JACK IN THE BOX INC /NEW/
Form 10-Q
August 08, 2013

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 July 7, 2013
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 August 2, 2013, 43,301,720 shares of the registrant’s common stock were outstanding.

JACK IN THE BOX INC. AND SUBSIDIARIES
INDEX

		Page
	PART I – FINANCIAL INFORMATION	
Item 1.	Condensed Consolidated Financial Statements (Unaudited):	
	Condensed Consolidated Balance Sheets	2
	Condensed Consolidated Statements of Operations	3
	Condensed Consolidated Statements of Comprehensive Income and Loss	4
	Condensed Consolidated Statements of Cash Flows	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	32
Item 4.	Controls and Procedures	32
	PART II – OTHER INFORMATION	
Item 1.	Legal Proceedings	33
Item 1A.	Risk Factors	33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 4.	Mine Safety Disclosures	33
Item 5.	Other Information	34
Item 6.	Exhibits	35
	Signature	36

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)

	July 7, 2013	September 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$9,783	$ 8,469
Accounts and other receivables, net	41,972	78,798
Inventories	8,203	7,752
Prepaid expenses	56,816	32,821
Deferred income taxes	26,931	26,932
Assets held for sale	31,253	45,443
Assets of discontinued operations held for sale	—	30,591
Other current assets	471	375
Total current assets	175,429	231,181
Property and equipment, at cost	1,489,407	1,529,650
Less accumulated depreciation and amortization	(726,552)	(708,858)
Property and equipment, net	762,855	820,792
Goodwill	148,632	140,622
Other assets, net	273,502	271,130
	$1,360,418	$ 1,463,725
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$20,931	$ 15,952
Accounts payable	26,594	94,713
Accrued liabilities	169,792	164,637
Total current liabilities	217,317	275,302
Long-term debt, net of current maturities	359,514	405,276
Other long-term liabilities	366,356	371,202
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, 77,991,876 and 75,827,894 issued, respectively	780	758
Capital in excess of par value	280,600	221,100
Retained earnings	1,148,995	1,120,671
Accumulated other comprehensive loss	(126,421)	(136,013)
Treasury stock, at cost, 34,728,194 and 31,955,606 shares, respectively	(886,723)	(794,571)
Total stockholders' equity	417,231	411,945
	$1,360,418	$ 1,463,725

See accompanying notes to condensed consolidated financial statements.

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

	Quarter		Year-to-Date	
	July 7, 2013	July 8, 2012	July 7, 2013	July 8, 2012
Revenues:				
Company restaurant sales	$270,863	$276,447	$888,565	$913,292
Franchise revenues	79,466	77,605	263,321	247,105
	350,329	354,052	1,151,886	1,160,397
Operating costs and expenses, net:				
Company restaurant costs:				
Food and packaging	88,712	89,456	289,259	301,067
Payroll and employee benefits	74,242	78,055	250,006	262,670
Occupancy and other	59,360	60,691	195,372	203,679
Total company restaurant costs	222,314	228,202	734,637	767,416
Franchise costs	40,116	38,604	132,265	126,459
Selling, general and administrative expenses	52,078	52,090	171,246	171,195
Impairment and other charges, net	3,428	15,161	9,053	24,556
Losses (gains) on the sale of company-operated restaurants	1,509	(3,733)	3,179	(18,933)
	319,445	330,324	1,050,380	1,070,693
Earnings from operations	30,884	23,728	101,506	89,704
Interest expense, net	3,270	4,371	12,061	14,962
Earnings from continuing operations and before income taxes	27,614	19,357	89,445	74,742
Income taxes	10,318	6,753	30,954	25,854
Earnings from continuing operations	17,296	12,604	58,491	48,888
Losses from discontinued operations, net of income tax benefit	(22,952)	(1,012)	(30,167)	(3,714)
Net earnings (losses)	$(5,656)	$11,592	$28,324	$45,174
Net earnings (losses) per share - basic:				
Earnings from continuing operations	$0.40	$0.29	$1.35	$1.11
Losses from discontinued operations	(0.52)	(0.02)	(0.69)	(0.08)
Net earnings (losses) per share (1)	$(0.13)	$0.26	$0.65	$1.03
Net earnings (losses) per share - diluted:				
Earnings from continuing operations	$0.38	$0.28	$1.30	$1.09
Losses from discontinued operations	(0.51)	(0.02)	(0.67)	(0.08)
Net earnings (losses) per share (1)	$(0.12)	$0.26	$0.63	$1.01
Weighted-average shares outstanding:				
Basic	43,772	44,156	43,435	43,975
Diluted	45,247	45,153	44,978	44,892

