

CRACKER BARREL OLD COUNTRY STORE, INC
Form 10-Q
November 30, 2018

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

FORM 10 Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended November 2, 2018

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number: 001 25225

Cracker Barrel Old Country Store, Inc.
(Exact name of registrant as specified in its charter)

Tennessee 62 0812904
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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 Exchange Act).

Yes No

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

24,034,375 Shares of Common Stock

Outstanding as of November 19, 2018

CRACKER BARREL OLD COUNTRY STORE, INC.

FORM 10-Q

For the Quarter Ended November 2, 2018

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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)

| | November 2, 2018 | August 3, 2018* |
|---|---------------------|--------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 101,631 | \$ 114,656 |
| Accounts receivable | 21,545 | 19,496 |
| Inventories | 181,569 | 156,253 |
| Prepaid expenses and other current assets | 20,989 | 16,347 |
| Total current assets | 325,734 | 306,752 |
| Property and equipment | 2,241,679 | 2,212,601 |
| Less: Accumulated depreciation and amortization of capital leases | 1,083,700 | 1,063,466 |
| Property and equipment – net | 1,157,979 | 1,149,135 |
| Other assets | 75,884 | 71,468 |
| Total assets | \$ 1,559,597 | \$ 1,527,355 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 131,156 | \$ 122,332 |
| Income taxes payable | 9,891 | 764 |
| Accrued interest expense | 1,358 | 49 |
| Other current liabilities | 233,899 | 241,474 |
| Total current liabilities | 376,304 | 364,619 |
| Long-term debt | 400,000 | 400,000 |
| Other long-term obligations | 130,756 | 128,794 |
| Deferred income taxes | 52,359 | 52,161 |
| Commitments and Contingencies (Note 12) | | |
| Shareholders' Equity: | | |
| Preferred stock – 100,000,000 shares of \$.01 par value authorized; 300,000 shares designated as Series A Junior Participating Preferred Stock; no shares issued | -- | -- |
| Common stock – 400,000,000 shares of \$.01 par value authorized; 24,034,375 shares issued and outstanding at November 2, 2018, and 24,011,550 shares issued and outstanding at August 3, 2018 | 240 | 240 |
| Additional paid-in capital | 44,122 | 44,049 |
| Accumulated other comprehensive income | 5,978 | 4,685 |
| Retained earnings | 549,838 | 532,807 |
| Total shareholders' equity | 600,178 | 581,781 |
| Total liabilities and shareholders' equity | \$ 1,559,597 | \$ 1,527,355 |

See Notes to unaudited Condensed Consolidated Financial Statements.

* This Condensed Consolidated Balance Sheet has been derived from the audited Consolidated Balance Sheet as of August 3, 2018, as filed with the Securities and Exchange Commission in the Company's Annual Report on Form 10-K for the fiscal year ended August 3, 2018.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME(In thousands, except share data)
(Unaudited)

| | Quarter Ended | |
|---|---------------|-------------|
| | November | October 27, |
| | 2, | 2017 |
| | 2018 | |
| Total revenue | \$ 733,543 | \$ 710,368 |
| Cost of goods sold (exclusive of depreciation and rent) | 222,293 | 210,749 |
| Labor and other related expenses | 258,159 | 248,068 |
| Other store operating expenses | 152,478 | 143,820 |
| Store operating income | 100,613 | 107,731 |
| General and administrative expenses | 38,935 | 36,893 |
| Operating income | 61,678 | 70,838 |
| Interest expense | 4,349 | 3,618 |
| Income before income taxes | 57,329 | 67,220 |
| Provision for income taxes | 10,122 | 20,840 |
| Net income | \$ 47,207 | \$ 46,380 |
| Net income per share: | | |
| Basic | \$ 1.97 | \$ 1.93 |
| Diluted | \$ 1.96 | \$ 1.92 |
| Weighted average shares: | | |
| Basic | 24,022,586 | 24,035,202 |
| Diluted | 24,073,722 | 24,105,187 |
| Dividends declared per share | \$ 1.25 | \$ 1.20 |
| Dividends paid per share | \$ 1.25 | \$ 1.20 |

See Notes to unaudited Condensed Consolidated Financial Statements.

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CRACKER BARREL OLD COUNTRY STORE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited and in thousands)

| | Quarter Ended | |
|---|---------------|-------------|
| | November | October 27, |
| | 2, | 2017 |
| | 2018 | |
| Net income | \$47,207 | \$ 46,380 |
| Other comprehensive income before income tax expense: | | |
| Change in fair value of interest rate swaps | 1,699 | 3,055 |
| Income tax expense | 406 | 1,168 |
| Other comprehensive income, net of tax | 1,293 | 1,887 |
| Comprehensive income | \$48,500 | \$ 48,267 |

See Notes to unaudited Condensed Consolidated Financial Statements.

