CRACKER BARREL OLD COUNTRY STORE, INC
Form 10-Q
February 24, 2015

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 30, 2015

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	
Lebanon, Tennessee	37087-4779
(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.

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.

23,923,881 Shares of Common Stock
Outstanding as of February 17, 2015

CRACKER BARREL OLD COUNTRY STORE, INC.

FORM 10-Q

For the Quarter Ended January 30, 2015

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)

ASSETS	January 30, 2015	August 1, 2014*
Current Assets:		
Cash and cash equivalents	$182,609	$119,361
Accounts receivable	20,046	22,704
Income taxes receivable	--	2,973
Inventories	140,820	165,426
Prepaid expenses and other current assets	16,676	11,997
Deferred income taxes	6,004	7,188
Total current assets	366,155	329,649
Property and equipment	1,892,182	1,867,121
Less: Accumulated depreciation and amortization of capital leases	851,707	823,837
Property and equipment – net	1,040,475	1,043,284
Other assets	63,848	59,315
Total assets	$1,470,478	$1,432,248
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$82,902	$98,477
Current maturities of long-term debt	--	25,000
Income taxes payable	1,569	--
Deferred revenue	79,628	49,825
Accrued interest expense	2,338	3,649
Current interest rate swap liability	1,633	4,704
Other current liabilities	146,650	162,783
Total current liabilities	314,720	344,438
Long-term debt	400,000	375,000
Long-term interest rate swap liability	12,957	3,239
Other long-term obligations	127,678	123,221
Deferred income taxes	53,493	57,709
Commitments and Contingencies (Note 11)		
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; 23,923,881 shares issued and outstanding at January 30, 2015, and 23,821,227 shares issued and outstanding at August 1, 2014	239	238
Additional paid-in capital	44,177	39,969
Accumulated other comprehensive loss	(8,964)	(4,733)
Retained earnings	526,178	493,167
Total shareholders' equity	561,630	528,641

Total liabilities and shareholders' equity	$1,470,478	$1,432,248

See Notes to unaudited Condensed Consolidated Financial Statements.

* This Condensed Consolidated Balance Sheet has been derived from the audited Consolidated Balance Sheet as of August 1, 2014, as filed with the Securities and Exchange Commission in the Company's Annual Report on Form 10-K for the fiscal year ended August 1, 2014.

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

	Quarter Ended		Six Months Ended	
	January 30, 2015	January 31, 2014	January 30, 2015	January 31, 2014
Total revenue	$755,966	$698,491	$1,439,394	$1,347,632
Cost of goods sold	262,155	243,015	484,450	448,944
Gross profit	493,811	455,476	954,944	898,688
Labor and other related expenses	251,674	238,742	494,001	475,489
Other store operating expenses	133,726	128,100	263,898	253,441
Store operating income	108,411	88,634	197,045	169,758
General and administrative expenses	37,190	29,928	70,382	66,815
Operating income	71,221	58,706	126,663	102,943
Interest expense	4,684	4,471	9,108	8,878
Income before income taxes	66,537	54,235	117,555	94,065
Provision for income taxes	19,374	17,180	36,368	29,850
Net income	$47,163	$37,055	$81,187	$64,215
Net income per share:				
Basic	$1.97	$1.56	$3.40	$2.70
Diluted	$1.96	$1.55	$3.38	$2.68
Weighted average shares:				
Basic	23,914,797	23,812,777	23,888,496	23,815,107
Diluted	24,032,389	23,970,611	24,016,913	23,947,850
Dividends declared per share	$1.00	$0.75	$2.00	$1.50

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 30, 2015	January 31, 2014	January 30, 2015	January 31, 2014
Net income	$47,163	$37,055	$81,187	$64,215
Other comprehensive income (loss) before income tax (benefit) expense:				
Change in fair value of interest rate swaps	(6,112)	1,505	(6,887)	1,377
Income tax (benefit) expense	(2,357)	580	(2,656)	530
Other comprehensive income (loss), net of tax	(3,755)	925	(4,231)	847
Comprehensive income	$43,408	$37,980	$76,956	$65,062

