

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 January 29, 2010

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 000-25225

**CRACKER BARREL OLD COUNTRY STORE, INC.**

(Exact Name of Registrant as  
Specified in Its Charter)

Tennessee  
(State or Other Jurisdiction  
of Incorporation or Organization)

62-1749513  
(IRS Employer  
Identification No.)

305 Hartmann Drive, P. O. Box 787  
Lebanon, Tennessee 37088-0787  
(Address of Principal Executive Offices)  
(Zip Code)

615-444-5533  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

22,904,895 Shares of Common Stock  
Outstanding as of February 26, 2010

## FORM 10-Q

For the Quarter Ended January 29, 2010

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

	January 29, 2010	July 31, 2009*
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 13,151	\$ 11,609
Accounts receivable	17,692	12,730
Income taxes receivable	2,332	4,078
Inventories	120,859	137,424
Prepaid expenses and other current assets	12,421	9,193
Deferred income taxes	25,585	23,291
<b>Total current assets</b>	<b>192,040</b>	<b>198,325</b>
Property and equipment	1,590,027	1,572,438
Less: Accumulated depreciation and amortization of capital leases	595,213	570,662
<b>Property and equipment – net</b>	<b>994,814</b>	<b>1,001,776</b>
Other assets	50,010	45,080
<b>Total assets</b>	<b>\$ 1,236,864</b>	<b>\$ 1,245,181</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 71,606	\$ 92,168
Current maturities of long-term debt and other long-term obligations	6,975	7,422
Deferred revenue	40,718	22,528
Accrued interest expense	10,930	10,379
Other accrued expenses	123,247	132,465
<b>Total current liabilities</b>	<b>253,476</b>	<b>264,962</b>
Long-term debt	595,236	638,040
Capital lease obligations	51	60
Interest rate swap liability	64,251	61,232
Other long-term obligations	95,392	89,610
Deferred income taxes	55,371	55,655
Commitments and contingencies (Note 15)		
Shareholders' equity:		
Preferred stock – 100,000,000 shares of \$.01 par value authorized; no shares issued	--	--
Common stock – 400,000,000 shares of \$.01 par value authorized; 22,802,610 shares issued and outstanding at January 29, 2010, and 22,722,685 shares issued and outstanding at July 31, 2009	228	227
Additional paid-in capital	16,789	12,972
Accumulated other comprehensive loss	(45,361)	(44,822)
Retained earnings	201,431	167,245
<b>Total shareholders' equity</b>	<b>173,087</b>	<b>135,622</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,236,864</b>	<b>\$ 1,245,181</b>

See notes to unaudited condensed consolidated financial statements.

\* This condensed consolidated balance sheet has been derived from the audited consolidated balance sheet as of July 31, 2009, as filed in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2009.

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

	Quarter Ended		Six Months Ended	
	January 29, 2010	January 30, 2009	January 29, 2010	January 30, 2009
Total revenue	\$ 632,616	\$ 630,182	\$ 1,213,799	\$ 1,204,114
Cost of goods sold	211,898	222,493	389,369	403,850
Gross profit	420,718	407,689	824,430	800,264
Labor and other related expenses	228,594	234,118	453,354	456,551
Impairment and store closing charges	2,263	--	2,263	--
Other store operating expenses	105,501	105,740	210,967	211,706
Store operating income	84,360	67,831	157,846	132,007
General and administrative expenses	34,975	28,558	70,476	60,176
Operating income	49,385	39,273	87,370	71,831
Interest expense	13,293	13,281	25,063	27,314
Income before income taxes	36,092	25,992	62,307	44,517
Provision for income taxes	10,699	7,630	18,890	13,323
Net income	<u>\$ 25,393</u>	<u>\$ 18,362</u>	<u>\$ 43,417</u>	<u>\$ 31,194</u>
Net income per share:				
Basic	<u>\$ 1.11</u>	<u>\$ 0.82</u>	<u>\$ 1.90</u>	<u>\$ 1.39</u>
Diluted	<u>\$ 1.09</u>	<u>\$ 0.81</u>	<u>\$ 1.87</u>	<u>\$ 1.38</u>
Weighted average shares:				
Basic	<u>22,831,645</u>	<u>22,389,598</u>	<u>22,796,846</u>	<u>22,369,783</u>
Diluted	<u>23,397,279</u>	<u>22,597,183</u>	<u>23,266,832</u>	<u>22,631,754</u>
Dividends declared per share	<u>\$ 0.20</u>	<u>\$ 0.20</u>	<u>\$ 0.40</u>	<u>\$ 0.40</u>

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended	
	January 29, 2010	January 30, 2009
<b>Cash flows from operating activities:</b>		
Net income	\$ 43,417	\$ 31,194
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,499	28,938
Loss on disposition of property and equipment	2,033	1,790
Impairment	2,263	--
Share-based compensation	5,825	3,744
Excess tax benefit from share-based compensation	(1,228)	--
Changes in assets and liabilities:		
Accounts receivable	(4,962)	797
Income taxes receivable	2,974	1,834
Inventories	16,565	18,196
Prepaid expenses and other current assets	(3,228)	(1,089)
Accounts payable	(20,562)	(36,969)
Deferred revenue	18,190	13,615
Accrued interest expense	551	(1,486)
Other accrued expenses	(9,176)	(13,543)
Deferred income taxes	(98)	(1,293)
Other long-term assets and liabilities	3,201	4,106
Net cash provided by operating activities	<u>86,264</u>	<u>49,834</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(27,550)	(37,444)
Proceeds from sale of property and equipment	100	1,496
Proceeds from insurance recoveries of property and equipment	176	74
Net cash used in investing activities	<u>(27,274)</u>	<u>(35,874)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term debt	270,100	518,200
Principal payments under long-term debt and other long-term obligations	(313,360)	(525,265)
Proceeds from exercise of share-based compensation awards	4,564	877
Excess tax benefit from share-based compensation	1,228	--
Purchases and retirement of common stock	(7,799)	--
Deferred financing costs	(2,908)	--
Dividends on common stock	(9,273)	(8,615)
Net cash used in financing activities	<u>(57,448)</u>	<u>(14,803)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>1,542</u>	<u>(843)</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>11,609</u>	<u>11,978</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 13,151</u>	<u>\$ 11,135</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the six months for:		
Interest, excluding interest rate swap payments, net of amounts capitalized	\$ 7,708	\$ 18,832
Interest rate swap	\$ 14,630	\$ 8,743
Income taxes	\$ 16,755	\$ 10,856
<b>Supplemental schedule of non-cash financing activity:</b>		
Change in fair value of interest rate swap	\$ (3,019)	\$ (23,708)
Change in deferred tax asset for interest rate swap	\$ 2,480	\$ 6,843

See notes to unaudited condensed consolidated financial statements.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(In thousands, except percentages and share data)  
(Unaudited)

**1. Condensed Consolidated Financial Statements**

The condensed consolidated balance sheets at January 29, 2010 and July 31, 2009 and the related condensed consolidated statements of income and cash flows for the quarters and/or six-month periods ended January 29, 2010 and January 30, 2009, have been prepared by Cracker Barrel Old Country Store, Inc. (the "Company") in accordance with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") without audit. The Company is principally engaged in the operation and development of the Cracker Barrel Old Country Store® ("Cracker Barrel") restaurant and retail concept. In the opinion of management, all adjustments (consisting of normal and recurring items) necessary for a fair presentation of such condensed consolidated financial statements have been made. The results of operations for any interim period are not necessarily indicative of results for a full year.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended July 31, 2009 (the "2009 Form 10-K"). References in these Notes to Condensed Consolidated Financial Statements to a year are to the Company's fiscal year unless otherwise noted.

**2. Summary of Significant Accounting Policies**

The significant accounting policies of the Company are included in the 2009 Form 10-K. During the six-month period ended January 29, 2010, there were no significant changes to those accounting policies.

**3. Recent Accounting Pronouncements**

**Accounting Standards Codification**

On September 15, 2009, the Company adopted the Accounting Standards Codification ("ASC") as issued by the Financial Accounting Standards Board ("FASB"). The ASC is the single source of authoritative nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. The adoption did not have an impact on the Company's consolidated financial statements.

**Fair Value**

On August 1, 2009, the first day of 2010, the Company adopted, on a prospective basis, accounting guidance as issued by the FASB for certain nonfinancial assets and liabilities that are recorded or disclosed at fair value on a nonrecurring basis, such as nonfinancial long-lived asset groups measured at fair value for an impairment assessment. The adoption did not have an impact on the Company's consolidated financial statements. See Note 4 for further information related to the Company's assets and liabilities measured at fair value on a nonrecurring basis.

4. **Fair Value Measurements**

The Company's assets and liabilities measured at fair value on a recurring basis at January 29, 2010 were as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value as of January 29, 2010
Cash equivalents*	\$ 2,348	\$ --	\$ --	\$ 2,348
Deferred compensation plan assets**	25,224	--	--	25,224
<b>Total assets at fair value</b>	<b>\$ 27,572</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 27,572</b>
Interest rate swap liability (Note 7)	\$ --	\$ 64,251	\$ --	\$ 64,251
<b>Total liabilities at fair value</b>	<b>\$ --</b>	<b>\$ 64,251</b>	<b>\$ --</b>	<b>\$ 64,251</b>

The Company's assets and liabilities measured at fair value on a recurring basis at July 31, 2009 were as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value as of July 31, 2009
Cash equivalents*	\$ 48	\$ --	\$ --	\$ 48
Deferred compensation plan assets**	22,583	--	--	22,583
<b>Total assets at fair value</b>	<b>\$ 22,631</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 22,631</b>
Interest rate swap liability (Note 7)	\$ --	\$ 61,232	\$ --	\$ 61,232
<b>Total liabilities at fair value</b>	<b>\$ --</b>	<b>\$ 61,232</b>	<b>\$ --</b>	<b>\$ 61,232</b>

\*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 sheet as other assets.

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

The fair values of the Company's accounts receivable and accounts payable approximate their carrying amounts due to their short duration. The fair value of the Company's variable-rate term loans and revolving credit facility, based on quoted market prices, totaled approximately \$590,932 and \$619,200 at January 29, 2010 and July 31, 2009, respectively. See Note 6 for additional information on the Company's debt.

The Company assesses the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value 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 amount is written down to the estimated fair value of an asset to be held and used or the fair value, net of estimated costs of disposal, of an asset to be disposed of, and a loss resulting from impairment is recognized by a charge to income. During the quarter ended January 29, 2010, one leased Cracker Barrel store was determined to be impaired based on declining operating performance and resulting negative cash flow projections. Fair value of the leased store was determined by using a cash flow model. Assumptions used in the cash flow model included projected annual revenue growth rates and projected cash flows and are impacted by economic conditions and management's expectations. 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 reduced the leased store's carrying value to zero; this resulted in an impairment charge of \$2,263.

5. **Inventories**

Inventories were comprised of the following at:

	January 29, 2010	July 31, 2009
Retail	\$ 89,483	\$ 108,412
Restaurant	18,722	16,782
Supplies	12,654	12,230
Total	<u>\$ 120,859</u>	<u>\$ 137,424</u>

6. **Debt**

Long-term debt consisted of the following at:

	January 29, 2010	July 31, 2009
Term loans payable on or before April 27, 2013	\$ 367,861	\$ 645,000
Term loans payable on or before April 27, 2016	233,937	--
Revolving Credit Facility	--	--
Note payable	395	444
	602,193	645,444
Current maturities	(6,957)	(7,404)
Long-term debt	<u>\$ 595,236</u>	<u>\$ 638,040</u>

The Company's credit facility (the "Credit Facility") consists of term loans (aggregate outstanding at January 29, 2010 was \$601,798) and a \$250,000 revolving credit facility (the "Revolving Credit Facility"). On November 6, 2009, the Company entered into an amendment to the Credit Facility which extended the availability of \$165,000 of the \$250,000 Revolving Credit Facility to January 27, 2013 from April 27, 2011. The amendment also extended the maturity date of \$250,000 of the Company's then outstanding term loans to April 27, 2016 from April 27, 2013.



