, the portion of the Company's anticipated future commodity requirements that are subject to such contracts vary from time to time. Adverse changes in commodity prices could adversely affect the Company's profitability and liquidity.

Sensitivity to Price Changes in Agricultural Commodities

The following table illustrates the potential effect on the Company's costs resulting from hypothetical changes in the cost of the Company's three most significant ingredients.

Ingredient	Approximate Anticipated Fiscal 2012 Purchases	Approximate Range of Prices Paid In Fiscal 2011	Hypothetical Price Increase	Approximate Annual Effect Of Hypothetical Price Increase (In thousands)
Flour	63.3 million lbs.	$0.1258 - $0.2368/lb.	$ 0.05/lb.	$ 3,165
Shortening	40.7 million lbs.	$0.5092 - $0.8100/lb.	$ 0.10/lb.	$ 4,070
Sugar	55.5 million lbs.	$0.3100 - $0.3670/lb.	$ 0.05/lb.	$ 2,775
Gasoline	2.6 million gal.	$2.52 - $2.99/gal.	$ 0.30/gal.	$ 780

The ranges of prices paid for fiscal 2011 set forth in the table above reflect the effects of any forward purchase contracts entered into at various times prior to delivery of the goods and, accordingly, do not necessarily reflect the ranges of prices of these ingredients prevailing in the market during the fiscal year.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Krispy Kreme Doughnuts, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 8 present fairly, in all material respects, the financial position of Krispy Kreme Doughnuts, Inc. and its subsidiaries (the "Company") at January 30, 2011 and January 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended January 30, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)2 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 30, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and the financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for interests in variable interest entities effective February 1, 2010.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Raleigh, North Carolina
March 31, 2011

KRISPY KREME DOUGHNUTS, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
	(In thousands, except per share amounts)		
Revenues	$ 361,955	$ 346,520	$ 385,522
Operating expenses:			
Direct operating expenses (exclusive of depreciation expense shown below)	313,475	297,859	348,044
General and administrative expenses	21,870	22,793	23,460
Depreciation expense	7,389	8,191	8,709
Impairment charges and lease termination costs	4,066	5,903	548
Operating income	15,155	11,774	4,761
Interest income	207	93	331
Interest expense	(6,359)	(10,685)	(10,679)
Loss on refinancing of debt	(1,022)	-	-
Equity in income (losses) of equity method franchisees	547	(488)	(786)
Other non-operating income and (expense), net	329	(276)	2,815
Income (loss) before income taxes	8,857	418	(3,558)
Provision for income taxes	1,258	575	503
Net income (loss)	$ 7,599	$ (157)	$ (4,061)
Earnings (loss) per common share:			
Basic	$ 0.11	$ -	$ (0.06)
Diluted	$ 0.11	$ -	$ (0.06)

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

KRISPY KREME DOUGHNUTS, INC.

CONSOLIDATED BALANCE SHEET

	January 30, 2011	January 31, 2010
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 21,970	$ 20,215
Receivables	20,261	17,839
Receivables from equity method franchisees	586	524
Inventories	14,635	14,321
Other current assets	5,970	6,324
Total current assets	63,422	59,223
Property and equipment	71,163	72,986
Investments in equity method franchisees	1,663	781
Goodwill and other intangible assets	23,776	23,816
Other assets	9,902	8,470
Total assets	$ 169,926	$ 165,276
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 2,513	$ 762
Accounts payable	9,954	6,708
Accrued liabilities	28,379	30,203
Total current liabilities	40,846	37,673
Long-term debt, less current maturities	32,874	42,685
Other long-term obligations	19,778	22,151
Commitments and contingencies		
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value	-	-
Common stock, no par value	370,808	366,237
Accumulated other comprehensive loss	(34)	(180)
Accumulated deficit	(294,346)	(303,290)
Total shareholders' equity	76,428	62,767
Total liabilities and shareholders' equity	$ 169,926	$ 165,276

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

KRISPY KREME DOUGHNUTS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 7,599	$ (157)	$ (4,061)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation expense	7,389	8,191	8,709
Deferred income taxes	(95)	(479)	651
Impairment charges	3,304	2,666	1,050
Accrued rent expense	(77)	(412)	(352)
Loss on disposal of property and equipment	621	915	746
Gain on refranchise of Canadian subsidiary	-	-	(2,805)
Gain on disposal of interests in equity method franchisees	-	-	(931)
Impairment of investment in equity method franchisee	-	500	-
Unrealized loss on interest rate derivatives	-	559	798
Share-based compensation	5,147	4,779	5,152
Provision for doubtful accounts	32	(161)	270
Amortization of deferred financing costs	1,561	859	832
Equity in (income) losses of equity method franchisees	(547)	488	786
Other	(330)	(225)	1,820
Change in assets and liabilities:			
Receivables	(2,604)	2,151	4,222
Inventories	(314)	1,216	4,263
Other current and non-current assets	(2,506)	594	526
Accounts payable and accrued liabilities	1,445	(1,650)	(3,817)
Other long-term obligations	(117)	(7)	(1,266)
Net cash provided by operating activities	20,508	19,827	16,593
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(9,694)	(7,967)	(4,694)
Proceeds from disposals of property and equipment	2,949	5,752	748
Investments in equity method franchisees	(50)	(325)	(113)
Escrow deposit	(1,800)	-	-
Other investing activities	23	365	(237)
Net cash used for investing activities	(8,572)	(2,175)	(4,296)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	35,000	-	-
Repayment of long-term debt	(43,257)	(31,678)	(1,989)
Deferred financing costs	(1,348)	(954)	(467)
Proceeds from exercise of stock options and warrants	5	-	3,103
Repurchase of common shares	(581)	(343)	(2,069)
Net cash used for financing activities	(10,181)	(32,975)	(1,422)
Effect of exchange rate changes on cash	-	-	(72)
Net increase (decrease) in cash and cash equivalents	1,755	(15,323)	10,803
Cash and cash equivalents at beginning of year	20,215	35,538	24,735
Cash and cash equivalents at end of year	$ 21,970	$ 20,215	$ 35,538
Supplemental schedule of non-cash investing and financing activities:			

Assets acquired under capital leases	$ 197	$ 258	$ 143

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

KRISPY KREME DOUGHNUTS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Shares Outstanding	Common Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
			(In thousands)		
Balance at February 3, 2008	65,370	$ 355,615	$ 81	$ (299,072)	$ 56,624
Comprehensive income (loss):					
Net loss for the year ended February 1, 2009				(4,061)	(4,061)
Recognition of foreign currency translation adjustment upon disposal of subsidiary, net of income taxes of $1,173			(1,797)		(1,797)
Foreign currency translation adjustment, net of income taxes of $153			239		239
Unrealized loss on cash flow hedge, net of income taxes of $14			(22)		(22)
Amortization of unrealized loss on interest rate derivative, net of income taxes of $383			586		586
Total comprehensive loss					(5,055)
Exercise of stock options	2,387	3,103			3,103
Share-based compensation	301	5,152			5,152
Repurchase of common shares	(546)	(2,069)			(2,069)
Balance at February 1, 2009	67,512	$ 361,801	$ (913)	$ (303,133)	$ 57,755
Comprehensive income (loss):					
Net loss for the year ended January 31, 2010				(157)	(157)
Foreign currency translation adjustment, net of income taxes of $24			37		37
Amortization of unrealized loss on interest rate derivative, net of income taxes of $455			696		696
Total comprehensive income					576
Cancelation of restricted shares	(52)	-			-
Share-based compensation	57	4,779			4,779
Repurchase of common shares	(76)	(343)			(343)
Balance at January 31, 2010	67,441	$ 366,237	$ (180)	$ (303,290)	$ 62,767
Effect of adoption of new accounting standard (Note 1)				1,345	1,345
Comprehensive income:					
Net income for the year ended January 30, 2011				7,599	7,599
Foreign currency translation adjustment, net of income taxes of $35			54		54
Amortization of unrealized loss on interest rate derivative, net of income taxes of $60			92		92
Total comprehensive income					7,745
Exercise of warrants	-	5			5
Cancelation of restricted shares	(2)	-			-
Share-based compensation	161	5,147			5,147

Repurchase of common shares	(73)	(581)			(581)
Balance at January 30, 2011	67,527	$ 370,808	$ (34)	$ (294,346)	$ 76,428

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

KRISPY KREME DOUGHNUTS, INC.

NOTES TO 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 related items through Company-owned stores. The Company also derives revenue from franchise and development fees and royalties from franchisees. Additionally, the Company sells doughnut mix, other ingredients and supplies and doughnut-making equipment to franchisees.

Significant Accounting Policies

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The significant accounting policies followed by the Company in preparing the accompanying consolidated financial statements are as follows:

BASIS OF CONSOLIDATION. The financial statements include the accounts of KKDI and its subsidiaries, the most significant of which is KKDI’s principal operating subsidiary, Krispy Kreme Doughnut Corporation.

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. These entities typically are 25% to 35% owned and are hereinafter sometimes referred to as “Equity Method Franchisees.”

REVENUE RECOGNITION. A summary of the revenue recognition policies for the Company’s business segments is as follows:

- Company Stores revenue is derived from the sale of doughnuts and complimentary products to on-premises and off-premises customers. Revenue is recognized at the time of sale for on-premises sales. For off-premises sales, revenue is recognized at the time of delivery, net of provisions for estimated product returns.

- Domestic and International Franchise revenue is derived from development and initial franchise fees relating to new store openings and ongoing royalties charged to franchisees based on their sales. Development and franchise fees for new stores are deferred until the store is opened, which is the time at which the Company has performed substantially all of the initial services it is required to provide. Royalties are recognized in income as underlying franchisee sales occur unless there is significant uncertainty concerning the collectibility of such revenues, in which case royalty revenues are recognized when received.

- KK Supply Chain revenue is derived from the sale of doughnut mix, other ingredients and supplies and doughnut-making equipment. Revenues for the sale of doughnut mix and supplies are recognized upon delivery to the customer or, in the case of franchisees located outside North America, when the goods are loaded on the transport vessel at the U.S. port. Revenue for equipment sales and installation associated with new store openings is recognized at the store opening date. Revenue for equipment sales not associated with new store openings is recognized when the equipment is installed if the Company is responsible for the installation, and otherwise upon shipment of the equipment.

FISCAL YEAR. The Company’s fiscal year ends on the Sunday closest to January 31, which periodically results in a 53-week year. Fiscal 2011, 2010 and 2009 each contained 52 weeks.

CASH AND CASH EQUIVALENTS. The Company considers cash on hand, demand deposits in banks and all highly liquid debt instruments with an original maturity of three months or less to be cash and cash equivalents.

ALLOWANCE FOR DOUBTFUL ACCOUNTS. The Company records provisions for doubtful accounts related to its accounts receivable, including receivables from franchisees, in amounts which management believes are sufficient to provide for losses estimated to be sustained on realization of these receivables. Such estimates inherently involve uncertainties and assessments of the outcome of future events, and changes in facts and circumstances may result in adjustments to the provision for doubtful accounts.

INVENTORIES. Inventories are recorded at the lower of cost or market, with cost determined using the first-in, first-out method.

PROPERTY AND EQUIPMENT. Depreciation of property and equipment is provided using the straight-line method over the assets' estimated useful lives, which are as follows: buildings — 7 to 35 years; machinery and equipment — 3 to 15 years; computer software — 3 years; and leasehold improvements — 1 to 20 years.

GOODWILL AND OTHER INTANGIBLE ASSETS. Goodwill represents the excess of the purchase price over the value of identifiable net assets acquired in business combinations. Goodwill has an indefinite life and is not amortized, but is tested for impairment annually or more frequently if events or circumstances indicate the carrying amount of the asset may be impaired. Such impairment testing is performed for each reporting unit to which goodwill has been assigned.

Other intangible assets consist principally of franchise rights reacquired in acquisitions of franchisees, which the Company determined have indefinite lives and are not subject to amortization. Intangible assets with indefinite lives are reviewed for impairment annually or more frequently if events or circumstances indicate the carrying amount of the assets may be impaired.

LEGAL COSTS. Legal costs associated with litigation and other loss contingencies are charged to expense as services are rendered.

ASSET IMPAIRMENT. When an asset group (typically a store) is identified as underperforming or a decision is made to abandon an asset group or to close a store, the Company makes an assessment of the potential impairment of the related assets. The assessment is based upon a comparison of the carrying amount of the asset group, consisting primarily of property and equipment, to the estimated undiscounted cash flows expected to be generated from the asset group. To estimate cash flows, management projects the net cash flows anticipated from continuing operation of the asset group or store until its closing or abandonment as well as cash flows, if any, anticipated from disposal of the related assets. If the carrying amount of the assets exceeds the sum of the undiscounted cash flows, the Company records an impairment charge in an amount equal to the excess of the carrying value of the assets over their estimated fair value.

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 warrants and the vesting of currently unvested shares of restricted stock and restricted stock units.

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

	Year Ended		
	January 30, 2011	**January 31, 2010**	**February 1, 2009**
		(In thousands)	
Numerator: net income (loss)	$ 7,599	$ (157)	$ (4,061)
Denominator:			
Basic earnings per share - weighted average shares outstanding	68,337	67,493	65,940
Effect of dilutive securities:			
Stock options	1,055	-	-
Restricted stock and restricted stock units	530	-	-
Diluted earnings per share - weighted average shares outstanding plus dilutive potential common shares	69,922	67,493	65,940

Stock options and warrants with respect to 9.0 million shares, as well as 409,000 unvested shares of restricted stock and unvested restricted stock units, have been excluded from the computation of the number of shares used to compute diluted earnings per share for the year ended January 30, 2011 because their inclusion would be antidilutive.

Stock options and warrants with respect to 11.0 million and 10.8 million shares, as well as 1.2 million and 1.4 million unvested shares of restricted stock and unvested restricted stock units, have been excluded from the computation of the number of shares used to compute diluted earnings per share for the years ended January 31, 2010 and February 1, 2009, respectively, because the Company incurred a net loss in each of these periods and their inclusion would be antidilutive.

SHARE-BASED COMPENSATION. The Company measures and recognizes compensation expense for share-based payment awards by charging the fair value of each award at its grant date to earnings over the service period necessary for each award to vest.

CONCENTRATION OF CREDIT RISK. Financial instruments that subject the Company to credit risk consist principally of receivables from off-premises customers and franchisees and guarantees of indebtedness of franchisees. Off-premises receivables are primarily from grocery and convenience stores. The Company maintains allowances for doubtful accounts which management believes are sufficient to provide for losses which may be sustained on realization of these receivables. In fiscal 2011, 2010 and 2009, no customer accounted for more than 10% of Company Stores segment revenues. The two largest off-premises customers collectively accounted for approximately 13%, 12% and 11% of Company Stores segment revenues in fiscal 2011, 2010 and 2009, respectively. The two off-premises customers with the largest trade receivables balances collectively accounted for approximately 23% and 21% of total off-premises customer receivables at January 30, 2011 and January 31, 2010, respectively.

The Company also evaluates the recoverability of receivables from its franchisees and maintains allowances for doubtful accounts which management believes are sufficient to provide for losses which may be sustained on realization of these receivables. In addition, the Company evaluates the likelihood of potential payments by the Company under loan guarantees and records estimated liabilities for payments the Company considers probable.

SELF-INSURANCE RISKS AND RECEIVABLES FROM INSURERS. The Company is subject to workers' compensation, vehicle and general liability claims. The Company is self-insured for the cost of all workers' compensation, vehicle and general liability claims up to the amount of stop-loss insurance coverage purchased by the Company from commercial insurance carriers. The Company maintains accruals for the estimated cost of claims, without regard to the effects of stop-loss coverage, using actuarial methods which evaluate known open and incurred but not reported claims and consider historical loss development experience. In addition, the Company records receivables from the insurance carriers for claims amounts estimated to be recovered under the stop-loss insurance policies when these amounts are estimable and probable of collection. The Company estimates such stop-loss receivables using the same actuarial methods used to establish the related claims accruals, and taking into account the amount of risk transferred to the carriers under the stop-loss policies. The stop-loss policies provide coverage for claims in excess of retained self-insurance risks, which are determined on a claim-by-claim basis.

The Company recorded favorable adjustments to its self-insurance claims liabilities related to prior years of approximately $1.8 million, $3.2 million and $1.8 million in fiscal 2011, 2010 and 2009, respectively.

The Company provides health and medical benefits to eligible employees, and purchases stop-loss insurance from commercial insurance carriers which pays covered medical costs in excess of a specified annual amount incurred by each claimant.

DERIVATIVE FINANCIAL INSTRUMENTS AND DERIVATIVE COMMODITY INSTRUMENTS. The Company reflects derivative financial instruments, which consist primarily of interest rate derivatives and commodity futures contracts and options on such contracts, in the consolidated balance sheet at their fair value. The difference between the cost, if any, and the fair value of the interest rate derivatives is reflected in income unless the derivative instrument qualifies as a cash flow hedge and is effective in offsetting future cash flows of the underlying hedged item, in which case such amount is reflected in other comprehensive income. 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 cash flow hedges.

FOREIGN CURRENCY TRANSLATION. The Company has ownership interests in franchisees in Mexico and Western Canada accounted for using the equity method. The functional currency of each of these operations is the local currency. Assets and liabilities of these operations are translated into U.S. dollars using exchange rates as of the balance sheet date, and revenues, expenses and the Company's equity in the earnings or losses of the franchisee are translated using the average exchange rate for the reporting period. The resulting cumulative translation adjustments are reported, net of income taxes, as a component of accumulated other comprehensive income. Transaction gains and losses resulting from remeasuring transactions denominated in currencies other than an entity's functional currency are reflected in earnings.

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 (loss), a component of shareholders' equity, and are summarized in the following table:

	January 30, 2011	January 31, 2010
	(In thousands)	
Accumulated other comprehensive income (loss):		
Unrealized losses on interest rate derivatives	$ -	$ (152)
Cumulative foreign currency translation adjustment	(57)	(146)
	(57)	(298)
Less: deferred income taxes	23	118
	$ (34)	$ (180)

USE OF ESTIMATES. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results will differ from these estimates, and the differences could be material.

RECLASSIFICATIONS Beginning in fiscal 2011, miscellaneous receivables previously classified as a component of other current assets were reclassified and combined with trade receivables, and the combined total has been captioned "Receivables" in the accompanying consolidated balance sheet. Amounts previously reported at January 31, 2010 have been reclassified to conform to the new presentation.

In the third quarter of fiscal 2011, the caption "Other operating income and expense, net" previously included in the consolidated statement of operations was eliminated. Amounts previously included in this caption have been reclassified to direct operating expenses and general and administrative expenses, and amounts reported in this caption for earlier periods have been reclassified to conform to the new presentation. None of the reclassified amounts was material in any of the periods.

In the fourth quarter of fiscal 2011, computer software previously classified as a component of other assets was reclassified and combined with property and equipment in the accompanying consolidated balance sheet. Amounts previously reported at January 31, 2010 have been reclassified to conform to the new presentation.

Recent Accounting Pronouncements

In the third quarter of fiscal 2010, the Company refranchised three stores in Northern California to a new franchisee. The aggregate sales price of the stores' assets was approximately $1.1 million, which was evidenced by a promissory note payable to the Company bearing interest at 7% and payable in weekly installments equal to a percentage of the stores' retail sales, secured by the all the assets of the three stores. The Company did not report the refranchising as a divestiture of the stores and continued to consolidate the stores' financial statements for post-acquisition periods because the new franchisee was a variable interest entity of which the Company was the primary beneficiary under GAAP then existing.

Effective February 1, 2010, the first day of fiscal 2011, the Company was required to adopt new accounting standards related to the consolidation of variable-interest entities. Those standards require an enterprise to qualitatively assess the determination of the primary beneficiary of a variable interest entity ("VIE") based on whether the enterprise has the power to direct matters that most significantly impact the activities of the VIE and has the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. Under the new accounting standards, the Company is no longer the primary beneficiary of the new franchisee in Northern California, discussed above, which required the Company to deconsolidate the franchisee and recognize a divestiture of the stores. The cumulative effect of adoption of the new standards has been reflected as a $1.3 million credit to the opening balance of retained earnings as of February 1, 2010. Adoption of the standards had no material effect on the Company's financial position, results of operations or cash flows.

In the first quarter of fiscal 2009, the Company adopted new accounting standards with respect to financial assets and liabilities measured at fair value on both a recurring and non-recurring basis and with respect to nonfinancial assets and liabilities measured on a recurring basis. In the first quarter of fiscal 2010, the Company adopted new accounting standards with respect to nonrecurring measurements of nonfinancial assets and liabilities. Adoption of these standards had no material effect on the Company's financial position or results of operations. See Note 20 for additional information regarding fair value measurements.

Note 2 — Receivables

The components of trade receivables are as follows:

	January 30, 2011	January 31, 2010
	(In thousands)	
Receivables:		
Off-premises customers	$ 9,990	$ 9,010
Unaffiliated franchisees	9,805	8,974
Other receivables	1,565	1,130
Current portion of notes receivable	235	68
	21,595	19,182
Less — allowance for doubtful accounts:		
Off-premises customers	(326)	(307)
Unaffiliated franchisees	(1,008)	(1,036)
	(1,334)	(1,343)
	$ 20,261	$ 17,839
Receivables from Equity Method Franchisees (Note 17):		
Trade	$ 586	$ 1,263
Less — allowance for doubtful accounts	-	(739)
	$ 586	$ 524

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

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Allowance for doubtful accounts related to receivables:			
Balance at beginning of year	$ 1,343	$ 2,857	$ 4,750
Provision for doubtful accounts	362	(769)	71
Chargeoffs	(224)	(745)	(2,064)
Other	-	-	100
Transfers to allowances for notes receivable (Note 7)	(147)	-	-
Balance at end of year	$ 1,334	$ 1,343	$ 2,857
Allowance for doubtful accounts related to receivables from Equity Method Franchisees:			
Balance at beginning of year	$ 739	$ 249	$ 1,379
Provision for doubtful accounts	(35)	490	199
Chargeoffs	(233)	-	(1,329)
Transfers to allowances for notes receivable (Note 7)	(471)	-	-
Balance at end of year	$ -	$ 739	$ 249

See Note 7 for information about notes receivable from franchisees.

Note 3 — Inventories

The components of inventories are as follows:

	January 30, 2011	January 31, 2010
	(In thousands)	
Raw materials	$ 5,265	$ 5,253
Work in progress	54	4
Finished goods	3,194	3,688
Purchased merchandise	6,018	5,268
Manufacturing supplies	104	108
	$ 14,635	$ 14,321

Note 4 — Other Current Assets

Other current assets consist of the following:

	January 30, 2011	January 31, 2010
	(In thousands)	
Escrow deposit (Note 9)	$ 1,800	$ -
Current portion of claims against insurance carriers related to self-insurance programs (Notes 1, 7, 8 and 10)	477	679
Commodity futures contracts	144	-
Closed stores held for sale	-	2,574
Prepaid expenses and other	3,549	3,071
	$ 5,970	$ 6,324

Note 5 — Property and Equipment

Property and equipment consists of the following:

	January 30, 2011	January 31, 2010
	(In thousands)	
Land	$ 13,843	$ 13,975
Buildings	61,304	62,812
Leasehold improvements	9,596	9,146
Machinery and equipment	46,955	52,124
Computer software	6,521	6,001
Construction in progress	1,593	432
	139,812	144,490
Less: accumulated depreciation	(68,649)	(71,504)
	$ 71,163	$ 72,986

Machinery and equipment includes assets acquired under capital leases having a net book value of $387,000 and $393,000 at January 30, 2011 and January 31, 2010, respectively.

Note 6 — Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of the following:

	January 30, 2011	January 31, 2010
	(In thousands)	
Indefinite-lived intangible assets:		
Goodwill associated with International Franchise segment	$ 15,664	$ 15,664
Goodwill associated with Domestic Franchise segment	7,832	7,832
Reacquired franchise rights associated with Company Stores segment	280	320
	$ 23,776	$ 23,816

Note 7 — Other Assets

The components of other assets are as follows:

	January 30, 2011	January 31, 2010
	(In thousands)	
Deposits	$ 3,399	$ 1,515
Non-current portion of claims against insurance carriers related to self-insurance programs (Note 1, 4, 8 and 10)	2,543	3,116
Deferred financing costs, net of accumulated amortization	1,886	2,099
Non-current portion of notes receivable	918	146
401(k) mirror plan assets (Note 10 and 19)	796	455
Other	360	1,139
	$ 9,902	$ 8,470

The Company has notes receivable from certain of its franchisees which are summarized in the following table. As of January 30, 2011 and January 31, 2010, substantially all of the notes receivable were being paid in accordance with their terms.

	January 30, 2011	January 31, 2010
	(In thousands)	
Notes receivable:		
Note receivable from Equity Method Franchisee arising from past due royalties	$ 391	$ -
Note receivable arising from refranchising transaction	654	-
Notes receivable arising from sale of real estate	148	183
Other	498	160
	1,691	343
Less — portion due within one year	(235)	(68)
Less — allowance for doubtful accounts	(538)	(129)
	$ 918	$ 146

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

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Balance at beginning of year	$ 129	$ -	$ -
Provision for doubtful accounts	(295)	118	-
Chargeoffs	(119)	-	-
Recoveries	205	11	-
Transfers from allowances for trade receivables (Note 2)	618	-	-
Balance at end of year	$ 538	$ 129	$ -

In addition to the foregoing notes receivable, the Company had promissory notes totaling approximately $3.7 million and $1.4 million at January 30, 2011 and January 31, 2010, respectively, representing payment obligations related to royalties and fees due to the Company which, as a result of doubt about their collection, the Company has not yet recorded as revenues. No payments were required to be made currently on any of the January 31, 2010 amount or approximately $3.3 million of the January 30, 2011 amount; the note representing the remainder of the January 30, 2011 amount is being paid in accordance with its terms. Collections on these promissory notes are being recorded as revenue as they are received.

Note 8 — Accrued Liabilities

The components of accrued liabilities are as follows:

	January 30, 2011	January 31, 2010
	(In thousands)	
Accrued compensation	$ 7,938	$ 6,571
Accrued vacation pay	5,024	4,814
Current portion of self-insurance claims, principally worker's compensation (Notes 1, 4, 7 and 10)	3,642	4,245
Accrued guarantee liabilities (Notes 11, 13 and 17)	2,518	2,702
Accrued taxes, other than income	1,795	2,097
Customer deposits	1,208	1,319
Accrued health care claims	1,136	1,110
Current portion of lease termination costs (Notes 10 and 12)	648	298
Accrued professional fees	283	873
Current portion of deferred franchise fee revenue	213	285
Accrued interest	11	292
Fair value of interest rate derivative	-	641
Other	3,963	4,956
	$ 28,379	$ 30,203

The changes in the assets and liabilities associated with self-insurance programs are summarized as follows:

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Accrual for self-insurance programs, net of receivables from stop-loss policies:			
Balance at beginning of year	$ 9,777	$ 11,781	$ 12,303
Additions charged to costs and expenses	2,538	1,372	3,707
Claims payments	(3,555)	(3,376)	(4,229)
Balance at end of year	$ 8,760	$ 9,777	$ 11,781
Net accrual reflected in:			
Accrued liabilities	$ 3,642	$ 4,245	$ 5,086
Other long-term obligations	8,138	9,327	11,069
Less: Claims receivable under stop-loss insurance policies included in:			
Other current assets	(477)	(679)	(755)
Other assets	(2,543)	(3,116)	(3,619)
	$ 8,760	$ 9,777	$ 11,781

Note 9 — Long Term Debt and Lease Commitments

Long-term debt and capital lease obligations consist of the following:

	January 30, 2011	January 31, 2010
	(In thousands)	
2011 Term Loan	$ 35,000	$ -
2007 Term Loan	-	43,054
Capital lease obligations	387	393
	35,387	43,447
Less: current maturities	(2,513)	(762)
	$ 32,874	$ 42,685

The following table presents maturities of long-term debt and capital lease obligations:

Fiscal Year	(In thousands)
2012	$ 2,513
2013	2,473
2014	2,400
2015	2,333
2016	25,668
	$ 35,387

2011 Secured Credit Facilities

On January 28, 2011, the Company closed new 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 mature in January 2016. The 2011 Secured Credit Facilities are secured by a first lien on substantially all of the assets of the Company and its domestic subsidiaries. The Company used the proceeds of the 2011 Term Loan to repay the approximately $35 million outstanding principal balance under the 2007 Secured Credit Facilities described below, which were then terminated. The Company recorded a pretax charge of approximately $1.0 million in the fourth quarter of fiscal 2011 to write off a majority of the unamortized deferred debt issuance costs related to the terminated facility and to record certain expenses related to the new facility.

Interest on borrowings under the 2011 Secured Credit Facilities 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 2.25% to 3.00%, and for Base Rate loans ranges from 1.25% to 2.00%, in each case depending on the Company's leverage ratio. As of January 30, 2011, all outstanding borrowings under the 2011 Secured Credit Facilities were based on LIBOR, and the Applicable Margin was 2.50%.

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 entitles 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 intends to account for this derivative contract as a cash flow hedge.

The 2011 Revolver 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, $12.5 million of letters of credit were issued under the 2011 Revolver to replace letters of credit issued under the terminated facilities, all of which secure the Company's reimbursement obligations to insurers under the Company's self-insurance programs.

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, as well as a fronting fee of 0.125% of the amount of such letter of credit. There also is 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.

The 2011 Term Loan is payable in quarterly installments of approximately $583,000, and a final installment equal to the remaining principal balance in January 2016. The Term Loan is required to be prepaid with some or all of the net proceeds of certain equity issuances, debt issuances, asset sales and casualty events. On the closing date, the Company deposited into escrow $200,000 with respect to each of nine properties ($1.8 million in the aggregate) with respect to which the Company has agreed to furnish to the lenders certain documentation on or before January 31, 2012, with amounts to be released from escrow upon the Company's furnishing such documentation. If the Company does not furnish the documentation by January 31, 2012, then the amount remaining in escrow on that date will be used to make a prepayment of principal on the 2011 Term Loan. The $1.8 million escrow deposit is included in "Other current assets" in the accompanying consolidated balance sheet as of January 30, 2011.

Borrowings and issuances of letters of credit under the 2011 Revolver are subject to the satisfaction of usual and customary conditions, including the accuracy of representations and warranties and the absence of defaults.

The 2011 Secured Credit Facilities require the Company to meet certain financial tests, including a maximum leverage ratio and a minimum fixed charge coverage ratio. As of January 30, 2011, the leverage ratio was required to be not greater than 3.0 to 1.0. The maximum leverage ratio declines to 2.75 to 1.0 in fiscal 2012 and to 2.5 to 1.0 thereafter. The fixed charge coverage ratio is required to be not less than 1.05 to 1.0 in fiscal 2012, increasing to a minimum of 1.1 to 1.0 in fiscal 2013 and to 1.2 to 1.0 thereafter.

As of January 30, 2011, the Company's leverage ratio was approximately 1.6 to 1.0. The fixed charge coverage ratio for the year ended January 30, 2011, computed on a pro forma basis assuming that the 2011 Secured Credit Facilities had been closed as of the beginning of the fiscal year, was approximately 2.3 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) distributions in respect of the Company's common stock (which are limited by the credit agreement), minus (v) unfinanced capital expenditures, by (b) Consolidated Fixed Charges.

"Consolidated EBITDA" is a non-GAAP measure and is defined in the 2011 Secured Credit Facilities 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 guaranty obligations, plus the sum of interest expense, income taxes, depreciation, rent expense and lease termination costs, and 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 after January 28, 2011.

"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 after January 28, 2011.

"Consolidated Fixed Charges" means the sum of cash interest expense, Cash Lease Payments, and scheduled principal payments of indebtedness. For Reference Periods ending in the first three quarters of fiscal 2012, cash interest expense with respect to the 2011 Secured Credit Facilities and the prior terminated facilities is computed by annualizing year-to-date fiscal 2012 interest expense accruing under the 2011 Secured Credit Facilities, and scheduled principal payments of indebtedness will be computed assuming that the 2011 Secured Credit Facilities had been closed at the beginning of each of such Reference Periods.

The operation of the restrictive financial covenants described above may limit the amount the Company may borrow under the 2011 Revolver. The restrictive covenants did not limit the Company's ability to borrow the full $12.5 million of unused credit under the 2011 Revolver at January 30, 2011.

The 2011 Secured Credit Facilities also contain customary events of default including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other indebtedness in excess of $2.5 million, certain events of bankruptcy and insolvency, judgment defaults in excess of $2.5 million and the occurrence of a change of control.

2007 Secured Credit Facilities

In February 2007, the Company closed secured credit facilities totaling $160 million (the "2007 Secured Credit Facilities") then consisting of a $50 million revolving credit facility maturing in February 2013 (the "2007 Revolver") and a $110 million term loan maturing in February 2014 (the "2007 Term Loan"). The 2007 Secured Credit Facilities were secured by a first lien on substantially all of the assets of the Company and its subsidiaries.

The commitments under the 2007 Revolver were reduced from $50 million to $30 million in April 2008, and further reduced to $25 million in connection with amendments to the facilities in April 2009 (the "April 2009 Amendments"). In connection with the April 2009 Amendments, the Company prepaid $20 million of the principal balance outstanding under the 2007 Term Loan. The Company made other payments of 2007 Term Loan principal after February 2007, consisting of $26.6 million representing the proceeds of asset sales, $25.0 million representing discretionary prepayments and $3.4 million representing scheduled amortization which, together with the $20 million prepayment in April 2009 reduced the principal balance of the 2007 Term Loan to approximately $35 million as of January 27, 2011. On January 28, 2011, the 2007 Term Loan was repaid in full and the 2007 Secured Credit Facilities were terminated.

Interest on borrowings under the 2007 Revolver and 2007 Term Loan was payable either (a) at the greater of LIBOR or 3.25% or (b) at the Alternate Base Rate (which was the greater of Fed funds rate plus 0.50% or the prime rate), in each case plus the Applicable Margin. After giving effect to the April 2009 Amendments, the Applicable Margin for LIBOR-based loans and for Alternate Base Rate-based loans was 7.50% and 6.50%, respectively (5.50% and 4.50%, respectively, prior to the April 2009 Amendments and 3.50% and 2.50%, respectively, prior to amendments executed in April 2008).

The Company was required to pay a fee equal to the Applicable Margin for LIBOR-based loans on the outstanding amount of letters of credit issued under the 2007 Revolver, as well as a fronting fee of 0.25% of the amount of such letter of credit payable to the letter of credit issuer. There also was a fee on the unused portion of the 2007 Revolver lending commitment, which increased from 0.75% to 1.00% in connection with the April 2009 Amendments.

Lease Obligations

The Company leases equipment and facilities under both capital and operating leases. The approximate future minimum lease payments under non-cancelable leases as of January 30, 2011 are set forth in the following table:

Fiscal Year	Operating Leases	Capital Leases
	(In thousands)	
2012	$ 10,064	$ 200
2013	7,856	150
2014	6,546	69
2015	6,107	-
2016	5,855	-
Thereafter	81,549	-
	$ 117,977	419
Less: portion representing interest and executory costs		(32)
		$ 387

Rent expense, net of rental income, totaled $10.8 million in fiscal 2011, $9.6 million in fiscal 2010 and $11.8 million in fiscal 2009. Such rent expense includes rents under non-cancelable operating leases as well as sundry short-term rentals.

Cash Payments of Interest

Interest paid, inclusive of deferred financing costs, totaled $8.1 million in fiscal 2011, $11.2 million in fiscal 2010 and $9.2 million in fiscal 2009.

Note 10 — Other Long-Term Obligations

The components of other long-term obligations are as follows:

	January 30, 2011	January 31, 2010
	(In thousands)	
Non-current portion of self-insurance claims, principally worker's compensation (Notes 1, 4, 7 and 8)	$ 8,138	$ 9,327
Accrued rent expense	4,605	5,864
Non-current portion of deferred franchise fee revenue	3,040	3,191
Non-current portion of lease termination costs (Notes 8 and 12)	1,347	1,381
Mirror 401(k) plan liability (Notes 7 and 19)	796	455
Other	1,852	1,933
	$ 19,778	$ 22,151

Note 11 — Commitments and Contingencies

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

Pending 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.

Other Legal Matters

The Company also is engaged in various legal proceedings arising in the normal course of business. The Company maintains customary insurance policies against certain kinds of such claims and suits, including insurance policies for workers’ compensation and personal injury, some of which provide for relatively large deductible amounts.

Other Commitments and Contingencies

The Company has guaranteed certain loans from third-party financial institutions on behalf of Equity Method Franchisees primarily to assist the franchisees in obtaining third-party financing. The loans are collateralized by certain assets of the franchisee, generally the Krispy Kreme store and related equipment. The Company's contingent liabilities related to these guarantees totaled approximately $3.2 million at January 30, 2011, and are summarized in Note 17. These guarantees require payment from the Company in the event of default on payment by the respective debtor and, if the debtor defaults, the Company may be required to pay amounts outstanding under the related agreements in addition to the principal amount guaranteed, including accrued interest and related fees.

The aggregate recorded liability for these loan guarantees totaled $2.2 million as of January 30, 2011 and $2.5 million as of January 31, 2010, which is included in accrued liabilities in the accompanying consolidated balance sheet. These liabilities represent the estimated amount of guarantee payments which the Company believed to be probable. While there is no current demand on the Company to perform under any of the guarantees, there can be no assurance that the Company will not be required to perform and, if circumstances change from those prevailing at January 30, 2011, additional guarantee payments or provisions for guarantee payments could be required with respect to any of the guarantees.

In addition, accrued liabilities at January 30, 2011 and January 31, 2010, includes approximately $360,000 and $200,000, respectively, related to the Company's assignment of operating leases on closed and refranchised stores. The Company is contingently liable to pay the rents on these stores to the landlords in the event the assignees fail to perform under the leases they have assumed.

One of the Company's lenders had issued letters of credit on behalf of the Company totaling $12.5 million at January 30, 2011, all of which secure the Company's reimbursement obligations to insurers under the Company's self-insurance arrangements.

The Company is exposed to the effects of commodity price fluctuations on the cost of ingredients of its products, of which flour, shortening and sugar are the most significant. In order to secure adequate supplies of product and bring greater stability to the cost of ingredients, the Company routinely enters into forward purchase contracts with suppliers under which the Company commits to purchase agreed-upon quantities of ingredients at agreed-upon prices at specified future dates. Typically, the aggregate outstanding purchase commitment at any point in time will range from one month's to two years' anticipated ingredients purchases, depending on the ingredient. In addition, from time to time the Company enters into contracts for the future delivery of equipment purchased for resale and components of doughnut-making equipment manufactured by the Company. As of January 30, 2011, the Company had approximately $74 million of commitments under ingredient and other forward purchase contracts. While the Company has multiple suppliers for most of its ingredients, the termination of the Company's relationships with vendors with whom the Company has forward purchase agreements, or those vendors' inability to honor the purchase commitments, could adversely affect the Company's results of operations and cash flows.