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CRACKER BARREL OLD COUNTRY STORE, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited and in thousands except share data)

| | Common Stock | | Additional | Accumulated | Retained | Total |
|--|--------------|--------|------------|---------------|------------|---------------|
| | Shares | Amount | Paid-In | Other | Earnings | Shareholders' |
| | | | Capital | Comprehensive | | Equity |
| | | | | Income | | |
| Balances at August 3, 2018 | 24,011,550 | \$ 240 | \$ 44,049 | \$ 4,685 | \$ 532,807 | \$ 581,781 |
| Comprehensive Income: | | | | | | |
| Net income | -- | -- | -- | -- | 47,207 | 47,207 |
| Other comprehensive income, net of tax | -- | -- | -- | 1,293 | -- | 1,293 |
| Total comprehensive income | -- | -- | -- | 1,293 | 47,207 | 48,500 |
| Cash dividends declared - \$1.25 per share | -- | -- | -- | -- | (30,176) | (30,176) |
| Share-based compensation | -- | -- | 2,089 | -- | -- | 2,089 |
| Issuance of share-based compensation awards, net of shares withheld for employee taxes | 22,825 | -- | (2,016) | -- | -- | (2,016) |
| Balances at November 2, 2018 | 24,034,375 | \$ 240 | \$ 44,122 | \$ 5,978 | \$ 549,838 | \$ 600,178 |

See Notes to unaudited Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

| | Three Months Ended | |
|---|--------------------|-------------|
| | November | October 27, |
| | 2, | 2017 |
| | 2018 | |
| Cash flows from operating activities: | | |
| Net income | \$47,207 | \$ 46,380 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 24,838 | 21,631 |
| Loss on disposition of property and equipment | 3,056 | 1,204 |
| Share-based compensation | 2,089 | 2,035 |
| Changes in assets and liabilities: | | |
| Inventories | (25,316) | (35,114) |
| Other current assets | (6,691) | 871 |
| Accounts payable | 8,824 | 11,732 |
| Other current liabilities | 3,633 | (10,169) |
| Other long-term assets and liabilities | 1,987 | (293) |
| Net cash provided by operating activities | 59,627 | 38,277 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (37,070) | (30,613) |
| Proceeds from insurance recoveries of property and equipment | 324 | 86 |
| Proceeds from sale of property and equipment | 80 | 110 |
| Net cash used in investing activities | (36,666) | (30,417) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 400,000 | -- |
| (Taxes withheld) and proceeds from issuance of share-based compensation awards, net | (2,016) | (3,383) |
| Principal payments under long-term debt | (400,000) | -- |
| Purchases and retirement of common stock | -- | (14,772) |
| Deferred financing costs | (3,022) | -- |
| Dividends on common stock | (30,948) | (30,513) |
| Net cash used in financing activities | (35,986) | (48,668) |
| Net decrease in cash and cash equivalents | (13,025) | (40,808) |
| Cash and cash equivalents, beginning of period | 114,656 | 161,001 |
| Cash and cash equivalents, end of period | \$ 101,631 | \$ 120,193 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest, net of amounts capitalized | \$2,570 | \$ 3,340 |
| Income taxes | \$219 | \$ 194 |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Capital expenditures accrued in accounts payable | \$10,075 | \$ 6,356 |
| Change in fair value of interest rate swaps | \$1,699 | \$ 3,055 |

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| | | | | |
|--|----------|---|-----------|---|
| Change in deferred tax asset for interest rate swaps | \$(406 |) | \$ (1,168 |) |
| Dividends declared but not yet paid | \$31,010 | | \$ 29,735 | |

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.

The condensed consolidated balance sheets at November 2, 2018 and August 3, 2018, the related condensed consolidated statement of changes in shareholders’ equity at November 2, 2018 and the related condensed consolidated statements of income, comprehensive income and cash flows for the quarters ended November 2, 2018 and October 27, 2017, respectively, have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) without audit. In the opinion of management, all adjustments (consisting of normal and recurring items) necessary for a fair presentation of such condensed consolidated financial statements have been made. The results of operations for any interim period are not necessarily indicative of results for a full year.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended August 3, 2018 (the “2018 Form 10-K”). The accounting policies used in preparing these condensed consolidated financial statements are the same as described in the 2018 Form 10-K except for the expanded accounting policy disclosure for revenue recognition discussed in Note 8. 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

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“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. The Company adopted this accounting guidance using the modified retrospective transition method. The adoption of this accounting guidance in the first quarter of 2019 did not have a material effect on the Company’s consolidated financial position or results of operations, and the Company did not record a cumulative catch-up adjustment to the opening balance of retained earnings. See Note 8 for further discussion on revenue recognition accounting policies and related disclosures.

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. The Company adopted this accounting guidance using the modified retrospective transition method. The adoption of this accounting guidance in the first quarter of 2019 did not have a significant impact on the Company's consolidated financial position or results of operations, and the Company did not record a cumulative catch-up adjustment to the opening balance of retained earnings.