(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 (LOSS)
(Dollars in thousands)
(Unaudited)

	Quarter		Year-to-Date	
	July 7, 2013	July 8, 2012	July 7, 2013	July 8, 2012
Net earnings (losses)	$(5,656)	$11,592	$28,324	$45,174
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax expense of $2, $0, $3 and $0, respectively.	5	—	9	—
Actuarial losses and prior service cost reclassified to earnings, net of tax benefit of $1,672, $1,188, $5,571 and $3,861, respectively	2,689	1,906	8,963	6,197
Actuarial losses arising during the period, net of tax benefit of $0, $16,266, $0, $16,266, respectively.	—	(26,105)	—	(26,105)
Cash flow hedges:				
Change in fair value of derivatives, net of tax (expense)/benefit of ($23), $101, $12 and $338, respectively	36	(163)	(19)	(545)
Net loss reclassified to earnings, net of tax benefit of $120, $116, $398 and $384, respectively	193	188	639	617
Other comprehensive income (loss)	2,923	(24,174)	9,592	(19,836)
Comprehensive income (loss)	$(2,733)	$(12,582)	$37,916	$25,338

See accompanying notes to condensed consolidated financial statements.

4

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

	Year-to-Date	
	July 7, 2013	July 8, 2012
Cash flows from operating activities:		
Net earnings	$28,324	$45,174
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	74,870	74,210
Deferred finance cost amortization	1,764	2,068
Deferred income taxes	2,523	(2,314)
Share-based compensation expense	10,049	5,001
Pension and postretirement expense	23,959	26,853
Gains on cash surrender value of company-owned life insurance	(5,209)	(8,781)
Losses (gains) on the sale of company-operated restaurants	3,179	(18,933)
Losses on the disposition of property and equipment	2,525	3,762
Impairment charges and other	28,237	2,765
Loss on early retirement of debt	939	—
Changes in assets and liabilities, excluding acquisitions and dispositions:		
Accounts and other receivables	33,776	(2,891)
Inventories	26,393	1,934
Prepaid expenses and other current assets	(24,091)	(12,346)
Accounts payable	(27,857)	(5,395)
Accrued liabilities	7,196	13,210
Pension and postretirement contributions	(13,168)	(9,998)
Other	(6,121)	(2,737)
Cash flows provided by operating activities	167,288	111,582
Cash flows from investing activities:		
Purchases of property and equipment	(57,971)	(56,205)
Purchases of assets intended for sale and leaseback	(25,198)	(31,565)
Proceeds from sale and leaseback of assets	36,553	18,457
Proceeds from the sale of company-operated restaurants	8,415	29,253
Collections on notes receivable	5,837	10,198
Disbursements for loans to franchisees	—	(3,976)
Acquisitions of franchise-operated restaurants	(11,014)	(48,262)
Other	4,054	315
Cash flows used in investing activities	(39,324)	(81,785)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	554,000	444,380
Repayments of borrowings on revolving credit facilities	(619,000)	(445,104)
Proceeds from issuance of debt	200,000	—
Principal repayments on debt	(175,783)	(15,933)
Debt issuance costs	(4,392)	(741)
Proceeds from issuance of common stock	48,000	7,096
Repurchases of common stock	(92,152)	(6,901)
Excess tax benefits from share-based compensation arrangements	1,261	525
Change in book overdraft	(38,584)	(13,728)
Cash flows used in financing activities	(126,650)	(30,406)

Net increase (decrease) in cash and cash equivalents	1,314	(609)
Cash and cash equivalents at beginning of period	8,469	11,424
Cash and cash equivalents at end of period	$9,783	$10,815

See accompanying notes to condensed consolidated financial statements.

5

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:

	July 7, 2013	July 8, 2012
Jack in the Box:		
Company-operated	526	586
Franchise	1,729	1,661
Total system	2,255	2,247
Qdoba:		
Company-operated	284	304
Franchise	308	310
Total system	592	614

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 as part of a comprehensive market performance review of Qdoba. 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 the 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 30, 2012. 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 13, Variable Interest Entities.

Fiscal year — Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal years 2013 and 2012 include 52 weeks. Our first quarter includes 16 weeks and all other quarters include 12 weeks. All comparisons between 2013 and 2012 refer to the 12-weeks ("quarter") and 40-weeks ("year-to-date") ended July 7, 2013 and July 8, 2012, 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 distribution business assets sold in the transaction are classified as assets of discontinued operations held for sale in the condensed consolidated balance sheet as of September 30, 2012. 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.

