

Cracker Barrel Old Country Store, Inc.  
305 Hartmann Drive  
Lebanon, Tennessee 37087

November 16, 2011

**VIA EDGAR**

United States Securities and Exchange Commission  
Division of Corporation Finance  
Office of Mergers and Acquisitions  
100 F Street, N.E.  
Washington, D.C. 20549  
Attn: Mellissa Campbell Duru, Special Counsel

**Re: Cracker Barrel Old Country Store, Inc.  
Definitive Additional Soliciting Materials on Schedule 14A  
Filed November 1 and 8, 2011  
File No. 1-25225**

Dear Ms. Duru:

On behalf of Cracker Barrel Old Country Store, Inc. (the "Company"), please find below the responses to the comments issued by the staff of the Division of Corporation Finance (the "Staff") of the Securities and Exchange Commission (the "Commission") contained in the Staff's letter dated November 9, 2011 (the "Comment Letter"), concerning the Company's Definitive Additional Soliciting Materials on Schedule 14A filed on November 1 and 8, 2011 (the "Soliciting Materials").

For your convenience, we have included the text of the Staff's comments preceding each of the Company's responses. Set forth below are the Company's responses to the comments presented in the Comment Letter.

**Soliciting Materials filed November 1, 2011**

- 1. In future filings, please characterize each statement or assertion of opinion or belief as such, and ensure that a reasonable basis for each opinion or belief exists. For example, the headings on slides 28, 39 and 41 of the presentation should be recharacterized as your belief in future filings.**

**Response:**

*Slide 28.* The Company acknowledges the Staff's comment and, in future filings, the Company agrees to modify its disclosure to ensure that such statement is explicitly characterized as a statement of the Company's opinion or belief.

Slides 39 and 41. The Company acknowledges the Staff's comment but respectfully submits that the referenced headings of slides 39 and 41 are statements of fact, rather than statements of opinion or belief. In the supplemental materials delivered together with the Company's letter to the Staff dated September 12, 2011 (the "September 12 Letter"), the Company provided the Staff with its analysis concerning the competitive relationship between the Company and Steak n Shake. Additionally, the Company is providing to the Staff on a supplemental and confidential basis (and for which the Company has requested confidential treatment pursuant to Rule 83 of the General Rules and Regulations of the Commission) additional materials relating to these matters, including supplemental data underlying the materials previously submitted with the September 12 Letter, which additional materials are attached as Schedule A to the confidential treatment request provided herewith.

**2. Please provide support for the data presented on slide 16 of the presentation, including the relevant marked pages of the S&P article that support the graphical data.**

Response: The Company is providing to the Staff on a supplemental basis the following supporting materials requested for the data presented on slide 16: (i) a copy of the S&P Research Insight Methodology marked to show the quoted definition of "Total Return" and (ii) a copy of the Compustat Research Insight program data reflecting the five-year total shareholder return for the Company and certain of its peers, which are attached hereto as Exhibits A-1 and A-2, respectively.

**3. Please provide us with copies of the materials from which the excerpts were taken on slides 23, 33 and 35.**

Response:

*Slide 23.* The Company is providing to the Staff on a supplemental basis the requested supporting materials for the excerpts provided on slide 23, including copies of the following:

- the Morgan Keegan Equity Research Note, dated September 14, 2011, marked to show the quoted language attributed to Robert Derrington, which is attached hereto as Exhibit B;
- the Miller Tabak + Co., LLC analyst report, dated September 14, 2011, marked to show the quoted language attributed to Stephen Anderson, which is attached hereto as Exhibit C;
- *The Tennessean* article titled "Cracker Barrel Investor Wants a Juicier Stake," dated September 14, 2011, marked to show the quoted language attributed to Robert Derrington, which is attached hereto as Exhibit D;

- the KeyBanc Capital Markets Inc. analyst report, dated September 13, 2011, marked to show the quoted language attributed to Brad Ludington, which is attached hereto as Exhibit E; and
- the Raymond James & Associates, Inc. Company Comment, dated September 15, 2011, marked to show the quoted language attributed to Bryan Elliot, which is attached hereto as Exhibit F.

Slide 33. The Company is providing to the Staff on a supplemental basis the requested supporting materials for the excerpts provided on slide 33, including copies of the following:

- Steak N Shake's current report on Form 8-K, filed March 22, 2009, with Exhibit 17.1 attached thereto marked to show the quoted language attributed to Wayne L. Kelley, which is attached hereto as Exhibit G; and
- the *Indianapolis Business Journal* article titled "Steak n Shake changing its name, moving HQ to Texas," dated February 6, 2010, marked to show the quoted language, which is attached hereto as Exhibit H.

Slide 35. The Company is providing to the Staff on a supplemental basis the requested supporting materials for the excerpts provided on slide 35, including copies of the following:

- *The Motley Fool* article, dated May 11, 2010, marked to show a portion of the quoted language attributed to Richard Gibbons, which is attached hereto as Exhibit I;
- the *Indianapolis Business Journal* article titled "Steak n Shake parent postpones meeting amid pay uproar," dated August 10, 2010, marked to show the quoted language attributed to Richard Gibbons and the language attributed to Ken Skarbeck, which is attached hereto as Exhibit J. Upon further review of the materials attached as Exhibit J, the Company notes that a portion of the quotation attributed to Richard Gibbons in Slide 35 was actually written by Scott Olson, the author of the *Indianapolis Business Journal* article attached as Exhibit J, and was a characterization by Olson of Gibbons's view rather than a direct quotation of Gibbons. The Company regrets the error and, in any future uses of this quotation, will correct the error by limiting the language attributed to Gibbons; and
- the Noise Free Investments, LLC (NFI) Shareholder Letter to the Board of Directors of Biglari Holdings, dated May 6, 2010, marked to show the quoted language, which is attached hereto as Exhibit K.

4. **Please refer to slide 38 of the materials. In future filings, please avoid statements that imply Mr. Biglari would violate his state law fiduciary duty of loyalty if elected to the Board. This comment also applies to similar assertions made in the November 8, 2011 materials. Please refer generally to Note b to Rule 14a-9.**

Response: The Company acknowledges the Staff's comment and, in future filings, the Company agrees to avoid such statements and assertions concerning Mr. Biglari's fulfillment of his state law fiduciary duty of loyalty.

5. **Please refer to slide 41. Absent a reasonable basis, the slide should be removed from future filings. In this regard, the basis for your conclusions that the companies "compete for the same guests" is not apparent based solely on the geographical map presented. For example, advise us of whether the restaurants are within a certain proximity of each other such that competition for the "same" guests could occur. Also, please supplementally provide support for your underlying assumption that the profile of the guests that visit each of the respective restaurants is the "same" in each of the geographical areas you highlight. We may have further comment.**

Response: The Company acknowledges the Staff's comment and respectfully submits that the Company has a reasonable basis for the contents of slide 41. We respectfully refer the Staff to the Company's response to the Staff's first comment, above, as it relates to slide 41, and to the materials provided to the Staff on a supplemental and confidential basis by the Company and attached as Schedule A to the confidential treatment request provided herewith.

6. **In future filings, please consistently present information regarding how the company intends to accomplish its strategic initiatives. For example, the letter to shareholders dated November 8, 2011 does not reference the \$10 million annual savings the company intends to accomplish through staff reductions; a fact that was referenced in the company's investor presentation filed on November 1, 2011.**

Response: The Company acknowledges the Staff's comment regarding consistent presentation of information related to how the Company intends to accomplish its strategic initiatives. In future filings, the Company agrees to provide additional disclosure as needed to ensure such information is presented in a consistent manner.

7. **We note the assertions that "Steak & Shake" competes with the company. Although you have set forth the basis for your belief that the restaurants compete, you have not characterized these assertions as your opinion or belief. In future filings, please characterize all assertions regarding competition between the companies as that of your opinion or belief.**

Response: The Company acknowledges the Staff's comment and respectfully refers the Staff to the Company's response to the Staff's first comment, above, as it relates to slides 39 and 41.

\* \* \*

If you have any questions, please do not hesitate to contact the undersigned at (615) 235-4280 or contact our outside counsel Howard H. Lamar III at (615) 742-6209 or Scott W. Bell at (615) 742-7942. Thank you in advance for your prompt attention to this matter.

Sincerely,

/s/ N.B. Forrest Shoaf

N.B. Forrest Shoaf  
Senior Vice President, Secretary and  
Chief Legal Officer

Enclosures

cc: Eric S. Robinson  
Steven A. Rosenblum  
Wachtell, Lipton, Rosen & Katz

Howard H. Lamar III  
Scott W. Bell  
Bass, Berry & Sims PLC

Lawrence E. Hyatt  
Senior Vice President and Chief Financial Officer  
Cracker Barrel Old Country Store, Inc.

**Exhibit A-1**

(see attached)

Source: S&P Research Insight Methodology

### **1 Year Total Return**

Mnemonic	TRT1Y
Concept calculation	$\frac{((PRCCM*TRFM)/(PRCCM*TRFM)[-12])-1}{100}$
Units	Percentage

The Total Return concepts are annualized rates of return reflecting price appreciation plus reinvestment of monthly dividends and the compounding effect of dividends paid on reinvested dividends.

Total returns on the S&P Indexes that have been calculated using Research Insight may differ from the total returns on the S&P Indexes calculated by Standard & Poor's.

### **3 Year Total Return**

Mnemonic	TRT3Y
Concept calculation	$\frac{(((PRCCM*TRFM)/(PRCCM*TRFM)[-36])^{(1.0/3.0)}-1)}{100}$
Units	Percentage

The Total Return concepts are annualized rates of return reflecting monthly price appreciation plus reinvestment of monthly dividends and the compounding effect of dividends paid on reinvested dividends.

The concept above adjusts the beginning and ending stock prices by the total return factor for the corresponding months to account for reinvested dividends. Since it uses the current month stock price as the ending price and the price from 36 months ago as the beginning price, it must be annualized by taking the result to the one third power. This converts the 36 month (i.e. 3 year) comprehensive total return into a value that indicates what the return was on an annual basis for the 3 year period.

The Indexed Total Return concepts are an indexed number that represents a comparison between a present measurement and a measurement at some previous point in time (base period). The base period is equal to 100.

Total returns on the S&P Indexes that have been calculated using Research Insight may differ from the total returns on the S&P Indexes calculated by Standard & Poor's

### **5 Year Total Return**

Mnemonic	TRT5Y
Concept calculation	$\frac{(((PRCCM*TRFM)/$ $(PRCCM*TRFM)[-60])$ $^{(1.0/5.0)}-1)*100$
Units	Percentage

The Total Return concepts are annualized rates of return reflecting monthly price appreciation plus reinvestment of monthly dividends and the compounding effect of dividends paid on reinvested dividends.

The concept above adjusts the beginning and ending stock prices by the total return factor for the corresponding months to account for reinvested dividends. Since it uses the current month stock price as the ending price and the price from 60 months ago as the beginning price, it must be annualized by taking the result to the one fifth power. This converts the 60 month (i.e. 5 year) comprehensive total return into a value that indicates what the return was on an annual basis for the 5 year period.

The Indexed Total Return concepts are an indexed number that represents a comparison between a present measurement and a measurement at some previous point in time (base period). The base period is equal to 100.

Total returns on the S&P Indexes that have been calculated using Research Insight may differ from the total returns on the S&P Indexes calculated by Standard & Poor's.



### Price - Monthly - Close

Mnemonic                      PRCCM  
Units                              Dollars and cents

This item contains the absolute close market prices for each calendar month. Bid prices are reported for over-the-counter issues which are not traded on NASDAQ National Market System. (Generally, only the close price is available for over-the-counter companies prior to 1971.)

Prices are carried in dollars and cents. The following table indicates the method used:

Exchange Stock Price	Standard & Poor's Stock Price
20	20.000
20 1/8	20.125
20 1/4	20.250
20 3/8	20.375
20 1/2	20.500
20 5/8	20.625
20 3/4	20.750
20 7/8	20.875

Standard & Poor's presents prices for Canadian companies (\$T) in Canadian dollars and cents.

When a company is not traded in a given month or months, the price figures appear as Not Available (@NA).

### GICS Aggregate

This item represents the calendar quarter end closing price multiplied by common shares outstanding reported by companies, summed for all companies that make up each GICS Aggregate. For GICS Aggregate, this item is set to @NA (Not Available) for the months that fall between each quarter end month.

### Total Return Factor - Monthly

Mnemonic                      TRFM

Units

Percentage

This item represents the multiplication factor for calculating the total return to shareholders of any time period.

Includes Cash Equivalent Distributions along with reinvestment of dividends and the compounding effect of dividends paid on reinvested dividends.

Total returns on the S&P Indexes that have been calculated using Research Insight may differ from the total returns on the S&P Indexes calculated by Standard & Poor's.

**Exhibit A-2**

(see attached)

Source: Compustat Research Insight Report

Research Insight - Report

File Edit View Report Databases Tools Window Help

Company Name	5 Year Total Return
BEGLARI HOLDINGS INC	-2,562
BRINNER INTL INC	-2,445
CHEESECAKE FACTORY INC	-1,942
CHUCKER BARREL OLD CRY STOR	1,366
DARDEN RESTAURANTS INC	2,638
P F CHANGE CRINA BISTRO INC	4,080
RUBY TUESDAY INC	-23,671
TEXAS ROADHOUSE INC	1,737

Show  
Forecast  
Report  
Data  
Report Cycle

Company  
TEB a  
Alerts  
Print  
Tools

ST, CO, OK, WY, CO

COMPSTAT - 100111

Google News - Novelt...  
Re: SEC comments 9...  
Re: SEC comments 9...

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**Exhibit B**

(see attached)

September 14, 2011

## Research Note

## Cracker Barrel Old Country Store, Inc.

CBRL - \$40.56

Rating: Market Perform

Suitability: Speculative

## CBRL: Q1 (Oct) SSS Could Prove the Nadir as More Aggressive Messaging Begins

- **Management up-to-the-challenge.** Given recent weak Q4:11 operating trends and intense armchair-quarterbacking by shareholder activist, we believe management, led by new President, CEO Sandy Cochran and Chairman Mike Woodhouse, remain intently focused to recapture the strong operating trends which catapulted CBRL shares to almost triple over the past decade, before declining 25% this year.
- **More aggressive plan.** Beginning tomorrow, the company will kick-off more aggressive promotional campaign (supported by increased media weights) designed to jump-start weak traffic trends through highlighting improved lunch value offerings (starting at \$5.99) and classic Old Country Store favorites at dinner-time.
- **SSS may hit their nadir in Q1:12 (Oct).** Given a tough year-over-year comparison, we project Q1 Restaurant SSS to decline 2.0% and Retail 0.5%, before beginning an improving trend through FY12, culminating in FY2012 Restaurant SSS +0.5% and Retail SSS +0.8% (guidance flat-to-up-1.5%).
- **Maintain FY12, FY13 Projections** at \$4.12 (guidance \$4.05-4.20), \$4.66. While CBRL's valuation appears attractive relative to historic levels, we maintain our Market Perform rating pending sustained operating improvements.

## Restaurants

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Market Data		Financial Summary		Short Interest	
Price	\$40.56	ROE	28.0%	date	(000s)
Price Target	\$45.00	Debt-to-Total Cap	92.0%	08/15/2011	2,073
52-Week Range	\$57.79 - \$37.31	Convertible	No	07/29/2011	2,002
Market Cap (mm)	\$931.9	Tang. Book Value	\$4.95	07/15/2011	2,018
Dividend/Yield	\$1.00 /2.47%	EV / EBITDA	6.4x	06/30/2011	2,305
Shares Outstanding (mm)	23.0	5-Year Est. EPS Growth Rate	10%		
Float (mm)	20.2				
Avg. Daily Vol.	298,764				
Insider Ownership	3%				

	Revenue & EPS/YE: Jul.					EPS % Change		First Call Consensus			
	07/11A	07/12E	Prev.	07/13E	Prev.	%	07/12E	07/13E	07/11A	07/12E	07/13E
Rev(\$mm)	2,434.4A	2,542.5E	2,513.1E	2,607.4E	2,631.6E						
EPS											
Q1	1.01A	0.80E	0.94E	--	NC	Q1	-20.8	NM	Q1	--	1.00E
Q2	1.20A	1.11E	1.24E	--	NC	Q2	-7.5	NM	Q2	--	1.30E
Q3	0.64A	0.66E	0.71E	--	NC	Q3	3.1	NM	Q3	--	0.68E
Q4	0.75A	1.55E	1.23E	--	NC	Q4	106.7	NM	Q4	--	1.28E
FY	3.61A	4.12E	NC	4.66E	NC		14.1	13.1		--	4.24E
CY	3.31E	4.53E	4.40E	--	NC		36.9	NM		3.90E	4.66E

Morgan Keegan & Co., Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

**Please see Disclosure and Certification Statement beginning on page 12 of this report.**

FY	P/E	11.2x	9.8x	8.7x
CY	P/E	12.3	9.0	NM

**\* OVERVIEW: Following weak Q4 results, Cracker Barrel management turns up the heat.** Following a difficult fiscal 2011 in which SSS slowed sequentially through the year, management has turned up the heat, intending to jump-start its recent weak SSS trends. That plan is designed, ultimately, to recapture Cracker Barrel's strong SSS and traffic trends by which it had outperformed the Casual Dining industry (as measured by the Knapp Track index) for over four years through Q2:11 (Jan).