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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. The adoption of this accounting guidance in the first quarter of 2019 did not have a significant impact on the Company's consolidated financial position or results of operations.

Recent Accounting Pronouncements Not Yet Adopted

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 in the process of implementing software to assist in the quantification of the impact of the Company's consolidated financial position and results of operations related to the adoption of this accounting guidance in the first quarter of 2020.

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.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

On December 22, 2017, the U.S. government enacted P.L. 115-97, the Tax Cuts and Jobs Act (the "Tax Act"). In February 2018, the FASB issued accounting guidance which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulted from the Tax Act. This accounting guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. If elected, this accounting guidance should be applied either in the period of adoption or retrospectively to each period in which the change in the U.S. federal corporate rate in the Tax Act is recognized. Early application is permitted. The Company is currently evaluating the impact of adopting this accounting guidance in the first quarter of 2020.

Share-Based Payment Arrangements With Nonemployees

In June 2018, the FASB issued accounting guidance in order to simplify accounting for share-based payments granted to nonemployees for goods and services. This new guidance aligns most of the accounting requirements for share-based payments granted to nonemployees with the existing guidance for share-based payments granted to employees. This accounting guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, using a modified retrospective transition approach. Early adoption is permitted. The Company does not expect that the adoption of this accounting guidance in the first quarter of 2020 will have a

significant impact on the Company's consolidated financial position or results of operations.

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Index2. Fair Value Measurements

The Company's assets measured at fair value on a recurring basis at November 2, 2018 were as follows:

| | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---------------------------------------|----------|----------|---------|------------------|
| Cash equivalents* | \$25,446 | \$ -- | \$ -- | \$ 25,446 |
| Interest rate swap asset (see Note 5) | -- | 6,682 | -- | 6,682 |
| Total | \$25,446 | \$ 6,682 | \$ -- | \$ 32,128 |
| Deferred compensation plan assets** | | | | 34,108 |
| Total assets at fair value | | | | \$ 66,236 |

The Company's assets measured at fair value on a recurring basis at August 3, 2018 were as follows:

| | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---------------------------------------|----------|----------|---------|------------------|
| Cash equivalents* | \$38,446 | \$ -- | \$ -- | \$ 38,446 |
| Interest rate swap asset (see Note 5) | -- | 6,255 | -- | 6,255 |
| Total | \$38,446 | \$ 6,255 | \$ -- | \$ 44,701 |
| Deferred compensation plan assets** | | | | 32,669 |
| Total assets at fair value | | | | \$ 77,370 |

*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 are measured at fair value using quoted market prices. The fair values of the Company's interest rate swap assets are determined based on the present value of expected future cash flows. Since the values of the Company's interest rate swaps are based on the LIBOR forward curve, which is observable at commonly quoted intervals for the full terms of the swaps, it is considered a Level 2 input. Non-performance risk is reflected in determining the fair value of the interest rate swaps by using the Company's credit spread less the risk-free interest rate, both of which are observable at commonly quoted intervals for the terms of the swaps. Thus, the adjustment for non-performance risk is also considered a Level 2 input. The Company's deferred compensation plan assets are measured based on net asset value per share as a practical expedient to estimate fair value.

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 November 2, 2018 and August 3, 2018.

3. Inventories

Inventories were comprised of the following at:

| | November 2, 2018 | August 3, 2018 |
|------------|------------------|----------------|
| Retail | \$ 135,855 | \$ 117,606 |
| Restaurant | 26,935 | 20,659 |
| Supplies | 18,779 | 17,988 |
| Total | \$ 181,569 | \$ 156,253 |

4. Debt

On September 5, 2018, the Company entered into a five-year \$950,000 revolving credit facility (“2019 Revolving Credit Facility”). The 2019 Revolving Credit Facility also contains an option to increase the revolving credit facility by \$300,000. The 2019 Revolving Credit Facility replaced the Company’s \$750,000 revolving credit facility (“Prior Credit Facility”). Loan acquisition costs associated with the 2019 Revolving Credit Facility were capitalized in the amount of \$3,022 and will be amortized over the five-year term of the 2019 Revolving Credit Facility. Loan acquisition costs of \$166 associated with the Prior Credit Facility were written off in the first quarter of 2019 and are recorded in interest expense in the Condensed Consolidated Statement of Income.

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At both November 2, 2018 and August 3, 2018, the Company had \$400,000 of outstanding borrowings under its credit facility. At November 2, 2018, the Company had \$8,955 of standby letters of credit, which reduce the Company's borrowing availability under the 2019 Revolving Credit Facility (see Note 12 for more information on the Company's standby letters of credit). At November 2, 2018, the Company had \$541,045 in borrowing availability under the 2019 Revolving Credit Facility.

In accordance with the 2019 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 2019 Revolving Credit Facility. As of November 2, 2018, the Company's outstanding borrowings were swapped at a weighted average interest rate of 3.73% (see Note 5 for information on the Company's interest rate swaps).