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

As of July 7, 2013, there were no assets or liabilities classified as held for sale related to our distribution business. The following is a summary of our distribution business assets held for sale as of September 30, 2012 (in thousands):

Inventories	$26,844
Property and equipment, net	3,747
Total assets of discontinued operations	$30,591

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

	Quarter		Year-to-Date	
	July 7, 2013	July 8, 2012	July 7, 2013	July 8, 2012
Revenue	$—	$138,839	$37,743	$473,779
Operating loss before income tax benefit	$(557)	$—	$(6,030)	$—

The loss on the sale of the distribution business was not material to our results of operations. The operating loss year-to-date includes $1.9 million for accelerated depreciation of a long-lived asset disposed of upon completion of the transaction, $1.8 million for future lease commitments and $1.2 million primarily related to costs incurred to exit certain vendor contracts. Our liability for lease commitments related to our distribution centers is included in other long-term liabilities and has changed during 2013 as follows (in thousands):

	Quarter	Year-to-Date
Balance at beginning of period	$2,116	$697
Additions	—	1,846
Adjustments	29	237
Cash payments	(349)	(984)
Balance at end of quarter	$1,796	$1,796

Qdoba restaurant closures — During the third quarter of fiscal 2013, we closed 62 Qdoba restaurants (the “2013 Qdoba Closures”). 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.

Given the proximity of the closed locations to 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 the 2013 Qdoba Closures are reported as discontinued operations for all periods presented.

The following is a summary of the unaudited quarterly results of operations for fiscal years 2013 and 2012 related to the 2013 Qdoba Closures (in thousands, except per share data):

	16 Weeks Ended	12 Weeks Ended	
	January 20, 2013	April 14, 2013	July 7, 2013
Company restaurant sales	$11,188	$8,400	$8,448
Operating loss before income tax benefit	$(3,510)	$(2,717)	$(36,660)
Net losses	$(2,165)	$(1,675)	$(22,608)
Net losses per share:			
Basic	$(0.05)	$(0.04)	$(0.52)
Diluted	$(0.05)	$(0.04)	$(0.50)

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

	16 Weeks Ended	12 Weeks Ended			52 Weeks Ended
	January 22, 2012	April 15, 2012	July 8, 2012	September 30, 2012	September 30, 2012
Company restaurant sales	$9,831	$8,228	$8,930	$8,743	$35,732
Operating loss before income tax benefit	$(2,547)	$(1,838)	$(1,643)	$(2,299)	$(8,327)
Net losses	$(1,569)	$(1,133)	$(1,012)	$(1,418)	$(5,132)
Net losses per share:					
Basic	$(0.04)	$(0.03)	$(0.02)	$(0.03)	$(0.12)
Diluted	$(0.04)	$(0.03)	$(0.02)	$(0.03)	$(0.11)

In 2013, the operating loss recognized includes $22.7 million for asset impairments, $9.8 million for future lease commitments, net of reversals for deferred rent and tenant improvement allowances of $4.3 million, $1.6 million of other exits costs (primarily severance and inventory write-offs) and a $2.6 million net loss from operations in the quarter and $8.8 million year-to-date. 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 other long-term liabilities and has changed as follows during the quarter and year-to-date periods ended July 7, 2013 (in thousands):

Balance at beginning of period	$—
Additions	14,072
Cash payments	(928)
Balance at end of quarter	$13,144

3. INDEBTEDNESS

New Credit Facility — On November 5, 2012, the Company refinanced its former credit facility and entered into an amended and restated credit agreement. The new credit facility is comprised of (i) a $400.0 million revolving credit facility and (ii) a $200.0 million term loan facility. The interest rate on the new credit facility is based on the Company's leverage ratio and can range from London Interbank Offered Rate ("LIBOR") plus 1.75% to 2.25% with no floor. The initial interest rate was LIBOR plus 2.00%. The revolving credit facility and the term loan facility both have maturity dates of November 5, 2017. As part of the credit agreement, we could also request the issuance of up to $75.0 million in letters of credit, the outstanding amount of which reduces our net borrowing capacity under the agreement.

