

CRACKER BARREL OLD COUNTRY STORE, INC
Form 10-Q
June 01, 2016

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 April 29, 2016

OR

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

Commission file number: 001 25225

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

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

23,941,998 Shares of Common Stock
Outstanding as of May 20, 2016

CRACKER BARREL OLD COUNTRY STORE, INC.

FORM 10-Q

For the Quarter Ended April 29, 2016

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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)

	April 29, 2016	July 31, 2015*
ASSETS		
Current Assets:		
Cash and cash equivalents	\$176,692	\$265,455
Accounts receivable	18,667	18,050
Income taxes receivable	10,033	--
Inventories	145,882	153,058
Prepaid expenses and other current assets	15,874	14,167
Deferred income taxes	5,636	6,094
Total current assets	372,784	456,824
Property and equipment	1,982,155	1,931,060
Less: Accumulated depreciation and amortization of capital leases	921,642	878,424
Property and equipment – net	1,060,513	1,052,636
Other assets	62,656	66,748
Total assets	\$1,495,953	\$1,576,208
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$88,011	\$133,117
Dividend payable	27,782	98,796
Current interest rate swap liability	11	1,117
Other current liabilities	200,377	212,581
Total current liabilities	316,181	445,611
Long-term debt	400,000	400,000
Long-term interest rate swap liability	17,559	8,704
Other long-term obligations	128,007	133,594
Deferred income taxes	53,773	50,031
Commitments and Contingencies (Note 11)		
Shareholders' Equity:		
Preferred stock – 100,000,000 shares of \$.01 par value authorized; 300,000 shares designated as Series A Junior Participating Preferred Stock; no shares issued	--	--
Common stock – 400,000,000 shares of \$.01 par value authorized; 23,941,998 shares issued and outstanding at April 29, 2016, and 23,975,755 shares issued and outstanding at July 31, 2015	240	240
Additional paid-in capital	47,088	56,066
Accumulated other comprehensive loss	(10,850)	(3,725)
Retained earnings	543,955	485,687
Total shareholders' equity	580,433	538,268
Total liabilities and shareholders' equity	\$1,495,953	\$1,576,208

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 31, 2015, as filed with the Securities and Exchange Commission in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2015.

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CRACKER BARREL OLD COUNTRY STORE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share data)

(Unaudited)

	Quarter Ended		Nine Months Ended	
	April 29, 2016	May 1, 2015	April 29, 2016	May 1, 2015
Total revenue	\$700,136	\$683,705	\$2,166,767	\$2,123,099
Cost of goods sold (exclusive of depreciation and rent)	212,382	216,142	700,287	700,592
Labor and other related expenses	249,324	246,805	745,581	740,806
Other store operating expenses	135,011	126,711	411,821	390,609
Store operating income	103,419	94,047	309,078	291,092
General and administrative expenses	36,391	38,570	106,217	108,952
Operating income	67,028	55,477	202,861	182,140
Interest expense	3,436	4,030	10,549	13,138
Income before income taxes	63,592	51,447	192,312	169,002
Provision for income taxes	14,423	16,130	54,036	52,498
Net income	\$49,169	\$35,317	\$138,276	\$116,504
Net income per share:				
Basic	\$2.05	\$1.48	\$5.77	\$4.87
Diluted	\$2.04	\$1.47	\$5.75	\$4.85
Weighted average shares:				
Basic	23,941,188	23,937,844	23,945,184	23,904,945
Diluted	24,073,778	24,066,061	24,064,624	24,033,296
Dividends declared per share	\$1.10	\$1.00	\$3.30	\$3.00
Dividends paid per share	\$1.10	\$1.00	\$6.30	\$3.00

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		Nine Months Ended	
	April			
	29,	May 1,	April 29,	May 1,
	2016	2015	2016	2015
Net income	\$49,169	\$35,317	\$138,276	\$116,504
Other comprehensive (loss) income before income tax (benefit) expense:				
Change in fair value of interest rate swaps	(1,578)	8,035	(11,508)	1,148
Income tax (benefit) expense	(603)	3,098	(4,383)	442
Other comprehensive (loss) income, net of tax	(975)	4,937	(7,125)	706
Comprehensive income	\$48,194	\$40,254	\$131,151	\$117,210

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)

	Nine Months Ended	
	April 29, 2016	May 1, 2015
Cash flows from operating activities:		
Net income	\$ 138,276	\$ 116,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	57,481	53,928
Loss on disposition of property and equipment	3,812	5,413
Share-based compensation	8,893	10,795
Excess tax benefit from share-based compensation	(2,063)	(3,224)
Changes in assets and liabilities:		
Inventories	7,176	29,021
Other current assets	(10,294)	(7,055)
Accounts payable	(45,106)	(9,150)
Other current liabilities	(11,841)	9,661
Other long-term assets and liabilities	3,024	10,787
Net cash provided by operating activities	149,358	216,680
Cash flows from investing activities:		
Purchase of property and equipment	(69,994)	(60,239)
Proceeds from insurance recoveries of property and equipment	490	184
Proceeds from sale of property and equipment	639	1,563
Net cash used in investing activities	(68,865)	(58,492)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	--	406,250
(Taxes withheld) and proceeds from issuance of share-based compensation awards, net	(5,281)	(3,432)
Principal payments under long-term debt and other long-term obligations	--	(406,250)
Purchases and retirement of common stock	(14,653)	--
Deferred financing costs	--	(3,537)
Dividends on common stock	(151,385)	(71,750)
Excess tax benefit from share-based compensation	2,063	3,224
Net cash used in financing activities	(169,256)	(75,495)
Net (decrease) increase in cash and cash equivalents	(88,763)	82,693
Cash and cash equivalents, beginning of period	265,455	119,361
Cash and cash equivalents, end of period	\$ 176,692	\$ 202,054
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$ 9,598	\$ 11,682
Income taxes	\$ 58,684	\$ 46,374
Supplemental schedule of non-cash investing and financing activities:		
Capital expenditures accrued in accounts payable	\$ 3,838	\$ 3,842
Change in fair value of interest rate swaps	\$ (11,508)	\$ 1,148

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Change in deferred tax asset for interest rate swaps	\$4,383	\$(442)
Dividends declared but not yet paid	\$28,289	\$24,610

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 April 29, 2016 and July 31, 2015 and the related condensed consolidated statements of income, comprehensive income and cash flows for the quarters and nine months ended April 29, 2016 and May 1, 2015, respectively, have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) without audit. In the opinion of management, all adjustments (consisting of normal and recurring items) necessary for a fair presentation of such condensed consolidated financial statements have been made. The results of operations for any interim period are not necessarily indicative of results for a full year.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended July 31, 2015 (the “2015 Form 10-K”). The accounting policies used in preparing these condensed consolidated financial statements are the same as described in the 2015 Form 10-K. References to a year in these Notes to Condensed Consolidated Financial Statements are to the Company's fiscal year unless otherwise noted.

