CRACKER BARREL OLD COUNTRY STORE, INC
Form 10-Q
February 20, 2018

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 26, 2018

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

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	37087-4779
Lebanon, Tennessee	(Zip code)
(Address of principal executive offices)	

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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company   Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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.

24,003,611 Shares of Common Stock
Outstanding as of February 13, 2018

CRACKER BARREL OLD COUNTRY STORE, INC.

FORM 10-Q

For the Quarter Ended January 26, 2018

INDEX

Index

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 26, 2018	July 28, 2017*
ASSETS		
Current Assets:		
Cash and cash equivalents	$168,808	$161,001
Accounts receivable	21,259	18,116
Income taxes receivable	2,756	4,265
Inventories	159,583	156,367
Prepaid expenses and other current assets	20,572	16,047
Deferred income taxes	--	3,061
Total current assets	372,978	358,857
Property and equipment	2,143,787	2,093,448
Less: Accumulated depreciation and amortization of capital leases	1,029,547	995,351
Property and equipment – net	1,114,240	1,098,097
Other assets	69,725	64,988
Total assets	$1,556,943	$1,521,942
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$106,502	$118,395
Taxes withheld and accrued	27,235	36,725
Deferred revenue	102,912	72,376
Other current liabilities	128,456	148,332
Total current liabilities	365,105	375,828
Long-term debt	400,000	400,000
Long-term interest rate swap liability	1,706	6,833
Other long-term obligations	130,933	129,353
Deferred income taxes	43,574	65,421
Commitments and Contingencies (Note 12)		
Shareholders' Equity:		
Preferred stock – 100,000,000 shares of $.01 par value authorized; 300,000 shares designated as Series A Junior Participating Preferred Stock; no shares issued	--	--
Common stock – 400,000,000 shares of $.01 par value authorized; 24,003,611 shares issued and outstanding at January 26, 2018, and 24,055,682 shares issued and outstanding at July 28, 2017	240	241
Additional paid-in capital	41,849	55,659
Accumulated other comprehensive income (loss)	1,197	(4,229)
Retained earnings	572,339	492,836
Total shareholders' equity	615,625	544,507
Total liabilities and shareholders' equity	$1,556,943	$1,521,942

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 28, 2017, as filed with the Securities and Exchange Commission in the Company’s Annual Report on Form 10-K for the fiscal year ended July 28, 2017.

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

	Quarter Ended		Six Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Total revenue	$787,771	$772,682	$1,498,139	$1,482,653
Cost of goods sold (exclusive of depreciation and rent)	260,952	254,920	471,701	468,029
Labor and other related expenses	263,726	259,270	511,794	508,374
Other store operating expenses	150,407	140,979	294,227	278,905
Store operating income	112,686	117,513	220,417	227,345
General and administrative expenses	36,012	34,817	72,905	68,905
Operating income	76,674	82,696	147,512	158,440
Interest expense	3,680	3,638	7,298	7,314
Income before income taxes	72,994	79,058	140,214	151,126
Provision for income taxes	(18,145)	26,331	2,695	50,044
Net income	$91,139	$52,727	$137,519	$101,082
Net income per share:				
Basic	$3.80	$2.19	$5.73	$4.21
Diluted	$3.79	$2.19	$5.71	$4.19
Weighted average shares:				
Basic	24,001,493	24,040,243	24,018,347	24,020,976
Diluted	24,056,533	24,109,000	24,080,860	24,106,748
Dividends declared per share	$1.20	$1.15	$2.40	$2.30
Dividends paid per share	$1.20	$1.15	$2.40	$2.30

See Notes to unaudited Condensed Consolidated Financial Statements.

Index

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

	Quarter Ended		Six Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Net income	$91,139	$ 52,727	$137,519	$ 101,082
Other comprehensive income before income tax expense:				
Change in fair value of interest rate swaps	5,394	11,394	8,449	17,500
Income tax expense	1,855	4,358	3,023	6,693
Other comprehensive income, net of tax	3,539	7,036	5,426	10,807
Comprehensive income	$94,678	$ 59,763	$142,945	$ 111,889

