

CRACKER BARREL OLD COUNTRY STORE, INC  
Form 10-Q  
February 21, 2012

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

FORM 10-Q

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended January 27, 2012

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: 001-25225

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Cracker Barrel Old Country Store, Inc.  
(Exact name of registrant as specified in its charter)

Tennessee	62-0812904
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

305 Hartmann Drive, P.O. Box 787	37088-0787
Lebanon, Tennessee (Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (615) 444-5533

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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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 ☒

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

22,993,634 Shares of Common Stock  
Outstanding as of February 15, 2012

CRACKER BARREL OLD COUNTRY STORE, INC.

FORM 10-Q

For the Quarter Ended January 27, 2012

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## PART I – FINANCIAL INFORMATION

## ITEM 1. Financial Statements

CRACKER BARREL OLD COUNTRY STORE, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands, except share data)  
 (Unaudited)

	January 27, 2012	July 29, 2011*
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 119,385	\$ 52,274
Property held for sale	884	950
Accounts receivable	16,991	12,279
Income taxes receivable	--	7,898
Inventories	127,176	141,547
Prepaid expenses and other current assets	14,707	9,000
Deferred income taxes	21,494	21,967
Total current assets	300,637	245,915
Property and equipment	1,707,752	1,673,873
Less: Accumulated depreciation and amortization of capital leases	692,518	664,709
Property and equipment – net	1,015,234	1,009,164
Other assets	54,458	55,805
Total assets	\$ 1,370,329	\$ 1,310,884
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 93,592	\$ 99,679
Current maturities of long-term debt and other long-term obligations	9,490	123
Income taxes payable	5,173	--
Accrued interest expense	10,059	7,857
Deferred revenue	54,895	32,630
Other current liabilities	122,475	126,814
Total current liabilities	295,684	267,103
Long-term debt	540,715	550,143
Interest rate swap liability	45,050	51,604
Other long-term obligations	101,401	105,661
Deferred income taxes	67,084	68,339
Commitments and Contingencies (Note 13)		
Shareholders' Equity:		
Preferred stock – 100,000,000 shares of \$.01 par value authorized; no shares issued	--	--
Common stock – 400,000,000 shares of \$.01 par value authorized; 22,992,183 shares issued and outstanding at January 27, 2012, and 22,840,974 shares issued and outstanding at July 29, 2011	230	228
Additional paid-in capital	15,317	7,081
Accumulated other comprehensive loss	(31,670 )	(38,032 )

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Retained earnings	336,518	298,757
Total shareholders' equity	320,395	268,034
Total liabilities and shareholders' equity	\$1,370,329	\$1,310,884

See Notes to unaudited Condensed Consolidated Financial Statements.

\* This Condensed Consolidated Balance Sheet has been derived from the audited Consolidated Balance Sheet as of July 29, 2011, as filed in the Company's Annual Report on Form 10-K for the fiscal year ended July 29, 2011.

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CRACKER BARREL OLD COUNTRY STORE, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except share data)  
(Unaudited)

	Quarter Ended		Six Months Ended	
	January 27, 2012	January 28, 2011	January 27, 2012	January 28, 2011
Total revenue	\$673,234	\$640,277	\$1,271,671	\$1,238,968
Cost of goods sold	235,391	219,390	421,698	399,143
Gross profit	437,843	420,887	849,973	839,825
Labor and other related expenses	234,933	223,182	455,901	447,786
Other store operating expenses	119,136	112,164	228,180	224,123
Store operating income	83,774	85,541	165,892	167,916
General and administrative expenses	36,437	33,068	73,931	69,944
Impairment and store dispositions, net	--	1	--	84
Operating income	47,337	52,472	91,961	97,888
Interest expense	11,025	11,830	22,160	23,544
Income before income taxes	36,312	40,642	69,801	74,344
Provision for income taxes	10,703	11,865	20,390	21,833
Net income	\$25,609	\$28,777	\$49,411	\$52,511
Net income per share:				
Basic	\$1.11	\$1.24	\$2.16	\$2.28
Diluted	\$1.10	\$1.20	\$2.13	\$2.21
Weighted average shares:				
Basic	22,968,002	23,237,493	22,919,451	23,034,943
Diluted	23,306,177	23,919,251	23,225,963	23,756,567
Dividends declared per share	\$0.25	\$0.22	\$0.50	\$0.44

See Notes to unaudited Condensed Consolidated Financial Statements.

