

CRACKER BARREL OLD COUNTRY STORE, INC
Form PRN14A
October 05, 2012

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

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No. 2)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

CRACKER BARREL OLD COUNTRY STORE, INC.
(Name of Registrant as Specified in Its Charter)

BIGLARI HOLDINGS INC.
BIGLARI CAPITAL CORP.
THE LION FUND, L.P.
STEAK N SHAKE OPERATIONS, INC.
SARDAR BIGLARI
PHILIP L. COOLEY

(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials:

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PRELIMINARY COPY SUBJECT TO COMPLETION
DATED OCTOBER 4, 2012

BIGLARI HOLDINGS INC.
17802 IH 10 WEST, SUITE 400
SAN ANTONIO, TEXAS 78257
TELEPHONE (210) 344-3400
FAX (210) 344-3411

_____, 2012

Dear Fellow Shareholder:

Biglari Holdings Inc. (“Biglari Holdings”) and the other participants in this solicitation (collectively, “Biglari,” “our,” or “we”) are the beneficial owners of an aggregate of 4,091,037 shares of common stock of Cracker Barrel Old Country Store, Inc. (“Cracker Barrel” or the “Company”), thereby representing approximately 17.3% of the Company’s outstanding shares of common stock. As the single largest shareholder of the Company — a figure higher than the next three largest shareholders as well as the combined ownership of the Board — we are convinced that because of our financial incentives along with our expertise in the restaurant industry, our presence on the Board would help increase the value of the Company. Thus, we are seeking your support at the annual meeting of shareholders (the “Annual Meeting”) scheduled to be held on November 15, 2012 at 10:00 a.m. Central Time at 305 Hartmann Drive, Lebanon, Tennessee 37087, for the following purposes:

1. To elect our director nominees, Sardar Biglari and Philip L. Cooley, to the Board of Directors of Cracker Barrel in opposition to two of the Company’s incumbent directors
2. To oppose the Company’s shareholder rights plan, or “poison pill”
3. To conduct an advisory vote on executive compensation, often referred to as a “say on pay”
4. To ratify the appointment of Deloitte & Touche LLP as the Company’s independent registered public accounting firm for its 2013 fiscal year
5. To transact any other business that may properly be raised before the Annual Meeting or any adjournment(s) thereof

We are seeking two seats on the Company’s Board of Directors to ensure that the interests of the shareholders, the true owners of Cracker Barrel, are properly represented in the boardroom. The Board is currently composed of 14 directors, of whom four are not standing for re-election at the Annual Meeting.

We are not seeking control of the Board of Directors. With only two Board seats we cannot control the Board, and any claim to the contrary would be completely false and misleading. As the largest shareholder of the Company, we aim to represent all shareholders. Our sole interest is to obtain seats on the Board in order to maximize the value of the Company. We have more of our net worth tied to the performance of the stock of Cracker Barrel than does any current Board member of Cracker Barrel or any other shareholder of the Company. You should note, however, that even if we are elected, we would represent a minority of the members of the Board, and therefore it is not assured that we will be able to enhance shareholder value.

We are soliciting proxies to elect not only our director nominees but also the candidates who have been nominated by the Company other than _____ and _____. This process enables shareholders the ability to vote for the total number of directors up for election at the Annual Meeting. The names, backgrounds and qualifications of the Company's nominees, added to other information about them, can be found in the Company's proxy statement. There is no assurance that any of the Company's nominees will serve as directors if our nominees are elected.

We urge you to consider carefully the information contained in the attached Proxy Statement and then support our efforts by signing, dating and returning the enclosed GOLD proxy card today. The attached Proxy Statement and the enclosed GOLD proxy card are first being furnished to the shareholders on or about _____, 2012.

You must be very careful not to sign the Company's White proxy card if you want to vote for our nominees. To vote for Messrs. Biglari and Cooley, you will find it imperative to disregard all White proxy cards. If you have already voted the White proxy card furnished by the Company, you may exercise your right to change your vote by signing, dating and returning a GOLD proxy card at a later date or by voting in person at the Annual Meeting.