The 2019 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 November 2, 2018, the Company was in compliance with all financial covenants.

The 2019 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 2019 Revolving Credit Facility, provided there is no default existing and the total of the Company's availability under the 2019 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 November 2, 2018 was 1.25%. All of the Company's interest rate swaps are accounted for as cash flow hedges.

A summary of the Company's interest rate swaps at November 2, 2018 is as follows:

| Trade Date | Effective Date | Term (in Years) | Notional Amount | Fixed Rate |
|------------------|----------------|--------------------|-----------------|---------------|
| June 18, 2014 | May 3, 2015 | 4 | \$ 160,000 | 2.51 % |
| June 24, 2014 | May 3, 2015 | 4 | 120,000 | 2.51 % |
| July 1, 2014 | May 5, 2015 | 4 | 120,000 | 2.43 % |
| January 30, 2015 | May 3, 2019 | 2 | 60,000 | 2.16 % |
| January 30, 2015 | May 4, 2021 | 3 | 120,000 | 2.41 % |

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| | | | | |
|------------------|-------------|---|--------|--------|
| January 30, 2015 | May 3, 2019 | 2 | 60,000 | 2.15 % |
| January 30, 2015 | May 4, 2021 | 3 | 80,000 | 2.40 % |

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.

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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 November 2, 2018 and August 3, 2018 were as follows:

| (See Note 2) | Balance Sheet Location | November 2, 2018 | August 3, 2018 |
|---------------------|---|------------------|----------------|
| Interest rate swaps | Prepaid expenses and other current assets | \$ 437 | \$ 169 |
| Interest rate swaps | Other assets | 6,245 | 6,086 |
| Total assets | | \$ 6,682 | \$ 6,255 |

*These interest rate swap assets are recorded at gross at both November 2, 2018 and August 3, 2018 since there were no offsetting liabilities under the Company's master netting agreements.

The estimated fair value of the Company's interest rate swap assets incorporates the Company's non-performance risk (see Note 2). The adjustment related to the Company's non-performance risk at November 2, 2018 and August 3, 2018 resulted in reductions of \$244 and \$213, respectively, in the fair value of the interest rate swap assets. The offset to the interest rate swap asset is recorded in accumulated other comprehensive income ("AOCI"), net of the deferred tax asset, and will be reclassified into earnings over the term of the underlying debt. As of November 2, 2018, the estimated pre-tax portion of AOCI that is expected to be reclassified into earnings over the next twelve months is \$813. 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 AOCI for the three months ended November 2, 2018 and the year ended August 3, 2018:

| | Amount of Income Recognized in AOCI on Derivatives (Effective Portion) | |
|---------------------|---|------------------------------|
| | Three Months | |
| | Ended November 2, 2018 | Year Ended August 3, 2018 |
| Cash flow hedges: | | |
| Interest rate swaps | \$ 1,699 | \$ 13,103 |

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

| | Changes in AOCI |
|---|-----------------|
| AOCI balance at August 3, 2018 | \$ 4,685 |
| Other comprehensive income before reclassifications | 1,293 |
| Amounts reclassified from AOCI | -- |
| Other comprehensive income, net of tax | 1,293 |
| AOCI balance at November 2, 2018 | \$ 5,978 |

The following table summarizes the pre-tax effects of the Company's derivative instruments on income for the quarters ended November 2, 2018 and October 27, 2017:

| Location of Loss Reclassified from AOCI into Income (Effective Portion) | Amount of Loss Reclassified from AOCI into Income (Effective Portion) | |
|---|---|---------------------|
| | Quarter Ended November 2, 2018 | October 27, 2017 |
| Cash flow hedges: | | |
| Interest rate swaps Interest expense | \$ -- | \$ 1,064 |

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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 November 2, 2018 and October 27, 2017.

6. 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.

7. 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.

8. Revenue Recognition

Revenue consists primarily of sales from restaurant and retail operations. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a restaurant guest, retail customer or other customer. The Company's policy is to present sales in the Condensed Consolidated Statements of Income on a net presentation basis after deducting sales tax.

Disaggregation of revenue

Total revenue was comprised of the following for the specified periods:

| | Quarter Ended | |
|---------------|---------------|-------------|
| | November | October 27, |
| | 2, | 2017, |
| | 2018 | 2017 |
| Revenue: | | |
| Restaurant | \$590,978 | \$ 578,237 |
| Retail | 142,565 | 132,131 |
| Total revenue | \$733,543 | \$ 710,368 |

Restaurant Revenue

The Company recognizes revenues from restaurant sales when payment is tendered at the point of sale, as the Company's performance obligation to provide food and beverages is satisfied.

Retail Revenue

The Company recognizes revenues from retail sales when payment is tendered at the point of sale, as the Company's performance obligation to provide merchandise is satisfied. Ecommerce sales, including shipping revenue, are

recorded upon delivery to the customer. Additionally, estimated sales returns are calculated based on return history and sales levels.

