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 28, 2023

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 (State or other jurisdiction of incorporation or organization)	62-0812904 (I.R.S. Employer Identification Number)
305 Hartmann Drive, Lebanon, Tennessee (Address of principal executive offices)	37087-4779 (Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock (Par Value $0.01)	CBRL	The Nasdaq Stock Market LLC
Rights to Purchase Series A Junior Participating Preferred Stock (Par Value $0.01)		(Nasdaq Global Select Market)

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.

22,152,432 Shares of Common Stock
Outstanding as of May 30, 2023

CRACKER BARREL OLD COUNTRY STORE, INC.

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PART I – FINANCIAL INFORMATION
ITEM 1. Financial Statements (Unaudited)

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

	April 28, 2023	July 29, 2022*
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 22,452	$ 45,105
Accounts receivable	32,086	32,246
Inventories	184,813	213,249
Prepaid expenses and other current assets	33,681	26,676
Total current assets	273,032	317,276
Property and equipment	2,359,829	2,309,578
Less: Accumulated depreciation and amortization	1,396,264	1,339,969
Property and equipment – net	963,565	969,609
Operating lease right-of-use assets, net	903,435	933,524
Goodwill	4,690	4,690
Intangible assets	22,090	21,210
Other assets	46,657	48,602
Total assets	$ 2,213,469	$ 2,294,911
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 132,032	$ 169,871
Taxes withheld and accrued	33,588	60,212
Other current liabilities	283,603	272,241
Total current liabilities	449,223	502,324
Long-term debt	444,545	423,249
Long-term operating lease liabilities	711,199	722,159
Other long-term obligations	134,634	135,700
Commitments and Contingencies (Note 10)		
Shareholders' Equity:		
Preferred stock – 100,000,000 shares of $0.01 par value authorized; 300,000 shares designated as Series A Junior Participating Preferred Stock; no shares issued	—	—
Common stock – 400,000,000 shares of $0.01 par value authorized; 22,152,432 shares issued and outstanding at April 28, 2023, and 22,281,443 shares issued and outstanding at July 29, 2022	221	223
Additional paid-in capital	2,474	—
Retained earnings	471,173	511,256
Total shareholders' equity	473,868	511,479
Total liabilities and shareholders' equity	$ 2,213,469	$ 2,294,911

See Notes to unaudited Condensed Consolidated Financial Statements.

* This Condensed Consolidated Balance Sheet has been derived from the audited Consolidated Balance Sheet as of July 29, 2022, as filed with the Securities and Exchange Commission in the Company's Annual Report on Form 10-K for the fiscal year ended July 29, 2022.

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

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Total revenue	$ 832,689	$ 790,196	$ 2,606,076	$ 2,437,386
Cost of goods sold (exclusive of depreciation and rent)	262,191	250,048	870,286	776,460
Labor and other related expenses	297,883	283,664	903,558	854,647
Other store operating expenses	196,886	185,870	602,447	561,715
General and administrative expenses	45,049	40,160	136,515	124,533
Impairment and store closing costs	13,890	—	13,890	—
Operating income	16,790	30,454	79,380	120,031
Interest expense, net	4,536	2,171	12,476	7,000
Income before income taxes	12,254	28,283	66,904	113,031
Provision for income taxes (income tax benefit)	(1,714)	767	5,316	14,515
Net income	$ 13,968	$ 27,516	$ 61,588	$ 98,516
Net income per share:				
Basic	$ 0.63	$ 1.19	$ 2.78	$ 4.22
Diluted	$ 0.63	$ 1.19	$ 2.77	$ 4.21
Weighted average shares:				
Basic	22,152,002	23,089,521	22,173,019	23,330,093
Diluted	22,254,511	23,170,900	22,266,333	23,409,118

See Notes to unaudited Condensed Consolidated Financial Statements.

CRACKER BARREL OLD COUNTRY STORE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited and in thousands, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balances at July 29, 2022	22,281,443	$ 223	$ —	$ 511,256	$ 511,479
Comprehensive Income:					
Net income	—	—	—	17,129	17,129
Total comprehensive income	—	—	—	17,129	17,129
Cash dividends declared - $1.30 per share	—	—	—	(28,689)	(28,689)
Share-based compensation	—	—	2,422	—	2,422
Issuance of share-based compensation awards, net of shares withheld for employee taxes	34,982	—	(2,380)	—	(2,380)
Purchases and retirement of common stock	(120,958)	(1)	(42)	(12,405)	(12,448)
Balances at October 28, 2022	22,195,467	$ 222	$ —	$ 487,291	$ 487,513
Comprehensive Income:					
Net income	—	—	—	30,491	30,491
Total comprehensive income	—	—	—	30,491	30,491
Cash dividends declared - $1.30 per share	—	—	—	(29,179)	(29,179)
Share-based compensation	—	—	2,689	—	2,689
Issuance of share-based compensation awards, net of shares withheld for employee taxes	6,167	—	(20)	—	(20)
Purchases and retirement of common stock	(50,834)	(1)	(2,669)	(2,331)	(5,001)
Balances at January 27, 2023	22,150,800	$ 221	$ —	$ 486,272	$ 486,493
Comprehensive Income:					
Net income	—	—	—	13,968	13,968
Total comprehensive income	—	—	—	13,968	13,968
Cash dividends declared - $1.30 per share	—	—	—	(29,067)	(29,067)
Share-based compensation	—	—	2,474	—	2,474
Issuance of share-based compensation awards, net of shares withheld for employee taxes	1,632	—	—	—	—
Balances at April 28, 2023	22,152,432	$ 221	$ 2,474	$ 471,173	$ 473,868

See Notes to unaudited Condensed Consolidated Financial Statements.

CRACKER BARREL OLD COUNTRY STORE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited and in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total Shareholders' Equity
Balances at July 30, 2021	23,497,166	$ 235	$ —	$ 663,398	$ 663,633
Comprehensive Income:					
Net income	—	—	—	33,376	33,376
Total comprehensive income	—	—	—	33,376	33,376
Cash dividends declared - $1.30 per share	—	—	—	(30,838)	(30,838)
Share-based compensation	—	—	2,309	—	2,309
Cumulative-effect of change in accounting principle, net of taxes	—	—	—	(36,956)	(36,956)
Issuance of share-based compensation awards, net of shares withheld for employee taxes	22,691	—	(2,309)	—	(2,309)
Balances at October 29, 2021	23,519,857	$ 235	$ —	$ 628,980	$ 629,215
Comprehensive Income:					
Net income	—	—	—	37,624	37,624
Total comprehensive income	—	—	—	37,624	37,624
Cash dividends declared - $1.30 per share	—	—	—	(30,471)	(30,471)
Share-based compensation	—	—	2,203	—	2,203
Issuance of share-based compensation awards, net of shares withheld for employee taxes	8,339	—	(237)	—	(237)
Purchases and retirement of common stock	(279,664)	(3)	(1,966)	(32,261)	(34,230)
Balances at January 28, 2022	23,248,532	$ 232	$ —	$ 603,872	$ 604,104
Comprehensive Income:					
Net income	—	—	—	27,516	27,516
Total comprehensive income	—	—	—	27,516	27,516
Cash dividends declared - $1.30 per share	—	—	—	(30,110)	(30,110)
Share-based compensation	—	—	1,906	—	1,906
Purchases and retirement of common stock	(336,212)	(3)	(1,906)	(37,278)	(39,187)
Balances at April 29, 2022	22,912,320	$ 229	$ —	$ 564,000	$ 564,229

See Notes to unaudited Condensed Consolidated Financial Statements.