In addition to entering into forward purchase contracts, the Company from time to time purchases exchange-traded commodity futures contracts or options on such contracts for raw materials which are ingredients of the Company's products or which are components of such ingredients, including wheat and soybean oil. The Company typically assigns the futures contract to a supplier in connection with entering into a forward purchase contract for the related ingredient. The Company may also purchase futures, options on futures or enter into other hedging contracts to hedge its exposure to rising gasoline prices. See Note 21 for additional information about these derivatives.

Note 12 — Impairment Charges and Lease Termination Costs

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

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Impairment charges:			
Impairment of long-lived assets - current period charges	$ 3,437	$ 3,108	$ 1,050
Impairment of long-lived assets - adjustments to previously recorded estimates	(173)	-	-
Impairment of reacquired franchise rights	40	40	-
Recovery from bankruptcy estate of former subsidiary	-	(482)	-
Total impairment charges	3,304	2,666	1,050
Lease termination costs:			
Provision for termination costs	1,449	4,195	316
Less — reversal of previously recorded accrued rent expense	(687)	(958)	(818)
Net provision	762	3,237	(502)
Total impairment charges and lease termination costs	$ 4,066	$ 5,903	$ 548

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. Impairment charges related to Company Stores long-lived assets were approximately \$3.4 million, \$3.1 million and \$900,000 in fiscal 2011, 2010 and 2009, respectively. Such charges relate to underperforming stores, including both stores closed or likely to be closed and stores which management believes will not generate sufficient future cash flows to enable the Company to recover the carrying value of the stores' assets, but which management has not yet decided to close. The impaired store assets include real properties, the fair values of which were estimated based on independent appraisals or, in the case of any properties which the Company is negotiating to sell, based on the Company's negotiations with unrelated third-party buyers; leasehold improvements, which are typically abandoned when the leased properties revert to the lessor; and doughnut-making and other equipment.

During the fiscal year ended January 31, 2010, the Company received \$482,000 of cash proceeds from the bankruptcy estate of Freedom Rings, LLC ("Freedom Rings"), a former subsidiary which filed for bankruptcy in the third quarter of fiscal 2006. During fiscal 2006, the Company recorded impairment provisions related to long-lived assets of Freedom Rings under the assumption that there would be no recovery from the Freedom Rings bankruptcy estate. Had any such recovery been assumed, the impairment charges would have been reduced by the amount of the assumed recovery. Accordingly, the amount recovered in fiscal 2010 has been reported as a credit to impairment charges in the accompanying consolidated statement of operations.

The Company records impairment charges for reacquired franchise rights when such intangible assets are determined to be impaired as a result of store closing decisions or other developments.

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

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Balance at beginning of year	$ 1,679	$ 1,880	$ 2,837
Provision for lease termination costs:			
Provisions associated with store closings, net of estimated sublease rentals	422	2,427	380
Adjustments to previously recorded provisions resulting from settlements with lessors and adjustments of previous estimates	832	1,580	(284)
Accretion of discount	195	188	220
Total provision	1,449	4,195	316
Proceeds from assignment of leases	-	62	748
Payments on unexpired leases, including settlements with lessors	(1,133)	(4,458)	(2,021)
Total reductions	(1,133)	(4,396)	(1,273)
Balance at end of year	$ 1,995	$ 1,679	$ 1,880
Accrued lease termination costs are included in the consolidated balance sheet as follows:			
Accrued liabilities	$ 648	$ 298	$ 364
Other long-term obligations	1,347	1,381	1,516
	$ 1,995	$ 1,679	$ 1,880

Note 13 — Other Non-Operating Income and Expense

The components of other non-operating income and expense are as follows:

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Foreign currency transaction loss	$ -	$ (1)	$ (14)
Gain on refranchise of Canadian subsidiary	-	-	2,805
Gain on disposal of interests in Equity Method Franchises	-	-	931
Impairment charges and provisions related to investments in Equity Method Franchisees (Note 17)	-	(500)	(957)
Provision for guarantee payments	329	225	50
	$ 329	$ (276)	$ 2,815

In fiscal 2010, the Company recorded a charge of approximately $500,000 to reflect a decline in the value of an investment in an Equity Method Franchisee that management concluded was other than temporary as described in Note 17.

In the fourth quarter of fiscal 2009, the Company refranchised its four stores in Canada. The Company received no proceeds from the transaction. The Company recognized a non-cash gain on the sale of the stores of $2.8 million ($1.6 million after tax), substantially all of which represents the recognition in earnings of the cumulative foreign currency translation adjustments related to the Canadian subsidiary which, prior to its disposition, had been reflected, net of tax, in accumulated other comprehensive income.

In fiscal 2009, the Company completed an agreement with two franchisees under common control pursuant to which, among other things, the Company conveyed to the majority owner of the franchisees the Company's equity interests in the franchisees and compromised and settled certain disputed and past due amounts owed by them to the Company. In connection with this agreement, the Company was released from its obligations under all of its partial guarantees of certain of the franchisees' indebtedness and lease obligations. The Company recorded a non-cash gain of $931,000 as a result of this transaction.

Note 14 — Income Taxes

The components of the provision for income taxes are as follows:

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Current	$ 1,353	$ 1,054	$ (148)
Deferred	(95)	(479)	651
	$ 1,258	$ 575	$ 503

The components of the income (loss) before income taxes are as follows:

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Domestic	$ 8,843	$ 444	$ (1,405)
Foreign	14	(26)	(2,153)
Total income (loss) before income taxes	$ 8,857	$ 418	$ (3,558)

A reconciliation of a tax provision computed at the statutory federal income tax rate and the Company's provision for income taxes follows:

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Income taxes at statutory federal rate	$ 3,100	$ 146	$ (1,245)
State income taxes	898	162	517
Foreign (income) losses having no tax effect	(5)	9	47
Change in valuation allowance on deferred income tax assets	(2,852)	1,100	2,081
Accruals for uncertain tax positions	(50)	74	(1,472)
Accruals for interest and penalties	(64)	86	(283)
Change in federal tax credit carryforwards (principally foreign tax credits)	(1,549)	(1,499)	(1,557)
Foreign withholding taxes	1,513	1,400	1,361
Other	267	(903)	1,054
	$ 1,258	$ 575	$ 503

Income tax payments, net of refunds, were $1.0 million, $1.5 million and $1.3 million in fiscal 2011, 2010 and 2009, respectively. The fiscal 2011 amount is net of a federal income tax refund of $560,000 resulting from enactment of the Worker, Homeownership and Business Assistance Act of 2009. The tax payments in all three fiscal years were comprised largely of foreign withholding taxes on revenues received from foreign franchisees

The components of deferred income taxes are as follows:

	January 30, 2011	January 31, 2010
	(In thousands)	
Net current assets	$ 15	$ -
Net noncurrent liabilities	(15)	-
Net asset	$ -	$ -

The tax effects of temporary differences are as follows:

	Year Ended	
	January 30, 2011	January 31, 2010
	(In thousands)	
Deferred income tax assets:		
Goodwill and other intangible assets	$ 16,734	$ 22,543
Allowance for doubtful accounts	527	822
Other current assets	1,932	2,293
Property and equipment	923	477
Other non-current assets	3,956	2,968
Insurance accruals	3,909	4,301
Deferred revenue	2,119	2,061
Other current liabilities	6,746	6,954
Accrued litigation settlement	7,315	7,315
Other non-current liabilities	2,490	2,919
Non-employee stock warrants	2,647	2,647
Share-based compensation	6,979	5,878
Federal net operating loss carryforwards	84,510	83,446
Federal tax credit carryforwards	7,796	6,258
Charitable contributions carryforward	664	556
State net operating loss and credit carryforwards	9,919	10,266
Other	180	281
Gross deferred income tax assets	159,346	161,985
Valuation allowance on deferred income tax assets	(159,133)	(161,985)
Deferred income tax assets, net of valuation allowance	213	-
Deferred income tax liabilities:		
Other	(213)	-
Gross deferred income tax liabilities	(213)	-
Net deferred income tax asset	$ -	$ -

Certain amounts set forth in the table above as of January 31, 2010 differ from amounts previously reported. However, the aggregate net deferred income tax asset at that date is unchanged.

The Company had a valuation allowance against deferred income tax assets of $159 million and $162 million at January 30, 2011 and January 31, 2010, respectively, representing the amount of its deferred income tax assets in excess of its deferred income tax liabilities. The Company has maintained a valuation allowance on deferred income tax assets equal to the entire excess of those assets over the Company's deferred income tax liabilities since fiscal 2005 because of the uncertainty surrounding the realization of those assets. Such uncertainty reflects the substantial cumulative losses incurred by the Company since fiscal 2005. However, the Company earned a cumulative pretax profit of $5.7 million during the three most recent fiscal years, including a pretax profit of $8.9 million in fiscal 2011. If the Company continues to be profitable and again generates significant pretax income in fiscal 2012, then, absent other factors indicating a contrary conclusion, it is likely that a significant portion of the valuation allowance will be reversed, which would result in a material credit to income reflected via the provision for income taxes.

The Company has approximately $241 million of federal income tax loss carryforwards expiring in fiscal 2024 through 2031. In addition to this amount, the Company has approximately $18.2 million of federal income tax loss carryforwards resulting from tax deductions related to the exercise of stock options by employees, the tax benefits of which, if subsequently realized, will be recorded as an addition to common stock. The Company also has state income tax loss carryforwards expiring in fiscal 2012 through 2031.

The Company is subject to U.S. federal income tax, as well as income tax in multiple U.S. state and local jurisdictions and a limited number of foreign jurisdictions. The Company's income tax returns periodically are examined by the Internal Revenue Service and by other tax authorities in various jurisdictions. The Company assesses the likelihood of adverse outcomes resulting from these examinations in determining the provision for income taxes. All significant federal, state, local and foreign income tax matters have been concluded through fiscal 2007.

The Company had $906,000 of unrecognized tax benefits as of January 30, 2011. If recognized, approximately $520,000 of the

unrecognized tax benefits would be recorded as a part of income tax expense and affect the Company’s effective income tax rate.

The following table presents a reconciliation of the beginning and ending amounts of unrecognized tax benefits:

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Unrecognized tax benefits at beginning of year	$ 1,570	$ 1,680	$ 5,130
Increases in positions related to the current year	85	358	4
Increases (decreases) in positions taken in prior years	28	1	(1,354)
Settlements with taxing authorities	-	-	(1,994)
Lapsing of statutes of limitations	(777)	(469)	(106)
Unrecognized tax benefits at end of year	$ 906	$ 1,570	$ 1,680

It is reasonably possible that the total amount of unrecognized tax benefits will decrease in fiscal 2012 by up to approximately $250,000, of which $40,000 would be recorded as part of income tax expense if recognized. Decreases in the unrecognized tax benefits may result from the lapsing of statutes of limitations.

The Company's policy is to recognize interest and penalties related to income tax issues as components of income tax expense. The Company's balance sheet reflects approximately $410,000 and $470,000 of accrued interest and penalties as of January 30, 2011 and January 31, 2010, respectively.

The changes in the valuation allowance on deferred income tax assets are summarized as follows:

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Valuation allowance on deferred tax assets:			
Balance at beginning of year	$ 161,985	$ 160,885	$ 158,804
Change in allowance reflected in the provision for income taxes	(2,852)	1,100	2,081
Balance at end of year	$ 159,133	$ 161,985	$ 160,885

Note 15 — Shareholders' Equity

Share-Based Compensation for Employees and Directors

The Company's shareholders approved the 2000 Stock Incentive Plan (the "2000 Plan"), under which incentive stock options, nonqualified stock options, stock appreciation rights, performance units, restricted stock (or units) and common shares may be awarded through June 30, 2012. The maximum number of shares of common stock with respect to which awards may be granted under the 2000 Plan is 13.0 million, of which 2.4 million remain available for grant after fiscal 2011. The 2000 Plan provides that options may be granted with exercise prices not less than the closing sale price of the Company's common stock on the date of grant.

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 fair value of SBP awards which vest in increments and for which vesting is subject solely to service conditions is charged to expense on a straight-line basis over the aggregate vesting period of each award, which generally is four years. The fair value of SBP awards which vest in increments and for which vesting is subject to both market conditions and service conditions is charged to expense over the estimated vesting period of each increment of the award, each of which is treated as a separate award for accounting purposes.

The aggregate cost of SBP awards charged to earnings for fiscal 2011, 2010 and 2009 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 or restricted stock units during any of the periods.

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Costs charged to earnings related to:			
Stock options	$ 1,722	$ 1,254	$ 2,181
Restricted stock and restricted stock units	3,425	3,525	2,971
Total costs	$ 5,147	$ 4,779	$ 5,152
Costs included in:			
Direct operating expenses	$ 2,079	$ 1,673	$ 2,216
General and administrative expenses	3,068	3,106	2,936
Total costs	$ 5,147	$ 4,779	$ 5,152

During each of the last three fiscal years, the Company permitted holders of restricted stock 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. In addition, the terms of certain stock options granted under the Company's 1998 Stock Option Plan which were exercised in fiscal 2009 provided that reimbursement of minimum required withholdings taxes and payment of the exercise price could, at the election of the optionee, be made by surrendering common shares acquired upon the exercise of such options. The aggregate fair value of common shares surrendered related to the vesting of restricted stock awards was $581,000 and $343,000 in fiscal 2011 and fiscal 2010, respectively. The aggregate fair value of common shares surrendered related to the vesting of restricted stock awards and the exercise of stock options was $300,000 and $1.8 million, respectively, in fiscal 2009. The aggregate fair value of the surrendered shares of $581,000, $343,000 and $2.1 million in fiscal 2011, 2010 and 2009, respectively, has been reflected as a financing activity in the accompanying consolidated statement of cash flows and as a repurchase of common shares in the accompanying consolidated statement of changes in shareholders' equity.

The fair value of stock options subject only to service conditions was estimated using the Black-Scholes option pricing model. In addition to service conditions, certain stock options granted in fiscal 2008 also provide that the price of the Company's common stock must increase by 20% after the grant date, and remain at or above the appreciated price for at least ten consecutive trading days, in order for the options to become vested and exercisable. The fair value of those stock options was estimated using Monte Carlo simulation techniques. Options granted generally have contractual terms of 10 years, the maximum term permitted under the 2000 Plan. The weighted average assumptions used in valuing stock options in fiscal 2011, 2010 and 2009 are set forth in the following table:

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
Expected life of option	7.0 years	7.0 years	7.0 years
Risk-Free interest rate	2.66%	3.12%	2.74%

Expected Volatility of stock	50.0%	50.0%	50.0%
Expected dividend yield	-	-	-

The expected life of stock options valued using the Black-Scholes option pricing model is estimated by reference to historical experience, published data and any relevant characteristics of the option. The expected life of stock options valued using Monte Carlo simulation techniques is based upon the vesting dates forecasted by the simulation and then assuming that options which vest are exercised at the midpoint between the forecasted vesting date and their expiration. The risk-free rate of interest is based on the yield of a zero-coupon U.S. Treasury bond on the date the award is granted having a maturity approximately equal to the expected term of the award. Expected volatility is based on a combination of the historical and implied volatility of the Company's common shares and the shares of peer companies. The Company uses historical data to estimate forfeitures of awards prior to vesting.

The number of options granted during fiscal 2011, 2010 and 2009 and the aggregate and weighed average fair value of such options were as follows:

	Year Ended		
	January 30, 2011	**January 31, 2010**	**February 1, 2009**
Weighted average fair value per share of options granted	$ 3.44	$ 1.45	$ 1.22
Total number of options granted	905,000	870,000	2,090,000
Total fair value of all options granted	$ 3,115,000	$ 1,260,500	$ 2,557,700

The following table summarizes stock option transactions for fiscal 2011, 2010 and 2009.

	Shares Subject to Option	**Weighted Average Exercise Price Per Share**	**Aggregate Intrinsic Value**	**Weighted Average Remaining Contractual Term**
	(Dollars in thousands, except per share amounts)			
Outstanding at February 3, 2008	6,395,800	$ 13.61	$ 3,796	3.6 years
Granted	2,090,000	$ 2.25		
Exercised	(2,387,300)	$ 1.30	$ 7,238	
Forfeited	(185,500)	$ 11.47		
Outstanding at February 1, 2009	5,913,000	$ 14.70	$ -	6.2 years
Granted	870,000	$ 2.65		
Exercised	-	$ -	$ -	
Forfeited	(634,100)	$ 15.18		
Outstanding at January 31, 2010	6,148,900	$ 12.94	$ 1,383	5.9 years
Granted	905,000	$ 6.39		
Exercised	-	$ -	$ -	
Forfeited	(1,120,200)	$ 24.43		
Outstanding at January 30, 2011	5,933,700	$ 9.77	$ 12,507	6.5 years
Exercisable at January 30, 2011	3,350,700	$ 13.75	$ 6,825	4.8 years

Additional information regarding stock options outstanding as of January 30, 2011 is as follows:

Range of Exercise Prices	Options Outstanding Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable Shares	Weighted Average Exercise Price
$ 1.40 - $ 3.41	3,243,400	7.4	$ 2.53	1,825,400	$ 2.65
$ 5.25 - $ 9.71	1,265,000	8.8	$ 7.33	180,000	$ 9.71
$ 10.20 - $ 16.94	455,200	3.6	$ 14.01	375,200	$ 14.33
$ 28.11 - $ 28.58	306,400	1.1	$ 28.41	306,400	$ 28.41
$ 30.98 - $ 44.22	663,700	1.9	$ 38.30	663,700	$ 38.30

In addition to stock options, the Company periodically has awarded restricted stock and restricted stock units (which are settled in common stock) under the 2000 Plan. The following table summarizes changes in unvested restricted stock and restricted stock unit awards for fiscal 2011, 2010 and 2009:

	Unvested Shares	Weighted Average Grant Date Fair Value
Unvested at February 3, 2008	1,185,500	$ 6.33
Granted	1,347,400	$ 2.42
Vested	(483,400)	$ 4.91
Forfeited	(215,700)	$ 6.11
Unvested at February 1, 2009	1,833,800	$ 3.86
Granted	727,200	$ 3.14
Vested	(1,111,200)	$ 2.96
Forfeited	(63,600)	$ 5.65
Unvested at January 31, 2010	1,386,200	$ 4.13
Granted	420,000	$ 4.29
Vested	(786,500)	$ 4.17
Forfeited	(15,200)	$ 4.16
Unvested at January 30, 2011	1,004,500	$ 4.16

The total fair value as of the grant date of shares vesting during fiscal 2011, 2010 and 2009 was $3.3 million, $3.3 million and $2.4 million, respectively.

As of January 30, 2011, the total unrecognized compensation cost related to SBP awards was approximately $5.9 million. The remaining service periods over which compensation cost will be recognized for these awards range from approximately three months to four years, with a weighted average remaining service period of approximately 1.5 years.

At January 30, 2011, there were approximately 9.4 million shares of common stock reserved for issuance pursuant to awards granted under the 2000 Plan.

Common Shares and Warrants Issued in Connection With Settlement of Litigation

In fiscal 2008, the Company issued warrants to acquire 4.3 million shares of common stock at a price of $12.21 per share in connection with the settlement of certain litigation. The warrants expire in March 2012.

Warrant Issued in Exchange for Services

In fiscal 2006, the Company issued a warrant to purchase 1.2 million shares of the Company’s common stock as part of the consideration paid to a corporate recovery and advisory firm. The warrant’s exercise price is $7.75 per share, and it expires on January 31, 2013.

Shareholder Protection Rights Agreement

Each share of the Company's common stock is accompanied by one preferred share purchase right (a "Right) issued pursuant to the terms of a Shareholder Protection Rights Agreement, dated January 14, 2010 (the "Rights Agreement"). Each Right entitles the registered shareholder to purchase from the Company one one-hundredth (1/100) of a share of Krispy Kreme Series A Participating Cumulative Preferred Stock, no par value ("Participating Preferred Stock"), at a price of $13.50 (the "Exercise Price"), subject to adjustment from time to time to prevent dilution. The Company may redeem the Rights for a nominal amount at any time prior to an event that causes the Rights to become exercisable. The Rights expire on January 14, 2013. The holders of Rights, solely by reason of their ownership of Rights, have no rights as shareholders of the Company, including, without limitation, the right to vote or to receive dividends.

Under the Rights Agreement, the Rights are generally not exercisable until (a) the commencement of a tender offer or exchange offer by a person who, as a result of such transaction, would become the beneficial owner of 15% or more of the Company's common stock, (b) the acquisition by a person or group of 15% or more of the Company's outstanding common stock, or (c) a person or group acquires 40% or more of the Company's common stock.

If the exerciseability of Rights is triggered, each Right (other than Rights beneficially owned by an unapproved acquirer) will constitute the right to purchase shares of common stock of the Company at 50% of their market price. In addition, the Board of Directors of the Company may, under certain circumstances, elect to exchange the Rights (other than Rights beneficially owned by an unapproved acquirer) for shares of the Company's common stock at an exchange ratio of one share of common stock per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date the Rights become exercisable.

If the Rights are exercisable and the Company enters into certain consolidation or asset sale transactions involving the types of shareholders that trigger the exercisability of Rights, then the Company will enter into an arrangement for the benefit of the holders of the Rights, providing that, upon consummation of the transaction in question, each Right (other than Rights beneficially owned by the unapproved acquirer) will constitute the right to purchase shares of common stock of the other entity engaging in the transaction at 50% of their market price.

Note 16 — Segment Information

The Company's 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 off-premises 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 mix, other ingredients and supplies and doughnut making equipment to both Company and franchisee-owned stores.

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 segments for fiscal 2011, 2010 and 2009. Segment operating income is consolidated operating income before unallocated general and administrative expenses and impairment charges and lease termination costs.

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
Revenues:			
Company Stores	$ 245,841	$ 246,373	$ 265,890
Domestic Franchise	8,527	7,807	8,042
International Franchise	18,282	15,907	17,495
KK Supply Chain:			
Total revenues	181,594	162,127	191,456
Less – intersegment sales elimination	(92,289)	(85,694)	(97,361)
External KK Supply Chain revenues	89,305	76,433	94,095
Total revenues	$ 361,955	$ 346,520	$ 385,522
Operating income (loss):			
Company Stores	$ (4,238)	$ 2,288	$ (9,813)
Domestic Franchise	3,498	3,268	4,965
International Franchise	12,331	9,896	11,550
KK Supply Chain	30,213	25,962	23,269
Total segment operating income	41,804	41,414	29,971
Unallocated general and administrative expenses	(22,583)	(23,737)	(24,662)
Impairment charges and lease termination costs	(4,066)	(5,903)	(548)
Consolidated operating income	$ 15,155	$ 11,774	$ 4,761
Depreciation expense:			
Company Stores	$ 5,641	$ 6,293	$ 6,402
Domestic Franchise	220	71	86
International Franchise	7	-	-
KK Supply Chain	808	883	1,019
Corporate administration	713	944	1,202
Total depreciation expense	$ 7,389	$ 8,191	$ 8,709

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.

Revenues for fiscal 2011, 2010 and 2009 include approximately $37 million, $32 million and $52 million, respectively, from customers outside the United States.

Note 17 — Investments in Franchisees

As of January 30, 2011, the Company had investments in four franchisees. These investments were made in the form of capital contributions and, in certain instances, loans evidenced by promissory notes. These investments are reflected as "Investments in equity method franchisees" in the consolidated balance sheet.

Information about the Company's ownership in the Equity Method Franchisees and the markets served by those franchisees is set forth below:

	Geographic Market	Number of Stores as of January 30, 2011	Ownership% Company	Ownership% Third Parties
Kremeworks, LLC	Alaska, Hawaii, Oregon, Washington	11	25.0%	75.0%
Kremeworks Canada, LP	Western Canada	1	24.5%	75.5%
Krispy Kreme of South Florida, LLC	South Florida	3	35.3%	64.7%
Krispy Kreme Mexico, S. de R.L. de C.V.	Mexico	58	30.0%	70.0%

The Company's financial exposures related to franchisees in which the Company has an investment are summarized in the tables below.

	January 30, 2011			
	Investments and Advances	Receivables	Notes Receivable	Loan Guarantees
	(In thousands)			
Kremeworks, LLC	$ 900	$ 270	$ -	$ 1,008
Kremeworks Canada, LP	-	22	-	-
Krispy Kreme of South Florida, LLC	-	190	-	2,161
Krispy Kreme Mexico, S. de R.L. de C.V.	1,663	104	391	-
	2,563	586	391	$ 3,169
Less: reserves and allowances	(900)	-	(391)	
	$ 1,663	$ 586	$ -	

	January 31, 2010			
	Investments and Advances	Receivables	Notes Receivable	Loan Guarantees
	(In thousands)			
Kremeworks, LLC	$ 900	$ 327	$ -	$ 1,241
Kremeworks Canada, LP	-	16	-	-
Krispy Kreme of South Florida, LLC	-	138	-	2,489
Krispy Kreme Mexico, S. de R.L. de C.V.	781	782	-	-
	1,681	1,263	-	$ 3,730
Less: reserves and allowances	(900)	(739)	-	
	$ 781	$ 524	$ -	

The loan guarantee amounts in the preceding tables represent the portion of the principal amount outstanding under the related loan that is subject to the Company's guarantee.

The Company has a 25% interest in Kremeworks, LLC (“Kremeworks”), and has guaranteed 20% of the outstanding principal balance of certain of Kremeworks’ bank indebtedness. The loan originally matured in January 2009. Two amendments to the loan agreement each extended the maturity of the loan by approximately one year, and it now matures in October 2011. In connection with the first of those amendments in fiscal 2010, the Company and the majority owner of Kremeworks (which also is a guarantor of the indebtedness) made capital contributions to Kremeworks in the aggregate amount of $1 million (of which the Company’s contribution was $250,000), the proceeds of which were used to prepay a portion of the indebtedness as required by the amendment. The aggregate amount of such indebtedness was approximately $5.0 million at January 30, 2011. In addition, the Company has a $900,000 note receivable from Kremeworks which is subordinate to the Kremeworks bank indebtedness. The note arose from cash advances made by the Company to Kremeworks in fiscal 2005 and earlier years. During fiscal 2009, the Company established a reserve equal to the entire $900,000 balance of its note receivable in recognition of the uncertainty surrounding its ultimate collection, the charge related to which is included in “Other non-operating income and expense, net” in the accompanying consolidated statement of operations.

Current liabilities at January 30, 2011 and January 31, 2010 include accruals for potential payments under loan guarantees of approximately $2.2 million and $2.5 million, respectively, related to Krispy Kreme of South Florida, LLC (“KKSF”). The underlying indebtedness related to approximately $1.6 million of the Company’s KKSF guarantee exposure matured by its terms in October 2009. Such maturity has been extended on a month-to-month basis pursuant to an informal agreement between KKSF and the lender.

There was no liability reflected in the financial statements for other guarantees of franchisee obligations because the Company did not believe it was probable that the Company would be required to perform under such other guarantees. While there is no current demand on the Company to perform under any of the guarantees, there can be no assurance that the Company will not be required to perform and, if circumstances change from those prevailing at January 30, 2011, additional guarantee payments or provisions for guarantee payments could be required with respect to any of the guarantees, and such payments or provisions could be significant.

The following table summarizes the Company’s obligations under the loan guarantees as of January 30, 2011 and the scheduled expiration of these obligations in each of the next five fiscal years and thereafter. The amounts shown as the scheduled expiration of the guarantees are based upon the scheduled maturity of the underlying guaranteed obligation.

	Guarantee Percentages	Total Loan Guarantees	Amounts Expiring in Fiscal Year					
			2012	2013	2014	2015	2016	Thereafter
					(In thousands)			
Kremeworks, LLC	20%	$ 1,008	$ 1,008	$ -	$ -	$ -	$ -	$ -
Krispy Kreme of South Florida, LLC	100%	2,161	2,161	-	-	-	-	-
		$ 3,169	$ 3,169	$ -	$ -	$ -	$ -	$ -

The Company has a 30% interest in Krispy Kreme Mexico, S. de R.L. de C.V. (“KK Mexico”). In the first half of fiscal 2010, KK Mexico was adversely affected by economic weakness in that country as well as by a significant decline in the value of the country’s currency relative to the U.S. dollar, which made the cost of goods imported from the U.S. more expensive, and which increased the amount of cash required to service the portion of the franchisee’s debt that is denominated in U.S. dollars. In the second quarter of fiscal 2010, management concluded that the decline in the value of the investment was other than temporary and, accordingly, the Company recorded a charge of approximately $500,000 to reduce the carrying value of the investment in KK Mexico to its then estimated fair value of $700,000. Such charge was included in “Other non-operating income and expense, net” in the accompanying consolidated statement of operations. In addition, during the year ended January 31, 2010, the Company increased its bad debt reserve related to KK Mexico by approximately $500,000, of which approximately $120,000 and $380,000 was included in KK Supply Chain and International Franchise direct operating expenses, respectively. KK Mexico’s operations have improved in recent quarters, and in the second quarter of fiscal 2011, the Company converted its past due royalties from KK Mexico to a note in the amount of $967,000 payable in installments, together with interest. Of that amount, $471,000 represented royalty receivables which were fully reserved, and the balance represented royalties due from KK Mexico which have not been recorded as revenues because of the uncertainty surrounding their collection.

Information about the financial position and results of operations of the Equity Method Franchisees in which the Company had an interest as of January 30, 2011, is set forth below:

	Summary Financial Information (1)							
	Revenues	Operating Income (Loss)	Net Income (Loss) (2)	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Total Equity (Deficit)
	(In thousands)							
Kremeworks, LLC								
2011	$ 16,984	$ (1,736)	$ (2,036)	$ 1,069	$ 14,051	$ 11,203	$ 1,957	$ 1,960
2010	17,091	(2,740)	(3,138)	1,510	15,961	12,613	1,784	3,074
2009	18,504	(1,788)	(2,728)	1,455	19,259	8,029	8,476	4,209
Kremeworks Canada, LP								
2011	1,399	327	231	446	1,564	3,505	-	(1,495)
2010	1,286	(764)	(862)	424	1,800	3,896	-	(1,672)
2009	1,388	174	28	250	1,803	2,640	-	(587)
Krispy Kreme of South Florida, LLC								
2011	12,554	1,461	1,274	1,030	4,730	4,113	4,612	(2,965)
2010	11,256	1,346	1,102	1,173	3,991	4,793	4,592	(4,221)
2009	10,800	1,188	655	1,095	8,164	3,557	9,672	(3,970)
Krispy Kreme Mexico, S. de R.L de C.V.								
2011	18,616	2,035	1,889	4,591	6,128	3,356	166	7,197
2010	15,346	1,052	860	3,354	6,390	4,725	-	5,019
2009	17,189	(386)	(618)	2,425	5,877	4,365	-	3,937

(1) Amounts shown for each of these franchisees represents the amounts reported by the franchisee for calendar 2010, 2009 and 2008, and on or about December 31, 2010, 2009 and 2008.

(2) The net income or loss of each of these entities is includable on the income tax returns of their owners to the extent required by law. Accordingly, the financial statements of these entities do not include a provision for income taxes and as a result pretax income or loss for each of these entities is also their net income or loss.

Note 18 — Related Party Transactions

All franchisees are required to purchase doughnut mix and production equipment from the Company. Revenues include $8.5 million, $7.8 million and $10.4 million in fiscal 2011, 2010 and 2009, respectively, of sales to franchise stores owned by franchisees in which the Company had an ownership interest during fiscal 2011. Revenues also include royalties from these franchisees of $1.9 million, $1.6 million and $2.3 million in fiscal 2011, 2010 and 2009, respectively. Trade receivables from these franchisees are included in receivables from related parties as described in Note 2. These transactions were conducted pursuant to development and franchise agreements, the terms of which are substantially the same as the agreements with unaffiliated franchisees.

The Company's franchisee for the Middle East is an affiliate of a shareholder which is the beneficial owner of approximately 13% of the Company's common stock. The Company had transactions in the normal course of business with this franchisee (including sales of doughnut mix and equipment to the franchisee and royalties payable to the Company by the franchisee based on its sales at Krispy Kreme franchise stores) totaling approximately $9.2 million in fiscal 2011, $8.9 million in fiscal 2010 and $10.6 million in fiscal 2009. Such transactions were conducted pursuant to development and franchise agreements, the terms of which are substantially the same as the agreements with other international franchisees.

In fiscal 2010, the Company entered into a contract to refurbish the interior and exterior of two Company stores with Cummings Incorporated ("Cummings"), a store exterior design and remodeling company of which an independent director of the Company is a 60% indirect owner. The Company paid Cummings approximately $380,000 in fiscal 2011 to complete the refurbishment of the two stores. While the unique nature of the refurbishing services provided by Cummings is not directly comparable to those provided by competitors, management believes the terms of the contract are no less favorable than could have been obtained from a non-affiliated entity for conventional remodeling services.

Note 19 — Employee Benefit Plans

The Company has a 401(k) savings plan (the “401(k) Plan”) to which employees may contribute up to 100% of their salary and bonus to the plan on a tax deferred basis, subject to statutory limitations.

The Company also has a Nonqualified Deferred Compensation Plan (the "401(k) Mirror Plan") designed to enable officers of the Company whose contributions to the 401(k) Plan are limited by certain statutory limitations to have the same opportunity to defer compensation as is available to other employees of the Company under the qualified 401(k) savings plan. Participants may defer from 1% to 15% of their base salary and from 1% to 100% of their bonus (reduced by their contributions to the 401(k) Plan), subject to statutory limitations, into the 401(k) Mirror Plan and may direct the investment of the amounts they have deferred. The investments, however, are not a legally separate fund of assets, are subject to the claims of the Company's general creditors, and are included in other assets in the consolidated balance sheet. The corresponding liability to participants is included in other long-term obligations. The balance in the asset and corresponding liability account was $796,000 and $455,000 at January 30, 2011 and January 31, 2010, respectively.

The Company currently matches 50% of the first 6% of compensation contributed by each employee to these plans. Contributions expense for these plans totaled $780,000 in fiscal 2011, $730,000 in fiscal 2010 and $754,000 in fiscal 2009.

Note 20 — 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 January 30, 2011 and January 31, 2010.

	January 30, 2011		
	Level 1	Level 2	Level 3
	(In thousands)		
Assets:			
401(k) mirror plan assets	$ 796	$ -	$ -
Commodity futures contracts	144	-	-
Total assets	$ 940	$ -	$ -

	January 31, 2010		
	Level 1	Level 2	Level 3
	(In thousands)		
Assets:			
401(k) mirror plan assets	$ 455	$ -	$ -
Liabilities:			
Interest rate derivatives	$ -	$ 641	$ -
Commodity futures contracts	92	-	-
Total liabilities	$ 92	$ 641	$ -

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

The following tables present the nonrecurring fair value measurements recorded during the year ended January 30, 2011 and January 31, 2010.

	Year Ended January 30, 2011			
	Level 1	Level 2	Level 3	Total gain (loss)
	(In thousands)			
Long-lived assets	$ -	$ 4,123	$ -	$ (3,437)
Lease termination liabilities	-	422	-	265

	Year Ended January 31, 2010			
	Level 1	Level 2	Level 3	Total gain (loss)
	(In thousands)			
Long-lived assets	$ -	$ 10,506	$ -	$ (3,108)
Investment in Equity Method Franchisee	-	-	700	(500)
Lease termination liabilities	-	2,427	-	(1,469)

Long-Lived Assets

During the year ended January 30, 2011, long-lived assets with an aggregate carrying value of $7.5 million were written down to their estimated fair values of $4.1 million, resulting in recorded impairment charges of $3.4 million, as described in Note 12. During the year ended January 31, 2010, long-lived assets having an aggregate carrying value of $13.6 million were written down to their estimated fair values of $10.5 million resulting in recorded impairment charges of $3.1 million. During fiscal 2011 and 2010, the Company recorded impairment charges related to long-lived assets, substantially all of which were real properties; the fair values of these assets were estimated based on the present value of estimated future cash flows, on independent appraisals and, in the case of any properties which the Company is negotiating to sell, based on the Company's negotiations with unrelated third-party buyers. The charges relate to stores closed, refranchised or expected to be closed, as well as charges with respect to stores management believes will not generate sufficient future cash flows to enable the Company to recover the carrying value of the stores' assets, but which management has not yet decided to close. These inputs are classified as Level 2 within the valuation hierarchy.

Lease Termination Liabilities

During the fiscal years ended January 30, 2011 and January 31, 2010, the Company recorded provisions for lease termination costs related to closed stores based upon the estimated fair values of the liabilities under unexpired leases as described in Note 12; such provisions were reduced by previously recorded accrued rent expense related to those stores. The fair value of these liabilities was computed 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. These inputs are classified as Level 2 within the valuation hierarchy. For the year ended January 30, 2011, $687,000 of previously recorded accrued rent expense related to two store closures and a store relocation exceeded the $422,000 fair value of lease termination liabilities related to such stores, and such excess has been reflected as a credit to lease termination costs during the period. For the year ended January 31, 2010, the fair value of lease termination liabilities related to closed stores of $2.4 million exceeded the $958,000 of previously recorded accrued rent expense related to such stores, and such excess has been reflected as a charge to lease termination costs during the period.

Investment in Equity Method Franchisee

During the second quarter of fiscal 2010, the Company concluded that a decline in the value of an Equity Method Franchisee was other than temporary and, accordingly, recorded a writedown of $500,000 to reduce the carrying value of the investment to its estimated fair value of $700,000 as described in Note 17. The fair value of the investment was estimated based upon a multiple of the investee's then current normalized trailing earnings before interest, income taxes and depreciation and amortization. These inputs are classified as Level 3 within the valuation hierarchy.

Fair Values of Financial Instruments at the Balance Sheet Dates

The carrying values and approximate fair values of certain financial instruments as of January 30, 2011 and January 31, 2010 were as follows:

	January 30, 2011		January 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Assets:				
Cash and cash equivalents	$ 21,970	$ 21,970	$ 20,215	$ 20,215
Receivables	20,261	20,261	17,839	17,839
Receivables from Equity Method Franchisees	586	586	524	524
Commodity futures contracts	144	144	-	-
Liabilities:				
Accounts payable	9,954	9,954	6,708	6,708
Interest rate derivatives	-	-	641	641
Commodity futures contracts	-	-	92	92
Long-term debt (including current maturities)	35,387	35,387	43,447	41,872

Note 21 — 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 was exposed to credit-related losses in the event of non-performance by the counterparties to its derivative instruments which expired in April 2010. The Company mitigated this risk of nonperformance by dealing with highly rated counterparties.

Additional disclosure about the fair value of derivative instruments is included in Note 20.

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, the Company purchases, from time to time, 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 cash flow from operating activities. At January 30, 2011, the Company had commodity derivatives with an aggregate contract volume of 180,000 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

All of the borrowings under the Company’s secured credit facilities bear interest at variable rates based upon either the Fed funds rate, the lenders’ prime rate or LIBOR. The interest cost of the Company’s debt may be affected by changes in these short-term interest rates and increases in those rates may adversely affect the Company’s results of operations.

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 entitles 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 intends to account for this derivative contract as a cash flow hedge.