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CRACKER BARREL OLD COUNTRY STORE, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited and in thousands)

	Six Months Ended	
	January 27, 2012	January 28, 2011
Cash flows from operating activities:		
Net income	\$49,411	\$52,511
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,339	30,454
Loss on disposition of property and equipment	1,258	1,693
Share-based compensation	5,946	4,919
Excess tax benefit from share-based compensation	(155 )	(2,294 )
Changes in assets and liabilities:		
Inventories	14,371	13,555
Other current assets	(2,521 )	(11,627 )
Accounts payable	(6,087 )	(27,794 )
Accrued employee compensation	3,060	(17,515 )
Deferred revenue	22,265	20,929
Other current liabilities	(697 )	(12,539 )
Other long-term assets and liabilities	(4,231 )	5,013
Net cash provided by operating activities	113,959	57,305
Cash flows from investing activities:		
Purchase of property and equipment	(38,835 )	(40,567 )
Proceeds from sale of property and equipment	477	265
Proceeds from insurance recoveries of property and equipment	116	92
Net cash used in investing activities	(38,242 )	(40,210 )
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	92,600	110,700
Principal payments under long-term debt and other long-term obligations	(92,676 )	(114,188 )
Proceeds from exercise of share-based compensation awards	2,137	20,343
Excess tax benefit from share-based compensation	155	2,294
Purchases and retirement of common stock	--	(10,997 )
Dividends on common stock	(10,822 )	(9,698 )
Net cash used in financing activities	(8,606 )	(1,546 )
Net increase in cash and cash equivalents	67,111	15,549
Cash and cash equivalents, beginning of period	52,274	47,700
Cash and cash equivalents, end of period	\$119,385	\$63,249
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$18,916	\$22,195
Income taxes	\$6,412	\$21,639
Supplemental schedule of non-cash financing activity:		



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Change in fair value of interest rate swaps	\$6,554	\$10,654
Change in deferred tax asset for interest rate swaps	\$(192 )	\$(1,078 )

See Notes to unaudited Condensed Consolidated Financial Statements.

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CRACKER BARREL OLD COUNTRY STORE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except percentages, share and per share data)

(Unaudited)

1. Condensed Consolidated Financial Statements

Cracker Barrel Old Country Store, Inc. and its affiliates (collectively, in these Notes to Condensed Consolidated Financial Statements, the “Company”) are principally engaged in the operation and development in the United States of the Cracker Barrel Old Country Store® (“Cracker Barrel”) concept.

On December 20, 2011, the Company’s shareholders approved an agreement and plan of merger (the “merger agreement”) effecting an internal restructuring of the Company through merger of Cracker Barrel Old Country Store, Inc. (“Holdco”) with and into CBOCS, Inc., a wholly-owned subsidiary of Holdco, effective as of December 23, 2011. At the effective time of the merger, the name of CBOCS, Inc., the surviving corporation in the merger, was changed to Cracker Barrel Old Country Store, Inc. Pursuant to the merger agreement, the outstanding shares of Holdco’s common stock, par value \$0.01 per share, were converted into an equivalent number of shares of the surviving corporation’s common stock and were owned directly by the Company’s shareholders in the same proportion as their ownership of Holdco immediately prior to the merger. The Company’s common stock continues to be listed on The NASDAQ Global Select Market under the same ticker symbol, “CBRL.” The merger did not result in any material changes in the business, offices, assets, liabilities, obligations, net worth, directors, officers or employees of Holdco.

The condensed consolidated balance sheets at January 27, 2012 and July 29, 2011 and the related condensed consolidated statements of income and cash flows for the quarters and/or six-month periods ended January 27, 2012 and January 28, 2011, have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) without audit. In the opinion of management, all adjustments (consisting of normal and recurring items) necessary for a fair presentation of such condensed consolidated financial statements have been made. The results of operations for any interim period are not necessarily indicative of results for a full year.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended July 29, 2011 (the “2011 Form 10-K”). The accounting policies used in preparing these condensed consolidated financial statements are the same as described in the 2011 Form 10-K. References in these Notes to Condensed Consolidated Financial Statements to a year are to the Company’s fiscal year unless otherwise noted.