At January 29, 2010, \$600,000 of the Company's term loans was swapped at a weighted average interest rate of 7.46% (see Note 7). The weighted average interest rate on the remaining \$1,798 was 2.14%. At January 29, 2010, the Company had outstanding \$32,626 of standby letters of credit, which reduce the Company's availability under the Revolving Credit Facility (see Note 15). At January 29, 2010, the Company had \$217,374 available under the Revolving Credit Facility.

The Credit Facility contains customary financial covenants, which are specified in the agreement and include maintenance of a maximum consolidated total leverage ratio and a minimum consolidated interest coverage ratio. At January 29, 2010, the Company was in compliance with all debt covenants.

The Credit Facility also imposes restrictions on the amount of dividends the Company is able to pay. If there is no default then existing and there is at least \$100,000 then available under the Revolving Credit Facility, the Company may both: (1) pay cash dividends on its common stock if the aggregate amount of dividends paid in any fiscal year is less than 15% of Consolidated EBITDA from continuing operations (as defined in the Credit Facility) during the immediately preceding fiscal year; and (2) in any event, increase its regular quarterly cash dividend in any quarter by an amount not to exceed the greater of \$.01 or 10% of the amount of the dividend paid in the prior fiscal quarter.

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

#### 7. Derivative Instruments and Hedging Activities

The Company uses derivative instruments to mitigate its interest rate risk. The Company does not hold or use derivative instruments for trading purposes. The Company also does not have any derivatives not designated as hedging instruments and has not designated any non-derivatives as hedging instruments.

The Company has interest rate risk relative to its outstanding borrowings under its Credit Facility (see Note 6). Loans under the Credit Facility bear interest, at the Company's election, either at the prime rate or LIBOR plus a percentage point spread based on certain specified financial ratios.

The Company's policy has been to manage interest cost using a mix of fixed and variable rate debt (see Note 6). To manage this risk, the Company entered into an interest rate swap on May 4, 2006 in which it agreed to exchange with a counterparty, at specified intervals effective August 3, 2006, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. The interest rate swap was accounted for as a cash flow hedge. The swapped portion of the Company's outstanding debt is fixed at a rate of 5.57% plus the Company's credit spread over the 7-year life of the interest rate swap. The Company's weighted average credit spread at January 29, 2010 was 1.89%.

The swapped portion of the outstanding debt or notional amount of the interest rate swap over its remaining life is as follows:

From May 5, 2009 to May 3, 2010	\$	600,000
From May 4, 2010 to May 2, 2011		575,000
From May 3, 2011 to May 2, 2012		550,000
From May 3, 2012 to May 3, 2013		525,000

At January 29, 2010 and July 31, 2009, the estimated fair values of the Company's derivative instrument were as follows:

Interest rate swap (See Note 4)	Balance Sheet Location Interest rate swap liability	January 29,	July 31,
		2010	2009
		\$ 64,251	\$ 61,232

The estimated fair value of the Company's interest rate swap liability incorporates the Company's own non-performance risk (see Note 4). The adjustment related to non-performance risk at January 29, 2010 and July 31, 2009 resulted in reductions of \$3,513 and \$5,372, respectively, in the fair values of the interest rate swap liability. The offset to the interest rate swap liability is recorded in accumulated other comprehensive loss ("AOCL"), net of the deferred tax asset, and will be reclassified into earnings over the term of the underlying debt. As of January 29, 2010, the estimated pre-tax portion of AOCL that is expected to be reclassified into earnings over the next twelve months is \$29,875. Cash flows related to the interest rate swap are included in interest expense and in operating activities.

The following table summarizes the pre-tax effects of the Company's derivative instrument on AOCL for the six-month period ended January 29, 2010 and the year ended July 31, 2009:

Cash flow hedge: Interest rate swap	Amount of Loss Recognized in AOCL on Derivative (Effective Portion)	
	Six Months Ended	Year Ended
	January 29, 2010	July 31, 2009
	\$ (3,019)	\$ (21,614)

The following table summarizes the pre-tax effects of the Company's derivative instrument on income for the quarters and six-month periods ended January 29, 2010 and January 30, 2009:

Cash flow hedge: Interest rate swap	Location of Loss Reclassified from AOCL into Income (Effective Portion)	Amount of Loss Reclassified from AOCL into Income (Effective Portion)			
		Quarter Ended		Six Months Ended	
		January 29, 2010	January 30, 2009	January 29, 2010	January 30, 2009
	Interest expense	\$ 7,799	\$ 4,391	\$ 14,630	\$ 8,743

No ineffectiveness has been recorded in the six-month periods ended January 29, 2010 and January 30, 2009.

#### 8. Shareholders' Equity

During the six-month period ended January 29, 2010, the Company received proceeds of \$4,564 from the exercise of share-based compensation awards and the corresponding issuance of 284,925 shares of its common stock. During the six-month period ended January 29, 2010, the Company repurchased 205,000 shares of its common stock in the open market at an aggregate cost of \$7,799 (see Note 10).

During the six-month period ended January 29, 2010, the Company paid dividends of \$0.40 per common share. During the second quarter of 2010, the Company also declared an additional dividend of \$0.20 per common share that was paid on February 5, 2010 and is recorded in other accrued expenses in the accompanying condensed consolidated balance sheet. On February 25, 2010, the Company's Board of Directors declared a regular dividend of \$0.20 per share payable on May 5, 2010 to shareholders of record on April 16, 2010.

During the six-month period ended January 29, 2010, the unrealized loss, net of tax, on the Company's interest rate swap increased by \$539 to \$45,361 and is recorded in AOCL (see Notes 4, 7 and 9).

During the six-month period ended January 29, 2010, total share-based compensation expense was \$5,825. During the six-month period ended January 29, 2010, the excess tax benefit realized upon exercise of share-based compensation awards was \$1,228.

**9. Comprehensive Income**

Comprehensive income consisted of the following at:

	Quarter Ended		Six Months Ended	
	January 29, 2010	January 30, 2009	January 29, 2010	January 30, 2009
Net income	\$ 25,393	\$ 18,362	\$ 43,417	\$ 31,194
Other comprehensive income:				
Change in fair value of interest rate swap, net of tax	47	(15,304)	(539)	(16,865)
Total comprehensive income	<u>\$ 25,440</u>	<u>\$ 3,058</u>	<u>\$ 42,878</u>	<u>\$ 14,329</u>

For the quarters ended January 29, 2010 and January 30, 2009, the change in fair value of the Company's interest rate swap is net of a tax provision of \$386 and a tax benefit of \$6,584, respectively. For the six-month periods ended January 29, 2010 and January 30, 2009, the change in fair value of the Company's interest rate swap is net of a tax benefit of \$2,480 and \$6,843, respectively.

**10. Share Repurchases**

During 2010, the Company has been authorized by its Board of Directors to repurchase shares to offset share dilution that might result from employee option exercises or employee share issuance. See Note 7 to the Company's Consolidated Financial Statements contained in the 2009 Form 10-K. During the second quarter ended January 29, 2010, the Company repurchased 205,000 shares of its common stock in the open market at an aggregate cost of \$7,799. Related transaction costs and fees that were recorded as a reduction to shareholders' equity resulted in the shares being repurchased at an average cost of \$38.04 per share.

11. **Seasonality**

Historically, the net income of the Company has been lower in the first and third quarters and higher in the second and fourth quarters. Management attributes these variations to the Christmas holiday shopping season and the summer vacation and travel season. The Company's retail sales, which are made substantially to the Company's restaurant customers, historically have been highest in the Company's second quarter, which includes the Christmas holiday shopping season. Historically, interstate tourist traffic and the propensity to dine out have been much higher during the summer months, thereby contributing to higher profits in the Company's fourth quarter. The Company also 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.

12. **Segment Reporting**

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

	Quarter Ended		Six Months Ended	
	January 29, 2010	January 30, 2009	January 29, 2010	January 30, 2009
Revenue:				
Restaurant	\$ 473,953	\$ 468,919	\$ 940,785	\$ 924,886
Retail	158,663	161,263	273,014	279,228
Total revenue	<u>\$ 632,616</u>	<u>\$ 630,182</u>	<u>\$ 1,213,799</u>	<u>\$ 1,204,114</u>

13. **Shared-Based Compensation**

Share-based compensation expense is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. Share-based compensation expense is recorded in general and administrative expenses. For the quarter and six-month period ended January 29, 2010, share-based compensation expense totaled \$789 and \$1,711, respectively, for stock options and \$2,123 and \$4,114, respectively, for nonvested stock. For the quarter and six-month period ended January 30, 2009, share-based compensation expense totaled \$925 and \$1,952, respectively, for stock options and \$1,091 and \$1,792, respectively, for nonvested stock.

14. **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 common shares 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 common stock were exercised or converted into common stock and is based upon the weighted average number of common and common equivalent shares outstanding during the reporting period. Common equivalent shares related to stock options and nonvested stock and stock awards issued by the Company are calculated using the treasury stock method. The Company's outstanding stock options and nonvested stock and stock awards represent the only dilutive effects on diluted consolidated net income per share.

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

	Quarter Ended		Six Months Ended	
	January 29, 2010	January 30, 2009	January 29, 2010	January 30, 2009
Net income per share numerator	\$ 25,393	\$ 18,362	\$ 43,417	\$ 31,194
Net income per share denominator:				
Weighted average shares	22,831,645	22,389,598	22,796,846	22,369,783
Add potential dilution:				
Stock options and nonvested stock and stock awards	565,634	207,585	469,986	261,971
Diluted weighted average shares	23,397,279	22,597,183	23,266,832	22,631,754

#### 15. Commitments and Contingencies

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

The Company is contingently liable pursuant to standby letters of credit as credit guarantees related to insurers. At January 29, 2010, the Company had \$32,626 of standby letters of credit related to securing reserved claims under workers' compensation insurance. All standby letters of credit are renewable annually and reduce the Company's availability under its Revolving Credit Facility (see Note 6 for further information on the Company's Revolving Credit Facility).

The Company is secondarily liable for lease payments under the terms of an operating lease that has been assigned to a third party. At January 29, 2010, the lease has a remaining life of approximately 3.7 years with annual lease payments of approximately \$361 for a total guarantee of \$1,322. The Company's performance is required only if the assignee fails to perform its obligations as lessee. At this time, the Company has no reason to believe that the assignee will not perform, and, therefore, no provision has been made in the accompanying condensed consolidated balance sheet for amounts to be paid in case of non-performance by the assignee.

Upon the sale of Logan's Roadhouse, Inc. ("Logan's") in 2007, the Company reaffirmed its guarantee on the lease payments for two Logan's restaurants. At January 29, 2010, the operating leases have remaining lives of 1.9 and 10.2 years with annual payments of approximately \$94 and \$106, respectively, for a total guarantee of \$1,322. The Company's performance is required only if Logan's fails to perform its obligations as lessee. At this time, the Company has no reason to believe Logan's will not perform, and therefore, no provision has been made in the condensed consolidated balance sheet for amounts to be paid as a result of non-performance by Logan's.