See Notes to unaudited Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	January 26, 2018	January 27, 2017
Cash flows from operating activities:		
Net income	$137,519	$ 101,082
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,344	41,830
Loss on disposition of property and equipment	3,029	2,472
Share-based compensation	4,321	4,011
Excess tax benefit from share-based compensation	--	(1,203)
Changes in assets and liabilities:		
Inventories	(3,216)	(3,571)
Other current assets	(6,359)	11,765
Accounts payable	(11,893)	(32,105)
Deferred revenues	30,536	32,820
Other current liabilities	(27,882)	(6,894)
Other long-term assets and liabilities	(21,894)	(705)
Net cash provided by operating activities	148,505	149,502
Cash flows from investing activities:		
Purchase of property and equipment	(63,728)	(53,194)
Proceeds from insurance recoveries of property and equipment	275	260
Proceeds from sale of property and equipment	340	412
Net cash used in investing activities	(63,113)	(52,522)
Cash flows from financing activities:		
(Taxes withheld) and proceeds from issuance of share-based compensation awards, net	(3,360)	(6,031)
Purchases and retirement of common stock	(14,772)	--
Dividends on common stock	(59,453)	(57,420)
Excess tax benefit from share-based compensation	--	1,203
Net cash used in financing activities	(77,585)	(62,248)
Net increase in cash and cash equivalents	7,807	34,732
Cash and cash equivalents, beginning of period	161,001	150,966
Cash and cash equivalents, end of period	$168,808	$ 185,698
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$6,780	$ 6,582
Income taxes	$22,889	$ 28,801
Supplemental schedule of non-cash investing and financing activities:		
Capital expenditures accrued in accounts payable	$2,737	$ 2,559
Change in fair value of interest rate swaps	$8,449	$ 17,500
Change in deferred tax asset for interest rate swaps	$(3,023)	$ (6,693)

Dividends declared but not yet paid	$29,853	$ 28,997

See Notes to unaudited Condensed Consolidated Financial Statements.

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.

The condensed consolidated balance sheets at January 26, 2018 and July 28, 2017 and the related condensed consolidated statements of income, comprehensive income and cash flows for the quarters and/or the six-month periods ended January 26, 2018 and January 27, 2017, respectively, have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission ("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 28, 2017 (the "2017 Form 10-K"). The accounting policies used in preparing these condensed consolidated financial statements are the same as described in the 2017 Form 10-K. References to a year in these Notes to Condensed Consolidated Financial Statements are to the Company's fiscal year unless otherwise noted.

Recent Accounting Pronouncements Adopted

Inventory

In July 2015, the Financial Accounting Standards Board ("FASB") issued accounting guidance which requires companies to measure certain inventory at the lower of cost and net realizable value. This accounting guidance does not apply to inventories measured by using either the last-in, first-out method or the retail inventory method. This accounting guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years on a prospective basis. The adoption of this accounting guidance in the first quarter of 2018 did not have a significant impact on the Company's consolidated financial position or results of operations.

Deferred Taxes

In November 2015, in order to simplify the presentation of deferred income taxes, the FASB issued accounting guidance which requires deferred tax liabilities and assets to be classified as noncurrent in the balance sheet. This accounting guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. This accounting guidance may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Other than the revised balance sheet presentation of deferred tax liabilities and assets, the adoption of this accounting guidance on a prospective basis in the first quarter of 2018 did not have a significant impact on the Company's consolidated financial position or results of operations. Prior periods were not retrospectively adjusted for the adoption of this accounting guidance.

7

Index

Share-Based Payments

In March 2016, the FASB issued accounting guidance in order to simplify certain aspects of the accounting and presentation of share-based payments, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This accounting guidance is effective for fiscal periods beginning after December 15, 2016, and interim periods within those fiscal years. This guidance may be applied either on a prospective basis, retrospective basis or a modified retrospective basis depending on the specific accounting topic covered in the accounting guidance. The Company adopted this accounting guidance in the first quarter of 2018. The impact of recognizing excess tax benefits of $759 as a reduction to the provision for income taxes on a prospective basis resulted in a benefit of $0.03 per diluted share in the first quarter of 2018. The Company elected to apply the presentation of excess tax benefits on the statement of cash flows on a prospective basis; prior periods were not retrospectively adjusted. The Company also elected to continue estimating forfeitures of share-based awards.

Recent Accounting Pronouncements Not Yet Adopted

Revenue Recognition

In May 2014, the FASB issued accounting guidance which clarifies the principles for recognizing revenue and provides a comprehensive model for revenue recognition. Revenue recognition should depict the transfer of goods or services to a customer at an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This accounting guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early application is permitted for fiscal years beginning after December 15, 2016. A company may apply this accounting guidance either retrospectively or by using the cumulative effect transition method. The Company is currently evaluating the impact of adopting this accounting guidance in the first quarter of 2019.