Recent Accounting Pronouncements Adopted

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

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

Recent Accounting Pronouncements Not Yet Adopted

Revenue Recognition

In May 2014, the FASB issued accounting guidance which clarifies the principles for recognizing revenue and provides a comprehensive model for revenue recognition. Revenue recognition should depict the transfer of goods or services to a customer at an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This accounting guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those years. Early application is not permitted. A company may apply this accounting guidance either retrospectively or by using the cumulative effect transition

method. The Company is currently evaluating the impact of adopting this accounting guidance in the first quarter of 2018.

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Debt Issuance Costs

In April 2015, the FASB issued accounting guidance which requires debt issuance costs to be presented in the balance sheet as a reduction of the related debt liability rather than as an asset. This accounting guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those years on a retrospective basis. Early application is permitted. Since this accounting guidance does not provide guidance on debt issuance costs related to revolving debt agreements, this accounting guidance is not expected to have a significant impact on the Company's consolidated financial position or results of operations upon adoption in the first quarter of 2017.

Inventory

In July 2015, the FASB issued accounting guidance which requires companies to measure certain inventory at the lower of cost and net realizable value. This accounting guidance does not apply to inventories measured by using either the last-in, first-out method or the retail inventory method. This accounting guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those years on a prospective basis. Early application is permitted. The Company is currently evaluating the impact of adopting this accounting guidance in the first quarter of 2018.

Deferred Taxes

In November 2015, in order to simplify the presentation of deferred income taxes, the FASB issued accounting guidance which requires deferred tax liabilities and assets to be classified as noncurrent in the balance sheet. This accounting guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those years. This accounting guidance may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early application is permitted. The Company is currently evaluating the impact of adopting this accounting guidance in the first quarter of 2018.

Leases

In February 2016, the FASB issued accounting guidance which requires the recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. The accounting guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years on a modified retrospective basis. Early adoption is permitted. The Company is currently evaluating the impact of adopting this accounting guidance in the first quarter of 2020.

Recognition of Breakage for Certain Prepaid Stored-Value Products

In March 2016, in order to address diversity in practice related to the derecognition of a prepaid stored-value product liability, the FASB issued accounting guidance requiring breakage for prepaid stored-value product liabilities to be accounted for consistent with the breakage guidance in the revenue recognition standard (see "Revenue Recognition" above). This accounting guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. This accounting guidance may be applied either on a modified retrospective basis or on a retrospective basis. Early application is permitted. The Company is currently evaluating the impact of adopting this accounting guidance in the first quarter of 2019.

Share-Based Payments

In March 2016, the FASB issued accounting guidance in order to simplify certain aspects of the accounting and presentation of share-based payments, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This accounting guidance is effective for fiscal periods

beginning after December 15, 2016, and interim periods within those years. This guidance may be applied either on a prospective basis, retrospective basis or a modified retrospective basis depending on the specific accounting topic covered in the accounting guidance. Early adoption is permitted. The Company is currently evaluating the impact of adopting this accounting guidance in the first quarter of 2018.

Index2. Fair Value Measurements

The Company's assets and liabilities measured at fair value on a recurring basis at April 29, 2016 were as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Cash equivalents*	\$ 102,084	\$ --	\$ --	\$ 102,084
Interest rate swap asset (see Note 5)	--	--	--	--
Deferred compensation plan assets**	27,039	--	--	27,039
Total assets at fair value	\$ 129,123	\$ --	\$ --	\$ 129,123
Interest rate swap liability (see Note 5)	\$ --	\$ 17,570	\$ --	\$ 17,570
Total liabilities at fair value	\$ --	\$ 17,570	\$ --	\$ 17,570

The Company's assets and liabilities measured at fair value on a recurring basis at July 31, 2015 were as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Cash equivalents*	\$ 191,084	\$ --	\$ --	\$ 191,084
Interest rate swap asset (see Note 5)	--	3,759	--	3,759
Deferred compensation plan assets**	26,947	--	--	26,947
Total assets at fair value	\$ 218,031	\$ 3,759	\$ --	\$ 221,790
Interest rate swap liability (see Note 5)	\$ --	\$ 9,821	\$ --	\$ 9,821
Total liabilities at fair value	\$ --	\$ 9,821	\$ --	\$ 9,821

*Consists of money market fund investments.

**Represents plan assets invested in mutual funds established under a rabbi trust for the Company's non-qualified savings plan and is included in the Condensed Consolidated Balance Sheets as other assets.

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

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 April 29, 2016 and July 31, 2015.

3. Inventories

Inventories were comprised of the following at:

	April 29, 2016	July 31, 2015
Retail	\$ 107,555	\$ 115,777
Restaurant	22,630	22,212
Supplies	15,697	15,069
Total	\$ 145,882	\$ 153,058

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4. Debt

The Company has a \$750,000 revolving credit facility (the “Revolving Credit Facility”), which expires on January 8, 2020. At both April 29, 2016 and July 31, 2015, the Company had \$400,000 of outstanding borrowings under the Revolving Credit Facility. At April 29, 2016, the Company had \$11,195 of standby letters of credit, which reduce the Company’s borrowing availability under the Revolving Credit Facility (see Note 11 for more information on the Company’s standby letters of credit). At April 29, 2016, the Company had \$338,805 in borrowing availability under the Revolving Credit Facility.

In accordance with the Revolving Credit Facility, outstanding borrowings bear interest, at the Company’s election, either at LIBOR or prime plus a percentage point spread based on certain specified financial ratios under the Revolving Credit Facility. As of April 29, 2016, the Company’s outstanding borrowings were swapped at a weighted average interest rate of 2.96% (see Note 5 for information on the Company’s interest rate swaps).