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Gift Card Breakage

Included in restaurant and retail revenue is gift card breakage. Customer purchases of gift cards, to be utilized at the Company's stores, are not recognized as sales until the card is redeemed and the customer purchases food and/or merchandise. Gift cards do not carry an expiration date; therefore, customers can redeem their gift cards indefinitely. A certain number of gift cards will not be fully redeemed. Management estimates unredeemed balances and recognizes gift card breakage revenue for these amounts in the Company's Condensed Consolidated Statements of Income over the expected redemption period. Gift card breakage is recognized when the likelihood of a gift card being redeemed by the customer is remote and the Company determines that there is not a legal obligation to remit the unredeemed gift card balance to the relevant jurisdiction. The determination of the gift card breakage rate is based upon the Company's specific historical redemption patterns. The Company recognizes gift card breakage by applying its estimate of the rate of gift card breakage over the period of estimated redemption. For the three months ended November 2, 2018 and October 27, 2017, respectively, gift card breakage was \$1,341 and \$1,322.

Deferred revenue related to the Company's gift cards was \$72,187 and \$76,199, respectively, at November 2, 2018 and August 3, 2018. Revenue recognized in the Condensed Consolidated Statements of Income for the three months ended November 2, 2018 and October 27, 2017, respectively, for the redemption of gift cards which were included in the deferred revenue balance at the beginning of the fiscal year was \$18,139 and \$17,371.

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 | |
|---|---------------|------------------|
| | November | |
| | 2, 2018 | October 27, 2017 |
| Nonvested stock awards and units | \$2,089 | \$ 1,792 |
| Performance-based market stock units ("MSU Grants") | -- | 243 |
| | \$2,089 | \$ 2,035 |

10. Income Taxes

On December 22, 2017, the U.S. government enacted the Tax Act. The Tax Act made broad and complex changes to the U.S. tax code, including, but not limited to, reducing the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. Accordingly, the Company will use a rate of 21% for its fiscal 2019 tax year to record federal corporate income taxes.

The SEC's Staff Accounting Bulletin No. 118 ("SAB 118") provides guidance on accounting for tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting guidance under FASB Accounting Standards Codification Topic 740, Income Taxes ("ASC 740"). In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, the company must record a provisional estimate to be included in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provision of the tax laws that were in effect immediately before the enactment of the Tax Act. While the Company is able to make reasonable estimates of the impact of the reduction in the corporate rate, the final impact of

the Tax Act may differ from these estimates, due to, among other things, additional guidance that may be issued by the Internal Revenue Service, expected state tax responses to either follow or reject the federal changes, and changes in our interpretations and assumptions. The Company continues to gather additional information to determine the final impact. The Company expects to complete its analysis in the second quarter of 2019.

Index11. 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 nonvested stock awards and units and MSU Grants issued by the Company are calculated using the treasury stock method. The outstanding nonvested stock awards and units, MSU Grants and stock options 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 | |
|--|---------------|-------------|
| | November | October 27, |
| | 2, | 2017 |
| | 2018 | |
| Net income per share numerator | \$47,207 | \$46,380 |
| Net income per share denominator: | | |
| Weighted average shares | 24,022,586 | 24,035,202 |
| Add potential dilution: | | |
| Nonvested stock awards and units, MSU Grants and stock options | 51,136 | 69,985 |
| Diluted weighted average shares | 24,073,722 | 24,105,187 |

12. Commitments and Contingencies

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

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 November 2, 2018, the Company had \$8,955 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 November 2, 2018, the Company is secondarily liable for lease payments associated with two properties occupied by a third party. The Company is not aware of any non-performance under these lease arrangements that would result in the Company having to perform in accordance with the terms of these guarantees; and therefore, no provision has been recorded in the Condensed Consolidated Balance Sheets for amounts to be paid in case of non-performance by the primary obligor under such lease arrangements.

The Company enters into certain indemnification agreements in favor of third parties in the ordinary course of business. The Company believes that the probability of incurring an actual liability under such indemnification agreements is sufficiently remote that no such liability has been recorded in the Condensed Consolidated Balance Sheet as of November 2, 2018.

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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 November 2, 2018, we operated 656 Cracker Barrel stores in 45 states and seven Holler & Dash Biscuit House™ locations in five 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 August 3, 2018 (the “2018 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 2018 Form 10-K, which is incorporated herein by this reference, as well as the factors described under “Critical Accounting Estimates” on pages 22-24 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.

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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 2019 to grow sales and profits. Our priorities for 2019 consist of the following:

Enhancing the core business through a heightened focus on the guest experience, food and value, and the continued expansion of our off-premise business;

Expanding the footprint in new and developing markets while replenishing our store opening pipeline. We anticipate opening eight Cracker Barrel stores during 2019, of which three opened in the first three months of 2019; and

Extending the brand by optimizing long-term drivers, such as Holler & Dash Biscuit House™, to further drive shareholder value.

We continue to be focused on the delivery of our three-year strategic priorities.