– *More competitive priced offerings.* In order to counter the aggressive lunch and dinner value promotions offered by many casual dining competitors, the company will debut a new menu (see attached) including more aggressively priced lunch and dinner offerings this Thursday and supported by increased media weights including some TV, radio, billboard and print advertising. Lunch specials will be priced in the \$5.99-range – competitive with offerings from Brinker's Chili's (EAT), Dine Equity's Applebee's (DIN), Ruby Tuesday (RT), and O'Charley's (CHUX). The company has been testing these items in selected markets and, we believe, has had measurable success in improving its consumer scores for both value and intent to repeat.

– *Tough Q1:12 expected.* While we are hopeful that its more aggressive value messaging will begin to move the SSS and traffic needle, the company faces a very difficult SSS comparison this quarter, which eases sequentially through the fiscal year. For that reason, we have kept our Q1:12 (Oct) SSS projection relatively cautious – projecting Restaurants to decline 2.0% and Retail SSS to decline 0.5% – before beginning to improve sequentially later in the year. Given our relatively weak Q1 SSS projections combined with more cautious margins expectations (including commodity inflation guided up 5.5-6.5% in FY12), we have lowered our Q1 EPS to \$0.80, down from \$0.94 previously projected and below \$1.01 reported last year.

– *Weak Q4:11 and FY11 results.* Management's more aggressive plan follows relatively weak results reported yesterday for Cracker Barrel's fiscal Q4:11 ended July 29th. The company reported EPS including items of \$0.75 vs. our \$0.65 and the street mean of \$0.99. EPS was pressured by weaker than projected Restaurant and Retail SSS and traffic trends and commodity costs. Both revenue (\$612.9 million vs. MK \$615.9 million) and store-level margins (12.2% vs. MK 12.7%) were weaker than projected. However, lower than expected G&A (–\$0.08 EPS), tax rate (–\$0.07 EPS) and one-time charges (\$0.25 vs. MK \$0.30) helped deliver the better than projected reported EPS results. Excluding the \$0.25 of one-time EPS charges, the EPS excluding items was \$1.00 compared to guidance of \$0.95-1.05, our \$0.95, and the street mean of \$0.99.

– *Cautious FY12 guidance?* Management initiated its FY2012 (July) EPS guidance in a not-unexpectedly-broad-range of \$4.05-4.20 (including a \$0.25 benefit from a 53rd week) compared to our maintained \$4.12 and the previous street mean of \$4.23 (prev. range of \$3.96-4.55). Broadly, initial FY12 guidance included revenue of \$2.55-2.60 billion (prev. MK \$2.51 billion), SSS of flat to +1.5% at both Restaurant and Retail (prev. MK +1.0%), and an operating margin in the range of 6.9-7.1% (prev. MK 7.2%) including commodity inflation of 5.5-6.5%. Management also noted it expects Q1 EPS to be lower than last year (impl. <\$1.01, prev. MK \$0.94, street \$0.99) with *ylr* financial performance improving as guest traffic is projected to improve through the fiscal year. Additionally, the company announced a new \$65 million share repurchase authorization and a 13.6% increase in its quarterly dividend to \$0.25/share (2.5% annualized yield).

– *CBRL trading below historic levels.* Given Cracker Barrel's disappointing Q4 performance and management's cautious outlook for FY12, we continue to rate CBRL as Market perform. We believe its risk factors remain considerable including intense industry competition (especially at lunch), weak macro-economic trends, shaky consumer spending and possible management distraction from its shareholder activist ramblings. Following lowered assumptions within our model, CBRL is currently trading at 5.6x EV/EBITDA and 9.0x EPS based on our calendar 2012 projections – well below the average valuations of most of its full-service restaurant peers. In addition and relative to historic valuation levels, these levels are well-below the mean valuation ranges where the shares have traded over the last 5- and 10-year measured periods. Typically (as both Figure 4 and 5 show) when the shares have traded down to these valuation levels, they haven't remained there for extended periods, generally migrating back towards their respective mean valuation ranges as trends improve. While we maintain our 12-month price target for CBRL at \$45, we believe that as operating trends strengthen, so too could CBRL's valuation. We continue to rate CBRL as Market Perform.



**Q4 (JULY) EARNING OVERVIEW**

-- Revenue was essentially flat yr/yr at \$612.9 million, below our \$615.9 million projection, primarily reflecting worse than expected SSS. Restaurant SSS were -1.4% (MK -1.0%) comprised of a 4.2% decline in traffic partially offset by an average check increase of 2.8% (2.1% menu pricing, 0.7% menu mix). Retail SSS were -0.7% (MK -0.5%).

-- Restaurant margin declined 144bps yr/yr to 12.2%, below our 12.7% projection on higher than projected COGS (31.6% vs. MK 31.2%) and labor (37.4% vs. MK 37.2%). Operating margin (excluding severance charge) at 6.7% was below our 6.9% as the weaker than expected restaurant margin was partially offset by lower than projected G&A (ex-severance, \$33.5 million vs. MK \$35.9 million). The lower than expected G&A worth ~\$0.08 EPS was primarily attributable to reduced incentive compensation accruals. All-in, operating income (excluding severance) declined 10.6% to \$41.1 million, below our \$42.2 million projection.

-- Pre-tax income of \$21.8 million (MK \$21.2 million) included \$5.1 million (guid. and MK \$5.0 million) of debt refinancing costs and \$2.8 million (guid. \$4-5 million, MK \$4.5 million) of severance/related costs. Factoring in a lower than projected tax rate (19.4% vs. MK 27.0%, ~\$0.07 EPS), Cracker Barrel reported net income of \$17.5 million and EPS of \$0.75 (MK \$15.5 million, \$0.65). Excluding \$0.25 of debt refinancing and severance/related charges, Cracker Barrel reported Q4:11 EPS from operations of \$1.00 compared to guidance of \$0.95-1.05, our \$0.95, and the adjusted street mean of \$0.99.

**Figure 1: CBRL Recent Same-Store Sales Comparisons**

Restaurant SSS	Aug	Sep	Oct	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	May	Jun	Jul	Q4 (Jul)	FY (Jul)
FY2012E	NE	NE	NE	(2.0%)E	0.3%E	1.5%E	NE	NE	NE	2.0%E	0.5%E
FY2011A	4.9%	2.0%	0.7%	2.4%	0.3%	(0.3%)	(0.5%)	(2.2%)	(1.4%)	(1.4%)	0.2%
FY2010A	(0.9%)	1.1%	1.4%	0.6%	(0.2%)	0.6%	(0.3%)	3.2%	2.9%	2.0%	0.8%
Retail SSS	Aug	Sep	Oct	Q1 (Oct)	Q2 (Jan)	Q3 (Apr)	May	Jun	Jul	Q4 (Jul)	FY (Jul)
FY2012E	NE	NE	NE	(0.5%)E	0.0%E	1.5%E	NE	NE	NE	2.0%E	0.8%E
FY2011A	2.8%	(0.3%)	1.9%	1.5%	1.3%	0.1%	(1.4%)	(0.7%)	0.1%	(0.7%)	0.7%
FY2010A	(6.7%)	(2.5%)	(5.1%)	(4.8%)	(3.0%)	3.2%	0.6%	5.1%	2.4%	2.6%	(0.9%)

Source: Company reports, Morgan Keegan estimates

**IMPORTANT POINTS**

\* **More aggressive messaging.** On its conference call, management expanded on its plan to introduce more accessible entry price points and reinforce the concept's everyday affordability with price-point marketing. Later this week, the company will introduce \$5.99 weekday lunch specials that include select existing menu items as well as a new lunch-oriented salad and soup-or-baked potato combo. The daily lunch special launch will be supported by radio and billboard advertisements promoting its low \$5.99 price-point. Further aided by the company's new ad agency Euro RSCG, Cracker Barrel expects to reach guests more effectively by increasing the coverage of its store base by media. Radio advertising is expected to impact 60% of the system this fall with incremental TV and radio advertising expected to impact additional stores during holiday peaks.

-- **Menu mix, pricing.** Management noted increased beverage and dessert incidences during testing of the \$5.99 daily specials helped offset the promotion's negative impact on menu mix. With management also selectively reducing the prices of certain menu items, we expect some premium priced offerings in upcoming LTOs as well as other targeted price increases in order for the company to reach its average menu pricing guidance of 2-3% for the year.

\* **Initial FY12 EPS guidance.** Management initiated its FY2012 (July) EPS guidance in a not-unexpectedly-broad-range of \$4.05-4.20 (including a \$0.25 benefit from a 53rd week) compared to our maintained \$4.12 and the previous street mean of \$4.23 (prev. range of \$3.96-4.55). Management noted it expects Q1 EPS to be lower than last year (impl. <\$1.01, prev. MK \$0.94, street \$0.99) with yr/yr financial performance improving as guest traffic improves through the fiscal year. Management guided FY12 total revenue to \$2.55-2.60 billion (up 4.7-6.8%; prev. MK \$2.51 billion) reflecting an incremental \$50 million from the extra week, SSS of flat to +1.5% at both Restaurant and Retail (prev. MK +1.0%), menu pricing of 2-3%, and the opening of 15 new units (in line, up from 11 in FY11).

-- Management targets a FY12 operating margin range of 6.9-7.1% compared to our previous 7.2% projection. Other guidance includes commodity inflation of 5.5-6.5% with 58% of needs locked; depreciation at \$66-68 million (prev. MK \$65.6 million); interest expense at ~\$45 million (prev. MK \$44.6 million); and tax rate at 28-29% (prev. MK 28.0%). Capital expenditures were guided to \$90-100 million (prev. MK \$123.9 million) including \$45-50 million for 15 planned unit openings (in line) and \$30-35 million for maintenance. Management noted its initial guidance assumes the company's diluted share count remains constant, with potential upside from share repurchase activity (under new \$65 million authorization) beyond that needed to offset dilution.

Figure 2: FY2012 CBRL Guidance Summary

FISCAL PERIOD GUIDANCE ITEM	FY2012	FY2012	FY2012
	13-Sep-11	Previous MK	Current MK
Total Revenue	\$2.55-2.60 bil.	\$2.51 bil.	\$2.54 bil.
Restaurant SSS	flat to +1.5%	1.0%	0.5%
Retail SSS	flat to +1.5%	1.0%	0.8%
New Units	15	15	15
Commodity Inflation	5.5-6.5% inflation	NE	NE
Restaurant margin	NA	12.5%	12.1%
G&A	NA	5.3%; \$133.9 mil.	5.2%; \$132.7 mil.
Operating margin	6.9-7.1%	7.2%	6.9%
Net interest expense	~\$45 mil.	\$44.6 mil.	\$44.6 mil.
Tax rate	28.0-29.0%	28.0%	26.3%
Diluted share count	remain constant; Impl. ~23.6 mil.	23.7 mil.	23.5 mil.
Capex	\$90-100 mil.	\$123.9 mil.	\$95.3 mil.
Depreciation	\$66-68 mil.	\$65.6 mil.	\$66.9 mil.
FY2012 EPS	\$4.05 - \$4.20 (incl. \$0.25 from 53rd week)	\$4.12	\$4.12

Source: Company reports, Morgan Keegan research

\* **Commodity inflation.** Management estimates FY12 commodity inflation will be 5.5-6.5% with 58% of needs already locked. This commodity pressure in FY12 is expected to stem from significant increases in seafood, oils, coffee, eggs, and beef. We currently project COGS for FY12 to be up 100bps yr/yr at 32.7% (also above prev. 32.3%) of sales as increased commodity inflation more than offsets planned menu pricing of 2-3%.

\* **Possible impact of proxy contest.** Management noted its FY12 guidance does not include the impact of a potential proxy contest which could possibly drag CBRL's earnings. On September 1st, Sardar Biglari, Chairman and CEO of Biglari Holdings (NYSE: BH, \$302.57, not rated) submitted formal notice to Cracker Barrel that he intends to nominate himself to the company's Board of Directors at its upcoming annual meeting. This announcement came after Biglari rejected CBRL's offer to appoint two independent directors recommended by, but unaffiliated with Biglari Holdings or any other restaurant company, subject to the approval of Cracker Barrel's Board. Biglari Holdings is Cracker Barrel's largest shareholder with a 9.3% stake (2.136 million shares). We will continue to watch these proceedings closely as we believe Biglari will not likely go "quietly into the night."

\* **Maintaining FY12 EPS projection.** We are maintaining our FY12 EPS projection at \$4.12 (+14.1% from FY11 reported basis) though significantly revising our quarterly estimates to include reduced projections in H1:11 offset by increased projections in H2:11. We now project revenue growth of 4.4% to \$2.543 billion (prev. \$2.513 billion) incorporating the 53rd week, Restaurant SSS of 0.5% (prev. 1.0%), Retail SSS of 0.8% (prev. 1.0%), and development of 15 new units (unchanged). We project a 50bps yr/yr decline in restaurant margin to 12.1% (also below our prev. 12.5%) as higher yr/yr COGS more than offset slight labor and store operating cost leverage. However, we project the company's operating margin to remain flat yr/yr at 6.9% (though below our prev. 7.2%) aided by G&A leverage. Our revised model also assumes maintained \$44.6 million of interest expense, a lower tax rate (26.3% vs. prev. 28.0%), and a 0.5% decline in diluted share count to 23.51 million (prev. 23.73 million).

-- Please refer to the attached earnings model for more specific assumptions to our revised EPS projection. Please note: our earnings model is highly sensitive to movement in operating margins as each 10bps movement in annual operating margins is projected to impact EPS by approximately \$0.07.

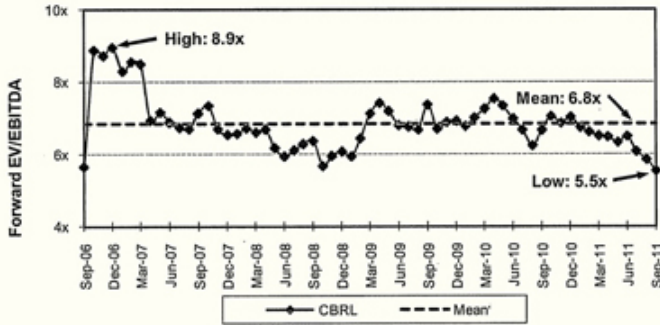
\* **Maintaining FY13 EPS projection.** We are also maintaining our FY13 EPS projection at \$4.66, up 13.1% yr/yr. However, our projections could vary depending on management's success at driving its SSS and the yet unfolding of operating cost inflation on store level margins. Broadly we have factored in revenue growth of ~2.6% (lapping extra week, 18 new units, SSS of 2.0% Restaurant, 1.4% Retail), a 50bps yr/yr improvement in operating margin to 7.4% primarily on store-level leverage, lower yr/yr interest expense, and a 0.6% increase in diluted share count.

Figure 3: Valuation Table: CBRL vs. Peers

Company	Ticker	Price 12-Sep	CY2011 EPS	CY2012 EPS	CY2011 P/E	CY2012 P/E	EV / EBITDA (CY2011)	EV / EBITDA (CY2012)	EV Revenue (CY2011)	EV Revenue (CY2012)	FY11 FCFE Yield	FY11 FCFE Yield
Brinker International	EAT	\$20.47	\$1.66	\$2.03	12.3x	10.1x	6.1x	5.6x	0.8x	0.7x	11.2%	9.8%
Ruby Tuesday	RT	\$7.60	\$0.55	\$0.89	13.8x	8.5x	6.9x	5.4x	0.6x	0.6x	18.0%	12.1%
Bob Evans Farms	BOBE	\$28.78	\$2.41	\$2.54	11.9x	11.3x	4.9x	4.7x	0.6x	0.6x	12.8%	12.4%
DineEquity	DIN	\$39.33	\$4.35	\$3.95	9.0x	10.0x	8.0x	8.6x	2.4x	3.2x	15.7%	8.1%
Darden Restaurants	DRI	\$43.72	\$3.40	\$4.10	12.8x	10.7x	7.1x	6.4x	1.0x	0.9x	5.9%	5.5%
Average					12.0x	10.1x	6.6x	6.1x	1.1x	1.2x	12.7%	9.6%
Cracker Barrel	CBRL	\$48.56	\$3.31	\$4.53	12.3x	9.0x	6.4x	5.6x	0.6x	0.5x	6.5%	6.6%
S&P Index		\$1,172.87	\$96.17	\$108.22	12.2x	11.0x						

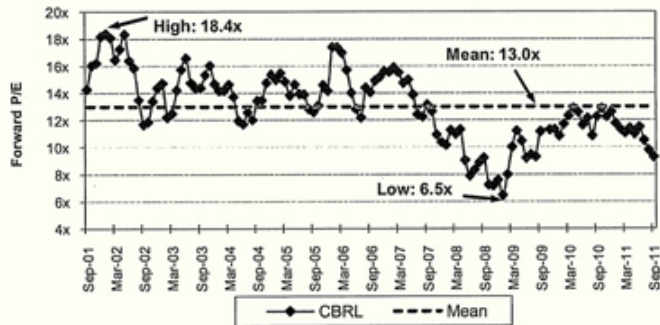
Source: Company reports, First Call, FactSet, Morgan Keegan Research

Figure 4: CBRL Forward 12-month EV/EBITDA Multiple Chart



Source: FactSet, Morgan Keegan Research

Figure 5: CBRL Forward 12-month P/E Multiple Chart



Source: FactSet, Morgan Keegan Research

**RECENT RESULTS**

-- Revenue was essentially flat yr/yr at \$612.9 million, below our \$615.9 million projection, primarily reflecting worse than expected SSS. Restaurant SSS were -1.4%, below MK -1.0% and comprised of a 4.2% decline in traffic partially offset by an average check increase of 2.8% (2.1% menu pricing, 0.7% menu mix). Retail SSS were -0.7%, below MK -0.5% dragged by poor sales of toys as the company lapped strong Webkinz and Silly Bandz sales from the prior year.