In May 2007, the Company entered into interest rate derivative contracts having an aggregate notional principal amount of $60 million. The derivative contracts entitled the Company to receive from the counterparties the excess, if any, of three-month LIBOR over 5.40%, and required the Company to pay to the counterparties the excess, if any, of 4.48% over three-month LIBOR, in each case multiplied by the notional amount of the contracts. The contracts expired in April 2010. Settlements under these derivative contracts were reported as cash flow from operating activities in the consolidated statement of cash flows.

These derivatives entered into in May 2007 were accounted for as cash flow hedges from their inception through April 8, 2008. Hedge accounting was discontinued on that date because the derivative contracts could no longer be shown to be effective in hedging interest rate risk as a result of amendments to the Company’s 2007 Secured Credit Facilities, which provided that interest on LIBOR-based borrowings is payable based upon the greater of the LIBOR rate for the selected interest period or 3.25%. As a consequence of the discontinuance of hedge accounting, changes in the fair value of the derivative contracts subsequent to April 8, 2008 were reflected in earnings as they occurred. Amounts included in accumulated other comprehensive income related to changes in the fair value of the derivative contracts for periods prior to April 9, 2008 were charged to earnings in the periods in which the hedged forecasted transaction (interest on $60 million of the principal balance of the 2007 Term Loan) affected earnings, or earlier upon a determination that some or all of the forecasted transaction would not occur. Such charges totaled approximately $152,000 in fiscal 2011, $1.2 million in fiscal 2010 and $1.0 million in fiscal 2009.

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 January 30, 2011 and January 31, 2010:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Asset Derivatives Fair Value January 30, 2011	Asset Derivatives Fair Value January 31, 2010
		(In thousands)	
Commodity futures contracts	Other current assets	$ 144	$ -

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Liability Derivatives Fair Value January 30, 2011	Liability Derivatives Fair Value January 31, 2010
		(In thousands)	
Interest rate contracts	Accrued liabilities	$ -	$ 641
Commodity futures contracts	Accrued liabilities	-	92
		$ -	$ 733

The effect of derivative instruments on the consolidated statement of operations for the year ended January 30, 2011 and January 31, 2010, was 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, Year Ended January 30, 2011	Amount of Derivative Gain or (Loss) Recognized in Income, Year Ended January 31, 2010
		(In thousands)	
Interest rate contracts	Interest expense	$ -	$ (559)
Agricultural commodity futures contracts	Direct operating expenses	544	(308)
Gasoline commodity futures contracts	Direct operating expenses	185	97
Total		$ 729	$ (770)

Note 22 — Selected Quarterly Financial Data (Unaudited)

The tables below present selected quarterly financial data for fiscal 2011 and 2010.

	Quarter Ended			
	May 2, 2010	August 1, 2010	October 31, 2010	January 30, 2011
	(In thousands, except per share data)			
Revenues	$ 92,117	$ 87,932	$ 90,228	$ 91,678
Operating expenses:				
Direct operating expenses (exclusive of depreciation expense shown below)	77,155	77,075	79,152	80,093
General and administrative expenses	5,744	4,981	4,784	6,361
Depreciation expense	1,864	1,937	1,818	1,770
Impairment charges and lease termination costs	1,299	(216)	399	2,584
Operating income	6,055	4,155	4,075	870
Interest income	40	82	42	43
Interest expense	(1,871)	(1,567)	(1,585)	(1,336)
Loss on refinancing of debt	-	-	-	(1,022)
Equity in income (losses) of equity method franchisees	346	(165)	190	176
Other non-operating income and (expense), net	81	81	85	82
Income (loss) before income taxes	4,651	2,586	2,807	(1,187)
Provision for income taxes	183	379	417	279
Net income (loss)	$ 4,468	$ 2,207	$ 2,390	$ (1,466)
Earnings (loss) per common share:				
Basic	$ 0.07	$ 0.03	$ 0.03	$ (0.02)
Diluted	$ 0.06	$ 0.03	$ 0.03	$ (0.02)

	Quarter Ended			
	May 3, 2009	August 2, 2009	November 1, 2009	January 31, 2010
	(In thousands, except per share data)			
Revenues	$ 93,420	$ 82,730	$ 83,600	$ 86,770
Operating expenses:				
Direct operating expenses (exclusive of depreciation expense shown below)	76,978	71,515	74,576	74,790
General and administrative expenses	6,314	4,817	6,128	5,534
Depreciation expense	1,993	1,999	2,154	2,045
Impairment charges and lease termination costs	2,357	1,456	109	1,981
Operating income	5,778	2,943	633	2,420
Interest income	14	14	10	55
Interest expense	(3,817)	(2,312)	(2,295)	(2,261)
Equity in income (losses) of equity method franchisees	101	(214)	(393)	18
Other non-operating income and (expense), net	-	(500)	144	80
Income (loss) before income taxes	2,076	(69)	(1,901)	312
Provision for income taxes	208	88	487	(208)
Net income (loss)	$ 1,868	$ (157)	$ (2,388)	$ 520
Earnings (loss) per common share:				
Basic	$ 0.03	$ -	$ (0.04)	$ 0.01
Diluted	$ 0.03	$ -	$ (0.04)	$ 0.01

The following tables display operating income by segment and a reconciliation of total segment operating income to consolidated operating income by quarter for fiscal 2011 and 2010.

	Quarter Ended			
	May 2, 2010	August 1, 2010	October 31, 2010	January 30, 2011
	(In thousands)			
Revenues by business segment:				
Company Stores	$ 62,534	$ 59,970	$ 61,565	$ 61,772
Domestic Franchise	2,200	2,074	2,040	2,213
International Franchise	4,760	4,009	4,389	5,124
KK Supply Chain:				
Total revenues	45,905	44,892	45,001	45,796
Less - intersegment sales elimination	(23,282)	(23,013)	(22,767)	(23,227)
External KK Supply Chain revenues	22,623	21,879	22,234	22,569
Total revenues	$ 92,117	$ 87,932	$ 90,228	$ 91,678
Operating income (loss):				
Company Stores	$ (31)	$ (1,734)	$ (1,449)	$ (1,024)
Domestic Franchise	1,154	1,041	499	804
International Franchise	3,486	2,500	3,018	3,327
KK Supply Chain	8,690	7,329	7,342	6,852
Total segment operating income	13,299	9,136	9,410	9,959
Unallocated general and administrative expenses	(5,945)	(5,197)	(4,936)	(6,505)
Impairment charges and lease termination costs	(1,299)	216	(399)	(2,584)
Consolidated operating income	$ 6,055	$ 4,155	$ 4,075	$ 870

	Quarter Ended			
	May 3, 2009	August 2, 2009	November 1, 2009	January 31, 2010
	(In thousands)			
Revenues by business segment:				
Company Stores	$ 65,857	$ 59,853	$ 60,020	$ 60,643
Domestic Franchise	2,051	1,802	1,945	2,009
International Franchise	3,878	3,806	3,583	4,640
KK Supply Chain:				
Total revenues	44,858	37,754	39,314	40,201
Less - intersegment sales elimination	(23,224)	(20,485)	(21,262)	(20,723)
External KK Supply Chain revenues	21,634	17,269	18,052	19,478
Total revenues	$ 93,420	$ 82,730	$ 83,600	$ 86,770
Operating income (loss):				
Company Stores	$ 2,944	$ 1,387	$ (1,380)	$ (663)
Domestic Franchise	1,180	434	811	843
International Franchise	2,435	1,943	2,117	3,401
KK Supply Chain	8,139	5,687	5,549	6,587
Total segment operating income	14,698	9,451	7,097	10,168
Unallocated general and administrative expenses	(6,563)	(5,052)	(6,355)	(5,767)
Impairment charges and lease termination costs	(2,357)	(1,456)	(109)	(1,981)
Consolidated operating income	$ 5,778	$ 2,943	$ 633	$ 2,420

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of January 30, 2011, the end of the period covered by this Annual Report on Form 10-K, 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 January 30, 2011, the Company’s disclosure controls and procedures were effective.

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures which pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP; provide reasonable assurance that receipts and expenditures are being made only in accordance with management’s and/or the Board of Directors’ authorization; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect material errors in our financial statements. Also, projection of any evaluation of the effectiveness of our internal control over financial reporting to future periods is subject to the risk that controls may become inadequate because of changes in conditions, because the degree of compliance with our policies and

procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of January 30, 2011, using the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, management has concluded that we maintained effective internal control over financial reporting as of January 30, 2011, based on the COSO criteria.

The effectiveness of the Company's internal control over financial reporting as of January 30, 2011, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

During the quarter ended January 30, 2011, 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.

Item 9B. OTHER INFORMATION.

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Except as set forth below, the information required by this item is contained in our proxy statement for our 2011 Annual Meeting of Shareholders to be held on June 14, 2011, to be filed pursuant to Section 14 of the Exchange Act, and is incorporated herein by reference.

NYSE and SEC Certifications

In accordance with Section 303A.12(a) of the NYSE Listed Company Manual, the Chief Executive Officer of the Company submits annual certifications to the NYSE stating that he is not aware of any violations by the Company of the NYSE corporate governance listing standards, qualifying the certification to the extent necessary. The last such annual certification was submitted on July 20, 2010 and contained no qualifications.

We have filed certifications executed by our Chief Executive Officer and Chief Financial Officer with the SEC pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act as exhibits to this Annual Report on Form 10-K.

Item 11. EXECUTIVE COMPENSATION.

The information required by this item is contained in our proxy statement for our 2011 Annual Meeting of Shareholders to be held on June 14, 2011, to be filed pursuant to Section 14 of the Exchange Act, and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this item is contained in our proxy statement for our 2011 Annual Meeting of Shareholders to be held on June 14, 2011, to be filed pursuant to Section 14 of the Exchange Act, and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information required by this item is contained in our proxy statement for our 2011 Annual Meeting of Shareholders to be held on June 14, 2011, to be filed pursuant to Section 14 of the Exchange Act, and is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is contained in our proxy statement for our 2011 Annual Meeting of Shareholders to be held on June 14, 2011, to be filed pursuant to Section 14 of the Exchange Act, and is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statements and Schedules

1. *Financial Statements* . See Item 8, "Financial Statements and Supplementary Data."

2. *Financial Statement Schedules.*
   For each of the three fiscal years in the period ended January 30, 2011:
   Schedule I — Condensed Financial Information of Registrant F-1

3. *Exhibits.*

Exhibit Number		Description of Exhibits
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	—	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)
4.1	—	Form of Certificate for Common Stock (incorporated by reference to Exhibit 4.1 to the Registrant's Amendment No. 4 to Registration Statement on Form S-1 (Commission File No. 333-92909) filed on April 3, 2000)
4.2	—	Shareholder Protection Rights Agreement between the Company and American Stock Transfer & Trust Company, LLC, as Rights Agent, dated as of January 14, 2010 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on January 19, 2010)
4.3	—	Warrant to purchase Common Stock issued by Krispy Kreme Doughnuts, Inc. in favor of Marsh & McLennan Risk Capital Holdings Ltd. (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed on September 2, 2010)
4.4	—	Warrant Agreement, dated as of March 2, 2007, between Krispy Kreme Doughnuts, Inc. and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on March 8, 2007)
10.1	—	Trademark License Agreement, dated May 27, 1996, between HDN Development Corporation and Krispy Kreme Doughnut Corporation (incorporated by reference to Exhibit 10.22 to the Registrant's Amendment No. 1 to Registration Statement on Form S-1 (Commission File No. 333-92909), filed on February 22, 2000)
10.2	—	Amended and Restated Employment Agreement, dated as of March 11, 2011, among Krispy Kreme Doughnuts, Inc., Krispy Kreme Doughnut Corporation and James H. Morgan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 17, 2011)**
10.3	—	Amended and Restated Employment Agreement, dated as of March 11, 2011, among Krispy Kreme Doughnuts, Inc., Krispy Kreme Doughnut Corporation and Douglas R. Muir (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 17, 2011)**
10.4	—	Amended and Restated Employment Agreement, dated as of March 11, 2011, among Krispy Kreme Doughnuts, Inc., Krispy Kreme Doughnut Corporation and Jeffrey B. Welch (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on March 17, 2011)**
10.5	—	Amended and Restated Employment Agreement, dated as of March 11, 2011, among Krispy Kreme Doughnuts, Inc., Krispy Kreme Doughnut Corporation and Steven A. Lineberger (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on March 17, 2011)**
10.6	—	Amended and Restated Employment Agreement, dated as of March 11, 2011, among Krispy Kreme Doughnuts, Inc., Krispy Kreme Doughnut Corporation and Kenneth J. Hudson (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on March 17, 2011)**
10.7	—	Amended and Restated Employment Agreement, dated as of March 11, 2011, among Krispy Kreme Doughnuts, Inc., Krispy Kreme Doughnut Corporation and M. Bradley Wall (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed on March 17, 2011)**
10.8*	—	Amended and Restated Employment Agreement, dated as of March 11, 2011, among Krispy Kreme Doughnuts, Inc., Krispy Kreme Doughnut Corporation and Cynthia A. Bay**

10.9*	—	Amended and Restated Employment Agreement, dated as of March 11, 2011, among Krispy Kreme Doughnuts, Inc., Krispy Kreme Doughnut Corporation and Darryl R. Marsch **
10.10*		Amended and Restated Employment Agreement, dated as of March 11, 2011, among Krispy Kreme Doughnuts, Inc., Krispy Kreme Doughnut Corporation and G. Dwayne Chambers**
10.11	—	Employment Agreement, dated as of September 14, 2010, among Krispy Kreme Doughnuts, Inc., Krispy Kreme Doughnut Corporation and G. Dwayne Chambers (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on December 1, 2010) (superseded by Amended and Restated Employment Agreement dated as of March 11, 2011 appearing as Exhibit 10.10 to this Annual Report on Form 10-K)**
10.12	—	Krispy Kreme Doughnut Corporation Nonqualified Deferred Compensation Plan, effective October 1, 2000 (incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for fiscal 2005 filed on April 28, 2006)**
10.13	—	1998 Stock Option Plan dated August 6, 1998 (incorporated by reference to Exhibit 10.23 to the Registrant's Amendment No. 1 to Registration Statement on Form S-1 (Commission File No. 333-92909) filed on February 22, 2000)**
10.14*	—	2000 Stock Incentive Plan, as amended as of January 31, 2011 (filed to correct a scrivener's error in Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 3, 2011)**
10.15	—	Form of Restricted Stock Agreement under the 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K filed on April 17, 2009) **
10.16	—	Form of Restricted Stock Unit Agreement under the 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.8 to the Registrant's Current Report on Form 8-K filed on March 17, 2011)**
10.17*	—	Form of Director Restricted Stock Unit Agreement under the 2000 Stock Incentive Plan**
10.18	—	Form of Nonqualified Stock Option Agreement under the 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed on March 17, 2011)**
10.19	—	Form of Incentive Stock Option Agreement under the 2000 Stock Incentive Plan (incorporated by reference Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 3, 2011)**
10.20	—	Annual Incentive Plan (incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K filed on April 17, 2008)**
10.21	—	Compensation Recovery Policy (incorporated by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K filed on April 17, 2009)**
10.22	—	Credit Agreement, dated as of January 28, 2011, among Krispy Kreme Doughnut Corporation, Krispy Kreme Doughnuts, Inc., the Lenders party thereto and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 1, 2011)
10.23	—	Security Agreement, dated as of January 28, 2011, among Krispy Kreme Doughnut Corporation, Krispy Kreme Doughnuts, Inc., the Pledgors party thereto and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on February 1, 2011)
10.24	—	Guaranty Agreement, dated as of January 28, 2011, among Krispy Kreme Doughnuts, Inc., the Subsidiary Guarantors party thereto, the Lenders party thereto and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on February 1, 2011)
10.25	—	Form of Indemnification Agreement entered into between Krispy Kreme Doughnuts, Inc. and Lizanne Thomas and Michael Sutton (incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K filed on October 8, 2004) **
10.26	—	Form of Indemnification Agreement entered into between Krispy Kreme Doughnuts, Inc. and members of the Registrant's Board of Directors (other than Lizanne Thomas and Michael Sutton) (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K for fiscal 2005 filed on April 26, 2006)**
10.27	—	Form of Indemnification Agreement entered into between Krispy Kreme Doughnuts, Inc. and Officers of the Registrant (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 18, 2007)
21*	—	List of Subsidiaries
23.1*	—	Consent of PricewaterhouseCoopers LLP
23.2*	—	Consent of Ballman Kallick, LLP
24*	—	Powers of Attorney of certain officers and directors of the Company (included on the signature page of this Annual Report on Form 10-K)
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

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* Filed herewith

** Identifies management contracts and executive compensation plans or arrangements required to be filed as exhibits pursuant to Item 15 (b), "Exhibits and Financial Statement Schedules — Exhibits," of this Annual Report on Form 10-K.

(c) Separate Financial Statements of 50 Percent or Less Owned Persons

1.	*Financial Statements of Kremeworks, LLC*	
	Index to Financial Statements	F-4

SIGNATURES

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

Krispy Kreme Doughnuts, Inc.

Date: March 31, 2011

By: /s/ Douglas R. Muir
Name: Douglas R. Muir
Title: Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints James H. Morgan and Douglas R. Muir, or either of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any or all amendments or supplements to this Annual Report on Form 10-K and to file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing necessary or appropriate to be done with this Annual Report on Form 10-K and any amendments or supplements hereto, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on : March 31, 2011.

Signature	Title
/s/ James H. Morgan James H. Morgan	Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer)
/s/ Douglas R. Muir Douglas R. Muir	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Charles A. Blixt Charles A. Blixt	Director
/s/ Lynn Crump-Caine Lynn Crump-Caine	Director
/s/ C. Stephen Lynn C. Stephen Lynn	Director
/s/ Robert S. McCoy, Jr. Robert S. McCoy, Jr.	Director
/s/ Andrew J. Schindler Andrew J. Schindler	Director
/s/ Michael H. Sutton Michael H. Sutton	Director
/s/ Lizanne Thomas	Director

Lizanne Thomas

/s/ Togo D. West, Jr.	Director
Togo D. West, Jr.	

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

KRISPY KREME DOUGHNUTS, INC.
(PARENT COMPANY ONLY)

STATEMENT OF OPERATIONS

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
	(In thousands, except per share amounts)		
Equity in income (losses) of subsidiaries	$ 7,599	$ (157)	$ (4,061)
Miscellaneous expenses	-	-	-
Income (loss) before income taxes	7,599	(157)	(4,061)
Provision for income taxes	-	-	-
Net income (loss)	$ 7,599	$ (157)	$ (4,061)
Earnings (loss) per common share:			
Basic	$ 0.11	$ -	$ (0.06)
Diluted	$ 0.11	$ -	$ (0.06)

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

KRISPY KREME DOUGHNUTS, INC.
(PARENT COMPANY ONLY)

BALANCE SHEET

	January 30, 2011	January 31, 2010
	(In thousands)	
ASSETS		
Investment in and advances to subsidiaries	$ 76,428	$ 62,767
SHAREHOLDERS' EQUITY		
Preferred stock	$ -	$ -
Common stock	370,808	366,237
Accumulated other comprehensive loss	(34)	(180)
Accumulated deficit	(294,346)	(303,290)
Total shareholders' equity	$ 76,428	$ 62,767

SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

KRISPY KREME DOUGHNUTS, INC.
(PARENT COMPANY ONLY)

STATEMENT OF CASH FLOWS

	Year Ended		
	January 30, 2011	January 31, 2010	February 1, 2009
		(In thousands)	
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 7,599	$ (157)	$ (4,061)
Equity in (income) losses of subsidiaries	(7,599)	157	4,061
Net cash provided by (used for) operating activities	-	-	-
CASH FLOW FROM INVESTING ACTIVITIES:			
Investments in subsidiaries	576	343	(1,034)
Net cash provided by (used for) investing activities	576	343	(1,034)
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options and warrants	5	-	3,103
Repurchase of common shares	(581)	(343)	(2,069)
Net cash provided by (used for) financing activities	(576)	(343)	1,034
Net increase (decrease) in cash and cash equivalents	-	-	-
Cash and cash equivalents at beginning of period	-	-	-
Cash and cash equivalents at end of period	$ -	$ -	$ -

KREMEWORKS, LLC AND SUBSIDIARY

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Independent Auditor's Report

Members
KremeWorks, LLC and Subsidiary

We have audited the accompanying consolidated balance sheets of KremeWorks, LLC and Subsidiary as of December 29, 2010 and December 30, 2009, and the related consolidated statements of loss, comprehensive loss, cash flows and changes in equity for each of the years in the three-year period ended December 29, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KremeWorks, LLC and Subsidiary as of December 29, 2010 and December 30, 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 29, 2010 in conformity with accounting principles generally accepted in the United States of America.

/s/ Blackman Kallick, LLP
Chicago, Illinois
March 25, 2011

KremeWorks, LLC and Subsidiary

Consolidated Balance Sheets

December 29, 2010 and December 30, 2009

Assets

	2010	2009
Current Assets		
Cash	$ 660,582	$ 866,563
Receivables		
Credit cards	33,721	31,405
Wholesale	42,141	-
Member contributions	-	239,800
Other	14,871	22,017
Inventories	307,815	336,513
Prepaid expenses	9,901	13,521
Total Current Assets	1,069,031	1,509,819
Property and Equipment (Net of accumulated depreciation and amortization)	13,808,472	15,702,599
Deferred Area Development and Franchise Fees, Net	242,398	258,731
	$ 15,119,901	$ 17,471,149

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

Liabilities and Equity

	2010	2009
Current Liabilities		
Notes payable to affiliates	$ 3,600,000	$ 3,600,000
Current portion of long-term debt	5,120,212	6,784,635
Accounts payable		
Trade	134,986	89,151
Affiliated entities	534,117	504,721
Accrued expenses		
Salaries and wages	365,315	348,302
Sales tax	18,388	19,500
Rent and real estate taxes	27,897	14,438
Accrued legal fees	94,519	60,000
Accrued interest	1,203,702	1,082,520
Other	103,578	110,340
Total Current Liabilities	11,202,714	12,613,607
Deferred Rent	1,956,719	1,783,903
Total Liabilities	13,159,433	14,397,510
Equity		
KremeWorks, LLC members' equity	15,670	(170,855)
Noncontrolling interest	1,944,798	3,244,494
Total Equity	1,960,468	3,073,639
	$15,119,901	$ 17,471,149

KremeWorks, LLC and Subsidiary

Consolidated Statements of Loss

Years Ended December 29, 2010, December 30, 2009 and December 31, 2008

	2010	2009	2008
Sales	$ 16,984,430	$ 17,091,291	$ 18,504,101
Cost of Sales - Food and Beverage	4,011,224	3,656,477	4,271,443
Gross Profit after Food and Beverage	12,973,206	13,434,814	14,232,658
Store Payroll and Benefits	5,111,451	5,252,585	5,445,251
Gross Profit	7,861,755	8,182,229	8,787,407
Store Operating Expenses			
Direct operating	1,447,017	1,442,366	1,458,527
Marketing	328,569	670,991	512,792
Occupancy	1,968,432	1,910,504	2,144,062
Depreciation and amortization	2,090,873	2,718,167	3,003,312
Impairment charge	-	615,000	-
Store general and administrative	536,756	507,634	549,335
Delivery	25,672	23,010	35,824
Other	87,405	82,039	84,968
Total Store Operating Expenses	6,484,724	7,969,711	7,788,820
Income from Store Operations	1,377,031	212,518	998,587
Other Operating Expenses			
Other general and administrative	965,288	765,994	352,219
Divisional payroll and benefits	571,712	589,879	700,639
Royalty fees	753,407	769,140	832,615
Management fee	679,635	682,599	741,846
Franchise expense	16,333	16,334	16,334
Marketing fees	127,118	128,187	142,674
Total Other Operating Expenses	3,113,493	2,952,133	2,786,327
Loss from Operations	(1,736,462)	(2,739,615)	(1,787,740)
Interest Expense, Net	299,557	398,820	940,583
Net Loss	(2,036,019)	(3,138,435)	(2,728,323)
Less Net Loss Attributable to the Noncontrolling Interest	1,299,696	646,090	562,358
Net Loss Attributable to KremeWorks, LLC	$ (736,323)	$ (2,492,345)	$ (2,165,965)

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

KremeWorks, LLC and Subsidiary

Consolidated Statements of Comprehensive Loss

Years Ended December 29, 2010, December 30, 2009 and December 31, 2008

	2010	2009	2008
Net Loss	$ (2,036,019)	$ (3,138,435)	$ (2,728,323)
Gain on Derivative	-	-	25,174
Comprehensive Loss	(2,036,019)	(3,138,435)	(2,703,149)
Comprehensive Loss Attributable to Noncontrolling Interest	1,299,696	646,090	557,323
Comprehensive Loss Attributable to KremeWorks, LLC	$ (736,323)	$ (2,492,345)	$ (2,145,826)

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

KremeWorks, LLC and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 29, 2010, December 30, 2009 and December 31, 2008

	2010	2009	2008
Cash Flows from Operating Activities			
Net loss	$ (2,036,019)	$ (3,138,435)	$ (2,728,323)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation and amortization	2,107,206	2,766,510	3,056,472
Impairment charge	-	615,000	-
Deferred rent	172,816	92,076	222,752
(Increase) decrease in			
Receivables	(37,311)	15,104	23,908
Inventories	28,698	52,270	(18,227)
Prepaid expenses	3,620	160,143	(143,494)
Increase in			
Accounts payable	798,079	617,222	897,743
Accrued expenses	178,299	61,466	265,252
Total Adjustments	3,251,407	4,379,791	4,304,406
Net Cash Provided by Operating Activities	1,215,388	1,241,356	1,576,083
Cash Flows from Investing Activities			
Capital expenditures	(196,746)	(84,055)	(182,820)
Proceeds from sale of fixed asset	-	-	1,692
Net Cash Used in Investing Activities	(196,746)	(84,055)	(181,128)
Cash Flows from Financing Activities			
Principal payments on long-term debt	(1,664,423)	(2,149,928)	(1,834,110)
Member contributions	439,800	1,035,200	375,000
Net Cash Used in Financing Activities	(1,224,623)	(1,114,728)	(1,459,110)
Net (Decrease) Increase in Cash	(205,981)	42,573	(64,155)
Cash, Beginning of Year	866,563	823,990	888,145
Cash, End of Year	$ 660,582	$ 866,563	$ 823,990

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

KremeWorks, LLC and Subsidiary

Consolidated Statements of Changes in Equity

Years Ended December 29, 2010, December 30, 2009 and December 31, 2008

	KremeWorks, LLC Members' Equity					
	Member Contributions	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	KremeWorks, LLC Members' Equity (Deficit)	Noncontrolling Interest	Total Equity
Balance, December 26, 2007	$ 3,398,872	$ (2,437,632)	$ (20,139)	$ 941,101	$ 4,447,907	$ 5,389,008
Net loss	-	(2,165,965)	-	(2,165,965)	(562,358)	(2,728,323)
Member contributions	1,522,785	-	-	1,522,785	-	1,522,785
Gain on derivative	-	-	20,139	20,139	5,035	25,174
Balance, December 31, 2008	4,921,657	(4,603,597)	-	318,060	3,890,584	4,208,644
Net loss	-	(2,492,345)	-	(2,492,345)	(646,090)	(3,138,435)
Member contributions	2,003,430	-	-	2,003,430	-	2,003,430
Balance, December 30, 2009	6,925,087	(7,095,942)	-	(170,855)	3,244,494	3,073,639
Net loss	-	(736,323)	-	(736,323)	(1,299,696)	(2,036,019)
Member contributions	922,848	-	-	922,848	-	922,848
Balance, December 29, 2010	$ 7,847,935	$ (7,832,265)	$ -	$ 15,670	$ 1,944,798	$ 1,960,468

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

Note 1 - Industry Operations

KremeWorks, LLC and Subsidiary (the Company) have franchise rights to develop 23 Krispy Kreme doughnut stores in the states of Washington, Oregon, Hawaii and Alaska. As of December 29, 2010, the Company owns and operates 11 Krispy Kreme stores, of which eight are located in Washington, two are located in Oregon and one is located in Hawaii. The Company opened its first store on October 30, 2001. The Company opened one store in 2001, two stores in 2002, five stores in 2003 and three stores in 2004.

KremeWorks, LLC (KremeWorks) owns 80% of its subsidiary, KremeWorks USA, LLC (KW USA), which in turn owns 95% of its subsidiary, KremeWorks Oregon (KWO) and 100% of its subsidiaries, KremeWorks Washington (KWW), KremeWorks Hawaii (KWH) and KremeWorks Alaska (KWA).

KremeWorks is owned 67.8% in 2010 and 2009 (65.8% in 2008) by Stone Dozen, LLC (Stone Dozen), formerly known as ICON, LLC, 25% by Krispy Kreme Doughnut Corporation (KKDC), 3.5% in 2010 and 2009 (5.5% in 2008) by partners of Lettuce Entertain You Enterprises, Inc. (Lettuce) and 3.7% by a member of Stone Dozen.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of KremeWorks and its 80%-owned subsidiary, KW USA. All significant intercompany balances and transactions have been eliminated.

The Company operating agreements contain a provision stating that the amount of loss allocated to a member cannot create or increase a deficit in a member’s capital account if and to the extent that any other member has a positive capital account balance. If losses are ever allocated disproportionately as a result of this arrangement, an equal amount of subsequent profits will be allocated disproportionately until the member’s capital account is in accordance with the member’s respective interest on a cumulative basis.

In 2010, a disproportionate amount of KWUSA’s loss was allocated to the noncontrolling interest of KW USA to prevent KremeWorks from having a deficit balance in its capital account. A portion of this allocation, in the amount of $196,320, related to loss that was incorrectly allocated to KremeWorks in 2009. As of December 31, 2008, KremeWorks capital account was in accordance with its ownership interest in KW USA on a cumulative basis.

In 2010, a disproportionate amount of KWO's loss was allocated to KW USA as the capital balance of the noncontrolling interest of KWO was reduced to zero. As of December 30, 2009 and December 31, 2008, KW USA's capital account was in accordance with its ownership interest in KWO on a cumulative basis.

Fiscal Year

The Company has a 52/53-week fiscal year ending on the last Wednesday in December. The fiscal years ended on December 29, 2010, December 30, 2009 and December 31, 2008 contained 52, 52 and 53 weeks, respectively.

Reclassifications

For comparability, the 2008 and 2009 financial statements reflect reclassifications where appropriate to conform to the financial statement presentation used in 2010.

Revenue Recognition

Sales of food and beverages are recognized as revenue at the point of sale.

Cash

Substantially all cash is held at Bank of America, N.A. The cash held in this institution may exceed federally insured limits from time to time. The Company has not experienced any losses in this account. The Company believes it is not exposed to any significant credit risk on cash.

Inventories

Inventories are valued at lower of cost (first-in, first-out) or market.

Property and Equipment

The Company's policy is to depreciate the cost of property and equipment over the estimated useful lives of the assets using the straight-line method. The cost of leasehold improvements is amortized over the remaining term of the lease or the useful lives, if shorter, using the straight-line method. The average estimated depreciable lives for financial reporting purposes are as follows:

	Years
Leasehold improvements	20
Furniture, fixtures and equipment	7
Automobiles	3
Computer equipment	3

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or asset group (typically a store) might not be recoverable. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized in the amount by which the carrying amount exceeds the estimated fair value of the asset. The Company recognized an impairment charge of $615,000 on one of its Washington stores in 2009. (See Note 3.)

Deferred Area Development and Franchise Fees

KremeWorks had entered into an area development agreement with KKDC to develop and operate 23 Krispy Kreme stores. On March 9, 2011, KKDC provided written confirmation that KremeWorks had no further obligations under this development agreement. As of the date of these consolidated financial statements, KremeWorks has no present plan to open additional stores, but may continue to develop new locations sometime in the future.

Deferred Area Development and Franchise Fees

KremeWorks originally paid KKDC a $230,000 development fee, or $10,000 per store. In conjunction with the development agreement with KKDC, KremeWorks has also entered into a franchise fee agreement with KKDC whereby KremeWorks is required to pay a $25,000 franchise fee for each Krispy Kreme store that it opens. The $10,000 per store development fee is credited toward this franchise fee. These fees are being amortized over the lives of the respective stores' leases on a straight-line basis. As of December 29, 2010 and December 30, 2009, the Company has capitalized area development and franchise fees in the amount of $395,000. As of December 29, 2010 and December 30, 2009, accumulated amortization for area development and franchise fees totaled $152,602 and $136,269, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was $197,321, $248,031 and $240,218 in 2010, 2009 and 2008, respectively, and is included in store operating expenses in the consolidated statements of loss.

Financial Instruments

A financial instrument is cash, evidence of ownership interest in an entity or certain contracts involving future conveyances of cash or other financial instruments. The carrying values of the Company's financial instruments approximate fair value.

Comprehensive Loss

Comprehensive loss is a measure of all changes in equity that result from recognized transactions and other economic events of the year, other than owner transactions, such as purchases of ownership interest and distributions.

Aspects of the Limited Liability Company

The Company is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable by, or provided for, the Company. Members are taxed individually on their shares of the Company's earnings. Accordingly, the consolidated financial statements do not reflect a provision for income taxes. The operating agreement provides for the allocation of profits, losses and distributions in proportion to each member's respective interest.

All member units are identical in rights, preferences and privileges.

The Company has a limited life and, according to its Articles of Organization, will dissolve no later than December 31, 2052.

Income Taxes

The Company's application of the Income Tax Topic regarding uncertain tax positions under accounting principles generally accepted in the United States of America (GAAPUSA) had no effect on its financial position as management believes the Company has no uncertain tax positions. The Company would account for any potential interest or penalties related to possible future liabilities for unrecognized income tax benefits as income tax expense. The Company is no longer subject to examination by tax authorities for federal, state or local income taxes for periods before 2007.

Management Estimates

The preparation of financial statements in conformity with GAAPUSA requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - Fair Value Measurements

GAAPUSA defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. GAAPUSA describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach. Each approach includes multiple valuation techniques. GAAPUSA does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority.

Assets and liabilities carried at fair value are classified in one of the following three categories based on the nature of the inputs used to determine their respective fair values:

- Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.

- Level 3 - Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As required by GAAPUSA, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect their placement within the fair value hierarchy levels.

The following table sets forth by level within the fair value hierarchy the Company's assets that were accounted for at fair value on a nonrecurring basis as of December 30, 2009:

Description	Fair Values as of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for the Year Ended December 31, 2009
Property and equipment held and used	$ 685,000	$ -	$ -	$ 685,000	$ (615,000)

During 2009, the Company wrote-down its property and equipment associated with its Puyallup, Washington store. The fair value reflects the sales price at which the property and equipment is being marketed based on local market conditions. As of December 31, 2010, the property has yet to be sold due to the refusal of the landlord to consent to a sale and assignment of the Company's property and lease. The Company is currently engaged in litigation with the landlord in the state of Ohio to determine whether the landlord had the right to deny consent. Such action was instituted by the landlord.

Note 4 - Inventories

	2010	2009
Food and beverages	$ 198,350	$ 175,966
Packaging	59,019	58,872
Merchandise	50,446	101,675
	$ 307,815	$ 336,513

Note 5 - Property and Equipment

	2010	2009
Leasehold improvements	$ 20,622,008	$ 20,622,008
Furniture, fixtures and equipment	14,383,205	14,191,504
Automobiles	408,468	408,468
Computer equipment	165,220	160,175
	35,578,901	35,382,155
Less accumulated depreciation and amortization	(21,770,429)	(19,679,556)
	$ 13,808,472	$ 15,702,599

Note 6 - Long-Term Debt

	2010	2009
Note payable to Bank of America in monthly principal installments of $50,994 plus interest at the 30-day LIBOR rate plus 2.75%. A final balloon payment of $2,668,677 is due on October 31, 2011.	$ 3,229,611	$ 4,541,545
Note payable to Bank of America in monthly principal installments of $29,374 plus interest at the 30-day LIBOR rate plus 2.75%. A final balloon payment of $1,596,861 is due on October 31, 2011.	1,890,601	2,243,090
Total long-term debt	5,120,212	6,784,635
Less current maturities	(5,120,212)	(6,784,635)
	$ -	$ -

The notes payable to Bank of America were renewed and amended on August 31, 2010, are collateralized by substantially all of the Company's assets and are guaranteed by the members of Stone Dozen and by KKDC up to an aggregate original amount of $10,666,667. Of that amount, the members of Stone Dozen have personally guaranteed $8,000,000 and KKDC has guaranteed $2,666,667. The borrowings under these notes are also subject to certain restrictive covenants including financial covenants related to leverage and cash flow ratios. It is management's expectation that these notes will be refinanced in 2011.

Interest expense on the above notes was $173,902, $264,812 and $738,573 in 2010, 2009 and 2008, respectively.

Total interest expense was $299,557, $399,023 and $945,073 in 2010, 2009 and 2008, respectively.

Note 7 - Derivative Financial Instrument - Interest Rate Swap Agreement

KW USA had obtained a derivative financial instrument from Bank of America to reduce its exposure to market risks from changes in interest rates related to its financing described in Note 6. The instrument used to mitigate these risks was an interest rate swap. Under the Derivatives and Hedging Topic of GAAPUSA, derivatives are recognized in the balance sheet at fair value. Any changes in fair value are to be recognized immediately in earnings unless the derivatives qualify as hedges of future cash flows. The derivative instrument held by KW USA was designated as a highly effective cash flow hedge of interest rate risk on variable rate debt in accordance with the provisions of the Derivatives and Hedging Topic. As a result, the change in fair value of this instrument has been recorded as a component of other comprehensive loss. KW USA's derivative instrument expired December 31, 2008.

Fluctuations in the fair value of the derivative resulted in a gain of $25,174 in 2008. The Company's share of this gain totaled $20,139 in 2008 and is included in other comprehensive loss. The remaining portion of the gain had been allocated to the noncontrolling interest.

Note 8 - Operating Leases

The Company conducts its operations in facilities under operating leases. Minimum rent is recognized over the term of the leases using the straight-line method. The Company's substantial investment in long-lived leasehold improvements was deemed to constitute a penalty under GAAPUSA in determining the lease term for each lease. In addition to minimum rent, the leases require the payment of common area expenses and real estate taxes. Total rental expense for the facilities was $1,726,135, $1,677,048 and $1,746,863 in 2010, 2009 and 2008, respectively. Under certain leases, the Company has options to purchase a 25% interest in the leased premises after 15 years, if the leases are then in full force and effect.

The following is a schedule by year of future minimum lease payments required under the operating leases as of December 29, 2010:

Fiscal Year Ending:	
2011	$ 1,560,471
2012	1,575,654
2013	1,662,058
2014	1,828,177
2015	1,830,100
Later years	14,561,342
	$ 23,017,802

Note 9 - Related Party Transactions

The Company is affiliated through common ownership with KremeWorks Canada, LP, Stone Dozen and various entities associated with Lettuce, as well as Lettuce itself. In the normal course of business, the affiliated entities transfer inventory and share personnel and record such transfers at cost.

