

CRACKER BARREL OLD COUNTRY STORE, INC
Form 10-Q
November 21, 2017

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 October 27, 2017

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.

23,994,793 Shares of Common Stock
Outstanding as of November 14, 2017

CRACKER BARREL OLD COUNTRY STORE, INC.

FORM 10-Q

For the Quarter Ended October 27, 2017

INDEX

	Page
PART I. FINANCIAL INFORMATION	
ITEM 1. Condensed Consolidated Financial Statements (Unaudited)	
<u>a) Condensed Consolidated Balance Sheets as of October 27, 2017 and July 28, 2017</u>	3
<u>b) Condensed Consolidated Statements of Income for the Quarters Ended October 27, 2017 and October 28, 2016</u>	4
<u>c) Condensed Consolidated Statements of Comprehensive Income for the Quarters Ended October 27, 2017 and October 28, 2016</u>	5
<u>d) Condensed Consolidated Statements of Cash Flows for the Three Months Ended October 27, 2017 and October 28, 2016</u>	6
<u>e) Notes to Condensed Consolidated Financial Statements</u>	7
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	26
<u>ITEM 4. Controls and Procedures</u>	26
PART II. OTHER INFORMATION	
<u>ITEM 1A. Risk Factors</u>	27
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
<u>ITEM 6. Exhibits</u>	27
<u>SIGNATURES</u>	28

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)

	October 27, 2017	July 28, 2017*
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 120,193	\$ 161,001
Accounts receivable	18,078	18,116
Income taxes receivable	--	4,265
Inventories	191,481	156,367
Prepaid expenses and other current assets	19,479	16,047
Deferred income taxes	--	3,061
Total current assets	349,231	358,857
Property and equipment	2,118,446	2,093,448
Less: Accumulated depreciation and amortization of capital leases	1,012,665	995,351
Property and equipment – net	1,105,781	1,098,097
Other assets	66,920	64,988
Total assets	\$ 1,521,932	\$ 1,521,942
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 130,127	\$ 118,395
Income taxes payable	15,579	--
Other current liabilities	230,080	257,433
Total current liabilities	375,786	375,828
Long-term debt	400,000	400,000
Long-term interest rate swap liability	4,077	6,833
Other long-term obligations	131,250	129,353
Deferred income taxes	63,117	65,421
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; 23,994,793 shares issued and outstanding at October 27, 2017, and 24,055,682 shares issued and outstanding at July 28, 2017	240	241
Additional paid-in capital	39,540	55,659
Accumulated other comprehensive loss	(2,342)	(4,229)
Retained earnings	510,264	492,836
Total shareholders' equity	547,702	544,507
Total liabilities and shareholders' equity	\$ 1,521,932	\$ 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.

3

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

	Quarter Ended	
	October 27, 2017	October 28, 2016
Total revenue	\$710,368	\$709,971
Cost of goods sold (exclusive of depreciation and rent)	210,749	213,109
Labor and other related expenses	248,068	249,104
Other store operating expenses	143,820	137,926
Store operating income	107,731	109,832
General and administrative expenses	36,893	34,088
Operating income	70,838	75,744
Interest expense	3,618	3,676
Income before income taxes	67,220	72,068
Provision for income taxes	20,840	23,713
Net income	\$46,380	\$48,355
Net income per share:		
Basic	\$1.93	\$2.01
Diluted	\$1.92	\$2.01
Weighted average shares:		
Basic	24,035,202	24,001,708
Diluted	24,105,187	24,099,013
Dividends declared per share	\$1.20	\$1.15
Dividends paid per share	\$1.20	\$1.15

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	
	October	
	27,	October 28,
	2017	2016
Net income	\$46,380	\$ 48,355
Other comprehensive income before income tax expense:		
Change in fair value of interest rate swaps	3,055	6,106
Income tax expense	1,168	2,335
Other comprehensive income, net of tax	1,887	3,771
Comprehensive income	\$48,267	\$ 52,126

See Notes to unaudited Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	October	
	27,	October 28,
	2017	2016
Cash flows from operating activities:		
Net income	\$46,380	\$ 48,355
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,631	20,534
Loss on disposition of property and equipment	1,204	1,107
Share-based compensation	2,035	1,425
Excess tax benefit from share-based compensation	--	(1,062)
Changes in assets and liabilities:		
Inventories	(35,114)	(34,913)
Other current assets	871	13,278
Accounts payable	11,732	(13,479)
Other current liabilities	(10,169)	1,186
Other long-term assets and liabilities	(293)	(1,493)
Net cash provided by operating activities	38,277	34,938
Cash flows from investing activities:		
Purchase of property and equipment	(30,613)	(26,410)
Proceeds from insurance recoveries of property and equipment	86	74
Proceeds from sale of property and equipment	110	265
Net cash used in investing activities	(30,417)	(26,071)
Cash flows from financing activities:		
(Taxes withheld) and proceeds from issuance of share-based compensation awards, net	(3,383)	(6,138)
Purchases and retirement of common stock	(14,772)	--
Dividends on common stock	(30,513)	(29,649)
Excess tax benefit from share-based compensation	--	1,062
Net cash used in financing activities	(48,668)	(34,725)
Net decrease in cash and cash equivalents	(40,808)	(25,858)
Cash and cash equivalents, beginning of period	161,001	150,966
Cash and cash equivalents, end of period	\$ 120,193	\$ 125,108
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$3,340	\$ 3,160
Income taxes	\$194	\$ 784
Supplemental schedule of non-cash investing and financing activities:		
Capital expenditures accrued in accounts payable	\$6,356	\$ 3,252
Change in fair value of interest rate swaps	\$3,055	\$ 6,106
Change in deferred tax asset for interest rate swaps	\$(1,168)	\$(2,335)
Dividends declared but not yet paid	\$29,735	\$ 28,789

See Notes to unaudited Condensed Consolidated Financial Statements.