Leases

In February 2016, the FASB issued accounting guidance which requires the recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. The accounting guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years on a modified retrospective basis. Early adoption is permitted. The Company is currently evaluating the impact of adopting this accounting guidance in the first quarter of 2020.

Recognition of Breakage for Certain Prepaid Stored-Value Products

In March 2016, in order to address diversity in practice related to the derecognition of a prepaid stored-value product liability, the FASB issued accounting guidance requiring breakage for prepaid stored-value product liabilities to be accounted for consistent with the breakage guidance in the revenue recognition standard (see “Revenue Recognition” above). This accounting guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. This accounting guidance may be applied either on a modified retrospective basis or on a retrospective basis. Early application is permitted. The Company is currently evaluating the impact of adopting this accounting guidance in the first quarter of 2019.

Modification of Share-Based Payment Awards

In May 2017, the FASB issued accounting guidance to provide clarity, reduce the diversity in practice and to simplify the accounting guidance related to a change to the terms or conditions of a share-based payment award. This new standard provides guidance for evaluating which changes to the terms or conditions of a share-based payment award are substantive and require modification accounting to be applied. This accounting guidance is effective for fiscal periods beginning after December 15, 2017, and interim periods within those fiscal years on a prospective basis. Early adoption is permitted. The Company is currently evaluating the impact of adopting this accounting guidance in the first quarter of 2019.

Index

Accounting for Hedging Activities

In August 2017, the FASB issued accounting guidance which amends the recognition, presentation and disclosure requirements of hedge accounting in order to better portray the economics of entities' risk management activities, increase transparency and understandability of hedging relationships and simplify the application of hedge accounting. This accounting guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted. The recognition requirements for cash flow and net investment hedges existing at the date of adoption will be applied using a cumulative-effect adjustment to retained earnings. The amended presentation and disclosure requirements will be applied on a prospective basis. The Company is currently evaluating the impact of adopting this accounting guidance in the first quarter of 2020.

2. Fair Value Measurements

The Company's assets and liabilities measured at fair value on a recurring basis at January 26, 2018 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
Cash equivalents*	$ 89,446	$ --	$ --	$ 89,446
Interest rate swap asset (see Note 5)	--	3,307	--	3,307
Deferred compensation plan assets**	32,985	--	--	32,985
Total assets at fair value	$ 122,431	$ 3,307	$ --	$ 125,738
Interest rate swap liability (see Note 5)	$ --	$ 1,706	$ --	$ 1,706
Total liabilities at fair value	$ --	$ 1,706	$ --	$ 1,706

The Company's assets and liabilities measured at fair value on a recurring basis at July 28, 2017 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
Cash equivalents*	$ 82,524	$ --	$ --	$ 82,524
Interest rate swap asset (see Note 5)	--	32	--	32
Deferred compensation plan assets**	31,196	--	--	31,196
Total assets at fair value	$ 113,720	$ 32	$ --	$ 113,752
Interest rate swap liability (see Note 5)	$ --	$ 6,880	$ --	$ 6,880
Total liabilities at fair value	$ --	$ 6,880	$ --	$ 6,880

*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 Condensed 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 values of the Company's interest rate swap assets and liabilities are determined based on the present value of expected future cash flows. Since the values of the Company's interest rate swaps 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. Non-performance 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 non-performance risk is also considered a Level 2 input.

Index

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, which are considered Level 1 inputs, approximates its carrying amount at January 26, 2018 and July 28, 2017.

3. Inventories

Inventories were comprised of the following at:

	January 26, 2018	July 28, 2017
Retail	$ 120,945	$ 119,446
Restaurant	21,414	20,252
Supplies	17,224	16,669
Total	$ 159,583	$ 156,367

4. Debt

The Company has a $750,000 revolving credit facility (the "Revolving Credit Facility"), which expires on January 8, 2020. At both January 26, 2018 and July 28, 2017, the Company had $400,000 of outstanding borrowings under the Revolving Credit Facility. At January 26, 2018, the Company had $9,455 of standby letters of credit, which reduce the Company's borrowing availability under the Revolving Credit Facility (see Note 12 for more information on the Company's standby letters of credit). At January 26, 2018, the Company had $340,545 in borrowing availability under the Revolving Credit Facility.

In accordance with the Revolving 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 under the Revolving Credit Facility. As of January 26, 2018, the Company's outstanding borrowings were swapped at a weighted average interest rate of 3.21% (see Note 5 for information on the Company's interest rate swaps).