Recent Accounting Pronouncements Not Yet Adopted

Fair Value Measurement and Disclosure Requirements

In May 2011, the Financial Accounting Standards Board (“FASB”) issued amended accounting guidance which provides additional guidance on how to determine fair value under existing standards and expands existing disclosure requirements on a prospective basis. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The Company does not expect that the adoption of this accounting guidance in the third quarter of 2012 will have a significant impact on its Consolidated Financial Statements.



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## Presentation of Comprehensive Income

In June 2011, the FASB issued amended accounting guidance which requires companies to present total comprehensive income and its components and the components of net income in either a single continuous statement of comprehensive income or in two consecutive statements reporting net income and comprehensive income. This requirement eliminates the option to present components of comprehensive income as part of the statement of changes in shareholders' equity. This guidance affects only the presentation of comprehensive income and does not change the components of comprehensive income. In December 2011, the FASB further amended this guidance to indefinitely defer the effective date of the requirement to present reclassification adjustments for each component of accumulated other comprehensive income in both net income and in other comprehensive income on the face of the financial statements. All other provisions of this guidance are effective for fiscal years beginning after December 15, 2011 on a retrospective basis. The Company does not expect that the adoption of this accounting guidance in the first quarter of 2013 will have a significant impact on its Consolidated Financial Statements.

## Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued accounting guidance which requires companies to disclose information about the nature of their rights of setoff and related arrangements associated with their financial instruments and derivative instruments to enable users of financial statements to understand the effect of those arrangements on their financial position. Each company will be required to provide both net and gross information in the notes to its financial statements for relevant assets and liabilities that are eligible for offset. This guidance is effective for fiscal years beginning on or after January 1, 2013 on a retrospective basis. The Company does not expect that the adoption of this accounting guidance in the first quarter of 2014 will have a significant impact on its Consolidated Financial Statements.

## 2. Fair Value Measurements

The Company's assets and liabilities measured at fair value on a recurring basis at January 27, 2012 were as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value as of January 27, 2012
Cash equivalents*	\$ 72,926	\$--	\$ --	\$ 72,926
Deferred compensation plan assets**	28,748	--	--	28,748
Total assets at fair value	\$ 101,674	\$--	\$ --	\$ 101,674
Interest rate swap liability (see Note 5)	\$ --	\$45,050	\$ --	\$ 45,050
Total liabilities at fair value	\$ --	\$45,050	\$ --	\$ 45,050

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The Company's assets and liabilities measured at fair value on a recurring basis at July 29, 2011 were as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value as of July 29, 2011
Cash equivalents*	\$ 29,548	\$--	\$ --	\$ 29,548
Deferred compensation plan assets**	29,665	--	--	29,665
Total assets at fair value	\$ 59,213	\$--	\$ --	\$ 59,213
Interest rate swap liability (see Note 5)	\$ --	\$51,604	\$ --	\$ 51,604
Total liabilities at fair value	\$ --	\$51,604	\$ --	\$ 51,604

\*Consists of money market fund investments.

\*\*Represents plan assets invested in mutual funds established under a Rabbi Trust for the Company's non-qualified savings plan and is included in the Consolidated Balance Sheets as other assets.

The Company's money market fund investments and deferred compensation plan assets are measured at fair value using quoted market prices. The fair value of the Company's interest rate swap liability is determined based on the present value of expected future cash flows. Since the Company's interest rate swap values are based on the LIBOR forward curve, which is observable at commonly quoted intervals for the full terms of the swaps, it is considered a Level 2 input. Nonperformance risk is reflected in determining the fair value of the interest rate swaps by using the Company's credit spread less the risk-free interest rate, both of which are observable at commonly quoted intervals for the terms of the swaps. Thus, the adjustment for nonperformance risk is also considered a Level 2 input.

The fair values of the Company's accounts receivable and accounts payable approximate their carrying amounts because of their short duration. The fair value of the Company's variable rate debt, based on quoted market prices, approximates its carrying amount at January 27, 2012 and July 29, 2011.