If you have any questions or require any assistance with your vote, please contact Morrow & Co., LLC, which is assisting us. Its address and toll-free number are listed on the following page to offer you help in casting your vote.

Your support is very important.

Sincerely,

/s/ Sardar Biglari

Sardar Biglari
Biglari Holdings Inc.

YOUR VOTE IS IMPORTANT

Please mark, sign and date your GOLD proxy card and return it promptly in the enclosed envelope, whether or not you plan to attend the meeting. If you own shares in a brokerage account, your broker cannot vote your shares without your instructions. Therefore, it is imperative that you exercise your right as a shareholder and vote the GOLD card.

If you have any questions, require assistance in voting your GOLD proxy card,
or need additional copies of Biglari's proxy materials, please call
Morrow & Co., LLC at the phone numbers listed below.

MORROW & CO., LLC
470 West Avenue
Stamford, CT 06902

Shareholders call toll free at: (877) 849-0763

Banks and brokers call: (203) 658-9400

PRELIMINARY COPY SUBJECT TO COMPLETION
DATED OCTOBER 4, 2012

ANNUAL MEETING OF SHAREHOLDERS
OF
CRACKER BARREL OLD COUNTRY STORE, INC.

PROXY STATEMENT
OF
BIGLARI HOLDINGS INC.

PLEASE SIGN, DATE AND MAIL THE ENCLOSED GOLD PROXY CARD TODAY

This Proxy Statement and the enclosed GOLD proxy card are being furnished by Biglari Holdings Inc. (“Biglari Holdings”), Biglari Capital Corp. (“Biglari Capital”), The Lion Fund, L.P. (the “Lion Fund”), Steak n Shake Operations, Inc. (“Steak n Shake”), Sardar Biglari and Philip L. Cooley (collectively, “Biglari,” “our” or “we”), the largest shareholder of Cracker Barrel Old Country Store, Inc., a Tennessee corporation (“Cracker Barrel” or the “Company”). We are writing to seek your support for the election of our director nominees to the Board of Directors of the Company (the “Board”) at the annual meeting of shareholders scheduled to be held on November 15, 2012 at 10:00 a.m. Central Time at 305 Hartmann Drive, Lebanon, Tennessee 37087, (including any adjournments or postponements thereof and any meeting which may be called in lieu thereof, the “Annual Meeting”). This proxy statement (the “Proxy Statement”) and the enclosed GOLD proxy card are first being furnished to shareholders on or about _____, 2012.

This Proxy Statement and the enclosed GOLD proxy card are being furnished to shareholders of Cracker Barrel by Biglari in connection with the solicitation of proxies from Cracker Barrel shareholders for the following purposes:

1. To elect our director nominees, Sardar Biglari and Philip L. Cooley (each, a “Nominee” and, together, the “Nominees”), to the Board of Directors of Cracker Barrel in opposition to two of the Company’s incumbent directors whose terms expire at the Annual Meeting
2. To oppose the Company’s shareholder rights plan, or “poison pill”
3. To conduct an advisory vote on executive compensation, often referred to as a “say on pay” (the “Say on Pay Proposal”)
4. To ratify the appointment of Deloitte & Touche LLP as the Company’s independent registered public accounting firm for its 2013 fiscal year
5. To transact any other business that may properly be raised before the Annual Meeting or any adjournment(s) thereof

This Proxy Statement is soliciting proxies to elect not only our Nominees, but also the candidates who have been nominated by the Company other than _____ and _____. This gives shareholders who wish to vote for our Nominees the ability to vote for a full slate of directors.