CRACKER BARREL OLD COUNTRY STORE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	April 28, 2023	April 29, 2022
Cash flows from operating activities:		
Net income	$ 61,588	$ 98,516
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	76,805	77,288
Amortization of debt issuance costs	1,296	1,326
Loss on disposition of property and equipment	4,793	4,140
Impairment	11,692	—
Share-based compensation	7,585	6,418
Noncash lease expense	44,727	43,646
Amortization of asset recognized from gain on sale and leaseback transactions	9,551	9,551
Changes in assets and liabilities:		
Inventories	28,436	(54,040)
Other current assets	(5,490)	(5,073)
Accounts payable	(37,839)	(9,740)
Taxes withheld and accrued	(26,624)	7,794
Other current liabilities	11,981	(2,104)
Long-term operating lease liabilities	(36,508)	(44,495)
Other long-term assets and liabilities	(757)	(26,871)
Net cash provided by operating activities	151,236	106,356
Cash flows from investing activities:		
Purchase of property and equipment	(87,623)	(59,982)
Proceeds from insurance recoveries of property and equipment	725	1,175
Proceeds from sale of property and equipment	250	44
Acquisition of business, net of cash acquired	—	(1,500)
Net cash used in investing activities	(86,648)	(60,263)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	120,000	45,000
Taxes withheld from issuance of share-based compensation awards	(2,400)	(2,546)
Principal payments under long-term debt	(100,049)	(50,049)
Purchases and retirement of common stock	(17,449)	(73,417)
Dividends on common stock	(87,343)	(84,901)
Net cash used in financing activities	(87,241)	(165,913)
Net decrease in cash and cash equivalents	(22,653)	(119,820)
Cash and cash equivalents, beginning of period	45,105	144,593
Cash and cash equivalents, end of period	$ 22,452	$ 24,773
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$ 9,323	$ 5,399
Income taxes	$ 4,798	$ 20,261
Supplemental schedule of non-cash investing and financing activities*:		
Capital expenditures accrued in accounts payable	$ 3,867	$ 4,006
Dividends declared but not yet paid	$ 30,048	$ 30,668

*See Note 8 for additional supplemental disclosures related to leases.

See Notes to unaudited Condensed Consolidated Financial Statements.

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 accompanying condensed consolidated financial statements 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 July 29, 2022 (the "2022 Form 10-K"). The accounting policies used in preparing these condensed consolidated financial statements are the same as described in the 2022 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.

COVID-19 Impact

While all of our dining rooms are currently operating without COVID-19-related restrictions, it is possible that renewed outbreaks or increases in cases and/or new variants of the disease, either as part of a national trend or on a more localized basis, could result in COVID-19-related restrictions including capacity restrictions, otherwise limit our dine-in services, or negatively affect consumer demand.

In response to the COVID-19 pandemic, the Company instituted operational protocols to comply with applicable regulatory requirements to protect the health and safety of employees and guests, and the Company implemented and continually adapted a number of strategies to support the recovery of our business and navigate through the uncertain environment. The Company continues to focus on growing its off-premise business and investing in its digital infrastructure to improve the guest experience in the face of these ongoing challenges.

2. Fair Value Measurements

The Company's assets measured at fair value on a recurring basis at April 28, 2023 were as follows:

	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents*	$ 1	$ —	$ —	$ 1
Deferred compensation plan assets**				26,386
Total assets at fair value				$ 26,387

The Company's assets measured at fair value on a recurring basis at July 29, 2022 were as follows:

	Level 1	Level 2	Level 3	Total Fair Value
Cash equivalents*	$ 18,001	$ —	$ —	$ 18,001
Deferred compensation plan assets**				27,843
Total assets at fair value				$ 45,844

* 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 did not have any liabilities measured at fair value on a recurring basis at April 28, 2023 and July 29, 2022. The Company's money market fund investments are measured at fair value using quoted market prices. 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 April 28, 2023 and July 29, 2022.

The Company's financial instruments that are not remeasured at fair value include the 0.625% convertible Senior Notes (see Note 4). The Company estimates the fair value of the Notes through consideration of quoted market prices of similar instruments, classified as Level 2. The estimated fair value of the Notes was $264,606 and $255,894, respectively, as of April 28, 2023 and July 29, 2022.

Assets Measured at Fair Value on a Nonrecurring Basis

During the third quarter of 2023, six Cracker Barrel locations were determined to be impaired because of declining operational performance. Fair value of these locations was determined by sales prices of comparable assets or estimates of discounted future cash flows considering their highest and best use. Assumptions used in the cash flow model included projected annual revenue growth rates and projected cash flows, which can be affected by economic conditions and management's expectations. Additionally, changes in the local and national economies and markets for real estate and other assets can impact the sales prices of the assets. The Company has determined that the majority of the inputs used to value its long-lived assets held and used are unobservable inputs, and thus, are considered Level 3 inputs. Based on its analysis, the Company recorded an impairment charge of $11,692, which is included in the impairment and store closing costs line on the Condensed Consolidated Statement of Income.

3. Inventories

Inventories were comprised of the following at:

	April 28, 2023	July 29, 2022
Retail	$ 140,716	$ 170,846
Restaurant	25,483	25,284
Supplies	18,614	17,119
Total	$ 184,813	$ 213,249

4. Debt

On June 17, 2022, the Company entered into a five-year $700,000 revolving credit facility (the "2022 Revolving Credit Facility") with substantially the same terms and financial covenants as our previous amended $800,000 revolving credit facility, which it replaced. The 2022 Revolving Credit Facility also contains an option to increase the revolving credit facility by $200,000. The Company's outstanding borrowings under the 2022 Revolving Credit Facility were $150,000 and $130,000 on April 28, 2023 and July 29, 2022, respectively.

As of April 28, 2023, the Company had $31,896 of standby letters of credit, which reduce the Company's borrowing availability under the 2022 Revolving Credit Facility (see Note 10 for more information on the Company's standby letters of credit). As of April 28, 2023, the Company had $518,104 in borrowing availability under the 2022 Revolving Credit Facility.

In accordance with the 2022 Revolving Credit Facility, outstanding borrowings bear interest, at the Company's election, either at Term Secured Overnight Financing Rate (SOFR) or prime plus or a rate of 0.5% in excess of the Federal Funds Rate plus an applicable margin based on certain specified financial ratios. At April 28, 2023, the weighted average interest rate on the Company's outstanding borrowings was 6.49%.

The 2022 Revolving Credit Facility contains customary financial covenants, which include maintenance of a maximum consolidated total senior secured leverage ratio and a minimum consolidated interest coverage ratio. At April 28, 2023, the Company was in compliance with all financial covenants under the 2022 Revolving Credit Facility.

The 2022 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 2022 Revolving Credit Facility, provided there is no default existing and the total of the Company's availability under the 2022 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 senior secured leverage ratio is 2.75 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 2.75 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.