-- Restaurant margin declined 144bps yr/yr to 12.2%, below our 12.7% projection on higher than projected COGS and to a lesser extent labor. *Consolidated cost of sales* increased 163bps to 31.6%, above our 31.2%. Beginning with this press release, Cracker Barrel has provided a COGS breakdown by division. Restaurant cost of sales increased 154bps to 27.0% driven by commodity inflation of 5.4% (primarily higher pork, beef, dairy, and coffee) that more than offset 2.1% menu pricing. Retail cost of sales increased 187bps to 51.3% on higher markdowns and fuel surcharges on freight. Labor was flat yr/yr at 37.4%, though above our 37.2% projection, as lower store and field management bonus accruals were offset by 1.5% hourly wage inflation as well as higher store management salaries, payroll taxes, pre-opening labor, and training expense. *Store operating costs* declined 20bps to 18.9%, in line with our projection as lower maintenance costs more than offset higher advertising and depreciation expense.

-- Operating margin (excluding severance charge) at 6.7% was below our 6.9% as the weaker than expected restaurant margin was partially offset by lower than projected G&A (ex-severance, 5.5% revenue, \$33.5 million vs. MK 5.8% revenue, \$35.9 million). The lower than expected G&A worth ~\$0.08 EPS was primarily attributable to reduced incentive compensation accruals. All-in, operating income (excluding severance) declined 10.6% to \$41.1 million, below our \$42.2 million projection.

-- Pre-tax income of \$21.8 million (MK \$21.2 million) included \$5.1 million (guid. and MK \$5.0 million) of debt refinancing costs (included in reported interest expense) and \$2.8 million (guid. \$4-5 million, MK \$4.5 million) of severance/related costs (included \$1.8 million in reported G&A, \$1.0 million in incremental impairment). Factoring in a lower than projected tax rate (19.4% vs. MK 27.0%) worth ~\$0.07 EPS, Cracker Barrel reported net income of \$17.5 million and EPS of \$0.75 (MK \$15.5 million, \$0.65). Excluding \$0.25 of debt refinancing and severance/related charges, Cracker Barrel reported Q4:11 EPS of \$1.00 compared to guidance of \$0.95-1.05, our \$0.95, and the adjusted street mean of \$0.99.

We continue to rate CBRL as Market Perform.

**Valuation Methodology**

Our price target of \$45 is based on 10-11x our CY2012 EPS projection (~6.5x EV/EBITDA). This P/E multiple is below CBRL's historical average reflecting the growing risk that slower projected SSS and/or escalating commodity prices could derail projected results and CBRL's stock price performance.

**Risks**

Risks to our investment thesis include: worsening economic trends, reliance on highway travel by consumers who could alter their travel patterns, possible impact of higher gas prices on consumer spending and travel plans, greater than projected margin drag from escalating commodity prices and/or roll-out of the Seat to Eat productivity initiative. In addition there is an added level of uncertainty within our projections reflecting potential costs and/or management distraction from shareholder activist activity.



Morgan Keegan & Co., Inc.  
Member New York, Stock Exchange, Inc.

CBRL (NASDAQ), Rating: M/S  
September 13, 2011

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**Cracker Barrel Old Country Store, Inc. (CBRL)**  
**Morgan Keegan Quarterly Quickview Report**  
(\$ in thousands, except per share)

	Actual vs Same Period Last Year				Actual vs MK Estimate		
	7/29/2011	7/30/2010	Variance	% Chg	7/29/2011	Variance	% Chg
Restaurant Sales	\$497,259	\$499,568	(\$2,309)	(0.5%)	\$499,900	(\$2,641)	(0.5%)
Qlt Shop Sales	\$115,683	\$114,897	\$786	0.7%	\$115,584	(\$901)	(0.3%)
<b>Total Revenue</b>	<b>\$612,942</b>	<b>\$612,483</b>	<b>\$459</b>	<b>0.1%</b>	<b>\$615,884</b>	<b>(\$2,942)</b>	<b>(0.5%)</b>
Cost of sales	\$193,554	\$183,406	\$10,148	5.5%	\$192,156	\$1,398	0.7%
Labor	\$229,006	\$228,810	\$196	0.1%	\$228,170	(\$164)	(0.1%)
Store operating expenses	\$115,722	\$116,867	(\$1,145)	(1.0%)	\$116,402	(\$680)	(0.6%)
<b>Restaurant operating income</b>	<b>\$174,660</b>	<b>\$83,398</b>	<b>\$96,262</b>	<b>(10.5%)</b>	<b>\$78,156</b>	<b>(\$3,498)</b>	<b>(4.5%)</b>
G & A Expense (adj. for severance)	\$33,523	\$37,394	(\$3,871)	(10.4%)	\$35,041	(\$2,418)	(6.9%)
<b>Operating income</b>	<b>\$41,137</b>	<b>\$46,004</b>	<b>(\$4,867)</b>	<b>(10.6%)</b>	<b>\$42,215</b>	<b>(\$1,078)</b>	<b>(2.6%)</b>
Interest expense	\$16,327	\$11,710	\$4,617	39.4%	\$11,579	\$4,638	41.7%
One-time items	\$3,049	\$537	\$2,512	467.8%	\$9,550	(\$6,451)	(67.9%)
<b>Pre-tax income</b>	<b>\$21,761</b>	<b>\$33,757</b>	<b>(\$11,996)</b>	<b>(35.5%)</b>	<b>\$21,136</b>	<b>\$625</b>	<b>2.7%</b>
Taxes	\$4,218	\$6,344	(\$2,126)	(33.5%)	\$5,723	(\$1,505)	(26.3%)
<b>Net income (reported)</b>	<b>\$17,543</b>	<b>\$27,413</b>	<b>(\$9,870)</b>	<b>(36.0%)</b>	<b>\$15,473</b>	<b>\$2,070</b>	<b>13.4%</b>
<b>Diluted EPS (reported)</b>	<b>\$0.749</b>	<b>\$1.143</b>	<b>(\$0.39)</b>	<b>(34.5%)</b>	<b>\$0.6546</b>	<b>\$0.09</b>	<b>14.4%</b>
<b>Diluted EPS (ex-items)</b>	<b>\$1.09</b>	<b>\$1.16</b>	<b>(\$0.16)</b>	<b>(13.9%)</b>	<b>\$0.95</b>	<b>\$0.05</b>	<b>5.5%</b>
<b>Diluted Shares Outstanding</b>	<b>23,423</b>	<b>23,983</b>	<b>(560)</b>	<b>(2.3%)</b>	<b>23,637</b>	<b>(214)</b>	<b>(0.9%)</b>
<b>SSS</b>	<b>0.6:1</b>	<b>0.4:1</b>			<b>MK Q4:11 est.</b>		
OCS - Restaurants	(1.4%)	2.0%			(1.0%)		
OCS - Retail	(0.7%)	2.6%			(0.5%)		
<b>MARGIN ANALYSIS</b>			<b>BP</b>		<b>BP</b>		
OCS Sales (% co sales)	81.1%	81.2%	(11)		81.2%	(4)	
Qlt Shop Sales (% co sales)	18.9%	18.8%	11		18.8%	4	
<b>Total Revenue</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0</b>		<b>100.0%</b>	<b>0</b>	
Cost of sales	31.6%	29.9%	163		31.2%	38	
Labor	37.4%	37.4%	0		37.2%	15	
Store Operating	18.2%	18.1%	(20)		18.0%	(2)	
<b>Restaurant operating income</b>	<b>12.2%</b>	<b>13.6%</b>	<b>(144)</b>		<b>12.7%</b>	<b>(51)</b>	
G & A Expense (adj. for severance)	5.5%	6.1%	(64)		5.8%	(37)	
<b>Operating Margin</b>	<b>6.7%</b>	<b>7.5%</b>	<b>(80)</b>		<b>6.9%</b>	<b>(14)</b>	
Interest expense	2.7%	1.9%	75		1.9%	79	
Pre-tax income	3.6%	5.5%	(190)		3.4%	11	
Tax rate	19.4%	18.8%	59		27.0%	(762)	
<b>Net income (reported)</b>	<b>2.9%</b>	<b>4.5%</b>	<b>(161)</b>		<b>2.5%</b>	<b>35</b>	
<b>Net income (ex-items)</b>	<b>3.8%</b>	<b>4.9%</b>	<b>(73)</b>		<b>3.6%</b>	<b>18</b>	

• Reported Q4:11 (July) EPS of \$0.75 incl. \$0.25 of charges vs. our projected \$0.65 that included \$0.30 of charges  
 • Reported results aided by lower than expected G&A ex-severance (~\$0.08 EPS) and tax rate (~\$0.07 EPS)  
 • Rev essentially flat at \$612.9mil., below MK \$615.9mil. on weaker Q4 SSS of -1.4% at Rest., -0.7% at Retail (MK -1.0%, -0.5%)  
 • Adj. operating mgn at 6.7%, below MK 6.9% reflecting weak store-level mgn (12.2% vs. MK 12.7%) partially offset by lower adj. G&A  
 • Initiated FY12 EPS guid. of \$4.05-4.20 (incl. \$0.25 from 53rd week) compared to prev. MK \$4.12 and consensus of \$4.23  
 • FY12 Rest. and Retail SSS targeted at flat to +1.5% (prev. MK +1.0%). Operating margin at 6.9-7.1% of revenue (prev. MK 7.2%)

Conference call at 10:00 AM (CST); The dial-in is: 913.312.1516  
 Playback at 719.457.0820; Reservation #4852080  
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Cracker Barrel: Cover of New Breakfast Menu, September 2011

MENU Breakfast



**Mornings.  
Made From Scratch.**

Whether you choose a homestyle, made-from-scratch country breakfast or maybe something a little less traditional, we want to make sure you know it's freshly prepared right in our own kitchens just for you. Bright and early each morning, we roll out the dough for our made-from-scratch biscuits and bake them fresh throughout the day. Our classic recipes are time-tested and prepared the traditional way, using the finest ingredients we can find like Grade A farm fresh eggs, coarse ground grits and wholesome honey granola. Best of all, you can enjoy your favorite breakfast all day, every day at Cracker Barrel.




LEBANON, TENNESSEE Since 1969

Morgan Keegan Research

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Cracker Barrel: Cover of New Lunch/Dinner Menu, September 2011

MENU Lunch & Dinner



# Country. Fresh.

When you sit down to enjoy our classic country meals, we hope you'll taste the difference right away. Serving fresh, flavorful meals is a sign of true Southern hospitality, so we use quality ingredients and recipes some folks might call time-tested in traditional ways like our hand-cut chicken n' dumplings, country green beans and sweet whole baby carrots. We make our salads fresh daily with hand-torn lettuce, hand-cut tomato wedges and real Colby cheese, and our made-from-scratch biscuits and corn muffins are freshly baked throughout the day. We're happy you're in our home and hope you make yourself real comfortable.



LEBANON, TENNESSEE Since 1969

Morgan Keegan and Company  
Robert M. Derrington  
615-665-3656

CRACKER BARREL OLD COUNTRY STORE, INC.  
Historical & Projected Operating Results (\$000)

	2009A		Fiscal 2010A		Fiscal 2011A		Fiscal 2012E		2013E			
	PT - Jul	10A-Oct	10A-Oct	20A-Jan	30A-Apr	40A-Jul	10A-Oct	20-Jan	30-Apr	4Q-Jul	2012E FY - Jul	2013E FY - Jul
<b>OLD COUNTRY STORE</b>												
OCSS avg unit sales	\$4,050	\$686	\$1,067	\$974	\$1,031	\$4,058	\$1,073	\$972	\$1,074	\$986	\$1,118	\$4,168
% change	(3.1%)	(0.7%)	(1.1%)	0.8%	0.8%	1.9%	0.2%	0.2%	0.2%	1.5%	0.2%	2.6%
Company Units	11,493	11,493	11,493	11,493	11,493	11,493	11,493	11,493	11,493	11,493	11,493	11,493
SSS-Rev/Units	(1.8%)	(0.2%)	0.8%	2.0%	0.8%	1.9%	0.3%	0.3%	0.3%	1.5%	0.5%	2.0%
SSS-GR/Units	(5.9%)	(4.8%)	(3.0%)	3.2%	2.6%	0.5%	2.5%	1.3%	0.1%	0.7%	0.5%	1.4%
Overall OCSS SSS	(2.6%)	(0.3%)	(0.3%)	1.1%	2.1%	0.5%	2.2%	0.6%	0.2%	1.5%	0.6%	1.9%
Restaurant Sales	\$1,875,688	\$473,353	\$473,353	\$497,289	\$1,911,654	\$473,353	\$473,353	\$473,353	\$473,353	\$473,353	\$473,353	\$1,911,654
Net Income (Loss)	\$2,397,285	\$381,183	\$381,183	\$381,183	\$381,183	\$381,183	\$381,183	\$381,183	\$381,183	\$381,183	\$381,183	\$381,183
<b>TOTAL CO. SALES</b>												
TOTAL COMPANY SALES	\$2,867,285	\$664,536	\$664,536	\$664,536	\$664,536	\$664,536	\$664,536	\$664,536	\$664,536	\$664,536	\$664,536	\$664,536
Cost of Sales	\$916,509	\$177,471	\$177,471	\$177,471	\$177,471	\$177,471	\$177,471	\$177,471	\$177,471	\$177,471	\$177,471	\$177,471
Labor Expenses	\$394,256	\$224,760	\$224,760	\$224,760	\$224,760	\$224,760	\$224,760	\$224,760	\$224,760	\$224,760	\$224,760	\$224,760
Store Operating Expense	\$431,594	\$102,466	\$102,466	\$102,466	\$102,466	\$102,466	\$102,466	\$102,466	\$102,466	\$102,466	\$102,466	\$102,466
RESTAURANT INCOME	\$294,528	\$73,486	\$73,486	\$73,486	\$73,486	\$73,486	\$73,486	\$73,486	\$73,486	\$73,486	\$73,486	\$73,486
Other Income	\$144,927	\$17,485	\$17,485	\$17,485	\$17,485	\$17,485	\$17,485	\$17,485	\$17,485	\$17,485	\$17,485	\$17,485
OPERATING INCOME	\$582,177	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770
Interest Expense	\$52,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(Interest Income)	\$2,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
One-time Charge	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Pre-tax Income	\$531,677	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770	\$111,770
Income Tax Expense	\$106,335	\$22,354	\$22,354	\$22,354	\$22,354	\$22,354	\$22,354	\$22,354	\$22,354	\$22,354	\$22,354	\$22,354
NET INCOME (Reported)	\$425,342	\$89,416	\$89,416	\$89,416	\$89,416	\$89,416	\$89,416	\$89,416	\$89,416	\$89,416	\$89,416	\$89,416
Weighted Shares (Diluted)	565,007	565,007	565,007	565,007	565,007	565,007	565,007	565,007	565,007	565,007	565,007	565,007
EPS-Diluted (Reported)	\$2.89	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78
NET INCOME (From ops.)	\$47,285	\$18,024	\$18,024	\$18,024	\$18,024	\$18,024	\$18,024	\$18,024	\$18,024	\$18,024	\$18,024	\$18,024
EPS from ops	\$2.87	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78
<b>MARGIN ANALYSIS</b>												
OCSS Rest Sales (% OCSS Sales)	79.2%	80.3%	74.9%	81.9%	81.2%	79.5%	80.9%	81.8%	81.1%	80.3%	81.8%	79.5%
OCSS GR Sales (% OCSS Sales)	20.8%	19.7%	25.1%	18.1%	18.8%	20.5%	19.1%	18.2%	18.9%	19.7%	18.2%	20.5%
TOTAL CO. SALES	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales (% co sales)	32.3%	33.3%	33.9%	33.9%	37.0%	37.0%	34.3%	34.3%	37.0%	37.0%	37.0%	37.0%
Operating Expense (% co sales)	23.3%	23.3%	23.3%	23.3%	23.3%	23.3%	23.3%	23.3%	23.3%	23.3%	23.3%	23.3%
Store Opex Costs (% co sales)	17.0%	18.1%	18.7%	18.0%	18.2%	18.2%	18.7%	18.7%	18.2%	18.7%	18.2%	18.7%
REST. MARGIN (% sales)	11.2%	12.6%	13.7%	12.1%	13.6%	13.6%	13.7%	13.6%	13.6%	13.6%	13.6%	13.6%
SG&A (% rev.)	5.1%	6.1%	5.9%	6.6%	6.1%	6.1%	6.2%	6.2%	6.1%	6.2%	6.2%	6.2%
SG&A (% rev.)	6.1%	6.9%	8.2%	5.9%	7.9%	7.9%	7.6%	7.6%	7.9%	7.9%	7.9%	7.9%
OPERATING MARGIN (% rev.)	2.2%	2.0%	2.1%	2.1%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Interest Expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Margin	20.8%	21.2%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%
Tax Rate	20.8%	21.2%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%
<b>NET MARGIN (% rev.)</b>	2.8%	3.1%	4.0%	2.9%	4.5%	3.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>PERCENT CHANGE</b>												
Total Sales	(0.7%)	1.3%	0.4%	1.9%	2.6%	1.6%	3.0%	3.0%	2.7%	3.0%	1.2%	4.4%
Restaurant Income	(5.1%)	14.3%	27.7%	22.5%	10.4%	18.9%	12.0%	12.0%	12.0%	12.0%	0.4%	2.6%
Other Income	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Net Income (From ops.)	(4.5%)	40.5%	47.0%	20.8%	13.9%	20.2%	6.6%	6.6%	6.6%	6.6%	13.9%	14.0%
Shares Outstanding	(2.6%)	2.1%	3.5%	4.3%	4.0%	3.5%	2.0%	2.0%	2.0%	2.0%	(0.6%)	0.6%
EPS from ops (converted for EITF 04-8)	1.0%	40.5%	38.3%	20.8%	20.2%	31.7%	31.7%	31.7%	31.7%	31.7%	(0.9%)	13.6%
EPS from ops	7.6%	36.8%	42.6%	17.3%	9.4%	29.5%	29.5%	29.5%	29.5%	29.5%	(2.4%)	15.1%

judgment of the auditor as to the date of issuance and are subject to change without notice. This analysis has been prepared solely for the information of the shareholders and is not intended for distribution or use by any other individual or entity.