The Company has entered into a management agreement with Lettuce and Stone Dozen whereby it pays a management fee for services provided based on 4% of sales. The management fee amounted to $679,635, $682,599 and $741,846 for 2010, 2009 and 2008, respectively. Lettuce's portion of this management fee was $137,500, $137,500 and $183,335 in 2010, 2009 and 2008, respectively, with the remainder payable to Stone Dozen. Services provided include, but are not limited to, accounting and payroll services, human resources, licensing and marketing. Stone Dozen also serves as a disbursing agent and paymaster for the Company's payroll. Lettuce serves as a workers' compensation and health insurance administrator in a group self-insurance program.

In conjunction with the development agreement between KremeWorks and KKDC described in Note 2, the Company is required to pay royalty fees to KKDC on a weekly basis equal to 4.5% of gross sales, excluding wholesale sales, for which the royalty fee is equal to 1.75%. Royalty fees paid to KKDC totaled $753,407, $769,140 and $832,615 in 2010, 2009 and 2008, respectively.

The Company's franchise agreement with KKDC requires the Company to purchase furnishings, fixtures, equipment, signs, doughnut mixes and other supplies that have been approved by KKDC for Krispy Kreme stores. KKDC is the sole supplier for certain doughnut production equipment and all doughnut mixes. Purchases from KKDC totaled $3,443,303, $3,136,431 and $4,201,283 in 2010, 2009 and 2008, respectively. As of December 29, 2010 and December 30, 2009, the amount due to KKDC for the previously described purchases totaled $359,347 and $396,792, respectively. This liability is included in the accounts payable to affiliated entities in the Company's consolidated balance sheets. In 2008, the Company received $270,000 from KKDC relating to consulting services and reimbursement for concept development costs. This expense is included in other general and administrative expenses on the statements of loss.

As of December 29, 2010 and December 30, 2009, KW USA had a note payable to Stone Dozen in the amount of $2,700,000. The note is due on demand and bears interest at the prime rate plus ½%. Interest expense on this note for 2010, 2009 and, 2008 was $94,241, $100,973 and $154,103, respectively. As of December 29, 2010 and December 30, 2009, KW USA also had a note payable to KKDC, due on demand in the amount of $900,000, bearing interest at the prime rate plus ½%. Interest expense on this note for 2010, 2009 and 2008 was $31,414, $33,658 and $51,368, respectively. The loans from Stone Dozen and KKDC are pursuant to an agreement between the two companies and are in amounts that approximate the ratio of their respective ownership interests in KW USA.

A member of Stone Dozen is an attorney and his law firm provides legal services to the Company. The total expense for these services was $26,689, $253 and $1,279 for 2010, 2009 and 2008, respectively.

See Note 10 for additional related party transactions.

Note 10 - Other Cash Flow Information

Cash paid for interest amounted to $178,375, $296,637 and $749,915 for 2010, 2009 and 2008, respectively.

During 2010, Stone Dozen and KKDC made capital contributions in the amounts of $542,136 and $180,712, respectively, by forgiving amounts owed to them by the Company.

During 2009, Stone Dozen and KKDC made capital contributions in the amounts of $546,322 and $182,108, respectively, by forgiving amounts owed to them by the Company.

During 2008, Stone Dozen and KKDC made capital contributions in the amounts of $860,839 and $286,946, respectively, by forgiving amounts owed to them by the Company.

During 2009, there were capital contributions totaling $1,275,000, of which $239,800 was a receivable at year-end. Payment was received in January 2010.

Note 11 - Status of Operations

The Company has experienced steadily declining revenues and significant losses over the last six years. While the Company is still generating positive cash flows from operations, members of KremeWorks made significant cash contributions to enable the Company to meet its cash flow needs and debt service requirements in 2010 and 2009. The Company's current debt agreement with Bank of America expires on October 31, 2011 at which time approximately $4,300,000 in principal payments will become due. Management believes that it will be able to negotiate a new debt agreement with Bank of America or a similar institution. Management also believes operating cash flows will recover in the near future to a level that will allow the Company to meet its ongoing cash flow needs.

In the event that management's expectations mentioned above are not realized, alternative sources of financing might be required for the Company to continue operations beyond the near term.

Note 12 - Subsequent Events

The Company has evaluated subsequent events through March 25, 2011, the date the 2010 consolidated financial statements were available to be issued, and March 31, 2010 with respect to the comparative 2009 consolidated financial statements.

Exhibit 10.8

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (“ **Agreement** ”) dated as of March 11, 2011, amends and restates the Employment Agreement, dated as of September 14, 2009, among Krispy Kreme Doughnut Corporation, a North Carolina corporation (“ **KKDC** ”), Krispy Kreme Doughnuts, Inc., a North Carolina corporation (the “ **Company** ” and, together with KKDC, the “ **Companies** ”), and Cynthia A. Bay (the “ **Executive** ”).

The parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

SECTION 1.01. *Definitions* . For purposes of this Agreement, the following terms have the meanings set forth below:

“ **Base Salary** ” has the meaning set forth in Section 4.01.

“ **Board** ” means the Board of Directors of the Company.

“ **Cause** ” shall mean (a) the Executive’s failure or refusal to perform the Executive’s lawful and proper duties hereunder (other than as a result of total or partial incapacity due to physical or mental illness or a court or governmental order), (b) the Executive’s conviction of or plea of *nolo contendere* to any felony (other than a traffic infraction), (c) an act or acts on the Executive’s part constituting fraud, theft or embezzlement or that otherwise constitutes a felony under the laws of the United States or any state thereof which results or was intended to result directly or indirectly in gain or personal enrichment by the Executive at the expense of the Companies, or (d) the Executive’s insubordination to the Companies’ most senior executive officer or willful violation of any material provision of the code of ethics of the Companies applicable to the Executive. In the case of any item described in the previous sentence, the Executive shall be given written notice of the alleged act or omission constituting Cause, which notice shall set forth in reasonable detail the reason or reasons that the Board believes the Executive is to be terminated for Cause, including any act or omission that is the basis for the decision to terminate the Executive. In the case of an act or omission described in clause (a) or (d) of the definition of Cause, (i) if reasonably capable of being cured, the Executive shall be given 30 days from the date of such notice to effect a cure of such alleged act or omission constituting “Cause” which, upon such cure to the reasonable satisfaction of the Board, shall no longer constitute a basis for Cause, and (ii) the Executive shall be given an opportunity to make a presentation to the Board (accompanied by counsel or other representative, if the Executive so desires) at a meeting of the Board held promptly following such 30-day cure period if the Board intends to determine that no cure has occurred. At or following such meeting, the Board shall determine whether or not to terminate the Executive for “Cause” and shall notify the Executive in writing of its determination and the effective date of such termination (which date may be no earlier than the date of the aforementioned Board meeting).

“ **Change in Control** ” means any of the following events:

(a) the acquisition by any Person of “beneficial ownership” (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the Company’s then outstanding voting securities; provided, however, that a Change in Control shall not be deemed to occur solely because fifty percent (50%) or more of the combined voting power of the Company’s then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained by the Company or any of its Subsidiaries, or (ii) any Person, which, immediately prior to such acquisition, is owned directly or indirectly by the shareholders of the Company in the same proportion as their ownership of stock in the Company immediately prior to such acquisition;

(b) consummation of (i) a merger or consolidation involving the Company if the shareholders of the Company, immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the corporation resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of the Company outstanding immediately before such merger or consolidation, or (ii) a sale or other disposition of all or substantially all of the assets of the Company other than to a Person which is owned directly or indirectly by the shareholders of the Company in the same proportion as their ownership of stock in the Company;

(c) a change in the composition of the Board such that the individuals who, as of the Effective Date, constitute the Board (such Board shall be hereinafter referred to as the “ **Incumbent Board** ”) cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this definition, that any individual who becomes a member of the Board subsequent to the Effective Date whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; provided further, however, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act, including any successor to such Rule), or other actual or threatened solicitation or proxies or consents by or on behalf of a Person other than the Board, shall not be so considered as a member of the Incumbent Board; or

(d) approval by shareholders of the Company of a complete liquidation or dissolution of the Company;

provided , however , that, if and to the extent required under Section 409A of the Code or any regulations and guidelines promulgated thereunder (collectively, “ **Section 409A** ”), an event will be treated as a “Change in Control” for purposes of this Agreement only if it is also a “change in control event” (as defined in Treas. Reg. Section 1.409A-3(i)(5)) with respect to the Company.

“ **Code** ” means the Internal Revenue Code of 1986, as amended.

“ **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 Subsidiaries in connection with the business of the Company and its Subsidiaries 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 the Executive; or (c) the disclosure of which is consented to in writing by the Company.

“ **Date of Termination** ” has the meaning set forth in Section 5.07.

“ **Effective Date** ” has the meaning set forth in Section 2.01.

“ **Employment Period** ” has the meaning set forth in Section 2.01.

“ **Exchange Act** ” means the Securities Exchange Act of 1934, as amended.

“ **Good Reason** ” shall mean the occurrence of any of the following without the Executive’s consent: (a) the failure of the Companies to pay any material amount of compensation to the Executive when due hereunder, (b) the Executive is no longer the most senior officer in charge of Company store operations of (i) the Company or (ii) in the event of a merger, consolidation or other business combination involving the Company, the successor to the Company’s business or assets or (iii) if all or substantially all of the voting stock of the Company is held by another public company, such public company, (c) the assignment to the Executive of any duties or responsibilities materially inconsistent with the Executive’s status under clause (b) of this sentence or her failure at any time to report directly to the most senior executive officer of the applicable company described in such clause (b), (d) any failure by the Companies to maintain the Executive’s principal place of employment and the executive offices of the Companies within 25 miles of the Winston-Salem, North Carolina area, (e) any material breach by the Companies of this Agreement, or (f) the term of the Employment Period ending as a result of the Companies giving the Executive notice of nonextension of the term of this Agreement in accordance with Section 5.01 solely at either the end of the initial term or the end of the first, second or third one-year extensions of the term under Section 5.01 (but, for the avoidance of doubt, not at the end of any further extension of the term); provided, however, that for any of the foregoing to constitute Good Reason, the Executive must provide written notification of her intention to resign within 60 days after the Executive knows or has reason to know of the occurrence of any such event, and the Companies shall have 30 days (10 days in the case of a material breach related to payment of any amounts due hereunder) from the date of receipt of such notice to effect a cure of the condition constituting Good Reason, and, upon cure thereof by the Companies, such event shall no longer constitute Good Reason.

“ **Notice of Termination** ” has the meaning set forth in Section 5.06.

“ **Permanent Disability** ” means the Executive becomes permanently disabled within the meaning of the long-term disability plan of the Companies applicable to the Executive, and the Executive commences to receive benefits under such plan.

“ **Person** ” means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, an estate, a trust, a joint venture, an unincorporated organization or a governmental entity or any department, agency or political subdivision thereof.

“ **Reimbursable Expenses** ” has the meaning set forth in Section 4.04.

“ **Securities Act** ” means the Securities Act of 1933, as amended.

“ **Subsidiary** ” or “ **Subsidiaries** ” means, with respect to any Person, any corporation, partnership, limited liability company, association or other business entity of which (a) if a corporation, 50 percent or more of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or combination thereof; or (b) if a partnership, limited liability company, association or other business entity, 50 percent or more of the partnership or other similar ownership interests thereof are at the time owned or controlled, directly or indirectly, by any Person or one or more Subsidiaries of that Person or a combination thereof. For purposes of this definition, a Person or Persons will be deemed to have a 50 percent or more ownership interest in a partnership, limited liability company, association or other business entity if such Person or Persons are allocated 50 percent or more of partnership, limited liability company, association or other business entity gains or losses or control the managing director or member or general partner of such partnership, limited liability company, association or other business entity.

ARTICLE 2

EMPLOYMENT

SECTION 2.01. *Employment.* The Executive is a current employee of KKDC and a current officer of the Companies. However, under this Agreement, and beginning the Effective Date, both Companies shall employ the Executive, and the Executive shall accept employment with the Companies, upon the terms and conditions set forth in this Agreement for the new period beginning September 14, 2009 (the “ **Effective Date** ”) and ending as provided in Section 5.01 (the “ **Employment Period** ”).

ARTICLE 3

POSITION AND DUTIES

SECTION 3.01. *Position and Duties.* During the Employment Period, the Executive shall serve as Senior Vice President – Company Store Operations of the Company reporting directly to the most senior executive officer and shall be the Company's most senior officer in charge of Company store operations. During the Employment Period, the Executive also shall serve as Senior Vice President – Company Store Operations of KKDC. The Executive shall have such responsibilities, powers and duties as may from time to time be prescribed by the Board or the most senior executive officer of the Companies; *provided* that such responsibilities, powers and duties are substantially consistent with those customarily assigned to individuals serving in such position at comparable companies or as may be reasonably required for the proper conduct of the business of the Companies. During the Employment Period, the Executive shall devote substantially all of her working time and efforts to the business and affairs of the Company and its Subsidiaries. The Executive shall not directly or indirectly render any services of a business, commercial or professional nature to any other person or organization not related to the business of the Company or its Subsidiaries, whether for compensation or otherwise, without the prior approval of the Board; provided, however, the Executive may serve on the board of directors of one for-profit corporation with the prior approval of the Board, which will not be unreasonably withheld, and the Executive may serve as a director of not-for-profit organizations or engage in other charitable, civic or educational activities, so long as the activities described in this proviso do not interfere with the Executive's performance of her duties hereunder or result in any conflict of interest with the Companies.

ARTICLE 4

BASE SALARY AND BENEFITS

SECTION 4.01. *Base Salary.* During the Employment Period, the Executive will receive base salary from the Companies equal to $250,000 per annum (the " **Base Salary** "). The Base Salary will be payable in accordance with the normal payroll practices of the Companies. Annually during the Employment Period the Company shall review with the Executive her job performance and compensation, and if deemed appropriate by the Board or its Compensation Committee, in their discretion, the Executive's Base Salary may be increased but not decreased. After any such increase, the term "Base Salary" as used in this Agreement will thereafter refer to the increased amount.

SECTION 4.02. *Bonuses.* In addition to Base Salary, the Executive shall be eligible to be considered for an annual bonus, and the Executive's annual target bonus shall be equal to 50% of Base Salary. The Compensation Committee of the Board and the Board shall set targets with respect to and otherwise determine the Executive's bonus in accordance with the Company's then current incentive plans.

SECTION 4.03. *Benefits.* During the Employment Period, the Executive shall be entitled to participate in all employee benefit, perquisite and fringe benefit plans and arrangements made available by the Companies to their executives and key management employees upon the terms and subject to the conditions set forth in the applicable plan or arrangement. Such benefits shall include medical, life and disability insurance provided in accordance with the policies of the Companies. The Executive shall be entitled to four weeks of paid vacation annually during the Employment Period.

SECTION 4.04. *Expenses.* The Companies shall reimburse the Executive for all reasonable expenses incurred by her in the course of performing her duties under this Agreement which are consistent with the Companies' policies in effect from time to time with respect to travel, entertainment and other business expenses (" **Reimbursable Expenses** "), subject to the Companies' requirements with respect to reporting and documentation of expenses and the provisions of Section 13.14.

SECTION 4.05. *Compliance with Compensation and Equity Policies.* The Executive agrees to comply with the Company's Equity Retention Policy, Compensation Recovery Policy and Stock Ownership Guidelines, each as in effect from time to time, with respect to annual or long-term incentive or other compensation, as applicable. The terms of the Company's Equity Retention Policy, Compensation Recovery Policy and Stock Ownership Guidelines, each as in effect from time to time, are hereby incorporated by reference into this Agreement.

ARTICLE 5

TERM AND TERMINATION

SECTION 5.01. *Term.* The Employment Period will terminate on September 14, 2012 (unless sooner terminated as hereinafter provided); provided, however, that the Employment Period will be automatically extended for successive one-year periods following the original term ending September 14, 2012, until either the Companies, on the one hand, or the Executive, on the other hand, at least 180 days prior to the expiration of the original term or any extended term, shall give written notice to the other of their intention not to so extend the Employment Period.

SECTION 5.02. *Termination Due to Death or Permanent Disability.* If the Employment Period shall be terminated due to death or Permanent Disability of the Executive, the Executive (or her estate or legal representative) shall be entitled solely to the following: (a) Base Salary through the Date of Termination (paid on the Companies' normal payroll date), and (b) medical benefits as provided in Section 5.05 below. The Executive's entitlements under any other benefit plan or program shall be as determined thereunder. In addition, promptly following any such termination, the Executive (or her estate or legal representative) shall be reimbursed for all Reimbursable Expenses incurred by the Executive prior to such termination in accordance with Section 4.04 and Section 13.14 herein.

SECTION 5.03. *Termination for Good Reason or Without Cause.* Except as otherwise set forth in Section 5.09 below, if the Employment Period shall be terminated (a) by the Executive for Good Reason, or (b) by the Companies not for Cause, provided the Executive has executed on or before the date that is fifty (50) days following the date of her termination of employment, an irrevocable (except to the extent required by law to be revocable) general release of claims in the form attached hereto as Exhibit A, and does not revoke such release prior to the end of the seven day statutory revocation period, the Executive shall be entitled solely to the following: (i) Base Salary through the Date of Termination, paid on the Companies' normal payroll payment date; (ii) an amount equal to one times the Base Salary, provided that, the Executive shall be entitled to any unpaid amounts only if the Executive has not breached and does not breach the provisions of Sections 6.01, 7.01, 8.01 or Article 9 below; (iii) a bonus for the year of termination of employment equal to the Executive's target annual bonus for such year pro rated for the number of full months during the bonus year prior to such termination of employment, to be paid, subject to Section 13.14 below, sixty (60) days following such termination of employment; and (iv) medical benefits as provided in Section 5.05 below. The Executive's entitlements under any other benefit plan or program shall be as determined thereunder, except that duplicative severance benefits shall not be payable under any other plan or program. Amounts described in clause (ii) above will be paid, subject to Section 13.14 below, in equal monthly installments for a period of 12 months commencing on the first month anniversary of the Date of Termination. In addition, promptly following any such termination, the Executive shall be reimbursed for all Reimbursable Expenses incurred by the Executive prior to such termination in accordance with Section 4.04 and Section 13.14 herein.

SECTION 5.04. *Termination for Cause or Other Than Good Reason.* If the Employment Period shall be terminated (a) by the Companies for Cause, or (b) as a result of the Executive's resignation or leaving of her employment other than for Good Reason, the Executive shall be entitled to receive solely Base Salary through the Date of Termination (paid on the Companies' normal payroll date) and reimbursement of all Reimbursable Expenses incurred by the Executive prior to such termination (in accordance with Section 4.04 and Section 13.14 herein). The Executive's rights under the benefit plans and programs shall be as determined thereunder. A voluntary resignation by the Executive shall not be deemed to be a breach of this Agreement.

SECTION 5.05. *Benefits.* If the Employment Period is terminated as a result of a termination of employment as specified in Section 5.02, 5.03 or 5.09, the Executive and her covered dependents shall continue to receive medical insurance coverage benefits from the Companies, with the same contribution toward such coverage from the Executive or her estate, for a period equal to the lesser of (a) eighteen months following the Date of Termination, or (b) until the Executive is provided by another employer with benefits substantially comparable to the benefits provided by the Companies' medical plan. Furthermore, in the event of the Executive's Permanent Disability, insurance benefits will continue under the Companies' long term disability plan in accordance with its terms.

SECTION 5.06. *Notice of Termination.* Any termination by the Companies for Permanent Disability or Cause or without Cause or by the Executive with or without Good Reason shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a " **Notice of Termination** " shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision indicated.

SECTION 5.07. *Date of Termination.* " **Date of Termination** " shall mean (a) if the Employment Period is terminated as a result of a Permanent Disability, five days after a Notice of Termination is given, (b) if the Employment Period is terminated as a result of her death, on the date of her death, (c) if the Employment Period terminates due to expiration of the term of this Agreement, the date the term expires, and (d) if the Employment Period is terminated for any other reason, the later of the date of the Notice of Termination and the end of any applicable correction period.

SECTION 5.08. *No Duty to Mitigate.* The Executive shall have no duty to seek new employment or other duty to mitigate following a termination of employment as described in this Article 5, and no compensation or benefits described in this Article 5 shall be subject to reduction or offset on account of any subsequent compensation, other than as provided in Section 5.05.

SECTION 5.09. *Termination for Good Reason or Without Cause Following a Change in Control.* If the Employment Period shall be terminated within two years after a Change in Control (a) by the Executive for Good Reason, or (b) by the Companies not for Cause, then the Executive's compensation and benefits upon termination shall be governed by this Section 5.09 instead of the provisions of Section 5.03 above, and, provided the Executive has executed, on or before the date that is fifty (50) days following the date of her termination of employment, an irrevocable (except to the extent required by law to be revocable) general release of claims, in the form attached hereto as Exhibit A, and does not revoke such release prior to the end of the seven day statutory revocation period, the Executive shall be entitled solely to the following: (i) Base Salary through the Date of Termination paid on the Companies' normal payroll payment date; (ii) an amount equal to two times the sum of her Base Salary and her target annual bonus for the year of termination, provided that, the Executive shall be entitled to any unpaid amounts only if the Executive has not breached and does not breach the provisions of Sections 6.01, 7.01 or 8.01 or Article 9 below; (iii) a bonus for the year of termination of employment equal to the Executive's target annual bonus for such year pro rated for the number of full months during the bonus year prior to such termination of employment; and (iv) medical benefits as provided in Section 5.05. The Executive's entitlements under any other benefit plan or program shall be as determined thereunder, except that duplicative severance benefits shall not be payable under any other plan or program. In addition, promptly following any such termination, the Executive shall be reimbursed for all Reimbursable Expenses incurred by the Executive prior to such termination (in accordance with Section 13.14). The amounts due under clauses (ii) and (iii) of this Section 5.09 shall be paid, subject to Section 13.14 below, sixty (60) days following termination of employment.

SECTION 5.10. *Separation From Service.* Notwithstanding any provision of this Agreement to the contrary, for purposes of Section 5.03 and Section 5.09, the Executive will be deemed to have terminated her employment on the date of her "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Companies, the Employment Period will be deemed to have ended on the date of her "separation from service" with the Companies, and the Date of Termination will be deemed to be the date of her "separation from service" with the Companies if and to the extent required under Section 409A.

ARTICLE 6

CONFIDENTIAL INFORMATION

SECTION 6.01. *Nondisclosure and Nonuse of Confidential Information.* The Executive will not disclose or use at any time during or after the Employment Period any Confidential Information of which the Executive is or becomes aware, whether or not such information is developed by her, except to the extent she reasonably believes that such disclosure or use is directly related to and appropriate in connection with the Executive's performance of duties assigned to the Executive pursuant to this Agreement. Under all circumstances and at all times, the Executive will take all appropriate steps to safeguard Confidential Information in her possession and to protect it against disclosure, misuse, espionage, loss and theft. The Executive also agrees to execute and comply with such other confidentiality agreements or provisions as required of executive officers of the Company.

ARTICLE 7

INTELLECTUAL PROPERTY

SECTION 7.01. *Ownership of Intellectual Property.* In the event that the Executive as part of her activities on behalf of the Companies generates, authors or contributes to any invention, design, new development, device, product, method of process (whether or not patentable or reduced to practice or comprising Confidential Information), any copyrightable work (whether or not comprising Confidential Information) or any other form of Confidential Information relating directly or indirectly to the business of the Company or its Subsidiaries as now or hereafter conducted (collectively, " **Intellectual Property** "), the Executive acknowledges that such Intellectual Property is the sole and exclusive property of the Company and its Subsidiaries and hereby assigns all right, title and interest in and to such Intellectual Property to the Company or its designated Subsidiary. Any copyrightable work prepared in whole or in part by the Executive during the Employment Period will be deemed "a work made for hire" under Section 201(b) of the Copyright Act of 1976, as amended, and the Company or its designated Subsidiary will own all of the rights comprised in the copyright therein. The Executive will promptly and fully disclose all Intellectual Property and will cooperate with the Companies to protect their interests in and rights to such Intellectual Property (including providing reasonable assistance in securing patent protection and copyright registrations and executing all documents as reasonably requested by the Companies, whether such requests occur prior to or after termination of the Executive's employment hereunder).

ARTICLE 8

DELIVERY OF MATERIALS UPON TERMINATION OF EMPLOYMENT

SECTION 8.01. *Delivery of Materials upon Termination of Employment.* As requested by the Companies from time to time, and upon the termination of the Executive's employment with the Companies for any reason, the Executive will promptly deliver to the Companies all property of the Company or its Subsidiaries, including, without limitation, all copies and embodiments, in whatever form or medium, of all Confidential Information in the Executive's possession or within her control (including written records, notes, photographs, manuals, notebooks, documentation, program listings, flow charts, magnetic media, disks, diskettes, tapes and all other materials containing any Confidential Information) irrespective of the location or form of such material and, if requested by the Companies, will provide the Companies with written confirmation that to the best of her knowledge all such materials have been delivered to the Companies or destroyed.

ARTICLE 9

NON-COMPETITION AND NONSOLICITATION

SECTION 9.01. *Noncompetition.* The Executive acknowledges that, during her employment with the Companies, she will become familiar with trade secrets and other Confidential Information concerning the Company and its Subsidiaries and her services will be of special, unique and extraordinary value to the Companies. In addition, the Executive hereby agrees that at any time during the Noncompetition Period (as defined below), she will not directly or indirectly own, manage, control, participate in, consult with, become employed by or otherwise render services to any business listed on Exhibit B hereto in the Territory. During the Noncompetition Period, the Company shall have the right to, in good faith, add other entities which are in substantial competition with the Companies to the list of businesses on Exhibit B, subject to the consent of the Executive which shall not be unreasonably withheld. Notwithstanding the foregoing, if the Executive's termination of employment occurs at the end of the Employment Period due to the Companies giving written notice after the fifth anniversary of the Effective Date pursuant to Section 5.01 of its intention not to extend the Employment Period, this Section 9.01 will only apply if the Companies elect and agree in writing to pay the Executive her Base Salary and her annual target bonus in effect for the year during which her employment is terminated for an additional one-year period following the termination of employment, such amount to be paid, subject to Section 13.14 below, in monthly installments over the additional one-year period. It shall not be considered a violation of this Section 9.01 for the Executive to be a passive owner of not more than 2% of the outstanding stock of any class of any corporation which is publicly traded, so long as the Executive has no active participation in the business of such corporation.

SECTION 9.02. *Nonsolicitation.* The Executive hereby agrees that (a) during the Nonsolicitation Period (as defined below), the Executive will not, directly or indirectly through another Person, induce or attempt to induce any employee of the Company or its Subsidiaries to leave the employ of the Company or its Subsidiaries, or in any way interfere with the relationship between the Company or its Subsidiaries and any person employed by them at any time during such Nonsolicitation Period, and (b) during the Nonsolicitation Period, the Executive will not induce or attempt to induce any customer, supplier, client or other business relation of the Company or its Subsidiaries to cease doing business with the Company or its Subsidiaries.

SECTION 9.03. *Definitions.* It is agreed that the " **Territory,** " for purposes of this Article 9, shall mean:

(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 Executive's employment with the Companies;

(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 Companies' products have been sold at any time in the one-year period ending on the last day of Executive's employment with the Companies;

(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 Companies' products have been sold at any time in the one-year period ending on the last day of the Executive's employment with the Companies; 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.

It is also agreed that " **Noncompetition Period,** " for purposes hereof, shall mean:

(a) the Employment Period and a period ending one year after the Date of Termination; and

(b) In the event that the preceding clause shall be determined by judicial action to define too long a period to be enforceable, "Noncompetition Period" shall mean the Employment Period and a period ending six months after the Date of Termination.

It is also agreed that " **Nonsolicitation Period,** " for purposes hereof, shall mean:

(a) the Employment Period and a period ending two years after the Date of Termination;

(b) In the event that the preceding clause shall be determined by judicial action to define too long a period to be enforceable, "Nonsolicitation Period" shall mean the Employment Period and a period ending eighteen months after the Date of Termination;

(c) In the event that the preceding clauses shall be determined by judicial action to define too long a period to be enforceable, "Nonsolicitation Period" shall mean the Employment Period and a period ending one year after the Date of Termination; and

(d) In the event that the preceding clauses shall be determined by judicial action to define too long a period to be enforceable, "Nonsolicitation Period" shall mean the Employment Period and a period ending six months after the Date of Termination.

ARTICLE 10

EQUITABLE RELIEF

SECTION 10.01. *Equitable Relief.* The Executive acknowledges that (a) the covenants contained herein are reasonable, (b) the Executive's services are unique, and (c) a breach or threatened breach by her of any of her covenants and agreements with the Companies contained in Sections 6.01, 7.01, 8.01 or Article 9 could cause irreparable harm to the Companies for which they would have no adequate remedy at law. Accordingly, and in addition to any remedies which the Companies may have at law, in the event of an actual or threatened breach by the Executive of her covenants and agreements contained in Sections 6.01, 7.01, 8.01 or Article 9, the Companies shall have the absolute right to apply to any court of competent jurisdiction for such injunctive or other equitable relief, without the necessity to post bond, as such court may deem necessary or appropriate in the circumstances.

ARTICLE 11

EXECUTIVE REPRESENTATION AND INDEMNIFICATION

SECTION 11.01. *Executive Representation.* The Executive hereby represents and warrants to the Companies that (a) the execution, delivery and performance of this Agreement by the Executive does not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which the Executive is a party or by which she is bound, (b) the Executive is not a party to or bound by any employment agreement, noncompetition agreement or confidentiality agreement with any other Person, and (c) upon the execution and delivery of this Agreement by the Companies, this Agreement will be the valid and binding obligation of the Executive, enforceable in accordance with its terms. Notwithstanding Section 11.02 below, in the event that any action is brought against the Executive involving any breach of any employment agreement, noncompetition agreement or confidentiality agreement with any other Person, the Executive shall bear her own costs incurred in defending such action, including but not limited to court fees, arbitration costs, mediation costs, attorneys' fees and disbursements.

SECTION 11.02. *General Indemnification.* The Companies, jointly and severally, agree that if the Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (each, a " **Proceeding** "), by reason of the fact that she is or was a director, officer or employee of the Company or any of its Subsidiaries or is or was serving at the request of the Company or any of its Subsidiaries as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by the Companies to the fullest extent permitted or authorized by applicable law and their bylaws, against all cost, expense, liability and loss (including, without limitation, advancement of attorneys' and other fees and expenses) reasonably incurred or suffered by the Executive in connection therewith. The Companies agree to use their best efforts to maintain a directors' and officers' liability insurance policy covering the Executive during the Employment Period and for at least four years thereafter to the extent available on commercially reasonable terms.

ARTICLE 12

LIMITATION ON CERTAIN PAYMENTS CONTINGENT ON CHANGE IN CONTROL

SECTION 12.01. *Limitation on Certain Payments Contingent on Change In Control.*

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that (i) any payment, award, benefit or distribution (or any acceleration of any payment, award, benefit or distribution) by the Companies (or any of their affiliated entities) or any entity which effectuates a Change in Control (or any of its affiliated entities) to or for the benefit of the Executive (whether pursuant to the terms of this Agreement or otherwise) (the " **Payments** ") would be subject to the excise tax imposed by Section 4999 of the Code (the " **Excise Tax** "), and (ii) the reduction of the amounts payable to the Executive under this Agreement to the maximum amount that could be paid to the Executive without giving rise to the Excise Tax (the " **Safe Harbor Cap** ") would provide the Executive with a greater after-tax amount than if such amounts were not reduced, then the amounts payable to the Executive under this Agreement shall be reduced (but not below zero) to the Safe Harbor Cap. Unless the Companies and the Executive agree otherwise, the reduction of the amounts payable hereunder, if applicable, shall be made to the extent necessary in the following order: (i) *first* , any such Payments that became fully vested prior to the Change in Control and that pursuant to paragraph (b) of Treas. Reg. § 1.280G-1, Q/A 24, are treated as contingent compensation payments solely by reason of the acceleration of their originally scheduled dates of payment will be reduced, by cancellation of the acceleration of their vesting; (ii) *second* , any severance payments or benefits, performance-based cash or equity incentive awards, or other contingent compensation payments the full amounts of which are treated as contingent on the Change in Control pursuant to paragraph (a) of Treas. Reg. § 1.280G-1, Q/A 24, will be reduced; and (iii) *third* , any cash or equity incentive awards, or nonqualified deferred compensation amounts, that vest solely based on the Executive's continued service with the Companies, and that pursuant to paragraph (c) of Treas. Reg. § 1.280G-1, Q/A 24, are treated as contingent on the Change in Control because they become vested as a result of the Change in Control, will be reduced, first by cancellation of any acceleration of their originally scheduled dates of payment (if payment with respect to such items is not treated as automatically occurring upon the vesting of such items for purposes of Section 280G of the Code) and then, if necessary, by canceling the acceleration of their vesting. In each case, the amounts of the contingent compensation payments will be reduced in the inverse order of their originally scheduled dates of payment or vesting, as applicable, and will be so reduced only to the extent necessary to achieve the required reduction. For purposes of reducing the Payments to the Safe Harbor Cap, only amounts payable under this Agreement (and no other Payments) shall be reduced. If the reduction of the amounts payable hereunder would not result in a greater after-tax result to the Executive, no amounts payable under this Agreement shall be reduced pursuant to this provision.

(b) All determinations required to be made under this Section 12.01 shall be made by the public accounting firm that is retained by the Companies as of the date immediately prior to the Change in Control (the " **Accounting Firm** "), which shall provide detailed supporting calculations both to the Companies and the Executive within fifteen (15) business days of the receipt of notice from the Companies or the Executive that there has been a Payment, or such earlier time as is requested by the Companies. Notwithstanding the foregoing, in the event (i) the Board shall determine prior to the Change in Control that the Accounting Firm is precluded from performing such services under applicable auditor independence rules or (ii) the Audit Committee of the Board determines that it does not want the Accounting Firm to perform such services because of auditor independence concerns or (iii) the Accounting Firm is serving as accountant or auditor for the person(s) effecting the Change in Control, the Board shall appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees, costs and expenses (including, but not limited to, the costs of retaining experts) of the Accounting Firm shall be borne by the Companies. If payments are reduced to the Safe Harbor Cap or the Accounting Firm determines that no Excise Tax is payable by the Executive without a reduction in payments, the Accounting Firm shall provide a written opinion to the Executive to such effect, that the Executive is not required to report any Excise Tax on the Executive's federal income tax return, and that the failure to report the Excise Tax, if any, on the Executive's applicable federal income tax return will not result in the imposition of a negligence or similar penalty. The determination by the Accounting Firm shall be binding upon the Companies and the Executive (except as provided in Section 12.01(c) below).

(c) If it is established pursuant to a final determination of a court or an Internal Revenue Service (the " **IRS** ") proceeding, which has been finally and conclusively resolved, that Payments have been made to, or provided for the benefit of, the Executive by the Companies, which are in excess of the limitations provided in this Section 12.01 (referred to hereinafter as an " **Excess Payment** "), the Executive shall repay the Excess Payment to the Companies on demand, together with interest on the Excess Payment at the applicable federal rate (as defined in Section 1274(d) of the Code) from the date of the Executive's receipt of such Excess Payment until the date of such repayment. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the determination, it is possible that Payments which will not have been made by the Companies should have been made (an " **Underpayment** "), consistent with the calculations required to be made under this Section 12.01. In the event that it is determined (i) by the Accounting Firm, the Companies (which shall include the position taken by the Companies, or together with their consolidated group, on their federal income tax returns) or the IRS or (ii) pursuant to a determination by a court, that an Underpayment has occurred, the Companies shall pay an amount equal to such Underpayment to the Executive within ten (10) days of such determination together with interest on such amount at the applicable federal rate from the date such amount would have been paid to the Executive until the date of payment. The Executive shall cooperate, to the extent the Executive's expenses are reimbursed by the Companies, with any reasonable requests by the Companies in connection with any contests or disputes with the IRS in connection with the Excise Tax or the determination of the Excess Payment. Notwithstanding the foregoing, in the event that amounts payable under this Agreement were reduced pursuant to Section 12.01(a) and the value of stock options is subsequently re-determined by the Accounting Firm within the context of Treasury Regulation §1.280G-1 Q/A 33 that reduces the value of the Payments attributable to such options, the Companies shall promptly pay to the Executive any amounts payable under this Agreement that were not previously paid solely as a result of Section 12.01(a), subject to the Safe Harbor Cap.

ARTICLE 13

MISCELLANEOUS

SECTION 13.01. *Binding Arbitration.* The parties agree that, except as provided in Articles 9 and 10 above, any disputes under this Agreement shall be settled exclusively by arbitration conducted in Winston-Salem, North Carolina. Except to the extent inconsistent with this Agreement, such arbitration shall be conducted in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association then in effect at the time of the arbitration and otherwise in accordance with principles which would be applied by a court of law or equity. The arbitrator shall be acceptable to both the Companies and the Executive. If the parties cannot agree on an acceptable arbitrator, the dispute shall be decided by a panel of three arbitrators, one appointed by each of the parties and the third appointed by the other two arbitrators or if the two arbitrators do not agree, appointed by the American Arbitration Association. The costs of arbitration incurred by the Executive (or her beneficiaries) will be borne by the Companies (including, without limitation, reasonable attorneys' fees and other reasonable charges of counsel) (a) if the arbitration occurs prior to a Change in Control, if the Executive prevails on a majority of the material issues in the dispute, and (b) if the arbitration occurs after a Change in Control, if the Executive prevails on at least one material issue in the dispute. Judgment upon the final award rendered by such arbitrator(s) may be entered in any court having jurisdiction thereof.

Following the final determination of the dispute in which, based on the outcome of the dispute, the Executive is, in accordance with this Section 13.01, entitled to have her costs borne by the Companies, the Companies shall pay all such reasonable costs within ten (10) days following written demand therefor (supported by documentation of such costs) by the Executive, and the Executive shall make such written demand within sixty (60) days following the final determination of the dispute; provided , however , that such payment shall be made no later than on or prior to the end of the calendar year following the calendar year in which the costs are incurred. Notwithstanding the foregoing, in the event a final determination of the dispute has not been made by December 20 of the year following the calendar year in which the costs are incurred, the Companies shall, within ten (10) days after such December 20, reimburse such reasonable costs (supported by documentation of such costs) incurred in the prior taxable year; provided , however , that the Executive shall return such amounts to the Companies within ten (10) business days following the final determination if (i) in the case of an arbitration prior to a Change in Control, the Executive does not prevail on a majority of the material issues in the dispute, or (ii) in the case of an arbitration after a Change in Control, the Executive does not prevail on at least one material issue in the dispute. The amount of any costs eligible for payment under this Section 13.01 during a calendar year will not affect the amount of any costs eligible for payment under this Section 13.01 in any other taxable year.

SECTION 13.02. *Consent to Amendments; No Waivers.* The provisions of this Agreement may be amended or waived only by a written agreement executed and delivered by the Companies and the Executive. Notwithstanding the foregoing, the Companies shall have unilateral authority to amend this Agreement (without Executive consent) to the extent necessary to comply with applicable laws, rules or regulations (including but not limited to Section 409A) or changes to applicable laws, rules or regulations. No other course of dealing between the parties to this Agreement or any delay in exercising any rights hereunder will operate as a waiver of any rights of any such parties.