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 so that no liability has been recorded. In connection with the divestiture of Logan's and Logan's sale-leaseback transaction (see Note 16 to the Company's Consolidated Financial Statements included in the 2009 Form 10-K), the Company entered into various agreements to indemnify third parties against certain tax obligations, for any breaches of representations and warranties in the applicable transaction documents and for certain costs and expenses that may arise out of specified real estate matters, including potential relocation and legal costs. With the exception of certain tax indemnifications, the Company believes that the probability of being required to make any indemnification payments to Logan's is remote. Therefore, at January 29, 2010, the Company has recorded a liability of \$78 in the condensed consolidated balance sheet for these potential tax indemnifications, but no provision has been recorded for potential non-tax indemnifications.

## 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") restaurant and retail concept. At January 29, 2010, we operated 593 Cracker Barrel units in 41 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 in this Quarterly Report on Form 10-Q and (ii) financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2009 (the "2009 Form 10-K"). Except for specific historical information, many of the matters discussed in this report may express or imply projections of revenues or expenditures, plans and objectives for future operations, 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 involve risks, uncertainties and other factors which may cause our actual results and performance to differ materially from those expressed or implied by those 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," "regular," "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. Factors and risks that may result in actual results differing from this forward-looking information include, but are not limited to, those contained in Part I, Item 1A of the 2009 Form 10-K, which is incorporated herein by this reference, as well as other factors discussed throughout this report, including, without limitation, the factors described under "Critical Accounting Estimates" on pages 22-26 of this Form 10-Q 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, since the statements speak only as of the report's date. Except as may be required by law, we have no obligation, and do not intend, to publicly 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.

## Results of Operations

The following table highlights operating results by percentage relationships to total revenue for the quarter and six-month period ended January 29, 2010 as compared to the same periods in the prior year:

	Quarter Ended		Six Months Ended	
	January 29, 2010	January 30, 2009	January 29, 2010	January 30, 2009
Total revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	33.5	35.3	32.1	33.5
Gross profit	66.5	64.7	67.9	66.5
Labor and other related expenses	36.1	37.1	37.3	37.9
Impairment and store closing charges	0.4	--	0.2	--
Other store operating expenses	16.7	16.8	17.4	17.6
Store operating income	13.3	10.8	13.0	11.0
General and administrative expenses	5.5	4.6	5.8	5.0
Operating income	7.8	6.2	7.2	6.0
Interest expense	2.1	2.1	2.1	2.3
Income before income taxes	5.7	4.1	5.1	3.7
Provision for income taxes	1.7	1.2	1.5	1.1
Net income	4.0%	2.9%	3.6%	2.6%

The following table highlights the components of total revenue by percentage relationships to total revenue for the quarter and the six-month period ended January 29, 2010 as compared to the same periods in the prior year:

	Quarter Ended		Six Months Ended	
	January 29, 2010	January 30, 2009	January 29, 2010	January 30, 2009
Revenue:				
Restaurant	74.9	74.4	77.5	76.8
Retail	25.1	25.6	22.5	23.2
Total revenue	100.0	100.0	100.0	100.0

The following table sets forth the number of units in operation at the beginning and end of the quarters and six-month periods ended January 29, 2010 and January 30, 2009, respectively:

	Quarter Ended		Six Months Ended	
	January 29, 2010	January 30, 2009	January 29, 2010	January 30, 2009
Open at beginning of period	591	581	588	577
Open during period	2	4	5	8
Open at the end of period	593	585	593	585



Average unit volumes include sales of all stores. The following table highlights average unit volumes for the quarter and six-month period ended January 29, 2010 as compared to the same periods in the prior year:

	Quarter Ended		Six Months Ended	
	January 29, 2010	January 30, 2009	January 29, 2010	January 30, 2009
Revenue:				
Restaurant	\$ 799.3	\$ 802.7	\$ 1,591.1	\$ 1,591.6
Retail	267.6	276.1	461.8	480.5
Total revenue	\$ 1,066.9	\$ 1,078.8	\$ 2,052.9	\$ 2,072.1

#### Total Revenue

Total revenue for the second quarter of 2010 increased 0.4% compared to the prior year second quarter. For the quarter, comparable store restaurant sales decreased 0.2% and comparable store retail sales decreased 3.0% resulting in a combined comparable store sales (total revenue) decrease of 0.9%. The comparable store restaurant sales decrease consisted of a 2.1% average check increase for the quarter (including a 2.4% average menu price increase) and a 2.3% guest traffic decrease. The comparable store retail sales decrease was due to the decline in guest traffic. We continue to experience the effects of pressures on consumer discretionary income in our guest traffic and sales. Sales from newly opened stores accounted for the total revenue increase in the second quarter.

Total revenue for the six-month period ended January 29, 2010 increased 0.8% compared to the six-month period ended January 30, 2009. For the six-month period ended January 29, 2010, comparable store restaurant sales increased 0.2% and comparable store retail sales decreased 3.8% resulting in a combined comparable store sales (total revenue) decrease of 0.7%. The comparable store restaurant sales increase consisted of a 2.0% average check increase for the six months (including a 2.6% average menu price increase) and a 1.8% guest traffic decrease. The comparable store retail sales decrease was due to the decline in guest traffic. We continue to experience the effects of pressures on consumer discretionary income in our guest traffic and sales. Sales from newly opened stores accounted for the balance of the total revenue increase in the six-month period ended January 29, 2010.

#### Gross Profit

Gross profit as a percentage of total revenue for the second quarter of 2010 increased to 66.5% compared to 64.7% in the second quarter of the prior year. The increase was due to our menu price increase referenced above, commodity deflation of 2.4%, a decrease in markdowns of retail merchandise that reduced retail cost of goods sold 2.0% as a percentage of retail sales as compared with the prior year and a decrease in food waste that reduced restaurant cost of goods sold 0.4% as a percentage of restaurant sales as compared with the prior year. These gross profit increases were partially offset by unfavorable menu mix related to promotions that increased restaurant cost of goods sold 0.2% as a percentage of restaurant sales as compared with the prior year.

Gross profit as a percentage of total revenue for the six-month period ended January 29, 2010 increased to 67.9% compared to 66.5% in the six-month period ended January 30, 2009. The increase was due to our menu price increase referenced above and commodity deflation of 2.2%.

### **Labor and Other Related Expenses**

Labor and other related expenses include all direct and indirect labor and related costs incurred in store operations. Labor and other related expenses as a percentage of total revenue decreased to 36.1% in the second quarter of 2010 from 37.1% in the prior year. This decrease resulted primarily from decreases of 0.5%, 0.4% and 0.3% as a percentage of total revenue, respectively, in healthcare costs, wages (as a result of a one-time benefit related to a change in hourly pay practices) and workers' compensation expense partially offset by a 0.2% increase in store management compensation as a percentage of total revenue as compared to the prior year. The decrease in healthcare costs was due to lower medical claims. In 2010, we changed certain hourly pay policies which resulted in lower wages being paid in the second quarter of 2010 as compared to the prior year. Although our limited scope actuarial reviews completed during the second quarters of 2010 and 2009 both resulted in reductions in our workers' compensation expense, we recorded a higher reduction in the second quarter of 2010 as compared to the prior year. The increase in store management compensation was due to higher store bonus accruals, which reflected better performance against financial objectives in the second quarter of 2010 as compared to the prior year, partially offset by lower staffing levels.

Labor and other related expenses as a percentage of total revenue decreased to 37.3% in the six-month period ended January 29, 2010 as compared to 37.9% in the six-month period ended January 30, 2009. This decrease resulted primarily (and equally) from a reduction in hourly wages, lower workers' compensation expense and lower healthcare costs. The reduction in hourly wages resulted from a one-time benefit in the second quarter of 2010 related to a change in hourly pay practices. Lower workers' compensation expense resulted from revised actuarial estimates. The decrease in healthcare costs was due to lower medical claims.

### **Impairment and Store Closing Charges**

During the second quarter of 2010, one leased Cracker Barrel store was determined to be impaired, resulting in an impairment charge of \$2,263 for the six-month period ended January 29, 2010. This store was impaired due to declining operating performance and resulting negative cash flow projections. See Note 4 to the accompanying Condensed Consolidated Financial Statements for more details surrounding the impairment charge. We did not incur any impairment charges in the six-month period ended January 30, 2009 or any store closing costs in the six-month periods ended January 29, 2010 and January 30, 2009.

### **Other Store Operating Expenses**

Other store operating expenses include all unit-level operating costs, the major components of which are utilities, operating supplies, repairs and maintenance, depreciation and amortization, advertising, rent, credit card fees and non-labor-related pre-opening expenses. Other store operating expenses as a percentage of total revenue was relatively constant during the second quarter and first six months of 2010 as compared to the same periods in the prior year. Other store operating expense as a percentage of total revenue was 16.7% and 16.8%, respectively, in the second quarters of 2010 and 2009 and was 17.4% and 17.6%, respectively, in the first six months of 2010 and 2009.

### **General and Administrative Expenses**

General and administrative expenses as a percentage of total revenue were 5.5% and 5.8%, respectively, in the quarter and six-month periods ended January 29, 2010 as compared to 4.6% and 5.0%, respectively, in the quarter and six-month periods ended January 30, 2009. Both increases were due to higher incentive compensation accruals, including share-based compensation, which reflected better performance against financial objectives in 2010 as compared to the same periods in prior year.

## **Interest Expense**

Interest expense as a percentage of total revenue was relatively constant during the quarter and six-month periods ended January 29, 2010 as compared to the same periods in the prior year. Interest expense as a percentage of total revenue was flat at 2.1% in the second quarters of 2010 and 2009 and was 2.1% and 2.3%, respectively, in the first six months of 2010 and 2009.

## **Provision for Income Taxes**

The provision for income taxes as a percent of pre-tax income was relatively constant during the quarter and six-month periods ended January 29, 2010 as compared to the same periods in the prior year. The provision for income taxes as a percent of pretax income was 29.6% and 29.4%, respectively, in the second quarters of 2010 and 2009. The provision for income taxes as a percent of pre-tax income was 30.3% and 29.9%, respectively, in the first six months of 2010 and 2009.

## **Liquidity and Capital Resources**

Our primary sources of liquidity are cash generated from our operations and our borrowing capacity under our \$250,000 revolving credit facility (the "Revolving Credit Facility"). Our internally generated cash, along with cash on hand at July 31, 2009, our borrowings under our Revolving Credit Facility and proceeds from exercises of share-based compensation awards were sufficient to finance all of our growth, dividend payments, working capital needs and other cash payment obligations in the first six months of 2010.

We believe that cash at January 29, 2010, along with cash generated from our operating activities, the borrowing capacity under our Revolving Credit Facility and proceeds from exercises of share-based compensation awards will be sufficient to finance our continued operations, our continued expansion plans, our principal payments on our debt and our dividend payments for at least the next twelve months and thereafter for the foreseeable future. See "Borrowing Capacity and Debt Covenants" section below regarding the amendment to extend \$165,000 of the availability under our Revolving Credit Facility to January 27, 2013.

## **Cash Generated From Operations**

Our operating activities provided net cash of \$86,264 for the six-month period ended January 29, 2010, which represented an increase from the \$49,834 provided during the same period a year ago. This increase reflected higher net income and the timing of payments for accounts payable.

## **Borrowing Capacity and Debt Covenants**

On November 6, 2009, we amended our \$1,250,000 credit facility (the "Credit Facility"), which consists of term loans (aggregate outstanding at January 29, 2010 was \$601,798) and the Revolving Credit Facility. The amendment extended the maturity date of \$250,000 of our then outstanding term loans to April 27, 2016 from April 27, 2013. The amendment also extended the availability of \$165,000 of the Revolving Credit Facility to January 27, 2013 from April 27, 2011. During the second quarter of 2010, we made \$39,578 in optional principal prepayments under the term loans. At January 29, 2010, although we did not have any outstanding borrowings under the Revolving Credit Facility, we had \$32,626 of standby letters of credit related to securing reserved claims under workers' compensation insurance which reduce our availability under the Revolving Credit Facility. At January 29, 2010, we had \$217,374 in borrowing capacity under our Revolving Credit Facility. See Note 6 to our accompanying Condensed Consolidated Financial Statements for further information on our long-term debt.