6

Index

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 October 27, 2017 and July 28, 2017 and the related condensed consolidated statements of income, comprehensive income and cash flows for the quarters ended October 27, 2017 and October 28, 2016, 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 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.

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 October 27, 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*	\$ 40,446	\$ --	\$ --	\$ 40,446
Interest rate swap asset (see Note 5)	--	287	--	287
Deferred compensation plan assets**	33,045	--	--	33,045
Total assets at fair value	\$ 73,491	\$ 287	\$ --	\$ 73,778
Interest rate swap liability (see Note 5)	\$ --	\$ 4,080	\$ --	\$ 4,080
Total liabilities at fair value	\$ --	\$ 4,080	\$ --	\$ 4,080

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 October 27, 2017 and July 28, 2017.

3. Inventories

Inventories were comprised of the following at:

	October 27, 2017	July 28, 2017
Retail	\$ 150,999	\$ 119,446
Restaurant	23,304	20,252
Supplies	17,178	16,669
Total	\$ 191,481	\$ 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 October 27, 2017 and July 28, 2017, the Company had \$400,000 of outstanding borrowings under the Revolving Credit Facility. At October 27, 2017, the Company had \$9,455 of standby letters of credit, which reduce the Company's borrowing availability under the Revolving Credit Facility (see Note 11 for more information on the Company's standby letters of credit). At October 27, 2017, 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 October 27, 2017 and October 28, 2016, the Company's outstanding borrowings were swapped at a weighted average interest rate of 3.21% and 3.10%, respectively, (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 October 27, 2017, 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 October 27, 2017 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 October 27, 2017 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 October 27, 2017 and July 28, 2017 were as follows:

(See Note 3)	Balance Sheet Location	October 27, 2017	July 28, 2017
Interest rate swaps	Prepaid expenses and other current assets	\$ 42	\$ 32
Interest rate swaps	Other assets	245	--
	Total assets	\$ 287	\$ 32
Interest rate swaps	Other current liabilities	\$ 3	\$ 47
Interest rate swaps	Long-term interest rate swap liability	4,077	6,833
	Total liabilities	\$ 4,080	\$ 6,880

The following table summarizes the offsetting of the Company's derivative assets in the Condensed Consolidated Balance Sheets at October 27, 2017 and July 28, 2017:

Gross Asset Amounts	Liability Amount Offset	Net Asset Amount Presented in the Balance Sheets	
		October 27,	July 28,
July 28,	July 28,	October 27,	July 28,

Edgar Filing: CRACKER BARREL OLD COUNTRY STORE, INC - Form 10-Q

(See Note 2)	October 27, 2017	2017	October 27, 2017	2017	2017	2017
Interest rate swaps	\$ 292	\$ 32	\$ (5)	\$ --	\$ 287	\$ 32

11

Index

The following table summarizes the offsetting of the Company's derivative liabilities in the Condensed Consolidated Balance Sheets at October 27, 2017 and July 28, 2017:

	Gross Liability Amounts		Asset Amount Offset		Net Liability Amount Presented in the Balance Sheets	
	October	July 28,	October	July 28,	October 27,	July 28,
	27,	2017	27,	2017	2017	2017
(See Note 2)	2017	2017	2017	2017	2017	2017
Interest rate swaps	\$ 4,080	\$ 6,880	\$ --	\$ --	\$ 4,080	\$ 6,880

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 October 27, 2017 and July 28, 2017 resulted in reductions of \$18 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 loss ("AOCL"), net of the deferred tax asset, and will be reclassified into earnings over the term of the underlying debt. As of October 27, 2017, the estimated pre-tax portion of AOCL that is expected to be reclassified into earnings over the next twelve months is \$2,305. Cash flows related to the interest rate swaps 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 three months ended October 27, 2017 and the year ended July 28, 2017:

	Amount of Income Recognized in AOCL on Derivatives (Effective Portion)	
	Three Months Ended	Year Ended
	October 27, 2017	July 28, 2017
Cash flow hedges:		
Interest rate swaps	\$ 3,055	\$ 15,402

The following table summarizes the pre-tax effects of the Company's derivative instruments on income for the quarters ended October 27, 2017 and October 28, 2016:

	Location of Loss Reclassified from AOCL into Income (Effective Portion)	Amount of Loss Reclassified from AOCL into Income (Effective Portion)	
		Quarter Ended	
		October 27, 2017	October 28, 2016
Cash flow hedges:			
Interest rate swaps	Interest expense	\$ 1,064	\$ 1,243

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 three-month periods ended October 27, 2017 and October 28, 2016.