The Company has set the record date for determining shareholders entitled to notice of and to vote at the Annual Meeting as September 21, 2012 (the "Record Date"). The mailing address of the principal executive offices of the Company is 305 Hartmann Drive, Lebanon, Tennessee 37087. Shareholders of record at the close of business on the Record Date will be entitled to vote at the Annual Meeting. According to the Company, as of the Record Date, there were 23,642,398 shares of common stock, \$0.01 par value per share (the "Shares"), outstanding and entitled to vote at the Annual Meeting. As of the Record Date, Biglari beneficially owned an aggregate of 4,091,037 Shares, which represents approximately 17.3% of the Shares outstanding (based on the Company's proxy statement). We intend to vote such Shares (i) FOR the election of the Nominees to the Board; (ii) AGAINST the Company's shareholder rights plan, or poison pill; (iii) AGAINST the Say on Pay Proposal; and (iv) FOR the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for its 2013 fiscal year.

THIS SOLICITATION IS BEING MADE BY BIGLARI AND NOT ON BEHALF OF THE BOARD OR MANAGEMENT OF THE COMPANY. WE ARE NOT AWARE OF ANY OTHER MATTERS TO BE BROUGHT BEFORE THE ANNUAL MEETING OTHER THAN AS DESCRIBED HEREIN. SHOULD OTHER MATTERS, WHICH WE ARE NOT AWARE OF A REASONABLE TIME BEFORE THIS SOLICITATION, BE BROUGHT BEFORE THE ANNUAL MEETING, THE PERSONS NAMED AS PROXIES IN THE ENCLOSED GOLD PROXY CARD WILL VOTE ON SUCH MATTERS IN THEIR DISCRETION.

WE URGE YOU TO SIGN, DATE AND RETURN THE GOLD PROXY CARD IN FAVOR OF THE ELECTION OF OUR NOMINEES, AGAINST THE COMPANY'S SHAREHOLDER RIGHTS PLAN, OR POISON PILL, AND AGAINST THE SAY ON PAY PROPOSAL.

IF YOU HAVE ALREADY SENT A PROXY CARD FURNISHED BY THE COMPANY'S MANAGEMENT OR THE BOARD, YOU MAY REVOKE THAT PROXY AND VOTE FOR EACH OF THE PROPOSALS DESCRIBED IN THIS PROXY STATEMENT, INCLUDING THE ELECTION OF BIGLARI'S NOMINEES, BY SIGNING, DATING AND RETURNING THE ENCLOSED GOLD PROXY CARD. THE LATEST DATED PROXY IS THE ONLY ONE THAT COUNTS. ANY PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE ANNUAL MEETING BY DELIVERING A WRITTEN NOTICE OF REVOCATION OR A LATER DATED PROXY FOR THE ANNUAL MEETING TO BIGLARI, C/O MORROW & CO., LLC, WHICH IS ASSISTING IN THIS SOLICITATION, OR TO THE SECRETARY OF THE COMPANY, OR BY VOTING IN PERSON AT THE ANNUAL MEETING.

Important Notice Regarding the Availability of Proxy Materials
for the Annual Meeting

This Proxy Statement and GOLD proxy card are available at
www.enhancecrackerbarrel.com/proxy

IMPORTANT

Your vote is important, no matter how many Shares you own. We urge you to sign, date, and return the enclosed GOLD proxy card today to vote FOR the election of our Nominees.

- If your Shares are registered in your own name, please sign and date the enclosed GOLD proxy card and return it today to Biglari, c/o Morrow & Co., LLC, in the enclosed envelope.
- If your Shares are held in a brokerage account or bank, you are considered the beneficial owner of the Shares, and these proxy materials, together with a GOLD voting form, are being forwarded to you by your broker or bank. As a beneficial owner, you must instruct your broker, trustee or other representative how to vote. Your broker cannot vote your Shares on your behalf without your instructions.
- Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or through the Internet. Please refer to the enclosed voting form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed voting form.

Since only your latest dated proxy card will count, we urge you not to return any White proxy card you receive from the Company. Even if you return the White proxy card marked “withhold” as a protest against the incumbent directors, it will revoke any GOLD proxy card you may have previously sent to us. The last card you submit must be the GOLD proxy card. Remember, you can vote for our independent Nominees only on our GOLD proxy card. So please make certain that the latest dated proxy card you return is the GOLD proxy card.