The Credit Facility contains customary financial covenants, which include a requirement that we maintain a maximum consolidated total leverage ratio (ratio of total indebtedness to EBITDA, which is defined as earnings before interest, taxes, depreciation and amortization) of 3.75 at January 29, 2010 and throughout the remaining term of the Credit Facility. The Credit Facility's financial covenants also require that we maintain a minimum consolidated interest coverage ratio (ratio of earnings before interest, taxes, depreciation and amortization to cash interest payable, as defined) of 3.75 at January 29, 2010. The minimum consolidated interest coverage ratio increases to 4.00 for the fourth quarter of 2010 and for the remaining term of the Credit Facility.

At January 29, 2010, our consolidated total leverage ratio and consolidated interest coverage ratio were 2.56 and 11.04, respectively. We presently expect to remain in compliance with the Credit Facility's financial covenants for the remaining term of the facility.

#### **Share Repurchases, Dividends and Proceeds from the Exercise of Share-Based Compensation Awards**

We have been authorized by our Board of Directors to repurchase shares during 2010 to offset share dilution that might result from employee option exercises or employee share issuance. The principal criteria for share repurchases are that they be accretive to expected net income per share, are within the limits imposed by our Credit Facility and that they be made only from free cash flow (operating cash flow less capital expenditures and dividends) rather than borrowings. During the quarter ended January 29, 2010, we repurchased 205,000 shares of our common stock in the open market at an aggregate cost of \$7,799.

Our Credit Facility imposes restrictions on the amount of dividends we are able to pay. If there is no default then existing and there is at least \$100,000 then available under our Revolving Credit Facility, we may both: (1) pay cash dividends on our common stock if the aggregate amount of such dividends paid during any fiscal year is less than 15% of Consolidated EBITDA from continuing operations (as defined in the Credit Facility) during the immediately preceding fiscal year; and (2) in any event, increase our regular quarterly cash dividend in any quarter by an amount not to exceed the greater of \$.01 or 10% of the amount of the dividend paid in the prior fiscal quarter.

During the six-month period ended January 29, 2010, we paid dividends of \$0.40 per common share. During the second quarter of 2010, we also declared an additional dividend of \$0.20 per common share that was paid on February 5, 2010. On February 25, 2010, our Board of Directors declared a regular dividend of \$0.20 per share payable on May 5, 2010 to shareholders of record on April 16, 2010.

During the six-month period ended January 29, 2010, we received proceeds of \$4,564 from the exercise of share-based compensation awards and the corresponding issuance of 284,925 shares of our common stock.

#### **Working Capital**

In the restaurant industry, substantially all sales are either for cash or third-party credit card. Like many other restaurant companies, we are able to, and often do, operate with negative working capital. Restaurant inventories purchased through our principal food distributor are on terms of net zero days, while restaurant inventories purchased locally generally are financed from normal trade credit. Retail inventories purchased domestically generally are financed from normal trade credit, while imported retail inventories generally are purchased through wire transfers. These various trade terms are aided by rapid turnover of the restaurant inventory. Employees generally are paid on weekly, bi-weekly or semi-monthly schedules in arrears of hours worked, and certain expenses such as certain taxes and some benefits are deferred for longer periods of time.

We had negative working capital of \$61,436 at January 29, 2010 versus negative working capital of \$66,637 at July 31, 2009. Working capital increased from July 31, 2009 primarily as a result of the timing of payments for certain obligations and an increase in cash, partially offset by lower retail inventories and a net decrease in working capital related to the increase in sales of our gift cards during the 2010 Christmas holiday season.

#### **Capital Expenditures**

Capital expenditures (purchase of property and equipment) were \$27,550 for the six-month period ended January 29, 2010 as compared to \$37,444 during the same period a year ago. Capital expenditures for maintenance programs accounted for most of the expenditures. The decrease in capital expenditures from the first six months of 2009 to the first six months of 2010 is primarily due to a reduction in the number of new locations acquired and under construction as compared to the prior year. We estimate that our capital expenditures for 2010 will be between \$70,000 and \$75,000. This estimate includes certain costs related to the acquisition of sites and construction of six new stores that have opened or will open during 2010 (one subsequent to the end of the second quarter), as well as for acquisition and construction costs for locations that we expect to open in 2011, capital expenditures for maintenance programs and operational innovation initiatives. We intend to fund our capital expenditures with cash flows from operations and borrowings under our Revolving Credit Facility, as necessary. Capitalized interest was \$45 and \$125, respectively, for the quarter and six-month period ended January 29, 2010, as compared to \$94 and \$294, respectively, for the quarter and six-month period ended January 30, 2009.

#### **Off-Balance Sheet Arrangements**

Other than various operating leases, we have no material off-balance sheet arrangements. Refer to the sub-section entitled "Off-Balance Sheet Arrangements" under the section entitled "Liquidity and Capital Resources" presented in the MD&A of our 2009 Form 10-K for additional information regarding our operating leases.

#### **Material Commitments**

Except as described above under "Borrowing Capacity and Debt Covenants," there have been no material changes in our material commitments other than in the ordinary course of business since the end of 2009. Refer to the sub-section entitled "Material Commitments" under the section entitled "Liquidity and Capital Resources" presented in the MD&A of our 2009 Form 10-K for additional information regarding our material commitments.

#### **Recent Accounting Pronouncements**

##### **Accounting Standards Codification**

On September 15, 2009, we adopted the Accounting Standards Codification ("ASC") as issued by the Financial Accounting Standards Board ("FASB"). The ASC is the single source of authoritative nongovernmental accounting principles generally accepted in the United States of America ("GAAP"), except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. The adoption did not have an impact on our consolidated financial statements.

## Fair Value

On August 1, 2009, the first day of 2010, we adopted, on a prospective basis, new accounting guidance as issued by the FASB for certain nonfinancial assets and liabilities that are recorded or disclosed at fair value on a nonrecurring basis, such as nonfinancial long-lived asset groups measured at fair value for an impairment assessment. The adoption did not have an impact on our consolidated financial statements. See Note 4 to the accompanying Condensed Consolidated Financial Statements for further information related to our assets and liabilities measured at fair value on a nonrecurring basis.

## Critical Accounting Estimates

We prepare our consolidated financial statements in conformity with GAAP. The preparation of these financial statements requires us to make estimates and assumptions about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We base our estimates and judgments on historical experience, current trends, outside advice from parties believed to be experts in such matters and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. However, because future events and their effects cannot be determined with certainty, actual results could differ from those assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 2 to the Consolidated Financial Statements contained in the 2009 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 both most important to the portrayal of our financial condition and operating results and
- require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We consider the following accounting estimates to be most critical in understanding the judgments that are involved in preparing our consolidated financial statements:

- Impairment of Long-Lived Assets and Provision for Asset Dispositions
- Insurance Reserves
- Inventory Reserves
- Tax Provision
- Share-Based Compensation
- Unredeemed Gift Cards
- Legal Proceedings

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

## **Impairment of Long-Lived Assets and Provision for Asset Dispositions**

We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value 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 amount is written down to the estimated fair value of an asset to be held and used or the fair value, net of estimated costs of disposal, of an asset to be disposed of, and a 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 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 six months of 2010 and we do not believe that there will be a material change in the estimates or assumptions we use to assess impairment on 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 first six months of 2010, we recorded an impairment charge of \$2,263. For a more detailed discussion of this charge see the sub-section entitled "Impairment and Store Closing Charges" under the section entitled "Results of Operations" presented earlier in the MD&A.

## **Insurance Reserves**

We self-insure a significant portion of our expected workers' compensation, general liability and health insurance programs. We purchase insurance for individual workers' compensation claims that exceed \$250, \$500 or \$1,000 depending on the state in which the claim originates. We purchase insurance for individual general liability claims that exceed \$500. We self-insure a portion of our group health program. For our calendar 2009 plan, benefits for any individual (employee or dependents) in the self-insured program are limited to not more than \$1,000 lifetime, \$100 in any given plan year and, in certain cases, to not more than \$15 in any given plan year. Beginning January 1, 2010, benefits for any individual (employee or dependents) in the self-insured program are limited to not more than \$20 in any given plan year and, in certain cases, to not more than \$8 in any given year. 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 provided by our third party administrator.

We record a liability for workers' compensation and general liability for all unresolved claims and for an actuarially determined estimate of incurred but not reported claims at the anticipated cost to us based upon an actuarially determined reserve as of the end of our third quarter and adjust it by the actuarially determined losses and actual claims payments for the subsequent quarters until the next annual actuarial study of our reserve requirements. Those reserves and these losses are determined actuarially from a range of possible outcomes within which no given estimate is more likely than any other estimate. As such, we record the actuarially determined losses at the low end of that range and discount them to present value using a risk-free interest rate based on the actuarially projected timing of payments. We also monitor actual claims development, including incurrence or settlement of individual large claims during the interim period between actuarial studies as another means of estimating the adequacy of our reserves. From time to time, we perform limited scope interim updates of our actuarial studies to verify and/or modify our reserves. During the second quarters of 2010 and 2009, we performed such updates, each of which resulted in reductions in our workers' compensation expense in the corresponding quarters.

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 six months of 2010 and do not believe there will be a material change in the estimates or assumptions used to calculate the insurance reserves. However, changes in these actuarial assumptions or management judgments in the future may produce materially different amounts of expense that would be reported under these insurance programs.

#### **Inventory Reserves**

Cost of goods sold includes the cost of retail merchandise sold at our stores utilizing the retail inventory accounting method. 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. Cost of goods sold includes an estimate of shrinkage that is adjusted upon physical inventory counts in subsequent periods. Physical inventory counts are conducted throughout the third and fourth quarters of the fiscal year based upon a cyclical inventory schedule. An estimate of shrinkage is recorded for the time period between physical inventory counts by using a three-year average of the physical inventories' results on a store-by-store basis. We have not made any material changes in the methodology used to estimate shrinkage during the first six months of 2010 and do not believe that there will be a material change in the future estimates or assumptions used to calculate shrinkage. However, actual shrinkage recorded may produce materially different amounts of shrinkage than we have estimated.

#### **Tax Provision**

We must make estimates of certain items that comprise our income tax provision. These estimates include effective state and local income tax rates, employer tax credits for items such as FICA taxes paid on employee tip income, Work Opportunity and Welfare to Work credits, as well as estimates related to certain depreciation and capitalization policies.

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

Our estimates are made based on current tax laws, the best available information at the time of the provision and historical experience. We file our income tax returns several months after our year end. These returns are subject to audit by the federal and various state governments years after the returns are filed and could be subject to differing interpretations of the tax laws. We then must assess the likelihood of successful legal proceedings or reach a settlement with the relevant taxing authority. Although we believe that the judgments and estimates used in establishing our tax provision are reasonable, a successful legal proceeding or settlement could result in material adjustments to our consolidated financial statements and our consolidated financial position (see Note 15 to our Consolidated Financial Statements contained in the 2009 Form 10-K for additional information).



## Share-Based Compensation

Share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. Our policy is to recognize compensation cost for awards with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. Additionally, our policy is to issue new shares of common stock to satisfy exercises of share-based compensation awards.