Convertible Senior Notes

On June 18, 2021, the Company completed a $300,000 principal aggregate amount private offering of 0.625% convertible Senior Notes due in 2026 (the "Notes"). The Notes are governed by the terms of an indenture between the Company and U.S. Bank National Association as the Trustee. The Notes will mature on June 15, 2026, unless earlier converted, repurchased or redeemed. The Notes bear cash interest at an annual rate of 0.625%, payable semi-annually in arrears on June 15 and December 15 of each year.

The Notes are unsecured obligations and do not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by the Company or any of its subsidiaries. In an event of default, the principal amount of, and all accrued and unpaid interest on, all of the notes then outstanding will immediately become due and payable. However, notwithstanding the foregoing, the Company may elect, at its option, that the sole remedy for an event of default relating to certain failures by the Company to comply with certain reporting covenants in the Indenture will consist exclusively of the right of the noteholders to receive special interest on the Notes for up to 180 calendar days during which such event of default has occurred and is continuing, at a specified rate for the first 90 days of 0.25% per annum, and thereafter at a rate of 0.50% per annum, on the principal amount of the Notes.

The initial conversion rate applicable to the Notes was 5.3153 shares of the Company's common stock per $1,000 principal amount of Notes, which represented an initial conversion price of approximately $188.14 per share of the Company's common stock, a premium of 25.0% over the last reported sale price of $150.51 per share on June 15, 2021, the date on which the Notes were priced. The conversion rate is subject to customary adjustments upon the occurrence of certain events, including the payment of dividends to holders of the Company's common stock. As of April 28, 2023, the conversion rate, as adjusted, was 5.8108 shares of the Company's common stock per $1,000 principal amount of Notes. In addition, if certain corporate events that constitute a "Make-Whole Fundamental Change" occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

Net proceeds from the Notes offering were $291,125, after deducting the initial purchasers' discounts and commissions and the Company's offering fees and expenses.

The Notes are accounted for entirely as a liability, and the issuance costs of the Notes are accounted for wholly as debt issuance costs.

The following table includes the outstanding principal amount and carrying value of the Notes as of the dates indicated:

	April 28, 2023	July 29, 2022
Liability component		
Principal	$ 300,000	$ 300,000
Less: Debt issuance costs (1)	5,605	6,901
Net carrying amount	$ 294,395	$ 293,099

(1) Debt issuance costs are amortized to interest expense using the effective interest method over the expected life of the Notes.

The effective rate of the Notes over their expected life is 1.23%. The following is a summary of interest expense for the Notes for specified periods:

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Coupon interest	$ 474	$ 474	$ 1,422	$ 1,422
Amortization of issuance costs	434	415	1,296	1,326
Total interest expense	$ 908	$ 889	$ 2,718	$ 2,748

During any calendar quarter commencing after September 30, 2021, in which the closing price of the Company's common stock exceeds 130% of the applicable conversion price of the Notes on at least 20 of the last 30 consecutive trading days of the quarter, holders may in the quarter immediately following, convert all or a portion of their Notes. The holders of the Notes were not eligible to convert their Notes during 2023, 2022 or 2021. When a conversion notice is received, the Company has the option to pay or deliver the conversion amount entirely in cash or a combination of cash and shares of the Company's common stock. Accordingly, as of April 28, 2023, the Company could not be required to settle the Notes and, therefore, the Notes are classified as long-term debt.

Convertible Note Hedge and Warrant Transactions

In connection with the offering of the Notes, the Company entered into convertible note hedge transactions (the "Convertible Note Hedge Transactions") with certain of the initial purchasers of the Notes and/or their respective affiliates and other financial institutions (in this capacity, the "Hedge Counterparties"). Concurrently with the Company's entry into the Convertible Note Hedge Transactions, the Company also entered into separate, warrant transactions with the Hedge Counterparties collectively relating to the same number of shares of the Company's common stock, which initially was approximately 1,600,000 shares, subject to customary anti-dilution adjustments, and for which the Company received proceeds that partially offset the cost of entering into the Convertible Note Hedge Transactions (the "Warrant Transactions").

The Convertible Note Hedge Transactions cover, subject to customary anti-dilution adjustments, the number of shares of the Company's common stock that initially underlay the Notes and are expected generally to reduce the potential equity dilution, and/or offset any cash payments in excess of the principal amount due, as the case may be, upon conversion of the Notes. The Warrant Transactions could have a dilutive effect on the Company's common stock to the extent that the price of its common stock exceeds the strike price of the Warrant Transactions. The strike price was initially $263.39 per share and is subject to certain adjustments under the terms of the Warrant Transactions. As of April 28, 2023, the strike price, as adjusted, of the Warrant Transactions was $240.93 per share as a result of dividends declared since the Notes were issued.

The portion of the net proceeds to the Company from the offering of the Notes that was used to pay the premium on the Convertible Note Hedge Transactions, net of the proceeds to the Company from the Warrant Transactions, was approximately $30,310. The net costs incurred in connection with the Convertible Note Hedge Transactions and Warrant Transactions were recorded as a reduction to additional paid-in capital on the Company's Condensed Consolidated Balance Sheet during 2021.

Because these transactions meet certain accounting criteria, the Convertible Note Hedge Transactions and Warrant Transactions were recorded in shareholders' equity, not accounted for as derivatives and are not remeasured each reporting period.

5. <u>Seasonality</u>

Historically, the revenue and net income of the Company have 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. Currently, the Company is not able to predict the impact that future variants of COVID-19 may have on these historical consumer demand patterns or, as a result, on the seasonality of its business generally.

6. 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.

7. 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		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Revenue:				
Restaurant	$ 681,315	$ 632,210	$ 2,061,551	$ 1,903,704
Retail	151,374	157,986	544,525	533,682
Total revenue	$ 832,689	$ 790,196	$ 2,606,076	$ 2,437,386

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.

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 quarter and nine months ended April 28, 2023, gift card breakage was $1,595 and $5,083, respectively. For the quarter and nine months ended April 29, 2022, gift card breakage was $1,514 and $4,783, respectively.

Deferred revenue related to the Company's gift cards was $97,777 and $93,569, respectively, at April 28, 2023 and July 29, 2022. Revenue recognized in the Condensed Consolidated Statements of Income for the nine months ended April 28, 2023 and April 29, 2022, respectively, for the redemption of gift cards which were included in the deferred revenue balance at the beginning of the fiscal year was $34,689 and $36,420.

8. Leases

The Company has ground leases for its leased stores and office space leases that are recorded as operating leases under various non-cancellable operating leases. The Company also leases advertising billboards, vehicle fleets, and certain equipment under various non-cancellable operating leases. Additionally, the Company completed sale-leaseback transactions in 2009, 2020 and 2021 (see section below entitled "Sale and Leaseback Transactions"). To determine whether a contract is or contains a lease, the Company determines at contract inception whether it contains the right to control the use of an identified asset for a period of time in exchange for consideration. If the contract has the right to obtain substantially all of the economic benefit from use of the identified asset and the right to direct the use of the identified asset, the Company recognizes a right-of-use asset and lease liability.