6. Shareholders' Equity

During the three months ended October 27, 2017, the Company issued 39,111 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 \$3,383.

During the three months ended October 27, 2017, the Company repurchased 100,000 shares of its common stock in the open market at an aggregate cost of \$14,772.

During the three months ended October 27, 2017, total share-based compensation expense was \$2,035.

During the three months ended October 27, 2017, the Company paid regular dividends of \$1.20 per share of its common stock and declared a regular dividend of \$1.20 per share of its common stock that was paid on November 6, 2017 to shareholders of record on October 13, 2017.

Index

The following table summarizes the changes in AOCL, net of tax, related to the Company's interest rate swaps for the three months ended October 27, 2017 (see Notes 2 and 5):

	Changes in AOCL	
AOCL balance at July 28, 2017	\$ (4,229)
Other comprehensive income before reclassifications	2,544	
Amounts reclassified from AOCL	(657)
Other comprehensive income, net of tax	1,887	
AOCL balance at October 27, 2017	\$ (2,342)

The following table summarizes the amounts reclassified out of AOCL related to the Company's interest rate swaps for the quarter ended October 27, 2017:

Details about AOCL	Amount Reclassified from AOCL	Affected Line Item in the Condensed Consolidated Statement of Income
Loss on cash flow hedges:		
Interest rate swaps	\$ (1,064) Interest expense
Tax benefit	407	Provision for income taxes
	\$ (657) 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	
	October	October 28,
	27,	2016
	2017	
Revenue:		
Restaurant	\$ 578,237	\$ 573,677
Retail	132,131	136,294
Total revenue	\$ 710,368	\$ 709,971

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	
	October	
	27,	October 28,
	2017	2016
Nonvested stock awards and units	\$1,792	\$ 983
Performance-based market stock units ("MSU Grants")	243	442
	\$2,035	\$ 1,425

Index10. 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	
	October 27, 2017	October 28, 2016
Net income per share numerator	\$46,380	\$48,355
Net income per share denominator:		
Weighted average shares	24,035,202	24,001,708
Add potential dilution:		
Stock options, nonvested stock awards and units and MSU Grants	69,985	97,305
Diluted weighted average shares	24,105,187	24,099,013

11. Commitments and Contingencies

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

Related to its workers' compensation insurance coverage, the Company is contingently liable pursuant to standby letters of credit as credit guarantees to certain insurers. As of October 27, 2017, 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 October 27, 2017, 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 October 27, 2017.

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 Store (“Cracker Barrel”) concept. At October 27, 2017, we operated 645 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-term,” “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 22-25 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; 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 quarter of 2018.

We continue to be focused on the delivery of our 2018 priorities. We introduced new initiatives tied to our 2018 priorities at our bi-annual manager conference and training event.

Results of Operations

The following table highlights our operating results by percentage relationships to total revenue for the quarter ended October 27, 2017 as compared to the same period in the prior year:

	Quarter Ended		
	October 27, 2017	October 28, 2016	
Total revenue	100.0%	100.0	%
Cost of goods sold (exclusive of depreciation and rent)	29.7	30.0	
Labor and other related expenses	34.9	35.1	
Other store operating expenses	20.2	19.4	
Store operating income	15.2	15.5	
General and administrative expenses	5.2	4.8	
Operating income	10.0	10.7	
Interest expense	0.5	0.5	
Income before income taxes	9.5	10.2	
Provision for income taxes	3.0	3.4	
Net income	6.5	6.8	%

The following table sets forth the number of stores in operation at the beginning and end of the quarters ended October 27, 2017 and October 28, 2016:

	Quarter Ended	
	October 27, 2017	October 28, 2016
Open at beginning of period	649	641
Opened during period	2	2
Open at end of period	651	643

Total Revenue

Total revenue for the first quarter of 2018 increased 0.1% compared to the first quarter of 2017.

16

Index

The following table highlights the key components of revenue for the quarter ended October 27, 2017 as compared to the quarter ended October 28, 2016:

	Quarter Ended			
	October 27, 2017		October 28, 2016	
Revenue in dollars:				
Restaurant	\$578,237		\$ 573,677	
Retail	132,131		136,294	
Total revenue	\$710,368		\$ 709,971	
Total revenue by percentage relationships:				
Restaurant	81.4	%	80.8	%
Retail	18.6	%	19.2	%
Average unit volumes ⁽¹⁾ :				
Restaurant	\$889.5		\$ 893.7	
Retail	203.2		212.3	
Total revenue	\$1,092.7		\$ 1,106.0	
Comparable store sales increase (decrease):				
Restaurant	0.2	%	1.3	%
Retail	(3.6	%)	(4.0	%)
Restaurant and retail	(0.6	%)	0.2	%

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

For the first quarter of 2018, our comparable store restaurant sales increase consisted of a 2.0% average check increase (including a 2.2% average menu price increase) partially offset by a 1.8% guest traffic decline as compared to the prior year period. We believe that adverse weather had a negative impact on comparable store traffic of approximately 0.3%.

For the first quarter of 2018, our comparable store retail sales decrease resulted primarily from the decrease in guest traffic and lower performance in the bed and bath, apparel and accessories, décor, toys and media merchandise categories as compared to the prior year period. We believe that adverse weather had a negative impact on comparable store retail sales of approximately 0.6%.