The Revolving Credit Facility contains customary financial covenants, which include maintenance of a maximum consolidated total leverage ratio and a minimum consolidated interest coverage ratio. At April 29, 2016, the Company was in compliance with all debt covenants.

The Revolving Credit Facility also imposes restrictions on the amount of dividends the Company is permitted to pay and the amount of shares the Company is permitted to repurchase. Under the Revolving Credit Facility, provided there is no default existing and the total of the Company’s availability under the Revolving Credit Facility plus the Company’s cash and cash equivalents on hand is at least \$100,000 (the “cash availability”), the Company may declare and pay cash dividends on shares of its common stock and repurchase shares of its common stock (1) in an unlimited amount if, at the time such dividend or repurchase is made, the Company’s consolidated total leverage ratio is 3.00 to 1.00 or less and (2) in an aggregate amount not to exceed \$100,000 in any fiscal year if the Company’s consolidated total leverage ratio is greater than 3.00 to 1.00 at the time the dividend or repurchase is made; notwithstanding (1) and (2), so long as immediately after giving effect to the payment of any such dividends, cash availability is at least \$100,000, the Company may declare and pay cash dividends on shares of its common stock in an aggregate amount not to exceed in any fiscal year the product of the aggregate amount of dividends declared in the fourth quarter of the immediately preceding fiscal year multiplied by four.

5. Derivative Instruments and Hedging Activities

The Company has interest rate risk relative to its outstanding borrowings (see Note 4 for information on the Company’s outstanding borrowings). The Company’s policy has been to manage interest cost using a mix of fixed and variable rate debt. To manage this risk in a cost-efficient manner, the Company uses derivative instruments, specifically interest rate swaps.

For each of the Company’s interest rate swaps, the Company has agreed to exchange with a counterparty the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. The interest rates on the portion of the Company’s outstanding debt covered by its interest rate swaps are fixed at the rates in the table below plus the Company’s credit spread. The Company’s credit spread at April 29, 2016 was 1.25%. All of the Company’s interest rate swaps are accounted for as cash flow hedges.

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A summary of the Company's interest rate swaps at April 29, 2016 is as follows:

Trade Date	Effective Date	Term (in Years)	Notional Amount	Fixed Rate
July 25, 2011	May 3, 2013	3	\$ 50,000	2.45%
December 7, 2011	May 3, 2013	3	50,000	1.40%
March 18, 2013	May 3, 2015	3	50,000	1.51%
April 8, 2013	May 3, 2015	2	50,000	1.05%
April 15, 2013	May 3, 2015	2	50,000	1.03%
April 22, 2013	May 3, 2015	3	25,000	1.30%
April 25, 2013	May 3, 2015	3	25,000	1.29%
June 18, 2014	May 3, 2015	4	40,000	2.51%
June 24, 2014	May 3, 2015	4	30,000	2.51%
July 1, 2014	May 5, 2015	4	30,000	2.43%
January 30, 2015	May 3, 2019	2	80,000	2.15%
January 30, 2015	May 3, 2019	2	60,000	2.16%
January 30, 2015	May 4, 2021	3	120,000	2.41%
January 30, 2015	May 3, 2019	2	60,000	2.15%
January 30, 2015	May 4, 2021	3	80,000	2.40%

The notional amount for the interest rate swap entered into on June 18, 2014 increases by \$40,000 each May over the four-year term of the interest rate swap beginning in May 2016 until the notional amount reaches \$160,000 in May 2018. The notional amounts for the interest rate swaps entered into on June 24, 2014 and July 1, 2014 increase by \$30,000 each May over the four-year terms of the interest rate swaps beginning in May 2016 until the notional amounts each reach \$120,000 in May 2018.

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

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 April 29, 2016 and July 31, 2015 were as follows:

(See Note 2)	Balance Sheet Location	April 29, 2016	July 31, 2015
Interest rate swaps	Other assets	\$ --	\$ 3,759
Interest rate swaps	Current interest rate swap liability	\$ 11	\$ 1,117
Interest rate swaps	Long-term interest rate swap liability	17,559	8,704
	Total	\$ 17,570	\$ 9,821

The following table summarizes the offsetting of the Company's derivative assets in the Condensed Consolidated Balance Sheets at April 29, 2016 and July 31, 2015:

	Gross Asset Amounts		Liability Amount Offset		Net Asset Amount Presented in the Balance Sheets	
	April 29, 2016	July 31, 2015	April 29, 2016	July 31, 2015	April 29, 2016	July 31, 2015
(See Note 2)						
Interest rate swaps	\$ --	\$ 3,878	\$ --	\$ (119) \$ --	\$ 3,759

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The following table summarizes the offsetting of the Company's derivative liabilities in the Condensed Consolidated Balance Sheets at April 29, 2016 and July 31, 2015:

	Gross Liability Amounts		Asset Amount Offset		Net Liability Amount Presented in the Balance Sheets	
	April 29,	July 31,	April 29,	July 31,	April 29,	July 31,
(See Note 2)	2016	2015	2016	2015	2016	2015
Interest rate swaps	\$ 17,570	\$ 9,821	\$ --	\$ --	\$ 17,570	\$ 9,821

The estimated fair value of the Company's interest rate swap assets and liabilities incorporates the Company's non-performance risk (see Note 2). The adjustment related to the Company's non-performance risk at April 29, 2016 and July 31, 2015 resulted in reductions of \$831 and \$209, respectively, in the fair value of the interest rate swap assets and liabilities. The offset to the interest rate swap assets and liabilities is recorded in accumulated other comprehensive loss ("AOCL"), net of the deferred tax asset, and will be reclassified into earnings over the term of the underlying debt. As of April 29, 2016, the estimated pre-tax portion of AOCL that is expected to be reclassified into earnings over the next twelve months is \$3,475. Cash flows related to the interest rate swap are included in interest expense and in operating activities.