The Company's leases all have varying terms and expire at various dates through 2055. Restaurant leases typically have base terms of ten years with four to five optional renewal periods of five years each. The Company uses a lease life that generally begins on the commencement date, including the rent holiday periods, and generally extends through certain renewal periods that can be exercised at the Company's option. During rent holiday periods, which include the pre-opening period during construction, the Company has possession of and access to the property, but is not obligated to, and normally does not, make rent payments. The Company has included lease renewal options in the lease term for calculations of the right-of-use asset and liability for which at the commencement of the lease it is reasonably certain that the Company will exercise those renewal options. Additionally, some of the leases have contingent rent provisions and others require adjustments for inflation or index. Contingent rent is determined as a percentage of gross sales in excess of specified levels. The Company records a contingent rent liability and corresponding rent expense when it is probable sales have been achieved in amounts in excess of the specified levels. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company has entered into agreements for real estate leases that are not recorded as right-of-use assets or lease liabilities as we have not yet taken possession. These leases are expected to commence in 2023, 2024 and 2025 with undiscounted future payments of $2,620, $14,855 and $20,400, respectively.

The Company has elected not to separate lease and non-lease components. Additionally, the Company has elected to apply the short term lease exemption to all asset classes and the short term lease expense for the period reasonably reflects the short term lease commitments. As the Company's leases do not provide an implicit rate, the Company uses the incremental borrowing rate based on the information available at the time of commencement or modification date in determining the present value of lease payments. For operating leases that commenced prior to the date of adoption of the new lease accounting guidance, the Company used the incremental borrowing rate as of the adoption date. Assumptions used in determining the Company's incremental borrowing rate include the Company's implied credit rating and an estimate of secured borrowing rates based on comparable market data.

The following table summarizes the components of lease cost for operating leases for the quarters and nine months ended April 28, 2023 and April 29, 2022:

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Operating lease cost	$ 27,456	$ 27,266	$ 82,345	$ 81,408
Short term lease cost	234	99	2,731	2,324
Variable lease cost	909	622	2,863	1,852
Total lease cost	$ 28,599	$ 27,987	$ 87,939	$ 85,584

The following table summarizes supplemental cash flow information and non-cash activity related to the Company's operating leases for the quarters and nine months ended April 28, 2023 as compared to the same periods in the prior year:

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Operating cash flow information:				
Cash paid for amounts included in the measurement of lease liabilities	$ 23,745	$ 23,219	$ 71,252	$ 69,080
Noncash information:				
Right-of-use assets obtained in exchange for new operating lease liabilities	5,990	2,893	15,455	14,550
Lease modifications or reassessments increasing or decreasing right-of-use assets	5,417	4,993	9,115	11,409
Lease modifications removing right-of-use assets	(80)	(90)	(371)	(426)

The following table summarizes the weighted-average remaining lease term and the weighted-average discount rate for operating leases as of April 28, 2023 and April 29, 2022:

	April 28, 2023	April 29, 2022
Weighted-average remaining lease term	17.00 Years	17.61 Years
Weighted-average discount rate	5.07%	4.87%

The following table summarizes the maturities of undiscounted cash flows reconciled to the total operating lease liability as of April 28, 2023:

Year	Total
Remainder of 2023	$ 23,957
2024	78,782
2025	70,750
2026	67,645
2027	65,783
Thereafter	853,602
Total future minimum lease payments	1,160,519
Less imputed remaining interest	(401,439)
Total present value of operating lease liabilities	$ 759,080

Sale and Leaseback Transactions

In 2009, the Company completed sale-leaseback transactions involving 15 of its owned stores and its retail distribution center. Under the transactions, the land, buildings and improvements at the locations were sold and leased back for terms of 20 and 15 years, respectively. Equipment was not included. The leases include specified renewal options for up to 20 additional years.

On July 29, 2020, the Company entered into an agreement with the original lessor and a third party financier to obtain ownership of 64 of the 65 Cracker Barrel properties previously covered in the original sale and leaseback arrangement and simultaneously entered into a sale and leaseback transaction with the financier for an aggregate purchase price, net of closing costs, of $198,083. The Company purchased the remaining property for approximately $3,200. In connection with this sale and leaseback transaction, the Company entered into lease agreements for each of the properties for initial terms of 20 years and renewal options up to 50 years. The aggregate initial annual rent payment for the properties is approximately $14,379 and includes 1% annual rent increases over the initial lease terms. All the properties qualified for sale and leaseback and operating lease accounting classification and the Company recorded a gain on the sale and leaseback transaction of $69,954 in the fourth quarter of 2020. The Company recorded operating lease right-of-use assets, including a non-cash asset recognized as a part of accounting for the transaction of $79,049, and corresponding operating lease liabilities of $261,698 and $182,649, respectively.

On August 4, 2020, the Company completed a subsequent sale and leaseback transaction involving 62 of its owned Cracker Barrel stores for an aggregate purchase price, net of closing costs, of $146,357. Under the transaction, the land, buildings and building improvements at the locations were sold and leased back for initial terms of 20 years and renewal options up to 50 years. The aggregate initial annual rent payment for the properties is approximately $10,393 and includes 1% annual rent increases over the initial lease terms. All of the properties qualified for sale and leaseback and operating lease accounting classification, and the Company recorded a gain of $217,722 which is recorded in the gain on sale and leaseback transaction line in the Condensed Consolidated Statement of Income in the first quarter of 2021. The Company also recorded operating lease right-of-use assets, including a non-cash asset recognized as part of accounting for the transaction of $175,960, and corresponding operating lease liabilities of $309,624 and $133,663, respectively.

9. 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 issued by the Company are calculated using the treasury stock method. The outstanding nonvested stock awards and units issued by the Company represent the only dilutive effects on diluted consolidated net income per share. The Company's convertible senior notes and related warrants are calculated using the net share settlement option under the if converted method. Because the principal amount of the convertible senior notes will be settled in cash with any excess conversion value settled in cash or shares of common stock, the convertible senior notes have been excluded from the computation of diluted earnings per share because the average market price of the Company's common stock during the reporting period did not exceed the conversion price of $172.09 as of April 28, 2023. Warrants were excluded from the computation of diluted earnings per share since the warrants' strike price of $240.93 was greater than the average market price of the Company's common stock during the period. See Note 4 for additional information regarding the Company's convertible senior notes.

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

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Net income per share numerator	$ 13,968	$ 27,516	$ 61,588	$ 98,516
Net income per share denominator:				
Weighted average shares	22,152,002	23,089,521	22,173,019	23,330,093
Add potential dilution:				
Nonvested stock awards and units	102,509	81,379	93,314	79,025
Diluted weighted average shares	22,254,511	23,170,900	22,266,333	23,409,118

10. 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 insurance coverage, the Company is contingently liable pursuant to standby letters of credit as credit guarantees to certain insurers. As of April 28, 2023, the Company had $31,896 of standby letters of credit related to securing reserved claims under workers' compensation insurance and the July 29, 2020 and August 4, 2020 sale and leaseback transactions. All standby letters of credit are renewable annually and reduce the Company's borrowing availability under its 2022 Revolving Credit Facility (see Note 4).

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 28, 2023.

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. As of April 28, 2023, we operated 661 Cracker Barrel stores in 45 states and 56 Maple Street Biscuit Company ("MSBC") locations in ten states.

All dollar amounts reported or discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") are shown in thousands, except per share amounts and certain statistical information (e.g., number of stores). References to years in MD&A are to our fiscal year unless otherwise noted.