The fair value of each option award granted was estimated on the date of grant using a binomial lattice-based option valuation model. This model incorporates the following ranges of assumptions:

- The expected volatility is a blend of implied volatility based on market-traded options on our stock and historical volatility of our stock over the contractual life of the options.
- We use historical data to estimate option exercise and employee termination behavior within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected life of options granted is derived from the output of the option valuation model and represents the period of time the options are expected to be outstanding.
- The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods within the contractual life of the option.
- The expected dividend yield is based on our current dividend yield as the best estimate of projected dividend yield for periods within the contractual life of the option.

The expected volatility, option exercise and termination assumptions involve management's best estimates at that time, all of which affect the fair value of the option calculated by the binomial lattice-based option valuation model and, ultimately, the expense that will be recognized over the life of the option. We update the historical and implied components of the expected volatility assumption when new grants are made. We update option exercise and termination assumptions annually. The expected life is a by-product of the lattice model and is updated when new grants are made.

Compensation expense is recognized for only the portion of awards that are expected to vest. Therefore, an estimated forfeiture rate derived from historical employee termination behavior, grouped by job classification, is applied against share-based compensation expense. The forfeiture rate is applied on a straight-line basis over the service (vesting) period for each separately vesting portion of the award as if the award were, in substance, multiple awards. We update the estimated forfeiture rate to actual on each of the vesting dates and adjust compensation expense accordingly so that the amount of compensation cost recognized at any date is at least equal to the portion of the grant-date value of the award that is vested at that date.

Generally, the fair value of each nonvested stock grant is equal to the market price of our stock at the date of grant reduced by the present value of expected dividends to be paid prior to the vesting period, discounted using an appropriate risk-free interest rate.

All of our nonvested stock grants are time vested except the nonvested stock grants of one executive that are based upon the achievement of strategic goals. Compensation cost for performance-based awards is recognized when it is probable that the performance criteria will be met. At each reporting period, we reassess the probability of achieving the performance targets and the performance period required to meet those targets. Determining whether the performance targets will be achieved involves judgment and the estimate of expense may be revised periodically based on the probability of achieving the performance targets. Revisions are reflected in the period in which the estimate is changed. If any performance goals are not met, no compensation cost is ultimately recognized and, to the extent previously recognized, compensation cost is reversed.

We have not made any material changes in our estimates or assumptions used to determine share-based compensation expense during the first six months of 2010. We do not believe that there will be a material change in the future estimates or assumptions used to determine share-based compensation expense. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to changes in share-based compensation expense that could be material.

#### **Unredeemed Gift Cards**

Unredeemed gift cards represent a liability related to unearned income and are recorded at their expected redemption value. No revenue is recognized in connection with the point-of-sale transaction when gift cards are sold. For those states that exempt gift cards from their escheat laws, we make estimates of the ultimate unredeemed ("breakage") gift cards in the period of the original sale and amortize this breakage over the redemption period that other gift cards historically have been redeemed by reducing the liability and recording revenue accordingly. For those states that do not exempt gift cards from their escheat laws, we record breakage in the period that gift cards are remitted to the state and reduce our liability accordingly. Any amounts remitted to states under escheat laws reduce our deferred revenue liability and have no effect on revenue or expense while any amounts that we are permitted to retain by state escheat laws for administrative costs are recorded as revenue. Changes in redemption behavior or management's judgments regarding redemption trends in the future may produce materially different amounts of deferred revenue to be reported.

We have not made any material changes in the methodology used to record the deferred revenue liability for unredeemed gift cards during the first six months of 2010 and do not believe there will be material changes in the future estimates or assumptions used to record this liability. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.

#### **Legal Proceedings**

We are parties to various legal and regulatory proceedings and claims incidental to our business. In the opinion of management, however, based upon information currently available, the ultimate liability with respect to these actions will not materially affect our consolidated results of operations or financial position. We review outstanding claims and proceedings internally and with external counsel as necessary to assess probability of loss and for the ability to estimate loss. These assessments are re-evaluated each quarter or as new information becomes available to determine whether a reserve should be established or if any existing reserve should be adjusted. The actual cost of resolving a claim or proceeding ultimately may be substantially different than the amount of the recorded reserve. In addition, because it is not permissible under GAAP to establish a litigation reserve until the loss is both probable and estimable, in some cases there may be insufficient time to establish a reserve prior to the actual incurrence of the loss (upon verdict and judgment at trial, for example, or in the case of a quickly negotiated settlement).

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Part II, Item 7A of the 2009 Form 10-K is incorporated in this item of this Quarterly Report on Form 10-Q by this reference. There have been no material changes in our quantitative and qualitative market risks since July 31, 2009.

**Item 4. Controls and Procedures**

Our management, with the participation of our principal executive and financial officers, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that as of January 29, 2010, 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 January 29, 2010 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.

**Item 1A. Risk Factors**

There have been no material changes in the risk factors previously disclosed in “Item 1A. Risk Factors” of our 2009 Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Unregistered Sales of Equity Securities

There were no equity securities sold by the Company during the period covered by this Form 10-Q that were not registered under the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of shares of the Company’s common stock made during the quarter ended January 29, 2010 by or on behalf of the Company or any “affiliated purchaser,” as defined by Rule 10b-18(a)(3) of the Exchange Act:

Period	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/31/09 – 11/27/09	--	--	--	Indeterminate (2)
11/28/09 – 12/25/09	27,000	\$ 39.05	27,000	Indeterminate (2)
12/26/09 – 1/29/10	178,000	\$ 37.89	178,000	Indeterminate (2)
Total for the quarter	205,000	\$ 38.04	205,000	Indeterminate (2)

(1) Average price paid per share is calculated on a settlement basis and includes commissions and fees.

(2) Subject to a maximum amount of \$65,000 that may be expended, during 2010, we have been authorized, and intend, to repurchase shares to offset share dilution that might result from employee option exercises or employee share issuance. See Note 7 to our Consolidated Financial Statements contained in the 2009 Form 10-K.

**Item 5. Other Information**

We held our annual meeting of shareholders on December 2, 2009. Part II, Item 4 of the Company’s Quarterly Report on Form 10-Q for the Quarterly Period ended October 30, 2009 (filed with the SEC on December 8, 2009) is incorporated herein by this reference.

**Item 6. Exhibits**

See Exhibit Index immediately following the signature page hereto.

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: 3/9/10

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

Date: 3/9/10

By: /s/Patrick A. Scruggs  
Patrick A. Scruggs, Vice President, Accounting and Tax  
and Chief Accounting Officer

<u>Exhibit No.</u>	<u>Description</u>
10.1	Second Amendment to the Credit Agreement, dated as of November 6, 2009, among Cracker Barrel Old Country Store, the Guarantors identified on the signature pages hereto, the Lenders party hereto, Wachovia Bank, National Association, as Administrative Agent, and Wells Fargo Securities, LLC, Banc of America Securities, LLC and SunTrust Robinson Humphrey, Inc. as the joint lead arrangers and joint bookrunners, incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated November 6, 2009 and filed with the Commission on November 10, 2009
10.2	The Company's 2002 Omnibus Incentive Compensation Plan (as amended through December 2, 2009)
31	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications

## CRACKER BARREL OLD COUNTRY STORE, INC.

## 2002 OMNIBUS INCENTIVE COMPENSATION PLAN

(As amended through December 2, 2009)

1. **PURPOSE.**

The purpose of the Cracker Barrel Old Country Store, Inc. 2002 Omnibus Incentive Compensation Plan (the "Plan") is to provide motivation to Employees of the Company and its Subsidiaries and Affiliates to put forth maximum efforts toward the continued growth, profitability, and success of the Company and its Subsidiaries and Affiliates by providing incentives to such Employees through the ownership and performance of Common Stock of the Company. Toward this objective, the Committee may grant stock options, SAR, Stock Awards, performance shares, cash bonuses and other incentive awards to Employees of the Company and its Subsidiaries and Affiliates on the terms and subject to the conditions set forth in the Plan. In addition, this Plan is intended to enable the Company to effectively attract, retain and reward Outside Directors by providing for grants of Outside Director Awards to Outside Directors.

2. **DEFINITIONS.**

2.1 "Affiliate" means any entity (other than the Company and any Subsidiary) that is designated by the Board as a participating employer under the Plan, provided that the Company directly or indirectly owns at least 20% of the combined voting power of all classes of stock of that entity or at least 20% of the ownership interests in that entity.

2.2 "Award" means any form of stock option, SAR, Stock Award, performance shares, cash bonus or other incentive award granted under the Plan, whether singly, in combination, or in tandem, to a Participant by the Committee pursuant to terms, conditions, restrictions and limitations, if any, as the Committee may establish by the Award Notice or otherwise.

2.3 "Award Notice" means a written notice from the Company to a Participant that establishes the terms, conditions, restrictions, and limitations applicable to an Award in addition to those established by the Plan and by the Committee's exercise of its administrative powers.

2.4 "Board" means the Board of Directors of the Company.

2.5 "Cause" means matters which, in the judgment of the Committee, constitute any one or more of the following: (i) intoxication while on the job; (ii) theft or dishonesty in the conduct of the Company's business; (iii) willful neglect or negligence in the management of the Company's business, or violation of Company race or gender anti-harassment policies; (iv) violence that results in personal injury; or (v) conviction of a crime involving moral turpitude.

2.6 "Change In Control" means the happening of any of the following:

a. any person or entity, including a "group" as defined in Section 13(d)(3) of the Exchange Act, other than the Company or a wholly-owned Subsidiary, or any employee benefit plan of the Company or any Subsidiary, becomes the beneficial owner of the Company's securities having 50% or more of the combined voting power of the then outstanding securities of the Company that may be cast for the election of directors of the Company (other than as a result of an issuance of securities initiated by the Company in the ordinary course of business); or

b. as the result of, or in connection with, any cash tender or exchange offer, merger or other business combination, sales of assets or contested election, or any combination of the foregoing transactions, after the transaction less than a majority of the combined voting power of the then outstanding securities of the Company, or any successor corporation or cooperative or entity, entitled to vote generally in the election of the directors of the Company, or other successor corporation or other entity, are held in the aggregate by the holders of the Company's securities who immediately prior to the transaction had been entitled to vote generally in the election of directors of the Company; or

c. during any period of 2 consecutive years, individuals who at the beginning of the period constitute the Board cease for any reason to constitute at least a majority of the Board, unless the election, or the nomination for election by the Company's shareholders, of each director of the Company first elected during the relevant 2-year period was approved by a vote of at least 2/3 of the directors of the Company then still in office who were directors of the Company at the beginning of that period.

2.7 **"Change In Control Price"** means the highest closing price (or, if the shares are not traded on an exchange, the highest last sale price or closing "asked" price) per share paid for the purchase of Common Stock in a national securities market during the 60-day period ending on the date the Change In Control occurs (or, where applicable, the occurrence of the Potential Change in Control event), as determined by the Committee.

2.8 **"Code"** means the Internal Revenue Code of 1986, as amended from time to time.

2.9 **"Committee"** means the Compensation Committee of the Board, or any other committee designated by the Board, authorized to administer the Plan under Section 3 of this Plan. The Committee shall consist of not less than 2 members who shall be appointed by, and shall serve at the pleasure of, the Board. It is intended that the directors appointed to serve on the Committee shall be "independent" as defined by the Company from time to time, and that they shall be "non-employee directors" (within the meaning of Rule 16b-3 under the Exchange Act) and "outside directors" (within the meaning of Code Section 162(m) and its related regulations). However, the mere fact that a Committee member fails to qualify under any of the foregoing requirements shall not invalidate any Award made by the Committee if the Award is otherwise validly made under the Plan.

2.10 **"Common Stock"** means the \$0.01 par value common stock of the Company.

2.11 **"Company"** means Cracker Barrel Old Country Store, Inc. or any successor.

2.12 **"Covered Employee"** means an individual who is, with respect to the Company, an individual defined in Code Section 162(m)(3).