Results of Operations

The following table highlights our operating results by percentage relationships to total revenue for the quarter ended November 2, 2018 as compared to the same period in the prior year:

| | Quarter Ended | | |
|---|---------------|-------------|---|
| | November | October 27, | |
| | 2, | 2017 | |
| | 2018 | 2017 | |
| Total revenue | 100.0 | 100.0 | % |
| Cost of goods sold (exclusive of depreciation and rent) | 30.3 | 29.7 | |
| Labor and other related expenses | 35.2 | 34.9 | |
| Other store operating expenses | 20.8 | 20.2 | |
| Store operating income | 13.7 | 15.2 | |
| General and administrative expenses | 5.3 | 5.2 | |
| Operating income | 8.4 | 10.0 | |
| Interest expense | 0.6 | 0.5 | |
| Income before income taxes | 7.8 | 9.5 | |
| Provision for income taxes | 1.4 | 3.0 | |
| Net income | 6.4 | 6.5 | % |

The following table sets forth the number of stores in operation at the beginning and end of the quarters ended November 2, 2018 and October 27, 2017:

| | Quarter Ended | |
|-----------------------------|---------------|-------------|
| | November | October 27, |
| | 2, | 2017 |
| | 2018 | 2017 |
| Open at beginning of period | 660 | 649 |
| Opened during period | 3 | 2 |
| Open at end of period | 663 | 651 |

Total Revenue

Total revenue for the first quarter of 2019 increased 3.3% compared to the first quarter of 2018.

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The following table highlights the key components of revenue for the quarter ended November 2, 2018 as compared to the quarter ended October 27, 2017:

| | Quarter Ended | | | |
|---|------------------------|---|---------------------|----|
| | November 2, 2018 | | October 27, 2017 | |
| Revenue in dollars: | | | | |
| Restaurant | \$590,978 | | \$ 578,237 | |
| Retail | 142,565 | | 132,131 | |
| Total revenue | \$733,543 | | \$ 710,368 | |
| Total revenue by percentage relationships: | | | | |
| Restaurant | 80.6 | % | 81.4 | % |
| Retail | 19.4 | % | 18.6 | % |
| Average unit volumes ⁽¹⁾ : | | | | |
| Restaurant | \$893.5 | | \$ 889.5 | |
| Retail | 215.5 | | 203.2 | |
| Total revenue | \$1,109.0 | | \$ 1,092.7 | |
| Comparable store sales increase (decrease): | | | | |
| Restaurant | 1.4 | % | 0.2 | % |
| Retail | 4.3 | % | (3.6 | %) |
| Restaurant and retail | 2.0 | % | (0.6 | %) |

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

For the first quarter of 2019, our comparable store restaurant sales increase consisted of a 3.0% average check increase (including a 2.0% average menu price increase) partially offset by a 1.6% guest traffic decline as compared to the prior year first quarter. For the first quarter of 2019, our comparable store retail sales increase resulted primarily from strong performance in the apparel and accessories, toys and the bed and bath merchandise categories as compared to the prior year first quarter.

Restaurant and retail sales from newly opened stores accounted for the remainder of the total revenue increase in the first quarter of 2019 as compared to the first quarter of 2018.

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 2019 as compared to the first quarter of 2018:

| | Quarter Ended | | | |
|--|------------------------|---|---------------------|---|
| | November 2, 2018 | | October 27, 2017 | |
| Cost of Goods Sold in dollars: | | | | |
| Restaurant | \$149,188 | | \$ 143,850 | |
| Retail | 73,105 | | 66,899 | |
| Total Cost of Goods Sold | \$222,293 | | \$ 210,749 | |
| Cost of Goods Sold by percentage of revenue: | | | | |
| Restaurant | 25.2 | % | 24.9 | % |
| Retail | 51.3 | % | 50.6 | % |

The increase in restaurant cost of goods sold as a percentage of restaurant revenue in the first quarter of 2019 as compared to the prior year first quarter was the result of commodity inflation partially offset by our menu price increase referenced above, a shift to lower cost menu items and lower food waste. Commodity inflation was 4.3% in the first quarter of 2019. Lower cost menu items and lower food waste accounted for decreases of 0.2% and 0.1%, respectively, in restaurant cost of goods sold as a percentage of restaurant revenue for the first quarter of 2019 as compared to the prior year first quarter.

We presently expect the rate of commodity inflation to be approximately 2.0% in 2019 as compared to 2018.