MD&A provides information which management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. MD&A should be read in conjunction with the (i) condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q and (ii) audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 29, 2022 (the "2022 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," "should," "projects," "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 risks and uncertainties associated with general or regional economic weakness, business and societal conditions, and the weather impact on sales and customer travel; discretionary income or personal expenditure activity of our customers; information technology-related incidents, including data privacy and information security breaches, whether as a result of infrastructure failures, employee or vendor errors, or actions of third parties; our ability to identify, acquire and sell successful new lines of retail merchandise and new menu items at our restaurants; our ability to sustain or the effects of plans intended to improve operational or marketing execution and performance; the COVID-19 pandemic, including the duration of the COVID-19 pandemic and its ultimate impact on our business, levels of consumer confidence in the safety of dine-in restaurants, restrictions (including occupancy restrictions) imposed by governmental authorities, disruptions to our operations as a result of the spread of COVID-19 in our workforce; uncertain performance of acquired businesses, strategic investments and other initiatives that we may pursue from time to time; changes in or implementation of additional governmental or regulatory rules, regulations and interpretations affecting tax, wage and hour matters, health and safety, insurance or other undeterminable areas; the effects of plans intended to promote or protect our brands and products; commodity price increases; the ability of and cost to us to recruit, train, and retain qualified hourly and management employees; the effects of increased competition at our locations on sales and on labor recruiting, cost, and retention; workers' compensation, group health and utility price changes; consumer behavior based on negative publicity or changes in consumer health or dietary trends or safety aspects of our food or products or those of the restaurant industry in general, including concerns about outbreaks of infectious disease as well as the possible effects of such events on the price or availability of ingredients used in our restaurants; the effects of our indebtedness and associated restrictions on our financial and operating flexibility and ability to execute or pursue our operating plans and objectives; changes in interest rates, increases in borrowed capital or capital market conditions affecting our financing costs and ability to refinance all or portions of our indebtedness; the effects of business trends on the outlook for individual restaurant locations and the effect on the carrying value of those locations; our ability to retain key personnel; the availability and cost of suitable sites for restaurant development and our ability to identify those sites; our ability to enter successfully into new geographic markets that may be less familiar to us; changes in land, building materials and construction costs; the actual results of pending, future or threatened litigation or governmental investigations and the costs and effects of negative publicity or our ability to manage the impact of social media associated with these activities; economic or psychological effects of natural disasters or other unforeseen events such as terrorist acts, social unrest or war and the military or government responses to such events; disruptions to our restaurant or retail supply chain, including as a result of COVID-19; changes in foreign exchange rates affecting our future retail inventory purchases; the impact of activist shareholders; our reliance on limited distribution facilities and certain significant vendors; implementation of new or changes in interpretation of existing accounting principles generally accepted in the United States of America ("GAAP") and those factors contained in Part I, Item 1A of the 2022 Form 10-K, as well as the factors described under "Critical Accounting Estimates" on pages 25-27 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.

Overview

Management believes that Cracker Barrel's brand remains one of the strongest and most differentiated brands in the restaurant industry, and we plan to continue to leverage and build on that strength as a core competitive component of our business strategy. Our long-term strategy remains centered on driving sustainable sales growth, continued business model improvements, building profitable Cracker Barrel and MSBC stores, and driving shareholder returns. During the third quarter of 2023, we made progress in key areas of the business, including maintaining a strong value proposition, growing our off-premise business, marketing, and culinary innovation to grow the average check through introduction of add-on menu items such as sides and beverages and other menu enhancements, thoughtful expansion of MSBC, and store-level operational excellence. We believe there is significant uncertainty in macroeconomic factors that may affect our business in the remainder of 2023, including heightened economic uncertainty, weaker consumer confidence and consumer concerns regarding personal finances, but we remain focused on delivering long-term growth and returns for shareholders.

Key Performance Indicators

Management uses a number of key performance measures to evaluate our operational and financial performance, including the following:

- Comparable store restaurant sales increase/(decrease): To calculate comparable store restaurant sales increase/(decrease), we determine total restaurant sales of stores open at least six full quarters before the beginning of the applicable period, measured on comparable calendar weeks. We then subtract total comparable store restaurant sales for the current year period from total comparable store restaurant sales for the applicable historical period to calculate the absolute dollar change. To calculate comparable store restaurant sales increase/(decrease), which we express as a percentage, we divide the absolute dollar change by the comparable store restaurant sales for the historical period.

- Comparable store average restaurant sales: To calculate comparable store average restaurant sales, we determine total restaurant sales of stores open at least six full quarters before the beginning of the applicable period, measured on comparable calendar weeks, and divide by the number of comparable stores for the applicable period.

- Comparable store retail sales increase/(decrease): To calculate comparable store retail sales increase/(decrease), we determine total retail sales of stores open at least six full quarters before the beginning of the applicable period, measured on comparable calendar weeks. We then subtract total comparable store retail sales for the current year period from total comparable store retail sales for the applicable historical period to calculate the absolute dollar change. To calculate comparable store retail sales increase/(decrease), which we express as a percentage, we divide the absolute dollar change by the comparable store retail sales for the historical period.

- Comparable store retail average weekly sales: To calculate comparable store average retail sales, we determine total retail sales of stores open at least six full quarters before the beginning of the applicable period, measured on comparable calendar weeks, and divide by the number of comparable stores for the applicable period.

- Comparable restaurant guest traffic increase/(decrease): To calculate comparable restaurant guest traffic increase/(decrease), we determine the number of entrees sold in our dine-in and off-premise business from stores open at least six full quarters at the beginning of the applicable period, measured on comparable calendar weeks. We then subtract total entrees sold for the current year period from total entrees sold for the applicable historical period to calculate the absolute numerical change. To calculate comparable restaurant guest traffic increase/(decrease), which we express as a percentage, we divide the absolute numerical change by the total entrees sold for the historical period.

- Average check increase per guest: To calculate average check per guest, we determine comparable store restaurant sales, as described above, and divide by comparable guest traffic (as described above). We then subtract average check per guest for the current year period from average check per guest for the applicable historical period to calculate the absolute dollar change. The absolute dollar change is divided by the prior year average check number to calculate average check increase per guest, which we express as a percentage.

These performance indicators exclude the impact of new store openings and sales related to MSBC.

We use comparable store sales metrics as indicators of sales growth to evaluate how our established stores have performed over time. We use comparable restaurant guest traffic increase/(decrease) to evaluate how established stores have performed over time, excluding growth achieved through menu price and sales mix change. Finally, we use average check per guest to identify trends in guest preferences, as well as the effectiveness of menu changes. We believe these performance indicators are useful for investors by providing a consistent comparison of sales results and trends across comparable periods within our core, established store base, unaffected by results of store openings, closings, and other transitional changes.

Results of Operations

The following table highlights our operating results by percentage relationships to total revenue for the quarter ended and first nine months ended April 28, 2023 as compared to the same periods in the prior year:

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Total revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold (exclusive of depreciation and rent)	31.5	31.6	33.4	31.9
Labor and other related expenses	35.8	35.9	34.7	35.1
Other store operating expenses	23.6	23.6	23.1	23.0
General and administrative expenses	5.4	5.0	5.3	5.1
Impairment and store closing costs	1.7	—	0.5	—
Operating income	2.0	3.9	3.0	4.9
Interest expense, net	0.5	0.3	0.4	0.3
Income before income taxes	1.5	3.6	2.6	4.6
Provision for income taxes (income tax benefit)	(0.2)	0.1	0.2	0.6
Net income	1.7%	3.5%	2.4%	4.0%

The following table sets forth the change in the number of Company-owned units in operation during the quarters and first nine months ended April 28, 2023 and April 29, 2022 as well as the number of Company-owned units at the end of the quarters and first nine months ended April 28, 2023 and April 29, 2022:

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Net change in units:				
Company-owned – Cracker Barrel	(4)	—	(3)	—
Company-owned – MSBC	—	3	5	4
Units in operation at end of the period:				
Company-owned – Cracker Barrel	661	664	661	664
Company-owned – MSBC	56	41	56	41
Total Company-owned units at end of the period	717	705	717	705
Franchise – MSBC	—	7	—	7

MSBC previously had seven franchised units, all of which were purchased from the franchisees by the Company in the fourth quarter of 2022.