### 3. Inventories

Inventories were comprised of the following at:

	January 27, 2012	July 29, 2011
Retail	\$ 92,311	\$ 108,829
Restaurant	20,435	19,200
Supplies	14,430	13,518
Total	\$ 127,176	\$ 141,547

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## 4. Debt

Long-term debt consisted of the following at:

	January 27, 2012	July 29, 2011
Revolving credit facility expiring on July 8, 2016	\$ 318,750	\$ 318,750
Term loan payable on or before July 8, 2016	231,250	231,250
Note payable	195	246
	550,195	550,246
Current maturities	(9,480 )	(103 )
Long-term debt	\$ 540,715	\$ 550,143

The Company's \$750,000 credit facility (the "Credit Facility") consists of a term loan and a \$500,000 revolving credit facility ("the Revolving Credit Facility"). At January 27, 2012, the Company had \$318,750 of outstanding borrowings under the Revolving Credit Facility and \$28,606 of standby letters of credit, which reduce the Company's availability under the Revolving Credit Facility (see Note 13). At January 27, 2012, the Company had \$152,644 in borrowing availability under the Revolving Credit Facility.

In accordance with the Credit Facility, outstanding borrowings bear interest, at the Company's election, either at LIBOR or prime plus a percentage point spread based on certain specified financial ratios. As of January 27, 2012, the Company's outstanding borrowings were swapped at a weighted average interest rate of 7.57% (see Note 5 for information on the Company's interest rate swaps).

The Credit Facility contains customary financial covenants, which include maintenance of a maximum consolidated total leverage ratio and a minimum consolidated interest coverage ratio. At January 27, 2012, the Company was in compliance with all debt covenants.

The Credit Facility also imposes restrictions on the amount of dividends the Company is permitted to pay. If there is no default existing and the total of our availability under the Revolving Credit Facility plus the Company's cash and cash equivalents on hand is at least \$100,000, the Company may: (1) pay cash dividends on shares of its common stock if the aggregate amount of dividends paid in any fiscal year is less than 15% of Consolidated EBITDA from continuing operations (as defined in the Credit Facility) during the immediately preceding fiscal year; or (2) increase its regular quarterly cash dividend in any quarter by an amount not to exceed the greater of \$0.01 per share or 10% of the amount of the dividend paid in the prior fiscal quarter.

The note payable consists of a five-year note with a vendor with an original principal amount of \$507 and represents the financing of prepaid maintenance for telecommunications equipment. The note payable is payable in monthly installments of principal and interest of \$9 through October 16, 2013 and bears interest at 2.88% per year.

## 5. Derivative Instruments and Hedging Activities

The Company has interest rate risk relative to its outstanding borrowings, which bear interest at the Company's election either at the prime rate or LIBOR plus a percentage point spread based on certain specified financial ratios under the Credit Facility (see Note 4). The Company's policy has been to manage interest cost using a mix of fixed and variable rate debt. To manage this risk in a cost efficient manner, the Company uses derivative instruments, specifically interest rate swaps.



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For each of the Company's interest rate swaps, the Company has agreed to exchange with a counterparty the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. The interest rates on the portion of the Company's outstanding debt covered by its interest rate swaps is fixed at the rates in the table below plus the Company's credit spread. The Company's weighted average credit spread at January 27, 2012 was 2.00%. All of the Company's interest rate swaps are accounted for as cash flow hedges.

A summary of the Company's interest rate swaps is as follows:

Trade Date	Effective Date	Term (in Years)	Notional Amount	Fixed Rate	
May 4, 2006	August 3, 2006	7	\$ 550,000	5.57	%
August 10, 2010	May 3, 2013	2	200,000	2.73	%
July 25, 2011	May 3, 2013	2	50,000	2.00	%
July 25, 2011	May 3, 2013	3	50,000	2.45	%
September 19, 2011	May 3, 2013	2	25,000	1.05	%
September 19, 2011	May 3, 2013	2	25,000	1.05	%
December 7, 2011	May 3, 2013	3	50,000	1.40	%

The notional amount of the Company's interest rate swap entered into on May 4, 2006 decreases to \$525,000 from May 3, 2012 throughout the remainder of its term.

The Company does not hold or use derivative instruments for trading purposes. The Company also does not have any derivatives not designated as hedging instruments and has not designated any non-derivatives as hedging instruments.