Use of proceeds — The Company borrowed $200.0 million under the new term loan and approximately $220.0 million under the new revolving credit facility. The proceeds from the refinancing transaction were used to repay all borrowings under the former facility and to pay related transaction fees and expenses associated with the refinance of the facility, and will also be available for permitted share repurchases, permitted dividends, permitted acquisitions, ongoing working capital requirements and other general corporate purposes. At July 7, 2013, we had borrowings under the revolving credit facility of $185.0 million, $190.0 million outstanding under the term loan and letters of credit outstanding of $29.1 million.

Collateral — The Company's obligations under the new credit facility are secured by first priority liens and security interests in the capital stock, partnership, and membership interests owned by the Company and/or its subsidiaries, and any proceeds thereof, subject to certain restrictions. Additionally, there is a negative pledge on all tangible and intangible assets (including all real and personal property), with customary exceptions.

Covenants — We are subject to a number of customary covenants under our new credit facility, including limitations on additional borrowings, acquisitions, loans to franchisees, capital expenditures, lease commitments, stock repurchases and dividend payments, and requirements to maintain certain financial ratios defined in the credit agreement.

Repayments — The term loan requires amortization in the form of quarterly installments of $5.0 million that began in March 2013. We are required to make certain mandatory prepayments under certain circumstances and we have the option to make certain prepayments without premium or penalty. The new credit facility includes events of default (and related remedies, including acceleration and increased interest rates following an event of default) that are customary for facilities and transactions of this type.

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

4. SUMMARY OF REFRANCHISINGS, FRANCHISE DEVELOPMENT AND ACQUISITIONS

Refranchisings and franchise development — The following is a summary of the number of Jack in the Box restaurants sold to franchisees, the number of restaurants developed by franchisees and the related gains (losses) and fees recognized (dollars in thousands):

	Quarter		Year-to-Date	
	July 7, 2013	July 8, 2012	July 7, 2013	July 8, 2012
Restaurants sold to franchisees	18	18	22	55
New restaurants opened by franchisees	6	7	35	36
Initial franchise fees	$1,005	$933	$2,040	$3,423
Proceeds from the sale of company-operated restaurants (1)	$5,549	$7,289	$8,415	$29,253
Net assets sold (primarily property and equipment)	(3,554)	(2,586)	(5,274)	(8,419)
Goodwill related to the sale of company-operated restaurants	(129)	(199)	(196)	(851)
Other (2)	(2,292)	(771)	(2,292)	(1,050)
Gains (losses) on the sale of company-operated restaurants	(426)	3,733	653	18,933
Loss on anticipated sale of Jack in the Box company-operated market	—	—	(2,749)	—
Loss on anticipated sale of Qdoba company-operated market	(1,083)	—	(1,083)	—
Total gains (losses) on the sale of company-operated restaurants	$(1,509)	$3,733	$(3,179)	$18,933

(1) Amounts in 2013 and 2012 include additional proceeds recognized upon the extension of the underlying franchise and lease agreements related to restaurants sold in a prior year of $0.8 million and $0.2 million, respectively, in the quarter and $1.9 million and $2.3 million, respectively, year-to-date.

(2) Amounts in both years primarily represent impairment and lease commitment charges related to restaurants closed in connection with the sale of the related market.

Franchise acquisitions — During 2013 and 2012, we acquired 12 and 45 Qdoba franchise restaurants, respectively, in select markets where we believe there is continued opportunity for restaurant development. Additionally, in 2013 we exercised our right of first refusal and acquired 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 allocations in each year-to-date period (dollars in thousands):

	July 7, 2013			July 8, 2012
	Qdoba	Jack in the Box	Total	Qdoba
Restaurants acquired from franchisees	12	1	13	45
Property and equipment	$2,632	$145	$2,777	$12,330
Reacquired franchise rights	106	34	140	604
Liabilities assumed	(281)	(2)	(283)	(121)
Goodwill	7,207	1,173	8,380	35,449

Total consideration	$9,664	$1,350	$11,014	$48,262

9

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

5. FAIR VALUE MEASUREMENTS

Financial assets and liabilities — The following table presents the financial assets and liabilities measured at fair value on a recurring basis at the end of each period (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 July 7, 2013:				
Non-qualified deferred compensation plan (1)	$(37,997)	$(37,997)	$—	$—
Interest rate swaps (Note 6) (2)	(1,427)	—	(1,427)	—
Total liabilities at fair value	$(39,424)	$(37,997)	$(1,427)	$—
Fair value measurements as of September 30, 2012:				
Non-qualified deferred compensation plan (1)	$(38,537)	$(38,537)	$—	$—
Interest rate swaps (Note 6) (2)	(2,433)	—	(2,433)	—
Total liabilities at fair value	$(40,970)	$(38,537)	$(2,433)	$—

---

(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 July 7, 2013, the carrying values of the credit facility obligations were 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 July 7, 2013.