The Revolving 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 26, 2018, the Company was in compliance with all financial covenants.

The Revolving Credit Facility also imposes restrictions on the amount of dividends the Company is permitted to pay and the amount of shares the Company is permitted to repurchase. Under the Revolving Credit Facility, provided there is no default existing and the total of the Company's availability under the Revolving Credit Facility plus the Company's cash and cash equivalents on hand is at least $100,000 (the "cash availability"), the Company may declare and pay cash dividends on shares of its common stock and repurchase shares of its common stock (1) in an unlimited amount if, at the time such dividend or repurchase is made, the Company's consolidated total leverage ratio is 3.00 to 1.00 or less and (2) in an aggregate amount not to exceed $100,000 in any fiscal year if the Company's consolidated total leverage ratio is greater than 3.00 to 1.00 at the time the dividend or repurchase is made; notwithstanding (1) and (2), so long as immediately after giving effect to the payment of any such dividends, cash availability is at least $100,000, the Company may declare and pay cash dividends on shares of its common stock in an aggregate amount not to exceed in any fiscal year the product of the aggregate amount of dividends declared in the fourth quarter of the immediately preceding fiscal year multiplied by four.

5. Derivative Instruments and Hedging Activities

The Company has interest rate risk relative to its outstanding borrowings (see Note 4 for information on the Company's outstanding borrowings). 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.

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 are fixed at the rates in the table below plus the Company's credit spread. The Company's credit spread at January 26, 2018 was 1.00%. All of the Company's interest rate swaps are accounted for as cash flow hedges.

Index

A summary of the Company's interest rate swaps at January 26, 2018 is as follows:

Trade Date	Effective Date	Term (in Years)	Notional Amount	Fixed Rate
March 18, 2013	May 3, 2015	3	$ 50,000	1.51 %
April 22, 2013	May 3, 2015	3	25,000	1.30 %
April 25, 2013	May 3, 2015	3	25,000	1.29 %
June 18, 2014	May 3, 2015	4	120,000	2.51 %
June 24, 2014	May 3, 2015	4	90,000	2.51 %
July 1, 2014	May 5, 2015	4	90,000	2.43 %
January 30, 2015	May 3, 2019	2	80,000	2.15 %
January 30, 2015	May 3, 2019	2	60,000	2.16 %
January 30, 2015	May 4, 2021	3	120,000	2.41 %
January 30, 2015	May 3, 2019	2	60,000	2.15 %
January 30, 2015	May 4, 2021	3	80,000	2.40 %

The notional amount for the interest rate swap entered into on June 18, 2014 increases by $40,000 each May over the four-year term of the interest rate swap until the notional amount reaches $160,000 in May 2018. The notional amounts for the interest rate swaps entered into on June 24, 2014 and July 1, 2014 increase by $30,000 each May over the four-year terms of the interest rate swaps until the notional amounts each reach $120,000 in May 2018.

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.

Companies may elect to offset related assets and liabilities and report the net amount on their financial statements if the right of setoff exists. Under a master netting agreement, the Company has the legal right to offset the amounts owed to the Company against amounts owed by the Company under a derivative instrument that exists between the Company and a counterparty. When the Company is engaged in more than one outstanding derivative transaction with the same counterparty and also has a legally enforceable master netting agreement with that counterparty, its credit risk exposure is based on the net exposure under the master netting agreement. If, on a net basis, the Company owes the counterparty, the Company regards its credit exposure to the counterparty as being zero.

The estimated fair values of the Company's derivative instruments as of January 26, 2018 and July 28, 2017 were as follows:

(See Note 2)	Balance Sheet Location	January 26, 2018	July 28, 2017
Interest rate swaps	Prepaid expenses and other current assets	$ 85	$ 32
Interest rate swaps	Other assets	3,222	--
Total assets		$ 3,307	$ 32
Interest rate swaps	Other current liabilities	$ --	$ 47
Interest rate swaps	Long-term interest rate swap liability	1,706	6,833
Total liabilities		$ 1,706	$ 6,880

*These interest rate swap assets and liabilities are recorded at gross at both January 26, 2018 and July 28, 2017 since there were no offsetting assets and liabilities under the Company's master netting agreements.