\*EPS from ops: This line item does not include equity based compensation expense in 2005 and before. However, as consistent with FAS 123R, equity based compensation expense is included in years after 2005. We have included all options expense within OGA starting in FY2006.



### Company Description

Cracker Barrel Old Country Store, Inc. based in Lebanon, Tennessee, operates over 600 Cracker Barrel Old Country Stores. Cracker Barrel is a full-service, country-themed restaurant and gift shop located in 41 states primarily along the interstate highways of America. The restaurants serve breakfast, lunch, and dinner (no alcohol); have an average check in the \$8 range; and feature generous portions of home style country cooking.

### ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

#### IMPORTANT DISCLOSURES

The research analyst responsible for the preparation of this report does not hold investment positions of any nature in the securities of this issuer. The research analyst responsible for the preparation of this report is compensated in part on the firm's investment banking revenue but is not compensated based upon specific investment banking services transactions.

As of the date of this report, Morgan Keegan & Co., Inc. makes a market in CBRL and CHUX.

An affiliate of Morgan Keegan & Company, Inc. received compensation for products or services other than investment banking from CBRL, CHUX and RT in the past 12 months.

#### MK Performance Ratings:

O = Outperform (Expected to outperform the S & P 500\* over the next 12 months)

M = Market Perform (Expected to perform in line with the S & P 500\* over the next 12 months)

U = Underperform (Expected to underperform the S & P 500\* over the next 12 months)

\*REITs' performance benchmark is total return relative to the NAREIT Equity Index.

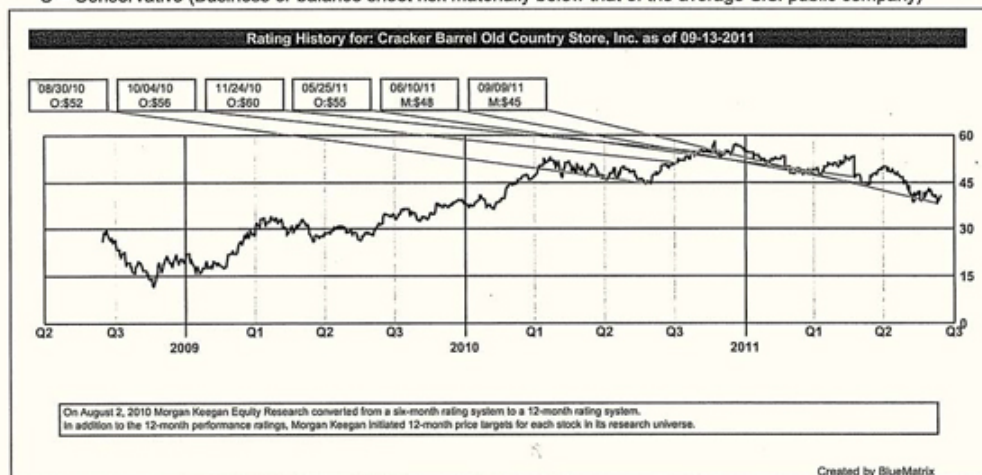
For regulatory purposes, our ratings of Outperform, Market Perform and Underperform most closely correspond to Buy, Hold and Sell, respectively.

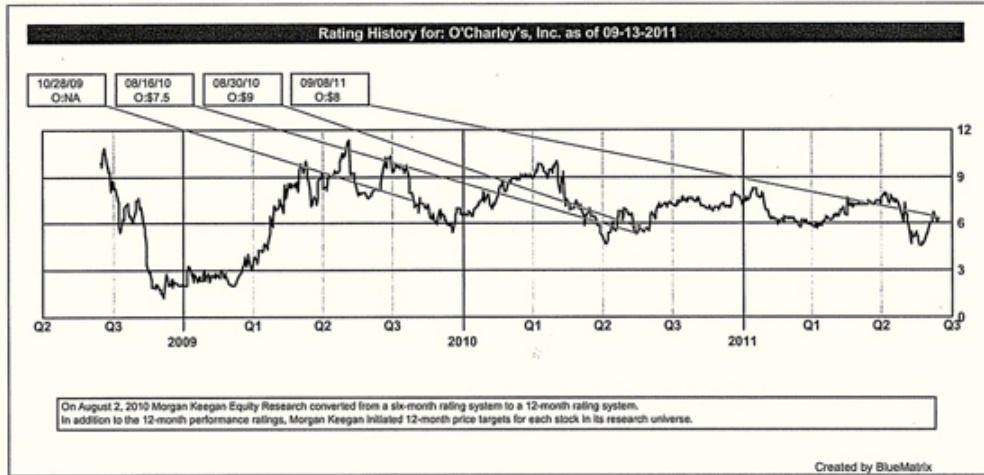
#### MK Suitability Ratings:

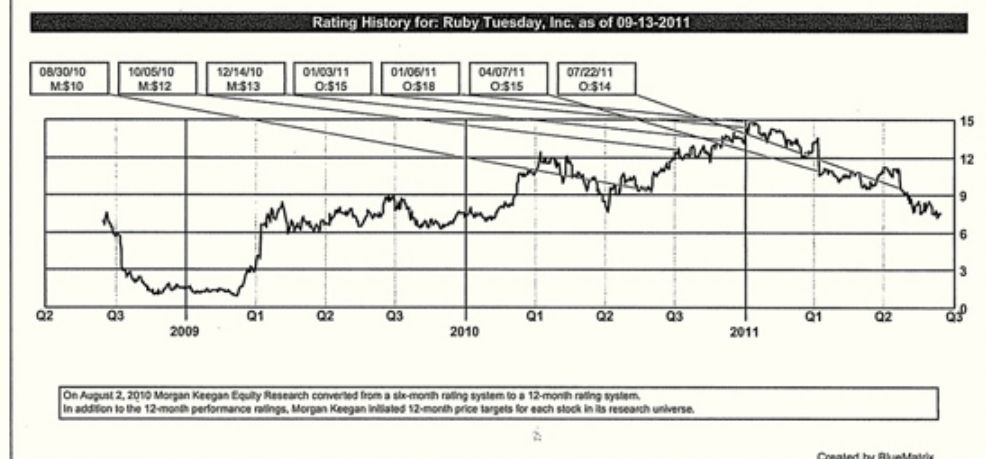
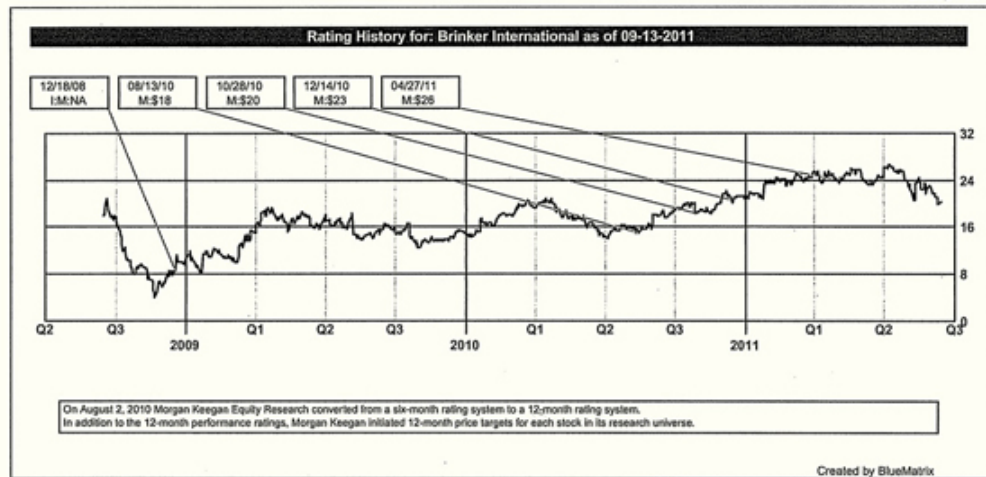
S = Speculative (Business or balance sheet risk materially above that of the average U.S. public company)

M = Market Risk (Business or balance sheet risk not materially different from the average U.S. public company)

C = Conservative (Business or balance sheet risk materially below that of the average U.S. public company)







**Morgan Keegan Companies Rated:**

Outperform / Buy	55%
Market Perform / Hold	33%
Underperform / Sell	1%
Not Rated	11%

**Investment Banking Clients within last 12 months:**

Outperform / Buy	16%
Market Perform / Hold	9%
Underperform / Sell	50%
Not Rated	2%

For purposes of the NYSE and NASDAQ, rating distribution disclosure requirements, our rating of Outperform, Market Perform and Underperform closely correspond to Buy, Hold and Sell, respectively.

Cracker Barrel Old Country Store, Inc. (CBRL - \$40.56); O'Charley's, Inc. (CHUX - \$6.35); DineEquity, Inc. (DIN - \$39.33); Brinker International (EAT - \$20.47); Ruby Tuesday, Inc. (RT - \$7.60);

**ANALYST CERTIFICATION**

The research analyst responsible for the preparation of this research report certifies that; (a) the views expressed in this

research report accurately reflect the research analyst's personal views about any and all of the subject security(ies) and issuer(s), and (b) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Twelve-month price targets for securities under coverage may be based upon various valuation metrics including without limitation: price/earnings ratios, price/sales ratios, discounted cash flow (DCF), relative multiples, sum of the parts, etc. Price targets are, as of the date of the report in which they appear, subject to change, and imply no guarantee of performance.

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**Exhibit C**

(see attached)



**Stephen Anderson**  
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**Cracker Barrel Old Country Store (CBRL-\$41.00; Buy \$52 PT)**  
**4Q11 Earnings Review: We Think the Best Defense Is a Good Offense**

Price	EPS (pro forma)				P/E		Qtr EPS				Shs Out (mm)	Mkt Cap (\$ mm)	Div	Debt/Cap	
	FY11	FY12E	FY13E	FY13E	FY12	FY13	FY12E	1QE	2QE	3QE					4QE
\$41.00	\$3.84	\$4.12	\$4.77		10.0	8.6	FY11A	\$1.01	\$1.20	\$0.64	\$1.00	23.3	955.3	2.4%	67.2%

Source: Miller Tabak + Co., LLC estimates

**SUMMARY AND INVESTMENT CONCLUSION**

We maintain our Buy rating and \$52 price target on shares of Cracker Barrel (CBRL) after today's above-consensus 4Q11 earnings report. We think past efforts to improve efficiency helped CBRL withstand formidable headwinds in the July quarter, and argue new CEO Sandra Cochran has addressed the company's critics effectively by developing a credible plan to build traffic and grow margin. We think margin deterioration will be held in check by cost reductions in the next couple of quarters, and in the intermediate term, anticipate holders of CBRL will realize earnings power from the combination of (1) acceleration of restaurant- and retail-level comps to 2% or better heading into FY13; (2) continued market share gains; (3) moderation of fuel and other commodity costs; and (4) modest share buybacks. Given our outlook for margin expansion, we suggest a low valuation may compel incremental purchases by value investors.

*For more information and access to the complete report, please contact your Miller Tabak + Co., LLC salesperson or Stephen Anderson directly.*



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**Analyst Certification**

I, Stephen Anderson, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company and its securities. I also certify that I have not been, and will not be receiving, direct or indirect compensation in exchange for expressing the specific recommendation in this report.

**Important Disclosures**

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Please see important disclosures and analyst certification towards the end of this report. The recipient of this report is directed to read these disclosures. Investors should consider this report as only a single factor in making their investment decision.

**Ratings Distribution—Restaurants, as of September 14, 2011**

<u>Coverage Universe</u>			<u>Expected Total Return for One Year</u>		
Buy	7	64%	Buy	=	15% or more
Hold	4	36%	Hold	=	+ or - 15%
Sell	0	00%	Sell	=	-15% or more

**Other Disclosures**

Although the information contained in this report (not including disclosures contained herein) has been obtained from sources we believe to be reliable, the accuracy and completeness of such information and the opinions expressed herein cannot be guaranteed. This report is for informational purposes only and under no circumstances is it to be construed as an offer to sell, or a solicitation to buy, any security. Any recommendation contained in this report may not be appropriate for all investors. Trading options is not suitable for all investors and may involve risk of loss. An options disclosure document may be obtained from Mr. Jay Stenberg, Chief Compliance Officer, Miller Tabak + Co., LLC, 331 Madison Avenue, New York, NY 10017.

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Additional information is available upon request.

**Exhibit D**

(see attached)



## **Cracker Barrel Investor Wants a Juicier Stake**

**The Tennessean**

**Christina Rexrode and Getahn Ward**

**14 September 2011**

An outspoken Texas stockholder has taken his summerlong campaign against Cracker Barrel's top managers into cyberspace, and he's causing headaches at the down-home chain's Lebanon headquarters.

"I don't think he will go quietly into the night. He will continue to rattle the cage of management and other potential investors," said Robert Derrington, a stock analyst at Morgan Keegan who tracks the restaurant industry.

The combative shareholder with a flair for turning around other restaurants is Sardar Biglari, CEO of Biglari Holdings Inc., a San Antonio-based investment firm that owns a stake of more than 9 percent in Cracker Barrel Old Country Store Inc.

In his cyberspace appeal to other stockholders, Biglari, 34, calls into question the expertise of Cracker Barrel's top brass and makes a direct appeal to other stockholders to give him a seat on Cracker Barrel's board of directors.

"I am placing information on the site that I would want to know if our roles were reversed," Biglari wrote Tuesday morning on his new website, [enhancecrackerbarrel.com](http://enhancecrackerbarrel.com).

"Cracker Barrel is a great brand but one that has failed to achieve its potential because, in our view, it has been held back by a board that has neither meaningful stock ownership nor the relevant expertise to challenge the status quo."

Biglari's cyber-appeal came a few hours before Cracker Barrel announced that its quarterly net income had plummeted 36 percent as it paid more for ingredients and fewer customers came through its doors to dine.

It all amounted to a rough morning for new top executive Sandra Cochran on her second day as the company's CEO after taking over for former Chief Executive Michael A. Woodhouse.

Biglari has been trying to win seats on Cracker Barrel's board for himself and a corporate colleague since at least early this summer, complaining about falling revenues at restaurants open at least a year and what he sees as other missteps by the iconic chain.

Cracker Barrel released a statement saying it disagreed with Biglari's accusations and would respond to them "in due course." The company also accused Biglari of trying to "divert the conversation" away from the quarterly earnings.

"We tried in good faith to reach an amicable resolution with Mr. Biglari in offering him the opportunity to appoint two independent seats on our board and we are disappointed that he has chosen to embark on a disruptive and costly proxy fight," Cracker Barrel said in a statement.

#### Investor demands

The tough economy is causing upheaval at other locally based restaurants.

One is Nashville-based O'Charley's, where a new activist investor — title insurer Fidelity National Financial of Jacksonville, Fla. — has declared its intention in financial filings to influence decisions on company operations. Fidelity said it has accumulated an 8.4 percent stake of O'Charley's stock through last week.

Meanwhile, Cracker Barrel has said it can't allow Biglari himself to get on its board because his investment firm owns Steak 'n Shake, a competitor.

Biglari refutes that, saying the fast-food chain he helped turn around isn't a direct competitor of Cracker Barrel.

Cracker Barrel also points out that it is already shaking up its headquarters, with the intention of generating sales and traffic. Since June, two longtime directors have announced they'll step down, and the company has added three new ones. It has trimmed jobs at headquarters to save money.

In Woodhouse's decade on the job, annual revenue grew 18 percent to \$2.43 billion. He is staying on the board as executive chairman.

#### Earnings fall short

Cracker Barrel on Tuesday also reported disappointing results for its fiscal fourth quarter, which covered May through July.

Net income fell 36 percent to \$17.5 million, or 75 cents per share, from \$27.4 million, as the company paid more for ingredients and fewer guests visited. On a per-share basis, earnings were 75 cents, missing analysts' expectations of 94 cents.

Cochran, who was head of the bookstore chain Books-A-Million for five years, said in a statement that she isn't satisfied with sales and traffic at the restaurants.

To lure budget-conscious customers, the restaurant plans to introduce some lower-priced items and will emphasize affordability in advertisements, Cochran said.

She also said the weak economy has crimped Americans' summer travel plans, which hurt sales. Cracker Barrel, known for its breakfasts and biscuits and other staples such as meatloaf, usually puts its stores near interstate highway exits to appeal to travelers.

Biglari's background includes buying shares in, and forcing his way onto the board and taking control of Steak 'n Shake, where he is CEO.

"In times past, he's taken on much smaller companies that were very poorly managed," said Derrington, the Morgan Keegan analyst. "In those instances, he found relatively low-hanging fruit to make some positive changes."

But Derrington said he doesn't think Cracker Barrel is poorly managed, though it has been hurt by a sagging U.S. economy, high gas prices and weak consumer demand.

"I don't think Biglari has the ability to make dramatic positive changes in the company's business model as he has in prior companies," Derrington said.