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 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.

The following table presents non-financial assets and liabilities measured at fair value on a non-reoccurring basis during fiscal 2013 (in thousands):

	Fair Value Measurement	Impairment Charges
Long-lived assets held and used	$ 705	$3,385
Long-lived assets held for sale	$ 625	$4,821

Long-lived assets held and used consist primarily of Jack in the Box restaurants determined to be underperforming or which we intend to close. To determine fair value, we used the income approach, which assumes that the future cash flows reflect current market expectations. The future cash flows are generally based on the assumption that the highest

and best use of the asset is to sell the store to a franchisee (market participant). These fair value measurements require significant judgment using Level 3 inputs, such as discounted cash flows, which are not observable from the market, directly or indirectly. Refer to Note 7, Impairment, Disposition of Property and Equipment, Restaurant Closing Costs and Restructuring, for additional information regarding impairment charges.

Long-lived assets held for sale were written down to fair value less costs to sell and relate to the anticipated sales of Jack in the Box and Qdoba company-operated restaurants.

During the third quarter, due to the magnitude of the 2013 Qdoba Closures, we evaluated Qdoba's goodwill and trademark assets for impairment. To evaluate goodwill for impairment, we estimated the fair value of the Qdoba reporting unit and compared it to its carrying value. We engaged an independent valuation firm to assist us in the fair value analysis. To determine fair value, we used a multiple valuation technique approach, the results of which were weighted based on the technique that was assessed to be most representative of fair value. Based upon the independent fair value analysis, the

estimated fair value of the Qdoba reporting unit was substantially in excess of its carrying value as of July 7, 2013. To evaluate the Qdoba trademark for impairment, we engaged an independent valuation firm who assisted us in our estimation of the fair value of the trademark. To determine fair value, we used the relief from royalty method and compared the estimated fair value to its carrying value. The estimated fair value of the Qdoba trademark was substantially in excess of its carrying value. Refer to Note 2, Discontinued Operations, for additional information regarding the 2013 Qdoba Closures.

6. DERIVATIVE INSTRUMENTS

Objectives and strategies — We are exposed to interest rate volatility related 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 the first $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):

	July 7, 2013		September 30, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps (Note 5)	Accrued liabilities	$(1,427)	Accrued liabilities	$(2,433)
Total derivatives		$(1,427)		$(2,433)

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

	Location of Loss in Income	Quarter July 7, 2013	July 8, 2012	Year-to-Date July 7, 2013	July 8, 2012
Gain (loss) recognized in OCI	N/A	$59	$(264)	$(31)	$(883)
Loss reclassified from accumulated OCI into income	Interest expense, net	$(313)	$(304)	$(1,037)	$(1,001)

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.

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

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

	Quarter July 7, 2013	July 8, 2012	Year-to-Date July 7, 2013	July 8, 2012
Impairment charges	$501	$656	$3,385	$2,765
Losses on the disposition of property and equipment, net	2,055	884	2,525	3,712
Costs of closed restaurants (primarily lease obligations) and other	733	2,337	1,849	5,270
Restructuring costs	139	11,284	1,294	12,809

	$3,428	$15,161	$9,053	$24,556

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 2013 and in 2012 primarily represent charges to write down the carrying value of underperforming Jack in the Box restaurants and Jack in the Box restaurants we intend to or have closed.

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

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 re-image and logo program and normal capital maintenance activities. Losses on the disposition of property and equipment, net for the year-to-date period ended July 7, 2013 includes income of $2.4 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 operations. Total accrued restaurant closing costs, included in accrued liabilities and other long-term liabilities, changed as follows (in thousands):

	Quarter		Year-to-Date	
	July 7, 2013	July 8, 2012	July 7, 2013	July 8, 2012
Balance at beginning of period	$18,437	$20,167	$20,677	$21,657
Additions	1,285	119	1,285	546
Adjustments	367	1,682	1,105	3,167
Cash payments	(1,480)	(1,649)	(4,458)	(5,051)
Balance at end of quarter	$18,609	$20,319	$18,609	$20,319