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The increase in retail cost of goods sold as a percentage of retail revenue in the first quarter of 2019 as compared to the prior year first quarter resulted primarily from lower initial margin, higher markdowns and higher inventory shrinkage partially offset by the change in the provision for obsolete inventory.

| | First Quarter Increase (Decrease) as a Percentage of Retail Revenue | |
|----------------------------------|---|----|
| Lower initial margin | 0.7 | % |
| Markdowns | 0.1 | % |
| Inventory shrinkage | 0.1 | % |
| Provision for obsolete inventory | (0.3 | %) |

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 increased to 35.2% in the first quarter of 2019 as compared to 34.9% in the first quarter of 2018. This percentage change resulted primarily from the following:

| | First Quarter Increase (Decrease) as a Percentage of Total Revenue | |
|-------------------------------|--|----|
| Store hourly labor | 0.1 | % |
| Preopening labor | 0.1 | % |
| Store bonus expense | 0.1 | % |
| Employee health care expenses | (0.1 | %) |

The increase in store hourly labor costs as a percentage of total revenue for the first quarter of 2019 as compared to the first quarter of 2018 resulted primarily from wage inflation exceeding menu price increases.

The increase in preopening labor as a percentage of total revenue for the first quarter of 2019 as compared to the prior year first quarter resulted primarily from the timing of new store openings.

The increase in store bonus expense as a percentage of total revenue for the first quarter of 2019 as compared to the first quarter of 2018 resulted from better performance against financial objectives in the first quarter of 2019 and as compared to the first quarter of 2018.

Lower employee health care expenses as a percentage of total revenue for the first quarter of 2019 as compared to the first quarter of 2018 resulted primarily from lower claims activity.

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.

Other store operating expenses as a percentage of total revenue increased to 20.8% in the first quarter of 2019 as compared to 20.2% in the first quarter of 2018. This percentage change resulted primarily from the following:

First Quarter

| | Increase (Decrease) as a Percentage of Total Revenue | |
|---|---|----|
| Depreciation expense | 0.3 | % |
| Loss on disposition of property and equipment | 0.2 | % |
| Advertising expense | 0.1 | % |
| Maintenance expense | (0.2) | %) |

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The increase in depreciation expense as a percentage of total revenue for the first quarter of 2019 as compared to the first quarter of 2018 resulted from higher capital expenditures in the first quarter of 2019 as compared to the first quarter of 2018.

The increase in loss on disposition of property and equipment as a percentage of total revenue for the first quarter of 2019 as compared to the first quarter of 2018 resulted from higher disposals of assets related primarily to discontinued projects and a reduction in the carrying value for a previously closed store.

The increase in advertising expense as a percentage of total revenue for the first quarter of 2019 as compared to the first quarter of 2018 resulted from higher spending on national television advertising.

The decrease in maintenance expense as a percentage of total revenue for the first quarter of 2019 as compared to the first quarter of 2018 resulted primarily from the non-recurrence of expenses incurred in the prior year related to strategic initiatives.

General and Administrative Expenses

General and administrative expenses as a percentage of total revenue remained relatively constant at 5.3% in the first quarter of 2019 as compared to 5.2% in the first quarter of 2018.

Interest Expense

Interest expense for the first quarter of 2019 was \$4,349 as compared to \$3,618 in the first quarter of 2018. The increase resulted primarily from higher weighted average interest rates. Additionally, as part of our debt refinancing in the first quarter of 2019, we incurred additional interest expense of \$166 related to the write-off of deferred financing costs.

Provision for Income Taxes

Provision for income taxes as a percentage of income before income taxes (the “effective tax rate”) was 17.7% and 31.0% in the first quarters of 2019 and 2018, respectively. The reduction in the effective tax rate from the first quarter of 2018 to the first quarter of 2019 reflects the impact of P.L. 115-97, the Tax Cuts and Jobs Act (the “Tax Act”), enacted on December 22, 2017 by the U.S. government. The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, reducing the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018.

While we are able to make reasonable estimates of the impact of the reduction in corporate rate, the final impact of the Tax Act may differ from these estimates, due to, among other things, additional guidance that may be issued by the Internal Revenue Service, expected state tax responses to either follow or reject the federal changes, and changes in our interpretations and assumptions. We continue to gather additional information to determine the final impact which we expect to complete in the second quarter of 2019. We presently expect our effective tax rate for 2019 to be approximately 17%.

Liquidity and Capital Resources

Our primary sources of liquidity are cash generated from our operations and our borrowing capacity under our revolving credit facility. Our internally generated cash, along with cash on hand at August 3, 2018, was sufficient to finance all of our growth, dividend payments, working capital needs and other cash payment obligations in the first three months of 2019.

We believe that cash on hand at November 2, 2018, 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 \$59,627 for the first three months of 2019, representing an increase from the \$38,277 net cash provided during the first three months of 2018. This increase primarily reflected lower usage of cash to build retail inventory and lower bonus payments made in 2019 as a result of the prior year's performance.

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Borrowing Capacity and Debt Covenants

On September 5, 2018, we entered into a five-year \$950,000 revolving credit facility (“2019 Revolving Credit Facility”) which replaced our \$750,000 revolving credit facility of which \$400,000 in borrowings was outstanding. The 2019 Revolving Credit Facility also contains an option to increase the revolving credit facility by \$300,000. In the first quarter of 2019, we paid \$3,022 in deferred financing costs related to the debt refinancing.