**Exhibit E**

(see attached)

**Cracker Barrel Old Country Store, Inc.:**

*CBRL: Playbook of FY12 Initiatives Shows Promise; Reiterate BUY*

KeyBanc Capital Markets Inc.  
 Member NYSE/FINRA/SIPC

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 John Dravenstott: (214) 414-2597 — [jdravenstott@keybanc.com](mailto:jdravenstott@keybanc.com)

Rating	BUY
Price	\$40.56
12-Mo. Price Target	\$55.00
Dividend	\$1.00
Yield	2.5%
52-Wk. Range	\$37 - \$58
Trading Volume (000)	312
Market Cap. (mm)	\$926.4
Shares Out. (mm)	22.84
Book Value/Share	\$11.73
Price/Book Value	3.5x
Total Debt (mm)	\$550.3

**EPS (Net) Summary**

FY July	2011A	2012E	2013E
1Q	\$1.01	\$0.92	\$1.14
Prior	\$1.01	\$1.01	\$1.15
2Q	\$1.20	\$1.10	\$1.38
Prior	\$1.20	\$1.34	\$1.44
3Q	\$0.64	\$0.76	\$0.87
Prior	\$0.64	\$0.69	\$0.85
4Q	\$1.00	\$1.46	\$1.38
Prior	\$0.94	\$1.34	\$1.46
YEAR	\$3.86	\$4.25	\$4.77
Prior	\$3.80	\$4.38	\$4.91
First Call	--	\$4.23E	\$4.77E
P/E	10.5x	9.5x	8.5x

**ACTION STATEMENT**

Looking past the pressure we expect from a timid consumer and significant commodity inflation in the 1H of FY12 for Cracker Barrel Old Country Store, Inc. (CBRL-NASDAQ), we believe that the Company's 2H of FY12 should benefit from both a stabilizing consumer environment and a very thorough playbook of traffic driving, margin building and returns enhancing initiatives outlined by Sandra Cochran in her inaugural investor conference call as CEO. We believe that the 2H momentum will likely result in the potential of upside to management's FY12 EPS guidance range of \$4.05-\$4.20 and, therefore, reiterate our **BUY** rating and \$55 price target.

- 2012E: \$4.25 from \$4.38
- 2013E: \$4.77 from \$4.91

**KEY INVESTMENT POINTS**

**New CEO Cochran Outlines FY12 Priorities:** We are encouraged that Sandra Cochran, who assumed the roles of President and CEO on September 12 after serving previously as CFO and most recently as President and COO of CBRL, introduced and thoroughly outlined her six key priorities for FY12, which are designed to drive SSS, margin expansion and shareholder returns:

- **Broader Messaging, Focusing on Affordability:** Management believes CBRL needs to better communicate its authenticity and affordability. The Company stated that it is encouraged by the new strategy in the works from Euro RSCG, the new advertising agency hired in July, which focuses on building local occasions from less frequent users and non-users. Management also aims to increase marketing efficiency. Marketing spending will be shifted to impact more stores, reinforcing a value price point even on the Company's iconic billboards. The Company also recently updated its website in June and management expects further social media expansion after CBRL began communicating with guests on Facebook in June.
- **Refined Menu and Pricing Strategies, Emphasizing Value:** Management reiterated its strategy of using LTOs and avoiding couponing, though it acknowledged that the consumer and competitive environment requires more price point promotions than it has run in the past. The Company will highlight already affordable items and selectively reduce prices for certain existing items. Also, CBRL tested a \$5.99 daily lunch special, which features existing Cracker Barrel products and a salad and soup or baked potato combination. Management believes traffic should build from the promotion, which rolls out nationwide on Thursday, and it stated that although margins are somewhat lower for the \$5.99 items themselves, beverage and dessert incidence was higher in the test, which we believe has the potential to lead to higher overall margins for the feature.
- **Enhanced Operating Platform Targets Customer Satisfaction Scores:** After identifying certain aspects of the Seat-to-Eat rollout that negatively impacted customer scores, management stated that it has seen sequential improvement in May, June and July. Current initiatives focus on order accuracy, food temperature and server attentiveness through changes such as a redefinition of some roles on the grill and the decision to limit team service to one dining room vs. multiple.

**FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 6 - 7 OF THIS NOTE.**

- **Management Pushes for Retail Sales Growth and Efficiency:** Management believes price points have been important to retail as well and that they can build on strength in apparel and jewelry while improving inventory management, assortment planning and e-commerce. CBRL has plans to roll out new private label and other products in time for the holiday season this fall. Additionally, management announced that the senior VP of retail operations retired after 31 years with the Company, and the Company is currently searching for a replacement.
- **Cost Reduction Initiatives Have Already Identified \$15 Million- \$20 Million of Sustainable Annual Savings:** In addition to the \$10 million of annual savings from the recent headquarters staff reductions and restructuring changes, management sees further opportunities to reduce costs through an enhanced labor management system, high efficiency light bulbs and a new transportation management system. The labor initiative, the first phase of which rolls out this month, is expected to improve labor costs by 10- 20 bps with additional improvements likely over time; the new light bulbs are expected to provide electricity savings of \$2 million- \$3 million annually after they are rolled out systemwide in FY12; and the new transportation management system is expected to save \$1 million in the first year and \$2 million- \$3 million in subsequent years. The Company also plans to find further cost savings in food waste, supplies and maintenance expenses.
- **Capital Deployment Through Dividends and Buybacks; Smaller Prototype Used to Maximize Returns:** After raising the dividend by 13.6% to a quarterly rate of \$0.25 from \$0.22 in 4Q11 and authorizing an additional \$65 million of share repurchases, management stated that it plans to effectively deploy capital to enhance total shareholder returns. The Company also announced that all 15 new units planned for FY12 will be the new, smaller prototype design, which has 177 seats vs. the previous approximately 207 seat prototype. Management stated that the smaller prototype allows for a lower up-front investment and higher returns on capital, assuming it continues to achieve system average unit volumes of roughly \$4.1 million.

**Commodity Inflation Guided up 5.5- 6.5% in FY12:** Management stated that commodity inflation for FY12 was expected to be up 5.5- 6.5%, driven by increases in seafood, oil, coffee, eggs and beef. The commodity cost increase is expected to add \$30 million- \$35 million in cost of sales pressure in FY12. Management stated that its commodity needs are 50% contracted for FY12 and that it plans to carry 2- 3% pricing in FY12 to offset as much of the commodity pressure as possible.

**Restaurant and Retail Gross Margin Breakout Given for First Time:** Management disclosed restaurant cost of sales for FY11 and 4Q11 of 26.5% and 27.0% vs. 25.6% and 25.4% for FY10 and 4Q10, respectively. It also disclosed retail cost of sales for FY11 and 4Q11 of 52.1% and 51.3% vs. 52.0% and 49.5% for FY10 and 4Q10, respectively. Management has not given this disclosure in the past, and we believe it provided the detail in today's release in response to recent pressure from activist shareholder Sardar Biglari. Biglari wrote another letter to CBRL shareholders prior to the earnings release criticizing the CBRL Board reiterating his argument that he and another representative should be appointed to the CBRL Board of Directors.

#### VALUATION

CBRL is presently trading at 8.7x our CY12 EPS estimate of \$4.67 vs. a peer group average of 9.7x. The Company is also trading at 5.4x on a CY12E EV/EBITDA basis vs. the comparison group average of 6.2x. Over the past five years, CBRL has traded at an average forward P/E multiple of 11.7x and an average forward EV/EBITDA multiple of 6.9x. Our \$55 price target assumes that shares trade at 11.8x and 6.6x on an estimated CY12 P/E and EV/EBITDA basis, respectively.

#### RISKS

Risks that could impede shares from achieving our price target include trends in consumer spending, reception of the brand in new markets, commodity exposure and other risks outlined in the Company's SEC filings.

Projected Income Statement for Cracker Barrel Old Country Store, Inc.

Fiscal Year Ends in July  
Dollars in Millions, except per share

	2011			2012E			2013E			2014E			2015E		
	Q1	Q2	Q3	Q4	FY11	Q1E	Q2E	Q3E	Q4E	FY12E	Q1E	Q2E	Q3E	Q4E	FY15E
	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(52 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(52 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(13 weeks)	(52 weeks)
Cracker Barrel - Restaurant	\$481.8	\$476.6	\$476.4	\$497.3	\$1,934.0	\$484.4	\$484.7	\$484.4	\$484.4	\$1,938.0	\$500.0	\$502.5	\$511.1	\$543.8	\$2,070.4
Cracker Barrel - Retail	116.9	161.7	108.2	115.7	500.0	118.4	164.5	110.7	130.0	523.7	123.3	171.4	116.0	125.4	536.1
Total Sales	\$598.7	\$638.3	\$584.6	\$613.0	\$2,434.0	\$602.8	\$649.2	\$595.1	\$614.4	\$2,461.7	\$623.3	\$673.9	\$627.1	\$669.2	\$2,606.5
Cost of Sales	179.8	218.4	179.8	193.6	772.5	191.3	229.4	186.0	214.6	821.9	192.9	229.5	191.2	204.4	818.0
Gross Profit	418.9	420.9	404.8	419.4	1,661.5	411.5	419.8	409.1	400.0	1,639.8	430.4	444.4	435.9	464.8	1,788.5
Lease & Other Related Expenses	224.6	223.2	227.4	229.0	904.2	224.9	224.6	229.9	255.3	934.8	225.3	233.9	246.7	248.3	954.1
Impairment & Closing Charges	0.1	0.0	(2.0)	0.2	(1.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other Store Operating Expenses	95.9	98.7	96.0	99.5	390.2	94.4	98.4	100.4	110.4	403.6	95.2	101.1	105.9	110.7	412.9
Restaurant Operating Income	97.3	101.0	81.2	90.7	370.2	92.4	92.9	98.7	101.7	381.1	102.9	109.5	92.9	110.7	419.0
Selling, General & Administrative	35.9	33.1	34.0	33.5	137.4	34.4	32.5	35.1	36.6	138.5	37.8	36.5	36.5	39.8	150.4
EBITDA	60.4	67.9	47.2	57.1	232.8	58.0	60.4	63.6	65.1	242.6	65.1	73.0	56.4	70.9	268.7
Depreciation	15.0	15.4	16.1	16.3	62.8	15.1	16.0	16.5	16.9	65.5	16.4	16.4	17.2	17.4	67.4
EBIT	45.4	52.5	31.2	40.8	170.0	42.9	44.4	47.1	48.2	177.1	48.7	56.7	39.2	53.5	198.3
Interest Expense	11.7	11.8	11.6	11.2	46.4	10.7	12.0	12.0	10.4	45.2	10.2	11.3	11.2	9.9	42.6
Interest Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Pretax Income	33.7	40.6	19.6	29.7	123.6	31.2	36.4	35.1	45.8	137.8	38.5	45.5	28.0	43.6	155.7
Income Taxes	10.0	11.9	4.4	6.2	32.5	9.5	10.7	6.7	12.1	39.1	12.1	13.4	7.7	11.6	44.8
Proforma Net Income	\$23.7	\$28.8	\$15.2	\$23.5	\$91.1	\$21.7	\$25.7	\$28.4	\$33.7	\$98.7	\$26.4	\$32.0	\$20.3	\$32.1	\$110.9
Gain / (Loss) on Special Items, Net	0.0	0.0	0.0	(0.5)	(0.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Fully Reported Net Income	\$23.7	\$28.8	\$15.2	\$23.0	\$90.6	\$21.7	\$25.7	\$28.4	\$33.7	\$98.7	\$26.4	\$32.0	\$20.3	\$32.1	\$110.9
Diluted Weighted Average Shares - Proforma	23,919	23,919	23,602	24,423	23,032	23,453	23,328	23,286	23,103	23,216	23,286	23,226	23,308	23,273	23,259
Earnings Per Share - Proforma	\$1.01	\$1.20	\$0.64	\$0.96	\$3.86	\$0.92	\$1.10	\$1.22	\$1.46	\$4.25	\$1.14	\$1.38	\$0.87	\$1.38	\$4.77
Earnings Per Share - Fully Reported	\$1.01	\$1.20	\$0.64	\$0.75	\$3.81	\$0.92	\$1.10	\$1.22	\$1.46	\$4.25	\$1.14	\$1.38	\$0.87	\$1.38	\$4.77
<b>Margins</b>															
Cost of Sales	30.0%	34.5%	30.6%	31.6%	31.7%	31.7%	35.3%	30.8%	31.1%	32.3%	30.7%	34.1%	30.2%	30.6%	31.4%
Lease & Other Related Expenses	37.5%	34.9%	39.0%	37.4%	37.1%	37.3%	34.6%	38.0%	37.0%	38.7%	37.4%	34.7%	38.9%	37.1%	37.0%
Other Store Operating Expenses	16.2%	15.1%	16.0%	16.2%	16.0%	15.7%	15.6%	16.0%	15.0%	15.8%	15.6%	16.3%	15.0%	15.8%	
Restaurant Operating Margin	16.3%	16.0%	13.0%	14.0%	15.2%	15.3%	14.0%	14.9%	15.9%	15.9%	16.0%	14.1%	14.1%	14.1%	
Selling, General & Administrative	5.9%	5.2%	5.8%	5.5%	5.6%	6.0%	5.3%	5.8%	5.9%	6.2%	6.0%	5.4%	5.8%	5.9%	
EBIT Margin	19.1%	19.0%	8.1%	9.3%	9.6%	9.6%	9.9%	8.8%	9.0%	10.6%	10.4%	10.9%	8.9%	10.2%	
Depreciation	2.5%	2.4%	2.6%	2.6%	2.6%	2.7%	2.5%	2.5%	2.5%	2.6%	2.6%	2.4%	2.7%	2.6%	
EBIT Margin	7.6%	8.2%	5.4%	6.7%	7.0%	6.9%	7.5%	6.0%	6.2%	7.2%	7.0%	8.4%	6.2%	6.0%	
Interest Expense	2.0%	1.8%	2.0%	1.8%	1.9%	1.8%	1.9%	2.0%	1.9%	1.8%	1.7%	1.8%	1.7%	1.6%	
Proforma Net Income Margin	4.0%	4.5%	2.6%	3.8%	3.7%	3.6%	4.0%	2.9%	4.9%	3.9%	4.2%	4.0%	3.2%	4.8%	
<b>Growth Rate Analysis</b>															
Cracker Barrel - Restaurant Growth Rate	3.2%	1.0%	0.6%	(0.1%)	1.2%	0.6%	1.3%	3.8%	12.6%	4.0%	4.4%	3.7%	4.8%	(2.9%)	
Cracker Barrel - Retail Growth Rate	2.2%	1.9%	1.2%	0.7%	1.5%	1.3%	1.9%	4.3%	12.4%	4.7%	4.1%	4.2%	4.8%	(3.6%)	
Total Sales Growth Rate	3.0%	1.2%	0.7%	0.7%	1.2%	0.7%	1.4%	3.9%	12.6%	4.0%	4.4%	3.8%	4.8%	(2.0%)	
Operating Income Growth Rate	11.1%	0.2%	(4.4%)	(7.7%)	(0.4%)	(5.1%)	(4.1%)	8.4%	21.0%	4.1%	11.4%	13.1%	5.4%	0.9%	
EBITDA Growth Rate	16.0%	3.2%	(0.1%)	(0.1%)	3.1%	(4.0%)	(5.1%)	12.1%	28.0%	6.0%	13.0%	6.2%	(3.0%)	0.3%	
EBIT Growth Rate	19.0%	6.3%	(2.0%)	(10.1%)	3.2%	(7.7%)	(7.7%)	17.3%	41.2%	7.1%	14.1%	10.1%	14.1%	(1.7%)	
Proforma Net Income Growth Rate	19.1%	14.8%	1.8%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	
Earnings Per Share - Proforma Growth Rate	20.1%	10.9%	5.0%	(12.3%)	6.6%	(8.1%)	(8.6%)	18.7%	46.4%	10.3%	23.0%	26.5%	14.4%	(6.4%)	
Effective Tax Rate	29.6%	29.2%	22.6%	22.6%	29.2%	30.5%	29.0%	27.5%	26.5%	29.6%	31.5%	29.5%	27.5%	26.5%	

Source: Company Reports & KeyBank Capital Markets Inc. Estimates  
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Projected Unit Statistics for Cracker Barrel Old Country Store, Inc.