The estimated fair values of the Company's derivative instruments as of January 27, 2012 and July 29, 2011 were as follows:

	Balance Sheet Location	January 27, 2012	July 29, 2011
Interest rate swaps (See Note 2)	Interest rate swap liability	\$ 45,050	\$ 51,604

The estimated fair value of the Company's interest rate swap liability incorporates the Company's non-performance risk (see Note 2). The adjustment related to the Company's non-performance risk at January 27, 2012 and July 29, 2011 resulted in reductions of \$1,621 and \$1,546, respectively, in the fair value of the interest rate swap liability. The offset to the interest rate swap liability is recorded in accumulated other comprehensive loss ("AOCL"), net of the deferred tax asset, and will be reclassified into earnings over the term of the underlying debt. As of January 27, 2012, the estimated pre-tax portion of AOCL that is expected to be reclassified into earnings over the next twelve months is \$27,325. Cash flows related to the interest rate swap are included in interest expense and in operating activities.

The following table summarizes the pre-tax effects of the Company's derivative instruments on AOCL for the six-month period ended January 27, 2012 and the year ended July 29, 2011:

	Amount of Income Recognized in AOCL on Derivatives (Effective Portion)
Six Months Ended	Year Ended July 29, 2011



January 27,  
2012

Cash flow hedges:

Interest rate swaps	\$ 6,554	\$ 14,677
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The following table summarizes the pre-tax effects of the Company's derivative instruments on income for the quarters and six-month periods ended January 27, 2012 and January 28, 2011:

	Location of Loss Reclassified from AOCL into Income (Effective Portion)	Amount of Loss Reclassified from AOCL into Income (Effective Portion)			
		Quarter Ended		Six Months Ended	
		January 27, 2012	January 28 2011	January 27, 2012	January 28, 2011
Cash flow hedges:					
Interest rate swaps	Interest expense	\$7,467	\$7,518	\$14,912	\$15,113

Any portion of the fair value of the swaps determined to be ineffective will be recognized currently in earnings. No ineffectiveness has been recorded in the six-month periods ended January 27, 2012 and January 28, 2011.

## 6. Shareholders' Equity

During the six-month period ended January 27, 2012, the Company received proceeds of \$2,137 from the exercise of share-based compensation awards and the corresponding issuance of 151,209 shares of its common stock and did not make any share repurchases.

During the six-month period ended January 27, 2012, the Company paid dividends of \$0.47 per share of its common stock. In addition, the Company declared a regular dividend of \$0.25 per share of its common stock that was paid on February 6, 2012 and is recorded in other current liabilities in the accompanying Condensed Consolidated Balance Sheet.

During the six-month period ended January 27, 2012, the unrealized loss, net of tax, on the Company's interest rate swaps decreased by \$6,362 to \$31,670 and is recorded in AOCL (see Notes 2, 5 and 7).

During the six-month period ended January 27, 2012, total share-based compensation expense was \$5,946. The excess tax benefit realized upon exercise of share-based compensation awards was \$155.

On September 22, 2011, the Company's Board of Directors adopted a shareholder rights plan (the "Rights Plan") and designated 300,000 shares of the Company's previously authorized 100,000,000 shares of preferred stock as Series A Junior Participating Preferred Stock (the "Rights"). Additionally, on that date, the Company declared a dividend distribution of the Rights to shareholders of record on October 3, 2011 (see Note 11 to the Company's Consolidated Financial Statements in the 2011 Form 10-K for additional information regarding the Rights Plan and the Rights). The Rights Plan was not approved by the Company's shareholders at its annual shareholders' meeting on December 20, 2011. As a result, the Rights Plan was terminated and the Rights expired on December 28, 2011, following the certification of voting results at the annual shareholders' meeting. No Rights are issued or outstanding.

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## 7. Comprehensive Income

Comprehensive income consisted of the following at:

	Quarter Ended		Six Months Ended	
	January 27, 2012	January 28, 2011	January 27, 2012	January 28, 2011
Net income	\$25,609	\$28,777	\$49,411	\$52,511
Other comprehensive income:				
Changes in fair value of interest rate swaps, net of tax	2,412	9,393	6,362	9,576
Total comprehensive income	\$28,021	\$38,170	\$55,773	\$62,087

For the quarters ended January 27, 2012 and January 28, 2011, the changes in fair value of the Company's interest rate swaps are net of a tax benefit of \$120 and a tax provision of \$3,427, respectively. For the six-month periods ended January 27, 2012 and January 28, 2011, the changes in fair value of the Company's interest rate swaps are net of tax provisions of \$192 and \$1,078, respectively.