In fiscal 2013, additions in the quarter and year-to-date periods primarily relate to two Jack in the Box restaurants which were closed in connection with the sale of a market. Refer to Note 4, Summary of Refranchisings, Franchise Development and Acquisitions, for additional information. In fiscal 2012, adjustments primarily relate to revisions to certain sublease and cost assumptions.
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 these costs (in thousands):

	Quarter		Year-to-Date	
	July 7, 2013	July 8, 2012	July 7, 2013	July 8, 2012
Enhanced pension benefits	$—	$6,167	$—	$6,167
Severance costs	4	3,972	674	5,497
Other	135	1,145	620	1,145
	$139	$11,284	$1,294	$12,809

Total accrued severance costs related to our restructuring activities are included in accrued liabilities and changed as follows (in thousands):

	Quarter		Year-to-Date	
	July 7, 2013	July 8, 2012	July 7, 2013	July 8, 2012
Balance at beginning of period	$39	$1,525	$1,758	$—
Additions	4	3,972	674	5,497
Cash payments	(15)	(2,826)	(2,404)	(2,826)
Balance at end of quarter	$28	$2,671	$28	$2,671

As part of the ongoing review of our organization structure, we expect to incur additional charges related to our restructuring activities; however, we are unable to make a reasonable estimate of the additional costs at this time. Our continuing efforts to lower our cost structure include identifying opportunities to reduce general and administrative costs as well as improve restaurant profitability across both brands.

8. INCOME TAXES

The income tax provisions reflect year-to-date effective tax rates of 34.6% in both years. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual 2013 rate could differ from our current estimates.

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

At July 7, 2013, our gross unrecognized tax benefits associated with uncertain income tax positions were $0.6 million, which if recognized would favorably impact the effective income tax rate. The gross unrecognized tax benefits decreased $0.3 million from the end of fiscal year 2012 based on the settlement of a state income tax audit. It is reasonably possible that changes to the gross unrecognized tax benefits will be required within the next twelve months due to the possible settlement of state tax audits.
The major jurisdictions in which the Company files income tax returns include the United States and states in which we operate that impose an income tax. The federal statutes of limitations have not expired for fiscal years 2010 and forward. The Company also has refund claims related to fiscal years 2006, 2008, and 2009 that allow the statute to remain open for the specific claim. The statutes of limitations for California and Texas, which constitute the Company's major state tax jurisdictions, have not expired for fiscal years 2001 and 2007, respectively, and forward. Generally, the statutes of limitations for the other state jurisdictions have not expired for fiscal years 2009 and forward.

9. RETIREMENT PLANS
Defined benefit pension plans — We sponsor a qualified defined benefit pension plan covering substantially all full-time employees hired prior to January 1, 2011. Participants will no longer accrue benefits under this plan effective December 31, 2015. We also sponsor an unfunded supplemental executive retirement plan, which provides certain employees additional pension benefits and was closed to new participants effective January 1, 2007. Benefits under both plans are based on the employees' years of service and compensation over defined periods of employment.
Postretirement healthcare plans — We also sponsor healthcare plans that provide postretirement medical benefits to certain employees who meet minimum age and service requirements. The plans are contributory, with retiree contributions adjusted annually, and contain other cost-sharing features such as deductibles and coinsurance.
Net periodic benefit cost — The components of net periodic benefit cost in each period were as follows (in thousands):

	Quarter		Year-to-Date	
	July 7, 2013	July 8, 2012	July 7, 2013	July 8, 2012
Defined benefit pension plans:				
Service cost	$2,481	$2,229	$8,271	$7,304
Interest cost	5,222	5,347	17,406	17,538
Expected return on plan assets	(5,242)	(4,743)	(17,472)	(15,504)
Actuarial loss	4,116	2,974	13,719	9,657
Amortization of unrecognized prior service cost	62	99	207	332
Net periodic benefit cost	$6,639	$5,906	$22,131	$19,327
Postretirement healthcare plans:				
Service cost	$—	$14	$—	$47
Interest cost	366	374	1,220	1,244
Actuarial loss	183	21	608	69
Net periodic benefit cost	$549	$409	$1,828	$1,360

Future cash flows — Our policy is to fund our plans at or above the minimum required by law. As of the date of our last actuarial funding valuation, there was no minimum contribution funding requirement. Details regarding fiscal 2013 contributions are as follows (in thousands):

	Defined Benefit Pension Plans	Postretirement Healthcare Plans
Net year-to-date contributions	$ 12,850	$ 889
Remaining estimated net contributions during fiscal 2013	$ 10,600	$ 551

We will continue to evaluate contributions to our funded defined benefit pension plan based on changes in pension assets as a result of asset performance in the current market and economic environment.