Please call Morrow & Co., LLC if you need assistance in voting your GOLD card:

MORROW & CO., LLC
470 West Avenue
Stamford, CT 06902

Shareholders call toll free at: (877) 849-0763

Banks and brokers call: (203) 658-9400

BACKGROUND OF THE SOLICITATION

At the Company's 2011 annual meeting of shareholders, Biglari previously nominated Sardar Biglari for election to the Board. The following is a chronology of events leading up to the proxy solicitation related to the 2012 Annual Meeting:

- On April 10, 2012, Cracker Barrel announced that its Board had adopted a shareholder rights plan, or poison pill, that effectively prevents any shareholder from purchasing 20% or more of the Company (other than in connection with a qualifying cash tender offer) in response to the "possibility" that Biglari Holdings could acquire a "potentially controlling" position in Cracker Barrel. The fact remains that Biglari is not seeking to obtain a controlling ownership in the Company or control of the Board. Additionally and even more important, there are Tennessee statutes that protect shareholders: When a shareholder owns more than 20% of the Company, any shares in excess of the 20% threshold cannot be voted by the shareholder without other shareholders agreeing to it.
- On April 19, 2012, Sardar Biglari, Chairman and Chief Executive Officer of Biglari Holdings, issued a letter to Cracker Barrel shareholders calling for Michael Woodhouse, Charles Jones, Robert Dale, and Jack Lowery to be removed from the Board because we are convinced that under their stewardship Cracker Barrel's performance has been lackluster, measured, inter alia, by an erosion of per-store profit. The letter exhorted Cracker Barrel's management to institute clear, written performance goals for the Company. Further, the letter urged owner-oriented shareholders to join in Biglari's value-maximization mission and pledged, in return, that Biglari would not sell a single share. Should Biglari choose to sell any shares, it would first provide a public notice at least two weeks in advance of the sale.
- On April 26, 2012, Cracker Barrel announced that it had entered into an amendment to its credit facility which, among other information, increased the aggregate amount of share and option purchases and redemptions permitted by the Company under its credit facility, thus increasing the total from \$65 million to \$100 million. In Mr. Biglari's letter to shareholders dated November 14, 2011, he had urged the Board to "improve the flexibility in the credit agreement to allow for greater share repurchases."
- On May 31, 2012, Cracker Barrel announced that Robert Dale and Jack Lowery, two of the directors for whom Biglari had advocated removal from the Board, would not stand for re-election at the Annual Meeting. The Company also announced that it had increased the size of the Board from 11 to 13 members and then elected Thomas H. Barr and Glenn A. Davenport to serve as directors.
- On August 6, 2012, Cracker Barrel announced that Michael Woodhouse and Charles Jones, the other two directors whom Biglari had insisted on removing from the Board, would not stand for re-election at the Annual Meeting. The Company also announced that Mr. Woodhouse would retire as Executive Chairman of the Board effective November 7, 2012, allowing the Board to name James W. Bradford as non-executive Chairman when Mr. Woodhouse would step down.
- On August 13, 2012, Cracker Barrel announced that it had increased the size of the Board from 13 to 14 members and had elected Norman E. Johnson to serve as a director.