SECTION 13.03. *Successors and Assigns.* All covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto will bind and inure to the benefit of the respective successors, assigns, heirs, executors and estates of the parties hereto whether so expressed or not, provided that the Executive may not assign her rights or delegate her obligations under this Agreement without the written consent of the Companies (other than to her estate or heirs) and the Company may assign this Agreement only to a successor to all or substantially all of the assets of the Company.

SECTION 13.04. *Severability.* Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

SECTION 13.05. *Counterparts.* This Agreement may be executed simultaneously in two or more counterparts, any one of which need not contain the signatures of more than one party, but all of which counterparts taken together will constitute one and the same agreement.

SECTION 13.06. *Descriptive Headings.* The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

SECTION 13.07. *Notices.* All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Agreement will be in writing and will be deemed to have been given when delivered personally to the recipient, two business days after the date when sent to the recipient by reputable express courier service (charges prepaid) or four business days after the date when mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid. Such notices, demands and other communications will be sent to the Executive and to the Companies at the addresses set forth below.

If to the Executive: To the last address delivered to the Companies by the Executive in the manner set forth herein.

If to the Companies:

Krispy Kreme Doughnuts, Inc.
Krispy Kreme Doughnut Corporation
Suite 500
370 Knollwood Street
Winston-Salem, NC 27103

Attn: Senior Vice President – Human Resources

or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

SECTION 13.08. *Withholding.* The Companies may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

SECTION 13.09. *No Third-Party Beneficiary.* This Agreement will not confer any rights or remedies upon any person other than the Companies, the Executive and their respective heirs, executors, successors and assigns.

SECTION 13.10. *Entire Agreement.* This Agreement (including any other documents referred to herein) constitutes the entire agreement among the parties and supersedes any prior understandings, agreements or representations by or among the parties, written or oral, including the Employment Agreement dated September 14, 2009, that may have related in any way to the subject matter hereof.

SECTION 13.11. *Construction.* The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction will be applied against any party. Any reference to any federal, state, local or foreign statute or law will be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise.

SECTION 13.12. *Survival.* Sections 6.01, 7.01, 8.01 and Articles 5, 9, 11, 12 and 13 will survive and continue in full force in accordance with their terms notwithstanding any termination of the Employment Period, and the Agreement shall otherwise remain in full force to the extent necessary to enforce any rights and obligations arising hereunder during the Employment Period.

SECTION 13.13. *GOVERNING LAW*. ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY AND INTERPRETATION OF THIS AGREEMENT WILL BE GOVERNED BY THE INTERNAL LAW OF NORTH CAROLINA, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

SECTION 13.14. *Section 409A*.

(a) It is intended that this Agreement will comply with Section 409A, to the extent the Agreement is subject thereto, and the Agreement shall be interpreted on a basis consistent with such intent. If an amendment of this Agreement is necessary in order for it to comply with Section 409A, the parties hereto will negotiate in good faith to amend the Agreement in a manner that preserves the original intent of the parties to the extent reasonably possible. No action or failure to act pursuant to this Section 13.14 shall subject the Companies to any claim, liability, or expense, and the Companies shall not have any obligation to indemnify or otherwise protect the Executive from the obligation to pay any taxes, interest or penalties pursuant to Section 409A.

(b) Notwithstanding any provision to the contrary in this Agreement, if the Executive is deemed on the date of her "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Companies to be a "specified employee" (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment or benefit that is considered deferred compensation under Section 409A payable on account of a "separation from service" that is required to be delayed pursuant to Section 409A(a)(2)(B) of the Code (after taking into account any applicable exceptions to such requirement), such payment or benefit shall be made or provided on the date that is the earlier of (i) the expiration of the six (6)-month period measured from the date of the Executive's "separation from service," or (ii) the date of the Executive's death (the " **Delay Period** "). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this Section 13.14 (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to the Executive in a lump sum and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein. 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, references to the Executive's "termination of employment" (and corollary terms, including the end of the Employment Period) with the Companies shall be construed to refer to the Executive's "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Companies.

(c) With respect to any reimbursement or in-kind benefit arrangements of the Companies and its subsidiaries that constitute deferred compensation for purposes of Section 409A, except as otherwise permitted by Section 409A, the following conditions shall be applicable: (i) the amount eligible for reimbursement, or in-kind benefits provided, under any such arrangement in one calendar year may not affect the amount eligible for reimbursement, or in-kind benefits to be provided, under such arrangement in any other calendar year (except that the health and dental plans may impose a limit on the amount that may be reimbursed or paid), (ii) any reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred, and (iii) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g ., "payment shall be made within thirty (30) days after termination of employment"), the actual date of payment within the specified period shall be within the sole discretion of the Companies. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Section 409A.

SECTION 13.15. *Representations of the Companies.* The Companies represent and warrant that (a) the execution, delivery and performance of this Agreement by the Companies has been fully and validly authorized by all necessary corporate action, (b) the officer(s) signing this Agreement on behalf of the Companies is duly authorized to do so, (c) the execution, delivery and performance of this Agreement does not violate any applicable law, regulation, order, judgment or decree or any agreement, plan or corporate governance document to which the Companies are a party or by which they are bound, and (d) upon execution and delivery of this Agreement by the parties hereto, it will be a valid and binding obligation of the Companies enforceable against the Companies and their successors and assigns in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

[remainder of page left intentionally blank]

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

KRISPY KREME DOUGHNUTS, INC.

By: /s/ James H. Morgan
James H. Morgan
Chief Executive Officer

KRISPY KREME DOUGHNUT CORPORATION

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

EXECUTIVE

/s/ Cynthia A. Bay
Cynthia A. Bay

Exhibit A

MUTUAL RELEASE

This mutual release (this "Release") is entered into as of this ____ day of ______, ____ (the "Release Date") among Krispy Kreme Doughnut Corporation, a North Carolina corporation ("KKDC"), Krispy Kreme Doughnuts, Inc., a North Carolina corporation (the "Company" and, together with KKDC, the "Companies") and Cynthia A. Bay (the "Executive").

1. Reference is hereby made to the amended and restated employment agreement dated as of March 11, 2011 (the "Employment Agreement") by the parties hereto setting forth the agreements among the parties regarding the termination of the employment relationship between the Executive and the Companies. Capitalized terms used but not defined herein have the meanings ascribed to them in the Employment Agreement.

2. The Executive, for herself, her spouse, heirs, executors, administrators, successors and assigns, hereby releases and discharges the Companies and its respective direct and indirect parents and subsidiaries, and other affiliated companies, and each of their respective past and present officers, directors, agents and employees, from any and all actions, causes of action, claims, demands, grievances and complaints, known and unknown, which the Executive or her spouse, heirs, executors, administrators, successors or assigns ever had or may have at any time through the Release Date. The Executive acknowledges and agrees that this Release is intended to and does cover, but is not limited to, (i) any claim of employment discrimination of any kind whether based on a federal, state or local statute or court decision, including the Age Discrimination in Employment Act with appropriate notice and rescission periods observed; (ii) any claim, whether statutory, common law or otherwise, arising out of the terms or conditions of the Executive's employment at the Companies and/or the Executive's separation from the Companies; enumeration of specific rights, claims and causes of action being released shall not be construed to limit the general scope of this Release. It is the intent of the parties that by this Release the Executive is giving up all rights, claims and causes of action occurring prior to the Release Date, whether or not any damage or injury therefrom has yet occurred. The Executive accepts the risk of loss with respect to both undiscovered claims and with respect to claims for any harm hereafter suffered arising out of conduct, statements, performance or decisions occurring before the Release Date.

It is understood that the Executive has been advised to consult with an attorney prior to executing this Release; that she in fact has consulted a knowledgeable, competent attorney regarding this Release; that she may, before executing this Release, consider this Release for a period of 21 calendar days; and that the consideration she receives for this Release is in addition to amounts to which she was already entitled. If the Executive is signing this Release prior to the expiration of such 21-day period, the Executive is waiving her right to review the Release for such full 21-day period prior to signing it. It is further understood that the Executive may revoke this Release within seven calendar days from the date of execution hereof. If the Executive revokes this Release within such seven-day period, no severance benefit will be payable to her under the Employment Agreement and she shall return to the Company any such payment received prior to that date.

3. The Companies hereby release and discharge the Executive, her spouse, heirs, executors, administrators, successors and assigns, from any and all actions, causes of actions, claims, demands, grievances and complaints, known and unknown, which the Companies ever had or may have at any time through the Release Date. The Companies acknowledge and agree that this Release is intended to and does cover, but is not limited to, (i) any claim, whether statutory, common law or otherwise, arising out of the terms or conditions of the Executive's employment at the Companies and/or the Executive's separation from the Companies, and (ii) any claim for attorneys' fees, costs, disbursements or other like expenses. The enumeration of specific rights, claims and causes of action being released shall not be construed to limit the general scope of this Release. It is the intent of the parties that by this Release the Companies are giving up all of their respective rights, claims and causes of action occurring prior to the Release Date, whether or not any damage or injury therefrom has yet occurred. The Companies accept the risk of loss with respect to both undiscovered claims and with respect to claims for any harm hereafter suffered arising out of conduct, statements, performance or decisions occurring before the Release Date.

4. This Release shall in no event (i) apply to any claim by either the Executive or the Companies arising from any breach by the other party of its obligations under the Employment Agreement occurring on or after the Release Date, (ii) waive the Executive's claim with respect to compensation or benefits earned or accrued prior to the Release Date to the extent such claim survives termination of the Executive's employment under the terms of the Employment Agreement, (iii) waive the Executive's right to indemnification under the charters and by-laws of the Companies, or (iv) waive the Executive's rights as a shareholder.

5. This Mutual Release shall be effective as of the Release Date and only if executed by both parties.

6. All questions concerning the construction, validity and interpretation of this Mutual Release will be governed by the internal law of North Carolina, without regard to principles of conflict of laws.

IN WITNESS WHEREOF, each party hereto, intending to be legally bound, has executed this Mutual Release on the date indicated above.

KRISPY KREME DOUGHNUTS, INC.

By: ______________________________

KRISPY KREME DOUGHNUT CORPORATION

By: ______________________________

EXECUTIVE

____

Cynthia A. Bay

Exhibit B

The following businesses, together with their Subsidiaries, are the businesses for purposes of Section 9.01 hereof:

Dunkin Brands Inc.
Tim Hortons, Inc.
George Weston Limited
Interstate Bakeries Corporation
Flowers Foods, Inc.
McKee Foods Inc.
Starbucks

Exhibit 10.9

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (" **Agreement** ") dated as of March 11, 2011, amends and restates the Employment Agreement, dated as of October 3, 2008, which was amended December 15, 2008, among Krispy Kreme Doughnut Corporation, a North Carolina corporation (" **KKDC** "), Krispy Kreme Doughnuts, Inc., a North Carolina corporation (the " **Company** " and, together with KKDC, the " **Companies** "), and Darryl R. Marsch (the " **Executive** ").

The parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

SECTION 1.01. *Definitions* . For purposes of this Agreement, the following terms have the meanings set forth below:

" **Base Salary** " has the meaning set forth in Section 4.01.

" **Board** " means the Board of Directors of the Company.

" **Cause** " shall mean (a) the Executive's failure or refusal to perform the Executive's lawful and proper duties hereunder (other than as a result of total or partial incapacity due to physical or mental illness or a court or governmental order), (b) the Executive's conviction of or plea of *nolo contendere* to any felony (other than a traffic infraction), (c) an act or acts on the Executive's part constituting fraud, theft or embezzlement or that otherwise constitutes a felony under the laws of the United States or any state thereof which results or was intended to result directly or indirectly in gain or personal enrichment by the Executive at the expense of the Companies, or (d) the Executive's insubordination to the Companies' most senior executive officer or willful violation of any material provision of the code of ethics of the Companies applicable to the Executive. In the case of any item described in the previous sentence, the Executive shall be given written notice of the alleged act or omission constituting Cause, which notice shall set forth in reasonable detail the reason or reasons that the Board believes the Executive is to be terminated for Cause, including any act or omission that is the basis for the decision to terminate the Executive. In the case of an act or omission described in clause (a) or (d) of the definition of Cause, (i) if reasonably capable of being cured, the Executive shall be given 30 days from the date of such notice to effect a cure of such alleged act or omission constituting "Cause" which, upon such cure to the reasonable satisfaction of the Board, shall no longer constitute a basis for Cause, and (ii) the Executive shall be given an opportunity to make a presentation to the Board (accompanied by counsel or other representative, if the Executive so desires) at a meeting of the Board held promptly following such 30-day cure period if the Board intends to determine that no cure has occurred. At or following such meeting, the Board shall determine whether or not to terminate the Executive for "Cause" and shall notify the Executive in writing of its determination and the effective date of such termination (which date may be no earlier than the date of the aforementioned Board meeting).

“ **Change in Control** ” means any of the following events:

(a) the acquisition by any Person of “beneficial ownership” (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the Company’s then outstanding voting securities; provided, however, that a Change in Control shall not be deemed to occur solely because fifty percent (50%) or more of the combined voting power of the Company’s then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained by the Company or any of its Subsidiaries, or (ii) any Person, which, immediately prior to such acquisition, is owned directly or indirectly by the shareholders of the Company in the same proportion as their ownership of stock in the Company immediately prior to such acquisition;

(b) consummation of (i) a merger or consolidation involving the Company if the shareholders of the Company, immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the corporation resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of the Company outstanding immediately before such merger or consolidation, or (ii) a sale or other disposition of all or substantially all of the assets of the Company other than to a Person which is owned directly or indirectly by the shareholders of the Company in the same proportion as their ownership of stock in the Company;

(c) a change in the composition of the Board such that the individuals who, as of the Effective Date, constitute the Board (such Board shall be hereinafter referred to as the “ **Incumbent Board** ”) cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this definition, that any individual who becomes a member of the Board subsequent to the Effective Date whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; provided further, however, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act, including any successor to such Rule), or other actual or threatened solicitation or proxies or consents by or on behalf of a Person other than the Board, shall not be so considered as a member of the Incumbent Board; or

(d) approval by shareholders of the Company of a complete liquidation or dissolution of the Company.

provided , however , that, if and to the extent required under Section 409A of the Code or any regulations and guidelines promulgated thereunder (collectively, " **Section 409A** "), an event will be treated as a "Change in Control" for purposes of this Agreement only if it is also a "change in control event" (as defined in Treas. Reg. Section 1.409A-3(i)(5)) with respect to the Company.

" **Code** " means the Internal Revenue Code of 1986, as amended.

" **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 Subsidiaries in connection with the business of the Company and its Subsidiaries 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 the Executive; or (c) the disclosure of which is consented to in writing by the Company.

" **Date of Termination** " has the meaning set forth in Section 5.07.

" **Effective Date** " has the meaning set forth in Section 2.01.

" **Employment Period** " has the meaning set forth in Section 2.01.

" **Exchange Act** " means the Securities Exchange Act of 1934, as amended.

" **Good Reason** " shall mean the occurrence of any of the following without the Executive's consent: (a) the failure of the Companies to pay any material amount of compensation to the Executive when due hereunder, (b) the Executive is no longer the most senior legal officer of (i) the Company or (ii) in the event of a merger, consolidation or other business combination involving the Company, the successor to the Company's business or assets or (iii) if all or substantially all of the voting stock of the Company is held by another public company, such public company, (c) the assignment to the Executive of any duties or responsibilities materially inconsistent with the Executive's status under clause (b) of this sentence or his failure at any time to report directly to the most senior executive officer of the applicable company described in such clause (b), (d) any failure by the Companies to maintain the Executive's principal place of employment and the executive offices of the Companies within 25 miles of the Winston-Salem, North Carolina area, (e) any material breach by the Companies of this Agreement, or (f) the term of the Employment Period ending as a result of the Companies giving the Executive notice of nonextension of the term of this Agreement in accordance with Section 5.01 solely at either the end of the initial term or the end of the first, second or third one-year extensions of the term under Section 5.01 (but, for the avoidance of doubt, not at the end of any further extension of the term); provided, however, that for any of the foregoing to constitute Good Reason, the Executive must provide written notification of his intention to resign within 60 days after the Executive knows or has reason to know of the occurrence of any such event, and the Companies shall have 30 days (10 days in the case of a material breach related to payment of any amounts due hereunder) from the date of receipt of such notice to effect a cure of the condition constituting Good Reason, and, upon cure thereof by the Companies, such event shall no longer constitute Good Reason.

“ **Notice of Termination** ” has the meaning set forth in Section 5.06.

“ **Permanent Disability** ” means the Executive becomes permanently disabled within the meaning of the long-term disability plan of the Companies applicable to the Executive, and the Executive commences to receive benefits under such plan.

“ **Person** ” means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, an estate, a trust, a joint venture, an unincorporated organization or a governmental entity or any department, agency or political subdivision thereof.

“ **Reimbursable Expenses** ” has the meaning set forth in Section 4.04.

“ **Securities Act** ” means the Securities Act of 1933, as amended.

“ **Subsidiary** ” or “ **Subsidiaries** ” means, with respect to any Person, any corporation, partnership, limited liability company, association or other business entity of which (a) if a corporation, 50 percent or more of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or combination thereof; or (b) if a partnership, limited liability company, association or other business entity, 50 percent or more of the partnership or other similar ownership interests thereof are at the time owned or controlled, directly or indirectly, by any Person or one or more Subsidiaries of that Person or a combination thereof. For purposes of this definition, a Person or Persons will be deemed to have a 50 percent or more ownership interest in a partnership, limited liability company, association or other business entity if such Person or Persons are allocated 50 percent or more of partnership, limited liability company, association or other business entity gains or losses or control the managing director or member or general partner of such partnership, limited liability company, association or other business entity.

ARTICLE 2

EMPLOYMENT

SECTION 2.01. *Employment.* The Executive is a current employee of KKDC and a current officer of the Companies. However, under this Agreement, and beginning the Effective Date, both Companies shall employ the Executive, and the Executive shall accept employment with the Companies, upon the terms and conditions set forth in this Agreement for the new period beginning September 9, 2008 (the “ **Effective Date** ”) and ending as provided in Section 5.01 (the “ **Employment Period** ”).

ARTICLE 3

POSITION AND DUTIES

SECTION 3.01. *Position and Duties.* During the Employment Period, the Executive shall serve as Senior Vice President, General Counsel and Assistant Secretary of the Company reporting directly to the most senior executive officer and shall be the Company's most senior legal officer. During the Employment Period, the Executive also shall serve as Senior Vice President, General Counsel and Assistant Secretary of KKDC and shall be KKDC's most senior legal officer. The Executive shall have such responsibilities, powers and duties as may from time to time be prescribed by the Board or the most senior executive officer of the Companies; *provided* that such responsibilities, powers and duties are substantially consistent with those customarily assigned to individuals serving in such position at comparable companies or as may be reasonably required for the proper conduct of the business of the Companies. During the Employment Period, the Executive shall devote substantially all of his working time and efforts to the business and affairs of the Company and its Subsidiaries. The Executive shall not directly or indirectly render any services of a business, commercial or professional nature to any other person or organization not related to the business of the Company or its Subsidiaries, whether for compensation or otherwise, without the prior approval of the Board; provided, however, the Executive may serve on the board of directors of one for-profit corporation with the prior approval of the Board, which will not be unreasonably withheld, and the Executive may serve as a director of not-for-profit organizations or engage in other charitable, civic or educational activities, so long as the activities described in this proviso do not interfere with the Executive's performance of his duties hereunder or result in any conflict of interest with the Companies.

ARTICLE 4

BASE SALARY AND BENEFITS

SECTION 4.01. *Base Salary.* During the Employment Period, the Executive will receive base salary from the Companies equal to $245,000 per annum (the " **Base Salary** "). The Base Salary will be payable in accordance with the normal payroll practices of the Companies. Annually during the Employment Period the Company shall review with the Executive his job performance and compensation, and if deemed appropriate by the Board or its Compensation Committee, in their discretion, the Executive's Base Salary may be increased but not decreased. After any such increase, the term "Base Salary" as used in this Agreement will thereafter refer to the increased amount.

SECTION 4.02. *Bonuses.* In addition to Base Salary, the Executive shall be eligible to be considered for an annual bonus, and the Executive's annual target bonus shall be equal to 50% of Base Salary. The Compensation Committee of the Board and the Board shall set targets with respect to and otherwise determine the Executive's bonus in accordance with the Company's then current incentive plans.

SECTION 4.03. *Benefits.* During the Employment Period, the Executive shall be entitled to participate in all employee benefit, perquisite and fringe benefit plans and arrangements made available by the Companies to their executives and key management employees upon the terms and subject to the conditions set forth in the applicable plan or arrangement. Such benefits shall include medical, life and disability insurance provided in accordance with the policies of the Companies. The Executive shall be entitled to four weeks of paid vacation annually during the Employment Period.

SECTION 4.04. *Expenses.* The Companies shall reimburse the Executive for all reasonable expenses incurred by him in the course of performing his duties under this Agreement which are consistent with the Companies' policies in effect from time to time with respect to travel, entertainment and other business expenses (" **Reimbursable Expenses** "), subject to the Companies' requirements with respect to reporting and documentation of expenses and the provisions of Section 13.14.

SECTION 4.05. *Compliance with Compensation and Equity Policies.* The Executive agrees to comply with the Company's Equity Retention Policy, Compensation Recovery Policy and Stock Ownership Guidelines, each as in effect from time to time, with respect to annual or long-term incentive or other compensation, as applicable. The terms of the Company's Equity Retention Policy, Compensation Recovery Policy and Stock Ownership Guidelines, each as in effect from time to time, are hereby incorporated by reference into this Agreement.

ARTICLE 5

TERM AND TERMINATION

SECTION 5.01. *Term.* The Employment Period will terminate on October 3, 2011 (unless sooner terminated as hereinafter provided); provided, however, that the Employment Period will be automatically extended for successive one-year periods following the original term ending October 3, 2011, until either the Companies, on the one hand, or the Executive, on the other hand, at least 180 days prior to the expiration of the original term or any extended term, shall give written notice to the other of their intention not to so extend the Employment Period.

SECTION 5.02. *Termination Due to Death or Permanent Disability.* If the Employment Period shall be terminated due to death or Permanent Disability of the Executive, the Executive (or his estate or legal representative) shall be entitled solely to the following: (a) Base Salary through the Date of Termination (paid on the Companies' normal payroll date), and (b) medical benefits as provided in Section 5.05 below. The Executive's entitlements under any other benefit plan or program shall be as determined thereunder. In addition, promptly following any such termination, the Executive (or his estate or legal representative) shall be reimbursed for all Reimbursable Expenses incurred by the Executive prior to such termination in accordance with Section 4.04 and Section 13.14 herein.

SECTION 5.03. *Termination for Good Reason or Without Cause.* Except as otherwise set forth in Section 5.09 below, if the Employment Period shall be terminated (a) by the Executive for Good Reason, or (b) by the Companies not for Cause, provided the Executive has executed, on or before the date that is fifty (50) days following the date of his termination of employment, an irrevocable (except to the extent required by law to be revocable) general release of claims in the form attached hereto as Exhibit A, and does not revoke such release prior to the end of the seven day statutory revocation period, the Executive shall be entitled solely to the following: (i) Base Salary through the Date of Termination, paid on the Companies' normal payroll payment date; (ii) an amount equal to one times the Base Salary, provided that, the Executive shall be entitled to any unpaid amounts only if the Executive has not breached and does not breach the provisions of Sections 6.01, 7.01, 8.01 or Article 9 below; (iii) a bonus for the year of termination of employment equal to the Executive's target annual bonus for such year pro rated for the number of full months during the bonus year prior to such termination of employment, to be paid, subject to Section 13.14 below, sixty (60) days following such termination of employment; and (iv) medical benefits as provided in Section 5.05 below. The Executive's entitlements under any other benefit plan or program shall be as determined thereunder, except that duplicative severance benefits shall not be payable under any other plan or program. Amounts described in clause (ii) above will be paid, subject to Section 13.14 below, in twelve (12) equal installments, the first two (2) of which shall be paid on the date that is two (2) months following the Date of Termination and the next ten (10) of which will be paid in ten (10) equal monthly installments commencing on the date that is three (3) months following the Date of Termination and continuing on each of the next nine (9) monthly anniversaries of the Date of Termination. In addition, promptly following any such termination, the Executive shall be reimbursed for all Reimbursable Expenses incurred by the Executive prior to such termination in accordance with Section 4.04 and Section 13.14 herein.

SECTION 5.04. *Termination for Cause or Other Than Good Reason.* If the Employment Period shall be terminated (a) by the Companies for Cause, or (b) as a result of the Executive's resignation or leaving of his employment other than for Good Reason, the Executive shall be entitled to receive solely Base Salary through the Date of Termination (paid on the Companies' normal payroll date) and reimbursement of all Reimbursable Expenses incurred by the Executive prior to such termination (in accordance with Section 4.04 and Section 13.14 herein). The Executive's rights under the benefit plans and programs shall be as determined thereunder. A voluntary resignation by the Executive shall not be deemed to be a breach of this Agreement.

SECTION 5.05. *Benefits.* If the Employment Period is terminated as a result of a termination of employment as specified in Section 5.02, 5.03 or 5.09, the Executive and his covered dependents shall continue to receive medical insurance coverage benefits from the Companies, with the same contribution toward such coverage from the Executive or his estate, for a period equal to the lesser of (a) eighteen months following the Date of Termination, or (b) until the Executive is provided by another employer with benefits substantially comparable to the benefits provided by the Companies' medical plan. Furthermore, in the event of the Executive's Permanent Disability, insurance benefits will continue under the Companies' long term disability plan in accordance with its terms.

SECTION 5.06. *Notice of Termination.* Any termination by the Companies for Permanent Disability or Cause or without Cause or by the Executive with or without Good Reason shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a " **Notice of Termination** " shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision indicated.

SECTION 5.07. *Date of Termination.* " **Date of Termination** " shall mean (a) if the Employment Period is terminated as a result of a Permanent Disability, five days after a Notice of Termination is given, (b) if the Employment Period is terminated as a result of his death, on the date of his death, (c) if the Employment Period terminates due to expiration of the term of this Agreement, the date the term expires, and (d) if the Employment Period is terminated for any other reason, the later of the date of the Notice of Termination and the end of any applicable correction period.

SECTION 5.08. *No Duty to Mitigate.* The Executive shall have no duty to seek new employment or other duty to mitigate following a termination of employment as described in this Article 5, and no compensation or benefits described in this Article 5 shall be subject to reduction or offset on account of any subsequent compensation, other than as provided in Section 5.05.

SECTION 5.09. *Termination for Good Reason or Without Cause Following a Change in Control.* If the Employment Period shall be terminated within two years after a Change in Control (a) by the Executive for Good Reason, or (b) by the Companies not for Cause, then the Executive's compensation and benefits upon termination shall be governed by this Section 5.09 instead of the provisions of Section 5.03 above, and, provided the Executive has executed, on or before the date that is fifty (50) days following the date of his termination of employment, an irrevocable (except to the extent required by law to be revocable) general release of claims in the form attached hereto as Exhibit A, and does not revoke such release prior to the end of the seven day statutory revocation period, the Executive shall be entitled solely to the following: (i) Base Salary through the Date of Termination, paid on the Companies' normal payroll payment date; (ii) an amount equal to two times the sum of his Base Salary and his target annual bonus for the year of termination, provided that, the Executive shall be entitled to any unpaid amounts only if the Executive has not breached and does not breach the provisions of Sections 6.01, 7.01 or 8.01 or Article 9 below; (iii) a bonus for the year of termination of employment equal to the Executive's target annual bonus for such year pro rated for the number of full months during the bonus year prior to such termination of employment; and (iv) medical benefits as provided in Section 5.05. The Executive's entitlements under any other benefit plan or program shall be as determined thereunder, except that duplicative severance benefits shall not be payable under any other plan or program. In addition, promptly following any such termination, the Executive shall be reimbursed for all Reimbursable Expenses incurred by the Executive prior to such termination (in accordance with Section 13.14). The amounts due under clauses (ii) and (iii) of this Section 5.09 shall be paid, subject to Section 13.14 below, sixty (60) days following such termination of employment.

SECTION 5.10. *Separation From Service.* Notwithstanding any provision of this Agreement to the contrary, for purposes of Section 5.03 and Section 5.09, the Executive will be deemed to have terminated his employment on the date of his "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Companies, the Employment Period will be deemed to have ended on the date of his "separation from service" with the Companies, and the Date of Termination will be deemed to be the date of his "separation from service" with the Companies if and to the extent required under Section 409A.

ARTICLE 6

CONFIDENTIAL INFORMATION

SECTION 6.01. *Nondisclosure and Nonuse of Confidential Information.* The Executive will not disclose or use at any time during or after the Employment Period any Confidential Information of which the Executive is or becomes aware, whether or not such information is developed by him, except to the extent he reasonably believes that such disclosure or use is directly related to and appropriate in connection with the Executive's performance of duties assigned to the Executive pursuant to this Agreement. Under all circumstances and at all times, the Executive will take all appropriate steps to safeguard Confidential Information in his possession and to protect it against disclosure, misuse, espionage, loss and theft. The Executive also agrees to execute and comply with such other confidentiality agreements or provisions as required of executive officers of the Company.

ARTICLE 7

INTELLECTUAL PROPERTY

SECTION 7.01. *Ownership of Intellectual Property.* In the event that the Executive as part of his activities on behalf of the Companies generates, authors or contributes to any invention, design, new development, device, product, method of process (whether or not patentable or reduced to practice or comprising Confidential Information), any copyrightable work (whether or not comprising Confidential Information) or any other form of Confidential Information relating directly or indirectly to the business of the Company or its Subsidiaries as now or hereafter conducted (collectively, " **Intellectual Property** "), the Executive acknowledges that such Intellectual Property is the sole and exclusive property of the Company and its Subsidiaries and hereby assigns all right, title and interest in and to such Intellectual Property to the Company or its designated Subsidiary. Any copyrightable work prepared in whole or in part by the Executive during the Employment Period will be deemed "a work made for hire" under Section 201(b) of the Copyright Act of 1976, as amended, and the Company or its designated Subsidiary will own all of the rights comprised in the copyright therein. The Executive will promptly and fully disclose all Intellectual Property and will cooperate with the Companies to protect their interests in and rights to such Intellectual Property (including providing reasonable assistance in securing patent protection and copyright registrations and executing all documents as reasonably requested by the Companies, whether such requests occur prior to or after termination of the Executive's employment hereunder).

ARTICLE 8

DELIVERY OF MATERIALS UPON TERMINATION OF EMPLOYMENT

SECTION 8.01. *Delivery of Materials upon Termination of Employment.* As requested by the Companies from time to time, and upon the termination of the Executive's employment with the Companies for any reason, the Executive will promptly deliver to the Companies all property of the Company or its Subsidiaries, including, without limitation, all copies and embodiments, in whatever form or medium, of all Confidential Information in the Executive's possession or within his control (including written records, notes, photographs, manuals, notebooks, documentation, program listings, flow charts, magnetic media, disks, diskettes, tapes and all other materials containing any Confidential Information) irrespective of the location or form of such material and, if requested by the Companies, will provide the Companies with written confirmation that to the best of his knowledge all such materials have been delivered to the Companies or destroyed.

ARTICLE 9

NON-COMPETITION AND NONSOLICITATION

SECTION 9.01. *Noncompetition.* The Executive acknowledges that, during his employment with the Companies, he will become familiar with trade secrets and other Confidential Information concerning the Company and its Subsidiaries and his services will be of special, unique and extraordinary value to the Companies. In addition, the Executive hereby agrees that at any time during the Noncompetition Period (as defined below), he will not directly or indirectly own, manage, control, participate in, consult with, become employed by or otherwise render services to any business listed on Exhibit B hereto in the Territory. During the Noncompetition Period, the Company shall have the right to, in good faith, add other entities which are in substantial competition with the Companies to the list of businesses on Exhibit B, subject to the consent of the Executive which shall not be unreasonably withheld. Notwithstanding the foregoing, if the Executive's termination of employment occurs at the end of the Employment Period due to the Companies giving written notice after the fifth anniversary of the Effective Date pursuant to Section 5.01 of its intention not to extend the Employment Period, this Section 9.01 will only apply if the Companies elect and agree in writing to pay the Executive his Base Salary and his annual target bonus in effect for the year during which his employment is terminated for an additional one-year period following the termination of employment, such amount to be paid, subject to Section 13.14 below, in twelve (12) equal installments, the first two (2) of which shall be paid on the date that is two (2) months following the date of the Executive's "separation from service" with the Companies (as defined in Section 5.10 above) and the next ten (10) of which will be paid in ten (10) equal monthly installments commencing on the date that is three (3) months following such date and continuing on each of the next nine (9) monthly anniversaries of such date; provided , however , that if such termination of employment is within two years after a Change in Control, such amount shall instead be paid, subject to Section 13.14 below, 60 days following the Executive's "separation from service" with the Companies. It shall not be considered a violation of this Section 9.01 for the Executive to be a passive owner of not more than 2% of the outstanding stock of any class of any corporation which is publicly traded, so long as the Executive has no active participation in the business of such corporation.

SECTION 9.02. *Nonsolicitation.* The Executive hereby agrees that (a) during the Nonsolicitation Period (as defined below), the Executive will not, directly or indirectly through another Person, induce or attempt to induce any employee of the Company or its Subsidiaries to leave the employ of the Company or its Subsidiaries, or in any way interfere with the relationship between the Company or its Subsidiaries and any person employed by them at any time during such Nonsolicitation Period, and (b) during the Nonsolicitation Period, the Executive will not induce or attempt to induce any customer, supplier, client or other business relation of the Company or its Subsidiaries to cease doing business with the Company or its Subsidiaries.

SECTION 9.03. *Definitions.* It is agreed that the " **Territory,** " for purposes of this Article 9, shall mean:

(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 Executive's employment with the Companies;

(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 Companies' products have been sold at any time in the one-year period ending on the last day of Executive's employment with the Companies;

(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 Companies' products have been sold at any time in the one-year period ending on the last day of the Executive's employment with the Companies; 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.

It is also agreed that " **Noncompetition Period,** " for purposes hereof, shall mean:

(a) the Employment Period and a period ending one year after the Date of Termination; and

(b) In the event that the preceding clause shall be determined by judicial action to define too long a period to be enforceable, "Noncompetition Period" shall mean the Employment Period and a period ending six months after the Date of Termination.

It is also agreed that " **Nonsolicitation Period,** " for purposes hereof, shall mean:

(a) the Employment Period and a period ending two years after the Date of Termination;

(b) In the event that the preceding clause shall be determined by judicial action to define too long a period to be enforceable, "Nonsolicitation Period" shall mean the Employment Period and a period ending eighteen months after the Date of Termination;

(c) In the event that the preceding clauses shall be determined by judicial action to define too long a period to be enforceable, "Nonsolicitation Period" shall mean the Employment Period and a period ending one year after the Date of Termination; and

(d) In the event that the preceding clauses shall be determined by judicial action to define too long a period to be enforceable, "Nonsolicitation Period" shall mean the Employment Period and a period ending six months after the Date of Termination.

ARTICLE 10

EQUITABLE RELIEF

SECTION 10.01. *Equitable Relief.* The Executive acknowledges that (a) the covenants contained herein are reasonable, (b) the Executive's services are unique, and (c) a breach or threatened breach by him of any of his covenants and agreements with the Companies contained in Sections 6.01, 7.01, 8.01 or Article 9 could cause irreparable harm to the Companies for which they would have no adequate remedy at law. Accordingly, and in addition to any remedies which the Companies may have at law, in the event of an actual or threatened breach by the Executive of his covenants and agreements contained in Sections 6.01, 7.01, 8.01 or Article 9, the Companies shall have the absolute right to apply to any court of competent jurisdiction for such injunctive or other equitable relief, without the necessity to post bond, as such court may deem necessary or appropriate in the circumstances.

ARTICLE 11

EXECUTIVE REPRESENTATION AND INDEMNIFICATION

SECTION 11.01. *Executive Representation.* The Executive hereby represents and warrants to the Companies that (a) the execution, delivery and performance of this Agreement by the Executive does not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which the Executive is a party or by which he is bound, (b) the Executive is not a party to or bound by any employment agreement, noncompetition agreement or confidentiality agreement with any other Person, and (c) upon the execution and delivery of this Agreement by the Companies, this Agreement will be the valid and binding obligation of the Executive, enforceable in accordance with its terms. Notwithstanding Section 11.02 below, in the event that any action is brought against the Executive involving any breach of any employment agreement, noncompetition agreement or confidentiality agreement with any other Person, the Executive shall bear his own costs incurred in defending such action, including but not limited to court fees, arbitration costs, mediation costs, attorneys' fees and disbursements.

SECTION 11.02. *General Indemnification.* The Companies, jointly and severally, agree that if the Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (each, a " **Proceeding** "), by reason of the fact that he is or was a director, officer or employee of the Company or any of its Subsidiaries or is or was serving at the request of the Company or any of its Subsidiaries as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by the Companies to the fullest extent permitted or authorized by applicable law and their bylaws, against all cost, expense, liability and loss (including, without limitation, advancement of attorneys' and other fees and expenses) reasonably incurred or suffered by the Executive in connection therewith. The Companies agree to use their best efforts to maintain a directors' and officers' liability insurance policy covering the Executive during the Employment Period and for at least four years thereafter to the extent available on commercially reasonable terms.

ARTICLE 12

LIMITATION ON CERTAIN PAYMENTS CONTINGENT ON CHANGE IN CONTROL

SECTION 12.01. *Limitation on Certain Payments Contingent on Change In Control.*

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that (i) any payment, award, benefit or distribution (or any acceleration of any payment, award, benefit or distribution) by the Companies (or any of their affiliated entities) or any entity which effectuates a Change in Control (or any of its affiliated entities) to or for the benefit of the Executive (whether pursuant to the terms of this Agreement or otherwise) (the " **Payments** ") would be subject to the excise tax imposed by Section 4999 of the Code (the " **Excise Tax** "), and (ii) the reduction of the amounts payable to the Executive under this Agreement to the maximum amount that could be paid to the Executive without giving rise to the Excise Tax (the " **Safe Harbor Cap** ") would provide the Executive with a greater after-tax amount than if such amounts were not reduced, then the amounts payable to the Executive under this Agreement shall be reduced (but not below zero) to the Safe Harbor Cap. Unless the Companies and the Executive agree otherwise, the reduction of the amounts payable hereunder, if applicable, shall be made to the extent necessary in the following order: (i) *first* , any such Payments that became fully vested prior to the Change in Control and that pursuant to paragraph (b) of Treas. Reg. § 1.280G-1, Q/A 24, are treated as contingent compensation payments solely by reason of the acceleration of their originally scheduled dates of payment will be reduced, by cancellation of the acceleration of their vesting; (ii) *second* , any severance payments or benefits, performance-based cash or equity incentive awards, or other contingent compensation payments the full amounts of which are treated as contingent on the Change in Control pursuant to paragraph (a) of Treas. Reg. § 1.280G-1, Q/A 24, will be reduced; and (iii) *third* , any cash or equity incentive awards, or nonqualified deferred compensation amounts, that vest solely based on the Executive's continued service with the Companies, and that pursuant to paragraph (c) of Treas. Reg. § 1.280G-1, Q/A 24, are treated as contingent on the Change in Control because they become vested as a result of the Change in Control, will be reduced, first by cancellation of any acceleration of their originally scheduled dates of payment (if payment with respect to such items is not treated as automatically occurring upon the vesting of such items for purposes of Section 280G of the Code) and then, if necessary, by canceling the acceleration of their vesting. In each case, the amounts of the contingent compensation payments will be reduced in the inverse order of their originally scheduled dates of payment or vesting, as applicable, and will be so reduced only to the extent necessary to achieve the required reduction. For purposes of reducing the Payments to the Safe Harbor Cap, only amounts payable under this Agreement (and no other Payments) shall be reduced. If the reduction of the amounts payable hereunder would not result in a greater after-tax result to the Executive, no amounts payable under this Agreement shall be reduced pursuant to this provision.