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 30, 2015	January 31, 2014
Cash flows from operating activities:		
Net income	$81,187	$64,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,506	33,301
Loss on disposition of property and equipment	3,995	2,089
Share-based compensation	6,330	4,246
Excess tax benefit from share-based compensation	(2,299)	(604)
Changes in assets and liabilities:		
Inventories	24,606	(1,386)
Other current assets	952	(6,993)
Accounts payable	(15,575)	(28,435)
Deferred revenue	29,803	25,360
Other current liabilities	(13,922)	(28,203)
Other long-term assets and liabilities	2,483	(685)
Net cash provided by operating activities	153,066	62,905
Cash flows from investing activities:		
Purchase of property and equipment	(37,788)	(39,315)
Proceeds from insurance recoveries of property and equipment	141	847
Proceeds from sale of property and equipment	1,317	1,268
Net cash used in investing activities	(36,330)	(37,200)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	406,250	--
(Taxes withheld) and proceeds from issuance of share-based compensation awards, net	(4,420)	(8,446)
Principal payments under long-term debt and other long-term obligations	(406,250)	(1)
Purchases and retirement of common stock	--	(12,473)
Deferred financing costs	(3,537)	--
Dividends on common stock	(47,830)	(35,754)
Excess tax benefit from share-based compensation	2,299	604
Net cash used in financing activities	(53,488)	(56,070)
Net increase (decrease) in cash and cash equivalents	63,248	(30,365)
Cash and cash equivalents, beginning of period	119,361	121,718
Cash and cash equivalents, end of period	$182,609	$91,353
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$9,085	$8,109
Income taxes	$27,264	$36,724
Supplemental schedule of non-cash investing and financing activities:		

Capital expenditures accrued in accounts payable	$2,546	$3,222
Change in fair value of interest rate swaps	$(6,887)	$1,377
Change in deferred tax asset for interest rate swaps	$2,656	$(530)
Dividends declared but not yet paid	$24,340	$17,931

See Notes to unaudited Condensed Consolidated Financial Statements.

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 30, 2015 and August 1, 2014 and the related condensed consolidated statements of income, comprehensive income and cash flows for the quarters and six months ended January 30, 2015 and January 31, 2014, respectively, 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 August 1, 2014 (the “2014 Form 10-K”). The accounting policies used in preparing these condensed consolidated financial statements are the same as described in the 2014 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 Not Adopted

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the Financial Accounting Standards Board (“FASB”) issued accounting guidance which changes the criteria for disposals to qualify as discontinued operations and requires new disclosures about disposals of both discontinued operations and certain other disposals that do not meet the new definition. This accounting guidance is effective for fiscal years beginning on or after December 15, 2014 and interim periods within those years on a prospective basis. The Company is currently evaluating the impact of adopting this accounting guidance, but it is not expected to have a significant impact on the Company’s consolidated financial position or results of operations upon adoption in the first quarter of 2016.

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, 2016 and interim periods within those years. Early application is not permitted. A company may apply this accounting guidance either retrospectively or using the cumulative effect transition method. The Company is currently evaluating the impact of adopting this accounting guidance in the first quarter of 2018.

Index

2. Fair Value Measurements

The Company’s assets and liabilities measured at fair value on a recurring basis at January 30, 2015 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*	$109,069	$ --	$ --	$109,069
Interest rate swap asset (see Note 5)	--	--	--	--
Deferred compensation plan assets**	27,012	--	--	27,012
Total assets at fair value	$136,081	$ --	$ --	$136,081
Interest rate swap liability (see Note 5)	$--	$ 14,590	$ --	$14,590
Total liabilities at fair value	$--	$ 14,590	$ --	$14,590

The Company’s assets and liabilities measured at fair value on a recurring basis at August 1, 2014 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*	$63,068	$ --	$ --	$63,068
Interest rate swap asset (see Note 5)	--	240	--	240
Deferred compensation plan assets**	25,322	--	--	25,322
Total assets at fair value	$88,390	$ 240	$ --	$88,630
Interest rate swap liability (see Note 5)	$--	$ 7,943	$ --	$7,943
Total liabilities at fair value	$--	$ 7,943	$ --	$7,943

*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 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.