- On August 13, 2012, Mr. Biglari and Dr. Cooley held a telephone conference with Sandra B. Cochran, President and Chief Executive Officer of Cracker Barrel, and Lawrence E. Hyatt, Senior Vice President and Chief Financial Officer of Cracker Barrel, in which Mr. Biglari emphasized Biglari's intent to continue as a long-term shareholder of Cracker Barrel. Mr. Biglari also expressed his and Dr. Cooley's desire to work constructively with the Company's new independent directors for the benefit of all shareholders. To advance the idea productively, Mr. Biglari requested a meeting with Mr. Bradford in view of his having been recently designated non-executive Chairman upon Mr. Woodhouse's retirement.
- On August 16, 2012, Mr. Biglari and Dr. Cooley met with Mr. Bradford and William W. McCarten, another director of the Company, in Nashville, Tennessee. During this meeting, Mr. Biglari and Dr. Cooley expressed their interest in being long-term stockholders and their desire to join the Board. They reiterated their view that it is vital to select members on the Board with exceptional industry expertise and crucial ownership in the Company. Mr. Biglari and Dr. Cooley communicated that a letter was being delivered to nominate them for election to the Board only to make the deadline set by the Company. Mr. Biglari and Dr. Cooley stressed their desire to work productively with the Board.
- On August 16, 2012, Biglari Holdings delivered a letter to the Corporate Secretary of the Company nominating Sardar Biglari and Philip L. Cooley as possible Board members elected by the shareholders of the Company at the Annual Meeting. The letter was delivered in order to comply with the Company's advance notice deadline for director nominations, which the Company had accelerated by moving the Annual Meeting to a date more than 30 days prior to the anniversary of the preceding year's annual meeting. In its Schedule 13D announcing the nominations, Biglari reiterated its belief that the Board requires directors who have a meaningful ownership interest in the Company as well as highly consequential industry experience. Because of the recent changes on the Board, Biglari was hopeful that Mr. Biglari and Dr. Cooley had the proper qualifications to serve on the Board of Cracker Barrel, could work constructively with the new Board, and as a consequence could avoid a costly and unnecessary proxy contest.
- On September 5, 2012, Mr. Biglari received a letter from Cracker Barrel in which it asked Biglari Holdings to present names of individuals unaffiliated with Biglari Holdings and unaffiliated with any restaurant company that competes with Cracker Barrel. The letter did not offer two Board seats to representatives of Biglari Holdings. Rather, the letter proposed the idea of submitting names that could be rejected by Cracker Barrel. The letter also included a standstill; that is, Biglari Holdings would be required (i) to support the Board-recommended slate of nominees at the Annual Meeting and (ii) not to seek to call or support the call for any special meeting of Cracker Barrel shareholders prior to the Company's 2013 annual meeting. Biglari believes that the Board's offer was not serious because any shareholder can nominate individuals to the Board; thus, Biglari believes the offer was presented by the Board to posture and mislead shareholders — all in an obvious attempt to appear reasonable.
- On the same day, Biglari issued a press release regarding Cracker Barrel's "offer." The release noted that Cracker Barrel's ersatz proposal had two fundamental flaws: requiring that Biglari nominate two persons to the Board who have (1) no relevant restaurant experience and (2) no significant ownership in Cracker Barrel's stock. The release continued that, in Biglari's view, it is simply irrational to deny an 18% shareholder two Board seats, when Biglari has purchased approximately \$200 million of Cracker Barrel's stock in the open market. Biglari concluded that the decision to avoid a proxy contest rests completely with the Board.

- On September 6, 2012, Cracker Barrel issued a press release reconfirming its offer to Biglari.
- On September 12, 2012, Biglari delivered a letter to the Corporate Secretary of the Company requesting certain shareholder lists in accordance with Tennessee law to communicate with shareholders in connection with the Annual Meeting. In the letter, Biglari underscored in particular its request for a list of the non-objecting beneficial owners of the Shares (“NOBO List”). Biglari stated its belief that the production of the NOBO List is vital to ensuring the participation of all shareholders as properly designated to vote to elect directors. Although Cracker Barrel can easily obtain a NOBO List, it refused to order one in last year’s proxy contest even after we requested the list. We demanded that Cracker Barrel order a NOBO list; we believe that Cracker Barrel’s continuing failure to order and thus provide us with a NOBO List is clear evidence of the Company’s attempt to stifle our Nominees’ ability to communicate with all the Company’s owners, especially with the smaller shareholders. Cracker Barrel is able to order a NOBO list, but thus far it has refused to do so. Biglari has offered to pay for any expenses in connection with ordering a NOBO List. Nonetheless, Cracker Barrel has again failed to order and provide a NOBO list.
- On September 19, 2012, the Company responded to Biglari’s September 12, 2012 request for certain shareholder lists. Cracker Barrel again failed to provide a NOBO List.
- On September 25, 2012, Biglari Holdings issued a press release regarding a settlement it had reached with the Federal Trade Commission (the “FTC”) relating to its purchase of Shares on June 8, 9, 10, and 13 of 2011. All purchases of Shares by Biglari have been fully and promptly disclosed in the marketplace. Although there was no conversation between Biglari and Cracker Barrel before Biglari’s Schedule 13D filing of June 13, 2011, the FTC nevertheless alleged that a Hart-Scott-Rodino (“HSR”) filing should have occurred. To avoid the unnecessary legal expense caused by the FTC process, Biglari settled for \$850,000. There was no intentionality behind failing to file a HSR notice; it was an inadvertent error of not filing the HSR notice in a timely manner. When the HSR notice was filed, the FTC granted permission for Biglari to purchase additional Shares .