Cost of Goods Sold (Exclusive of Depreciation and Rent)

The following table highlights the components of cost of goods sold (exclusive of depreciation and rent) in dollar amounts and as percentages of revenues for the first quarter of 2018 as compared to the same period in the prior year:

	Quarter Ended			
	October 27, 2017		October 28, 2016	
Cost of Goods Sold in dollars:				
Restaurant	\$143,850		\$ 145,536	
Retail	66,899		67,573	
Total Cost of Goods Sold	\$210,749		\$ 213,109	
Cost of Goods Sold by percentage of revenue:				
Restaurant	24.9	%	25.4	%

Retail

50.6 % 49.6 %

17

Index

The decrease in restaurant cost of goods sold as a percentage of restaurant revenue in the first quarter of 2018 as compared to the same period in the prior year was primarily the result of our menu price increase referenced above and a shift to lower cost menu items partially offset by higher food waste. Lower cost menu items accounted for a decrease of 0.2% in restaurant cost of goods sold as a percentage of restaurant revenue for the first quarter of 2018 as compared to the same period in the prior year. Higher food waste accounted for an increase of 0.1% in restaurant cost of goods sold as a percentage of restaurant revenue for the first quarter of 2018 as compared to the same period in the prior year.

We presently expect the rate of commodity inflation to be approximately 2.0% to 2.5% in 2018 as compared to 2017.

The increase in retail cost of goods sold as a percentage of retail revenue in the first quarter of 2018 as compared to the prior year quarter resulted primarily from a lower initial margin and an increase in the provision for obsolete inventory.

	First Quarter Increase as a Percentage of Retail Revenue	
Lower initial margin	0.7	%
Provision for obsolete inventory	0.2	%

Labor and Related Expenses

Labor and related expenses include all direct and indirect labor and related costs incurred in store operations. Labor and related expenses as a percentage of total revenue decreased to 34.9% in the first quarter of 2018 as compared to 35.1% in the first quarter of 2017. This percentage change resulted from the following:

	First Quarter (Decrease) Increase as a Percentage of Total Revenue	
Store bonus expense	(0.2	%)
Workers' compensation expense	(0.2	%)
Store hourly labor	0.1	%
Other wages	0.1	%

Lower store bonus expense as a percentage of total revenue for the first quarter of 2018 as compared to the same period in the prior year resulted from lower performance against financial objectives in the first quarter of 2018 as compared to the same period in the prior year.

Lower workers' compensation expense as a percentage of total revenue for the first quarter of 2018 as compared to the same period in the prior year resulted primarily from a reduction in reserves based on lower expected future claims activity.

The increase in store hourly labor costs as a percentage of total revenue for the first quarter of 2018 as compared to the same period in the prior year resulted primarily from wage inflation exceeding menu price increases.

The increase in other wages as a percentage of total revenue for the first quarter of 2018 as compared to the same period in the prior year resulted primarily from the payment of discretionary pay to employees due to store closures caused by adverse weather in the first quarter of 2018.

Other Store Operating Expenses

Other store operating expenses include all store-level operating costs, the major components of which are utilities, operating supplies, repairs and maintenance, depreciation and amortization, advertising, rent, credit card fees, real and personal property taxes, general insurance and costs associated with our bi-annual manager conference and training event.

18

Index

Other store operating expenses as a percentage of total revenue increased to 20.2% in the first quarter of 2018 as compared to 19.4% in the first quarter of 2017. This percentage change resulted from the following:

	First Quarter Increase (Decrease) as a Percentage of Total Revenue	
Bi-annual manager conference and training event expense	0.3	%
Supplies expense	0.3	%
Maintenance expense	0.2	%
Depreciation expense	0.2	%
Advertising expense	(0.1)	%
General insurance	(0.1)	%

In the first quarter of 2018, we held a bi-annual manager conference and training event which was attended by our store operations management team. We did not hold a manager's conference and training event in 2017.

The increases in supplies and maintenance expenses as a percentage of total revenue for the first quarter of 2018 as compared to the same period in the prior year resulted primarily from the implementation of previously announced initiatives.

The increase in depreciation expense as a percentage of total revenue for the first quarter of 2018 as compared to the same period in the prior year resulted from higher capital expenditures in the first quarter of 2018 as compared to the same period in the prior year.

The decrease in advertising expense as a percentage of total revenue for the first quarter 2018 as compared to the same period in the prior year resulted primarily from fewer weeks of national television advertising in the first quarter of 2018 as compared to the same period in the prior year.

The decrease in general insurance expense as a percentage of total revenue for the first quarter of 2018 as compared to the same period in the prior year resulted primarily from a reduction in reserves based on lower expected future claims activity.

General and Administrative Expenses

General and administrative expenses as a percentage of total revenue increased to 5.2% in the first quarter of 2018 as compared to 4.8% in the same period in the prior year. This percentage change resulted primarily from the following:

	First Quarter Increase as a Percentage of Total Revenue	
Payroll and related expenses	0.2	%
Travel and meeting expenses	0.1	%

The increase in payroll and related expenses as a percentage of total revenue for the first quarter of 2018 as compared to the same period in the prior year resulted primarily from higher staffing levels and higher average wages.

