JACK IN THE BOX INC /NEW/
Form 10-Q
February 20, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 19, 2014
Commission File Number: 1-9390

JACK IN THE BOX INC.
(Exact name of registrant as specified in its charter)

DELAWARE	95-2698708
(State of Incorporation)	(I.R.S. Employer Identification No.)
9330 BALBOA AVENUE, SAN DIEGO, CA	92123
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code (858) 571-2121

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
As of the close of business February 14, 2014, 41,896,286 shares of the registrant’s common stock were outstanding.

JACK IN THE BOX INC. AND SUBSIDIARIES
INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JACK IN THE BOX INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)
(Unaudited)

	January 19, 2014	September 29, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$9,933	$ 9,644
Accounts and other receivables, net	40,695	41,749
Inventories	7,862	7,181
Prepaid expenses	28,030	19,970
Deferred income taxes	26,685	26,685
Assets held for sale	5,543	11,875
Other current assets	323	108
Total current assets	119,071	117,212
Property and equipment, at cost	1,527,023	1,516,913
Less accumulated depreciation and amortization	(767,143)	(746,054)
Property and equipment, net	759,880	770,859
Intangible assets, net	16,207	16,390
Goodwill	149,235	148,988
Other assets, net	268,435	265,760
	$1,312,828	$ 1,319,209
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$20,854	$ 20,889
Accounts payable	27,394	36,899
Accrued liabilities	132,839	153,886
Total current liabilities	181,087	211,674
Long-term debt, net of current maturities	399,098	349,393
Other long-term liabilities	277,280	286,124
Stockholders' equity:		
Preferred stock $0.01 par value, 15,000,000 shares authorized, none issued	—	—
Common stock $0.01 par value, 175,000,000 shares authorized, 79,381,880 and 78,515,171 issued, respectively	794	785
Capital in excess of par value	323,616	296,764
Retained earnings	1,204,109	1,171,823
Accumulated other comprehensive loss	(61,433)	(62,662)
Treasury stock, at cost, 37,504,794 and 35,926,269 shares, respectively	(1,011,723)	(934,692)
Total stockholders' equity	455,363	472,018
	$1,312,828	$ 1,319,209

See accompanying notes to condensed consolidated financial statements.

JACK IN THE BOX INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share data)
(Unaudited)

	Sixteen Weeks Ended	
	January 19, 2014	January 20, 2013
Revenues:		
Company restaurant sales	$338,828	$348,906
Franchise revenues	111,253	105,429
	450,081	454,335
Operating costs and expenses, net:		
Company restaurant costs:		
Food and packaging	108,238	112,537
Payroll and employee benefits	93,816	99,576
Occupancy and other	74,709	77,369
Total company restaurant costs	276,763	289,482
Franchise costs	55,510	52,488
Selling, general and administrative expenses	59,156	66,686
Impairment and other charges, net	1,909	3,253
Gains on the sale of company-operated restaurants	(461)	(748)
	392,877	411,161
Earnings from operations	57,204	43,174
Interest expense, net	4,542	5,365
Earnings from continuing operations and before income taxes	52,662	37,809
Income taxes	19,652	11,700
Earnings from continuing operations	33,010	26,109
Losses from discontinued operations, net of income tax benefit	(724)	(5,420)
Net earnings	$32,286	$20,689
Net earnings per share - basic:		
Earnings from continuing operations	$0.78	$0.61
Losses from discontinued operations	(0.02)	(0.13)
Net earnings per share (1)	$0.76	$0.48
Net earnings per share - diluted:		
Earnings from continuing operations	$0.75	$0.59
Losses from discontinued operations	(0.02)	(0.12)
Net earnings per share (1)	$0.74	$0.47
Weighted-average shares outstanding:		
Basic	42,434	42,997
Diluted	43,838	44,356

(1) Earnings per share may not add due to rounding.

See accompanying notes to condensed consolidated financial statements.