REASONS FOR 2 BOARD SEATS OUT OF 10

We are the largest shareholder of the Company with approximately 17.3% ownership. As such, we have one goal: to maximize the long-term value of Cracker Barrel for the benefit of all shareholders. We are seeking two Board seats and we believe bring the following attributes: (i) properly aligned financial incentives as a result of our 17.3% stake, (ii) relevant and deep industry experience, (iii) experience in engineering an operational turnaround, (iv) a history of generating shareholder value at Biglari Holdings, and (v) contribution of innovative, divergent views to board discussions.

We believe that some positive changes implemented by the Company would not have occurred without our involvement, another reason why we should be on the Board. For instance, the Company has taken several positive steps that we advocated in our letter of November 14, 2011: (i) separating the CEO/Chairman roles, (ii) appointing a new independent Chairman, (iii) pursuing retail royalties through licensing, (iv) amending the credit agreement to allow for greater stock repurchases, (v) increasing transparency through the segregation of retail/restaurant data, (vi) raising the bonus eligibility target, and (vii) returning cash to shareholders. (It should be noted that the Company initially rejected our ideas but ultimately accepted them.)

Notwithstanding the aforementioned, we are convinced that significant value has not been realized through the closing of the productivity gap in operating income per store. We believe generating positive, profitable customer traffic would be a precursor to achieving significant increases in operating income on a per store basis, an impetus which in our view would yield an upward surge in Cracker Barrel's stock price, as detailed further below. Thus, our agenda is clear: We are seeking two Board seats to advance the discussion on how best to create value through operational improvement. And we would benefit in lock-step with all other shareholders.

We hold a basic belief that over time a company's stock price and per-share intrinsic value will converge. In the short run, the two can diverge. The implication is that a company's increase in stock price is not the same as creating economic value. With that framework we remain concerned about the underlying performance of Cracker Barrel. In fiscal 2012 (excluding the impact of the 53rd week) Cracker Barrel increased its operating income per diluted share by 9.5% from \$7.07 to \$7.74, but its market price moved up by over 40% in fiscal 2012. Clearly, the Company's stock outperformed its underlying business. We believe this divergence cannot continue because, in our view, it would be mathematically unattainable for a company's stock to outperform its underlying business continuously. Over the past year, we believe many factors positively changed the market's valuation of Cracker Barrel, including our presence. Regardless of our opinions concerning these reasons, what is most important is to know that the Company's earnings will, in our view, ultimately drive stock performance. Because we are long-term investors, we would benefit in tandem with the business performance of the Company, rather than from volatility in stock price. Therefore, we are vigorously interested in adding to the fundamental value of Cracker Barrel. Thus, this proxy contest is centered not on financial engineering but on the finer points of the operations, with a focus on building long-term value for all shareholders.