The increase in travel and meeting expenses as a percentage of total revenue for the first quarter of 2018 as compared to the same period in the prior year resulted primarily from travel associated with new store openings and the implementation of previously announced initiatives.

Interest Expense

Interest expense for the first quarter of 2018 remained relatively constant at \$3,618 as compared to \$3,676 in the first quarter of 2017.

19

Index

Provision for Income Taxes

Provision for income taxes as a percentage of income before income taxes (the “effective tax rate”) was 31.0% and 32.9% in the first quarters of 2018 and 2017, respectively. The reduction in the effective tax rate from the first quarter of 2017 to the first quarter of 2018 resulted primarily from the adoption of new accounting guidance in the first quarter of 2018 which requires the recognition of tax benefits for share-based compensation in the provision for income taxes.

Liquidity and Capital Resources

Our primary sources of liquidity are cash generated from our operations and our borrowing capacity under our \$750,000 revolving credit facility (the “Revolving Credit Facility”). Our internally generated cash, along with cash on hand at July 28, 2017, was sufficient to finance all of our growth, dividend payments, share repurchases, working capital needs and other cash payment obligations in the first three months of 2018.

We believe that cash on hand at October 27, 2017, along with cash generated from our operating activities and the borrowing capacity under our Revolving Credit Facility, will be sufficient to finance our continuing operations, expected dividend payments and our continuing expansion plans for at least the next twelve months.

Cash Generated From Operations

Our operating activities provided net cash of \$38,277 for the first three months of 2018, which represented an increase from the \$34,938 net cash provided during the first three months of 2017. This increase primarily reflected the timing of payments for accounts payable, the timing of payroll payments as compared to the prior year period due to our quarter end dates and lower spending on advertising.

Borrowing Capacity and Debt Covenants

At October 27, 2017, we had \$400,000 of outstanding borrowings under the Revolving Credit Facility and we had \$9,455 of standby letters of credit related to securing reserved claims under our workers’ compensation insurance which reduce our borrowing availability under the Revolving Credit Facility. At October 27, 2017, we had \$340,545 in borrowing availability under our Revolving Credit Facility. See Note 4 to our Condensed Consolidated Financial Statements for further information on our long-term debt.

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. We presently are in compliance with all financial covenants.

Capital Expenditures

Capital expenditures (purchase of property and equipment) net of proceeds from insurance recoveries were \$30,527 for the first three months of 2018 as compared to \$26,336 for the same period in the prior year. Our capital expenditures consisted primarily of capital investments for existing stores, new store locations and capital expenditures for strategic initiatives. The increase in capital expenditures from the first three months of 2017 to the first three months of 2018 resulted primarily from an increase in the number of new store locations. We estimate that our capital expenditures during 2018 will be between \$150,000 and \$160,000. This estimate includes the acquisition of sites and construction costs of eight to nine new Cracker Barrel stores and three new Holler & Dash Biscuit House™ locations that we have opened or are expected to open during 2018, as well as for acquisition and construction costs for store locations to be opened in 2019. We also expect to increase capital expenditures for technology and strategic initiatives, which are intended to improve the guest experience and improve margins. We

intend to fund our capital expenditures with cash flows from operations and borrowings under our Revolving Credit Facility, as necessary.

20

Index

Dividends, Share Repurchases and Share-Based Compensation Awards

The Revolving Credit Facility imposes restrictions on the amount of dividends we are permitted to pay and the amount of shares we are permitted to repurchase. Under the Revolving Credit Facility, provided there is no default existing and the total of our availability under the Revolving Credit Facility plus our cash and cash equivalents on hand is at least \$100,000 (the “cash availability”), we may declare and pay cash dividends on shares of our common stock and repurchase shares of our common stock (1) in an unlimited amount if, at the time the dividend or the repurchase is made, our 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 our 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, we may declare and pay cash dividends on shares of our 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.

During the first quarter of 2018, we paid a regular dividend of \$1.20 per share and declared a dividend of \$1.20 per share that was paid on November 6, 2017 to shareholders of record on October 13, 2017.

We have been authorized by our Board of Directors to repurchase shares at management’s discretion up to \$25,000 during 2018. During the first quarter of 2018, we repurchased 100,000 shares of our common stock in the open market at an aggregate cost of \$14,772.

During the first quarter of 2018, we issued 39,111 shares of our 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 use of cash of \$3,383.

Working Capital

In the restaurant industry, virtually all sales are either for cash or second-party credit or debit card. Restaurant inventories purchased through our principal food distributor are on terms of net zero days, while restaurant inventories purchased locally are generally financed from normal trade credit. Because of our retail gift shops, which have a lower product turnover than the restaurant business, we carry larger inventories than many other companies in the restaurant industry. Retail inventories purchased domestically are generally financed from normal trade credit, while imported retail inventories are generally purchased through wire transfers. These various trade terms are aided by the rapid turnover of the restaurant inventory. Employees generally are paid on weekly or semi-monthly schedules in arrears for hours worked except for bonuses that are paid either quarterly or annually in arrears. Many other operating expenses have normal trade terms and certain expenses, such as certain taxes and some benefits, are deferred for longer periods of time.