(b) All determinations required to be made under this Section 12.01 shall be made by the public accounting firm that is retained by the Companies as of the date immediately prior to the Change in Control (the " **Accounting Firm** "), which shall provide detailed supporting calculations both to the Companies and the Executive within fifteen (15) business days of the receipt of notice from the Companies or the Executive that there has been a Payment, or such earlier time as is requested by the Companies. Notwithstanding the foregoing, in the event (i) the Board shall determine prior to the Change in Control that the Accounting Firm is precluded from performing such services under applicable auditor independence rules or (ii) the Audit Committee of the Board determines that it does not want the Accounting Firm to perform such services because of auditor independence concerns or (iii) the Accounting Firm is serving as accountant or auditor for the person(s) effecting the Change in Control, the Board shall appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees, costs and expenses (including, but not limited to, the costs of retaining experts) of the Accounting Firm shall be borne by the Companies. If payments are reduced to the Safe Harbor Cap or the Accounting Firm determines that no Excise Tax is payable by the Executive without a reduction in payments, the Accounting Firm shall provide a written opinion to the Executive to such effect, that the Executive is not required to report any Excise Tax on the Executive's federal income tax return, and that the failure to report the Excise Tax, if any, on the Executive's applicable federal income tax return will not result in the imposition of a negligence or similar penalty. The determination by the Accounting Firm shall be binding upon the Companies and the Executive (except as provided in Section 12.01(c) below).

(c) If it is established pursuant to a final determination of a court or an Internal Revenue Service (the " **IRS** ") proceeding, which has been finally and conclusively resolved, that Payments have been made to, or provided for the benefit of, the Executive by the Companies, which are in excess of the limitations provided in this Section 12.01 (referred to hereinafter as an " **Excess Payment** "), the Executive shall repay the Excess Payment to the Companies on demand, together with interest on the Excess Payment at the applicable federal rate (as defined in Section 1274(d) of the Code) from the date of the Executive's receipt of such Excess Payment until the date of such repayment. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the determination, it is possible that Payments which will not have been made by the Companies should have been made (an " **Underpayment** "), consistent with the calculations required to be made under this Section 12.01. In the event that it is determined (i) by the Accounting Firm, the Companies (which shall include the position taken by the Companies, or together with their consolidated group, on their federal income tax returns) or the IRS or (ii) pursuant to a determination by a court, that an Underpayment has occurred, the Companies shall pay an amount equal to such Underpayment to the Executive within ten (10) days of such determination together with interest on such amount at the applicable federal rate from the date such amount would have been paid to the Executive until the date of payment. The Executive shall cooperate, to the extent the Executive's expenses are reimbursed by the Companies, with any reasonable requests by the Companies in connection with any contests or disputes with the IRS in connection with the Excise Tax or the determination of the Excess Payment. Notwithstanding the foregoing, in the event that amounts payable under this Agreement were reduced pursuant to Section 12.01(a) and the value of stock options is subsequently re-determined by the Accounting Firm within the context of Treasury Regulation §1.280G-1 Q/A 33 that reduces the value of the Payments attributable to such options, the Companies shall promptly pay to the Executive any amounts payable under this Agreement that were not previously paid solely as a result of Section 12.01(a), subject to the Safe Harbor Cap.

ARTICLE 13

MISCELLANEOUS

SECTION 13.01. *Binding Arbitration.* The parties agree that, except as provided in Articles 9 and 10 above, any disputes under this Agreement shall be settled exclusively by arbitration conducted in Winston-Salem, North Carolina. Except to the extent inconsistent with this Agreement, such arbitration shall be conducted in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association then in effect at the time of the arbitration and otherwise in accordance with principles which would be applied by a court of law or equity. The arbitrator shall be acceptable to both the Companies and the Executive. If the parties cannot agree on an acceptable arbitrator, the dispute shall be decided by a panel of three arbitrators, one appointed by each of the parties and the third appointed by the other two arbitrators or if the two arbitrators do not agree, appointed by the American Arbitration Association. The costs of arbitration incurred by the Executive (or his beneficiaries) will be borne by the Companies (including, without limitation, reasonable attorneys' fees and other reasonable charges of counsel) (i) if the arbitration occurs prior to a Change in Control, if the Executive prevails on a majority of the material issues in the dispute, and (ii) if the arbitration occurs after a Change in Control, if the Executive prevails on at least one material issue in the dispute. Judgment upon the final award rendered by such arbitrator(s) may be entered in any court having jurisdiction thereof.

Following the final determination of the dispute in which, based on the outcome of the dispute, the Executive is, in accordance with this Section 13.01, entitled to have his costs borne by the Companies, the Companies shall pay all such reasonable costs within ten (10) days following written demand therefor (supported by documentation of such costs) by the Executive, and the Executive shall make such written demand within sixty (60) days following the final determination of the dispute; provided , however , that such payment shall be made no later than on or prior to the end of the calendar year following the calendar year in which the costs are incurred. Notwithstanding the foregoing, in the event a final determination of the dispute has not been made by December 20 of the year following the calendar year in which the costs are incurred, the Companies shall, within ten (10) days after such December 20, reimburse such reasonable costs (supported by documentation of such costs) incurred in the prior taxable year; provided , however , that the Executive shall return such amounts to the Companies within ten (10) business days following the final determination if (a) in the case of an arbitration prior to a Change in Control, the Executive does not prevail on a majority of the material issues in the dispute, or (b) in the case of an arbitration after a Change in Control, the Executive does not prevail on at least one material issue in the dispute. The amount of any costs eligible for payment under this Section 13.01 during a calendar year will not affect the amount of any costs eligible for payment under this Section 13.01 in any other taxable year.

SECTION 13.02. *Consent to Amendments; No Waivers.* The provisions of this Agreement may be amended or waived only by a written agreement executed and delivered by the Companies and the Executive. Notwithstanding the foregoing, the Companies shall have unilateral authority to amend this Agreement (without Executive consent) to the extent necessary to comply with applicable laws, rules or regulations (including but not limited to Section 409A) or changes to applicable laws, rules or regulations. No other course of dealing between the parties to this Agreement or any delay in exercising any rights hereunder will operate as a waiver of any rights of any such parties.

SECTION 13.03. *Successors and Assigns.* All covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto will bind and inure to the benefit of the respective successors, assigns, heirs, executors and estates of the parties hereto whether so expressed or not, provided that the Executive may not assign his rights or delegate his obligations under this Agreement without the written consent of the Companies (other than to his estate or heirs) and the Company may assign this Agreement only to a successor to all or substantially all of the assets of the Company.

SECTION 13.04. *Severability.* Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

SECTION 13.05. *Counterparts.* This Agreement may be executed simultaneously in two or more counterparts, any one of which need not contain the signatures of more than one party, but all of which counterparts taken together will constitute one and the same agreement.

SECTION 13.06. *Descriptive Headings.* The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

SECTION 13.07. *Notices.* All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Agreement will be in writing and will be deemed to have been given when delivered personally to the recipient, two business days after the date when sent to the recipient by reputable express courier service (charges prepaid) or four business days after the date when mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid. Such notices, demands and other communications will be sent to the Executive and to the Companies at the addresses set forth below.

If to the Executive:	To the last address delivered to the Companies by the Executive in the manner set forth herein.
If to the Companies:	Krispy Kreme Doughnuts, Inc. Krispy Kreme Doughnut Corporation Suite 500 370 Knollwood Street Winston-Salem, NC 27103 Attn: Senior Vice President – Human Resources

or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

SECTION 13.08. *Withholding.* The Companies may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

SECTION 13.09. *No Third-Party Beneficiary.* This Agreement will not confer any rights or remedies upon any person other than the Companies, the Executive and their respective heirs, executors, successors and assigns.

SECTION 13.10. *Entire Agreement.* This Agreement (including any other documents referred to herein) constitutes the entire agreement among the parties and supersedes any prior understandings, agreements or representations by or among the parties, written or oral, including the Employment Agreement dated October 3, 2008, and the Amendment to the Employment Agreement dated December 15, 2008, that may have related in any way to the subject matter hereof.

SECTION 13.11. *Construction.* The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction will be applied against any party. Any reference to any federal, state, local or foreign statute or law will be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise.

SECTION 13.12. *Survival.* Sections 6.01, 7.01, 8.01 and Articles 5, 9, 11, 12 and 13 will survive and continue in full force in accordance with their terms notwithstanding any termination of the Employment Period, and the Agreement shall otherwise remain in full force to the extent necessary to enforce any rights and obligations arising hereunder during the Employment Period.

SECTION 13.13. *GOVERNING LAW.* ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY AND INTERPRETATION OF THIS AGREEMENT WILL BE GOVERNED BY THE INTERNAL LAW OF NORTH CAROLINA, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

SECTION 13.14. *Section 409A.*

(a) It is intended that this Agreement will comply with Section 409A, to the extent the Agreement is subject thereto, and the Agreement shall be interpreted on a basis consistent with such intent. If an amendment of this Agreement is necessary in order for it to comply with Section 409A, the parties hereto will negotiate in good faith to amend the Agreement in a manner that preserves the original intent of the parties to the extent reasonably possible. No action or failure to act pursuant to this Section 13.14 shall subject the Companies to any claim, liability, or expense, and the Companies shall not have any obligation to indemnify or otherwise protect the Executive from the obligation to pay any taxes, interest or penalties pursuant to Section 409A.

(b) Notwithstanding any provision to the contrary in this Agreement, if the Executive is deemed on the date of his “separation from service” (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Companies to be a “specified employee” (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment or benefit that is considered deferred compensation under Section 409A payable on account of a “separation from service” that is required to be delayed pursuant to Section 409A(a)(2)(B) of the Code (after taking into account any applicable exceptions to such requirement), such payment or benefit shall be made or provided on the date that is the earlier of (i) the expiration of the six (6)-month period measured from the date of the Executive’s “separation from service,” or (ii) the date of the Executive’s death (the “ **Delay Period** ”). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this Section 13.14 (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to the Executive in a lump sum and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein. 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, references to the Executive’s “termination of employment” (and corollary terms, including the end of the Employment Period) with the Companies shall be construed to refer to the Executive’s “separation from service” (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Companies.

(c) With respect to any reimbursement or in-kind benefit arrangements of the Companies and its subsidiaries that constitute deferred compensation for purposes of Section 409A, except as otherwise permitted by Section 409A, the following conditions shall be applicable: (i) the amount eligible for reimbursement, or in-kind benefits provided, under any such arrangement in one calendar year may not affect the amount eligible for reimbursement, or in-kind benefits to be provided, under such arrangement in any other calendar year (except that the health and dental plans may impose a limit on the amount that may be reimbursed or paid), (ii) any reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred, and (iii) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g ., "payment shall be made within thirty (30) days after termination of employment"), the actual date of payment within the specified period shall be within the sole discretion of the Companies. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Section 409A.

SECTION 13.15. *Representations of the Companies.* The Companies represent and warrant that (a) the execution, delivery and performance of this Agreement by the Companies has been fully and validly authorized by all necessary corporate action, (b) the officer(s) signing this Agreement on behalf of the Companies is duly authorized to do so, (c) the execution, delivery and performance of this Agreement does not violate any applicable law, regulation, order, judgment or decree or any agreement, plan or corporate governance document to which the Companies are a party or by which they are bound, and (d) upon execution and delivery of this Agreement by the parties hereto, it will be a valid and binding obligation of the Companies enforceable against the Companies and their successors and assigns in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

[remainder of page left intentionally blank]

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

KRISPY KREME DOUGHNUTS, INC.

By: /s/ James H. Morgan
James H. Morgan
Chief Executive Officer

KRISPY KREME DOUGHNUT CORPORATION

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

EXECUTIVE

/s/ Darryl R. Marsch
Darryl R. Marsch

Exhibit A

MUTUAL RELEASE

This mutual release (this “Release”) is entered into as of this ____ day of ______, ____ (the “Release Date”) among Krispy Kreme Doughnut Corporation, a North Carolina corporation (“KKDC”), Krispy Kreme Doughnuts, Inc., a North Carolina corporation (the “Company” and, together with KKDC, the “Companies”) and Darryl R. Marsch (the “Executive”).

1. Reference is hereby made to the amended and restated employment agreement dated as of March 11, 2011 (the “Employment Agreement”) by the parties hereto setting forth the agreements among the parties regarding the termination of the employment relationship between the Executive and the Companies. Capitalized terms used but not defined herein have the meanings ascribed to them in the Employment Agreement.

2. The Executive, for himself, his spouse, heirs, executors, administrators, successors and assigns, hereby releases and discharges the Companies and its respective direct and indirect parents and subsidiaries, and other affiliated companies, and each of their respective past and present officers, directors, agents and employees, from any and all actions, causes of action, claims, demands, grievances and complaints, known and unknown, which the Executive or his spouse, heirs, executors, administrators, successors or assigns ever had or may have at any time through the Release Date. The Executive acknowledges and agrees that this Release is intended to and does cover, but is not limited to, (i) any claim of employment discrimination of any kind whether based on a federal, state or local statute or court decision, including the Age Discrimination in Employment Act with appropriate notice and rescission periods observed; (ii) any claim, whether statutory, common law or otherwise, arising out of the terms or conditions of the Executive’s employment at the Companies and/or the Executive’s separation from the Companies; enumeration of specific rights, claims and causes of action being released shall not be construed to limit the general scope of this Release. It is the intent of the parties that by this Release the Executive is giving up all rights, claims and causes of action occurring prior to the Release Date, whether or not any damage or injury therefrom has yet occurred. The Executive accepts the risk of loss with respect to both undiscovered claims and with respect to claims for any harm hereafter suffered arising out of conduct, statements, performance or decisions occurring before the Release Date.

It is understood that the Executive has been advised to consult with an attorney prior to executing this Release; that he in fact has consulted a knowledgeable, competent attorney regarding this Release; that he may, before executing this Release, consider this Release for a period of 21 calendar days; and that the consideration he receives for this Release is in addition to amounts to which he was already entitled. If the Executive is signing this Release prior to the expiration of such 21-day period, the Executive is waiving his right to review the Release for such full 21-day period prior to signing it. It is further understood that the Executive may revoke this Release within seven calendar days from the date of execution hereof. If the Executive revokes this Release within such seven-day period, no severance benefit will be payable to him under the Employment Agreement and he shall return to the Company any such payment received prior to that date.

3. The Companies hereby release and discharge the Executive, his spouse, heirs, executors, administrators, successors and assigns, from any and all actions, causes of actions, claims, demands, grievances and complaints, known and unknown, which the Companies ever had or may have at any time through the Release Date. The Companies acknowledge and agree that this Release is intended to and does cover, but is not limited to, (i) any claim, whether statutory, common law or otherwise, arising out of the terms or conditions of the Executive's employment at the Companies and/or the Executive's separation from the Companies, and (ii) any claim for attorneys' fees, costs, disbursements or other like expenses. The enumeration of specific rights, claims and causes of action being released shall not be construed to limit the general scope of this Release. It is the intent of the parties that by this Release the Companies are giving up all of their respective rights, claims and causes of action occurring prior to the Release Date, whether or not any damage or injury therefrom has yet occurred. The Companies accept the risk of loss with respect to both undiscovered claims and with respect to claims for any harm hereafter suffered arising out of conduct, statements, performance or decisions occurring before the Release Date.

4. This Release shall in no event (i) apply to any claim by either the Executive or the Companies arising from any breach by the other party of its obligations under the Employment Agreement occurring on or after the Release Date, (ii) waive the Executive's claim with respect to compensation or benefits earned or accrued prior to the Release Date to the extent such claim survives termination of the Executive's employment under the terms of the Employment Agreement, (iii) waive the Executive's right to indemnification under the charters and by-laws of the Companies, or (iv) waive the Executive's rights as a shareholder.

5. This Mutual Release shall be effective as of the Release Date and only if executed by both parties.

6. All questions concerning the construction, validity and interpretation of this Mutual Release will be governed by the internal law of North Carolina, without regard to principles of conflict of laws.

IN WITNESS WHEREOF, each party hereto, intending to be legally bound, has executed this Mutual Release on the date indicated above.

KRISPY KREME DOUGHNUTS, INC.

By: ______________________________

KRISPY KREME DOUGHNUT CORPORATION

By: ______________________________

EXECUTIVE

____

Darryl R. Marsch

Exhibit B

The following businesses, together with their Subsidiaries, are the businesses for purposes of Section 9.01 hereof:

Dunkin Brands Inc.
Tim Hortons, Inc.
George Weston Limited
Interstate Bakeries Corporation
Flowers Foods, Inc.
McKee Foods Inc.
Starbucks

Exhibit 10.10

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (" **Agreement** ") dated as of March 11, 2011, amends and restates the Employment Agreement, dated as of September 14, 2010 among Krispy Kreme Doughnut Corporation, a North Carolina corporation (" **KKDC** "), Krispy Kreme Doughnuts, Inc., a North Carolina corporation (the " **Company** " and, together with KKDC, the " **Companies** "), and G. Dwayne Chambers (the " **Executive** ").

The parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

SECTION 1.01. *Definitions* . For purposes of this Agreement, the following terms have the meanings set forth below:

" **Base Salary** " has the meaning set forth in Section 4.01.

" **Board** " means the Board of Directors of the Company.

" **Cause** " shall mean (a) the Executive's failure or refusal to perform the Executive's lawful and proper duties hereunder (other than as a result of total or partial incapacity due to physical or mental illness or a court or governmental order), (b) the Executive's conviction of or plea of *nolo contendere* to any felony (other than a traffic infraction), (c) an act or acts on the Executive's part constituting fraud, theft or embezzlement or that otherwise constitutes a felony under the laws of the United States or any state thereof which results or was intended to result directly or indirectly in gain or personal enrichment by the Executive at the expense of the Companies, or (d) the Executive's insubordination to the Companies' most senior executive officer or willful violation of any material provision of the code of ethics of the Companies applicable to the Executive. In the case of any item described in the previous sentence, the Executive shall be given written notice of the alleged act or omission constituting Cause, which notice shall set forth in reasonable detail the reason or reasons that the Board believes the Executive is to be terminated for Cause, including any act or omission that is the basis for the decision to terminate the Executive. In the case of an act or omission described in clause (a) or (d) of the definition of Cause, (i) if reasonably capable of being cured, the Executive shall be given 30 days from the date of such notice to effect a cure of such alleged act or omission constituting "Cause" which, upon such cure to the reasonable satisfaction of the Board, shall no longer constitute a basis for Cause, and (ii) the Executive shall be given an opportunity to make a presentation to the Board (accompanied by counsel or other representative, if the Executive so desires) at a meeting of the Board held promptly following such 30-day cure period if the Board intends to determine that no cure has occurred. At or following such meeting, the Board shall determine whether or not to terminate the Executive for "Cause" and shall notify the Executive in writing of its determination and the effective date of such termination (which date may be no earlier than the date of the aforementioned Board meeting).

" **Change in Control** " means any of the following events:

(a) the acquisition by any Person of "beneficial ownership" (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the combined voting power of the Company's then outstanding voting securities; provided, however, that a Change in Control shall not be deemed to occur solely because fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained by the Company or any of its Subsidiaries, or (ii) any Person, which, immediately prior to such acquisition, is owned directly or indirectly by the shareholders of the Company in the same proportion as their ownership of stock in the Company immediately prior to such acquisition;

(b) consummation of (i) a merger or consolidation involving the Company if the shareholders of the Company, immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the corporation resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of the Company outstanding immediately before such merger or consolidation, or (ii) a sale or other disposition of all or substantially all of the assets of the Company other than to a Person which is owned directly or indirectly by the shareholders of the Company in the same proportion as their ownership of stock in the Company;

(c) a change in the composition of the Board such that the individuals who, as of the Effective Date, constitute the Board (such Board shall be hereinafter referred to as the " **Incumbent Board** ") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this definition, that any individual who becomes a member of the Board subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; provided further, however, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act, including any successor to such Rule), or other actual or threatened solicitation or proxies or consents by or on behalf of a Person other than the Board, shall not be so considered as a member of the Incumbent Board; or

(d) approval by shareholders of the Company of a complete liquidation or dissolution of the Company.

provided , however , that, if and to the extent required under Section 409A of the Code or any regulations and guidelines promulgated thereunder (collectively, " **Section 409A** "), an event will be treated as a "Change in Control" for purposes of this Agreement only if it is also a "change in control event" (as defined in Treas. Reg. Section 1.409A-3(i)(5)) with respect to the Company.

“ **Code** ” means the Internal Revenue Code of 1986, as amended.

“ **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 Subsidiaries in connection with the business of the Company and its Subsidiaries 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 the Executive; or (c) the disclosure of which is consented to in writing by the Company.

“ **Date of Termination** ” has the meaning set forth in Section 5.07.

“ **Effective Date** ” has the meaning set forth in Section 2.01.

“ **Employment Period** ” has the meaning set forth in Section 2.01.

“ **Exchange Act** ” means the Securities Exchange Act of 1934, as amended.

“ **Good Reason** ” shall mean the occurrence of any of the following without the Executive’s consent: (a) the failure of the Companies to pay any material amount of compensation to the Executive when due hereunder, (b) the Executive is no longer the most senior marketing officer of (i) the Company or (ii) in the event of a merger, consolidation or other business combination involving the Company, the successor to the Company’s business or assets or (iii) if all or substantially all of the voting stock of the Company is held by another public company, such public company, (c) the assignment to the Executive of any duties or responsibilities materially inconsistent with the Executive’s status under clause (b) of this sentence or his failure at any time to report directly to the most senior executive officer of the applicable company described in clause (b), (d) any failure by the Companies to maintain the Executive’s principal place of employment and the executive offices of the Companies within 25 miles of the Winston-Salem, North Carolina area, (e) any material breach by the Companies of this Agreement, or (f) the term of the Employment Period ending as a result of the Companies giving the Executive notice of nonextension of the term of this Agreement in accordance with Section 5.01 solely at either the end of the initial term or the end of the first, second or third one-year extensions of the term under Section 5.01 (but, for the avoidance of doubt, not at the end of any further extension of the term); provided, however, that for any of the foregoing to constitute Good Reason, the Executive must provide written notification of his intention to resign within 60 days after the Executive knows or has reason to know of the occurrence of any such event, and the Companies shall have 30 days (10 days in the case of a material breach related to payment of any amounts due hereunder) from the date of receipt of such notice to effect a cure of the condition constituting Good Reason, and, upon cure thereof by the Companies, such event shall no longer constitute Good Reason.

" **Notice of Termination** " has the meaning set forth in Section 5.06.

" **Permanent Disability** " means the Executive becomes permanently disabled within the meaning of the long-term disability plan of the Companies applicable to the Executive, and the Executive commences to receive benefits under such plan.

" **Person** " means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, an estate, a trust, a joint venture, an unincorporated organization or a governmental entity or any department, agency or political subdivision thereof.

" **Reimbursable Expenses** " has the meaning set forth in Section 4.04.

" **Securities Act** " means the Securities Act of 1933, as amended.

" **Subsidiary** " or " **Subsidiaries** " means, with respect to any Person, any corporation, partnership, limited liability company, association or other business entity of which (a) if a corporation, 50 percent or more of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or combination thereof; or (b) if a partnership, limited liability company, association or other business entity, 50 percent or more of the partnership or other similar ownership interests thereof are at the time owned or controlled, directly or indirectly, by any Person or one or more Subsidiaries of that Person or a combination thereof. For purposes of this definition, a Person or Persons will be deemed to have a 50 percent or more ownership interest in a partnership, limited liability company, association or other business entity if such Person or Persons are allocated 50 percent or more of partnership, limited liability company, association or other business entity gains or losses or control the managing director or member or general partner of such partnership, limited liability company, association or other business entity.

ARTICLE 2

EMPLOYMENT

SECTION 2.01. *Employment.* The Companies shall employ the Executive, and the Executive shall accept employment with the Companies, upon the terms and conditions set forth in this Agreement for the period beginning on September 20, 2010 (the " **Effective Date** ") and ending as provided in Section 5.01 (the " **Employment Period** ").

ARTICLE 3

POSITION AND DUTIES

SECTION 3.01. *Position and Duties.* During the Employment Period, the Executive shall serve as Senior Vice President and Chief Marketing Officer of the Company reporting directly to the most senior executive officer and shall be the Company's most senior marketing officer. During the Employment Period, the Executive also shall serve as Senior Vice President and Chief Marketing Officer of KKDC and shall be KKDC's most senior marketing officer. The Executive shall have such responsibilities, powers and duties as may from time to time be prescribed by the Board or the most senior executive officer of the Companies; *provided* that such responsibilities, powers and duties are substantially consistent with those customarily assigned to individuals serving in such position at comparable companies or as may be reasonably required for the proper conduct of the business of the Companies. During the Employment Period, the Executive shall devote substantially all of his working time and efforts to the business and affairs of the Company and its Subsidiaries. The Executive shall not directly or indirectly render any services of a business, commercial or professional nature to any other person or organization not related to the business of the Company or its Subsidiaries, whether for compensation or otherwise, without the prior approval of the Board; provided, however, the Executive may serve on the board of directors of one for-profit corporation with the prior approval of the Board, which will not be unreasonably withheld, and the Executive may serve as a director of not-for-profit organizations or engage in other charitable, civic or educational activities, so long as the activities described in this proviso do not interfere with the Executive's performance of his duties hereunder or result in any conflict of interest with the Companies.

ARTICLE 4

BASE SALARY AND BENEFITS

SECTION 4.01. *Base Salary.* During the Employment Period, the Executive will receive base salary from the Companies equal to $275,000 per annum (the " **Base Salary** "). The Base Salary will be payable in accordance with the normal payroll practices of the Companies. Annually during the Employment Period, the Company shall review with the Executive his job performance and compensation, and if deemed appropriate by the Board or its Compensation Committee, in their discretion, the Executive's Base Salary may be increased but not decreased. After any such increase, the term "Base Salary" as used in this Agreement will thereafter refer to the increased amount.

SECTION 4.02. *Bonuses.* In addition to Base Salary, the Executive shall be eligible to be considered for an annual bonus, and the Executive's annual target bonus shall be equal to 50% of Base Salary. The Executive's annual target bonus for the fiscal year of the Company including the Effective Date shall be pro rated by the number of full months that the Executive is employed by the Companies during such year. The Compensation Committee of the Board and the Board shall set targets with respect to and otherwise determine the Executive's bonus in accordance with the Company's then current incentive plans. The Executive will also receive a signing bonus of $15,000 (before taxes) as soon as practicable following the Effective Date.

SECTION 4.03. *Benefits.* During the Employment Period, the Executive shall be entitled to participate in all employee benefit, perquisite and fringe benefit plans and arrangements made available by the Companies to their executives and key management employees upon the terms and subject to the conditions set forth in the applicable plan or arrangement. Such benefits shall include medical, life and disability insurance provided in accordance with the policies of the Companies. The Executive shall be entitled to four weeks of paid vacation annually during the Employment Period.

SECTION 4.04. *Expenses.* The Companies shall reimburse the Executive for all reasonable expenses incurred by him in the course of performing his duties under this Agreement which are consistent with the Companies' policies in effect from time to time with respect to travel, entertainment and other business expenses (" **Reimbursable Expenses** "), subject to the Companies' requirements with respect to reporting and documentation of expenses and the provisions of Section 13.14.

SECTION 4.05. *Restricted Stock Units.* At or after the Effective Date, the Company granted to the Executive an award of restricted stock units for 25,000 shares of the Company's common stock (the " **Restricted Stock Units** "). Except as otherwise provided below, the Restricted Stock Units will vest, provided that the Executive's employment continues through the applicable vesting dates, in four equal installments, on September 11, 2011, September 11, 2012, September 11, 2013, and September 11, 2014. The Executive agrees that in the event of his resignation, without the prior written consent of the Board, he will not sell or otherwise transfer any of the shares received under this Section 4.05 or the economic benefit thereof prior to the first anniversary of his termination of employment with the Companies, except that this Agreement shall not prevent the Executive from selling a number of such shares required to fund his tax liability resulting from the vesting of the Restricted Stock Units. The Restricted Stock Units shall be subject to the terms of the Krispy Kreme Doughnuts, Inc. 2000 Stock Incentive Plan, as amended, and form of Restricted Stock Unit Agreement previously approved by the Compensation Committee of the Board. The Executive agrees and acknowledges that the future grant of equity awards, if any, and the terms of any such equity awards shall be subject to the sole discretion of the Compensation Committee of the Board.

SECTION 4.06. *Compliance with Compensation and Equity Policies.* The Executive agrees to comply with the Company's Equity Retention Policy, Compensation Recovery Policy, and Stock Ownership Guidelines, each as in effect from time to time, with respect to annual or long-term incentive or other compensation, as applicable. The terms of the Company's Equity Retention Policy, Compensation Recovery Policy, and Stock Ownership Guidelines, each as in effect from time to time, are hereby incorporated by reference into this Agreement.

SECTION 4.07. *Relocation.* The Companies shall reimburse the Executive for all reasonable expenses incurred by him in relocating his and his immediate family's household items to Winston-Salem, North Carolina, subject to the Companies' requirements with respect to reporting and documentation of such expenses, such relocation reimbursements to include all normal expenses of moving (including interim commuting costs), packing and unpacking, home hunting, temporary housing, buying and selling brokerage fees, transfer taxes, origination fees (not to exceed 1% of the loan amount) and mortgage points (not to exceed 1% of the loan amount). In addition, the Companies will reimburse Executive up to $100,000 (net of applicable taxes) on loss on the sale of his primary residence in Colorado, upon presentation of evidence satisfactory to the Companies of the amount of such loss. The Companies may require the Executive to use a home owned by the Companies for his temporary housing needs.

ARTICLE 5

TERM AND TERMINATION

SECTION 5.01. *Term.* The Employment Period will terminate on September 20, 2013 (unless sooner terminated as hereinafter provided); provided, however, that the Employment Period will be automatically extended for successive one-year periods following the original term ending September 20, 2013, until either the Companies, on the one hand, or the Executive, on the other hand, at least 180 days prior to the expiration of the original term or any extended term, shall give written notice to the other of their intention not to so extend the Employment Period.

SECTION 5.02. *Termination Due to Death or Permanent Disability.* If the Employment Period shall be terminated due to death or Permanent Disability of the Executive, the Executive (or his estate or legal representative) shall be entitled solely to the following: (a) Base Salary through the Date of Termination (paid on the Companies' normal payroll date); and (b) medical benefits as provided in Section 5.05 below. The Executive's entitlements under any other benefit plan or program shall be as determined thereunder. In addition, promptly following any such termination, the Executive (or his estate or legal representative) shall be reimbursed for all Reimbursable Expenses incurred by the Executive prior to such termination in accordance with Section 4.04 and Section 13.14 herein.

SECTION 5.03. *Termination for Good Reason or Without Cause.* Except as otherwise set forth in Section 5.09 below, if the Employment Period shall be terminated (a) by the Executive for Good Reason, or (b) by the Companies not for Cause, provided the Executive has executed, on or before the date that is fifty (50) days following the date of his termination of employment, an irrevocable (except to the extent required by law to be revocable) general release of claims in the form attached hereto as Exhibit A, and does not revoke such release prior to the end of the seven day statutory revocation period, the Executive shall be entitled solely to the following: (i) Base Salary through the Date of Termination paid on the Companies' normal payroll payment date; (ii) an amount equal to one times the Base Salary, provided that, the Executive shall be entitled to any unpaid amounts only if the Executive has not breached and does not breach the provisions of Sections 6.01, 7.01, 8.01 or Article 9 below; (iii) a bonus for the year of termination of employment equal to the Executive's target annual bonus for such year pro rated for the number of full months during the bonus year prior to such termination of employment, to be paid subject to Section 13.14 below, sixty (60) days following such termination of employment; and (iv) medical benefits as provided in Section 5.05 below. The Executive's entitlements under any other benefit plan or program shall be as determined thereunder, except that duplicative severance benefits shall not be payable under any other plan or program. Amounts described in clause (ii) above will be paid, subject to Section 13.14 below, in equal monthly installments for a period of 12 months commencing on the first month anniversary of the Date of Termination. In addition, promptly following any such termination, the Executive shall be reimbursed for all Reimbursable Expenses incurred by the Executive prior to such termination in accordance with Section 4.04 and Section 13.14 herein.

SECTION 5.04. *Termination for Cause or Other Than Good Reason.* If the Employment Period shall be terminated (a) by the Companies for Cause, or (b) as a result of the Executive's resignation or leaving of his employment other than for Good Reason, the Executive shall be entitled to receive solely Base Salary through the Date of Termination (paid on the Companies' normal payroll date) and reimbursement of all Reimbursable Expenses incurred by the Executive prior to such termination (in accordance with Section 4.04 and Section 13.14 herein). The Executive's rights under the benefit plans and programs shall be as determined thereunder. A voluntary resignation by the Executive shall not be deemed to be a breach of this Agreement.

SECTION 5.05. *Benefits.* If the Employment Period is terminated as a result of a termination of employment as specified in Section 5.02, 5.03 or 5.09, the Executive and his covered dependents shall continue to receive medical insurance coverage benefits from the Companies, with the same contribution toward such coverage from the Executive or his estate, for a period equal to the lesser of (a) eighteen months following the Date of Termination, or (b) until the Executive is provided by another employer with benefits substantially comparable to the benefits provided by the Companies' medical plan. Furthermore, in the event of the Executive's Permanent Disability, insurance benefits will continue under the Companies' long term disability plan in accordance with its terms.

SECTION 5.06. *Notice of Termination.* Any termination by the Companies for Permanent Disability or Cause or without Cause or by the Executive with or without Good Reason shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a " **Notice of Termination** " shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision indicated.

SECTION 5.07. *Date of Termination.* " **Date of Termination** " shall mean (a) if the Employment Period is terminated as a result of a Permanent Disability, five days after a Notice of Termination is given, (b) if the Employment Period is terminated as a result of his death, on the date of his death, (c) if the Employment Period terminates due to expiration of the term of this Agreement, the date the term expires, and (d) if the Employment Period is terminated for any other reason, the later of the date of the Notice of Termination and the end of any applicable correction period.

SECTION 5.08. *No Duty to Mitigate.* The Executive shall have no duty to seek new employment or other duty to mitigate following a termination of employment as described in this Article 5, and no compensation or benefits described in this Article 5 shall be subject to reduction or offset on account of any subsequent compensation, other than as provided in Section 5.05.

SECTION 5.09. *Termination for Good Reason or Without Cause Following a Change in Control.* If the Employment Period shall be terminated within two years after a Change in Control (a) by the Executive for Good Reason, or (b) by the Companies not for Cause, then the Executive's compensation and benefits upon termination shall be governed by this Section 5.09 instead of the provisions of Section 5.03 above, and, provided the Executive has executed, on or before the date that is fifty (50) days following the date of his termination of employment, an irrevocable (except to the extent required by law to be revocable) general release of claims, in the form attached hereto as Exhibit A, and does not revoke such release prior to the end of the seven day statutory revocation period, the Executive shall be entitled solely to the following: (i) Base Salary through the Date of Termination, paid on the Companies' normal payroll payment date; (ii) an amount equal to two times the sum of his Base Salary and his target annual bonus for the year of termination, provided that, the Executive shall be entitled to any unpaid amounts only if the Executive has not breached and does not breach the provisions of Sections 6.01, 7.01 or 8.01 or Article 9 below; (iii) a bonus for the year of termination of employment equal to the Executive's target annual bonus for such year pro rated for the number of full months during the bonus year prior to such termination of employment; and (iv) medical benefits as provided in Section 5.05. The Executive's entitlements under any other benefit plan or program shall be as determined thereunder, except that duplicative severance benefits shall not be payable under any other plan or program. In addition, promptly following any such termination, the Executive shall be reimbursed for all Reimbursable Expenses incurred by the Executive prior to such termination (in accordance with Section 13.14). The amounts due under clauses (ii) and (iii) of this Section 5.09 shall be paid, subject to Section 13.14 below, sixty (60) days following such termination of employment.

SECTION 5.10. *Separation From Service.* Notwithstanding any provision of this Agreement to the contrary, for purposes of Section 5.03 and Section 5.09, the Executive will be deemed to have terminated his employment on the date of his "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Companies, the Employment Period will be deemed to have ended on the date of his "separation from service" with the Companies, and the Date of Termination will be deemed to be the date of his "separation from service" with the Companies if and to the extent required under Section 409A.

ARTICLE 6

CONFIDENTIAL INFORMATION

SECTION 6.01. *Nondisclosure and Nonuse of Confidential Information.* The Executive will not disclose or use at any time during or after the Employment Period any Confidential Information of which the Executive is or becomes aware, whether or not such information is developed by him, except to the extent he reasonably believes that such disclosure or use is directly related to and appropriate in connection with the Executive's performance of duties assigned to the Executive pursuant to this Agreement. Under all circumstances and at all times, the Executive will take all appropriate steps to safeguard Confidential Information in his possession and to protect it against disclosure, misuse, espionage, loss and theft. The Executive also agrees to execute and comply with such other confidentiality agreements or provisions as required of executive officers of the Company.

ARTICLE 7

INTELLECTUAL PROPERTY

SECTION 7.01. *Ownership of Intellectual Property.* In the event that the Executive as part of his activities on behalf of the Companies generates, authors or contributes to any invention, design, new development, device, product, method of process (whether or not patentable or reduced to practice or comprising Confidential Information), any copyrightable work (whether or not comprising Confidential Information) or any other form of Confidential Information relating directly or indirectly to the business of the Company or its Subsidiaries as now or hereafter conducted (collectively, " **Intellectual Property** "), the Executive acknowledges that such Intellectual Property is the sole and exclusive property of the Company and its Subsidiaries and hereby assigns all right, title and interest in and to such Intellectual Property to the Company or its designated Subsidiary. Any copyrightable work prepared in whole or in part by the Executive during the Employment Period will be deemed "a work made for hire" under Section 201(b) of the Copyright Act of 1976, as amended, and the Company or its designated Subsidiary will own all of the rights comprised in the copyright therein. The Executive will promptly and fully disclose all Intellectual Property and will cooperate with the Companies to protect their interests in and rights to such Intellectual Property (including providing reasonable assistance in securing patent protection and copyright registrations and executing all documents as reasonably requested by the Companies, whether such requests occur prior to or after termination of the Executive's employment hereunder).