Time Allows for the Facts to Emerge; We Measure Them Against Predictions

On September 13, 2011 CEO Sandra Cochran said, “Our major priorities for 2012 are focused on increasing customer traffic, growing retail sales as a percent of total sales, and controlling costs.” Unfortunately, Ms. Cochran failed to grow retail sales as a percent of total sales, and much more important, fiscal 2012 marked the eighth straight year of overall decline in customer traffic.

Based on our experience, the most significant lever to increase the value of the Company is by growing customer traffic profitably. Nonetheless, new stores have been opened, shrouding the decrease in unit profit because overall profits are maintained through new openings. This lackluster operating performance is substantial because the power of accumulating more customers through the existing stores rather than through new stores is evident by the following: In fiscal 1998, Cracker Barrel, under its late founder Danny Evins, achieved operating income of \$164.9 million with 357 stores, or \$462,000 of operating income per store. For fiscal 2012 (excluding the impact of the 53rd week) Cracker Barrel produced operating income of \$181.3 million with 616 stores, or \$294,000 of operating income per store. By simply closing the productivity gap — realizing the additional \$168,000 of operating income per store that the Company was able to achieve in fiscal 1998 — Cracker Barrel’s 616 stores would have earned an additional \$103.5 million in operating income. We estimate the market would value the increase in profit at over \$1 billion based upon the Company’s current earnings multiple. What we have quantified is the impact of improving operations, which we believe is the uttermost mechanism to attain maximal intrinsic value. We are restaurant-industry specialists, and we have vast experience in analyzing, investing, owning, and running companies. We are confident that we can contribute positively, even foster discussions, in the boardroom. We have long asserted that Cracker Barrel requires keen leadership on the Board that possesses substantial ownership and industry experience to help stimulate the value of the business through fundamental improvement in customer traffic and per-store operating income.

Below is a sequence of events and communications that we believe sheds light on our credibility as well the Board’s.

In the November 14, 2011 letter, Mr. Biglari wrote about pursuing the following initiative: “The retail business of Cracker Barrel should not be restricted to its company-operated stores; rather, selected products could be distributed through other retailers. To reach more consumers in an effective, profitable way is to license Cracker Barrel products to third parties to generate retail royalties. The Cracker Barrel brand can reach more consumers through supermarkets, which most American households must frequent, whereas not all of them will enter a Cracker Barrel store in the coming year. Licensing will aid in making the brand ubiquitous and top of mind. We favor noncapital intensive strategies that leverage the Cracker Barrel brand to generate high-return, annuity-like cash flow.”

On November 29, 2011, the leadership of Cracker Barrel wrote, “While...licensing of retail and food products sound[s] exotic, they won’t produce the immediate ‘return on effort...’” Despite the fact that our licensing idea was dismissed as “exotic” and “won’t produce the immediate ‘return on effort,’” on April 26, 2012 management wrote, “Our intent is to sell Cracker Barrel Old Country Store, Inc. food products in grocery stores.” The leadership further commented, “We’re working to bring branded products similar to what we are featuring in-store into the grocery store ... We see the near-term benefit of doing this is generating incremental impression to drive awareness back into our stores and over time obviously opening up an additional income stream.”

We have long believed that licensing will be accretive to the value of the Company. It appears that the Board now agrees. Additionally, we believe licensing is just one example that demonstrates our credibility versus the Board's. The Company rejected our ideas outright, yet through its own actions displayed how we have added value by ultimately adopting our ideas.¹ Shareholders should grasp how time has allowed actions to clarify the reality behind the rhetoric.

We also urge shareholders not to be misled by the Company's continuing rhetoric that our Nominees would be conflicted as Board members. In fact, on September 6, 2012, the reason the Board cited for not appointing our Nominees is "due to concerns about potential conflicts of interest and legal issues given your roles with Steak 'n Shake..." In our mind, these vague statements are baseless, intended to mislead shareholders. We believe there is no legal or factual basis to Cracker Barrel's claims on any existing competition between Cracker Barrel and Steak n Shake and that Cracker Barrel's definition of competition is extremely wide, arbitrary, and unsupported by any court of competent jurisdiction. In their initial in-person meeting on June 23, 2011, Mr. Biglari specifically and pointedly asked Chairman Woodhouse if he were concerned that Steak n Shake and Cracker Barrel were direct competitors; Messrs. Biglari and Cooley both clearly recall that Mr. Woodhouse agreed they were not.