The estimated fair value of the Company's interest rate swap assets and liabilities incorporates the Company's non-performance risk (see Note 2). The adjustment related to the Company's non-performance risk at January 26, 2018 and July 28, 2017 resulted in reductions of $84 and $103, respectively, in the fair value of the interest rate swap liabilities. The offset to the interest rate swap asset and liabilities is recorded in accumulated other comprehensive income (loss) ("AOCIL"), net of the deferred tax asset, and will be reclassified into earnings over the term of the underlying debt. As of January 26, 2018, the estimated pre-tax portion of AOCIL that is expected to be reclassified into earnings over the next twelve months is $1,367. Cash flows related to the interest rate swaps are included in interest expense and in operating activities.

Index

The following table summarizes the pre-tax effects of the Company's derivative instruments on AOCIL for the six months ended January 26, 2018 and the year ended July 28, 2017:

	Amount of Income Recognized in AOCIL on Derivatives (Effective Portion)	
	Six Months Ended January 26, 2018	Year Ended July 28, 2017
Cash flow hedges:		
Interest rate swaps	$ 8,449	$ 15,402

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 26, 2018 and January 27, 2017:

	Location of Loss Reclassified from AOCIL into Income (Effective Portion)	Amount of Loss Reclassified from AOCIL into Income (Effective Portion)			
		Quarter Ended		Six Months Ended	
		January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Cash flow hedges:					
Interest rate swaps	Interest expense	$ 923	$ 1,118	$ 1,987	$ 2,361

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 26, 2018 and January 27, 2017.

6. Shareholders' Equity

During the six months ended January 26, 2018, the Company issued 47,929 shares of its common stock resulting from the vesting of share-based compensation awards and stock option exercises. Related tax withholding payments on these share-based compensation awards exceeded proceeds received from the exercise of stock options, which resulted in a net reduction to shareholders' equity of $3,360.

During the six months ended January 26, 2018, the Company repurchased 100,000 shares of its common stock in the open market at an aggregate cost of $14,772.

During the six months ended January 26, 2018, total share-based compensation expense was $4,321.

During the six months ended January 26, 2018, the Company paid regular dividends of $2.40 per share of its common stock and declared a regular dividend of $1.20 per share of its common stock that was paid on February 5, 2018 to shareholders of record on January 12, 2018.

The following table summarizes the changes in AOCIL, net of tax, related to the Company's interest rate swaps for the six months ended January 26, 2018 (see Notes 2 and 5):

	Changes in AOCIL
AOCIL balance at July 28, 2017	$ (4,229)
Other comprehensive income before reclassifications	6,806
Amounts reclassified from AOCIL	(1,380)
Other comprehensive income, net of tax	5,426

AOCIL balance at January 26, 2018	$ 1,197

Index

The following table summarizes the amounts reclassified out of AOCIL related to the Company's interest rate swaps for the quarter and six months ended January 26, 2018:

	Amount Reclassified from AOCIL		Affected Line Item in the Condensed Consolidated Financial Statements
	Quarter Ended	Six Months Ended	
Loss on cash flow hedges:			
Interest rate swaps	$ (923)	$ (1,987)	Interest expense
Tax benefit	282	607	Provision for income taxes
	$ (641)	$ (1,380)	Net of tax

7. 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 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 holiday shopping season. Historically, interstate tourist traffic and the propensity to dine out have been 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.

8. 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 currently 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 for the specified periods:

	Quarter Ended		Six Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Revenue:				
Restaurant	$603,198	$ 591,113	$1,181,435	$1,164,790
Retail	184,573	181,569	316,704	317,863
Total revenue	$787,771	$ 772,682	$1,498,139	$1,482,653

9. 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 for the specified periods:

	Quarter Ended		Six Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Nonvested stock awards	$2,127	$ 2,115	$ 3,919	$ 3,098

Performance-based market stock units (“MSU Grants”)	159	471	402	913
	$2,286	$ 2,586	$4,321	$ 4,011

13

Index

10. 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, nonvested stock awards and units and MSU Grants issued by the Company are calculated using the treasury stock method. The outstanding stock options, nonvested stock awards and units and MSU Grants 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 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Net income per share numerator	$91,139	$52,727	$137,519	$101,082
Net income per share denominator:				
Weighted average shares	24,001,493	24,040,243	24,018,347	24,020,976
Add potential dilution:				
Stock options, nonvested stock awards and MSU Grants	55,040	68,757	62,513	85,772
Diluted weighted average shares	24,056,533	24,109,000	24,080,860	24,106,748

11. Income Taxes

On December 22, 2017, the U.S. government enacted P.L. 115-97, the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, reducing the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. In accordance with Section 15 of the Internal Revenue Code, the Company will use a blended rate of 26.9% for our fiscal 2018 tax year, by applying a prorated percentage of the number of days prior to and subsequent to the January 1, 2018 effective date of the Tax Act.