JACK IN THE BOX INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Sixteen Weeks Ended	
	January 19, 2014	January 20, 2013
Net earnings	$32,286	$20,689
Cash flow hedges:		
Net change in fair value of derivatives	(54)	4
Net loss reclassified to earnings	426	413
	372	417
Tax effect	(142)	(160)
	230	257
Unrecognized periodic benefit costs:		
Actuarial losses and prior service costs reclassified to earnings	1,614	5,814
Tax effect	(619)	(2,229)
	995	3,585
Other:		
Foreign currency translation adjustments	7	3
Tax effect	(2)	—
	5	3
Other comprehensive income	1,230	3,845
Comprehensive income	$33,516	$24,534

See accompanying notes to condensed consolidated financial statements.

JACK IN THE BOX INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Sixteen Weeks Ended	
	January 19, 2014	January 20, 2013
Cash flows from operating activities:		
Net earnings	$32,286	$20,689
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	28,454	30,016
Deferred finance cost amortization	675	729
Deferred income taxes	(1,257)	(1,370)
Share-based compensation expense	3,801	4,062
Pension and postretirement expense	4,233	9,584
Gains on cash surrender value of company-owned life insurance	(3,117)	(2,836)
Gains on the sale of company-operated restaurants	(461)	(748)
Losses (gains) on the disposition of property and equipment	992	(832)
Impairment charges and other	393	4,458
Loss on early retirement of debt	—	939
Changes in assets and liabilities, excluding acquisitions and dispositions:		
Accounts and other receivables	1,582	38,766
Inventories	(682)	26,361
Prepaid expenses and other current assets	(8,274)	11,980
Accounts payable	(5,636)	(33,966)
Accrued liabilities	(16,781)	(9,141)
Pension and postretirement contributions	(6,558)	(5,525)
Other	(5,998)	(3,201)
Cash flows provided by operating activities	23,652	89,965
Cash flows from investing activities:		
Purchases of property and equipment	(21,310)	(21,394)
Purchases of assets intended for sale and leaseback	—	(13,357)
Proceeds from the sale of assets	2,105	13,513
Proceeds from the sale of company-operated restaurants	468	833
Collections on notes receivable	894	1,848
Acquisitions of franchise-operated restaurants	(1,750)	(7,800)
Other	36	2,042
Cash flows used in investing activities	(19,557)	(24,315)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	163,000	385,148
Repayments of borrowings on revolving credit facilities	(103,000)	(445,148)
Proceeds from issuance of debt	—	200,000
Principal repayments on debt	(10,330)	(165,305)
Debt issuance costs	—	(4,386)
Proceeds from issuance of common stock	17,650	10,733
Repurchases of common stock	(84,318)	(26,888)
Excess tax benefits from share-based compensation arrangements	5,307	675
Change in book overdraft	7,880	(19,406)
Cash flows used in financing activities	(3,811)	(64,577)
Effect of exchange rate changes on cash and cash equivalents	5	—

Net increase in cash and cash equivalents	289	1,073
Cash and cash equivalents at beginning of period	9,644	8,469
Cash and cash equivalents at end of period	$9,933	$9,542

See accompanying notes to condensed consolidated financial statements.

JACK IN THE BOX INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

Nature of operations — Founded in 1951, Jack in the Box Inc. (the "Company") operates and franchises Jack in the Box® quick-service restaurants and Qdoba Mexican Grill® ("Qdoba") fast-casual restaurants. The following table summarizes the number of restaurants as of the end of each period:

	January 19, 2014	January 20, 2013
Jack in the Box:		
Company-operated	469	551
Franchise	1,785	1,704
Total system	2,254	2,255
Qdoba:		
Company-operated	301	325
Franchise	319	311
Total system	620	636

References to the Company throughout these Notes to Condensed Consolidated Financial Statements are made using the first person notations of "we," "us" and "our."