ARTICLE 8

DELIVERY OF MATERIALS UPON TERMINATION OF EMPLOYMENT

SECTION 8.01. *Delivery of Materials upon Termination of Employment.* As requested by the Companies from time to time, and upon the termination of the Executive's employment with the Companies for any reason, the Executive will promptly deliver to the Companies all property of the Company or its Subsidiaries, including, without limitation, all copies and embodiments, in whatever form or medium, of all Confidential Information in the Executive's possession or within his control (including written records, notes, photographs, manuals, notebooks, documentation, program listings, flow charts, magnetic media, disks, diskettes, tapes and all other materials containing any Confidential Information) irrespective of the location or form of such material and, if requested by the Companies, will provide the Companies with written confirmation that to the best of his knowledge all such materials have been delivered to the Companies or destroyed.

ARTICLE 9

NON-COMPETITION AND NONSOLICITATION

SECTION 9.01. *Noncompetition.* The Executive acknowledges that, during his employment with the Companies, he will become familiar with trade secrets and other Confidential Information concerning the Company and its Subsidiaries and his services will be of special, unique and extraordinary value to the Companies. In addition, the Executive hereby agrees that at any time during the Noncompetition Period (as defined below), he will not directly or indirectly own, manage, control, participate in, consult with, become employed by or otherwise render services to any business listed on Exhibit B hereto in the Territory. During the Noncompetition Period, the Company shall have the right to, in good faith, add other entities which are in substantial competition with the Companies to the list of businesses on Exhibit B, subject to the consent of the Executive which shall not be unreasonably withheld. Notwithstanding the foregoing, if the Executive's termination of employment occurs at the end of the Employment Period due to the Companies giving written notice after the fifth anniversary of the Effective Date pursuant to Section 5.01 of its intention not to extend the Employment Period, this Section 9.01 will only apply if the Companies elect and agree in writing to pay the Executive his Base Salary and his annual target bonus in effect for the year during which his employment is terminated for an additional one-year period following the termination of employment, such amount to be paid, subject to Section 13.14 below, in monthly installments over the additional one-year period. It shall not be considered a violation of this Section 9.01 for the Executive to be a passive owner of not more than 2% of the outstanding stock of any class of any corporation which is publicly traded, so long as the Executive has no active participation in the business of such corporation.

SECTION 9.02. *Nonsolicitation.* The Executive hereby agrees that (a) during the Nonsolicitation Period (as defined below), the Executive will not, directly or indirectly through another Person, induce or attempt to induce any employee of the Company or its Subsidiaries to leave the employ of the Company or its Subsidiaries, or in any way interfere with the relationship between the Company or its Subsidiaries and any person employed by them at any time during such Nonsolicitation Period, and (b) during the Nonsolicitation Period, the Executive will not induce or attempt to induce any customer, supplier, client or other business relation of the Company or its Subsidiaries to cease doing business with the Company or its Subsidiaries.

SECTION 9.03. *Definitions.* It is agreed that the " **Territory,** " for purposes of this Article 9, shall mean:

(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 Executive's employment with the Companies;

(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 Companies' products have been sold at any time in the one-year period ending on the last day of Executive's employment with the Companies;

(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 Companies' products have been sold at any time in the one-year period ending on the last day of the Executive's employment with the Companies; 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.

It is also agreed that " **Noncompetition Period,** " for purposes hereof, shall mean:

(a) the Employment Period and a period ending one year after the Date of Termination; and

(b) In the event that the preceding clause shall be determined by judicial action to define too long a period to be enforceable, "Noncompetition Period" shall mean the Employment Period and a period ending six months after the Date of Termination.

It is also agreed that " **Nonsolicitation Period,** " for purposes hereof, shall mean:

(a) the Employment Period and a period ending two years after the Date of Termination;

(b) In the event that the preceding clause shall be determined by judicial action to define too long a period to be enforceable, "Nonsolicitation Period" shall mean the Employment Period and a period ending eighteen months after the Date of Termination;

(c) In the event that the preceding clauses shall be determined by judicial action to define too long a period to be enforceable, "Nonsolicitation Period" shall mean the Employment Period and a period ending one year after the Date of Termination; and

(d) In the event that the preceding clauses shall be determined by judicial action to define too long a period to be enforceable, "Nonsolicitation Period" shall mean the Employment Period and a period ending six months after the Date of Termination.

ARTICLE 10

EQUITABLE RELIEF

SECTION 10.01. *Equitable Relief.* The Executive acknowledges that (a) the covenants contained herein are reasonable, (b) the Executive's services are unique, and (c) a breach or threatened breach by him of any of his covenants and agreements with the Companies contained in Sections 6.01, 7.01, 8.01 or Article 9 could cause irreparable harm to the Companies for which they would have no adequate remedy at law. Accordingly, and in addition to any remedies which the Companies may have at law, in the event of an actual or threatened breach by the Executive of his covenants and agreements contained in Sections 6.01, 7.01, 8.01 or Article 9, the Companies shall have the absolute right to apply to any court of competent jurisdiction for such injunctive or other equitable relief, without the necessity to post bond, as such court may deem necessary or appropriate in the circumstances.

ARTICLE 11

EXECUTIVE REPRESENTATION AND INDEMNIFICATION

SECTION 11.01. *Executive Representation.* The Executive hereby represents and warrants to the Companies that (a) the execution, delivery and performance of this Agreement by the Executive does not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which the Executive is a party or by which he is bound, (b) the Executive is not a party to or bound by any employment agreement, noncompetition agreement or confidentiality agreement with any other Person, and (c) upon the execution and delivery of this Agreement by the Companies, this Agreement will be the valid and binding obligation of the Executive, enforceable in accordance with its terms. Notwithstanding Section 11.02 below, in the event that any action is brought against the Executive involving any breach of any employment agreement, noncompetition agreement or confidentiality agreement with any other Person, the Executive shall bear his own costs incurred in defending such action, including but not limited to court fees, arbitration costs, mediation costs, attorneys' fees and disbursements.

SECTION 11.02. *General Indemnification.* The Companies, jointly and severally, agree that if the Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (each, a " **Proceeding** "), by reason of the fact that he is or was a director, officer or employee of the Company or any of its Subsidiaries or is or was serving at the request of the Company or any of its Subsidiaries as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by the Companies to the fullest extent permitted or authorized by applicable law and their bylaws, against all cost, expense, liability and loss (including, without limitation, advancement of attorneys' and other fees and expenses) reasonably incurred or suffered by the Executive in connection therewith. The Companies agree to use their best efforts to maintain a directors' and officers' liability insurance policy covering the Executive during the Employment Period and for at least four years thereafter to the extent available on commercially reasonable terms.

ARTICLE 12

LIMITATION ON CERTAIN PAYMENTS CONTINGENT ON CHANGE IN CONTROL

SECTION 12.01. *Limitation on Certain Payments Contingent on Change in Control* .

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that (i) any payment, award, benefit or distribution (or any acceleration of any payment, award, benefit or distribution) by the Companies (or any of their affiliated entities) or any entity which effectuates a Change in Control (or any of its affiliated entities) to or for the benefit of the Executive (whether pursuant to the terms of this Agreement or otherwise) (the " **Payments** ") would be subject to the excise tax imposed by Section 4999 of the Code (the " **Excise Tax** "), and (ii) the reduction of the amounts payable to the Executive under this Agreement to the maximum amount that could be paid to the Executive without giving rise to the Excise Tax (the " **Safe Harbor Cap** ") would provide the Executive with a greater after-tax amount than if such amounts were not reduced, then the amounts payable to the Executive under this Agreement shall be reduced (but not below zero) to the Safe Harbor Cap. Unless the Companies and the Executive agree otherwise, the reduction of the amounts payable hereunder, if applicable, shall be made to the extent necessary in the following order: (i) *first* , any such Payments that became fully vested prior to the Change in Control and that pursuant to paragraph (b) of Treas. Reg. § 1.280G-1, Q/A 24, are treated as contingent compensation payments solely by reason of the acceleration of their originally scheduled dates of payment will be reduced, by cancellation of the acceleration of their vesting; (ii) *second* , any severance payments or benefits, performance-based cash or equity incentive awards, or other contingent compensation payments the full amounts of which are treated as contingent on the Change in Control pursuant to paragraph (a) of Treas. Reg. § 1.280G-1, Q/A 24, will be reduced; and (iii) *third* , any cash or equity incentive awards, or nonqualified deferred compensation amounts, that vest solely based on the Executive's continued service with the Companies, and that pursuant to paragraph (c) of Treas. Reg. § 1.280G-1, Q/A 24, are treated as contingent on the Change in Control because they become vested as a result of the Change in Control, will be reduced, first by cancellation of any acceleration of their originally scheduled dates of payment (if payment with respect to such items is not treated as automatically occurring upon the vesting of such items for purposes of Section 280G of the Code) and then, if necessary, by canceling the acceleration of their vesting. In each case, the amounts of the contingent compensation payments will be reduced in the inverse order of their originally scheduled dates of payment or vesting, as applicable, and will be so reduced only to the extent necessary to achieve the required reduction. For purposes of reducing the Payments to the Safe Harbor Cap, only amounts payable under this Agreement (and no other Payments) shall be reduced. If the reduction of the amounts payable hereunder would not result in a greater after-tax result to the Executive, no amounts payable under this Agreement shall be reduced pursuant to this provision.

(b) All determinations required to be made under this Section 12.01 shall be made by the public accounting firm that is retained by the Companies as of the date immediately prior to the Change in Control (the " **Accounting Firm** "), which shall provide detailed supporting calculations both to the Companies and the Executive within fifteen (15) business days of the receipt of notice from the Companies or the Executive that there has been a Payment, or such earlier time as is requested by the Companies. Notwithstanding the foregoing, in the event (i) the Board shall determine prior to the Change in Control that the Accounting Firm is precluded from performing such services under applicable auditor independence rules or (ii) the Audit Committee of the Board determines that it does not want the Accounting Firm to perform such services because of auditor independence concerns or (iii) the Accounting Firm is serving as accountant or auditor for the person(s) effecting the Change in Control, the Board shall appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees, costs and expenses (including, but not limited to, the costs of retaining experts) of the Accounting Firm shall be borne by the Companies. If payments are reduced to the Safe Harbor Cap or the Accounting Firm determines that no Excise Tax is payable by the Executive without a reduction in payments, the Accounting Firm shall provide a written opinion to the Executive to such effect, that the Executive is not required to report any Excise Tax on the Executive's federal income tax return, and that the failure to report the Excise Tax, if any, on the Executive's applicable federal income tax return will not result in the imposition of a negligence or similar penalty. The determination by the Accounting Firm shall be binding upon the Companies and the Executive (except as provided in Section 12.01(c) below).

(c) If it is established pursuant to a final determination of a court or an Internal Revenue Service (the " **IRS** ") proceeding, which has been finally and conclusively resolved, that Payments have been made to, or provided for the benefit of, the Executive by the Companies, which are in excess of the limitations provided in this Section 12.01 (referred to hereinafter as an " **Excess Payment** "), the Executive shall repay the Excess Payment to the Companies on demand, together with interest on the Excess Payment at the applicable federal rate (as defined in Section 1274(d) of the Code) from the date of the Executive's receipt of such Excess Payment until the date of such repayment. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the determination, it is possible that Payments which will not have been made by the Companies should have been made (an " **Underpayment** "), consistent with the calculations required to be made under this Section 12.01. In the event that it is determined (i) by the Accounting Firm, the Companies (which shall include the position taken by the Companies, or together with their consolidated group, on their federal income tax returns) or the IRS or (ii) pursuant to a determination by a court, that an Underpayment has occurred, the Companies shall pay an amount equal to such Underpayment to the Executive within ten (10) days of such determination together with interest on such amount at the applicable federal rate from the date such amount would have been paid to the Executive until the date of payment. The Executive shall cooperate, to the extent the Executive's expenses are reimbursed by the Companies, with any reasonable requests by the Companies in connection with any contests or disputes with the IRS in connection with the Excise Tax or the determination of the Excess Payment. Notwithstanding the foregoing, in the event that amounts payable under this Agreement were reduced pursuant to Section 12.01(a) and the value of stock options is subsequently re-determined by the Accounting Firm within the context of Treasury Regulation §1.280G-1 Q/A 33 that reduces the value of the Payments attributable to such options, the Companies shall promptly pay to the Executive any amounts payable under this Agreement that were not previously paid solely as a result of Section 12.01(a), subject to the Safe Harbor Cap.

ARTICLE 13

MISCELLANEOUS

SECTION 13.01. *Binding Arbitration.* The parties agree that, except as provided in Articles 9 and 10 above, any disputes under this Agreement shall be settled exclusively by arbitration conducted in Winston-Salem, North Carolina. Except to the extent inconsistent with this Agreement, such arbitration shall be conducted in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association then in effect at the time of the arbitration and otherwise in accordance with principles which would be applied by a court of law or equity. The arbitrator shall be acceptable to both the Companies and the Executive. If the parties cannot agree on an acceptable arbitrator, the dispute shall be decided by a panel of three arbitrators, one appointed by each of the parties and the third appointed by the other two arbitrators or if the two arbitrators do not agree, appointed by the American Arbitration Association. The costs of arbitration incurred by the Executive (or his beneficiaries) will be borne by the Companies (including, without limitation, reasonable attorneys' fees and other reasonable charges of counsel) (a) if the arbitration occurs prior to a Change in Control, if the Executive prevails on a majority of the material issues in the dispute, and (b) if the arbitration occurs after a Change in Control, if the Executive prevails on at least one material issue in the dispute. Judgment upon the final award rendered by such arbitrator(s) may be entered in any court having jurisdiction thereof.

Following the final determination of the dispute in which, based on the outcome of the dispute, the Executive is, in accordance with this Section 13.01, entitled to have his costs borne by the Companies, the Companies shall pay all such reasonable costs within ten (10) days following written demand therefor (supported by documentation of such costs) by the Executive, and the Executive shall make such written demand within sixty (60) days following the final determination of the dispute; provided , however , that such payment shall be made no later than on or prior to the end of the calendar year following the calendar year in which the costs are incurred. Notwithstanding the foregoing, in the event a final determination of the dispute has not been made by December 20 of the year following the calendar year in which the costs are incurred, the Companies shall, within ten (10) days after such December 20, reimburse such reasonable costs (supported by documentation of such costs) incurred in the prior taxable year; provided , however , that the Executive shall return such amounts to the Companies within ten (10) business days following the final determination if (i) in the case of an arbitration prior to a Change in Control, the Executive does not prevail on a majority of the material issues in the dispute, or (ii) in the case of an arbitration after a Change in Control, the Executive does not prevail on at least one material issue in the dispute. The amount of any costs eligible for payment under this Section 13.01 during a calendar year will not affect the amount of any costs eligible for payment under this Section 13.01 in any other taxable year.

SECTION 13.02. *Consent to Amendments; No Waivers.* The provisions of this Agreement may be amended or waived only by a written agreement executed and delivered by the Companies and the Executive. Notwithstanding the foregoing, the Companies shall have unilateral authority to amend this Agreement (without Executive consent) to the extent necessary to comply with applicable laws, rules or regulations (including but not limited to Section 409A) or changes to applicable laws, rules or regulations. No other course of dealing between the parties to this Agreement or any delay in exercising any rights hereunder will operate as a waiver of any rights of any such parties.

SECTION 13.03. *Successors and Assigns.* All covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto will bind and inure to the benefit of the respective successors, assigns, heirs, executors and estates of the parties hereto whether so expressed or not, provided that the Executive may not assign his rights or delegate his obligations under this Agreement without the written consent of the Companies (other than to his estate or heirs) and the Company may assign this Agreement only to a successor to all or substantially all of the assets of the Company.

SECTION 13.04. *Severability.* Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

SECTION 13.05. *Counterparts.* This Agreement may be executed simultaneously in two or more counterparts, any one of which need not contain the signatures of more than one party, but all of which counterparts taken together will constitute one and the same agreement.

SECTION 13.06. *Descriptive Headings.* The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

SECTION 13.07. *Notices.* All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Agreement will be in writing and will be deemed to have been given when delivered personally to the recipient, two business days after the date when sent to the recipient by reputable express courier service (charges prepaid) or four business days after the date when mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid. Such notices, demands and other communications will be sent to the Executive and to the Companies at the addresses set forth below.

If to the Executive:

To the last address delivered to the Companies
by the Executive in the manner set forth herein.

If to the Companies:

Krispy Kreme Doughnuts, Inc.
Krispy Kreme Doughnut Corporation
Suite 500
370 Knollwood Street
Winston-Salem, NC 27103

Attn: Senior Vice President – Human Resources

or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

SECTION 13.08. *Withholding*. The Companies may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

SECTION 13.09. *No Third-Party Beneficiary*. This Agreement will not confer any rights or remedies upon any person other than the Companies, the Executive and their respective heirs, executors, successors and assigns.

SECTION 13.10. *Entire Agreement.* This Agreement (including any other documents referred to herein) constitutes the entire agreement among the parties and supersedes any prior understandings, agreements or representations by or among the parties, written or oral, including the Employment Agreement dated September 14, 2010, that may have related in any way to the subject matter hereof.

SECTION 13.11. *Construction.* The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction will be applied against any party. Any reference to any federal, state, local or foreign statute or law will be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise.

SECTION 13.12. *Survival.* Sections 6.01, 7.01, 8.01 and Articles 5, 9, 11, 12 and 13 will survive and continue in full force in accordance with their terms notwithstanding any termination of the Employment Period, and the Agreement shall otherwise remain in full force to the extent necessary to enforce any rights and obligations arising hereunder during the Employment Period.

SECTION 13.13. *GOVERNING LAW*. ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY AND INTERPRETATION OF THIS AGREEMENT WILL BE GOVERNED BY THE INTERNAL LAW OF NORTH CAROLINA, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

SECTION 13.14. *Section 409A.*

(a) It is intended that this Agreement will comply with Section 409A, to the extent the Agreement is subject thereto, and the Agreement shall be interpreted on a basis consistent with such intent. If an amendment of this Agreement is necessary in order for it to comply with Section 409A, the parties hereto will negotiate in good faith to amend the Agreement in a manner that preserves the original intent of the parties to the extent reasonably possible. No action or failure to act pursuant to this Section 13.14 shall subject the Companies to any claim, liability, or expense, and the Companies shall not have any obligation to indemnify or otherwise protect the Executive from the obligation to pay any taxes, interest or penalties pursuant to Section 409A.

(b) Notwithstanding any provision to the contrary in this Agreement, if the Executive is deemed on the date of his "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Companies to be a "specified employee" (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment or benefit that is considered deferred compensation under Section 409A payable on account of a "separation from service" that is required to be delayed pursuant to Section 409A(a)(2)(B) of the Code (after taking into account any applicable exceptions to such requirement), such payment or benefit shall be made or provided on the date that is the earlier of (i) the expiration of the six (6)-month period measured from the date of the Executive's "separation from service," or (ii) the date of the Executive's death (the " **Delay Period** "). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this Section 13.14 (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to the Executive in a lump sum and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein. 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, references to the Executive's "termination of employment" (and corollary terms, including the end of the Employment Period) with the Companies shall be construed to refer to the Executive's "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Companies.

(c) With respect to any reimbursement or in-kind benefit arrangements of the Companies and its subsidiaries that constitute deferred compensation for purposes of Section 409A, except as otherwise permitted by Section 409A, the following conditions shall be applicable: (i) the amount eligible for reimbursement, or in-kind benefits provided, under any such arrangement in one calendar year may not affect the amount eligible for reimbursement, or in-kind benefits to be provided, under such arrangement in any other calendar year (except that the health and dental plans may impose a limit on the amount that may be reimbursed or paid), (ii) any reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred, and (iii) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g ., "payment shall be made within thirty (30) days after termination of employment"), the actual date of payment within the specified period shall be within the sole discretion of the Companies. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Section 409A.

SECTION 13.15. *Representations of the Companies.* The Companies represent and warrant that (a) the execution, delivery and performance of this Agreement by the Companies has been fully and validly authorized by all necessary corporate action, (b) the officer(s) signing this Agreement on behalf of the Companies is duly authorized to do so, (c) the execution, delivery and performance of this Agreement does not violate any applicable law, regulation, order, judgment or decree or any agreement, plan or corporate governance document to which the Companies are a party or by which they are bound, and (d) upon execution and delivery of this Agreement by the parties hereto, it will be a valid and binding obligation of the Companies enforceable against the Companies and their successors and assigns in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

[remainder of page left intentionally blank]

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

KRISPY KREME DOUGHNUTS, INC.

By: /s/ James H. Morgan
James H. Morgan
Chief Executive Officer

KRISPY KREME DOUGHNUT CORPORATION

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

EXECUTIVE

/s/ G. Dwayne Chambers
G. Dwayne Chambers

Exhibit A

MUTUAL RELEASE

This mutual release (this "Release") is entered into as of this ____ day of ______, ____ (the "Release Date") among Krispy Kreme Doughnut Corporation, a North Carolina corporation ("KKDC"), Krispy Kreme Doughnuts, Inc., a North Carolina corporation (the "Company" and, together with KKDC, the "Companies") and G. Dwayne Chambers (the "Executive").

1. Reference is hereby made to the amended and restated employment agreement dated as of March 11, 2011 (the "Employment Agreement") by the parties hereto setting forth the agreements among the parties regarding the termination of the employment relationship between the Executive and the Companies. Capitalized terms used but not defined herein have the meanings ascribed to them in the Employment Agreement.

2. The Executive, for himself, his spouse, heirs, executors, administrators, successors and assigns, hereby releases and discharges the Companies and its respective direct and indirect parents and subsidiaries, and other affiliated companies, and each of their respective past and present officers, directors, agents and employees, from any and all actions, causes of action, claims, demands, grievances and complaints, known and unknown, which the Executive or his spouse, heirs, executors, administrators, successors or assigns ever had or may have at any time through the Release Date. The Executive acknowledges and agrees that this Release is intended to and does cover, but is not limited to, (i) any claim of employment discrimination of any kind whether based on a federal, state or local statute or court decision, including the Age Discrimination in Employment Act with appropriate notice and rescission periods observed; (ii) any claim, whether statutory, common law or otherwise, arising out of the terms or conditions of the Executive's employment at the Companies and/or the Executive's separation from the Companies; enumeration of specific rights, claims and causes of action being released shall not be construed to limit the general scope of this Release. It is the intent of the parties that by this Release the Executive is giving up all rights, claims and causes of action occurring prior to the Release Date, whether or not any damage or injury therefrom has yet occurred. The Executive accepts the risk of loss with respect to both undiscovered claims and with respect to claims for any harm hereafter suffered arising out of conduct, statements, performance or decisions occurring before the Release Date.

It is understood that the Executive has been advised to consult with an attorney prior to executing this Release; that he in fact has consulted a knowledgeable, competent attorney regarding this Release; that he may, before executing this Release, consider this Release for a period of 21 calendar days; and that the consideration he receives for this Release is in addition to amounts to which he was already entitled. If the Executive is signing this Release prior to the expiration of such 21-day period, the Executive is waiving his right to review the Release for such full 21-day period prior to signing it. It is further understood that the Executive may revoke this Release within seven calendar days from the date of execution hereof. If the Executive revokes this Release within such seven-day period, no severance benefit will be payable to him under the Employment Agreement and he shall return to the Company any such payment received prior to that date.

3. The Companies hereby release and discharge the Executive, his spouse, heirs, executors, administrators, successors and assigns, from any and all actions, causes of actions, claims, demands, grievances and complaints, known and unknown, which the Companies ever had or may have at any time through the Release Date. The Companies acknowledge and agree that this Release is intended to and does cover, but is not limited to, (i) any claim, whether statutory, common law or otherwise, arising out of the terms or conditions of the Executive's employment at the Companies and/or the Executive's separation from the Companies, and (ii) any claim for attorneys' fees, costs, disbursements or other like expenses. The enumeration of specific rights, claims and causes of action being released shall not be construed to limit the general scope of this Release. It is the intent of the parties that by this Release the Companies are giving up all of their respective rights, claims and causes of action occurring prior to the Release Date, whether or not any damage or injury therefrom has yet occurred. The Companies accept the risk of loss with respect to both undiscovered claims and with respect to claims for any harm hereafter suffered arising out of conduct, statements, performance or decisions occurring before the Release Date.

4. This Release shall in no event (i) apply to any claim by either the Executive or the Companies arising from any breach by the other party of its obligations under the Employment Agreement occurring on or after the Release Date, (ii) waive the Executive's claim with respect to compensation or benefits earned or accrued prior to the Release Date to the extent such claim survives termination of the Executive's employment under the terms of the Employment Agreement, (iii) waive the Executive's right to indemnification under the charters and by-laws of the Companies, or (iv) waive the Executive's rights as a shareholder.

5. This Mutual Release shall be effective as of the Release Date and only if executed by both parties.

6. All questions concerning the construction, validity and interpretation of this Mutual Release will be governed by the internal law of North Carolina, without regard to principles of conflict of laws.

IN WITNESS WHEREOF, each party hereto, intending to be legally bound, has executed this Mutual Release on the date indicated above.

KRISPY KREME DOUGHNUTS, INC.

By: ______________________________

KRISPY KREME DOUGHNUT CORPORATION

By: ______________________________

EXECUTIVE

____
G. Dwayne Chambers

Exhibit B

The following businesses, together with their Subsidiaries, are the businesses for purposes of Section 9.01 hereof:

Dunkin Brands Inc.
Tim Hortons, Inc.
George Weston Limited
Interstate Bakeries Corporation
Flowers Foods, Inc.
McKee Foods Inc.
Starbucks

Exhibit 10.14

KRISPY KREME DOUGHNUTS, INC.

2000 STOCK INCENTIVE PLAN

(AMENDED AS OF JANUARY 31, 2011)

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KRISPY KREME DOUGHNUTS, INC.

2000 STOCK INCENTIVE PLAN

ARTICLE 1. ESTABLISHMENT, PURPOSE, AND DURATION

1.1 Establishment of the Plan . Krispy Kreme Doughnuts, Inc., a North Carolina corporation (hereinafter referred to as the "Company"), hereby establishes a stock option and incentive award plan known as the "Krispy Kreme Doughnuts, Inc. 2000 Stock Incentive Plan" (the "Plan"), as set forth in this document. The Plan permits the grant of Incentive Stock Options, Nonqualified Stock Options, Restricted Stock, Stock Awards, Performance Unit Awards and Stock Appreciation Rights.

The Plan shall become effective on July 1, 2000 (the "Effective Date"), having been approved by the Board of Directors on June 6, 2000, and shall remain in effect as provided in Section 1.3. This Plan reflects all amendments and stock splits through and including January 31, 2011.

1.2 Purpose of the Plan . The purposes of the Plan are to promote greater stock ownership in the Company by Employees, Directors, consultants, or other persons who perform services for the Company and its Parent, Subsidiaries, and affiliates (the "Participants"); to more closely link the personal interests of Participants to those of the Company's shareholders; and to provide flexibility to the Company in its ability to motivate, attract and retain the services of Participants upon whose judgment, interest and special effort the successful conduct of its operation largely depends.

1.3 Duration of the Plan The Plan shall commence on the Effective Date, and shall remain in effect, subject to the right of the Board of Directors to amend or terminate the Plan at any time pursuant to Article 14, until the day prior to the twelfth (12th) anniversary of the Effective Date.

ARTICLE 2. DEFINITIONS

Whenever used in the Plan, the following terms shall have the meanings set forth below:

(a) " Agreement " means an agreement entered into by each Participant and the Company, setting forth the terms and provisions applicable to Awards granted to Participants under this Plan.

(b) " Award " means, individually or collectively, a grant under this Plan of Incentive Stock Options, Nonqualified Stock Options, Restricted Stock, Stock Awards, Performance Unit Awards or Stock Appreciation Rights.

(c) " Beneficial Owner " or " Beneficial Ownership " shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

(d) " Board " or " Board of Directors " means the Board of Directors of the Company.

(e) " Cause " means: (i) with respect to the Company or any Subsidiary which employs the Participant or for which the Participant primarily performs services, the commission by the Participant of an act of fraud, embezzlement, theft or proven dishonesty, or any other illegal act or practice (whether or not resulting in criminal prosecution or conviction), or any act or practice which the Committee shall, in good faith, deem to have resulted in the Participant's becoming unbondable under the Company's or the Subsidiary's fidelity bond; (ii) the willful engaging by the Participant in misconduct which is deemed by the Committee, in good faith, to be materially injurious to the Company or any Subsidiary, monetarily or otherwise; or (iii) the willful and continued failure or habitual neglect by the Participant to perform his duties with the Company or the Subsidiary substantially in accordance with the operating and personnel policies and procedures of the Company or the Subsidiary generally applicable to all their employees. For purposes of this Plan, no act or failure to act by the Participant shall be deemed to be "willful" unless done or omitted to be done by the Participant not in good faith and without reasonable belief that the Participant's action or omission was in the best interest of the Company and/or the Subsidiary. Notwithstanding the foregoing, if the Participant has entered into an employment agreement that is binding as of the date of employment termination, and if such employment agreement defines "Cause," then the definition of "Cause" in such agreement shall apply to the Participant in this Plan. "Cause" under either (i), (ii) or (iii) shall be determined by the Committee.

(f) “ Code ” means the Internal Revenue Code of 1986, as amended from time to time, or any successor act thereto.

(g) “ Committee ” means (i) the committee appointed by the Board to administer the Plan with respect to grants of Awards, as specified in Article 3; or (ii) in the absence of such appointment, the Board itself.

(h) “ Common Stock ” means the common stock of the Company, no par value per share.

(i) “ Company ” means Krispy Kreme Doughnuts, Inc., a North Carolina corporation, or any successor thereto as provided in Article 17.

(j) “ Corresponding SAR ” means an SAR that is granted in relation to a particular Option and that can be exercised only upon the surrender to the Company, unexercised, of that portion of the Option to which the SAR relates.

(k) “ Covered Employee ” means a Participant who would be considered a “covered employee” as defined in the regulations promulgated under Code Section 162(m), or any successor statute.

(l) “ Director ” means any individual who is a member of the Board of Directors of the Company.

(m) “Disability ” shall mean a condition where the Participant either (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than three (3) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company.

(n) "Effective Date" shall have the meaning ascribed to such term in Section 1.1.

(o) "Employee" means any employee of the Company or any Parent, Subsidiary, or affiliate of the Company. Directors who are not otherwise employed by the Company or a Parent, Subsidiary or affiliate of the Company are not considered Employees under this Plan.

(p) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

(q) "Fair Market Value" shall be determined as follows:

(i) If, on the relevant date, the Shares are traded on a national or regional securities exchange or on The Nasdaq National Market System ("Nasdaq") and closing sale prices for the Shares are customarily quoted, on the basis of the closing sale price on the principal securities exchange on which the Shares may then be traded or, if there is no such sale on the relevant date, then on the last previous day on which a sale was reported;

(ii) If, on the relevant date, the Shares are not listed on any securities exchange or traded on Nasdaq, but nevertheless are publicly traded and reported on Nasdaq without closing sale prices for the Shares being customarily quoted, on the basis of the mean between the closing bid and asked quotations in such other over-the-counter market as reported by Nasdaq; but, if there are no bid and asked quotations in the over-the-counter market as reported by Nasdaq on that date, then the mean between the closing bid and asked quotations in the over-the-counter market as reported by Nasdaq on the immediately preceding day such bid and asked prices were quoted; and

(iii) If, on the relevant date, the Shares are not publicly traded as described in (i) or (ii), on the basis of the good faith determination of the Committee.

(r) "Incentive Stock Option" or "ISO" means an option to purchase Shares granted under Article 6 which is designated as an Incentive Stock Option and is intended to meet the requirements of Code Section 422.

(s) "Initial Value" means, with respect to a Corresponding SAR, the Option Price per share of the related Option, and with respect to an SAR granted independently of an Option, the Fair Market Value of one share of Common Stock on the date of grant.

(t) "Insider" shall mean an Employee who is, on the relevant date, an officer or a director, or a beneficial owner of ten percent (10%) or more of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act or any successor provision, all as defined under Section 16 of the Exchange Act.

(u) "Nonqualified Stock Option" or "NQSO" means an option to purchase Shares granted under Article 6, and which is not intended or otherwise fails to meet the requirements of Code Section 422.

(v) " Option " means an Incentive Stock Option or a Nonqualified Stock Option.

(w) " Option Price " means the price at which a Share may be purchased by a Participant pursuant to an Option, as determined by the Committee.

(x) " Parent " means a "parent corporation," whether now or hereafter existing as defined in Code Section 424(e).

(y) " Participant " means an Employee, Director, consultant or other person who performs services for the Company or a Parent, Subsidiary, or affiliate of the Company, who has been granted an Award under the Plan which is outstanding.

(z) " Performance Unit Award " means an Award, which, in accordance with the terms of Article 9 and the other provisions of the Plan and subject to an Agreement, will entitle the Participant, or his estate or beneficiary in the event of the Participant's death, to receive cash, Common Stock or a combination thereof.

(aa) " Person " shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14 (d) thereof, including a "group" as defined in Section 13(d) thereof.

(bb) " Plan " means this Krispy Kreme Doughnuts, Inc. 2000 Stock Incentive Plan, including any amendments thereto.

(cc) " Restricted Stock " means an Award of Common Stock (or the right to receive a share of Common Stock in the future, i.e., a restricted stock unit) granted in accordance with the terms of Article 8 and the other provisions of the Plan, and which is nontransferable and subject to a substantial risk of forfeiture. Shares of Common Stock shall cease to be Restricted Stock when, in accordance with the terms hereof and the applicable Agreement, they become transferable and free of substantial risk of forfeiture.

(dd) " Retirement " shall mean, unless an Agreement provides otherwise, retiring from employment with the Company or any Subsidiary on or after attaining age sixty five (65), or pursuant to a policy or agreement approved by the Board.

(ee) " SAR " means a stock appreciation right that entitles the holder to receive, with respect to each share of Common Stock encompassed by the exercise of such SAR, the amount determined by the Committee and specified in an Agreement. In the absence of such specification, the holder shall be entitled to receive in cash, with respect to each share of Common Stock encompassed by the exercise of such SAR, the excess of the Fair Market Value on the date of exercise over the Initial Value. References to "SARs" include both Corresponding SARs and SARs granted independently of Options, unless the context requires otherwise.

(ff) " Shares " means the shares of Common Stock of the Company (including any new, additional or different stock or securities resulting from the changes described in Section 4.3).

(gg) " Stock Award " means a grant of Shares under Article 8 that is not generally subject to restrictions and pursuant to which a certificate for the Shares is transferred to the Employee.

(hh) " Subsidiary " means (i) in the case of an ISO, any company during any period in which it is a "subsidiary corporation" (as that term is defined in Code Section 424(f)), and (ii) in the case of all other Awards, in addition to a "subsidiary corporation" as defined above, a partnership, limited liability company, joint venture or other entity in which the Company controls fifty percent (50%) or more of the voting power or equity interests.

ARTICLE 3. ADMINISTRATION

3.1 The Committee . The Plan shall be administered by the Compensation Committee of the Board (or a subcommittee thereof), or by any other committee or subcommittee appointed by the Board that is granted authority to administer the Plan. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors. In the absence of any such appointment, the Plan shall be administered by the Board.

3.2 Authority of the Committee . Subject to the provisions of the Plan, the Committee shall have full power to select the Participants who shall participate in the Plan (who may change from year to year); determine the size and types of Awards; determine the terms and conditions of Awards in a manner consistent with the Plan (including conditions on the exercisability of all or a part of an Option or SAR, restrictions on transferability, vesting provisions on Restricted Stock or Performance Unit Awards and the duration of the Awards); construe and interpret the Plan and any agreement or instrument entered into under the Plan; establish, amend or waive rules and regulations for the Plan's administration; and (subject to the provisions of Article 14) amend the terms and conditions of any outstanding Award to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan, including accelerating the time any Option or SAR may be exercised and establishing different terms and conditions relating to the effect of the termination of employment or other services to the Company. Further, the Committee shall make all other determinations which may be necessary or advisable in the Committee's opinion for the administration of the Plan. All expenses of administering this Plan shall be borne by the Company.

3.3 Decisions Binding . All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders and resolutions of the Board shall be final, conclusive and binding on all Persons, including the Company, the shareholders, Participants and their estates and beneficiaries.

3.4 Employees in Foreign Countries . The Committee shall have the authority to adopt such modifications, procedures, appendices and subplans as may be necessary or desirable to comply with provisions of the laws of foreign countries in which the Company or any Subsidiary may operate to assure the viability of the benefits from Awards granted to Employees employed in such countries and to meet the objectives of the Plan.

3.5 No Option or SAR Repricing Without Shareholder Approval . Except as provided in Section 4.4 hereof relating to certain antidilution adjustments, unless the approval of shareholders of the Company is obtained, (i) Options and SARs issued under the Plan shall not be amended to lower their exercise price, (ii) Options and SARs issued under the Plan will not be exchanged for cash at a time when the Option or SAR has an Option Price or SAR exercise price, as the case may be, above the Fair Market Value of the Common Stock or for other Options or SARs with lower exercise prices, and (iii) no other action shall be taken with respect to Options or SARs that would be treated as a repricing under the rules of the principal stock exchange on which the Shares are listed.

ARTICLE 4. SHARES SUBJECT TO THE PLAN

4.1 Number of Shares . Subject to adjustments under Section 4.4 below, the maximum number of Shares that may be delivered to participants and their beneficiaries under the Plan shall be equal to the sum of (i) 12,500,000; (ii) any Shares available for future awards under the Company's 1998 Stock Option Plan as of the effective date of this Plan; and (iii) any Shares that are represented by awards granted under any prior plan of the Company, which are forfeited, expire or are canceled without the delivery of Shares or which result in the forfeiture of Shares back to the Company. In addition, any Shares delivered under the Plan or any prior plan of the Company which are forfeited back to the Company because of the failure to meet an award contingency or condition shall again be available for delivery pursuant to new awards granted under the Plan. Any Shares covered by an award (or portion of an award) granted under the Plan or any prior plan of the Company, which is forfeited or canceled, expires or is settled in cash, including the settlement of tax withholding obligations using Shares, shall be deemed not to have been delivered for purposes of determining the maximum number of Shares available for delivery under the Plan. Likewise, if any stock option is exercised by tendering Shares, either actually or by attestation, to the Company as full or partial payment for such exercise under this Plan or any prior plan of the Company, only the number of Shares issued net of the Shares tendered shall be deemed delivered for purposes of determining the maximum number of Shares available for delivery under the Plan. Further, Shares issued under the Plan through the settlement, assumption or substitution of outstanding awards or obligations to grant future awards as a condition of or in connection with the Company acquiring another entity shall not reduce the maximum number of Shares available for delivery under the Plan.