Total Revenue

Total revenue for the third quarter and first nine months of 2023 increased 5.4% and 6.9%, respectively, as compared to the same periods in the prior year. The following table highlights the key components of revenue for the quarter and nine months ended April 28, 2023 as compared to the same periods in the prior year:

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Revenue in dollars:				
Restaurant	$ 681,315	$ 632,210	$ 2,061,551	$ 1,903,704
Retail	151,374	157,986	544,525	533,682
Total revenue	$ 832,689	$ 790,196	$ 2,606,076	$ 2,437,386
Total revenue by percentage relationships:				
Restaurant	81.8%	80.0%	79.1%	78.1%
Retail	18.2%	20.0%	20.9%	21.9%
Average unit volumes[1]:				
Restaurant	$ 1,003.0	$ 933.8	$ 3,035.3	$ 2,814.6
Retail	228.0	237.8	819.5	803.1
Total revenue	$ 1,231.0	$ 1,171.6	$ 3,854.8	$ 3,617.7
Comparable store sales increase (decrease)[2]:				
Restaurant	7.4%	10.9%	7.7%	18.4%
Retail	(4.6%)	9.7%	1.6%	23.9%
Restaurant and retail	5.0%	10.7%	6.3%	19.6%
Average check increase	10.6%	6.2%	9.9%	6.7%
Comparable restaurant guest traffic increase (decrease)[2]:	(3.2%)	4.7%	(2.2%)	11.7%

(1) Average unit volumes include sales of all stores except for MSBC.
(2) Comparable store sales and traffic consist of sales of stores open at least six full quarters at the beginning of the period and are measured on comparable calendar weeks. Comparable store sales and traffic exclude MSBC.

For the third quarter of 2023, our comparable store restaurant sales increased as a result of a 10.6% average check increase (including an 8.8% average menu price increase) partially offset by a 3.2% guest traffic decrease as compared to the prior year period. For the first nine months of 2023, our comparable store restaurant sales increased as a result of a 9.9% average check increase (including an 8.5% average menu price increase) partially offset by a 2.2% guest traffic decrease as compared to the prior year period. While all of our dining rooms are currently operating without COVID-19-related restrictions, it is possible that renewed outbreaks or increases in cases and/or new variants of the disease, either as part of a national trend or on a more localized basis, could result in COVID-19-related restrictions including capacity restrictions, otherwise limit our dine-in services, or negatively affect consumer demand.

Our retail sales are made substantially to our restaurant guests. For the third quarter of 2023, our comparable store retail sales decrease resulted primarily from the guest traffic decrease. For the first nine months of 2023, our comparable store retail sales increase resulted primarily from the strong performance in the apparel and accessories merchandise categories partially offset by the guest traffic decrease.

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 2023 as compared to the same periods in the prior year:

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Cost of Goods Sold in dollars:				
Restaurant	$ 186,157	$ 175,937	$ 588,743	$ 515,905
Retail	76,034	74,111	281,543	260,555
Total Cost of Goods Sold	$ 262,191	$ 250,048	$ 870,286	$ 776,460
Cost of Goods Sold by percentage of revenue:				
Restaurant	27.3%	27.8%	28.6%	27.1%
Retail	50.2%	46.9%	51.7%	48.8%

The decrease in restaurant cost of goods sold as a percentage of restaurant revenue in the third quarter of 2023 as compared to the same period in the prior year was primarily the result of lower commodity inflation as compared to the prior year quarter.

The increase in restaurant cost of goods sold as a percentage of restaurant revenue in the first nine months of 2023 as compared to the same period in the prior year was primarily the result of commodity inflation partially offset by the menu price increase referenced above.

Commodity inflation was 4.3% and 11.0%, respectively, for the third quarter and the first nine months of 2023. We continue to partially offset inflationary pressures through menu price increases and operational improvements, and we presently expect the rate of commodity inflation to be flat in the fourth quarter of 2023.

The increase in retail cost of goods sold as a percentage of retail revenue in the third quarter of 2023 as compared to the same period in the prior year resulted from higher inventory shrinkage and higher markdowns.

	Third Quarter Increase as a Percentage of Total Revenue
Inventory shrinkage	1.9%
Markdowns	1.4%

The increase in retail cost of goods sold as a percentage of retail revenue in the first nine months of 2023 as compared to the same period in the prior year resulted primarily from higher markdowns, higher inventory shrinkage and the change in the provision for obsolete inventory.

	First Nine Months Increase as a Percentage of Total Revenue
Markdowns	2.1%
Inventory shrinkage	0.5%
Provision for obsolete inventory	0.2%

Labor and Related Expenses

Labor and related expenses include all direct and indirect labor and related costs incurred in store operations. The following table highlights labor and related expenses as a percentage of total revenue for the third quarter and first nine months of 2023 as compared to the same periods in the prior year:

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Labor and related expenses	35.8%	35.9%	34.7%	35.1%

This percentage change for the third quarter of 2023 as compared to the same period in the prior year resulted from the following:

	Third Quarter (Decrease) Increase as a Percentage of Total Revenue
Store management compensation	(0.3%)
Employee health care expense	(0.2%)
Store hourly labor	0.3%
Workers' compensation expense	0.1%

This percentage change for the first nine months of 2023 as compared to the same period in the prior year resulted from the following:

	First Nine Months (Decrease) Increase as a Percentage of Total Revenue
Employee health care expense	(0.3%)
Store management compensation	(0.2%)
Store hourly labor	0.1%

The decreases in employee health care expenses as a percentage of total revenue for the third quarter and first nine months of 2023 as compared to the same periods in the prior year resulted primarily from lower enrollment.

The decrease in store management compensation as a percentage of total revenue for the third quarter of 2023 as compared to the same period in the prior year was primarily driven by lower store bonus expense, lower manager staffing levels and the increase in total revenue in the third quarter of 2023 partially offset by wage inflation. Lower store bonus expense resulted from lower performance against financial objectives for certain components of the store-level incentive plan in the third quarter of 2023 as compared to the same period in the prior year. The decrease in store management compensation as a percentage of total revenue for the first nine months of 2023 as compared to the same period in the prior year was primarily driven by the increase in total revenue in 2023 and lower staffing levels partially offset by wage inflation.

The increases in store hourly labor expense as a percentage of total revenue for the third quarter and first nine months of 2023 as compared to the same periods in the prior year resulted primarily from wage inflation exceeding menu price increases. In addition to menu price increases, we continue to partially offset inflationary pressures through labor productivity initiatives, and we presently expect the rate of wage inflation to be approximately 5.0% in the fourth quarter of 2023.

The increase in workers' compensation expense as a percentage of total revenue for the third quarter of 2023 as compared to the same period in the prior year resulted primarily from an increase in the number of claims, as the workforce is returning to pre-COVID levels.