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 30, 2015 and August 1, 2014.

3. Inventories

Inventories were comprised of the following at:

	January 30, 2015	August 1, 2014
Retail	$102,223	$128,386
Restaurant	22,369	22,371
Supplies	16,228	14,669
Total	$140,820	$165,426

8

Index

4. Debt

Long term debt consisted of the following at:

	January 30, 2015	August 1, 2014
Revolving credit facility expiring on January 8, 2020	$400,000	$--
Revolving credit facility expiring on July 8, 2016	--	212,500
Term loan payable on or before July 8, 2016	--	187,500
	400,000	400,000
Current maturities	--	25,000
Long-term debt	$400,000	$375,000

On January 8, 2015, the Company entered into a five-year $750,000 revolving credit facility (the "2015 Revolving Credit Facility"). The 2015 Revolving Credit Facility replaced a term loan totaling $181,250 and a $218,750 revolving credit facility ("Prior Credit Facility"). In the second quarter of 2015, loan acquisition costs associated with the 2015 Revolving Credit Facility were capitalized in the amount of $3,537 and will be amortized over the five-year term of the 2015 Revolving Credit Facility. Loan acquisition costs of $412 associated with the Prior Credit Facility were written off in the second quarter of 2015 and are recorded in interest expense in the Condensed Consolidated Statement of Income.

At January 30, 2015, the Company had $400,000 of outstanding borrowings under the 2015 Revolving Credit Facility and $11,530 of standby letters of credit, which reduce the Company's borrowing availability under the 2015 Revolving Credit Facility (see Note 11 for more information on the Company's standby letters of credit). At January 30, 2015, the Company had $338,470 in borrowing availability under the 2015 Revolving Credit Facility.

In accordance with the 2015 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 Credit Facility. As of January 30, 2015, the Company's outstanding borrowings were swapped at a weighted average interest rate of 3.48% (see Note 5 for information on the Company's interest rate swaps).

Similar to the Prior Credit Facility, the 2015 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 30, 2015, the Company was in compliance with all debt covenants.

Both the Prior Credit Facility and the 2015 Revolving Credit Facility also impose 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 Prior Credit Facility, if there was 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 was at least $100,000 (the "liquidity requirements"), the Company could declare and pay cash dividends on shares of its common stock and repurchase shares of its common stock if the aggregate amount of dividends paid and shares repurchased in any fiscal year was less than the sum of (1) 20% of Consolidated EBITDA from continuing operations (as defined in the Prior Credit Facility) (the "20% limitation") during the immediately preceding fiscal year and (2) provided the Company's consolidated total leverage ratio was 3.25 to 1.00 or less, $100,000 (less the amount of any share repurchases during the current fiscal year). In any event, as long as the liquidity requirements were met, dividends could be declared and paid in any fiscal year up to the amount of dividends permitted and paid in the preceding fiscal year without regard to the 20% limitation.

Index

Under the 2015 Revolving Credit Facility, provided there is no default existing and the total of the Company's availability under the 2015 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). 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 30, 2015 was 1.25%. All of the Company's interest rate swaps are accounted for as cash flow hedges.

A summary of the Company's interest rate swaps at January 30, 2015 is as follows:

Trade Date	Effective Date	Term (in Years)	Notional Amount	Fixed Rate
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 %
March 18, 2013	May 3, 2015	3	50,000	1.51 %
April 8, 2013	May 3, 2015	2	50,000	1.05 %
April 15, 2013	May 3, 2015	2	50,000	1.03 %
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	40,000	2.51 %
June 24, 2014	May 3, 2015	4	30,000	2.51 %
July 1, 2014	May 5, 2015	4	30,000	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 beginning in May 2016 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 beginning in May 2016 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.