4.2 Other Plan Limits . Subject to adjustment under Section 4.4, the maximum number of Shares that may be issued in connection with ISOs shall be 3,000,000.

4.3 Nonexclusivity of the Plan . This Plan shall not be construed as creating any limitation on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of options and other awards otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

4.4 Adjustments in Authorized Shares . In the event of (i) any change in corporate capitalization, such as a stock split, reverse stock split, or stock dividend; (ii) any corporate transaction to which Code Section 424(a) applies, or (iii) such other event which in the judgment of the Committee necessitates an adjustment, such adjustment shall be made in the maximum number and kind of Shares which may be delivered under the Plan as set forth in Section 4.1 above, and in the number and kind of and/or price of Shares subject to outstanding Awards granted under the Plan or prior plan, to prevent dilution or enlargement of rights; provided, however, that the number of Shares subject to any Award shall always be a whole number and the Committee shall make such adjustments as are necessary to insure Awards of whole Shares. Except as expressly provided herein, the issuance by the Company of Shares of stock of any class, or securities convertible into Shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an outstanding Award.

ARTICLE 5. ELIGIBILITY AND PARTICIPATION

Any Director or Employee, or any independent contractor, adviser or consultant to the Company or a Parent, Subsidiary, or affiliate of the Company shall be eligible to receive an Award under the Plan. In determining the individuals to whom such an Award shall be granted and the number of Shares which may be granted pursuant to that Award, the Committee shall take into account the duties of the respective individual, his or her present and potential contributions to the success of the Company or a Parent, Subsidiary, or affiliate of the Company, and such other factors as the Committee shall deem relevant in connection with accomplishing the purpose of the Plan.

ARTICLE 6. STOCK OPTIONS

6.1 Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to Participants at any time and from time to time as shall be determined by the Committee. The Committee shall have sole discretion in determining the number of Shares subject to Options granted to each Participant. An Option may be granted with or without a Corresponding SAR. No Participant may be granted ISOs (under the Plan and all other incentive stock option plans of the Company and any Parent or Subsidiary) which are first exercisable in any calendar year for Common Stock having an aggregate Fair Market Value (determined as of the date an Option is granted) that exceeds One Hundred Thousand Dollars ($100,000). The preceding annual limit shall not apply to NQSOs. The Committee may grant a Participant ISOs, NQSOs or a combination thereof, and may vary such Awards among Participants. Subject to adjustments under the principles set forth in Section 4.4 above, the maximum number of Shares subject to Options which can be granted under the Plan during any calendar year to any individual is 1,000,000 Shares; provided, however, that to the extent that the maximum number of Shares is not granted to a Participant in a calendar year, such amount may be carried over into subsequent years.

6.2 Agreement. Each Option grant shall be evidenced by an Agreement that shall specify the Option Price, the duration of the Option, the number of Shares to which the Option pertains and such other provisions as the Committee shall determine. The Option Agreement shall further specify whether the Award is intended to be an ISO or an NQSO. Any portion of an Option that is not designated as an ISO or otherwise fails or is not qualified as an ISO (even if designated as an ISO) shall be a NQSO. If the Option is granted in connection with a Corresponding SAR, the Agreement shall also specify the terms that apply to the exercise of the Option and Corresponding SAR. The Committee may provide in the Option Agreement for transfer restrictions, repurchase rights, vesting requirements and other limitations on the Shares to be issued pursuant to the exercise of an Option.

6.3 Option Price. The Option Price shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted. In no event, however, shall any Participant who owns (within the meaning of Code Section 424(d)) stock of the Company possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company be eligible to receive an ISO at an Option Price less than one hundred ten percent (110%) of the Fair Market Value of a Share on the date the ISO is granted. The Committee is authorized to issue Options, whether ISOs or NQSOs, at an Option Price in excess of the Fair Market Value on the date the Option is granted (the so-called “Premium Price” Option) to encourage superior performance.

6.4 Duration of Options. Each Option shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no Option shall be exercisable later than the tenth (10th) anniversary date of its grant; provided, further, however, that any ISO granted to any Participant who at such time owns (within the meaning of Code Section 424(d)) stock of the Company possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, shall not be exercisable later than the fifth (5th) anniversary date of its grant.

6.5 Exercise of Options .

(a) General . Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each in stance approve, including conditions related to the employment of or provision of services by the Participant with the Company or any Parent, Subsidiary or other entity, which need not be the same for each grant or for each Participant. Each Option shall be exercisable for such number of Shares and at such time or times, including periodic installments, as may be determined by the Committee at the time of the grant, subject to the provisions of Section 6.5(b) herein. Except as otherwise provided in the Agreement and Article 13, the right to purchase Shares that are exercisable in periodic installments shall be cumulative so that when the right to purchase any Shares has accrued, such Shares or any part thereof may be purchased at any time thereafter until the expiration or termination of the Option. The exercise or partial exercise of either an Option or its Corresponding SAR shall result in the termination of the other to the extent of the number of Shares with respect to which the Option or Corresponding SAR is exercised.

(b) Vesting Restrictions . Notwithstanding the provisions of Section 6.5(a), Options granted to an Employee under the Plan shall be subject to a minimum vesting period of three years (which may include installment vesting within such three-year period) or one year if the vesting is based on performance criteria other than continued service; provided, however, that (i) the Committee may provide for acceleration of vesting of all or a portion of an Option in the event of a Participant's death, Disability, or Retirement, or upon the occurrence of a Change in Control of the Company **;** and (ii) the Committee may provide for the grant of an Option without a minimum vesting period or may accelerate the vesting of all or a portion of an Option for any reason, but only with respect to Awards for no more than an aggregate of ten percent (10%) of the total number of Shares authorized for issuance under the Plan pursuant to Section 4.1 herein (and including in the calculation of whether such ten percent (10%) threshold has been met any Awards granted to Employees without minimum vesting periods pursuant to subpart (iii) of Section 7.3(b) or subpart (iii) of Section 8.2(b) herein), upon such terms and conditions as the Committee shall determine, including, but not limited to, Options that are substituted for other equity awards in connection with mergers, consolidations or other similar transactions, Options that are granted as an inducement to be employed by the Company, a Subsidiary or an affiliate or to replace forfeited awards from a former employer, or Options that are granted in exchange for foregone cash compensation.

6.6 Payment . Options shall be exercised by the 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, accompanied by full payment for the Shares. The Option Price upon exercise of any Option shall be payable to the Company in full, either: (a) in cash, (b) in cash equivalent approved by the Committee, (c) if approved by the Committee, by tendering previously acquired Shares (or delivering a certification of ownership of such Shares) having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that the Shares which are tendered and which were acquired directly from the Company must have been held by the Participant for a period of at least six months unless otherwise provided by the Committee), or (d) if approved by the Committee, by a combination of (a), (b) and (c). The Committee also may allow cashless exercises as permitted under Federal Reserve Board's Regulation T, subject to applicable securities law restrictions, or by any other means which the Committee determines to be consistent with the Plan's purpose and applicable law. The Company may, in its discretion (and subject to any restrictions imposed by the Sarbanes-Oxley Act of 2002 or other applicable laws), make a loan to the Participant for purposes of permitting the Participant to exercise an Option and to pay any withholding taxes in connection with the exercise of the Option. Such loan shall be on such terms and conditions as may be determined by the Company. As soon as practicable after receipt of a written notification of exercise and full payment, the Company shall deliver to the Participant, in the Participant's name, Share certificates in an appropriate amount based upon the number of Shares purchased under the Option(s), and may place appropriate legends on the certificates representing such Shares.

6.7 Transferability .

(a) To Immediate Family and Related Entities . Unless an Agreement provides otherwise, a Participant may transfer an Option granted hereunder, including, but not limited to, transfers to members of his or her Immediate Family (as defined below), to one or more trusts for the benefit of such Immediate Family members, to one or more partnerships where such Immediate Family members are the only partners, or to one or more limited liability companies (or similar entities) where such Immediate Family Members are the only members or beneficial owners of the entity, if (i) the Participant does not receive any consideration in any form whatsoever for such transfer, (ii) such transfer is permitted under applicable tax laws, and (iii) if the Participant is an Insider, such transfer is permitted under Rule 16b-3 of the Exchange Act as in effect from time to time. For purposes hereof, "Immediate Family" shall mean the Participant and the Participant's spouse, children and grandchildren.

(b) Transfers Incident to Divorce . A Participant may transfer a Nonqualified Stock Option granted hereunder to a former spouse incident to such Participant's divorce from the former spouse.

(c) Conditions . Any Option transferred pursuant to this Section 6.7 shall continue to be subject to the same terms and conditions in the hands of the transferee as were applicable to such Option immediately prior to the transfer thereof. Any reference in any such Agreement to the employment by or performance of services for the Company by the Participant shall continue to refer to the employment of, or performance by, the transferring Participant. Any Option that is granted pursuant to any Agreement that did not initially expressly allow the transfer of said Option and that has not been amended to expressly permit such transfer, shall not be transferable by the Participant other than by will or by the laws of descent and distribution and such Option thus shall be exercisable in the Participant's lifetime only by the Participant.

6.8 Shareholder Rights . No Participant shall have any rights as a Shareholder with respect to Shares subject to his Option until the issuance of such Shares to the Participant pursuant to the exercise of such Option.

ARTICLE 7. STOCK APPRECIATION RIGHTS

7.1 Grants of SARs . The Committee shall designate Participants to whom SARs are granted, and will specify the number of Shares of Common Stock subject to each grant. An SAR may be granted with or without a related Option. All SARs granted under this Plan shall be subject to an Agreement in accordance with the terms of this Plan. A payment to the Participant upon the exercise of an SAR may not be more than the difference between the Fair Market Value of the Shares with respect to the SAR on the date of grant and the Fair Market Value of the Shares with respect to the SAR on the date of exercise of the SAR. The maximum number of Shares subject to SARs which can be granted under the Plan during any calendar year to any individual is 250,000 Shares; provided, however, that to the extent that the maximum number of Shares is not granted to a Participant in a calendar year, such amount may be carried over into subsequent years.

7.2 Duration of SARs . The duration of an SAR shall be set forth in the Agreement as determined by the Committee; provided, however, that no SAR shall be exercisable later than the tenth (10th) anniversary date of its grant. An SAR that is granted as a Corresponding SAR shall have the same duration as the Option to which it relates. Unless an Agreement provides otherwise, an SAR shall terminate due to the Participant's termination of employment at the same time as the date specified in Article 6 with respect to Options, regardless of whether the SAR was granted in connection with the grant of an Option.

7.3 Exercise of SAR .

(a) General . An SAR may be exercised in whole at any time or in part from time to time and at such times and in compliance with such requirements as the Committee shall determine as set forth in the Agreement (subject to the provisions of Section 7.3(b) herein); provided, however, that a Corresponding SAR that is related to an Incentive Stock Option may be exercised only to the extent that the related Option is exercisable and only when the Fair Market Value of the Shares exceeds the Option Price of the related ISO. An SAR granted under this Plan may be exercised with respect to any number of whole Shares less than the full number of Shares for which the SAR could be exercised. A partial exercise of an SAR shall not affect the right to exercise the SAR from time to time in accordance with this Plan and the applicable Agreement with respect to the remaining Shares subject to the SAR. The exercise of either an Option or Corresponding SAR shall result in the termination of the other to the extent of the number of Shares with respect to which the Option or its Corresponding SAR is exercised.

(b) Vesting Restrictions . Notwithstanding the provisions of Section 7.3(a), SARs granted to an Employee under the Plan shall be subject to a minimum vesting period of three years (which may include installment vesting within such three-year period) or one year if the vesting is based on performance criteria other than continued service; provided, however, that (i) the Committee may provide for acceleration of vesting of all or a portion of an SAR in the event of a Participant's death, Disability, or Retirement, or upon the occurrence of a Change in Control of the Company; and (ii) the Committee may provide for the grant of an SAR without a minimum vesting period or may accelerate the vesting of all or a portion of an SAR for any reason, but only with respect to Awards for no more than an aggregate of ten percent (10%) of the total number of Shares authorized for issuance under the Plan pursuant to Section 4.1 herein (and including in the calculation of whether such ten percent (10%) threshold has been met any Awards granted to Employees without minimum vesting periods pursuant to subpart (iii) of Section 6.5(b) or subpart (iii) of Section 8.2(b) herein), upon such terms and conditions as the Committee shall determine, including, but not limited to, SARs that are substituted for other equity awards in connection with mergers, consolidations or other similar transactions, SARs that are granted as an inducement to be employed by the Company, a Subsidiary or an affiliate or to replace forfeited awards from a former employer, or SARs that are granted in exchange for foregone cash compensation.

7.4 Determination of Payment of Cash and/or Common Stock Upon Exercise of SAR . At the Committee's discretion, the amount payable as a result of the exercise of an SAR may be settled in cash, Common Stock, or a combination of cash and Common Stock. A fractional Share shall not be deliverable upon the exercise of an SAR, but a cash payment shall be made in lieu thereof.

7.5 Nontransferability . Each SAR granted under the Plan shall be nontransferable except by will or by the laws of descent and distribution. During the lifetime of the Participant to whom the SAR is granted, the SAR may be exercised only by the Participant. No right or interest of a Participant in any SAR shall be liable for, or subject to any lien, obligation or liability of such Participant. A Corresponding SAR shall be subject to the same restrictions on transfer as the Option to which it relates. Notwithstanding the foregoing, if the Agreement so provides, a Participant may transfer an SAR (other than a Corresponding SAR that relates to an Incentive Stock Option) under the same rules and conditions as are set forth in Section 6.7.

7.6 Shareholder Rights . No Participant shall have any rights as a Shareholder with respect to Shares subject to an SAR until the issuance of Shares (if any) to the Participant pursuant to the exercise of such SAR.

ARTICLE 8. RESTRICTED STOCK; STOCK AWARDS

8.1 Grants . The Committee may from time to time in its discretion grant Restricted Stock and Stock Awards to Participants and may determine the number of Shares of Restricted Stock or Stock Awards to be granted. The Committee shall determine the terms and conditions of, and the amount of payment, if any, to be made by the Participant for such Shares or Restricted Stock. A grant of Restricted Stock may, in addition to other conditions, require the Participant to pay for such Shares of Restricted Stock, but the Committee may establish a price below Fair Market Value at which the Participant can purchase the Shares of Restricted Stock. Each grant of Restricted Stock shall be evidenced by an Agreement containing terms and conditions not inconsistent with the Plan as the Committee shall determine to be appropriate in its sole discretion. Subject to adjustments under the principles set forth in Section 4.4 above, the maximum number of Shares of Restricted Stock which can be granted under the Plan during any calendar year to any individual, if such grant is intended to comply with Code Section 162(m), is 300,000 Shares.

8.2 Restricted Period; Lapse of Restrictions .

(a) General . At the time a grant of Restricted Stock is made, the Committee shall establish a period or periods of time (the "Restricted Period") applicable to such grant (subject to the provisions of Section 8.2(b) herein). Subject to the other provisions of this Article 8, at the end of the Restricted Period all restrictions shall lapse and the Restricted Stock shall vest in the Participant.

(b) Vesting Restrictions . Notwithstanding the provisions of Section 8.2(a), Restricted Stock granted to an Employee under the Plan shall be subject to a minimum vesting period of three years (which may include installment vesting within such three-year period) or one year if the vesting is based on performance criteria other than continued service; provided, however, that (i) the Committee may provide for acceleration of vesting of all or a portion of a Restricted Stock award in the event of a Participant's death, Disability, or Retirement, or upon the occurrence of a Change in Control of the Company; and (ii) the Committee may provide for the grant of Restricted Stock without a minimum vesting period or may accelerate the vesting of all or a portion of a Restricted Stock award for any reason, but only with respect to Awards for no more than an aggregate of ten percent (10%) of the total number of Shares authorized for issuance under the Plan pursuant to Section 4.1 herein (and including in the calculation of whether such ten percent (10%) threshold has been met any Awards granted to Employees without minimum vesting periods pursuant to subpart (iii) of Section 6.5(b) or subpart (iii) of Section 7.3(b) herein), upon such terms and conditions as the Committee shall determine, including, but not limited to, Restricted Stock that is substituted for other equity awards in connection with mergers, consolidations or other similar transactions, Restricted Stock that is granted as an inducement to be employed by the Company, a Subsidiary or an affiliate or to replace forfeited awards from a former employer, or Restricted Stock that is granted in exchange for foregone cash compensation.

8.3 Rights of Holder; Limitations Thereon . Upon a grant of Restricted Stock, a stock certificate (or certificates) representing the number of Shares of Restricted Stock granted to the Participant may be registered in the Participant's name and held in custody by the Company or a bank selected by the Committee for the Participant's account. Following such registration, the Participant shall have the rights and privileges of a Shareholder as to such Restricted Stock, including the right to receive dividends, if and when declared by the Board of Directors, and to vote such Restricted Stock, except that the right to receive cash dividends shall be the right to receive such dividends either in cash currently or by payment in Restricted Stock, as the Committee shall determine, and except further that, the following restrictions shall apply:

(a) The Participant shall not be entitled to delivery of a certificate until the expiration or termination of the Restricted Period for the Shares represented by such certificate and the satisfaction of any and all other conditions prescribed by the Committee;

(b) None of the Shares of Restricted Stock may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the Restricted Period and until the satisfaction of any and all other conditions prescribed by the Committee; and

(c) In the event of the forfeiture of any Shares of Restricted Stock, such forfeited Shares shall be transferred to the Company without further action by the Participant and shall, in accordance with Section 4.1, again be available for grant under the Plan. If the Participant paid any amount for the Shares of Restricted Stock that are forfeited, the Company shall pay the Participant the lesser of the Fair Market Value of the Shares on the date they are forfeited or the amount paid by the Participant.

With respect to any Shares received as a result of adjustments under Section 4.4 hereof and any Shares received with respect to cash dividends declared on Restricted Stock, the Participant shall have the same rights and privileges, and be subject to the same restrictions, as are set forth in this Article 8.

8.4 Delivery of Unrestricted Shares . Upon the expiration or termination of the Restricted Period for any Shares of Restricted Stock and the satisfaction of any and all other conditions prescribed by the Committee, the restrictions applicable to such Shares of Restricted Stock shall lapse and a stock certificate for the number of Shares of Restricted Stock with respect to which the restrictions have lapsed shall be delivered, free of all such restrictions except any that may be imposed by law, a Shareholders' agreement or any other agreement, to the holder of the Restricted Stock. The Company shall not be required to deliver any fractional Share but will pay, in lieu thereof, the Fair Market Value (determined as of the date the restrictions lapse) of such fractional Share to the holder thereof. Concurrently with the delivery of a certificate for Restricted Stock, the holder shall be required to pay an amount necessary to satisfy any applicable federal, state and local tax requirements as set out in Article 15 below. Notwithstanding the foregoing, if a 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 Corporation to be a 'specified employee' (within the meaning of Treas. Reg. Section 1.409-1(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 409(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 (6)-month period measured from the date of the Participant's 'separation from service;' or (ii) the date of the Participant's death (the 'Delay Period'). Upon the expiration of the Delay Period, all payments delayed pursuant to this Section 8.4 shall be paid to Participant in a lump sum. The foregoing restriction shall apply with respect to other Awards granted to "specified employees" if and to the extent required by Code Section 409A.

8.5 Nonassignability of Restricted Stock . Unless the Committee provides otherwise in the Agreement, no grant of, nor any right or interest of a Participant in or to, any Restricted Stock, or in any instrument evidencing any grant of Restricted Stock under the Plan, may be assigned, encumbered or transferred except, in the event of the death of a Participant, by will or the laws of descent and distribution.

8.6 Payment of Stock Awards . Upon the grant of a Stock Award, Shares shall be issued to the Participant not later than March 15 of the year following the year in which the Stock Award is granted (or shall otherwise be issued in a manner intended to be exempt from, or compliant with, Code Section 409A if and to the extent applicable).

ARTICLE 9. PERFORMANCE UNIT AWARDS

9.1 Award . The Committee may designate Participants to whom Performance Unit Awards will be granted from time to time for no consideration and specify the number of Shares of Common Stock covered by the Award. Subject to adjustment under the principles set forth in Section 4.4 above, the maximum number of Shares subject for Performance Units which can be granted under the Plan during any calendar year to any individual is 300,000 Shares (or the fair market value thereof). The Committee shall set forth all of the material terms of any Performance Unit Award in a written document that satisfies the requirements of Code Section 409A, or that evidences that such Performance Unit Award does not provide for deferred compensation subject to Code Section 409A.

9.2 Earning the Award . A Performance Unit Award, or portion thereof, will be earned, and the Participant will be entitled to receive Common Stock, a cash payment or a combination thereof, only upon the achievement by the Participant, the Company, or a Parent or Subsidiary of such performance objectives as the Committee, in its discretion, shall prescribe on the date of grant.

The Committee may in determining whether performance targets have been met adjust the Company's financial results to exclude the effect of unusual charges or income items or other events, including acquisitions or dispositions of businesses or assets, restructurings, reductions in force, currency fluctuations or changes in accounting, which are distortive of financial results (either on a segment or consolidated basis). In addition, the Committee will adjust its calculations to exclude the effect on financial results of changes in the Code or other tax laws, or the regulations relating thereto.

9.3 Payment. In the discretion of the Committee, the amount payable when a Performance Unit Award is earned may be settled in cash, by the grant of Common Stock or a combination of cash and Common Stock. The aggregate Fair Market Value of the Common Stock received by the Participant pursuant to a Performance Unit Award, together with any cash paid to the Participant, shall be equal to the aggregate Fair Market Value, on the date the Performance Units are earned, of the number of Shares of Common Stock equal to each Performance Unit earned. A fractional Share will not be deliverable when a Performance Unit Award is earned, but a cash payment will be made in lieu thereof.

9.4 Shareholder Rights. No Participant shall have, as a result of receiving a Performance Unit Award, any rights as a Shareholder until and to the extent that the Performance Units are earned and Common Stock is transferred to such Participant. If the Agreement so provides, a Participant may receive a cash payment equal to the dividends that would have been payable with respect to the number of Shares of Common Stock covered by the Award between (a) the date that the Performance Units are awarded and (b) the date that a transfer of Common Stock to the Participant, cash settlement, or combination thereof is made pursuant to the Performance Unit Award; provided, however, that such dividends shall only be paid if and to the extent that the Performance Unit Award is earned. A Participant may not sell, transfer, pledge, exchange, hypothecate, or otherwise dispose of a Performance Unit Award or the right to receive Common Stock thereunder other than by will or the laws of descent and distribution. After a Performance Unit Award is earned and paid in Common Stock, a Participant will have all the rights of a Shareholder with respect to the Common Stock so awarded; provided that the restrictions of any Shareholders' agreement or other agreement shall, if applicable, continue to apply.

ARTICLE 10. BENEFICIARY DESIGNATION

To the extent applicable, each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company and shall be effective only when filed by the Participant, in writing, with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate. If required, the spouse of a married Participant domiciled in a community property jurisdiction shall join in any designation of a beneficiary or beneficiaries other than the spouse.

ARTICLE 11. DEFERRALS

The Committee may (subject to any considerations under Code Section 409A) permit a Participant to defer to another plan or program such Participant's receipt of Shares or cash that would otherwise be due to such Participant by virtue of any Award. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals.

ARTICLE 12. RIGHTS OF PARTICIPANTS

12.1 Employment. Nothing in the Plan shall interfere with or limit in any way the right of the Company or a Parent, Subsidiary, or affiliate of the Company to terminate any Participant's employment by, or performance of services for, the Company or any Parent, Subsidiary, or affiliate of the Company at any time, nor confer upon any Participant any right to continue in the employ or service of the Company or a Parent, Subsidiary, or affiliate of the Company. For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its affiliates (or between affiliates) shall not be deemed a termination of employment.

12.2 Participation . No Employee shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

ARTICLE 13. CHANGE IN CONTROL

13.1 Definition . For purposes of the Plan, unless an Agreement provides otherwise, a "Change in Control" means any of the following events:

(a) The acquisition (other than from the Company) by any Person of Beneficial Ownership of fifty percent (50%) or more of the combined voting power of the Company's then outstanding voting securities within a twelve (12)-month period; provided, however, that for purposes of this Section 13.1, Person shall not include any person who on the date hereof owns 25% or more of the Company's outstanding securities, and a Change in Control shall not be deemed to occur solely because fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained by the Company or any of its subsidiaries, or (ii) any corporation, which, immediately prior to such acquisition, is owned directly or indirectly by the Shareholders of the Company in the same proportion as their ownership of stock in the Company immediately prior to such acquisition.

(b) Approval by Shareholders of the Company of (1) a merger or consolidation involving the Company if the Shareholders of the Company, immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the corporation resulting from such merger or consolidation in substantially the same proportion as their ownership of the combined voting power of the voting securities of the Company outstanding immediately before such merger or consolidation, or (2) a complete liquidation or dissolution of the Company, or (3) an agreement for the sale or other disposition of all or substantially all of the assets of the Company.

(c) A change in the composition of the Board such that the individuals who, as of the first date of such period, constitute the Board (such Board shall be hereinafter referred to as the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Section 13.1 that any individual who becomes a member of the Board during such twelve (12)-month whose election, or nomination for election by the Company's Shareholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided, further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act, including any successor to such Rule), or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board, shall not be so considered as a member of the Incumbent Board.

ARTICLE 14. AMENDMENT, MODIFICATION AND TERMINATION

14.1 Amendment, Modification and Termination . The Board may, at any time and from time to time, alter, amend, suspend or terminate the Plan in whole or in part; provided, that, unless approved by the holders of a majority of the total number of Shares of the Company represented and voted at a meeting at which a quorum is present, no amendment shall be made to the Plan if such amendment would (a) materially modify the eligibility requirements provided in Article 5; (b) increase the total number of Shares which may be granted under the Plan (except as provided in Section 4.4); (c) extend the term of the Plan; (d) modify the Shareholder approval requirements of Section 3.5; or (e) amend the Plan in any other manner which the Board, in its discretion, determines should become effective only if approved by the Shareholders even if such Shareholder approval is not expressly required by the Plan or by law.

14.2 Awards Previously Granted . No termination, amendment or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award. Subject to the terms of Section 3.5, the Committee shall, with the written consent of the Participant holding such Award, have the authority to cancel Awards outstanding and grant replacement Awards therefor.

14.3 Compliance With Code Section 162(m) . At all times when the Committee determines that compliance with Code Section 162(m) is required or desired, all Awards granted under this Plan to Covered Employees shall comply with the requirements of Code Section 162(m). In addition, in the event that changes are made to Code Section 162(m) to permit greater flexibility with respect to any Award or Awards under the Plan, the Committee may, subject to this Article 14, make any adjustments it deems appropriate.

The vesting of any Restricted Stock Award granted pursuant to Section 8 that is intended to comply with Code Section 162(m) may, and the payment of any Performance Unit granted pursuant to Section 9 above that is intended to comply with Code Section 162(m) above shall, be made only upon certification by the Committee of the attainment, over a performance period established by the Committee, of any one or more quantifiable performance targets, which have been established by the Committee. Such targets may be either absolute or relative and shall be based on earnings, earnings per share, earnings before interest, taxes and depreciation and amortization, growth in earnings per share, achievement of annual operating profit plans, operating profit margin, return on equity performance, total shareholder return, stock price, system-wide sales, customer satisfaction, store income as a percentage of sales, comparable store sales growth, number of new store operating weeks, achievement of new store sales standards, EBITDA, return on assets, general administrative expenses as a percentage of revenue, or aging of accounts receivable. The specific performance targets for each participating executive officer shall be established in writing by the Committee within 90 days after the commencement of the fiscal year (or within such other time period as may be required by Code Section 162 (m)) to which the performance target relates. The performance target shall be established in such a manner that a third party having knowledge of the relevant facts could determine whether the performance goal has been met.

ARTICLE 15. WITHHOLDING

15.1 Tax Withholding . The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event arising in connection with an Award under this Plan.

15.2 Share Withholding . With respect to withholding required upon the exercise of Options, or upon any other taxable event arising as a result of Awards granted hereunder which are to be paid in the form of Shares, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be imposed on the transaction. In addition, Participants may elect, subject to the approval of the Committee, to satisfy tax withholding requirements by tendering Common Stock to the Company. All elections shall be irrevocable, made in writing, signed by the Participant, and elections by Insiders shall additionally comply with all legal requirements applicable to Share transactions by such Participants.

ARTICLE 16. INDEMNIFICATION

Each person who is or shall have been a member of the Committee, or the Board, shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall be in addition to any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

ARTICLE 17. SUCCESSORS

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

ARTICLE 18. LEGAL CONSTRUCTION

18.1 Gender and Number . Except where otherwise indicated by the context, any masculine term used herein shall also include the feminine; the plural shall include the singular and the singular shall include the plural.

18.2 Severability . If any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

18.3 Requirements of Law . The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

18.4 Regulatory Approvals and Listing . The Company shall not be required to issue any certificate or certificates for Shares under the Plan prior to (i) obtaining any approval from any governmental agency which the Company shall, in its discretion, determine to be necessary or advisable, (ii) the admission of such Shares to listing on any national securities exchange or Nasdaq on which the Company's Shares may be listed, and (iii) the completion of any registration or other qualification of such Shares under any state or federal law or ruling or regulation of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable.

To the extent applicable, if required by the then-current Section 16 of the Exchange Act, any "derivative security" or "equity security" offered pursuant to the Plan to any Insider may not be sold or transferred for at least six (6) months after the date of grant of such Award. The terms "equity security" and "derivative security" shall have the meanings ascribed to them in the then-current Rule 16a-1 under the Exchange Act.

18.5 Securities Law Compliance . To the extent applicable, with respect to Insiders, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

18.6 Governing Law . To the extent not preempted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of North Carolina.

18.7 Code Section 409A . It is intended that the Plan and Awards issued hereunder will comply with Code Section 409A (and any regulations and guidelines issued thereunder) to the extent the Awards are subject thereto, and the Plan and such Awards shall be interpreted on a basis consistent with such intent. The Plan and any Award Agreements issued thereunder may be amended in any respect deemed by the Board or the Committee to be necessary in order to preserve compliance with Code Section 409A.

[FORM OF]
KRISPY KREME DOUGHNUTS, INC.
DIRECTOR RESTRICTED STOCK UNIT AGREEMENT

THIS AGREEMENT, dated as of [_________] between Krispy Kreme Doughnuts, Inc. (the "Corporation"), a North Carolina corporation, and [_____________], a member of the Board of Directors of the Corporation (the "Director").

WHEREAS, the Corporation's 2000 Stock Incentive Plan, as amended (the "Plan"), provides for the grant of "restricted stock," which is defined in Article 2(cc) of the Plan to include the right to receive shares of Common Stock in the future;

WHEREAS, under the definition of "restricted stock" in Article 2(cc) and the provisions of Article 8 of the Plan, the issuance of restricted stock units, which are rights to receive shares of stock at a specified time in the future and following the lapse of applicable restrictions, is authorized;

WHEREAS, the Director has been granted the following award of restricted stock units under the Plan;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, and for other good and valuable consideration, the parties hereto agree as follows.

1. Award of Restricted Stock Units. Pursuant to the provisions of the Plan, the terms of which are incorporated herein by reference, the Director is hereby awarded [___________] restricted stock units (the "Restricted Stock Units"), subject to the terms and conditions of the Plan and those herein set forth. The effective date of the grant of Restricted Stock Units is [___________] (the "Date of Grant"). Each Restricted Stock Unit will entitle the Director to receive one share of Common Stock at the time, and subject to the conditions, set forth herein and in the Plan. Capitalized terms used herein and not defined shall have the meanings set forth in the Plan. In the event of any conflict between this Agreement and the Plan, the Plan shall control.

2. Terms and Conditions. It is understood and agreed that the award of Restricted Stock Units evidenced hereby is subject to the following terms and conditions:

(a) Vesting of Restricted Stock Units. Subject to the terms and conditions of this Agreement, the Restricted Stock Units shall become vested in four quarterly installments as follows:

Date	Number of Units that Vest on such Date
[ ]	[ ]
[ ]	[ ]
[ ]	[ ]
[ ]	[ ]

Notwithstanding the foregoing, the Restricted Stock Units shall become immediately vested in full in the event that the Director ceases to serve as a Director of the Corporation due to the Director's death or Disability. In addition, the Restricted Stock Units shall become vested in full in the event that (i) a Change in Control of the Corporation occurs and (ii) within two years after the effective date of the

Change in Control, the Director ceases to serve as a member of the Board of Directors of the Corporation, or, if the Corporation is not the surviving corporation in the Change in Control event, a member of the board of directors of the surviving entity, in either case, due to the Director's failure to be nominated to serve as a director of such entity or the Director's failure to be elected to serve as a director of such entity, but not due to the Director's decision not to continue service on the Board of Directors of the Corporation or the board of directors of the surviving entity, as the case may be. For the purposes hereof, (i) "Change in Control" shall have the meaning set forth in the Plan, except in the case of a transaction described in clauses (1) or (3) of paragraph (b) of such definition, the consummation of such a transaction, rather than the approval by shareholders of the Corporation of such transaction or agreement to effect such a transaction, shall constitute a Change in Control; and (ii) for the avoidance of doubt, "Corporation" shall include the successor to the Corporation's business or assets, or if all or substantially all of the voting stock of the Corporation is held by another public company, such public 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(a).

(b) Termination of Service . In the event that the Director ceases to serve as a Director for any reason not described or provided for in Section 2(a) above, that portion of the Restricted Stock Units that have not yet vested shall be forfeited.

(c) Distribution of Common Stock . The Corporation shall distribute to the Director (or his or her heirs in the event of the Director's death) at the time of vesting of the Restricted Stock Units, a number of shares of Common Stock equal to the number of Restricted Stock Units then held by the Director that became vested at such time; provided, however, that, if the Director has made an irrevocable deferral election prior to the last day of the calendar year prior to the Date of Grant, distribution of the shares of Common Stock subject to the Restricted Stock Units shall be deferred until the time the Director ceases to be a Director of the Corporation for any reason.

(d) Rights and Restrictions . The Restricted Stock Units shall not be transferable, other than pursuant to will or the laws of descent and distribution. Prior to vesting of the Restricted Stock Units and delivery of the shares of Common Stock to the Director, the Director shall not have any rights or privileges of a shareholder as to the shares of Common Stock subject to the Restricted Stock Units. Specifically, the Director 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 the shares of Common Stock.

3. Transfer of Common Stock . The Common Stock to be delivered hereunder, or any interest therein, may be sold, assigned, pledged, hypothecated, encumbered, or transferred or disposed of in any other manner, in whole or in part, only in compliance with the terms, conditions and restrictions as set forth in the governing instruments of the Corporation, applicable federal and state securities laws or any other applicable laws or regulations and the terms and conditions hereof.

4. References . References herein to rights and obligations of the Director shall apply, where appropriate, to the Director's legal representative or estate without regard to whether specific reference to such legal representative or estate is contained in a particular provision of this Agreement.

5. Notices . Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or by courier, or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently by similar process give notice of:

If to the Corporation:

Krispy Kreme Doughnuts, Inc.
Attn.: General Counsel
370 Knollwood Street, Suite 500
Winston-Salem, North Carolina 27103

If to the Director:
[ ]
[ ]

(Or at the Director's most recent address shown on the Corporation's corporate records, or at any other address at which the Director may specify in a notice delivered to the Corporation in the manner set forth herein.)

6. Further Assurances . The Director agrees to perform all acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Agreement, including but not limited to all acts and documents related to compliance with federal and/or state securities laws.

7. Entire Agreement . This Agreement, together with the Plan, sets forth the entire agreement between the parties with reference to the subject matter hereof, and there are no agreements, understandings, warranties, or representations, written, express, or implied, between them with respect to the Restricted Stock Units other than as set forth herein or therein, all prior agreements, promises, representations and understandings relative thereto being herein merged.

8. Section 409A . It is intended that this Agreement will comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations and guidelines issued thereunder, and the Agreement shall be interpreted on a basis consistent with such intent. This Agreement may be amended in any respect deemed necessary by the Compensation Committee of the Board of Directors of the Corporation in order to preserve compliance with Section 409A of the Code.

9. Counterparts . For convenience, this Agreement may be executed in any number of identical counterparts, each of which shall be deemed a complete original in itself and may be introduced in evidence or used for any other purposes without the production of any other counterparts.

10. Equity Retention Policy and Stock Ownership Guidelines . As a condition to receiving this award, the Director agrees to abide by the Corporation's Equity Retention Policy and Stock Ownership Guidelines, each as in effect from time to time.

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

KRISPY KREME DOUGHNUTS, INC.

By: ______________________________
Title: [ ]______________________________

DIRECTOR

Signature: ______________________________
Printed Name: [ ]______________________________

EXHIBIT 21

LIST OF SUBSIDIARIES

Subsidiary	Jurisdiction of Incorporation or Organization
HDN Development Corporation	Kentucky
Krispy Kreme Asia Pacific Ltd.	Hong Kong
KK Canada Holdings, Inc.	North Carolina
Krispy Kreme Canada, Inc.	North Carolina
Krispy Kreme Doughnut Corporation	North Carolina
Krispy Kreme Management I, LLC	North Carolina
Krispy Kreme Management II, LLC	North Carolina
North Texas Doughnuts, L.P.	Texas
Northeast Doughnuts, LLC	North Carolina
Panhandle Doughnuts, LLC	North Carolina
Rigel Holding, LLC	Nebraska
Southern Doughnuts, LLC	North Carolina
Southwest Doughnuts, LLC	North Carolina

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-162108, 333-38236, 333-38250, 333-47326, 333-87092 and 333-97787), Form S-3 (No. 333-152944) and Form S-3 filed as post-effective amendment No. 2 to Registration Statement on Form S-4 (No. 333-103434) of Krispy Kreme Doughnuts, Inc. of our report dated March 31, 2011 relating to the financial statements, financial statement schedule, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Raleigh, North Carolina
March 31, 2011

EXHIBIT 23.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-162108, 333-38236, 333-38250, 333-47326, 333-87092 and 333-97787), Form S-3 (No. 333-152944) and Form S-3 filed as post-effective amendment No. 2 to Registration Statement on Form S-4 (No. 333-103434) of Krispy Kreme Doughnuts, Inc. of our report dated March 25, 2011 relating to the financial statements of Kremeworks, LLC and Subsidiary which appears in this Form 10-K for the fiscal year ended January 30, 2011.

/s/ Blackman Kallick, LLP
Chicago, Illinois
March 30, 2011

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James H. Morgan, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 31, 2011

/s/ James H. Morgan

James H. Morgan
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Douglas R. Muir, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 31, 2011

/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, James H. Morgan, 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 Annual Report on Form 10-K of Krispy Kreme Doughnuts, Inc. (the "Company") for the fiscal year ended January 30, 2011 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/ James H. Morgan
James H. Morgan
Chief Executive Officer

Date: March 31, 2011

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 Annual Report on Form 10-K of Krispy Kreme Doughnuts, Inc. (the "Company") for the fiscal year ended January 30, 2011 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: March 31, 2011

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.