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

10. SHARE-BASED COMPENSATION

We offer share-based compensation plans to attract, retain and motivate key officers, employees and non-employee directors to work toward the financial success of the Company. In 2013, we granted the following shares related to our share-based compensation awards:

	Year-to-Date
Stock options	376,793
Performance share awards	89,236
Nonvested stock units	121,491

The components of share-based compensation expense recognized in each period are as follows (in thousands):

	Quarter		Year-to-Date	
	July 7, 2013	July 8, 2012	July 7, 2013	July 8, 2012
Stock options	$1,321	$788	$4,480	$2,763
Performance share awards	421	222	2,085	724
Nonvested stock awards	82	134	301	449
Nonvested stock units	626	295	2,963	910
Deferred compensation for non-management directors	—	—	220	155
Total share-based compensation expense	$2,450	$1,439	$10,049	$5,001

11. STOCKHOLDERS' EQUITY

Repurchases of common stock — In November 2011, the Board of Directors approved a program, expiring November 2013, to repurchase $100.0 million in shares of our common stock. In November 2012, the Board of Directors approved a new program to repurchase up to an additional $100.0 million in shares of our common stock through November 2014. During 2013, we repurchased approximately 2.8 million shares at an aggregate cost of $92.2 million. As of July 7, 2013, there were no amounts remaining under the November 2011 authorization and $84.7 million remaining under the November 2012 authorization.

Accumulated other comprehensive loss — The components of accumulated other comprehensive loss, net of taxes, were as follows at the end of each period (in thousands):

	July 7, 2013	September 30, 2012
Unrecognized periodic benefit costs, net of tax benefits of $78,034 and $83,605, respectively	$(125,550)	$ (134,513)
Net unrealized losses related to cash flow hedges, net of tax benefits of $547 and $933, respectively	(880)	(1,500)
Foreign currency translation adjustment, net of tax expense of $3 and $0, respectively	9	—
Accumulated other comprehensive loss	$(126,421)	$ (136,013)

12. AVERAGE SHARES OUTSTANDING

Our basic earnings per share calculation is computed based on the weighted-average number of common shares outstanding. Our diluted earnings per share calculation is computed based on the weighted-average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive common shares include stock options, nonvested stock awards and units, non-management director stock equivalents and shares issuable under our employee stock purchase plan. Performance share awards are included in the weighted-average diluted shares outstanding each period if the performance criteria have been met at the end of the respective periods.

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

The following table reconciles basic weighted-average shares outstanding to diluted weighted-average shares outstanding (in thousands):

	Quarter		Year-to-Date	
	July 7, 2013	July 8, 2012	July 7, 2013	July 8, 2012
Weighted-average shares outstanding – basic	43,772	44,156	43,435	43,975
Effect of potentially dilutive securities:				
Stock options	895	505	957	431
Nonvested stock awards and units	375	264	366	267
Performance share awards	205	228	220	219
Weighted-average shares outstanding – diluted	45,247	45,153	44,978	44,892
Excluded from diluted weighted-average shares outstanding:				
Antidilutive	—	2,583	172	3,006
Performance conditions not satisfied at the end of the period	220	343	220	343

13. VARIABLE INTEREST ENTITIES

In January 2011, we formed Jack in the Box Franchise Finance, LLC (“FFE”) for the purpose of operating a franchisee lending program to assist Jack in the Box franchisees in re-imaging their restaurants. We are the sole equity investor in FFE. The lending program was comprised of a $20.0 million commitment from the Company in the form of a capital note and an $80.0 million Senior Secured Revolving Securitization Facility entered into with a third party. The lending period and the revolving period expired in June 2012 and the third party facility repayments were completed in August 2012.

We have determined that FFE is a VIE. We considered a variety of factors in identifying the primary beneficiary of FFE including, but not limited to, who holds the power to direct matters that most significantly impact FFE’s economic performance (such as determining the underwriting standards and credit management policies), as well as what party has the obligation to absorb the losses of FFE. Based on these considerations, we have determined that the Company is the primary beneficiary and have reflected the entity in the accompanying condensed consolidated financial statements.