Index

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 30, 2015 and August 1, 2014 were as follows:

(See Note 2)	Balance Sheet Location	January 30, 2015	August 1, 2014
Interest rate swaps	Other assets	$--	$240
Interest rate swaps	Current interest rate swap liability	$1,633	$4,704
Interest rate swaps	Long-term interest rate swap liability	12,957	3,239
	Total	$14,590	$7,943

The following table summarizes the offsetting of the Company's derivative assets in the Condensed Consolidated Balance Sheets at January 30, 2015 and August 1, 2014:

	Gross Asset Amounts		Liability Amount Offset		Net Asset Amount Presented in the Balance Sheets	
(See Note 2)	January 30, 2015	August 1, 2014	January 30, 2015	August 1, 2014	January 30, 2015	August 1, 2014
Interest rate swaps	$--	$ 240	$--	$ --	$--	$ 240

The following table summarizes the offsetting of the Company's derivative liabilities in the Condensed Consolidated Balance Sheets at January 30, 2015 and August 1, 2014:

	Gross Liability Amounts		Asset Amount Offset		Net Liability Amount Presented in the Balance Sheets	
(See Note 2)	January 30, 2015	August 1, 2014	January 30, 2015	August 1, 2014	January 30, 2015	August 1, 2014
Interest rate swaps	$14,590	$8,441	$--	$(498)	$14,590	$7,943

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 30, 2015 and August 1, 2014 resulted in reductions of $741 and $62, respectively, in the fair value of the interest rate swap assets and liabilities. The offset to the interest rate swap assets and liabilities 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 30, 2015, the estimated pre-tax portion of AOCL that is expected to be reclassified into earnings over the next twelve months is $4,802. 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 months ended January 30, 2015 and the year ended August 1, 2014:

	Amount of (Loss) Income Recognized in AOCL on Derivatives (Effective Portion)	
	Six Months Ended	Year Ended
Cash flow hedges:		
Interest rate swaps	$(6,887)	$3,058

11

Index

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 30, 2015 and January 31, 2014:

	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 30, 2015	January 31, 2014	January 30, 2015	January 31, 2014
Cash flow hedges:					
Interest rate swaps	Interest expense	$2,005	$1,984	$4,016	$4,026

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 30, 2015 and January 31, 2014.

6. Shareholders' Equity

During the six months ended January 30, 2015, the Company issued 102,654 shares of its common stock resulting from the vesting of share-based compensation awards and stock option exercises. Related tax withholding payments on certain share-based compensation awards exceeded proceeds received from the exercise of stock options, which resulted in a net reduction to shareholders' equity of $4,420.

During the six months ended January 30, 2015, total share-based compensation expense was $6,330. The excess tax benefit realized upon exercise of share-based compensation awards was $2,299.

During the six months ended January 30, 2015, the Company paid dividends of $2.00 per share of its common stock and declared a regular dividend of $1.00 per share of its common stock that was paid on February 5, 2015 to shareholders of record on January 16, 2015.

The following table summarizes the changes in AOCL, net of tax, related to the Company's interest rate swaps for the six-month period ended January 30, 2015 (see Notes 2 and 5):

	Changes in AOCL
AOCL balance at August 1, 2014	$(4,733)
Other comprehensive income before reclassifications	(1,764)
Amounts reclassified from AOCL	(2,467)
Other comprehensive loss, net of tax	(4,231)
AOCL balance at January 30, 2015	$(8,964)

The following table summarizes the amounts reclassified out of AOCL related to the Company's interest rate swaps for the quarter and six-month period ended January 30, 2015:

Amount Reclassified from AOCL	Affected Line Item in the

	Quarter Ended	Six Months Ended	Condensed Consolidated
Loss on cash flow hedges:			
Interest rate swaps	$(2,005)	$(4,016)	Interest expense
Tax benefit	773	1,549	Provision for income taxes
	$(1,232)	$(2,467)	Net of tax

12

Index

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 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 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 30, 2015	January 31, 2014	January 30, 2015	January 31, 2014
Revenue:				
Restaurant	$577,558	$528,391	$1,124,265	$1,050,338
Retail	178,408	170,100	315,129	297,294
Total revenue	$755,966	$698,491	$1,439,394	$1,347,632

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 30, 2015	January 31, 2014	January 30, 2015	January 31, 2014
Nonvested stock awards	$2,826	$832	$4,982	$3,342
Performance-based market stock units ("MSU Grants")	769	594	1,348	904
	$3,595	$1,426	$6,330	$4,246

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 MSU Grants issued by the Company are calculated using the treasury stock method. The outstanding stock options, nonvested stock awards and MSU Grants issued by the Company represent the only dilutive effects on diluted consolidated net income per share.