2.13 **"Disability"** has the same meaning as provided in the long-term disability plan or policy maintained by the Company or if applicable, most recently maintained, by the Company or if applicable, a Subsidiary or Affiliate, for the Participant, whether or not that Participant actually receives disability benefits under the plan or policy. If no long-term disability plan or policy was ever maintained on behalf of Participant or if the determination of Disability relates to an incentive stock option (within the meaning of Section 8 of this Plan), Disability means Permanent and Total Disability as defined in Section 22(e)(3) of the Code. In a dispute, the determination whether a Participant has suffered a Disability will be made by the Committee and may be supported by the advice of a physician competent in the area to which that Disability relates.



- 2.14 “**Effective Date**” is defined in Section 6.
- 2.15 “**Employee**” means an employee of the Company, a Subsidiary or an Affiliate.
- 2.16 “**Exchange Act**” means the Securities and Exchange Act of 1934, as amended from time to time.
- 2.17 “**Fair Market Value**” with respect to the Common Stock, as of any given date, unless otherwise determined by the Committee in good faith, means the reported closing sale price of a share of Common Stock on the automated quotation system or other market or exchange that is the principal trading market for the Common Stock, or if no sale of a share of Common Stock is so reported on that date, the fair market value of a share of Common Stock as determined by the Committee in good faith.
- 2.18 “**Immediate Family**” means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, and includes adoptive relationships.
- 2.19 “**Outside Director**” means a member of the Board who is not an officer or employee of the Company or any Subsidiary or Affiliate of the Company.
- 2.20 “**Outside Director Award**” means an Award granted to an Outside Director under Section 27.
- 2.21 “**Participant**” means any individual to whom an Award has been granted by the Committee under this Plan.
- 2.22 “**Potential Change in Control**” means the happening of any one of the following:
- a. the approval by shareholders of an agreement by the Company which would result in a Change in Control of the Company when consummated; or
  - b. the acquisition of beneficial ownership, directly or indirectly, by any entity, person or group (other than the Company or a Subsidiary or any Company or Subsidiary employee benefit plan, including any trustee of the plan acting as trustee) of securities of the Company representing 25% or more of the combined voting power of the then outstanding securities of the Company (without being accompanied by a formal statement or public filing disclaiming any intention to obtain or exercise control of the Company) and the adoption by the Committee of a resolution to the effect that a Potential Change in Control of the Company has occurred for purposes of this Plan.
- 2.23 “**Qualified Performance-Based Award**” means (i) any stock option or SAR granted under the Plan, or (ii) any other Award that is intended to qualify for the Section 162(m) Exemption and is made subject to performance goals based on Qualified Performance Measures as set forth in Section 13.
- 2.24 “**Qualified Performance Measures**” means 1 or more of the performance measures listed in Section 13.2 upon which performance goals for certain Qualified Performance-Based Awards may be established by the Committee.
- 2.25 “**SAR**” is an Award that shall entitle the recipient to receive a payment equal to the appreciation in value of a stated number of shares of Common Stock from the price established in the Award to the market value of that number of shares of Common Stock on the date of exercise.

2.26 “Section 162(m) Exemption” means the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C) of the Code or any successor provision thereto.

2.27 “Section 162(m) Cash Maximum” means \$5,000,000.

2.28 “Section 16 Insider” means a Participant who is subject to the reporting requirements of Section 16 of the Exchange Act with respect to the Company.

2.29 “Stock Award” means an Award granted pursuant to Section 10 in the form of shares of Common Stock, restricted shares of Common Stock or Units of Common Stock.

2.30 “Subsidiary” means a corporation or other business entity in which the Company directly or indirectly has an ownership interest of 50% or more.

2.31 “Unit” means a bookkeeping entry used by the Company to record and account for the grant of the following Awards until the Award is paid, canceled, forfeited or terminated, as the case may be: shares of Common Stock, SARs and performance shares may be expressed in terms of Units of Common Stock.

### 3. ADMINISTRATION.

The Plan shall be administered by the Committee. The Committee shall have the discretionary authority to: (a) interpret the Plan; (b) establish any rules and regulations it deems necessary for the proper operation and administration of the Plan; (c) select Employees to become Participants and receive Awards under the Plan; (d) determine the form of an Award, whether a stock option, SAR, Stock Award, performance share, cash bonus, or other incentive award established by the Committee, the number of shares or Units subject to the Award, all the terms, conditions, restrictions and limitations, if any, of an Award, including the time and conditions of exercise or vesting, and the terms of any Award Notice; (e) determine whether Awards should be granted singly, in combination or in tandem; (f) grant waivers of Plan terms, conditions, restrictions and limitations; (g) accelerate the vesting, exercise or payment of an Award or the performance period of an Award in the event of a Participant’s termination of employment or when that action or actions would be in the best interests of the Company; (h) establish such other types of Awards, besides those specifically enumerated in Section 2.2, which the Committee determines are consistent with the Plan’s purpose; and (i) take all other action it deems necessary or advisable for the proper operation or administration of the Plan. Subject to Section 24, the Committee also shall have the authority to grant Awards in replacement of Awards previously granted under the Plan or any other executive compensation plan of the Company or a Subsidiary. All determinations of the Committee shall be made by a majority of its members, and its determinations shall be final, binding and conclusive on all persons, including the Company and Participants.

The Committee, in its discretion, may delegate its authority and duties under the Plan to the Chief Executive Officer or to other senior officers of the Company under conditions and limitations the Committee may establish; however, only the Committee may select, grant, and establish the terms of Awards to Section 16 Insiders or Covered Employees, and only the Board shall have the authority to establish the terms or conditions of Outside Director Awards pursuant to Section 27 of this Plan.

4. **ELIGIBILITY.**

Any Employee or Director is eligible to become a Participant in the Plan; provided, however, that Outside Directors are eligible to receive awards only consistent with Section 27 of this Plan.

5. **NUMBER OF SHARES AVAILABLE.**

The maximum number of shares of Common Stock that shall be available for grant of Awards under the Plan (including incentive stock options) during its term shall not exceed [4.5] million shares, subject to adjustment as provided in Section 19. Any shares of Common Stock related to Awards that are settled in cash in lieu of Common Stock shall be available again for grant under the Plan. Similarly, any shares of Common Stock related to Awards that terminate by expiration, forfeiture, cancellation or otherwise without the issuance of the related shares or are exchanged with the Committee's permission for Awards not involving Common Stock, shall be available again for grant under the Plan. Further, any shares of Common Stock that are used by a Participant for the full or partial payment to the Company of the purchase price of Common Stock upon exercise of a stock option, or for withholding taxes due as a result of that exercise, shall again be available for Awards under the Plan. Notwithstanding any provision in the Plan to the contrary, the maximum number of shares of Common Stock with respect to 1 or more options and/or SARs that may be granted during any 1 calendar year under the Plan to any 1 Participant shall be 300,000. For purposes of this limitation, forfeited, canceled or repriced shares granted to a Participant in any given calendar year shall continue to be counted against the maximum number of shares that may be granted to that Participant in that calendar year. The maximum fair market value of any Awards (other than options, SARs and cash bonuses) that may be received by a Participant (less any consideration paid by the Participant for that Award) during any 1 calendar year under the Plan shall be the equivalent value of 300,000 shares of Common Stock as of the first business day of such calendar year. The shares of Common Stock available for issuance under the Plan may be authorized and unissued shares.

6. **EFFECTIVE DATE; TERM.**

The Plan shall become effective as of the date upon which it is approved by the shareholders of the Company (the "Effective Date"). No Awards or Outside Director Awards shall be exercisable or payable before the Plan becomes effective. This Plan shall remain in effect until terminated by action of the Board.

7. **PARTICIPATION.**

The Committee shall select, from time to time, Participants from those Employees who, in the opinion of the Committee, can further the Plan's purposes. Once a Participant is selected, the Committee shall determine the type or types of Awards to be made to the Participant and shall establish in the related Award Notices the terms, conditions, restrictions and limitations, if any, applicable to the Awards in addition to those set forth in the Plan and the administrative rules and regulations issued by the Committee.

8. **STOCK OPTIONS.**

**8.1 Grants.** Awards may be granted in the form of stock options. These stock options may be incentive stock options within the meaning of Section 422 of the Code, other tax-qualified stock options, or non-qualified stock options (i.e., stock options that are not incentive or other tax-qualified stock options), or a combination of any of those.

**8.2 Terms and Conditions of Options.** An option shall be exercisable in whole or in such installments and at the times determined by the Committee. The Committee also shall determine the performance or other conditions, if any, which must be satisfied before all or part of an option may be exercised. The price at which Common Stock may be purchased upon exercise of a stock option shall be established by the Committee, but such price shall not be less than 100% (or, in the case of any employee who owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any of its Subsidiaries, not less than 110%) in the case of incentive stock options, and not less than 85% (or, in the case of a Covered Employee, not less than 100%) in the case of other stock options, of the Fair Market Value of the Common Stock on the date of the stock option grant. Each stock option shall expire not later than 10 years (or, in the case of an Employee who owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries, not later than 5 years) from its date of grant.

**8.3 Restrictions Relating to Incentive Stock Options.** Stock options issued in the form of incentive stock options shall, in addition to being subject to all applicable terms, conditions, restrictions and limitations established by the Committee, comply with Section 422 of the Code. Accordingly, incentive stock options may only be granted to Employees who are employees of the Company or a Subsidiary, and the aggregate market value (determined at the time the option was granted) of the Common Stock with respect to which incentive stock options are exercisable for the first time by a Participant during any calendar year (under the Plan or any other plan of the Company or any of its Subsidiaries) shall not exceed \$100,000 (or other limit required by the Code). Each incentive stock option shall expire not later than 10 years from its date of grant.

**8.4 Additional Terms and Conditions.** The Committee may, by way of the Award Notice or otherwise, establish other terms, conditions, restrictions and limitations, if any, on any stock option Award, provided they are not inconsistent with the Plan. Without limiting the generality of the foregoing, options may provide for the automatic granting of new options at the time of exercise.

**8.5 Exercise.** The Committee shall determine the methods by which the exercise price of an option may be paid, the form of payment, including, without limitation, cash, shares of Common Stock, or other property (including "cashless exercise" arrangements, so long as they do not in any way conflict with the requirements of applicable law), and the methods by which shares of Common Stock shall be delivered or deemed to be delivered by Participants; however, if shares of Common Stock are used to pay the exercise price of a stock option, those shares must have been held by the Participant for at least 6 months (or any shorter or longer period necessary to avoid a charge to the Company's earnings for financial reporting purposes).

**9. STOCK APPRECIATION RIGHTS.**

**9.1 Grants.** Awards may be granted in the form of SARs. The SAR may be granted in tandem with all or a portion of a related stock option under the Plan ("Tandem SARs"), or may be granted separately ("Freestanding SARs"). A Tandem SAR may be granted either at the time of the grant of the related stock option or at any time thereafter during the term of the stock option. In the case of SARs granted in tandem with stock options granted prior to the grant of the SARs, the appreciation in value is the difference between the option price of the related stock option and the Fair Market Value of the Common Stock on the date of exercise. The number of SARs granted may never exceed the lesser of the number of shares of Common Stock still available under the Plan at the time of the SAR grant or 625,000.

**9.2 Terms and Conditions of Tandem SARs.** A Tandem SAR shall be exercisable to the extent, and only to the extent, that the related stock option is exercisable, and the "exercise price" of that

SAR (the base from which the value of the SAR is measured at its exercise) shall be the option price under the related stock option. If a related stock option is exercised as to some or all of the shares covered by the Award, the related Tandem SAR, if any, shall be canceled automatically to the extent of the number of shares covered by the stock option exercise. Upon exercise of a Tandem SAR as to some or all of the shares covered by the Award, the related stock option shall be canceled automatically to the extent of the number of shares covered by the exercise.