The SEC's Staff Accounting Bulletin No. 118 ("SAB 118") provides guidance on accounting for tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting guidance under FASB Accounting Standards Codification Topic 740, Income Taxes ("ASC 740"). In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, the company must record a provisional estimate to be included in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provision of the tax laws that were in effect immediately before the enactment of the Tax Act. While the Company is able to make reasonable estimates of the impact of the reduction in corporate rate, the final impact of the Tax Act may differ from these estimates, due to, among other things, additional guidance that may be issued by the Internal Revenue Service, expected state tax responses to either follow or reject the federal changes, and changes in our interpretations and assumptions. The Company continues to gather additional information to determine the final impact.

During the second quarter of 2018, the Company recorded a provisional tax benefit for the re-measurement of deferred tax liabilities of $27,032 and $2,500 for long-term and short-term deferred tax liabilities, respectively.

12. 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.

Index

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 26, 2018, the Company had $9,455 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).

At January 26, 2018, the Company is secondarily liable for lease payments associated with two properties occupied by a third party. The Company is not aware of any non-performance under these lease arrangements that would result in the Company having to perform in accordance with the terms of these guarantees; and therefore, no provision has been recorded in the Condensed Consolidated Balance Sheets for amounts to be paid in case of non-performance by the primary obligor under such lease arrangements.

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 that no such liability has been recorded in the Condensed Consolidated Balance Sheet as of January 26, 2018.

Index

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 StoreÒ (“Cracker Barrel”) concept. At January 26, 2018, we operated 648 Cracker Barrel stores in 44 states and six Holler & Dash Biscuit House™ locations in four 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) audited consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended July 28, 2017 (the “2017 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 such 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,” “near-t “long-term,” “projection,” “may,” “will,” “would,” “could,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “potential,” “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 2017 Form 10-K, which is incorporated herein by this reference, as well as the factors described under “Critical Accounting Estimates” on pages 24-28 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 or intention to 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.

Index

Overview

Management believes that the Cracker Barrel brand remains one of the strongest and most differentiated brands in the restaurant industry, and we plan to continue to leverage that strength throughout 2018 to grow sales and profits. Our priorities for 2018 consist of the following:

- Enhancing the core business by focusing on value, culinary enhancements and speed of service;
- Expanding the footprint in new and developing markets while replenishing our store opening pipeline to accelerate future growth. We anticipate opening eight to nine Cracker Barrel stores during 2018, of which three opened in the first six months of 2018; and
- Extending the brand by optimizing on long-term drivers, such as Holler & Dash Biscuit House™, to further drive shareholder value. We currently plan to open three Holler & Dash Biscuit House™ locations during 2018, of which two opened in the first six months of 2018.

We remain focused on delivering the sales growth and operating income objectives tied to the implementation of our business initiatives.

Results of Operations

The following table highlights our operating results by percentage relationships to total revenue for the quarter and six -month period ended January 26, 2018 as compared to the same periods in the prior year:

	Quarter Ended		Six Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Total revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold (exclusive of depreciation and rent)	33.1	33.0	31.5	31.6
Labor and other related expenses	33.5	33.6	34.2	34.3
Other store operating expenses	19.1	18.2	19.6	18.8
Store operating income	14.3	15.2	14.7	15.3
General and administrative expenses	4.6	4.5	4.9	4.6
Operating income	9.7	10.7	9.8	10.7
Interest expense	0.4	0.5	0.4	0.5
Income before income taxes	9.3	10.2	9.4	10.2
Provision for income taxes	(2.3)	3.4	0.2	3.4
Net income	11.6 %	6.8 %	9.2 %	6.8 %

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 26, 2018 and January 27, 2017:

	Quarter Ended		Six Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Open at beginning of the period	651	643	649	641
Opened during the period	3	2	5	4
Open at end of the period	654	645	654	645

Total Revenue

Total revenue for the second quarter and first six months of 2018 increased 2.0% and 1.0%, respectively, compared to the same periods in the prior year.

Index

The following table highlights the key components of revenue for the quarter and six-month period ended January 26, 2018 as compared to the quarter and six-month period ended January 27, 2017:

	Quarter Ended		Six Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Revenue in dollars:				
Restaurant	$603,198	$ 591,113	$1,181,435	$1,164,790
Retail	184,573			