The following table summarizes the pre-tax effects of the Company's derivative instruments on AOCL for the nine months ended April 29, 2016 and the year ended July 31, 2015:

	Amount of Income Recognized in AOCL on Derivatives (Effective Portion)	
	Nine Months Ended	Year Ended
	April 29, 2016	July 31, 2015
Cash flow hedges:		
Interest rate swaps	\$ 11,508	\$ 1,641

The following table summarizes the pre-tax effects of the Company's derivative instruments on income for the quarters and nine-month periods ended April 29, 2016 and May 1, 2015:

	Location of Loss Reclassified from AOCL into Income (Effective Portion)		Amount of Loss Reclassified from AOCL into Income (Effective Portion)	
			Quarter Ended	Nine Months Ended
			April 29, 2016	May 1, 2015
Cash flow hedges:				
Interest rate swaps Interest expense			\$ 1,409	\$ 2,040
				\$ 4,301
				\$ 6,055

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 nine-month periods ended April 29, 2016 and May 1, 2015.

6. Shareholders' Equity

During the nine months ended April 29, 2016, the Company issued 66,243 shares of its common stock resulting from the vesting of share-based compensation awards and stock option exercises. Related tax withholding payments on these share-based compensation awards exceeded proceeds received from the exercise of stock options, which resulted

in a net reduction to shareholders' equity of \$5,281.

During the nine months ended April 29, 2016, the Company repurchased 100,000 shares of its common stock in the open market at an aggregate cost of \$14,653.

During the nine months ended April 29, 2016, total share-based compensation expense was \$8,893. The excess tax benefit realized upon exercise of share-based compensation awards was \$2,063.

During the nine months ended April 29, 2016, the Company paid regular dividends of \$3.30 per share of its common stock and a special dividend of \$3.00 per share of its common stock and declared a regular dividend of \$1.10 per share of its common stock that was paid on May 5, 2016 to shareholders of record on April 15, 2016.

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The following table summarizes the changes in AOCL, net of tax, related to the Company's interest rate swaps for the nine months ended April 29, 2016 (see Notes 2 and 5):

	Changes in AOCL	
AOCL balance at July 31, 2015	\$ (3,725)
Other comprehensive loss before reclassifications	(4,469)
Amounts reclassified from AOCL	(2,656)
Other comprehensive loss, net of tax	(7,125)
AOCL balance at April 29, 2016	\$ (10,850)

The following table summarizes the amounts reclassified out of AOCL related to the Company's interest rate swaps for the quarter and nine months ended April 29, 2016:

	Amount Reclassified from AOCL		Affected Line Item in the Condensed Consolidated Financial Statements
	Quarter Ended	Nine Months Ended	
Loss on cash flow hedges:			
Interest rate swaps	\$ (1,409) \$ (4,301) Interest expense
Tax benefit	539	1,645	Provision for income taxes
	\$ (870) \$ (2,656) Net of tax

7. Seasonality

Historically, the net income of the Company has been lower in the first and third quarters and higher in the second and fourth quarters. Management attributes these variations to the Christmas holiday shopping season and the summer vacation and travel season. The Company's retail sales, which are made substantially to the Company's restaurant customers, historically have been highest in the Company's second quarter, which includes the Christmas holiday shopping season. Historically, interstate tourist traffic and the propensity to dine out have been higher during the summer months, thereby contributing to higher profits in the Company's fourth quarter. The Company generally opens additional new locations throughout the year. Therefore, the results of operations for any interim period cannot be considered indicative of the operating results for an entire year.

8. Segment Information

Cracker Barrel stores represent a single, integrated operation with two related and substantially integrated product lines. The operating expenses of the restaurant and retail product lines of a Cracker Barrel store are shared and are indistinguishable in many respects. Accordingly, the Company currently manages its business on the basis of one reportable operating segment. All of the Company's operations are located within the United States. Total revenue was comprised of the following for the specified periods:

	Quarter Ended		Nine Months Ended	
	April 29, 2016	May 1, 2015	April 29, 2016	May 1, 2015
Revenue:				
Restaurant	\$570,477	\$557,098	\$1,713,674	\$1,681,363
Retail	129,659	126,607	453,093	441,736
Total revenue	\$700,136	\$683,705	\$2,166,767	\$2,123,099

Index9. 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		Nine Months Ended	
	April		April	
	29,	May 1,	29,	May 1,
	2016	2015	2016	2015
Nonvested stock awards	\$3,161	\$3,670	\$6,573	\$8,652
Performance-based market stock units ("MSU Grants")	777	795	2,320	2,143
	\$3,938	\$4,465	\$8,893	\$10,795

10. Net Income Per Share and Weighted Average Shares

Basic consolidated net income per share is computed by dividing consolidated net income available to common shareholders by the weighted average number of shares of common stock outstanding for the reporting period. Diluted consolidated net income per share reflects the potential dilution that could occur if securities, options or other contracts to issue shares of common stock were exercised or converted into shares of common stock and is based upon the weighted average number of shares of common stock and common equivalent shares outstanding during the reporting period. Common equivalent shares related to stock options, nonvested stock awards and MSU Grants issued by the Company are calculated using the treasury stock method. The outstanding stock options, nonvested stock awards and MSU Grants issued by the Company represent the only dilutive effects on diluted consolidated net income per share.

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

	Quarter Ended		Nine Months Ended	
	April 29,		April 29,	
	2016	2015	2016	2015
Net income per share numerator	\$49,169	\$35,317	\$138,276	\$116,504
Net income per share denominator:				
Weighted average shares	23,941,188	23,937,844	23,945,184	23,904,945
Add potential dilution:				
Stock options, nonvested stock awards and MSU Grants	132,590	128,217	119,440	128,351
Diluted weighted average shares	24,073,778	24,066,061	24,064,624	24,033,296

11. Commitments and Contingencies

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

Related to its workers' compensation insurance coverage, the Company is contingently liable pursuant to standby letters of credit as credit guarantees to certain insurers. As of April 29, 2016, the Company had \$11,195 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 April 29, 2016, the Company is secondarily liable for lease payments associated with one property. The Company is not aware of any non-performance under this lease arrangement that would result in the Company having to perform in accordance with the terms of this guarantee; and therefore, no provision has been recorded in the Condensed Consolidated Balance Sheets for amounts to be paid in case of non-performance by the primary obligor under such lease arrangement.

The Company enters into certain indemnification agreements in favor of third parties in the ordinary course of business. 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 April 29, 2016.