**9.3 Terms and Conditions of Freestanding SARs.** Freestanding SARs shall be exercisable in whole or in the installments and at the times determined by the Committee. Freestanding SARs shall have a term specified by the Committee, in no event to exceed 10 years. The exercise price of a Freestanding SAR shall also be determined by the Committee; however, that price shall not be less than 100% of the Fair Market Value of the Common Stock on the date of the Freestanding SAR grant. The Committee also shall determine the performance or other conditions, if any, that must be satisfied before all or part of a Freestanding SAR may be exercised.

**9.4 Deemed Exercise.** The Committee may provide that an SAR shall be deemed to be exercised at the close of business on the scheduled expiration date of the affected SAR if at that time the SAR by its terms remains exercisable and, if so exercised, would result in a payment to the holder of the SAR.

**9.5 Additional Terms and Conditions.** The Committee may, by way of the Award Notice or otherwise, determine such other terms, conditions, restrictions and limitations, if any, of any SAR Award, provided they are not inconsistent with the Plan.

## **10. STOCK AWARDS.**

**10.1 Grants.** Awards may be granted in the form of Stock Awards. Stock Awards shall be awarded in such numbers and at such times during the term of the Plan as the Committee shall determine. Stock Awards may be actual shares of Common Stock or the economic equivalent thereof ("Stock Award Units"). The total number of Stock Award Units granted at any time may not exceed the lesser of the number of shares of Common Stock available for grant at the time of the Stock Award Unit grant or 625,000.

**10.2 Award Restrictions.** Stock Awards shall be subject to terms, conditions, restrictions, and limitations, if any, the Committee deems appropriate including, without limitation, restrictions on transferability and continued employment of the Participant. The Committee also shall determine the performance or other conditions, if any, that must be satisfied before all or part of the applicable restrictions lapse.

**10.3 Rights as Shareholder.** During the period in which any restricted shares of Common Stock are subject to restrictions imposed pursuant to Section 10.2, the Committee may, in its discretion, grant to the Participant to whom restricted shares have been awarded all or any of the rights of a shareholder with respect to those shares, including, without limitation, the right to vote those shares and to receive dividends.

**10.4 Evidence of Award.** Any Stock Award granted under the Plan may be evidenced in any manner the Committee deems appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates.

11. **PERFORMANCE SHARES.**

11.1 **Grants.** Awards may be granted in the form of performance shares. "Performance shares" in this Plan mean shares of Common Stock or Units which are expressed in terms of Common Stock and which are subject to Qualified Performance Measures as discussed in Section 11.2.

11.2 **Performance Criteria.** The award of performance shares shall be contingent upon the attainment during a performance period of certain Qualified Performance Measures. The length of the performance period, the performance objectives to be achieved during the performance period, and the measure of whether and to what degree the objectives have been attained shall be conclusively determined by the Committee in the exercise of its absolute discretion. Performance objectives may be revised by the Committee, at times it deems appropriate during the performance period, in order to take into consideration any unforeseen events or changes in circumstances.

11.3 **Additional Terms and Conditions.** The Committee may, by way of the Award Notice or otherwise, determine other terms, conditions, restrictions and limitations, if any, of any Award of performance shares, provided they are not inconsistent with the Plan.

12. **PLAN CASH BONUSES.**

While cash bonuses may be granted at any time outside this Plan, cash awards may also be granted in addition to other Awards granted under the Plan and to cash awards made outside of the Plan. Subject to the provisions of the Plan, the Committee shall have authority to determine the persons to whom cash bonuses shall be granted and the amount, terms and conditions of those cash bonuses. Notwithstanding anything to the contrary in this Plan, no Covered Employee shall be eligible to receive a cash bonus under the Plan in excess of the Section 162(m) Cash Maximum in any fiscal year; and no cash bonus shall be granted pursuant to this Plan to any Covered Employee unless the cash bonus constitutes a Qualified Performance-Based Award in accordance with the provisions of Section 13.

13. **PERFORMANCE GOALS FOR CERTAIN SECTION 162(m) AWARDS.**

13.1 **162(m) Exemption.** This Plan shall be operated to ensure that all stock options and SARs granted hereunder to any Covered Employee qualify for the Section 162(m) Exemption.

13.2 **Qualified Performance-Based Awards.** When granting any Award other than stock options or SARs, the Committee may designate the Award as a Qualified Performance-Based Award, based upon a determination that the recipient is or may be a Covered Employee with respect to that Award, and the Committee wishes the Award to qualify for the Section 162(m) Exemption. If an Award is so designated, the Committee shall establish performance goals for the Award within the time period prescribed by Section 162(m) of the Code based on one or more of the following Qualified Performance Measures, which may be expressed in terms of Company-wide objectives or in terms of objectives that relate to the performance of a Subsidiary or a division, region, department or function within the Company or a Subsidiary:

- (1) return on capital, equity, or assets (including economic value created),
- (2) productivity,
- (3) cost improvements,
- (4) cash flow,
- (5) sales revenue growth,
- (6) net income, earnings per share, or earnings from operations,
- (7) quality,

- (8) customer satisfaction,
- (9) comparable store sales,
- (10) stock price or total shareholder return;
- (11) satisfaction of specified business expansion goals;
- (12) diversity goals;
- (13) turnover;
- (14) specified objective social goals;
- (15) hiring or retention of high-potential employees or executives;
- (16) growth in locations; or
- (17) brand positioning goals.

Measurement of the Company's performance against the goals established by the Committee shall be objectively determinable, and to the extent goals are expressed in standard accounting terms, performance shall be measured according to generally accepted accounting principles as in existence on the date on which the performance goals are established and without regard to any changes in those principles after that date.

**13.3 Performance Goal Conditions.** Each Qualified Performance-Based Award (other than a stock option or SAR) shall be earned, vested and payable (as applicable) only upon the achievement of performance goals established by the Committee based upon one or more of the Qualified Performance Measures, together with the satisfaction of any other conditions, such as continued employment, the Committee may determine to be appropriate; however, (i) the Committee may provide, either in connection with the grant of an Award or by later amendment, that achievement of the performance goals will be waived upon the death or Disability of the Participant, and (ii) the provisions of Section 26 shall apply notwithstanding this sentence.

**13.4 Certification of Goal Achievement.** Any payment of a Qualified Performance-Based Award granted with performance goals shall be conditioned on the written certification of the Committee in each case that the performance goals and any other material conditions were satisfied. Except as specifically provided in Section 13.3, no Qualified Performance-Based Award may be amended, nor may the Committee exercise any discretionary authority it may otherwise have under the Plan with respect to a Qualified Performance-Based Award, in any manner to waive the achievement of the applicable performance goal based on Qualified Performance Measures or to increase the amount payable under, or the value of, the Award, or otherwise in a manner that would cause the Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption.

**14. PAYMENT OF AWARDS.**

At the discretion of the Committee, payment of Awards may be made in cash, Common Stock, a combination of cash and Common Stock, or any other form of property the Committee shall determine. In addition, payment of Awards may include terms, conditions, restrictions and limitations, if any, the Committee deems appropriate, including, in the case of Awards paid in the form of Common Stock, restrictions on transfer and forfeiture provisions. Payment of Awards may be made in a lump sum, or in installments, as determined by the Committee.

**15. DIVIDEND AND DIVIDEND EQUIVALENTS.**

If an Award is granted in the form of a Stock Award, stock option, or performance share, or in the form of any other stock-based grant, the Committee may choose, at the time of the grant of the Award or any time thereafter up to the time of the Award's payment, subject to Section 13.1 of this Plan, to include as part of the Award in those forms an entitlement to receive dividends or dividend equivalents with

respect to Stock Awards, performance shares, or options which are vested, subject to terms, conditions, restrictions and limitations, if any, the Committee may establish. Dividends and dividend equivalents shall be paid in a form and manner (i.e., lump sum or installments), and at a time or times the Committee shall determine. All dividends or dividend equivalents that are not paid currently may, at the Committee's discretion, accrue interest, be reinvested in additional shares of Common Stock or, in the case of dividends or dividend equivalents credited in connection with performance shares, be credited as additional performance shares and paid to the Participant if and when, and to the extent that, payment is made pursuant to that Award.

**16. DEFERRAL OF AWARDS.**

At the discretion of the Committee, payment of a Stock Award, performance share, dividend, dividend equivalent, or any portion thereof may be deferred by a Participant until a time the Committee may establish. All deferrals shall be accomplished by the delivery of a written, irrevocable request by the Participant prior to the time payment would otherwise be made, on a form provided by the Company. Further, all deferrals shall be made in accordance with administrative guidelines established by the Committee to ensure that deferrals comply with all applicable requirements of the Code and its regulations. Deferred payments shall be paid in a lump sum or installments, as determined by the Committee. The Committee also may credit interest, at rates to be determined by the Committee, on cash payments that are deferred and credit dividends or dividend equivalents on deferred payments denominated in the form of Common Stock. The Committee also may, in its discretion, require deferral of payment of any Award or portion of it, if payment of the Award would, or could in the reasonable estimation of the Committee, result in the Participant receiving compensation in excess of the maximum amount deductible by the Company under the provisions of Code Section 162(m), as amended. Notwithstanding the foregoing, no Award under this Plan (or modification thereof) shall provide for deferral of compensation that does not comply with Section 409A of the Code unless the Committee, at the time of grant, specifically provides that the Award is not intended to comply with Section 409A of the Code. Notwithstanding any provision of this Plan to the contrary, if one or more of the payments or benefits received or to be received by a Participant pursuant to an Award would cause the Participant to incur any additional tax or interest under Section 409A of the Code, the Committee may reform such provision to maintain to the maximum extent practicable the original intent of the applicable provision without violating the provisions of Section 409A of the Code.

**17. TERMINATION OF EMPLOYMENT.**

If a Participant's employment with the Company or a Subsidiary or Affiliate terminates for Cause or for a reason other than death, Disability, retirement, or any other approved reason, all unexercised, unearned, and unpaid Awards, including without limitation, Awards earned but not yet paid, all unpaid dividends and dividend equivalents, and all interest accrued on the foregoing shall be canceled or forfeited, as the case may be, unless the Participant's Award Notice provides otherwise. The Committee shall have the authority to promulgate rules and regulations to (i) determine what events constitute Disability, retirement or termination for an approved reason for purposes of the Plan, and (ii) determine the treatment of a Participant under the Plan in the event of a Participant's death, Disability, retirement or termination for an approved reason.

**18. NO ASSIGNMENT.**

No Awards (other than unrestricted Stock Awards) or any other payment under the Plan shall be subject in any manner to alienation, anticipation, sale, transfer (except by will or the laws of descent and distribution), assignment, pledge, or encumbrance; however, the Committee may (but need not) permit other transfers where the Committee concludes that transferability (i) does not result in accelerated



taxation, (ii) does not cause any option intended to be an incentive stock option to fail to be described in Code Section 422(b), and (iii) is otherwise appropriate and desirable, taking into account any state or federal securities laws applicable to transferable Awards. During the lifetime of the Participant no Award shall be payable to or exercisable by anyone other than the Participant to whom it was granted, other than (a) the duly appointed conservator or other lawfully designated representative of the Participant in the case of a permanent Disability involving a mental incapacity or (b) the transferee in the case of an Award transferred in accordance with the preceding sentence.