Fiscal Year Ends in July

Store Count

Cracker Barrel:  
Beginning Units  
Openings  
Closings  
Average Units  
Average Number of Stores in Period

Sales Analysis (AWS in actual \$)

Weeks in Quarter

Cracker Barrel - Restaurant:  
Operating Weeks  
Average Weekly Sales (AWS)  
AWS % Change - Restaurant  
Same-Store Sales (SSS) - Restaurant  
Cracker Barrel - Retail:  
AWS % Change - Retail  
SSS - Retail

	2011			2012E			2013E						
	Q1 (13 weeks)	Q2 (13 weeks)	Q3 (13 weeks)	Q1E (13 weeks)	Q2E (13 weeks)	Q3E (13 weeks)	Q1E (13 weeks)	Q2E (13 weeks)	Q3E (13 weeks)	Q4E (13 weeks)	FWY1E (52 weeks)	FWY2E (52 weeks)	FWY3E (52 weeks)
593	597	597	601	593	603	606	615	603	618	621	624	630	618
3	4	3	3	3	3	0	0	14	3	3	6	4	16
0	1	0	1	0	0	0	0	0	0	0	0	0	0
594.5	597.5	599.0	602.0	598.0	604.5	607.0	611.5	610.5	618.5	622.5	627.0	632.0	626.0
13	13	13	13	13	13	13	13	14	13	13	13	13	52
7,226	7,781	7,790	7,817	31,096	7,859	7,891	7,900	8,631	32,330	8,054	8,093	8,216	32,513
0.8%	0.7%	0.9%	1.2%	0.9%	1.7%	1.7%	2.0%	10.4%	4.0%	2.5%	2.6%	2.5%	(4.4%)
\$62,347	\$61,659	\$61,150	\$63,613	\$62,190	\$61,861	\$61,422	\$62,100	\$64,895	\$62,593	\$62,832	\$62,098	\$66,162	\$63,678
2.4%	0.3%	(0.3%)	(1.3%)	0.3%	(1.1%)	(0.4%)	1.7%	2.0%	0.6%	1.9%	1.1%	2.2%	2.0%
2.4%	0.3%	(0.3%)	(1.4%)	0.2%	(1.2%)	(0.4%)	1.9%	2.2%	0.6%	2.0%	1.1%	2.0%	2.0%
\$15,124	\$20,830	\$13,028	\$4,709	\$16,000	\$15,053	\$20,461	\$13,028	\$15,085	\$16,197	\$15,354	\$21,165	\$14,234	\$16,489
1.9%	1.4%	0.2%	(0.4%)	0.8%	(0.4%)	0.1%	2.2%	1.8%	0.7%	1.8%	1.6%	2.2%	1.5%
1.5%	1.3%	0.1%	(0.7%)	0.7%	(0.4%)	0.1%	2.4%	2.0%	0.7%	1.8%	2.2%	2.4%	1.5%

Source: Company Reports & KeyBank Capital Markets Inc. Estimates  
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**KBCM Comparison Sheet for Cracker Barrel Old Country Store, Inc – 4Q11**

Fiscal Year Ends in July  
Dollars in Millions, except per share

	Current Quarter Performance					
	Actual	Actual vs. Prior Year		Actual vs. KBCM Estimates		%Diff.
	4Q11A	4Q10A	Chg.	%Chg.	4Q11E	
<b>Current Quarter</b>						
Restaurant Sales	\$497.3	\$497.6	(\$0.3)	(0.1%)	\$500.2	(\$3.0) (0.6%)
Retail Sales	\$115.7	\$114.9	\$0.8	0.7%	\$116.9	(\$1.2) (1.0%)
Restaurant-Level Margin	14.8%	16.0%	-125 bps	(7.8%)	15.1%	-31 bps (2.0%)
EBITDA Margin	9.3%	9.9%	-61 bps	(6.2%)	9.2%	+12 bps 1.3%
EBIT Margin	6.7%	7.4%	-75 bps	(10.1%)	6.5%	+13 bps 1.9%
<b>EPS</b>	<b>\$1.00</b>	<b>\$1.14</b>	<b>(\$0.14)</b>	<b>(12.3%)</b>	<b>\$0.94</b>	<b>\$0.06</b> <b>6.2%</b>
Restaurant SSS	(1.4%)	2.0%	-340 bps	NM	(0.9%)	-50 bps NM
Retail SSS	(0.7%)	2.6%	-330 bps	NM	0.2%	-90 bps NM

**KBCM Estimate Revisions vs. Consensus**

	KBCM 1Q12E		Consensus 1Q12E		KBCM FY12E		Consensus FY12E		KBCM FY13E		Consensus FY13E	
	New	Previous	Chg.		New	Previous	Chg.		New	Previous	Chg.	
	<b>Estimate Revisions</b>											
EPS	\$0.92	\$1.01	(\$0.09)	\$0.99	\$4.25	\$4.38	(\$0.13)	\$4.23	\$4.77	\$4.91	(\$0.14)	\$4.77
Restaurant-Level Margin	15.3%	15.9%	-53 bps	N/A	15.2%	15.7%	-50 bps	N/A	16.0%	16.1%	-18 bps	N/A
Restaurant SSS	(1.2%)	0.3%	-150 bps	N/A	0.6%	1.9%	-130 bps	N/A	2.0%	2.0%	+0 bps	N/A
Retail SSS	(0.4%)	1.2%	-160 bps	N/A	1.0%	2.4%	-133 bps	N/A	2.0%	2.0%	+0 bps	N/A

Source: Company Reports, First Call & KeyBanc Capital Markets estimates. Consensus EPS estimates are from Factset.  
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**KeyBanc Capital Markets Inc. Disclosures and Certifications**

Cracker Barrel Old Country Store, Inc. - CBRL

We expect to receive or intend to seek compensation for investment banking services from Cracker Barrel Old Country Store, Inc. within the next three months.

During the past 12 months, Cracker Barrel Old Country Store, Inc. has been a client of the firm or its affiliates for non-securities related services.

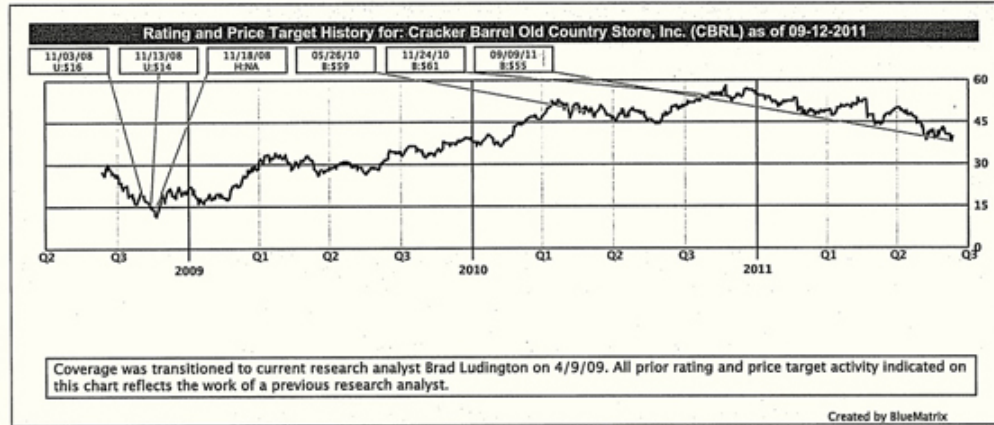
Coverage was transitioned to current research analyst Brad Ludington on 4/9/09. All prior rating and price target activity indicated on this chart reflects the work of a previous research analyst.

As of the date of this report, we make a market in Cracker Barrel Old Country Store, Inc..

**Reg AIC Certification**

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

**Three- Year Rating and Price Target History**



**Rating Disclosures**

Distribution of Ratings/IB Services Firmwide and by Sector							
KeyBanc Capital Markets				CONSUMER			
Rating	Count	Percent	IB Serv/Past 12 Mos.		Rating	Count	Percent
			Count	Percent			
BUY [BUY]	225	49.10	53	23.56	BUY [BUY]	55	46.60
HOLD [HOLD]	230	50.20	47	20.43	HOLD [HOLD]	60	50.80
SELL [UND]	3	0.70	0	0.00	SELL [UND]	3	2.50

***Rating System***

**BUY** - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

**HOLD** - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

**UNDERWEIGHT** - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

**Exhibit F**

(see attached)

September 15, 2011

**Cracker Barrel Old Country Store, Inc.**

(CBRL:NASDAQ)

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Brian M. Vaccaro, CFA, Sr. Res. Assoc., (404) 442-5866, Brian.Vaccaro@RaymondJames.com

**Company Comment**

**Rating Change**

Old: Market Perform 3    New: Outperform 2

**Current and Target Price**

Current Price (9/14/2011)    \$41.50  
Target Price: Old: NM    New: \$47.00  
52-Week Range    \$57.79 - \$37.31  
Suitability    Growth

**Market Data**

Shares Out. (mil.)    23.4  
Market Cap. (mil.)    \$971  
Avg. Daily Vol. (10 day)    384,920  
Dividend/Yield    \$1.00/2.4%  
Book Value (07/11)    \$11.44  
ROE    37%  
LT Debt (mil.)/% Cap.    \$550/65%

**Earnings & Valuation Metrics**

	2011A	2012E	2013E
<b>P/E Ratios (GAAP)</b>			
10.9x	10.2x	9.5x	
<b>GAAP EPS (CY)</b>			
2011E	2012E	2013E	
Old \$3.78	\$4.20	NA	
New \$3.78	\$4.20	NA	
<b>P/E (CY GAAP)</b>			
11.0x	9.9x	NM	
<b>Operating Margins</b>			
2011A	2012E	2013E	
6.9%	7.0%	7.0%	
<b>EBITDA (mil.)</b>			
Old \$241	\$255	\$264	
New \$241	\$255	\$264	

**Company Description**

Cracker Barrel Old Country Store, Inc., headquartered in Lebanon, Tennessee, operates approximately 600 stores mainly in the eastern half of the U.S. Management undertook a leveraged recapitalization in FY:06, after which free cash flow allowed the company to lower its debt ratios to levels that now support a modest increase in expansion (low single-digits) expansion beginning in FY11.

**Restaurants**

**Raising Rating to Outperform on Cash Flow and Real Estate Value**

**Recommendation:** Since touching the high \$50s level late last year, CBRL has fallen steadily so far in 2011. The stock has reacted well to Tuesday morning's disappointing EPS release – we believe this indicates value buyers are now supporting the stock. CBRL is selling at the same EV/EBITDA it averaged during the recession year of 2009. When coupled with the company's real estate assets and strong cash flow position, we believe the risk/reward ratio is now favorable, and we are raising our rating to **Outperform** from Market Perform.

- ◆ **Event:** On Tuesday morning Cracker Barrel released disappointing EPS results. On Wednesday morning Street estimates were lowered to levels that seem to reflect continued soft sales and high food inflation for at least the next 12 months. Barring a sharp decline in total consumer spending, we believe Street numbers are unlikely to fall much further, and with CBRL at an historical valuation low on those numbers, we believe the risk/reward ratio is now positive for patient investors.
- ◆ **Real Estate Value:** Cracker Barrel owns a bit more than 400 of its units with a replacement cost of \$1 billion against \$500 million of current net debt. On page 2 we illustrate CBRL's current value assuming a sale/leaseback of the real estate. We do not believe it would be wise to undertake a sale/leaseback given cap rates are in the high single digits. We are simply showing the arithmetic to illustrate the stock's low valuation.
- ◆ **Competitive Positioning Strong:** We believe Cracker Barrel is more insulated from direct competition than other chains in our universe. The bulk of its units are near interstate exits in small towns and rural areas. Often the Cracker Barrel is the only full service, full menu option in the trade area.
- ◆ **Activist:** An activist shareholder with almost a 10% position indicated in his last 13-D filing that he will launch a proxy fight to get a board seat. We do not expect many shareholders to support his bid.
- ◆ **Estimates:** We lowered our estimates in a separate comment yesterday morning. Our detailed model is published below.

**Valuation:** CBRL is trading at an EV/EBITDA multiple of 5.8x our forward EBITDA estimate of \$255 million. This is the average level that CBRL traded at for the first half of 2009, when the market fears were near their peak. Our \$47 price target equates to an EV/EBITDA multiple of 6.3x, which is still in the lower range of the stock's five year history (5.5x to 8.0x).

GAAP EPS	Q1 Oct	Q2 Jan	Q3 Apr	Q4 Jul	Full Year	Revenues (mil.)
2011A	\$1.01	\$1.20	\$0.58	\$1.00	\$3.79	\$2,434
Old 2012E	0.93	1.27	0.58	1.27	4.05	2,546
New 2012E	0.93	1.27	0.58	1.27	4.05	2,546
Old 2013E	0.99	1.35	0.68	1.33	4.35	2,611
New 2013E	0.99	1.35	0.68	1.33	4.35	2,611

Rows may not add due to rounding. F4Q12 and FY12 EPS include an estimated \$0.25 from an extra week.

Please read domestic and foreign disclosure/risk information beginning on page 5 and Analyst Certification on page 5.

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The following table illustrates CBRL's low valuation after assuming a sale/leaseback of its real estate. We believe it would be foolish to undertake a sale/leaseback given current cap rates in the 8%+ range. We are simply going through the exercise to illustrate the stock's current valuation.

<b>Cracker Barrel Enterprise Value X-Real Estate</b>	
\$ Millions	
Current Market Cap	\$975
Current Net Debt	\$500
Enterprise Value	\$1,475
Less: Est Real Estate Sale Value (After Capital Gains Taxes)	(\$800)
Adjusted EV(X-Real Estate)	\$675
Adjusted EV/ TTM Revenue	27.7%
Adj EV/Adj TTM EBITDA	4.8x
Note: Adjusted EBITDA assumes sale/leaseback at 10%	

Source: Company filings and Raymond James Estimates

**Cracker Barrel Old Country Store, Inc.**  
**Cash Flow Analysis**

<b>CBRL Condensed Cash Flow Statement (\$000's)</b>	<b>FY-2010</b>	<b>FY-2011</b>	<b>FY-2012(E)</b>	<b>FY-2013(E)</b>
Net Income from Operations	\$85,258	\$89,661	\$95,121	\$102,576
Depreciation & Amortization	61,024	62,788	67,000	71,000
Stock Based Compensation	13,193	9,796	10,286	10,800
Other Operating Cash Flow (Net)	7,369	(2,652)	2,000	2,000
<b>Gross Cash Flow</b>	<b>166,844</b>	<b>159,593</b>	<b>174,407</b>	<b>186,376</b>
Net Change In Working Capital	50,325	(17,272)	2,500	2,500
<b>Cash Flow from Operations</b>	<b>217,169</b>	<b>142,321</b>	<b>176,907</b>	<b>188,876</b>
Capital Expenditures	(70,132)	(77,686)	(100,000)	(110,000)
<b>Free Cash Flow</b>	<b>147,037</b>	<b>64,635</b>	<b>76,907</b>	<b>78,876</b>
Other Net Cash Flow from Investing/Financing	35,058	23,612	4,600	4,600
Funded Debt (Paydown)	(64,972)	(30,264)	-	(25,000)
Share Repurchases	(62,487)	(33,563)	(50,000)	(50,000)
Dividends	(18,545)	(19,846)	(22,782)	(24,057)
<b>Net Change In Cash and Investments</b>	<b>36,091</b>	<b>4,574</b>	<b>8,725</b>	<b>(15,581)</b>
<b>Ending Cash and Investments</b>	<b>47,700</b>	<b>52,274</b>	<b>60,999</b>	<b>45,418</b>
<b>Current Enterprise Value</b>		<b>1,470,055</b>	<b>1,470,055</b>	<b>1,470,055</b>
<b>Current EV/EBITDA at Stock price of \$ 41.50</b>			<b>5.8x</b>	<b>5.6x</b>
<b>Free Cash Flow Per Share</b>		<b>\$2.70</b>	<b>\$3.28</b>	<b>\$3.35</b>
<b>FCF Yield</b>			<b>7.9%</b>	<b>8.1%</b>
Ending Book Debt	\$580,473	\$550,265	\$550,265	\$525,265
Ending Economic Debt (incl. NPV of operating leases)	851,117	821,110	817,232	812,733
EBITDA	241,685	240,940	254,797	264,273
EBITDAR	281,478	281,330	295,793	305,884
Ending Book Debt/EBITDA	2.40x	2.28x	2.16x	1.99x
Covenant Max Book Debt/EBITDA	3.75x	3.75x	3.75x	3.75x
Ending Economic Debt/EBITDAR	3.0	2.9	2.8	2.7