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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 April 29, 2016, we operated 635 Cracker Barrel stores in 42 states. All dollar amounts reported or discussed in this Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) are shown in thousands, except per share amounts and certain statistical information (e.g., number of stores). References to years in MD&A are to our fiscal year unless otherwise noted.

MD&A provides information which management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. MD&A should be read in conjunction with the (i) condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q and (ii) financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended July 31, 2015 (the “2015 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 2015 Form 10-K, which is incorporated herein by this reference, as well as the factors described under “Critical Accounting Estimates” on pages 23-26 of this report or, from time to time, in our filings with the Securities and Exchange Commission (“SEC”), press releases and other communications.

Readers are cautioned not to place undue reliance on forward-looking statements made in this report because the statements speak only as of the report’s date. Except as may be required by law, we have no obligation or intention to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events. Readers are advised, however, to consult any future public disclosures that we may make on related subjects in reports that we file with or furnish to the SEC or in our other public disclosures.

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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 for the remainder of 2016 to grow guest sales and profits. Our long-term strategy includes the following:

Enhancing the core business by increasing our brand's relevance to customers in order to drive guest traffic and sales in both restaurant and retail, implementing geographic pricing tiers to optimize average check and re-engineering store processes to increase operating margin;

Expanding the footprint through continued use of our proven site selection tools, introducing a new and more efficient building and equipment prototype and continuing our selective entry into new markets; and

Extending the brand by building on the initial success of our licensing business, leveraging our brand strengths into a new fast casual concept, and growing our retail business into an omni-channel business.

Our four priorities for 2016 are to:

Drive traffic and sales through advertising, menu strategies and targeted marketing programs;

Apply technology and process improvements to enhance the overall guest experience;

Implement cost savings initiatives to further drive store operating margins; and

Invest in long-term growth through new unit expansion and the development of a fast casual concept.

We remain committed to our focus on these business priorities for 2016.

Results of Operations

The following table highlights our operating results by percentage relationships to total revenue for the quarter and nine-month period ended April 29, 2016 as compared to the same periods in the prior year:

	Quarter Ended		Nine Months Ended			
	April		April			
	29,	May 1,	29,	May 1,		
	2016	2015	2016	2015		
Total revenue	100.0%	100.0 %	100.0 %	100.0 %		
Cost of goods sold (exclusive of depreciation and rent)	30.3	31.6	32.3	33.0		
Labor and other related expenses	35.6	36.1	34.4	34.9		
Other store operating expenses	19.3	18.5	19.0	18.4		
Store operating income	14.8	13.8	14.3	13.7		
General and administrative expenses	5.2	5.7	4.9	5.1		
Operating income	9.6	8.1	9.4	8.6		
Interest expense	0.5	0.6	0.5	0.6		
Income before income taxes	9.1	7.5	8.9	8.0		
Provision for income taxes	2.1	2.3	2.5	2.5		
Net income	7.0 %	5.2 %	6.4 %	5.5 %		

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The following table sets forth the number of stores in operation at the beginning and end of the quarters and nine-month periods ended April 29, 2016 and May 1, 2015, respectively:

	Quarter Ended		Nine Months Ended	
	April		April	
	29,	May 1,	29,	May 1,
	2016	2015	2016	2015
Open at beginning of period	635	634	637	631
Opened during the period	--	--	--	3
Closed during the period	--	--	(2)	--
Open at end of the period	635	634	635	634

Total Revenue

Total revenue for the third quarter and first nine months of 2016 increased 2.4% and 2.1%, respectively, compared to the same periods in the prior year.

The following table highlights the key components of revenue for the quarter and nine-month period ended April 29, 2016 as compared to the quarter and nine-month period ended May 1, 2015:

	Quarter Ended		Nine Months Ended	
	April 29,	May 1,	April 29,	May 1,
	2016	2015	2016	2015
Revenue in dollars:				
Restaurant	\$570,477	\$557,098	\$1,713,674	\$1,681,363
Retail	129,659	126,607	453,093	441,736
Total revenue	\$700,136	\$683,705	\$2,166,767	\$2,123,099
Total revenue by percentage relationships:				
Restaurant	81.5 %	81.5 %	79.1 %	79.2 %
Retail	18.5 %	18.5 %	20.9 %	20.8 %
Average unit volumes ⁽¹⁾ :				
Restaurant	\$898.4	\$878.7	\$2,696.4	\$2,654.1
Retail	204.2	199.7	712.9	697.3
Total revenue	\$1,102.6	\$1,078.4	\$3,409.3	\$3,351.4
Comparable store sales increase:				
Restaurant	2.3 %	5.2 %	1.8 %	5.5 %
Retail	2.2 %	4.5 %	2.5 %	4.5 %
Restaurant and retail	2.3 %	5.1 %	1.9 %	5.3 %

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

For the third quarter of 2016, our comparable store restaurant sales increase consisted of a 2.9% average check increase (including a 2.8% average menu price increase) partially offset by a 0.6% guest traffic decrease. For the third quarter of 2016, our comparable store retail sales increase resulted primarily from strong performance in media merchandise and food and convenience categories.

For the first nine months of 2016, our comparable store restaurant sales increase consisted of a 3.1% average check increase (including a 2.8% average menu price increase) partially offset by a 1.3% guest traffic decrease. For the first nine months of 2016, our comparable store retail sales increase resulted primarily from strong performance in apparel and accessories merchandise, food and convenience merchandise and media merchandise categories.

Restaurant and retail sales from newly opened stores accounted for the remainder of the total revenue increases in the third quarter and first nine months of 2016 as compared to the same periods in the prior year.