Other Store Operating Expenses

Other store operating expenses include all store-level operating costs, the major components of which are occupancy costs, operating supplies, advertising, third-party delivery fees, credit and gift card fees, real and personal property taxes and general insurance. Occupancy costs include maintenance, utilities, depreciation and rent.

The following table highlights other store operating expenses as a percentage of total revenue for the third quarter and first nine months of 2023 as compared to the same periods in the prior year:

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Other store operating expenses	23.6%	23.6%	23.1%	23.0%

Other store operating expenses as a percentage of total revenue for the third quarter of 2023 remained flat to the same period in the prior year as a result of the following offsetting percentage changes:

	Third Quarter Increase (Decrease) as a Percentage of Total Revenue
Advertising expense	0.3%
Store occupancy costs	(0.2%)
Supplies expense	(0.1%)

The increase in advertising expense as a percentage of total revenue for the third quarter of 2023 as compared to the same period in the prior year resulted primarily from higher media spending.

The decrease in store occupancy costs as a percentage of total revenue for the third quarter of 2023 as compared to the same period in the prior year was primarily drive by the increase in total revenue in the third quarter of 2023 as compared to the same period in the prior year partially offset by higher maintenance expense. Higher maintenance expense resulted primarily from inflationary pressures and higher expenditures for repair costs due to limited availability of replacement equipment.

The decrease in supplies expense as a percentage of total revenue for the third quarter of 2023 as compared to the same period in the prior year was primarily driven by the increase in total revenue in the third quarter of 2023.

The increase in other store operating expenses as a percentage of total revenue for the first nine months of 2023 as compared to the same period in the prior year resulted primarily from higher general insurance expense due to the increasing cost of claims.

General and Administrative Expenses

The following table highlights general and administrative expenses as a percentage of total revenue for the third quarter and first nine months of 2023 as compared to the same periods in the prior year:

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
General and administrative expenses	5.4%	5.0%	5.3%	5.1%

The increase in general administrative expenses as a percentage of total revenue in the third quarter of 2023 as compared to the same period in the prior year resulted primarily from the higher corporate-level incentive compensation resulting from better performance against financial objectives as compared to the same period in the prior year.

The increase in general and administrative expenses as a percentage of total revenue in the first nine months of 2023 as compared to the same period in the prior year resulted primarily from proxy contest and settlement expenses in connection with the Company’s calendar year 2022 annual shareholders meeting held on November 17, 2022.

Impairment and Store Closing Costs

During the third quarter of 2023, we recorded impairment charges of $11,692 due to the deterioration in operating performance of six Cracker Barrel locations. Additionally, during the third quarter of 2023, we incurred costs of $2,198 in connection with the closure of four Cracker Barrel and three MSBC locations because of poor operating performance.

Impairment and store closing costs consisted of the following at:

	2023
Impairment	$ 11,692
Store closing costs	2,198
Total	$ 13,890

Interest Expense

The following table highlights interest expense, net in dollars for the third quarter and first nine months of 2023 as compared to the same periods in the prior year:

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Interest expense, net	$ 4,536	$ 2,171	$ 12,476	$ 7,000

The increase in interest expense for the third quarter and first nine months of 2023 as compared to the same periods in the prior year resulted primarily from higher debt levels under our revolving credit facility and higher average weighted interest rates.

Provision for Income Taxes (Income Tax Benefit)

The following table highlights the provision for income taxes as a percentage of income before income taxes ("effective tax rate") for the third quarter and first nine months of 2023 as compared to the same periods in the prior year:

	Quarter Ended		Nine Months Ended	
	April 28, 2023	April 29, 2022	April 28, 2023	April 29, 2022
Effective tax rate	(14.0%)	2.7%	7.9%	12.8%

The decreases in the effective tax rate in the third quarter and the first nine months of 2023 as compared to the same periods in the prior year are primarily due to the disproportionate impact of increased tax credits resulting from lower earnings in the current year periods.

We presently expect our effective tax rate for 2023 to be approximately 6%.

Liquidity and Capital Resources

Our primary sources of liquidity are cash generated from our operations and our borrowing capacity under our 2022 Revolving Credit Facility. Our internally generated cash, along with cash on hand at July 29, 2022 and borrowings under our revolving credit facility, were sufficient to finance all of our growth, dividend payments, share repurchases, working capital needs, interest payments under our revolving credit facility and other cash payment obligations in the first nine months of 2023. We believe that cash on hand at April 28, 2023, along with cash expected to be generated from our operating activities and the borrowing capacity under our revolving credit facility, will be sufficient to finance our continuing operations, our continuing expansion plans, share repurchases and working capital needs over the next twelve months. We believe that cash expected to be generated from our operating activities and the borrowing capacity under our revolving credit facility will be sufficient to finance our continuing operations, dividend payments, capital expenditures, interest expense on long-term debt obligations, operating lease obligations, continuing expansion plans, share repurchases and working capital needs beyond the next twelve months. Our ability to draw on our revolving credit facility is subject to the satisfaction of provisions of the credit facility, as amended, and we believe we will be able to refinance our revolving credit facility and other debt instruments prior to their maturity.

Cash Generated From Operations

Our operating activities provided net cash of $151,236 for the first nine months of 2023, representing an increase from the $106,356 net cash provided during the first nine months of 2022. This increase resulted primarily from the change in retail inventory partially offset by the timing of payments for accounts payable and certain taxes.

Borrowing Capacity, Debt Covenants and Notes

On June 17, 2022, we entered into a five-year $700,000 revolving credit facility (the "2022 Revolving Credit Facility") with substantially the same terms and financial covenants as our previous amended $800,000 revolving credit facility. The 2022 Revolving Credit Facility also contains an option for the Company to increase the revolving credit facility by $200,000.

At April 28, 2023, we had $150,000 of outstanding borrowings under the 2022 Revolving Credit Facility and $31,896 of standby letters of credit related to securing reserved claims under our workers' compensation insurance and our July 29, 2020 and August 4, 2020 sale and leaseback transactions, which reduce our borrowing availability under the 2022 Revolving Credit Facility. At April 28, 2023, we had $518,104 in borrowing availability under our 2022 Revolving Credit Facility. During the first nine months of 2023, we borrowed $120,000 and repaid $100,000 under the 2022 Revolving Credit Facility. See Note 4 to our Condensed Consolidated Financial Statements for further information on our long-term debt.

Our 2022 Revolving Credit Facility contains customary financial covenants, which include maintenance of a maximum consolidated total senior secured leverage ratio and a minimum consolidated interest coverage ratio. We were in compliance with the 2022 Revolving Credit Facility's financial covenants at April 28, 2023, and we expect to be in compliance with the 2022 Revolving Credit Facility's financial covenants for the remaining term of the facility.

On June 18, 2021, the Company entered into an issuance and sale of $300,000 aggregate principal amount of 0.625% Convertible Senior Notes due 2026. The Notes are senior, unsecured obligations of the Company and bear cash interest at a rate of 0.625% per annum, payable semi-annually in arrears on June 15 and December 15 of each year, which initiated on December 15, 2021. The Notes mature on June 15, 2026, unless earlier converted, repurchased or redeemed.