Basis of presentation — The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission ("SEC"). During fiscal 2012, we entered into an agreement to outsource our Jack in the Box distribution business. In the third quarter of fiscal 2013, we closed 62 Qdoba restaurants (the "2013 Qdoba Closures") as part of a comprehensive Qdoba market performance review. The results of operations for our distribution business and for the 62 closed Qdoba restaurants are reported as discontinued operations for all periods presented. Refer to Note 2, Discontinued Operations, for additional information. Unless otherwise noted, amounts and disclosures throughout these Notes to Condensed Consolidated Financial Statements relate to our continuing operations. In our opinion, all adjustments considered necessary for a fair presentation of financial condition and results of operations for these interim periods have been included. Operating results for one interim period are not necessarily indicative of the results for any other interim period or for the full year.

These financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended September 29, 2013. The accounting policies used in preparing these condensed consolidated financial statements are the same as those described in our Form 10-K.

Principles of consolidation — The condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and the accounts of any variable interest entities ("VIEs") where we are deemed the primary beneficiary. All significant intercompany accounts and transactions are eliminated. For information related to the VIE included in our condensed consolidated financial statements, refer to Note 12, Variable Interest Entities.

Fiscal year — Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal years 2014 and 2013 include 52 weeks. Our first quarter includes 16 weeks and all other quarters include 12 weeks. All comparisons between 2014 and 2013 refer to the 16-weeks ("quarter") ended January 19, 2014 and January 20, 2013, respectively, unless otherwise indicated.

Use of estimates — In preparing the condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles, management is required to make certain assumptions and estimates that affect reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingencies. In making these assumptions and estimates, management may from time to time seek advice and consider information provided by actuaries and other experts in a particular area. Actual amounts could differ materially from these estimates.

2. DISCONTINUED OPERATIONS

Distribution business — During fiscal 2012, we entered into an agreement with a third party distribution service provider pursuant to a plan approved by our board of directors to sell our Jack in the Box distribution business. During the first quarter of fiscal 2013, we completed the transition of our distribution centers. The operations and cash flows of the business have been eliminated and in accordance with the provisions of the Accounting Standards Codification ("ASC") 205, Presentation of Financial Statements, the results are reported as discontinued operations for all periods presented.

The following is a summary of our distribution business operating results, which are included in discontinued operations for each period (in thousands):

	January 19, 2014	January 20, 2013
Revenue	$—	$37,743
Operating loss before income tax benefit	$(572)	$(5,262)

The loss on the sale of the distribution business was not material to our results of operations in 2013. The operating loss in 2014 includes $0.4 million related to insurance settlements and $0.1 million for future lease commitments. Our liability for lease commitments related to our distribution centers is included in accrued liabilities and other long-term liabilities and has changed as follows during 2014 (in thousands):

Balance at beginning of period	$1,318
Adjustments	79
Cash payments	(270)
Balance at end of period	$1,127

Qdoba restaurant closures — During the third quarter of fiscal 2013, we closed 62 Qdoba restaurants. The decision to close these restaurants was based on a comprehensive analysis that took into consideration levels of return on investment and other key operating performance metrics.

Since the closed locations were not located near those remaining in operation, we do not expect the majority of cash flows and sales lost from these closures to be recovered. In addition, there will not be any ongoing involvement or significant direct cash flows from the closed stores. Therefore, in accordance with the provisions of ASC 205, Presentation of Financial Statements, the results of operations for these restaurants are reported as discontinued operations for all periods presented.

The following is a summary of the results of operations related to the 2013 Qdoba Closures for each period (in thousands):

	January 19, 2014	January 20, 2013
Company restaurant sales	$—	$11,188
Operating loss before income tax benefit	$(588)	$(3,510)

In 2014, the operating loss includes $0.3 million for asset impairments, $0.3 million of ongoing facility related costs and $0.2 million of broker commissions, partially offset by favorable lease commitment adjustments of $0.3 million. We do not expect the remaining costs to be incurred related to this transaction to be material. Our liability for lease commitments related to the 2013 Qdoba closures is included in accrued liabilities and other long-term liabilities and has changed as follows during 2014 (in thousands):