## 8. Seasonality

Historically, the net income of the Company has been lower in the first and third quarters and higher in the second and fourth quarters. Management attributes these variations to the Christmas holiday shopping season and the summer vacation and travel season. The Company's retail sales, which are made substantially to the Company's restaurant customers, historically have been highest in the Company's second quarter, which includes the Christmas holiday shopping season. Historically, interstate tourist traffic and the propensity to dine out have been much higher during the summer months, thereby contributing to higher profits in the Company's fourth quarter. The Company generally opens additional new locations throughout the year. Therefore, the results of operations for any interim period cannot be considered indicative of the operating results for an entire year.

## 9. Segment Information

Cracker Barrel stores represent a single, integrated operation with two related and substantially integrated product lines. The operating expenses of the restaurant and retail product lines of a Cracker Barrel store are shared and are indistinguishable in many respects. Accordingly, the Company manages its business on the basis of one reportable operating segment. All of the Company's operations are located within the United States. Total revenue was comprised of the following at:

	Quarter Ended		Six Months Ended	
	January 27, 2012	January 28, 2011	January 27, 2012	January 28, 2011
Revenue:				
Restaurant	\$503,531	\$478,614	\$985,040	\$960,429
Retail	169,703	161,663	286,631	278,539
Total revenue	\$673,234	\$640,277	\$1,271,671	\$1,238,968

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## 10. Share-Based Compensation

Share-based compensation is recorded in general and administrative expenses in the accompanying Condensed Consolidated Statements of Income. Total share-based compensation was comprised of the following at:

	Quarter Ended		Six Months Ended	
	January 27, 2012	January 28, 2011	January 27, 2012	January 28, 2011
Stock options	\$437	\$474	\$846	\$1,187
Nonvested stock	2,526	1,622	4,065	3,371
Performance-based stock units	436	361	1,035	361
	\$3,399	\$2,457	\$5,946	\$4,919

## 11. Restructuring

In July 2011, as part of its cost reduction and organization streamlining initiative, the Company incurred severance charges related to the elimination of approximately 60 management and staff positions. The related severance accrual is recorded in other current liabilities in the accompanying Condensed Consolidated Balance Sheets.

Liability at July 29, 2011	\$1,579
Payments	(1,030 )
Adjustments	(127 )
Liability at January 27, 2012	\$422

## 12. Net Income Per Share and Weighted Average Shares

Basic consolidated net income per share is computed by dividing consolidated net income available to common shareholders by the weighted average number of shares of common stock outstanding for the reporting period. Diluted consolidated net income per share reflects the potential dilution that could occur if securities, options or other contracts to issue shares of common stock were exercised or converted into shares of common stock and is based upon the weighted average number of shares of common stock and common equivalent shares outstanding during the reporting period. Common equivalent shares related to stock options and nonvested stock and stock awards issued by the Company are calculated using the treasury stock method. The Company's outstanding stock options and nonvested stock and stock awards issued by the Company represent the only dilutive effects on diluted consolidated net income per share.

The following table reconciles the components of diluted earnings per share computations:

	Quarter Ended		Six Months Ended	
	January 27, 2012	January 28, 2011	January 27, 2012	January 28, 2011
Net income per share numerator	\$25,609	\$28,777	\$49,411	\$52,511
Net income per share denominator:				
Weighted average shares	22,968,002	23,237,493	22,919,451	23,034,943
Add potential dilution:				
Stock options and nonvested stock and stock awards	338,175	681,758	306,512	721,624
Diluted weighted average shares	23,306,177	23,919,251	23,225,963	23,756,567



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13. Commitments and Contingencies

The Company and its subsidiaries are party to various legal and regulatory proceedings and claims incidental to their business in the ordinary course. In the opinion of management, based upon information currently available, the ultimate liability with respect to these proceedings and claims will not materially affect the Company's consolidated results of operations or financial position.