We had negative working capital of \$26,555 at October 27, 2017 versus negative working capital of \$16,971 at July 28, 2017. The change in working capital from July 28, 2017 to October 27, 2017 primarily resulted from the use of cash to build retail inventories as well as the decrease in cash resulting from the payment of dividends, share repurchases and capital spending.

Off-Balance Sheet Arrangements

Other than various operating leases, we have no other material off-balance sheet arrangements. Refer to the sub-section entitled “Off-Balance Sheet Arrangements” under the section entitled “Liquidity and Capital Resources” presented in the MD&A of our 2017 Form 10-K for additional information regarding our operating leases.

Material Commitments

There have been no material changes in our material commitments other than in the ordinary course of business since the end of 2017. Refer to the sub-section entitled “Material Commitments” under the section entitled “Liquidity and Capital Resources” presented in the MD&A of our 2017 Form 10-K for additional information regarding our material commitments.

21

Index

Recent Accounting Pronouncements Adopted and Not Adopted

See Note 1 to the accompanying Condensed Consolidated Financial Statements for a discussion of recent accounting guidance adopted and not yet adopted. The adopted accounting guidance discussed in Note 1 did not have a significant impact on our consolidated financial position or results of operations. Regarding the accounting guidance not yet adopted, we are either still evaluating the impact of adopting the accounting guidance or the accounting guidance is not expected to have a significant impact on our consolidated financial position or results of operations.

Critical Accounting Estimates

We prepare our Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We base our estimates and judgments on historical experience, current trends, outside advice from parties believed to be experts in such matters, and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. However, because future events and their effects cannot be determined with certainty, actual results could differ from those assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 2 to the Consolidated Financial Statements contained in the 2017 Form 10-K. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions.

Critical accounting estimates are those that:

· management believes are most important to the accurate portrayal of both our financial condition and operating results, and
· require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We consider the following accounting estimates to be most critical in understanding the judgments that are involved in preparing our Consolidated Financial Statements:

- Impairment of Long-Lived Assets and Provision for Asset Dispositions
- Insurance Reserves
- Retail Inventory Valuation
- Tax Provision
- Share-Based Compensation
- Legal Proceedings

Management has reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors.

Impairment of Long-Lived Assets and Provision for Asset Dispositions

We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying value of the asset to the undiscounted future cash flows expected to be generated by the asset. If the total expected future cash flows are less than the carrying amount of the asset, the carrying value is written down, for an asset to be held and

used, to the estimated fair value or, for an asset to be disposed of, to the fair value, net of estimated costs of disposal. Any loss resulting from impairment is recognized by a charge to income. Judgments and estimates that we make related to the expected useful lives of long-lived assets and future cash flows are affected by factors such as changes in economic conditions and changes in operating performance. The accuracy of such provisions can vary materially from original estimates and management regularly monitors the adequacy of the provisions until final disposition occurs.

Index

We have not made any material changes in our methodology for assessing impairments during the first three months of 2018, and we do not believe that there is a reasonable likelihood that there will be a material change in the estimates or assumptions used by us in the future to assess impairment of long-lived assets. However, if actual results are not consistent with our estimates and assumptions used in estimating future cash flows and fair values of long-lived assets, we may be exposed to losses that could be material.

Insurance Reserves

We self-insure a significant portion of our expected workers' compensation and general liability insurance programs. We purchase insurance for individual workers' compensation claims that exceed \$250, \$750 or \$1,000 depending on the state in which the claim originates. We purchase insurance for individual general liability claims that exceed \$500. We record a reserve for workers' compensation and general liability for all unresolved claims and for an estimate of incurred but not reported ("IBNR") claims. These reserves and estimates of IBNR claims are based upon a full scope actuarial study which is performed annually at the end of our third quarter and is adjusted by the actuarially determined losses and actual claims payments for the fourth quarter. Additionally, we perform limited scope actuarial studies on a quarterly basis to verify and/or modify our reserves. The reserves and losses in the actuarial study represent a range of possible outcomes within which no given estimate is more likely than any other estimate. As such, we record the losses in the lower end of that range and discount them to present value using a risk-free interest rate based on projected timing of payments. We also monitor actual claims development, including incidence or settlement of individual large claims during the interim periods between actuarial studies as another means of estimating the adequacy of our reserves.

Our group health plans combine the use of self-insured and fully-insured programs. Benefits for any individual (employee or dependents) in the self-insured group health program are limited. We record a liability for the self-insured portion of our group health program for all unpaid claims based upon a loss development analysis derived from actual group health claims payment experience. Additionally, we record a liability for unpaid prescription drug claims based on historical experience.

Our accounting policies regarding workers' compensation, general insurance and health insurance reserves include certain actuarial assumptions and management judgments regarding economic conditions, the frequency and severity of claims and claim development history and settlement practices. We have not made any material changes in the accounting methodology used to establish our insurance reserves during the first three months of 2018 and do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to calculate the insurance reserves. However, changes in these actuarial assumptions, management judgments or claims experience in the future may produce materially different amounts of expense that would be reported under these insurance programs.