At November 2, 2018, we had \$400,000 of outstanding borrowings under the 2019 Revolving Credit Facility and we had \$8,955 of standby letters of credit related to securing reserved claims under our workers’ compensation insurance which reduce our borrowing availability under the 2019 Revolving Credit Facility. At November 2, 2018, we had \$541,045 in borrowing availability under our 2019 Revolving Credit Facility. See Note 4 to our Condensed Consolidated Financial Statements for further information on our long-term debt.

The 2019 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 \$36,746 for the first three months of 2019 as compared to \$30,527 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 2018 to the first three months of 2019 resulted primarily from capital expenditures for strategic initiatives and the timing of new store openings as compared to the prior year. We estimate that our capital expenditures during 2019 will be approximately \$160,000 to \$170,000. This estimate includes the acquisition of sites and construction costs of eight new Cracker Barrel stores that we have opened or expect to open during 2019, as well as for acquisition and construction costs for store locations to be opened in 2020. We also expect to increase capital expenditures for equipment, 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 2019 Revolving Credit Facility, as necessary.

Dividends, Share Repurchases and Share-Based Compensation Awards

The 2019 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 2019 Revolving Credit Facility, provided there is no default existing and the total of our availability under the 2019 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 three months of 2019, we paid a regular dividend of \$1.25 per share and declared a dividend of \$1.25 per share that was paid on November 5, 2018 to shareholders of record on October 19, 2018.

We have been authorized by our Board of Directors to repurchase shares at management's discretion up to \$25,000 during 2019. We did not repurchase any shares of our common stock during the first quarter of 2019.

During the first three months of 2019, we issued 22,825 shares of our common stock resulting from the vesting of share-based compensation awards. Related tax withholding payments on these share-based compensation awards resulted in a net use of cash of \$2,016.

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Working Capital

In the restaurant industry, virtually all sales are either for cash or third-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 \$50,570 at November 2, 2018 versus negative working capital of \$57,867 at August 3, 2018. The change in working capital from August 3, 2018 to November 2, 2018 primarily resulted from higher retail inventories which reflect our normal seasonal build of retail inventory to support our expected holiday sales, higher restaurant inventory in order to support our seasonal promotions and lower incentive compensation accruals resulting from the payment of annual bonuses and long-term incentive bonuses partially offset by the timing of payments for accounts payable and income taxes as well as the decrease in cash resulting from the payment of dividends 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 2018 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 2018. Refer to the sub-section entitled "Material Commitments" under the section entitled "Liquidity and Capital Resources" presented in the MD&A of our 2018 Form 10-K for additional information regarding our material commitments.

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 either do not expect the accounting guidance will have a significant impact on the Company's financial position or results of operations or we are still evaluating the impact of adopting the accounting guidance.

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 2018 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.

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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
- Insurance Reserves
- Retail Inventory Valuation

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

Impairment of Long-Lived Assets

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.

We have not made any material changes in our methodology for assessing impairments during the first three months of 2019, 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 originated. 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 incurrence 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.

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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 methodology used to establish our insurance reserves during the first three months of 2019 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 is determined by applying a cost-to-retail ratio to the retail value of our inventories. Inherent in the RIM calculation are certain 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 judgment regarding inventory aging and future promotional activities. Retail inventory also 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 two-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 2019 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.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Part II, Item 7A of the 2018 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 August 3, 2018.

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 November 2, 2018, 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 November 2, 2018 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.

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 2018 Form 10-K.

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ITEM 6. Exhibits

INDEX TO EXHIBITS

Exhibit

- 3.1 Amended and Restated Charter of Cracker Barrel Old Country Store, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed under the Exchange Act on April 10, 2012 (Commission File No. 001-25225))
- 3.2 Amended and Restated Bylaws of Cracker Barrel Old Country Store, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed under the Exchange Act on February 24, 2012 (Commission File No. 001-25225))
- 10.1 Credit Agreement, dated as of September 5, 2018, among Cracker Barrel Old Country Store, Inc., the subsidiary guarantors named therein, the several banks and other financial institutions and lenders from time to time party thereto and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 10, 2018)
- 10.2 Cracker Barrel Old Country Store, Inc. and Subsidiaries FY 2019 Annual Bonus Plan[†](incorporated by reference to Exhibit 10(x) to the Company's Annual Report on Form 10-K filed on September 28, 2018)
- 10.3 Cracker Barrel Old Country Store, Inc. and Subsidiaries FY 2019 Long-Term Incentive Program[†] (incorporated by reference to Exhibit 10(y) to the Company's Annual Report on Form 10-K filed on September 28, 2018)
- 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.SCHXBRL Taxonomy Extension Schema (filed herewith)
- 101.CALXBRL Taxonomy Extension Calculation Linkbase (filed herewith)
- 101.LABXBRL 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.

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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 30, 2018 By: /s/Jill M. Golder

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

Date: November 30, 2018 By: /s/Jeffrey M. Wilson

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