Index

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

	Quarter Ended		Six Months Ended	
	January 30, 2015	January 31, 2014	January 30, 2015	January 31, 2014
Net income per share numerator	$47,163	$37,055	$81,187	$64,215
Net income per share denominator:				
Weighted average shares	23,914,797	23,812,777	23,888,496	23,815,107
Add potential dilution:				
Stock options, nonvested stock awards and MSU Grants	117,592	157,834	128,417	132,743
Diluted weighted average shares	24,032,389	23,970,611	24,016,913	23,947,850

11. Commitments and Contingencies

During 2014 and through September 25, 2014, the Company was served with several claims filed as a putative collective action alleging violations of the Fair Labor Standards Act ("FLSA"). The Company believes it has meritorious defenses to these claims and intends to vigorously defend these lawsuits. These proceedings remain in the early stages and include attempts to resolve through mediation. The Company recorded a provision of $600 at October 31, 2014 related to certain claims in one of the lawsuits. At January 30, 2015, the Company recorded an additional provision of $2,150, for a total provision of $2,750, to reflect potential liability related to these lawsuits. No other provision for any potential liability has been made in the condensed consolidated financial statements of the Company related to these proceedings though an adverse outcome could be material to the Company's results of operations or financial position. See "Item 1. Legal Proceedings" of Part II of this Quarterly Report on Form 10-Q for further information related to these claims.

In addition to the matters described above, 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 30, 2015, the Company had $11,530 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 2015 Revolving Credit Facility (see Note 4).

At January 30, 2015, the Company is secondarily liable for lease payments associated with one property. The Company is not aware of any non-performance under this lease arrangement that would result in the Company having to perform in accordance with the terms of this guarantee; 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 arrangement.

The Company enters into certain indemnification agreements in favor of third parties in the ordinary course of business. At January 30, 2015 and January 31, 2014, the Company recorded a liability in the Condensed Consolidated Balance Sheets related to legal costs. The Company believes that the amount recorded is immaterial to the Company's consolidated results of operations and financial position and that the probability of incurring an actual liability under other indemnification agreements is sufficiently remote so that no additional liability has been recorded in the Condensed Consolidated Balance Sheets.

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 30, 2015, we operated 634 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 August 1, 2014 (the “2014 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 2014 Form 10-K, which is incorporated herein by this reference, as well as the factors described under “Critical Accounting Estimates” on pages 23-26 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 in 2015 to grow guest sales and profits. Our long-term strategy includes the following:

- Enhancing the core business by increasing our brand's relevance to customers in order to drive guest traffic and sales in both restaurant and retail, implementing geographic pricing tiers to optimize average check and re-engineering store processes to increase operating margin;
- Expanding the footprint through continued use of our proven site selection tools, introducing a new and more efficient building and equipment prototype and the selective entry into new markets; and
- Extending the brand by building on the initial success of our licensing business, leveraging our brand strengths into a new fast casual concept and growing our retail business into an omni-channel business.

Our four priorities for 2015 are to:

- Extend the reach of the brand to drive traffic and sales in both our restaurant and retail businesses;
- Optimize average guest check through the implementation of geographic pricing tiers;
- Apply technology and process enhancements to drive store operating margins; and
- Further grow our store base with the opening of six new stores.

We maintained our focus on the execution of these priorities in the second quarter of 2015. In the second quarter of 2015, we outperformed traffic and restaurant sales of our peers in the Knapp-Track™ Casual Dining Index for the thirteenth consecutive quarter and our comparable store retail sales increased over 3%. We continue to realize the benefits of the new plate presentation initiative which has reduced the number of dishes used in our operations and reduced our labor costs. During the second quarter of 2015, we continued to improve operating margins, opened one new store and commenced construction of our new building and equipment prototype.