Balance at beginning of period	$10,712
Adjustments	(286)
Cash payments	(3,395)
Balance at end of period	$7,031

JACK IN THE BOX INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. SUMMARY OF REFRANCHISINGS, FRANCHISE DEVELOPMENT AND ACQUISITIONS

Refranchisings and franchise development — The following is a summary of the number of restaurants developed by franchisees and the related fees recognized, and additional proceeds recognized upon the extension of underlying franchise and lease agreements related to restaurants sold in a prior year (dollars in thousands):

	Sixteen Weeks Ended	
	January 19, 2014	January 20, 2013
New restaurants opened by franchisees	13	20
Initial franchise fees	$399	$646
Net proceeds	$468	$833
Net assets sold (primarily property and equipment)	—	(85)
Goodwill related to the sale of company-operated restaurants	(9)	—
Other	2	—
Gains on the sale of company-operated restaurants	$461	$748

Franchise acquisitions — During 2014, we repurchased four Jack in the Box franchise restaurants. In 2013, we acquired six Qdoba franchise restaurants and one Jack in the Box franchise restaurant. We account for the acquisition of franchised restaurants using the acquisition method of accounting for business combinations. The purchase price allocations were based on fair value estimates determined using significant unobservable inputs (Level 3). The goodwill recorded primarily relates to the sales growth potential of the locations acquired and is expected to be deductible for tax purposes. The following table provides detail of the combined acquisitions in each period (dollars in thousands):

	Sixteen Weeks Ended	
	January 19, 2014	January 20, 2013
Restaurants acquired from franchisees	4	7
Property and equipment	$1,398	$1,138
Reacquired franchise rights	96	96
Liabilities assumed	—	(95)
Goodwill	256	6,661
Total consideration	$1,750	$7,800

JACK IN THE BOX INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

4. FAIR VALUE MEASUREMENTS

Financial assets and liabilities — The following table presents the financial assets and liabilities measured at fair value on a recurring basis (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (3) (Level 1)	Significant Other Observable Inputs (3) (Level 2)	Significant Unobservable Inputs (Level 3)
Fair value measurements as of January 19, 2014:				
Non-qualified deferred compensation plan (1)	$(38,407)	$(38,407)	$—	$—
Interest rate swaps (Note 5) (2)	(818)	—	(818)	—
Total liabilities at fair value	$(39,225)	$(38,407)	$(818)	$—
Fair value measurements as of September 29, 2013:				
Non-qualified deferred compensation plan (1)	$(39,135)	$(39,135)	$—	$—
Interest rate swaps (Note 5) (2)	(1,190)	—	(1,190)	—
Total liabilities at fair value	$(40,325)	$(39,135)	$(1,190)	$—

(1) We maintain an unfunded defined contribution plan for key executives and other members of management excluded from participation in our qualified savings plan. The fair value of this obligation is based on the closing market prices of the participants' elected investments.

(2) We entered into interest rate swaps to reduce our exposure to rising interest rates on our variable debt. The fair values of our interest rate swaps are based upon Level 2 inputs which include valuation models as reported by our counterparties. The key inputs for the valuation models are quoted market prices, interest rates and forward yield curves.

(3) We did not have any transfers in or out of Level 1 or Level 2.

The fair values of the Company's debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's borrowing rate. At January 19, 2014, the carrying value of all financial instruments was not materially different from fair value, as the borrowings are prepayable without penalty. The estimated fair values of our capital lease obligations approximated their carrying values as of January 19, 2014.

Non-financial assets and liabilities — The Company's non-financial instruments, which primarily consist of property and equipment, goodwill and intangible assets, are reported at carrying value and are not required to be measured at fair value on a recurring basis. However, on a periodic basis (at least annually for goodwill and intangible assets, and semi-annually for property and equipment) or whenever events or changes in circumstances indicate that their carrying value may not be recoverable, non-financial instruments are assessed for impairment. If applicable, the carrying values are written down to fair value.