**19. CAPITAL ADJUSTMENTS.**

The number and price of shares of Common Stock covered by each Award and Outside Director Award and the total number of shares of Common Stock that may be awarded under the Plan shall be proportionately adjusted to reflect any stock dividend, stock split or share combination of the Common Stock or any recapitalization of the Company. In the event of any merger, consolidation, reorganization, liquidation or dissolution of the Company, or any exchange of shares involving the Common Stock, any Award or Outside Director Award granted under the Plan shall automatically be deemed to pertain to the securities and other property to which a holder of the number of Common Stock covered by the Award or Outside Director Award would have been entitled to receive in connection with any such event. The Committee shall have the sole discretion to make all interpretations and determinations required under this section to the extent it deems equitable and appropriate. It is the intent of any such adjustment that the value of the Awards or Outside Director Awards held by the Participants or Outside Directors, as the case may be, immediately following the change is the same as that value immediately prior to the change.

**20. WITHHOLDING TAXES.**

The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event arising as a result of this Plan. With respect to withholding required upon any taxable event, the Company may elect in its discretion, and Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by withholding or having the Company withhold shares of Common Stock having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be imposed on the transaction. All elections by Participants shall be irrevocable, made in writing, and signed by the Participant.

**21. NONCOMPETITION; CONFIDENTIALITY.**

For purposes of this Section 21, "Company" shall include any Subsidiary or Affiliate employing the Participant. A Participant will not, without the written consent of the Company, either during or after his or her employment by the Company, disclose to anyone or make use of any confidential information which he or she has acquired during his or her employment relating to any of the business of the Company, except as such disclosure or use may be required in connection with his or her work as an employee of Company, or as demanded by a subpoena issued by a court of competent jurisdiction, if the Participant gives notice of the demand to the Company as soon as reasonably possible after receipt of the subpoena. The confidential information of the Company includes, but is not limited to, all technology, recipes, business systems and styles, customer lists and all other Company proprietary information not generally known to the public. During Participant's employment by the Company, he or she will not, either as principal, agent, consultant, employee or otherwise, engage in any work or other activity in competition with the Company in the field or fields in which he or she has worked for the Company. Unless the Award Notice specifies otherwise, a Participant shall forfeit all rights under this Plan to any unexercised or unpaid Awards or to the deferral of any Award, dividend, or dividend equivalent, if, in the

determination of the Committee, the Participant has violated the Agreement set forth in this Section 21, and in that event any further payment, deferral of payment, or other action with respect to any Award, dividend, or dividend equivalent shall be made or taken, if at all, in the sole discretion of the Committee.

**22. REGULATORY APPROVALS AND LISTINGS.**

Notwithstanding anything contained in the Plan to the contrary, the Company shall have no obligation to issue or deliver certificates of Common Stock evidencing Stock Awards or any other Award resulting in the payment of Common Stock prior to (a) the obtaining of any approval from any governmental agency which the Company shall, in its sole discretion, determine to be necessary or advisable, (b) the admission of the shares to quotation or listing on the automated quotation system or stock exchange on which the Common Stock may be listed, and (c) the completion of any registration or other qualification of the shares under any State or Federal law or ruling of any governmental body that the Company shall, in its sole discretion, determine to be necessary or advisable.

**23. PLAN AMENDMENT.**

Except as provided in Section 26, the Board or the Committee may, at any time and from time to time, suspend, amend, modify, or terminate the Plan without shareholder approval; however, if an amendment to the Plan would, in the reasonable opinion of the Board or the Committee, either (i) result in repricing stock options or otherwise increase the benefits accruing to Participants or Outside Directors, (ii) increase the number of shares of Common Stock issuable under the Plan, or (iii) modify the requirements for eligibility, then that amendment shall be subject to shareholder approval; and, the Board or Committee may condition any amendment or modification on the approval of shareholders of the Company if that approval is necessary or deemed advisable to (i) permit Awards to be exempt from liability under Section 16(b) of the Exchange Act, (ii) to comply with the listing or other requirements of an automated quotation system or stock exchange, or (iii) to satisfy any other tax, securities or other applicable laws, policies or regulations.

**24. AWARD AMENDMENTS.**

Except as provided in Section 26, the Committee may amend, modify or terminate any outstanding Award or Outside Director Award without approval of the Participant or Outside Director, as applicable; however:

a. except as otherwise provided in Section 21, subject to the terms of the applicable Award Notice, an amendment, modification or termination shall not, without the Participant's or Outside Director's consent, as applicable, reduce or diminish the value of the Award or Outside Director Award determined as if the Award or Outside Director Award had been exercised, vested, cashed in (at the spread value in the case of stock options or SARs) or otherwise settled on the date of that amendment or termination;

b. the original term of any stock option or SAR may not be extended without the prior approval of the shareholders of the Company;

c. except as otherwise provided in Section 19, the exercise price of any stock option or SAR may not be reduced, directly or indirectly, without the prior approval of the shareholders of the Company; and

d. no termination, amendment, or modification of the Plan shall adversely affect any Award or Outside Director Awards previously granted under the Plan, without the written consent of the affected Participant or Outside Director.

25. **GOVERNING LAW.**

This Plan shall be governed by and construed in accordance with the laws of the State of Tennessee, except as superseded by applicable Federal law.

26. **CHANGE IN CONTROL.**

Subject to the limitations set forth in this Section 26, but only if and to the extent determined by the Committee or the Board at or after the affected award or grant and subject to any right of approval expressly reserved by the Committee or the Board at the time of the determination, in case of a Change in Control or a Potential Change in Control, the following provisions shall apply to any Award which has not previously terminated or expired:

- a. any SAR and any stock option or Outside Director Award awarded under this Plan that is not previously vested and exercisable shall become fully vested and exercisable;
- b. the restrictions applicable to any Award which are not already vested under the Plan shall lapse, and those existing shares and awards shall be deemed fully vested;
- c. unless otherwise determined by the Board or by the Committee in its sole discretion prior to any Change in Control, the value of all vested outstanding stock options, SARs, Outside Director Awards and other Awards, shall be cashed out on the basis of the Change in Control Price as of the date the Change in Control or Potential Change in Control is determined to have occurred (or other date determined by the Board or Committee prior to the Change in Control);
- d. the Board or the Committee may impose additional conditions on the acceleration or valuation of any Award in the applicable Award Notice; and
- e. for purposes of making payment to Participants in connection with performance shares, each performance period for which the Committee has granted performance shares (a "current performance period") shall be treated as terminating upon the date the Change in Control or Potential Change in Control is determined to have occurred (or other date determined by the Board or Committee prior to the Change in Control), and for each current performance period and each completed performance period for which the Committee has not on or before that date made a determination as to whether and what degree the performance objectives for the period have been attained (a "completed performance period"), it shall be assumed that the performance objectives have been attained at a level of 100% or the equivalent. If the Participant is participating in one or more current performance periods, he or she shall be considered to have earned and, therefore, be entitled to receive that prorated portion of the Awards previously granted for each of those performance periods. The prorated portion shall be determined by multiplying the number of performance shares granted to the Participant by a fraction, the numerator of which is the total number of whole and partial years (with each partial year being treated as a whole year) that have elapsed since the beginning of the performance period, and the denominator of which is the total number of years in the performance period. A Participant in one or more completed performance periods shall be considered to have earned and, therefore, be entitled to receive all the performance shares previously granted during each performance period.

27. **AWARDS TO OUTSIDE DIRECTORS.**

27.1 **General.** The independent members of the Board may provide that all or a portion of an Outside Director's annual retainer, meeting fees and/or other awards or compensation as determined by such independent members of the Board, be payable (either automatically or at the election of an Outside Director) in the form of stock options or Stock Awards, including unrestricted Common Stock. The Board shall determine the terms and conditions of any such Awards, including the terms and conditions which shall apply upon a termination of the Outside Director's service as a member of the Board, and shall have full power and authority in its discretion to administer such Awards, subject to the terms of the Plan and applicable law.

27.2 **Other Awards.** The Board may also grant Awards to Outside Directors pursuant to the terms and subject to the limitations of the Plan, including any Award described in Sections 8, 9 and 10 of the Plan. With respect to such Awards, all references in the Plan to the Committee shall be deemed to be references to the independent members of the Board.

28. **NO RIGHT TO EMPLOYMENT OR PARTICIPATION.**

Participation in the Plan shall not give any Participant any right to remain in the employ, or to serve as a director, of the Company or any Subsidiary or Affiliate. The Company or, in the case of employment with a Subsidiary or Affiliate, the Subsidiary or Affiliate, reserves the right to terminate the employment of any Participant at any time. Further, the adoption of this Plan shall not be deemed to give any Employee or any other individual any right to be selected as a Participant or to be granted an Award.

29. **NO RIGHT, TITLE OR INTEREST IN COMPANY ASSETS.**

The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. No Participant shall have any rights as a shareholder as a result of participation in the Plan until the date of issuance of a stock certificate in the Participant's name, and, in the case of restricted shares of Common Stock, such rights are granted to the Participant under Section 10.3 hereof. To the extent any person acquires a right to receive payments from the Company under the Plan, those rights shall be no greater than the rights of an unsecured creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or to make payments in lieu of, or with respect to, Plan awards. However, unless the Committee determines otherwise with the express consent of the affected Participant, the existence of any such trusts or other arrangements is consistent with this "unfunded" status of the Plan.

30. **SECURITIES LAWS.**

With respect to Section 16 Insiders, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails so to comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

31. **REQUIRED WRITTEN REPRESENTATIONS.**

The Committee may require each person purchasing shares pursuant to a stock option or other award under the Plan to represent to and agree with the Company in writing that the optionee or Participant is acquiring any shares of Common Stock without a view to their distribution. The certificates for shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer. All certificates for shares of Common Stock or other securities delivered under the Plan shall be

subject to stop transfer orders and other restrictions the Committee deems advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, and any applicable Federal or state securities laws, and the Committee may cause a legend or legends to be put on any certificates to make appropriate reference to the applicable restrictions. Each Participant is responsible for fully complying with all applicable state and federal securities laws and rules and the Company assumes no responsibility for compliance with any such laws or rules pertaining to a Participant's resale of any shares of Common Stock acquired pursuant to this Plan.

32. **NON-EXCLUSIVE ARRANGEMENT.**

Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if required; and those arrangements may be either generally applicable or applicable only in specific cases.

33. **LIMITS ON LIABILITY AND INDEMNIFICATION.**

The members of the Committee and the Board shall not be liable to any employee or other person with respect to any determination made under the Plan in a manner that is not inconsistent with their legal obligations as members of the Board. In addition to all other rights of indemnification they may have as directors or as members of the Committee, the members of the Committee shall be indemnified by the Company against reasonable expenses, including attorneys' fees actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party because of any action taken or failure to act under or in connection with the Plan or any Award granted under it, and against all amounts paid by them in settlement (provided the settlement is approved by independent legal counsel selected by the Company) or paid to them in satisfaction of a judgment in that action, suit or proceeding, except in relation to matters as to which it shall be adjudged in the action, suit or proceeding that the Committee member is liable for negligence or misconduct in the performance of his or her duties. Within 60 days after institution of any action, suit or proceeding covered by this Section, the Committee member must inform the Company in writing of the claim and offer the Company the opportunity, at its own expense, to handle and defend the matter.

I, Michael A. Woodhouse, 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: March 9, 2010

/s/Michael A. Woodhouse

Michael A. Woodhouse, Chairman, President  
and Chief Executive Officer

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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: March 9, 2010

/s/Sandra B. Cochran

Sandra B. Cochran, Executive Vice President  
and Chief Financial Officer

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 January 29, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael A. Woodhouse, Chairman, 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: March 9, 2010

By: /s/Michael A. Woodhouse  
Michael A. Woodhouse,  
Chairman, President and Chief Executive Officer

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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 January 29, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sandra B. Cochran, Executive 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: March 9, 2010

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