Related to its workers' compensation insurance coverage, the Company is contingently liable pursuant to standby letters of credit as credit guarantees to certain insurers. As of January 27, 2012, the Company had \$28,606 of standby letters of credit related to securing reserved claims under workers' compensation insurance. All standby letters of credit are renewable annually and reduce the Company's borrowing availability under its Revolving Credit Facility (see Note 4).

In the first quarter of 2012, the Company received proceeds of \$3,000 from a lawsuit settlement and recorded the proceeds as a gain that is included in other store operating expenses in the accompanying Condensed Consolidated Statement of Income. Because the Company believed this settlement represented a gain contingency, the Company did not record such gain contingency until the settlement amount and timing were assured.

The Company is secondarily liable for lease payments under the terms of an operating lease that has been assigned to a third party. At January 27, 2012, the lease has a remaining life of approximately 1.7 years with annual lease payments of approximately \$361 for a total guarantee of \$601. The Company's performance is required only if the assignee fails to perform its obligations as lessee. At this time, the Company has no reason to believe that the assignee will not perform and, therefore, no provision has been made in the Condensed Consolidated Balance Sheets for amounts to be paid in case of non-performance by the assignee.

Upon the sale of Logan's Roadhouse, Inc. ("Logan's") in 2007, the Company reaffirmed its guarantee of the lease payments for two Logan's restaurants. At January 27, 2012, the lease term has expired for one of these operating leases. At January 27, 2012, the remaining operating lease had a remaining life of 8.2 years with an annual payment of approximately \$108, for a total guarantee of \$928. The Company's performance is required only if Logan's fails to perform its obligations as lessee. At this time, the Company has no reason to believe Logan's will not perform, and therefore, no provision has been made in the Condensed Consolidated Balance Sheets for amounts to be paid as a result of non-performance by Logan's.

The Company enters into certain indemnification agreements in favor of third parties in the ordinary course of business. The Company believes that the probability of incurring an actual liability under such indemnification agreements is sufficiently remote so that no liability has been recorded. In connection with the divestiture of Logan's, the Company entered into various agreements to indemnify third parties against certain tax obligations, for any breaches of certain representations and warranties in the applicable transaction documents and for certain costs and expenses that may arise out of specified real estate matters, including potential relocation and legal costs. The Company believes that the probability of being required to make any indemnification payments to such third parties in connection with the divestiture of Logan's is remote, and therefore, no provision has been recorded in the Condensed Consolidated Balance Sheets for potential tax indemnifications.

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

Cracker Barrel Old Country Store, Inc. and its subsidiaries (collectively, the "Company," "our" or "we") are principally engaged in the operation and development in the United States of the Cracker Barrel Old Country Store® ("Cracker Barrel") concept. At January 27, 2012, we operated 608 Cracker Barrel stores in 42 states. All dollar amounts reported or discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") are shown in thousands, except per share amounts and certain statistical information (e.g., number of stores). References to years in MD&A are to our fiscal year unless otherwise noted.

MD&A provides information which management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. MD&A should be read in conjunction with the (i) condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q and (ii) financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 29, 2011 (the "2011 Form 10-K"). Except for specific historical information, many of the matters discussed in this report may express or imply projections of items such as revenues or expenditures, estimated capital expenditures, compliance with debt covenants, plans and objectives for future operations, inventory shrinkage, growth or initiatives, expected future economic performance or the expected outcome or impact of pending or threatened litigation. These and similar statements regarding events or results which we expect will or may occur in the future, are forward-looking statements that, by their nature, involve risks, uncertainties and other factors which may cause our actual results and performance to differ materially from those expressed or implied by those statements. All forward-looking information is provided pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 and should be evaluated in the context of these risks, uncertainties and other factors. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "trends," "assumptions," "target," "guidance," "outlook," "opportunity," "future," "plans," "goals," "objectives," "expectations," "long-term," "projection," "may," "will," "would," "could," "expect," "intend," "estimate," "anticipate," "believe," "potential," "projects," "forecasts" or "continue" (or the negative or other derivatives of each of these terms) or similar terminology. We believe the assumptions underlying any forward-looking statements are reasonable; however, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected in or implied by the forward-looking statements. In addition to the risks of ordinary business operations, and those discussed or described in this report or in information incorporated by reference into this report, factors and risks that may result in actual results differing from this forward-looking information include, but are not limited to, those contained in Part I, Item 1A of the 2011 Form 10-K, which is incorporated herein by this reference, as well as the factors described under "Critical Accounting Estimates" on pages 25-29 of this report or, from time to time, in our filings with the Securities and Exchange Commission ("SEC"), press releases and other communications.