The two restaurant companies are differing concepts in many important ways. Steak n Shake is a fast-food premium burger establishment whose primary offerings of burgers, fries, drinks/shakes make up nearly 80% of its revenue, with a high percentage ordered via a drive thru. National publications such as QSR magazine place Steak n Shake in its burger/sandwich category whereas Cracker Barrel does not even appear in the magazine because it is not a quick service restaurant. We are categorized as a QSR/limited service restaurant by Crest/NPD, Restaurant Trends, and Technomics. Our average check is in line with QSR companies; those in the family dining category have average checks that exceed Steak n Shake by approximately 50%. Our menu offerings and daypart mix have little correlation to others that are put into the family dining category such as Cracker Barrel, IHOP, Denny's, Perkins, Bob Evans, among others.

¹ As noted above, the Company has taken several positive steps that we advocated in our letter of November 14, 2011, despite having initially rejected the ideas, including: (i) separating the CEO/Chairman roles, (ii) appointing a new independent Chairman, (iii) pursuing retail royalties through licensing, (iv) amending the credit agreement to allow for greater stock repurchases, (v) increasing transparency through the segregation of retail/restaurant data, (vi) raising the bonus eligibility target, and (vii) returning cash to shareholders.

Shareholders should also be aware that Biglari Holdings has an equity investment in Cracker Barrel that is comparable to its equity investment in Steak n Shake. Thus we seek to grow the value of all our major holdings — both controlling interest (i.e., Steak n Shake) and significant minority interest (i.e., Cracker Barrel) — and we have no financial incentive to benefit one at the expense of another.

Separately, we believe the Board is attempting to appear reasonable by citing an “offer” it has presented to us. But we were not offered two Board seats as explained herein. We urge shareholders to look beneath the headline and understand what the so-called “offer” entails. Shareholders should observe that the Board did not offer two Board seats; it proposed that we submit names of individuals that the Board would consider but could reject. After we met with the Board and management, we have repeated that the Board should add members who have a significant stake in the Company’s stock as well as relevant industry experience. In turn, the Board made a proposal to us that is diametrically, absolutely opposed to our position. The logical deduction from the Board’s proposal is that we would have to nominate two people to the Board who have (1) no relevant restaurant experience and (2) no significant ownership in Cracker Barrel’s stock. Only then the Board will determine if these individuals are qualified and acceptable. Because our goal is to create value for all shareholders, we do not believe that shareholders would be well served for us to play the role of a professional search firm to identify individuals without relevant restaurant experience and then attempt to place them on the Board. In sum, we urge shareholders to ignore the Board’s rhetoric on its proposal, which in our minds was made solely to give the appearance of reasonableness.

In the final analysis, it is clear to us that the Board is trying to divert attention by focusing on issues that in our view are nonexistent. We were hopeful that more than two of the new Board members would have taken time to meet with us and would have departed from their predecessors’ positions, thereby avoiding an unnecessary proxy contest. Nonetheless, we believe we have presented shareholders with relevant facts. Therefore, we urge shareholders to dismiss what we clearly believe to be the Board’s fruitless, misleading claims.

Despite all of the Board’s rhetoric in the proxy contest, we are committed to working constructively with the other members of the Board. We have a significant financial incentive to add value. Your vote to elect our Nominees will send a compelling, convincing message to the Company that Cracker Barrel shareholders desire Board members with significant ownership interests, who possess substantial restaurant, leadership, and financial experience, and who are focused on gaining the utmost value for all shareholders. We strongly believe that the value of the Company would be enhanced by our participating on the Board. We urge you to vote only the GOLD proxy card.