Cracker Barrel Old Country Store, Inc.		Bryan C. Elliott, CFA (404) 442-8866				Brian M. Vaccaro, CFA (404) 442-8866				Brian M. Vaccaro, CFA (404) 442-8866				8/14/2011			
Earnings Model - (\$ Thousands)		Q1-12(1)		Q2-12(2)		Q3-12(3)		Q4-12(4)		Q1-13(5)		Q2-13(6)		Q3-13(7)		Q4-13(8)	FX-2013(9)
RAYMOND JAMES		12	13	13	13	14	14	15	15	15	15	15	16	16	16	16	16
<b>Revenue</b>																	
Restaurant Sales	\$1,934,949	\$485,092	\$486,631	\$490,976	\$500,020	\$2,822,879	\$697,830	\$699,447	\$693,489	\$643,395	\$7,073,721						
Retail Sales	950,399	117,891	160,015	159,421	130,294	523,381	122,892	173,798	114,499	126,560	537,728						
Total Revenue	\$2,484,438	\$602,713	\$646,646	\$650,397	\$630,314	\$3,346,260	\$820,722	\$873,245	\$807,988	\$769,955	\$12,411,449						
<b>Food, Beverage, &amp; Retail COGS</b>																	
Food, Beverage, & Retail COGS	772,471	188,494	210,165	189,792	223,181	831,832	197,035	240,948	197,238	213,338	848,548						
Labor & Other	904,229	224,907	225,635	232,614	254,458	937,515	235,413	238,492	243,894	247,400	962,861						
Other Store Operating Exp. Incl. Advert. (Cont.)	288,189	86,378	95,855	97,774	108,674	399,721	100,432	100,184	101,844	109,761	409,289						
Store-Level Cash Flow	\$368,566	\$92,833	\$100,981	\$100,216	\$104,111	\$378,221	\$97,144	\$105,694	\$86,151	\$102,763	\$390,732						
Cash SG&A Expenses (No Advert)	137,826	32,893	29,080	30,277	31,373	123,424	34,001	30,244	31,489	30,745	126,478						
Non-Cash Stock Based Compensation	9,788	2,585	2,580	2,537	2,584	10,288	2,714	2,709	2,664	2,713	10,800						
Reported SG&A (incl. system exp.)	137,422	35,278	31,660	32,814	33,957	133,710	36,715	32,953	34,152	33,458	137,278						
EBITDA (Ex Stock-Based Comp.)	\$240,949	\$60,260	\$71,880	\$49,939	\$72,738	\$254,797	\$63,143	\$76,491	\$53,662	\$72,018	\$264,273						
Depreciation Expense	62,788	16,000	16,500	17,000	17,500	67,500	17,000	17,500	18,000	18,500	71,500						
Stock Based Compensation Expense	9,788	2,585	2,580	2,537	2,584	10,288	2,714	2,709	2,664	2,713	10,800						
Operating Income (incl. Stock-Based Comp.)	\$168,882	\$41,655	\$52,800	\$30,402	\$52,654	\$177,512	\$43,429	\$56,242	\$32,998	\$50,864	\$192,473						
Interest Income	-	-	-	-	-	-	-	-	-	-	-						
Interest Expense	(46,300)	(11,225)	(11,225)	(11,225)	(10,800)	(44,475)	(10,800)	(10,800)	(10,800)	(9,500)	(38,000)						
Pre-Tax Income	\$122,417	\$30,430	\$41,575	\$19,177	\$41,854	\$133,037	\$32,629	\$45,442	\$22,498	\$41,364	\$154,473						
Income Taxes	32,247	8,073	11,849	5,408	11,939	37,915	9,549	12,975	6,525	12,848	41,897						
Fully Diluted Net Income	\$90,661	\$21,797	\$29,726	\$13,769	\$29,915	\$95,121	\$23,079	\$32,467	\$15,973	\$28,516	\$112,576						
Avg. Fully Diluted Shares Outstanding	23,835	23,448	23,473	23,498	23,523	23,408	23,548	23,573	23,598	23,623	23,586						
Diluted EPS From Operations	\$3.79	\$0.93	\$1.27	\$0.58	\$1.27	\$4.05	\$0.99	\$1.35	\$0.68	\$1.33	\$4.53						
<b>Margin Analysis</b>																	
COGS (Food, Bev., & Retail)	31.7%	31.3%	32.5%	31.6%	32.3%	32.7%	31.3%	35.3%	31.4%	31.8%	32.5%						
Labor Costs (% of Store Sales)	37.1%	37.3%	34.6%	38.7%	36.9%	36.8%	37.4%	34.6%	38.8%	36.9%	36.9%						
Rest. Op. Exp. (% of Store Sales)	16.0%	16.0%	14.7%	16.3%	15.7%	15.7%	15.9%	14.7%	16.2%	15.9%	15.7%						
Store Level CF Margin	15.1%	15.4%	15.0%	13.4%	15.1%	14.9%	15.4%	15.5%	13.6%	15.3%	15.9%						
Cash SG&A Expenses (% of Tot. Revs)	5.2%	5.4%	4.5%	5.0%	4.9%	4.8%	5.4%	4.4%	5.0%	4.5%	4.8%						
EBITDA (Ex Stock-Based Comp.)	9.9%	10.0%	11.0%	8.3%	10.9%	10.0%	10.8%	11.0%	8.5%	10.7%	10.1%						
Depreciation Expense (% of Tot. Revs)	2.6%	2.7%	2.5%	2.8%	2.8%	2.6%	2.7%	2.6%	2.9%	2.8%	2.7%						
Option Expense (% of Tot. Revs)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%						
Operating Margin (incl. Stock-Based Comp.)	6.9%	6.9%	8.1%	5.1%	7.8%	7.0%	6.9%	6.1%	5.3%	7.6%	7.0%						
Pre-Tax Margin	5.0%	5.0%	6.4%	3.2%	6.1%	5.2%	5.2%	6.5%	3.6%	6.0%	5.5%						
Effective Tax Rate	28.3%	28.5%	28.5%	28.5%	28.5%	28.5%	29.0%	29.0%	29.0%	29.0%	29.0%						
Net Margin	3.7%	3.6%	4.6%	2.3%	4.3%	3.7%	3.7%	4.6%	2.5%	4.7%	3.9%						
<b>Year/Year Margin Changes (In basis points)</b>																	
Food, Beverage, & Retail	71	125	100	75	75	93	-	-	(20)	(50)	(17)						
Labor Costs	(63)	(20)	(30)	(30)	(50)	(32)	5	5	5	5	5						
Rest. Operating Exp. (incl. advert.)	34	(20)	(40)	(20)	(50)	(33)	(5)	(5)	(5)	20	1						
Store Level CF Margin	(43)	(85)	(20)	(25)	25	(28)	0	0	20	25	11						
Cash SG&A Expenses	(28)	(32)	(33)	(37)	(52)	(39)	(3)	(3)	(3)	4	(8)						
EBITDA Margin	(15)	(53)	3	12	77	11	3	3	23	21	11						
Depreciation Expense	4	14	12	7	(12)	5	4	3	4	23	9						
Option Expense	(15)	2	1	1	(3)	0	0	0	0	3	1						
Operating Margin (incl. Stock-Based Comp.)	(2)	(67)	(11)	4	92	3	(2)	(8)	19	(5)	2						
Pre-Tax Margin	11	(58)	2	17	118	19	18	18	39	55	31						
Net Margin	5	(35)	6	(6)	50	2	10	9	26	36	19						
<b>Growth Rates</b>																	
Restaurant Sales	1.2%	0.7%	1.7%	3.1%	12.6%	4.6%	4.5%	4.7%	4.6%	-2.9%	2.5%						
Retail Sales	1.5%	0.7%	2.7%	3.1%	12.6%	4.6%	4.5%	4.7%	4.6%	-2.9%	2.7%						
Total Revenues	1.2%	0.7%	1.9%	3.1%	12.6%	4.6%	4.5%	4.7%	4.6%	-2.9%	2.6%						
Ending # of Restaurants	1.7%	1.7%	1.8%	2.3%	2.5%	2.5%	2.5%	2.8%	2.3%	2.8%	2.8%						
Store Level Cash Flow	-1.6%	-4.6%	0.0%	1.2%	14.3%	2.6%	4.5%	4.7%	6.2%	-1.3%	3.3%						
EBITDA	-0.3%	-4.4%	2.2%	4.6%	21.9%	5.8%	4.8%	5.6%	7.5%	-1.8%	3.7%						
Operating Income - Fully Comparable	0.9%	-3.3%	0.6%	3.9%	28.3%	5.0%	4.3%	4.6%	8.5%	-3.5%	2.8%						
Pre-Tax Income	3.5%	-0.7%	2.3%	8.8%	30.8%	8.5%	8.2%	7.6%	17.3%	5.9%	8.5%						
Net Income	2.6%	-0.3%	3.3%	0.5%	27.3%	5.3%	7.5%	6.9%	16.5%	5.1%	7.8%						
FD Shares Out	0.2%	-0.6%	-1.9%	-0.4%	0.4%	-0.6%	0.4%	0.4%	0.4%	0.4%	0.4%						
EPS	4.9%	-7.8%	5.3%	1.0%	26.7%	6.8%	7.6%	6.4%	16.0%	4.7%	7.4%						
<b>Rolling Store Count</b>																	
Cracker Barrel	603	606	608	615	618	618	621	625	629	635	635						
<b>Same Store Sales</b>																	
Cracker Barrel - Food	0.3%	-1.0%	0.0%	1.0%	2.0%	0.5%	2.0%	2.0%	2.0%	2.0%	2.0%						
Cracker Barrel - Retail	0.8%	-1.0%	1.0%	1.0%	2.0%	0.8%	2.0%	2.0%	2.0%	2.0%	2.0%						



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**Strong Buy (SB1)** Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.

**Outperform (MO2)** Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.

**Market Perform (MP3)** Expected to perform generally in line with the S&P 500 over the next 12 months.

**Underperform (MU4)** Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

**Suspended (S)** The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

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**Outperform (MO2)** The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.

**Market Perform (MP3)** The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

**Underperform (MU4)** The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

**Raymond James Latin American rating definitions**

**Strong Buy (SB1)** Expected to appreciate and produce a total return of at least 25.0% over the next twelve months.

**Outperform (MO2)** Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.

**Market Perform (MP3)** Expected to perform in line with the underlying country index.

**Underperform (MU4)** Expected to underperform the underlying country index.

**Suspended (S)** The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

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**Outperform (2)** Expected to appreciate and outperform the Stoxx 600 over the next 12 months.

**Market Perform (3)** Expected to perform generally in line with the Stoxx 600 over the next 12 months.

**Underperform (4)** Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.

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**Rating Distributions**

	Coverage Universe Rating Distribution			Investment Banking Distribution		
	RJA	RJL	RJ LatAm	RJA	RJL	RJ LatAm
<b>Strong Buy and Outperform (Buy)</b>	58%	78%	35%	16%	58%	47%
<b>Market Perform (Hold)</b>	38%	20%	56%	5%	38%	0%
<b>Underperform (Sell)</b>	5%	1%	9%	2%	0%	0%

**Suitability Categories (SR)**

For stocks rated by Raymond James & Associates only, the following Suitability Categories provide an assessment of potential risk factors for investors. Suitability ratings are not assigned to stocks rated Underperform (Sell). Projected 12-month price targets are assigned only to stocks rated Strong Buy or Outperform.

**Total Return (TR)** Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

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**High Risk (HR)** Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

**Venture Risk (VR)** Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

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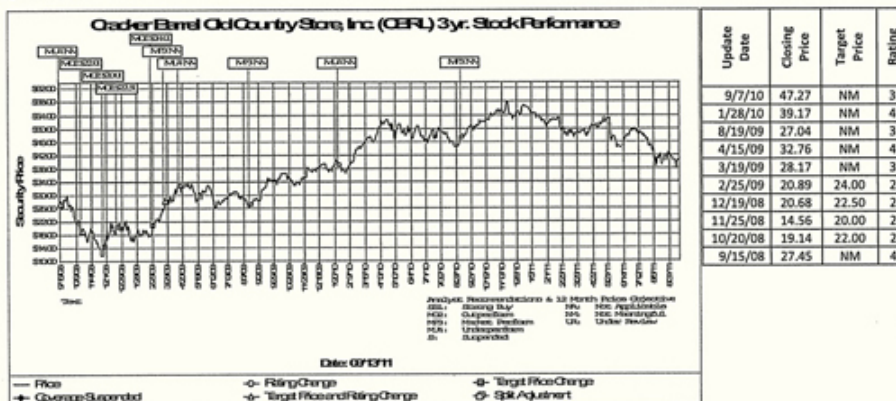
Company Name	Disclosure

Company Name	Disclosure
Cracker Barrel Old Country Store, Inc.	Raymond James & Associates makes a NASDAQ market in shares of CBRL. Raymond James & Associates received non-investment banking securities-related compensation from CBRL within the past 12 months. Raymond James & Associates received non-securities-related compensation from CBRL within the past 12 months.

### Stock Charts, Target Prices, and Valuation Methodologies

**Valuation Methodology:** The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences. Only stocks rated Strong Buy (SB1) or Outperform (MO2) have target prices and thus valuation methodologies.

**Target Prices:** The information below indicates our target price and rating changes for CBRL stock over the past three years.



**Valuation Methodology:** For Cracker Barrel our valuation methodology is based on absolute P/E multiples relative to the stock's individual trading history and relative P/E ratios versus its peer group and the S&P 500. Additional valuation methodologies include enterprise value-to-EBITDA and net asset value per share.

### Risk Factors

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#### Specific Investment Risks Related to the Industry or Issuer

##### Restaurant Industry Risk Factors

Risks include 1) a decline in the ability or propensity for consumers to purchase meals outside the home; 2) a jump in raw food prices or energy prices; and 3) a drop in market P/E levels.

##### Company-Specific Risks for Cracker Barrel Old Country Store, Inc.

Cracker Barrel's company-specific risks include: 1) its reliance on customers traveling the interstate highway system creates above-average economic sensitivity and exposure to events that would disrupt car travel; 2) its geographic concentration in the Southeast; and 3) execution risks as management continues to work to drive operating margins back to historical levels.

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**Exhibit G**

(see attached)

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

FORM 8- K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 22, 2009

**THE STEAK N SHAKE COMPANY**

(Exact name of registrant as specified in its charter)

INDIANA (State or other jurisdiction of incorporation)	0- 8445 (Commission File Number)	37- 0684070 (I.R.S. Employer Identification No.)
--------------------------------------------------------------	-------------------------------------	--------------------------------------------------------

36 S. Pennsylvania Street, Suite 500 Indianapolis, Indiana (Address of principal executive offices)	46204 (Zip Code)
-----------------------------------------------------------------------------------------------------------	---------------------

Registrant's telephone number, including area code: (317) 633- 4100

Not Applicable  
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8- K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a- 12 under the Exchange Act (17 CFR 240.14a- 12)
  - Pre- commencement communications pursuant to Rule 14d- 2(b) under the Exchange Act (17 CFR 240.14d- 2(b))
  - Pre- commencement communications pursuant to Rule 13e- 4(c) under the Exchange Act (17 CFR 240.13e- 4(c))
-

**Item 5.02****Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers;  
Compensatory Arrangements of Certain Officers.**

Effective March 22, 2009, Wayne L. Kelley resigned as a Director of The Steak n Shake Company (the "Company"). Mr. Kelley previously had indicated that he would not stand for re-election at the Company's 2009 Annual Meeting of Stockholders (the "Annual Meeting"). Mr. Kelley had been a Director since 2003.

Mr. Kelley's resignation was communicated to the Board of Directors in a letter dated March 22, 2009 (the "Resignation Letter"). The Resignation Letter is filed as Exhibit 17.1 to this Report on Form 8-K and is incorporated into this Item 5.02 by reference. The Company disagrees with Mr. Kelley's position as expressed in the Resignation Letter. Other than the issues raised in the Resignation Letter, there were no stated disagreements by Mr. Kelley with the Company on any matter relating to the Company's operations, policies or practices which led to Mr. Kelley's resignation.

Mr. Kelley has been provided with a copy of this Report on Form 8-K. Should he submit a letter to the Company expressing any disagreement with the disclosures made herein, the Company will promptly file a copy of such letter, in accordance with the applicable rules under the Securities Exchange Act of 1934, as amended.

**Item 9.01****Financial Statements and Exhibits.**

(d) Exhibits.

The following exhibits are filed with this report:

17.1 Letter from Wayne Kelley dated March 22, 2009.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**THE STEAK N SHAKE COMPANY**

By: /s/ Sardar Biglari  
Sardar Biglari  
Executive Chairman and Chief Executive Officer

Dated: March 26, 2009

---



EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
17.1	Letter from Wayne Kelley dated March 22, 2009.

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EXHIBIT 17.1

To:	Board of Directors of The Steak n Shake Company
From:	Wayne L. Kelley
Date:	March 22, 2009
Subject:	Resignation

Gentlemen and Ruth,

Over the last several months, I have thought about the wisdom of remaining on the board of directors of The Steak n Shake Company a number of times. Obviously, I have very strong feelings for the company and its iconic brands. However, as time has gone on, I have felt that my contributions, as well as those of other board members, have not been welcomed or appreciated. I have also thought that the advice of board members has not been sought, either before or after major decisions affecting the company. In my various corporate experiences over the years that I have been involved in business, both as an officer and as CEO, Chairman and/or a board member, I have expected (either as a participant or as the person more in control) that there would be an active interaction between the leaders of a company's management and its board of directors. There was to be a partnership in developing and monitoring the company's vision and goals. Unfortunately, I do not find that to be the case with the current situation at The Steak n Shake Company.

In my opinion, the current leadership of the Steak n Shake Company is less interested in the company and the brand than in the leadership itself. I also believe that although our current chairman and CEO espoused openness and transparency, the opposite has been the case. The board has not been actively involved in developing the vision and strategy of the business, but rather has been informed about it belatedly. This is a public company; it is not a company that is controlled by one or a few individuals. It would seem that the best way to proceed would be to solicit informed opinions, even if they were not consistent with the person or people in charge.

Since, in my opinion, there does not appear to be any desire to appreciate or be receptive to other points of view on the board of directors than the current Steak n Shake chairman's position, I am hereby resigning from the board of directors of The Steak n Shake Company effective on Sunday, March 22, 2009.

I would conclude by wishing my best to a brand that is very close to my heart.

Respectfully,

Wayne L. Kelley

**Exhibit H**

(see attached)

The top banner features the IBJ.com logo on the left, with the text "Powered By Indianapolis Business Journal" below it. On the right is the Frost Brown Todd logo, which includes the website "frostbrowntodd.com" and the text "Frost Brown Todd ATTORNEYS". Below the website name are the states "INDIANA | KENTUCKY | OHIO | TENNESSEE | WEST VIRGINIA".



## Steak n Shake changing its name, moving HQ to Texas

Cory Schouten February 6, 2010

Indianapolis is on the verge of losing one of its most prominent public companies.

The Steak n Shake Co. is planning to change its name to Biglari Holdings Inc. and move its headquarters to San Antonio. The Steak n Shake restaurant chain would remain as a subsidiary of the renamed company and retain a presence in Indianapolis.

Chairman and CEO Sardar Biglari plans to put the changes to a shareholder vote at the company's annual meeting April 8 in New York City.



Biglari

Biglari, 32, operates the private equity Lion Fund and other investment vehicles out of San Antonio, where his family has lived since they emigrated from Iran in the 1980s.

The Steak n Shake corporate Web site still lists the Century Building at 36 S. Pennsylvania St. as the company's headquarters, but a Jan. 29 announcement about the pending name change includes a San Antonio dateline.

The company already lists San Antonio as the "address of principal executive officers" in recent Securities and Exchange Commission filings, and a high-ranking company official confirmed to *IBJ*

that the publicly traded company will be based in Texas.

The company has reserved the ticker symbol BH on the New York Stock Exchange, and will switch from SNS on April 9 if a majority of shareholders approves the change.