Readers are cautioned not to place undue reliance on forward-looking statements made in this report because the statements speak only as of the report's date. Except as may be required by law, we have no obligation, and do not intend, to publicly update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events. Readers are advised, however, to consult any future public disclosures that we may make on related subjects in reports that we file with or furnish to the SEC or in our other public disclosures.

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## Overview

Comparable store traffic and sales out-performed the Knapp-Track™ Index for the quarter, and we achieved positive comparable restaurant traffic for the quarter for the first time in five quarters. In addition to the improvements in traffic and sales we continue to be focused on cost controls, especially given the continuing and anticipated increases in food commodity costs.

Management believes that the Cracker Barrel brand remains one of the strongest and most differentiated brands in the restaurant industry and we plan to leverage that strength to grow guest traffic, sales and profits. We have six priorities for 2012:

A New Marketing Messaging to better connect with our current and potential guests and reinforce the authentic value of the Cracker Barrel experience that has created such a powerful attraction to our brand.

Implementing refined menu and pricing strategies to increase the variety and everyday affordability of our menu in the face of ongoing challenges to our guests' household budgets.

Enhancing our restaurant operating platform to generate sustained improvements in the guest experience.

Driving retail sales growth by continuing to review and modify as needed our retail assortment to deliver value and further enhance the role of the retail store in our guests overall experience.

Implementing initiatives to reduce costs to offset at least a portion of the impact of higher food commodity costs.

Leveraging our strong cash flow generation to both reinvest in the business as well as increase our return of capital to our shareholders.

## Results of Operations

The following table highlights operating results by percentage relationships to total revenue for the quarter and six-month period ended January 27, 2012 as compared to the same periods in the prior year:

	Quarter Ended		Six Months Ended	
	January 27, 2012	January 28, 2011	January 27, 2012	January 28, 2011
Total revenue	100.0	% 100.0	% 100.0	% 100.0
Cost of goods sold	35.0	34.3	33.2	32.2
Gross profit	65.0	65.7	66.8	67.8
Labor and other related expenses	34.9	34.8	35.9	36.2
Other store operating expenses	17.7	17.5	17.9	18.1
Store operating income	12.4	13.4	13.0	13.5
General and administrative expenses	5.4	5.2	5.8	5.6
Impairment and store dispositions, net	--	--	--	--
Operating income	7.0	8.2	7.2	7.9



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Interest expense	1.6	1.9	1.7	1.9
Income before income taxes	5.4	6.3	5.5	6.0
Provision for income taxes	1.6	1.8	1.6	1.8
Net income	3.8	% 4.5	% 3.9	% 4.2

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The following tables highlight the components of total revenue in dollars and by percentage relationships to total revenue for the quarter and six-month period ended January 27, 2012 as compared to the same periods in the prior year:

	Quarter Ended		Six Months Ended	
	January 27, 2012	January 28, 2011	January 27, 2012	January 28, 2011
Revenue in dollars:				
Total Revenue:				
Restaurant	\$503,531	\$478,614	\$985,040	\$960,429
Retail	169,703	161,663	286,631	278,539
Total revenue	\$673,234	\$640,277	\$1,271,671	\$1,238,968

	Quarter Ended		Six Months Ended	
	January 27, 2012	January 28, 2011	January 27, 2012	January 28, 2011
Revenue by percentage relationships:				
Total Revenue:				
Restaurant	74.8	%	74.8	%
Retail	25.2		22.5	
Total revenue	100.0	%	100.0	%

The following table sets forth the number of stores in operation at the beginning and end of the quarters and six-month periods ended January 27, 2012 and January 28, 2011, respectively:

	Quarter Ended		Six Months Ended	
	January 27, 2012	January 28, 2011	January 27, 2012	January 28, 2011
Open at beginning of period	606	596	603	593
Open during period	2	1	5	4
Open at the end of period	608	597		