Retail Inventory Valuation

Cost of goods sold includes the cost of retail merchandise sold at our stores utilizing the retail inventory method ("RIM"). Under RIM, the valuation of our retail inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of our inventories. Inherent in the RIM calculation are certain significant management judgments and estimates, including initial markons, markups, markdowns and shrinkage, which may significantly impact the gross margin calculation as well as the ending inventory valuation.

Inventory valuation provisions are included for retail inventory obsolescence and retail inventory shrinkage. Retail inventory is reviewed on a quarterly basis for obsolescence and adjusted as appropriate based on assumptions made by management and judgments regarding inventory aging and future promotional activities. Cost of goods sold includes an estimate of shrinkage that is adjusted upon physical inventory counts. Annual physical inventory counts are conducted throughout the third quarter based upon a cyclical inventory schedule. An estimate of shrinkage is

recorded for the time period between physical inventory counts by using a three-year average of the physical inventories' results on a store-by-store basis.

We have not made any material changes in the methodologies, estimates or assumptions related to our merchandise inventories during the first three months of 2018 and do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions in the future. However, actual obsolescence or shrinkage recorded may produce materially different amounts than we have estimated.

Index

Tax Provision

We must make estimates of certain items that comprise our income tax provision. These estimates include effective state and local income tax rates, employer tax credits for items such as FICA taxes paid on employee tip income, WOTC, as well as estimates related to certain depreciation and capitalization policies. Our estimates are made based on current tax laws, the best available information at the time of the provision and historical experience.

We recognize (or derecognize) a tax position taken or expected to be taken in a tax return in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained (or not sustained) upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

We file our income tax returns many months after our year end. These returns are subject to audit by various federal and state governments years after the returns are filed and could be subject to differing interpretations of the tax laws. We then must assess the likelihood of successful legal proceedings or reach a settlement with the relevant taxing authority. Although we believe that the judgments and estimates used in establishing our tax provision are reasonable, an unsuccessful legal proceeding or a settlement could result in material adjustments to our Consolidated Financial Statements and our consolidated financial position (see Note 13 to our Consolidated Financial Statements contained in the 2017 Form 10-K for additional information).

Share-Based Compensation

Our share-based compensation consists of nonvested stock awards and units and performance-based market stock units (“MSU Grants”). Share-based compensation expense is recognized based on the grant date fair value and the achievement of performance conditions for certain awards. We recognize share-based compensation expense on a straight-line basis over the requisite service period, which is generally the award’s vesting period, or the date on which retirement is achieved, if shorter.

Compensation expense is recognized for only the portion of our share-based compensation awards that are expected to vest. Therefore, an estimated forfeiture rate is derived from historical employee termination behavior and is updated annually. The forfeiture rate is applied on a straight-line basis over the service (vesting) period for each separately vesting portion of the award as if the award were, in substance, multiple awards.

Our share-based compensation awards accrue dividends. Dividends will be forfeited for any share-based compensation awards that do not vest.

The fair value of nonvested stock awards which accrue dividends is equal to the market price of our common stock at the date of grant. Our nonvested stock awards are time vested except for certain awards under our long-term incentive plans, which also contain performance conditions. At each reporting period, we reassess the probability of achieving the performance conditions under our long-term incentive plans. Determining whether the performance conditions will be achieved involves judgment, and the estimate of expense for nonvested stock awards may be revised periodically based on changes in our determination of the probability of achieving the performance conditions. Revisions are reflected in the period in which the estimate is changed. If any performance conditions are not met, no shares will be granted, no compensation will ultimately be recognized and, to the extent previously recognized, compensation expense will be reversed.

In addition to requiring the requisite service, MSU Grants contain both a market condition based on total shareholder return and a performance condition based on operating income. Total shareholder return is defined as increases in our stock price plus dividends paid during the performance period. The number of shares awarded at the end of the performance period for each MSU Grant may increase up to 150% of target in direct proportion to any percentage

increase in shareholder value during the performance period. The probability of the actual shares expected to be awarded is considered in the grant date valuation; therefore, the expense will not be adjusted to reflect the actual units awarded. However, if the performance condition is not met, no shares will be granted, no compensation will ultimately be recognized and, to the extent previously recognized, compensation expense will be reversed.

Index

The fair value of our MSU Grants was determined using the Monte-Carlo simulation model, which simulates a range of possible future stock prices and estimates the probabilities of the potential payouts. The Monte-Carlo simulation model uses the average prices for the 60-consecutive calendar days beginning 30 days prior to and ending 30 days after the second business day of the performance period. This model also incorporates the following ranges of assumptions:

- The expected volatility is a blend of implied volatility based on market-traded options on our stock and historical volatility of our stock over the period commensurate with the performance period.
- The risk-free interest rate is based on the U.S. Treasury rate assumption commensurate with the performance period.
- The expected dividend yield is assumed to be zero since the award holders are entitled to any dividends paid over the performance period.

We update the historical and implied components of the expected volatility assumption when new grants are made. No MSU Grants have been awarded in 2017 or in 2018.