It wasn't clear whether local jobs would be affected by the move. Steak n Shake already has scaled back its headquarters operation but still has employees spread over a couple of floors it leases in the eight-story Century Building downtown. The company has just two named executive officers, Biglari and Interim CFO Duane Geiger.

Steak n Shake was founded in Normal, Ill., in 1934 but has had its headquarters in Indianapolis since the 1970s.

Any time a headquarters leaves, it's a blow to the city, said Indy Partnership President Ron Gifford, who said he hadn't heard about a potential move for Steak n Shake.

"Having a corporate headquarters is the equivalent of a company making a commitment to its home, both literally and figuratively," Gifford said. "When a corporate headquarters moves, the investment in the community tends to decline."

The company telegraphed a potential headquarters move in August 2008, when it withdrew a request for a \$100,000 tax abatement and \$200,000 state training grant in exchange for retaining 160 jobs and investing \$2.5 million in new equipment at its local headquarters.

Biglari and other Steak n Shake officials did not return phone messages by press time.

#### Aggressive moves

Biglari used a proxy fight to seize control of the burger chain in 2008, then promptly cut costs, launched new promotions and trimmed spending on restaurant maintenance and investment from an average of \$55 million per year to just \$5.8 million last year.

The moves helped the chain break a 14-quarter streak of declining same-store sales, but also raised questions about whether Biglari is jeopardizing Steak n Shake's future in exchange for short-term profits.

Biglari in June persuaded the board to transform Steak n Shake into a holding company for a diverse range of investments and give Biglari sole discretion over asset allocation. The board's vote essentially allowed the hedge-fund owner to use the publicly traded company as a personal investment vehicle.

The unanimous vote came after Biglari, the board chairman, managed to push out every board member unwilling to give him dictatorial authority over Steak n Shake despite his relatively modest ownership stake. Biglari personally owns about 7 percent of the shares in Steak n Shake and controls another 5 percent through his Lion Fund.

The board now has five members, including Biglari, down from nine. Now that the board has given Biglari sole authority over all investments, the question is, who holds Biglari accountable?

Former interim CEO Wayne Kelley, who resigned from the board in March 2009, blasted the young executive at the time for ignoring the board's advice and neglecting the Steak n Shake brand.

"Although our current chairman and CEO espoused openness and transparency, the opposite has been the case," Kelley wrote in his resignation letter. "The board has not been actively involved in developing the vision and strategy of the business, but rather has been informed about it belatedly."

### **Name game**

Biglari, a supremely confident Warren Buffett disciple, hasn't been shy about attaching his own name to the Steak n Shake chain. A photo and greeting from Biglari now welcome guests at each of Steak n Shake's 486 locations in 21 states.

Renaming the parent company Biglari Holdings acknowledges a fledgling but successful turnaround—the company earned \$5.5 million in its fiscal fourth quarter compared to a year-ago loss of \$3.4 million. It also rebrands the company as something more than a hamburger and milkshake factory.

Biglari in August closed on a \$23 million deal to merge Steak n Shake with another holding company he controlled, Western Sizzlin Corp., which franchises a chain of 105 steak restaurants and also owns stakes in Houston-based Mustang Capital Advisors and Bellevue, Wash.-based barter network ITEX Corp.

In December, Steak n Shake offered to acquire Fremont Michigan Insuracorp Inc. in a deal worth as much as \$37 million, apparently so Biglari could use the small insurer's \$60 million investment portfolio to fund more acquisitions. The company also initiated an unusual 1-for-20 reverse stock split that pushed the per-share price above \$300, out of reach for many short-term investors.

Steak n Shake investor Max Olson, who runs Salt Lake City-based Max Capital Corp., said the reverse split and name change are "unnecessary" but shouldn't do any harm. He picked up his Steak n Shake shares as part of the deal with Western Sizzlin.

"I think maybe it's a little too much, too fast," said Olson, who met Biglari at last year's annual meeting for Buffett's Berkshire Hathaway in Omaha. "He's done a fantastic job of turning the company around. But in my view, it would have been better to wait a little longer."

Other investors see the change as necessary since they now are betting not so much on a single restaurant chain, but on the potential of an up-and-coming asset manager.

### **Channeling Buffett**

In fact, the company's latest annual report lists a new No. 1 risk-factor investors should consider before they buy Steak n Shake's shares: the potential loss of Biglari.

"If for any reason the services of Mr. Biglari were to become unavailable, there could be a material adverse effect on our business, since he is singularly responsible for business and investment activities," the company said.

Other risks include restaurant-industry competition, the economy and debt covenants—but those don't merit a mention until later down the list.

Wall Street analyst Michael Gallo of New York-based C.L. King & Associates Inc. reiterated a neutral rating on Steak n Shake shares in a Feb. 1 note, citing a tough restaurant environment and the risk that Biglari will overpay for an acquisition.

"While progress over the last couple of quarters has been encouraging, we believe the key determinant of value creation going forward will be the success of Steak n Shake in transitioning into a conglomerate-like holding company," he wrote.

Biglari guided his hedge fund to post strong returns in a booming market, and he successfully agitated for changes at Friendly Ice Cream Corp. that led to a profitable sale of the Massachusetts-based

company. Otherwise, he doesn't have much of a track record suggesting he is capable of designing his own version of Berkshire Hathaway.

He and Buffett share similar visions for what makes an attractive investment, along with an interest in courting long-term investors. Biglari's desire to include himself in the branding for Steak n Shake calls to mind the approach Buffett has taken with Berkshire Hathaway's Geico subsidiary, where the popular Gecko mascot frequently cites Buffett as evidence of the company's strength and stability.

But there are differences, too. Berkshire Hathaway just split its B shares in the opposite direction, making them accessible to more investors as part of a \$34 billion deal for the railroad Burlington Northern Santa Fe. Buffett didn't name his company after himself, electing to keep the moniker of the now-defunct textile company that launched his conglomerate.

And Buffett famously earns a base annual salary of just \$100,000, the same he's taken home for more than 25 years.

Biglari, on the other hand, sought and received a 220-percent raise last year to \$900,000, reimbursed himself about \$500,000 for the proxy fight he used to take over Steak n Shake, and paid himself another \$48,000 last year for travel expenses, including accommodations at the Conrad Indianapolis.

**Exhibit I**

(see attached)



## Biglari Proves Buffett Right

<http://www.fool.com/investing/value/2010/05/11/biglari-proves-buffett-right.aspx>

Richard Gibbons  
May 11, 2010

According to Warren Buffett, "In looking for someone to hire, you look for three qualities: integrity, intelligence, and energy. But the most important is integrity, because if they don't have that, the other two qualities, intelligence and energy, are going to kill you."

Now, it might seem like Buffett was talking about people like Dennis Kozlowski, who was found guilty of stealing \$600 million at **Tyco** (NYSE: [TYC](#)), or Martin Grass, convicted for overseeing a \$1.6 billion accounting fraud at **Rite Aid** (NYSE: [RAD](#)). But management doesn't need to commit a felony to cost you money.

Sardar Biglari, of **Biglari Holdings** (NYSE: [BH](#)), formerly known as **Steak n Shake**, is showing just how far management can go to rip off shareholders, and it doesn't seem to be breaking a single law to do it.

### Paving with good intentions

Steak n Shake had shown slow profitable growth for years, but it faltered in 2007 and 2008. Biglari began buying shares, eventually building an 8.5% stake in the company. Then, he began a heated campaign, complete with promotional billboards around the company headquarters, to win two seats on the board.

Biglari's argument was simple -- Steak 'n Shake had underperformed the peer group, and management had destroyed value. In contrast, he would run the company for the shareholders. In a February 2008 letter, Biglari wrote, "Not only will I refuse extra remuneration for the time I intend to commit, but I also will not accept any stock options. The reason is simple: We are one of the largest shareholders; thus, we plan to make money with you, not off you."

About a month later, Biglari won two seats, bumped out the chairman and CEO, and began taking control of the company. Steak n Shake returned to profitability in 2009, and the stock jumped.

Finally, this year, Biglari renamed the company Biglari Holdings, seemingly telegraphing that the company would become his investment vehicle.

### What's yours is mine

However, now it seems like Biglari actually meant to telegraph something else. Biglari Holdings is acquiring Biglari Capital, which acts as general partner of Biglari's Lion Fund hedge fund, for an amount equal to its assets. In the process, it's enacting one of the sweetest compensation agreements I've ever seen at a public company.

When Biglari Holdings grows, Biglari will take a quarter of the book value growth above the level of 5%, exclusively for himself. If book value declines, Biglari won't get this extraordinary compensation until the returns exceed a 5% annual growth rate over the highest book value. Roughly half of the after-tax value of the payment must be spent on shares of Biglari Holdings. Essentially, Biglari's going to use the company's assets to take the company from the shareholders, piece by piece.

Now, 25% of growth over 5% might not seem like very much, but it will make a huge difference in long-term returns. By my calculations, if Warren Buffett had made the same deal when he took over **Berkshire Hathaway**, it would have cost shareholders over 80% of their future returns.

### Shareholders' rights?

In a May 6 letter to outraged shareholders, Biglari defended the move as simply an innovative compensation scheme that aligns his interests with shareholders. But 5% is pretty close to the level that U.S. 30-year bonds yield right now, when interest rates are near record lows. So, if Biglari just does a tiny bit better than government bonds, he'll get a nice payday. Maybe he should consider indexing. S&P 500 companies typically post an aggregate return on equity of 10% to 12%



over the long term. Biglari could buy an index fund and relax on the beach, doing nothing and draining millions from shareholders year after year.

The amazing thing is that Biglari appears to think he's the good guy defending shareholder rights. He's now attempting to take over another business, **Fremont Michigan Insurance**. In an incredibly brazen move, Fremont has managed to lobby Michigan's legislature to change state corporate law in a manner that has the effect of entrenching the company's management.

To show its outrage, on the very same day that Biglari's egregious compensation scheme was filed with the SEC, Biglari Holdings published a press release saying, "Fremont shareholders do not need a CEO who displays total disregard for shareholder rights and value."

Maybe Biglari Holdings doesn't need one either.

#### **Look for alternatives**

Buffett summarizes the investment lesson well: "When you hire someone to run your business, you are entrusting him or her with the piggy bank. If these people are smart and hardworking, they are going to make you a lot of money, but if they aren't honest, they will find lots of clever ways to make all your money theirs."

Buffett's absolutely right. These sorts of "jockey" situations, where a brilliant investor works on your behalf at a public company, can work out great. When the jockey has integrity and truly wants a partnership with shareholders, the long-term returns can be extraordinarily high. In fact, after the decline caused by this compensation arrangement, our own *Motley Fool Special Ops* team thinks at its current valuation, Biglari Holdings has a greater margin of safety that compensates for Biglari taking a huge chunk of shareholders' future value off the top.

If you'd rather steer clear, though, there are alternatives. Buffett's Berkshire Hathaway is the most obvious example, but there are a bunch of others as well. [Cumming and Steinberg](#) with **Leucadia National** (NYSE: LUK ). [Bruce Flatt and his team](#) at **Brookfield Asset Management** (NYSE: BAM ). **Sears Holdings'** [Eddie Lampert](#). **Terra Nova Royalty's** Michael Smith. All these guys have proven to be expert investors, and done it with integrity. They offer shareholders a way to outperform the market simply by buying shares and holding for the long term.

#### **The Foolish bottom line**

Of course, often the jockey's investing prowess is already priced into the stock, but occasionally, it isn't. In such case, the returns can be even better, as the stock's return to fair value magnifies the jockey's gains. These are the jockey stocks on which you should focus.

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[Previous Page](#)

**Exhibit J**

(see attached)



## Steak n Shake parent postpones meeting amid pay uproar

Scott Olson August 10, 2010

The parent company of Steak n Shake has postponed an Aug. 24 meeting in which shareholders were set to vote on a controversial pay package for CEO Sardar Biglari.

In a late Monday announcement, San Antonio-based Biglari Holdings Inc. said the decision to delay the meeting is the result of "misinformation" that the company needs to address. A new date has not been set.

"Biglari Holdings is pleased that to date it has received wide backing in favor of the incentive agreement," the statement said. "However, misinformation and mischaracterizations of the proposed agreement by certain analysts and investors have generated questions and uncertainty, which the company wants to address for the benefit of all shareholders."

At issue is a pay package announced in April in which Biglari Holdings said it would begin paying Biglari 25 percent of any increase in the company's annual book-value growth topping 5 percent.

That means the CEO's bonus pay would be based in part on asset growth rather than income. The bonus pay would be in addition to the \$900,000 annual salary Biglari earns.

The Motley Fool columnist, Richard Gibbons, has called it "one of the sweetest compensation arrangements I've ever seen at a public company"—one that would cut deeply into shareholder returns.

Ken Skarbeck, managing partner of Indianapolis-based Aldebaran Capital LLC and a columnist for *IBJ*, said the pay is too rich for such little growth.

Paying Biglari 10 percent of an increase in the company's annual book-value growth topping 10 percent would make more sense, he said.

"This guy's trying to make 30 million bucks a year," he said. "That's ridiculous for some 30-year-old kid who's running a restaurant chain."

Negative reaction to the pay arrangement has contributed to a swoon in Biglari Holdings shares. The stock now trades at around \$283, down more than 47 percent from its peak of \$418 in early April.

In a three-page letter to shareholders in May, Biglari defended the agreement, noting that it requires that he use at least half his after-tax bonus to buy additional Biglari Holdings shares, further tethering his fortunes to those of other investors.

"In other words, I am obligated to reinvest continually in BH. The premise coincides with my belief that stocks should be purchased with earned cash rather than be gifted," he wrote.

Biglari Holdings said in Monday's statement that the company's governance committee, consisting entirely of outside directors, unanimously approved the incentive agreement because it in fact links pay to economic performance rather than stock-price or other non-performance-based benchmarks.

Biglari took over Indianapolis-based Steak n Shake Co. in a 2007 proxy fight, helped return its restaurants to profitability, then transformed it into a holding company for a diverse range of investments.

The renamed company, which relocated its headquarters from Indianapolis to San Antonio, has moved aggressively to invest or take over other firms, including a small Michigan insurer. The Steak n Shake restaurant operations remain in Indianapolis.

**Exhibit K**

(see attached)

## NFIBLOG

[<http://www.noisefreeinvesting.com/blog>]

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## Letter to the Board of Biglari Holdings

**May 6, 2010** by NFI. *Average Reading Time: about 2 minutes.*

Secretary of the Corporation  
175 East Houston Street, Suite 1300  
San Antonio, Texas  
78205

May 5, 2010

To the Board of Directors:

In light of the company's recent decision to implement a new incentive bonus agreement for its CEO and Chairman, Sardar Biglari, we are writing to express our concern.

The current system, as proposed, is ridiculous by itself and, additionally, runs contrary to the ethos Mr. Biglari claimed to have when nominating himself for election to the Board of Steak 'n Shake.

The decision by the Board of Biglari Holdings to accept such a generous and easily manipulated compensation system, demonstrates they either fail to understand the nuances of the proposal or they are simply unwilling to take a stand against Mr. Biglari, ignoring their obligations to shareholders.

\* \* \*

Let us remind the board, of what Mr. Biglari, then attempting to gain a Board seat on Steak 'n Shake, said with respect to how executives should be compensated.

In our assessment, **the variable element of the compensation package should be tied to the executives' ability to generate free cash flow and to earn a high return on invested capital.**

Mr. Biglari continued:

The current compensation arrangement is askew, so that **even if the company performs below its competitors, management and directors will stand to gain.**

The current compensation arrangement, if applied retroactively to prior Steak 'n Shake management, would **increase** the very rewards Mr. Biglari claimed were already excessive in light of their poor performance.

We suspect Mr. Biglari's thinking towards compensation has changed now that he's in charge. How else could he desire a pay package that violates his own, purported, tenets?

***To be perfectly clear, the currently proposed package, without modification, destroys shareholder value.\****

We think we can all agree that paying for performance is both necessary and desirable. We believe the current framework the board has put in place can, if modified, work to the benefit of both management and shareholders.

Luckily, Mr. Biglari has already provided a better template for the board to consider that employs both invested capital and a higher hurdle rate.

As Chairman and CEO of Western Sizzlin Corporation, Mr. Biglari designed the following performance bonus structure for Robert Moore, CEO of Western Sizzlin Franchise Corporation:



Such bonus shall be equal to twenty percent (20%) of Cash Flows in excess of \$ 2.3 million annually as adjusted by a charge of 20% of any incremental reinvestment of capital during each year (“Bonus Compensation”).

We welcome the opportunity to help the board determine a more equitable compensation arrangement before the next shareholder meeting. We would appreciate a response at your earliest convenience.

Sincerely yours,

NFI

**Sources:**

[http://www.sec.gov/Archives/edgar/data/93859/000009385910000008/form](http://www.sec.gov/Archives/edgar/data/93859/000009385910000008/form10q_1q2010.htm)

[\[http://www.sec.gov/Archives/edgar/data/93859/000009385910000008/form10q\\_1q2010.htm<br />\]](http://www.sec.gov/Archives/edgar/data/93859/000009385910000008/form10q_1q2010.htm)

[http://www.sec.gov/Archives/edgar/data/930686/000110465909030087/a09-11139\\_1ex10d1d4.htm](http://www.sec.gov/Archives/edgar/data/930686/000110465909030087/a09-11139_1ex10d1d4.htm)

[\[http://www.sec.gov/Archives/edgar/data/930686/000110465909030087/a09-11139\\_1ex10d1d4.htm\]](http://www.sec.gov/Archives/edgar/data/930686/000110465909030087/a09-11139_1ex10d1d4.htm)

\* The language was modified from the original letter in an effort to be suitable for a wider audience.

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