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

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

FORM 10-Q

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

OR

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 þ No ¨

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

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes ¨ No þ

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

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

CRACKER BARREL OLD COUNTRY STORE, INC.

FORM 10-Q

For the Quarter Ended January 27, 2012

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PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

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

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

See Notes to unaudited Condensed Consolidated Financial Statements.

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

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

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

See Notes to unaudited Condensed Consolidated Financial Statements.

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

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

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

See Notes to unaudited Condensed Consolidated Financial Statements.

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CRACKER BARREL OLD COUNTRY STORE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except percentages, share and per share data)
(Unaudited)

1. Condensed Consolidated Financial Statements

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

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

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

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

Recent Accounting Pronouncements Not Yet Adopted

Fair Value Measurement and Disclosure Requirements

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

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Presentation of Comprehensive Income

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

Disclosures about Offsetting Assets and Liabilities

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

2. Fair Value Measurements

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

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

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

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

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

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

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

3. Inventories

Inventories were comprised of the following at:

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

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4. Debt

Long-term debt consisted of the following at:

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

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

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

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

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

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

5. Derivative Instruments and Hedging Activities

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

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

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

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

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

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

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

Balance Sheet Location