Capital Expenditures and Proceeds from Sale of Property and Equipment

Capital expenditures (purchase of property and equipment) net of proceeds from insurance recoveries were $86,898 for the first nine months of 2023 as compared to $58,807 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 in the first nine months of 2023 from the first nine months of 2022 resulted primarily from increased capital expenditures for existing stores. We estimate that our capital expenditures during the fourth quarter 2023 will be approximately $30,000 to $35,000. This estimate includes the acquisition of sites and construction costs of new Cracker Barrel and MSBC locations that we expect to open during 2023, as well as for acquisition and construction costs for new Cracker Barrel and MSBC locations that we plan to open in 2024. We intend to fund our capital expenditures with cash generated by operations and borrowings under our 2022 Revolving Credit Facility, as necessary.

Dividends, Share Repurchases and Share-Based Compensation Awards

Our 2022 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 2022 Revolving Credit Facility, provided there is no default existing and the total of our availability under the 2022 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 senior secured leverage ratio is 2.75 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 2.75 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 2023, we paid a regular dividend of $3.90 per share and declared a dividend of $1.30 per share that was subsequently paid on May 9, 2023, to shareholders of record on April 14, 2023. In addition, in the fourth quarter of 2023, our Board of Directors approved a regular dividend payable on August 8, 2023 to shareholders of record on July 21, 2023 of $1.30 per share.

In the fourth quarter of 2022, we were authorized by our Board of Directors to repurchase shares of the Company's outstanding common stock at management's discretion up to a total value of $200,000. During the first nine months of 2023, we repurchased 171,792 shares of our common stock in the open market at an aggregate cost of $17,449 pursuant to this authorization.

During the first nine months of 2023, we issued 42,781 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 $2,400.

Working Capital

In the restaurant industry, virtually all sales are either for third-party credit or debit card or cash. 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 $176,191 at April 28, 2023 versus negative working capital of $185,048 at July 29, 2022. The change in working capital from July 29, 2022 to April 28, 2023 primarily resulted from the timing of payments for accounts payable and certain taxes partially offset by the decrease in retail inventory levels and the decrease in cash. The decrease in cash primarily reflected dividend payments and spending for capital expenditures partially offset by cash generated from operations.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

Material Commitments

There have been no material changes in our material commitments other than in the ordinary course of business since the end of 2022. Refer to the sub-section entitled "Material Commitments" under the section entitled "Liquidity and Capital Resources" presented in the MD&A of our 2022 Form 10-K for additional information regarding our material commitments.

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 2022 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
- Insurance Reserves
- Retail Inventory Valuation
- Lease Accounting

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 nine months of 2023, 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. During the third quarter of 2023, we recorded impairment charges of $11,692 due to the deterioration in operating performance of six Cracker Barrel locations.

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 first 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 half 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.

Our accounting policies regarding 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 nine months of 2023 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 inputs, 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 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 nine months of 2023 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.

Lease Accounting

We have ground leases for our leased stores and office space leases that are recorded as operating leases under various non-cancellable operating leases. Additionally, we lease our retail distribution center, advertising billboards, vehicle fleets, and certain equipment under various non-cancellable operating leases.

We evaluate our leases at contract inception to determine whether we have the right to control use of the identified asset for a period of time in exchange for consideration. If we determine that we have the right to obtain substantially all of the economic benefit from use of the identified asset and the right to direct the use of the identified asset, we recognize a right-of-use asset and lease liability. Also, at contract inception, we evaluate our leases to estimate their expected term which includes renewal options that we are reasonably assured that we will exercise, and the classification of the lease as either an operating lease or a finance lease. Additionally, as our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the time of commencement or modification date in determining the present value of lease payments. Assumptions used in determining our incremental borrowing rate include our implied credit rating and an estimate of secured borrowing rates based on comparable market data. We assess the impairment of the right-of-use asset whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

Changes in these assumptions and management judgments may produce materially different amounts in the recognition of the right-of-use assets and lease liabilities. Additionally, any loss resulting from an impairment of the right-of-use assets is recognized by a charge to income, which could be material.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our quantitative and qualitative market risks since July 29, 2022. For a discussion of the Company's exposure to market risk, refer to the Company's market risk disclosures set forth in Part II, Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" of the 2022 Form 10-K.

Interest Rate Risk. We have interest rate risk relative to our outstanding borrowings under our revolving credit facility. At April 28, 2023, our outstanding borrowings totaled $150,000 under our revolving credit facility (see Note 4 to the Condensed Consolidated Financial Statements). Loans under the 2022 Revolving Credit Facility bear interest, at our election, either at the prime rate or a rate 0.5% in excess of the Federal Funds Rate or a rate 1.0% in excess of one-month Term Secured Overnight Financing Rate (SOFR), in each case plus an applicable margin, or the one-, three-, or six-month per annum Term SOFR plus an applicable margin. Under the 2019 Revolving Credit Facility, loans bore interest, at our election, either at the prime rate or London Inter-Bank Offer Rate (LIBOR) plus a percentage point spread based on certain specified financial ratios. Our policy has been to manage interest cost using a mix of fixed and variable rate debt (see Notes 4 and 8 to our Consolidated Financial Statements). In the fourth quarter of 2021, we issued and sold the Notes, which bear cash interest at a fixed rate of 0.625% per annum. The impact of a one-percentage point increase or decrease in the $150,000 of our outstanding borrowings under our revolving credit facility is approximately $1,500 on a pre-tax annualized basis.

Credit Risk. In the fourth quarter of 2021, the Company issued the Notes and entered into the Convertible Note Hedge Transactions and the Warrant Transactions with the Hedge Counterparties. Subject to the changes in the market price of the Company's common stock price, the Company could be exposed to credit risk arising out of the net settlement of the Convertible Note Hedge Transactions and the Warrant Transactions in its favor. Based on the Company's review of the possible net settlements and the creditworthiness of the Hedge Counterparties and their affiliates, the Company believes it does not have a material exposure to credit risk as a result of these transactions at this time.

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 28, 2023, 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 28, 2023 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 2022 Form 10-K.

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	Second Amended and Restated Bylaws of Cracker Barrel Old Country Store, Inc. (incorporated by reference to Exhibit 3.2 to the Company’s Quarterly Report on Form 10-Q filed under the Exchange Act on June 7, 2022)
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	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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 6, 2023

By: /s/Craig A. Pommells
Craig A. Pommells, Senior Vice President, Chief Financial Officer and Principal Accounting Officer

EXHIBIT 31.1

CERTIFICATION

I, Sandra B. Cochran, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cracker Barrel Old Country Store, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 6, 2023

/s/Sandra B. Cochran
Sandra B. Cochran, President and
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Craig A. Pommells, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cracker Barrel Old Country Store, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 6, 2023

/s/Craig A. Pommells
Craig A. Pommells, Senior Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Cracker Barrel Old Country Store, Inc. (the "Issuer") on Form 10-Q for the fiscal quarter ended April 28, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sandra B. Cochran, President and Chief Executive Officer of the Issuer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: June 6, 2023

By: /s/Sandra B. Cochran
Sandra B. Cochran
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Cracker Barrel Old Country Store, Inc. (the “Issuer”) on Form 10-Q for the fiscal quarter ended April 28, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Craig A. Pommells, Senior Vice President and Chief Financial Officer of the Issuer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: June 6, 2023

By: /s/Craig A. Pommells
Craig A. Pommells
Senior Vice President and Chief Financial Officer