Beginning in 2017, we adopted long-term incentive plans that award nonvested stock units based upon relative total shareholder return. In addition to requiring the requisite service, these nonvested stock units contain both a market condition based on relative total shareholder return and a performance condition based on operating income. Relative total shareholder return is defined as increases in our stock price plus dividends paid during the performance period as compared to the total shareholder return of a group of peer companies determined by the Compensation Committee. The number of shares awarded at the end of the performance period for each nonvested stock unit may range from 75% to 125% of the target award. The probability of the actual shares expected to be awarded is considered in the grant date valuation; therefore, the expense will not be adjusted to reflect the actual units awarded. However, if the performance condition is not met, no shares will be granted, no compensation will ultimately be recognized and, to the extent previously recognized, compensation expense will be reversed.

The fair value of these nonvested stock units was determined using the Monte-Carlo simulation model, which simulates a range of possible future stock prices and estimates the probabilities of the potential payouts. The Monte-Carlo simulation model uses the average prices for the 60-consecutive calendar days beginning 30 days prior to and ending 30 days after the second business day of the performance period. This model also incorporates the following ranges of assumptions:

- The expected volatility is the historical volatility of our stock and the members of the peer group over the period commensurate with the performance period.
- The risk-free interest rate is based on the U.S. Treasury rate assumption commensurate with the performance period.
- The expected dividend yield is assumed to be zero since the award holders are entitled to any dividends paid over the performance period.

We will update the expected volatility assumption when new grants are made.

We have not made any material changes in our estimates or assumptions used to determine share-based compensation during the first three months of 2018 and do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to determine share-based compensation expense. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to changes in share-based compensation expense that could be material.

Legal Proceedings

We are parties to various legal and regulatory proceedings and claims incidental to our business from time to time. We review outstanding claims and proceedings internally and with external counsel, as necessary and appropriate, to

assess probability of loss and for the ability to estimate loss. These assessments are re-evaluated each quarter or as new information becomes available to determine whether a reserve should be established or if any existing reserve should be adjusted. The actual cost of resolving a claim or proceeding ultimately may be substantially different than the amount of the recorded reserve. Although we believe that the judgments and estimates used in establishing our legal reserves are reasonable, an unsuccessful legal proceeding or a settlement could result in material adjustments to our Consolidated Financial Statements and our consolidated financial position.

Index

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Part II, Item 7A of the 2017 Form 10-K is incorporated in this item of this Quarterly Report on Form 10-Q by this reference. There have been no material changes in our quantitative and qualitative market risks since July 28, 2017.

ITEM 4. Controls and Procedures

Our management, including our principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) as of the end of the period covered by this report. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that as of October 27, 2017, our disclosure controls and procedures were effective for the purposes set forth in the definition thereof in Exchange Act Rule 13a-15(e).

There have been no changes (including corrective actions with regard to significant deficiencies and material weaknesses) during the quarter ended October 27, 2017 in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Index

PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in “Item 1A. Risk Factors” of our 2017 Form 10-K.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

There were no equity securities sold by the Company during the period covered by this Form 10-Q that were not registered under the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of shares of the Company’s common stock made during the quarter ended October 27, 2017 by or on behalf of the Company or any “affiliated purchaser,” as defined by Rule 10b-18(a)(3) of the Exchange Act:

Period	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans or Programs
7/29/17 – 8/25/17	--	\$ --	--	Indeterminate (2)
8/26/17 – 9/22/17	94,200	\$ 147.74	94,200	Indeterminate (2)
9/23/17 – 10/27/17	5,800	\$ 147.39	5,800	Indeterminate (2)
Total for the quarter	100,000	\$ 147.72	100,000	Indeterminate (2)

(1) Average price paid per share is calculated on a settlement basis and includes commissions and fees.

On September 22, 2016, our Board of Directors approved the repurchase of up to \$25,000 of our common stock, with such authorization to expire on October 6, 2017 to the extent it remained unused. On September 29, 2017, we (2) announced our Board of Directors had authorized new share repurchases for up to \$25,000 of our common stock, with such authorization to expire on October 5, 2018. The share repurchase authorization was effective immediately and replaced the prior share repurchase authorization.

ITEM 6. Exhibits

See Exhibit Index immediately prior to the signature page hereto.

Index

INDEX TO EXHIBITS

Exhibit

- 10.1 Cracker Barrel Old Country Store, Inc. and Subsidiaries FY2018 Annual Bonus Plan[†](incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 3, 2017)
- 10.2 Cracker Barrel Old Country Store, Inc. and Subsidiaries FY2018 Long-Term Incentive Program[†] (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 3, 2017)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

101.INS XBRL Instance Document (filed herewith)

101.SCH XBRL Taxonomy Extension Schema (filed herewith)

101.CAL XBRL Taxonomy Extension Calculation Linkbase (filed herewith)

101.LAB XBRL Taxonomy Extension Label Linkbase (filed herewith)

101.PRE XBRL Taxonomy Extension Presentation Linkbase (filed herewith)

101.DEF XBRL Taxonomy Extension Definition Linkbase (filed herewith)

Denotes management contract or compensatory plan, contract or arrangement.

SIGNATURES

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

CRACKER BARREL OLD COUNTRY STORE, INC.

Date: November 21, 2017 By: /s/Jill M. Golder

Jill M. Golder, Senior Vice President and
Chief Financial Officer

Date: November 21, 2017 By: /s/Jeffrey M. Wilson

Jeffrey M. Wilson, Vice President, Corporate Controller and Principal Accounting Officer