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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 third quarter and first nine months of 2016 as compared to the same periods in the prior year:

	Quarter Ended		Nine Months Ended	
	April 29, 2016	May 1, 2015	April 29, 2016	May 1, 2015
Cost of Goods Sold in dollars:				
Restaurant	\$149,484	\$153,351	\$469,050	\$470,511
Retail	62,898	62,791	231,237	230,081
Total Cost of Goods Sold	\$212,382	\$216,142	\$700,287	\$700,592
Cost of Goods Sold by percentage of revenue:				
Restaurant	26.2	% 27.5	% 27.4	% 28.0
Retail	48.5	% 49.6	% 51.0	% 52.1

The decrease in restaurant cost of goods sold as a percentage of restaurant revenue in the third quarter of 2016 as compared to the same period in the prior year was primarily due to commodity deflation, our menu price increase referenced above and lower food waste, partially offset by higher cost menu items. Commodity deflation was 1.6% in the third quarter of 2016. Lower food waste accounted for a decrease of 0.1% in restaurant cost of goods sold as a percentage of restaurant revenue for the third quarter of 2016 as compared to the same period in the prior year. Higher cost menu items accounted for an increase of 0.3% in restaurant cost of goods sold as a percentage of restaurant revenue for the third quarter of 2016 as compared to the same period in the prior year.

The decrease in restaurant cost of goods sold as a percentage of restaurant revenue in the first nine months of 2016 as compared to the same period in the prior year was primarily due to our menu price increase for the first nine months of 2016 referenced above.

We presently expect the rate of commodity inflation to be approximately flat for 2016.

The decrease in retail cost of goods sold as a percentage of retail revenue in the third quarter of 2016 as compared to the prior year quarter resulted primarily from higher initial margin, a reduction in the provision for obsolete inventory, higher retail credits and lower freight expense partially offset by higher markdowns and damages.

	Third Quarter (Decrease) Increase as a Percentage of Retail Revenue	
Higher initial margin	(1.2	%)
Provision for obsolete inventory	(0.2	%)
Retail credits	(0.2	%)
Freight expense	(0.2	%)
Markdowns and damages	0.6	%

The decrease in retail cost of goods sold as a percentage of retail revenue in the first nine months of 2016 as compared to the same period in the prior year resulted primarily from higher initial margin and lower freight expense.

First Nine Months
(Decrease) as a Percentage
of Retail Revenue

Higher initial margin	(0.9	%)
Freight expense	(0.1	%)

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Labor and Related Expenses

Labor and related expenses include all direct and indirect labor and related costs incurred in store operations. Labor and related expenses as a percentage of total revenue decreased to 35.6% in the third quarter of 2016 as compared to 36.1% in the third quarter of 2015. This percentage change resulted primarily from the following:

	Third Quarter (Decrease) Increase as a Percentage of Total Revenue	
Store bonus expense	(0.2	%)
Payroll tax expense	(0.2	%)
Store management compensation	(0.1	%)
Store hourly labor	0.1	%

Labor and related expenses as a percentage of total revenue decreased to 34.4% in the first nine months of 2016 as compared to 34.9% in the same period in the prior year. This percentage change resulted primarily from the following:

	First Nine Months (Decrease) as a Percentage of Total Revenue	
Store bonus expense	(0.3	%)
Payroll tax expense	(0.1	%)

Lower store bonus expense as a percentage of total revenue for the third quarter and first nine months of 2016 as compared to the same periods in the prior year resulted from lower performance against financial objectives in 2016 as compared to the prior year.

The decreases in payroll tax expense as a percentage of total revenue for the third quarter and first nine months of 2016 as compared to the same periods in the prior year resulted primarily from lower unemployment tax rates.

The decrease in store management compensation expense as a percentage of total revenue for the third quarter of 2016 as compared to the same period in the prior year resulted primarily from lower staffing levels in the third quarter of 2016 as compared to the same period in 2015.

The increase in store hourly labor costs as a percentage of total revenue for the third quarter of 2016 as compared to the same period in the prior year resulted primarily from increases in hourly wage inflation and lower productivity.

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 19.3% in the third quarter of 2016 as compared to 18.5% in the third quarter of 2015. This percentage change resulted primarily from the following:

	Third Quarter Increase (Decrease) as a
--	---

Percentage of Total Revenue		
Advertising expense	0.6	%
Maintenance expense	0.2	%
Supplies expense	0.1	%
Utilities expense	(0.3	%)

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Other store operating expenses as a percentage of total revenue increased to 19.0% in the first nine months of 2016 as compared to 18.4% in the same period in the prior year. This percentage change resulted primarily from the following:

	First Nine Months Increase (Decrease) as a Percentage of Total Revenue	
Advertising expense	0.3	%
Maintenance expense	0.3	%
Bi-annual manager conference and training event expense	0.1	%
Utilities expense	(0.2	%)

The increases in advertising expense as a percentage of total revenue for the third quarter and the first nine months of 2016 as compared to the same periods in the prior year resulted primarily from an increased spending in local marketing and the timing of new television advertising which is consistent with our previously announced intent to increase our advertising spending in 2016.

The increases in maintenance expense as a percentage of total revenue for the third quarter and the first nine months of 2016 as compared to the same periods in the prior year resulted primarily from expenses associated with the preventive maintenance and related repair of certain building components and kitchen equipment.

The increase in supplies expense as a percentage of total revenue for the third quarter of 2016 as compared to the same period in the prior year resulted primarily from a higher volume of purchases in certain categories.

In the first quarter of 2016, we held a bi-annual manager conference and training event which was attended by our store operations management team. We did not hold a manager's conference and training event in 2015 and we expect to hold our next conference and training event in the first quarter of 2018.

The decrease in utilities expense as a percentage of total revenue for the third quarter and first nine months of 2016 as compared to the same periods in the prior year resulted primarily from lower natural gas prices and usage and lower electricity costs. Lower electricity costs resulted primarily from our LED lighting installation initiative.

General and Administrative Expenses

General and administrative expenses as a percentage of total revenue decreased to 5.2% in the third quarter of 2016 as compared to 5.7% in the same period in the prior year. This percentage change resulted primarily from lower incentive compensation expense.

General and administrative expenses as a percentage of total revenue decreased to 4.9% in the first nine months of 2016 as compared to 5.1% in the same period in the prior year. This percentage change resulted primarily from the following:

	First Nine Months (Decrease) Increase as a Percentage of Total Revenue	
Incentive compensation expense	(0.4	%)
Payroll and related expenses	0.1	%

Lower incentive compensation expense in the third quarter and first nine months of 2016 as compared to the same periods in the prior year resulted primarily from lower performance against financial objectives as compared to the

prior year. Lower incentive compensation expense in the third quarter of 2016 as compared to the same period in the prior year was partially offset by higher payroll expenses.