FFE’s assets consolidated by the Company represent assets that can be used only to settle obligations of the consolidated VIE. Likewise, FFE’s liabilities consolidated by the Company do not represent additional claims on the Company’s general assets; rather they represent claims against the specific assets of FFE. The impacts of FFE’s results were not material to the Company’s condensed consolidated statements of operations or cash flows. The FFE’s balance sheet consisted of the following at the end of each period (in thousands):

	July 7, 2013	September 30, 2012
Cash	$246	$ 444
Other current assets (1)	2,329	2,536
Other assets, net (1)	9,012	11,051
Total assets	$11,587	$ 14,031
Current liabilities	$129	$ 14
Other long-term liabilities (2)	11,639	14,428
Retained earnings	(181)	(411)
Total liabilities and stockholders’ equity	$11,587	$ 14,031

(1) Consists primarily of amounts due from franchisees.

(2) Consists primarily of the capital note contributions from Jack in the Box which are eliminated in consolidation. The Company's maximum exposure to loss is equal to its outstanding contributions as of July 7, 2013. This amount represents estimated losses that would be incurred should all franchisees default on their loans without any consideration of recovery. To offset the credit risk associated with the Company's variable interest in FFE, the Company holds a security interest in the assets of FFE subordinate and junior to all other obligations of FFE.

---

14. CONTINGENCIES AND LEGAL MATTERS

The Company assesses contingencies, including litigation contingencies, to determine the degree of probability and range of possible loss for potential accrual in its financial statements. An estimated loss contingency is accrued in the financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable, assessing contingencies is highly subjective and requires judgments about future events. When evaluating litigation contingencies, we may be unable to provide a meaningful estimate due to a number of factors, including the procedural status of the matter in question, the presence of complex or novel legal theories, and/or the ongoing discovery and development of information important to the matter. In addition, damage amounts claimed in litigation against us may be unsupported, exaggerated or unrelated to possible outcomes, and as such are not meaningful indicators of our potential liability. The Company regularly reviews contingencies to determine the adequacy of the accruals and related disclosures. The ultimate amount of loss may differ from these estimates.

Gessele v. Jack in the Box Inc. — In August 2010, five former employees instituted litigation in federal court in Oregon alleging claims under the federal Fair Labor Standards Act (“FLSA”) and Oregon wage and hour laws. The plaintiffs allege that the Company failed to pay non-exempt employees for certain meal breaks and improperly recorded payroll deductions for shoe purchases and for workers’ compensation expenses. In April 2013, the district court: (i) granted certification of the Oregon state law claims with respect to payroll deductions for shoe purchases and workers’ compensation expenses, (ii) granted conditional certification for these same claims under the FLSA, and (iii) denied certification for meal break claims under both federal and Oregon law. We intend to vigorously defend against this lawsuit. We have made an accrual for a single claim for which we believe a loss is both probable and estimable. This accrued loss contingency did not have a material effect on our results of operations. Due to the procedural status of the other claims in this case, we have not established a loss contingency accrual for these claims as the liability with respect to these claims is not probable and we are currently unable to estimate a range of loss. Nonetheless, an unfavorable resolution of this matter could have a material adverse effect on our business, results of operations, liquidity or financial condition.

Other Legal Matters — In addition to the matter described above, the Company is subject to normal and routine litigation brought by former, current or prospective employees, customers, franchisees, vendors, landlords, shareholders or others. We intend to defend ourselves in any such matters. Although we currently believe that the ultimate outcome of these matters will not have a material adverse effect on our business, results of operations, liquidity or financial position of the Company, it is possible that our business, results of operations, liquidity, or financial position could be materially affected in any particular future reporting period by the unfavorable resolution of one or more of these matters or contingencies.

Lease Guarantees — In connection with the sale of the distribution business, we have assigned the leases at two of our distribution centers to third parties. Under these agreements, which expire in 2015 and 2017, the Company remains secondarily liable for the lease payments for which we were responsible under the original lease. As of July 7, 2013, the amount remaining under these lease guarantees totaled $3.1 million. We have not recorded a liability for the guarantees as the likelihood of the third party defaulting on the assignment agreements was deemed to be less than probable.

15. SEGMENT REPORTING

We are principally engaged in developing, operating and franchising our Jack in the Box and Qdoba quick-service restaurant concepts, both of which we consider reportable operating segments. This segment reporting structure reflects the Company’s current management structure, internal reporting method and financial information used in deciding how to allocate Company resources. Based upon certain quantitative thresholds, both operating segments are considered reportable segments.

16

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

We measure and evaluate our segments based on segment earnings from operations. Summarized financial information concerning our reportable segments is shown in the following tables (in thousands):

	Quarter		Year-to-Date
	July 7, 2013	July 8, 2012	July 7, 2013