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 30, 2015 as compared to the same periods in the prior year:

	Quarter Ended		Six Months Ended	
	January 30, 2015	January 31, 2014	January 30, 2015	January 31, 2014
Total revenue	100.0%	100.0 %	100.0%	100.0 %
Cost of goods sold	34.7	34.8	33.7	33.3
Gross profit	65.3	65.2	66.3	66.7
Labor and other related expenses	33.3	34.2	34.3	35.3
Other store operating expenses	17.7	18.3	18.3	18.8
Store operating income	14.3	12.7	13.7	12.6
General and administrative expenses	4.9	4.3	4.9	5.0
Operating income	9.4	8.4	8.8	7.6

Interest expense	0.6		0.6		0.6		0.6	
Income before income taxes	8.8		7.8		8.2		7.0	
Provision for income taxes	2.6		2.5		2.6		2.2	
Net income	6.2	%	5.3	%	5.6	%	4.8	%

16

Index

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 30, 2015 and January 31, 2014, respectively:

	Quarter Ended		Six Months Ended	
	January 30, 2015	January 31, 2014	January 30, 2015	January 31, 2014
Open at beginning of period	633	625	631	624
Opened during period	1	--	3	1
Open at the end of period	634	625	634	625

Total Revenue

Total revenue for the second quarter and first six months of 2015 increased 8.2% and 6.8%, respectively, compared to the same periods in the prior year.

The following table highlights the key components of revenue for the quarter and six-month period ended January 30, 2015 as compared to the quarter and six-month period ended January 31, 2014:

	Quarter Ended		Six Months Ended	
	January 30, 2015	January 31, 2014	January 30, 2015	January 31, 2014
Revenue in dollars:				
Restaurant	$577,558	$528,391	$1,124,265	$1,050,338
Retail	178,408	170,100	315,129	297,294
Total revenue	$755,966	$698,491	$1,439,394	$1,347,632
Total revenue by percentage relationships:				
Restaurant	76.4 %	75.6 %	78.1 %	77.9 %
Retail	23.6 %	24.4 %	21.9 %	22.1 %
Average unit volumes[(1)]:				
Restaurant	$911.1	$845.4	$1,775.4	$1,681.5
Retail	281.4	272.2	497.7	475.9
Total revenue	$1,192.5	$1,117.6	$2,273.1	$2,157.4
Comparable store sales increase (decrease):				
Restaurant	7.9 %	(0.6 %)	5.6 %	1.0 %
Retail	3.2 %	(3.0 %)	4.4 %	(0.7 %)
Restaurant and retail	6.7 %	(1.2 %)	5.3 %	0.7 %

[(1)]Average unit volumes include sales of all stores.

For the second quarter of 2015, our comparable store restaurant sales increase consisted of a 4.7% guest traffic increase and a 3.2% average check increase for the quarter (including a 2.5% average menu price increase). We believe the increase in guest traffic resulted from the milder winter weather as compared to prior year second quarter, the positive impact of lower gasoline prices on consumer spending and travel and the success of our national advertising. For the second quarter of 2015, our comparable store retail sales increase resulted primarily from strong performance in apparel and accessories and décor merchandise categories and the increase in guest traffic.

For the first six months of 2015, our comparable store restaurant sales increase consisted of a 2.8% guest traffic increase and a 2.8% average check increase for the quarter (including a 2.3% average menu price increase). We believe the increase in guest traffic resulted from seasonal menu promotions, the milder winter weather as compared to prior year, the positive impact of lower gasoline prices on consumer spending and travel and the success of our national advertising. For the first six months of 2015, our comparable store retail sales increase resulted primarily from strong performance in apparel and accessories, décor, and bed and bath merchandise categories and the increase in guest traffic.

Restaurant and retail sales from newly opened stores accounted for the balance of the total revenue increases in the second quarter and first six months of 2015 as compared to the same periods in the prior year.

Index
Cost of Goods Sold

The following table highlights the components of cost of goods sold in dollar amounts and as percentages of revenues for the second quarter and first six months of 2015 as compared to the same periods in the prior year:

	Quarter Ended		Six Months Ended	
	January 30, 2015	January 31, 2014	January 30, 2015	January 31, 2014
Cost of Goods Sold in dollars:				
Restaurant	$163,742	$148,382	$317,160	$290,978
Retail	98,413	94,633	167,290	157,966
Total Cost of Goods Sold	$262,155			