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Interest Expense

Interest expense for the third quarter of 2016 was \$3,436 as compared to \$4,030 in the third quarter of 2015. Interest expense for the first nine months of 2016 was \$10,549 as compared to \$13,138 in the same period in the prior year. The decrease in interest expense for the third quarter of 2016 as compared to the same period in the prior year resulted primarily from lower weighted average interest rates. The decrease in interest expense for the first nine months of 2016 as compared to the same period in the prior year resulted primarily from lower weighted average interest rates and the non-recurrence of a \$412 write-off of deferred financing costs related to our debt refinancing in the prior year. The lower weighted average interest rates were due to a reduction in our credit spread by 0.25% as a result of our debt refinancing and lower fixed rates on our interest rate swaps due to the expiration of certain interest rate swaps and the effectiveness of lower-cost interest rate swaps.

Provision for Income Taxes

Provision for income taxes as a percentage of income before income taxes (the “effective tax rate”) was 22.7% and 31.4% in the third quarters of 2016 and 2015, respectively. The effective tax rate was 28.1% and 31.1% in the first nine months of 2016 and 2015, respectively. The decreases in the effective tax rate from the third quarter and first nine months of 2015 to the third quarter and first nine months of 2016 resulted primarily from the recognition of tax reserve positions taken in prior years due to uncertain outcome. Excluding the impact of the recognition of these tax positions, the effective tax rate would be 31.0% for the third quarter of 2016 and 30.9% for the first nine months of 2016.

We presently expect our effective tax rate for 2016 to be approximately 29.0%. Excluding the impact of the recognition of prior tax positions, we expect our rate for 2016 to be approximately 31.0%.

Liquidity and Capital Resources

Our primary sources of liquidity are cash generated from our operations and our borrowing capacity under our \$750,000 revolving credit facility (the “Revolving Credit Facility”). Our internally generated cash, along with cash on hand at July 31, 2015, was sufficient to finance all of our growth, dividend payments, share repurchases, working capital needs and other cash payment obligations in the first nine months of 2016.

We believe that cash on hand at April 29, 2016, 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 \$149,358 for the first nine months of 2016, which represented a decrease from the \$216,680 net cash provided during the first nine months of 2015. This decrease primarily reflected the timing of payments for accounts payable, higher retail inventory levels and higher bonus payments made in 2016 as a result of the prior year’s performance.

Borrowing Capacity and Debt Covenants

At April 29, 2016, we had \$400,000 of outstanding borrowings under the Revolving Credit Facility and we had \$11,195 of standby letters of credit related to securing reserved claims under our workers’ compensation insurance which reduce our borrowing availability under the Revolving Credit Facility. At April 29, 2016, we had \$338,805 in borrowing availability under our Revolving Credit Facility. See Note 4 to our Condensed Consolidated Financial Statements for further information on our long-term debt.

The Revolving Credit Facility contains customary financial covenants, which include maintenance of a maximum consolidated total leverage ratio and a minimum consolidated interest coverage ratio. We presently are in compliance with all financial covenants.

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Capital Expenditures

Capital expenditures (purchase of property and equipment) net of proceeds from insurance recoveries were \$69,504 for the first nine months of 2016 as compared to \$60,055 for the same period in the prior year. Our capital expenditures consisted primarily of capital expenditures for maintenance programs and costs of new store locations. The increase in capital expenditures from the first nine months of 2015 to the first nine months of 2016 was primarily due to higher spending for maintenance programs and an increase in the number of new locations acquired and under construction as compared to the prior year. We estimate that our capital expenditures during 2016 will be between \$100,000 to \$110,000. This estimate includes the acquisition of sites and construction costs of five new stores that are expected to open during 2016, as well as for acquisition and construction costs for store locations to be opened in 2017, capital expenditures for maintenance programs and technology and operations improvements. We intend to fund our capital expenditures with cash flows from operations and borrowings under our Revolving Credit Facility, as necessary.

Dividends, Share Repurchases and Share-Based Compensation Awards

The Revolving Credit Facility imposes restrictions on the amount of dividends we are permitted to pay and the amount of shares we are permitted to repurchase. Under the Revolving Credit Facility, provided there is no default existing and the total of our availability under the Revolving Credit Facility plus our cash and cash equivalents on hand is at least \$100,000 (the “cash availability”), we may declare and pay cash dividends on shares of our common stock and repurchase shares of our common stock (1) in an unlimited amount if, at the time the dividend or the repurchase is made, our consolidated total leverage ratio is 3.00 to 1.00 or less and (2) in an aggregate amount not to exceed \$100,000 in any fiscal year if our consolidated total leverage ratio is greater than 3.00 to 1.00 at the time the dividend or repurchase is made; notwithstanding (1) and (2), so long as immediately after giving effect to the payment of any such dividends cash availability is at least \$100,000, we may declare and pay cash dividends on shares of our common stock in an aggregate amount not to exceed in any fiscal year the product of the aggregate amount of dividends declared in the fourth quarter of the immediately preceding fiscal year multiplied by four.

During the first nine months of 2016, we paid regular dividends of \$3.30 per share and a special dividend of \$3.00 per share, or an aggregate of \$151,385. During the third quarter of 2016, we declared a dividend of \$1.10 per share that was paid on May 5, 2016 to shareholders of record on April 15, 2016.

We have been authorized by our Board of Directors to repurchase shares at management’s discretion up to \$25,000 during 2016. During the first nine months of 2016, we repurchased 100,000 shares of our common stock in the open market at an aggregate cost of \$14,653. All of these repurchases were made in the first quarter of 2016.

During the first nine months of 2016, we issued 66,243 shares of our common stock resulting from the vesting of share-based compensation awards and stock option exercises. Related tax withholding payments on these share-based compensation awards exceeded proceeds received from the exercise of stock options, which resulted in a net use of cash of \$5,281.

Working Capital

In the restaurant industry, virtually all sales are either for cash or first-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 positive working capital of \$56,603 at April 29, 2016 versus positive working capital of \$11,213 at July 31, 2015. Working capital increased from July 31, 2015 primarily because of the payment of the special dividend of \$3.00 per share of our common stock, the timing of payments for accounts payable and lower incentive compensation accruals based on lower performance against financial objectives in 2016 partially offset by the decrease in cash.