In connection with our impairment reviews performed during the quarter ended January 19, 2014, no material fair value adjustments were required. Refer to Note 6, Impairment, Disposition of Property and Equipment, Restaurant Closing Costs and Restructuring, for additional information regarding impairment charges.

5. DERIVATIVE INSTRUMENTS

Objectives and strategies — We are exposed to interest rate volatility with regard to our variable rate debt. To reduce our exposure to rising interest rates, in August 2010, we entered into two interest rate swap agreements that effectively convert $100.0 million of our variable rate term loan borrowings to a fixed-rate basis from September 2011 through September 2014. These agreements have been designated as cash flow hedges.

Financial position — The following derivative instruments were outstanding as of the end of each period (in thousands):

	January 19, 2014		September 29, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps (Note 4)	Accrued liabilities	$(818)	Accrued liabilities	$(1,190)
Total derivatives		$(818)		$(1,190)

9

JACK IN THE BOX INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Financial performance — The following is a summary of the accumulated other comprehensive income ("OCI") activity related to our interest rate swap derivative instruments (in thousands):

	Location of Loss in Income	Sixteen Weeks Ended January 19, 2014	Sixteen Weeks Ended January 20, 2013
Gains (losses) recognized in OCI	N/A	$(54)	$4
Losses reclassified from accumulated OCI into income	Interest expense, net	$(426)	$(413)

Amounts reclassified from accumulated OCI into interest expense represent payments made to the counterparty for the effective portions of the interest rate swaps. During the periods presented, our interest rate swaps had no hedge ineffectiveness.

6. IMPAIRMENT, DISPOSITION OF PROPERTY AND EQUIPMENT, RESTAURANT CLOSING COSTS AND RESTRUCTURING

Impairment and other charges, net in the accompanying condensed consolidated statements of earnings is comprised of the following (in thousands):

	Sixteen Weeks Ended January 19, 2014	Sixteen Weeks Ended January 20, 2013
Impairment charges	$95	$2,522
Losses (gains) on the disposition of property and equipment, net	952	(832)
Costs of closed restaurants (primarily lease obligations) and other	564	751
Restructuring costs	298	812
	$1,909	$3,253

Impairment — When events and circumstances indicate that our long-lived assets might be impaired and their carrying amount is greater than the undiscounted cash flows we expect to generate from such assets, we recognize an impairment loss as the amount by which the carrying value exceeds the fair value of the assets. Impairment charges in both periods include charges for restaurants we have closed, and additionally in 2013, charges for underperforming Jack in the Box restaurants.

Disposition of property and equipment — We also recognize accelerated depreciation and other costs on the disposition of property and equipment. When we decide to dispose of a long-lived asset, depreciable lives are adjusted based on the estimated disposal date and accelerated depreciation is recorded. Other disposal costs primarily relate to gains or losses recognized upon the sale of closed restaurant properties, and charges from our ongoing restaurant upgrade programs, remodels and rebuilds, and other corporate initiatives. In 2013, losses on the disposition of property and equipment include income of $2.1 million from the resolution of two eminent domain matters involving Jack in the Box restaurants.

Restaurant closing costs consist of future lease commitments, net of anticipated sublease rentals and expected ancillary costs, and are included in impairment and other charges, net in the accompanying condensed consolidated statements of earnings. Accrued restaurant closing costs, included in accrued liabilities and other long-term liabilities, changed as follows (in thousands):

	Sixteen Weeks Ended January 19, 2014	Sixteen Weeks Ended January 20, 2013
Balance at beginning of period	$16,321	$20,677
Adjustments	612	426

Cash payments	(1,434)	(1,542)
Balance at end of quarter	$15,499	$19,561

In 2014 and 2013, adjustments primarily relate to revisions to certain sublease and cost assumptions due to changes in market conditions.

JACK IN THE BOX INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Restructuring costs — Since the beginning of 2012, we have been engaged in a comprehensive review of our organization structure, including evaluating opportunities for outsourcing, restructuring of certain functions and workforce reductions. The following is a summary of the costs incurred in connection with these activities (in thousands):