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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 2015 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 2015. Refer to the sub-section entitled “Material Commitments” under the section entitled “Liquidity and Capital Resources” presented in the MD&A of our 2015 Form 10-K for additional information regarding our material commitments.

Recent Accounting Pronouncements 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, the accounting guidance is either expected not to have a significant impact on our consolidated 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 GAAP. 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 2015 Form 10-K. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions.

Critical accounting estimates are those that:

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

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

Impairment of Long-Lived Assets and Provision for Asset Dispositions
Insurance Reserves
Retail Inventory Valuation
Tax Provision

Share-Based Compensation
Legal Proceedings

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

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Impairment of Long-Lived Assets and Provision for Asset Dispositions

We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying value of the asset to the undiscounted future cash flows expected to be generated by the asset. If the total expected future cash flows are less than the carrying amount of the asset, the carrying value is written down, for an asset to be held and used, to the estimated fair value or, for an asset to be disposed of, to the fair value, net of estimated costs of disposal. Any loss resulting from impairment is recognized by a charge to income. Judgments and estimates that we make related to the expected useful lives of long-lived assets and future cash flows are affected by factors such as changes in economic conditions and changes in operating performance. The accuracy of such provisions can vary materially from original estimates and management regularly monitors the adequacy of the provisions until final disposition occurs.

We have not made any material changes in our methodology for assessing impairments during the first nine months of 2016, and we do not believe that there is a reasonable likelihood that there will be a material change in the estimates or assumptions used by us in the future to assess impairment of long-lived assets. However, if actual results are not consistent with our estimates and assumptions used in estimating future cash flows and fair values of long-lived assets, we may be exposed to losses that could be material.

Insurance Reserves

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

Our group health plans combine the use of self-insured and fully-insured programs. Benefits for any individual (employee or dependents) in the self-insured group health program are limited. We record a liability for the self-insured portion of our group health program for all unpaid claims based upon a loss development analysis derived from actual group health claims payment experience. Additionally, we record a liability for unpaid prescription drug claims based on historical experience. The majority of our fully-insured health insurance plans for calendar 2014 contained a retrospective feature which decreased premiums based on actual claims experience.

Our accounting policies regarding workers' compensation, general insurance and health insurance reserves include certain actuarial assumptions and management judgments regarding economic conditions, the frequency and severity of claims and claim development history and settlement practices. We have not made any material changes in the accounting methodology used to establish our insurance reserves during the first nine months of 2016 and do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to calculate the insurance reserves. However, changes in these actuarial assumptions, management judgments or claims experience in the future may produce materially different amounts of expense that would be reported under these insurance programs.

Retail Inventory Valuation

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

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

We have not made any material changes in the methodologies, estimates or assumptions related to our merchandise inventories during the first nine months of 2016 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.

Tax Provision

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

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

We file our income tax returns many months after our year end. These returns are subject to audit by various federal and state governments years after the returns are filed and could be subject to differing interpretations of the tax laws. We then must assess the likelihood of successful legal proceedings or reach a settlement with the relevant taxing authority. Although we believe that the judgments and estimates used in establishing our tax provision are reasonable, an unsuccessful legal proceeding or a settlement could result in material adjustments to our Consolidated Financial Statements and our consolidated financial position (see Note 13 to our Consolidated Financial Statements contained in the 2015 Form 10-K for additional information).

Share-Based Compensation

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

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

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

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

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Generally, the fair value of each nonvested stock award that does not accrue dividends is equal to the market price of our common stock at the date of grant reduced by the present value of expected dividends to be paid prior to the vesting period, discounted using an appropriate risk-free interest rate. Other nonvested stock awards accrue dividends and their fair value is equal to the market price of our common stock at the date of grant.

In addition to providing the requisite service, MSU Grants contain both a market condition based on total shareholder return and a performance condition based on operating income. Total shareholder return is defined as increases in our stock price plus dividends paid during the performance period. The number of shares awarded at the end of the performance period for each MSU Grant may increase up to 150% of target in direct proportion to any percentage increase in shareholder value during the performance period. The probability of the actual shares expected to be awarded is considered in the grant date valuation; therefore, the expense will not be adjusted to reflect the actual units awarded. However, if the performance condition is not met, no shares will be granted, no compensation will ultimately be recognized and, to the extent previously recognized, compensation expense will be reversed.

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

The expected volatility is a blend of implied volatility based on market-traded options on our stock and historical volatility of our stock over the period commensurate with the three-year performance period.

The risk-free interest rate is based on the U.S. Treasury rate assumption commensurate with the three-year performance period.

The expected dividend yield is based on our current dividend yield as the best estimate of projected dividend yield for periods within the three-year performance period.

We update the historical and implied components of the expected volatility assumption when new grants are made.

We have not made any material changes in our estimates or assumptions used to determine share-based compensation during the first nine months of 2016 and do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to determine share-based compensation expense. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to changes in share-based compensation expense that could be material.

Legal Proceedings

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

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Part II, Item 7A of the 2015 Form 10-K is incorporated in this item of this Quarterly Report on Form 10-Q by this reference. There have been no material changes in our quantitative and qualitative market risks since July 31, 2015.

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 April 29, 2016, 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 April 29, 2016 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.

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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 2015 Form 10-K.

ITEM 6. Exhibits

See Exhibit Index immediately following the signature page hereto.

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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: June 1, 2016 By: /s/Lawrence E. Hyatt
Lawrence E. Hyatt, Senior Vice President and
Chief Financial Officer

Date: June 1, 2016 By: /s/Jeffrey M. Wilson
Jeffrey M. Wilson, Vice President, Corporate Controller and
Principal Accounting Officer

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INDEX TO EXHIBITS

Exhibit

- 10.1 Change in Control and Severance Agreement with Jill Golder, dated April 28, 2016[†](incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 29, 2016).
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 101.INS XBRL Instance Document (filed herewith)
- 101.SCH XBRL Taxonomy Extension Schema (filed herewith)
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase (filed herewith)
- 101.LAB XBRL Taxonomy Extension Label Linkbase (filed herewith)
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase (filed herewith)
- 101.DEF XBRL Taxonomy Extension Definition Linkbase (filed herewith)

Denotes management contract or compensatory plan, contract or arrangement.