JACK IN THE BOX INC /NEW/
Form 10-Q
February 23, 2012

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 22, 2012

Commission File Number: 1-9390

JACK IN THE BOX INC.

(Exact name of registrant as specified in its charter)

DELAWARE **(State of Incorporation)**	**95-2698708** **(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 17, 2012, 44,105,154 shares of the registrant s common stock were outstanding.

JACK IN THE BOX INC. AND SUBSIDIARIES

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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 per share data)

(Unaudited)

	January 22, 2012	October 2, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,644	$ 11,424
Accounts and other receivables, net	79,717	86,213
Inventories	45,393	38,931
Prepaid expenses	20,665	18,737
Deferred income taxes	45,133	45,520
Assets held for sale and leaseback	59,015	51,793
Other current assets	1,275	1,793
Total current assets	264,842	254,411
Property and equipment, at cost	1,527,612	1,518,799
Less accumulated depreciation and amortization	(684,055)	(663,373)
Property and equipment, net	843,557	855,426
Other assets, net	328,701	322,485
	$ 1,437,100	$ 1,432,322
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 21,038	$ 21,148
Accounts payable	83,560	94,348
Accrued liabilities	141,677	167,487
Total current liabilities	246,275	282,983
Long-term debt, net of current maturities	472,805	447,350
Other long-term liabilities	296,136	290,723
Deferred income taxes	5,310	5,310
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, 75,125,397 and 74,992,487 issued, respectively	751	750
Capital in excess of par value	205,805	202,684
Retained earnings	1,074,970	1,063,020
Accumulated other comprehensive loss, net	(93,493)	(95,940)
Treasury stock, at cost, 31,072,631 and 30,746,099 shares, respectively	(771,459)	(764,558)

Total stockholders equity	416,574	405,956
	$ 1,437,100	$ 1,432,322

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 22, 2012	**January 23, 2011**
Revenues:		
Company restaurant sales	$ 364,102	$ 436,910
Distribution sales	194,794	146,687
Franchise revenues	93,819	81,121
	652,715	664,718
Operating costs and expenses, net:		
Company restaurant costs:		
Food and packaging	122,107	141,855
Payroll and employee benefits	107,812	134,516
Occupancy and other	84,942	105,409
Total company restaurant costs	314,861	381,780
Distribution costs	194,794	147,341
Franchise costs	49,859	38,352
Selling, general and administrative expenses	65,717	66,885
Impairment and other charges, net	4,351	3,596
Gains on the sale of company-operated restaurants	(1,122)	(27,872)
	628,460	610,082
Earnings from operations	24,255	54,636
Interest expense, net	6,057	4,611
Earnings before income taxes	18,198	50,025
Income taxes	6,248	17,624
Net earnings	$ 11,950	$ 32,401
Net earnings per share:		
Basic	$ 0.27	$ 0.62
Diluted	$ 0.27	$ 0.61
Weighted-average shares outstanding:		
Basic	43,863	52,077
Diluted	44,659	52,883

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 22, 2012	**January 23, 2011**
Cash flows from operating activities:		
Net earnings	$ 11,950	$ 32,401
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	29,534	29,582
Deferred finance cost amortization	788	743
Deferred income taxes	(1,203)	(9,892)
Share-based compensation expense	2,022	2,666
Pension and postretirement expense	8,212	7,337
Gains on cash surrender value of company-owned life insurance	(6,742)	(5,461)
Gains on the sale of company-operated restaurants	(1,122)	(27,872)
Losses on the disposition of property and equipment, net	1,083	2,796
Impairment charges	1,199	289
Accounts and other receivables	8,630	(42)
Inventories	(6,462)	(1,835)
Prepaid expenses and other current assets	(1,412)	23,592
Accounts payable	2,222	(2,977)
Accrued liabilities	(21,849)	(892)
Pension and postretirement contributions	(996)	(1,623)
Other	1,938	(3,007)
Cash flows provided by operating activities	27,792	45,805
Cash flows from investing activities:		
Purchases of property and equipment	(26,945)	(46,887)
Proceeds from the sale of company-operated restaurants	1,249	44,083
Proceeds from (purchases of) assets held for sale and leaseback, net	(7,903)	4,668
Collections on notes receivable	3,539	18,929
Disbursements for loans to franchisees	(2,604)	
Acquisitions of franchise-operated restaurants	(6,195)	
Other	14	2
Cash flows provided by (used in) investing activities	(38,845)	20,795
Cash flows from financing activities:		
Borrowings on revolving credit facility	222,020	231,000
Repayments of borrowings on revolving credit facility	(191,295)	(221,000)
Principal repayments on debt	(5,380)	(2,922)
Debt issuance costs		(375)
Proceeds from issuance of common stock	785	2,143
Repurchases of common stock	(6,901)	(50,000)
Excess tax benefits from share-based compensation arrangements	191	263
Change in book overdraft	(6,147)	(19,786)
Cash flows provided by (used in) financing activities	13,273	(60,677)

Net increase in cash and cash equivalents	2,220	5,923
Cash and cash equivalents at beginning of period	11,424	10,607
Cash and cash equivalents at end of period	$ 13,644	$ 16,530

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 in 44 states. The following table summarizes the number of restaurants as of the end of each period:

	January 22, 2012	January 23, 2011
Jack in the Box:		
Company-operated	634	873
Franchise	1,602	1,340
Total system	2,236	2,213
Qdoba:		
Company-operated	262	194
Franchise	335	348
Total system	597	542

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 (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC). 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 October 2, 2011. 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 where we are deemed the primary beneficiary. All significant intercompany transactions are eliminated. For information related to the variable interest entity included in our condensed consolidated financial statements, refer to Note 11, *Variable Interest Entities*.

Fiscal year Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal years 2012 and 2011 include 52 weeks. Our first quarter includes 16 weeks and all other quarters include 12 weeks. All comparisons between 2012 and 2011 refer to the 16-weeks (quarter) ended January 22, 2012 and January 23, 2011, respectively, unless otherwise indicated.

Use of estimates In preparing the condensed consolidated financial statements in conformity with U.S. GAAP, 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.

JACK IN THE BOX INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

2. SUMMARY OF REFRANCHISINGS, FRANCHISEE DEVELOPMENT AND ACQUISITIONS

Refranchisings and franchisee 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 and fees recognized (*dollars in thousands*):

	Sixteen Weeks Ended	
	January 22, 2012	**January 23, 2011**
Restaurants sold to franchisees		88
New restaurants opened by franchisees	20	17
Initial franchise fees	$ 720	$ 4,239
Proceeds from the sale of company-operated restaurants (1)	1,249	44,083
Net assets sold (primarily property and equipment)		(15,352)
Goodwill related to the sale of company-operated restaurants	(48)	(859)
Other	(79)	
Gains on the sale of company-operated restaurants	$ 1,122	$ 27,872

(1) The amount in 2012 primarily represents additional proceeds recognized upon the extension of the underlying franchise and lease agreements related to a restaurant sold in a prior year.

Franchise acquisitions During fiscal 2012, we acquired 11 Qdoba franchise-operated restaurants in two markets where we believe there is continued opportunity for restaurant development. The purchase price allocations were based on fair value estimates determined using significant unobservable inputs (Level 3). The goodwill recorded is largely attributable to the growth potential of the markets acquired. The following table provides detail of the combined allocations (*in thousands*):

Property and equipment	$ 2,942
Reacquired franchise rights	126
Liabilities assumed	(30)
Goodwill	3,157
Total consideration	$ 6,195

3. 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*):

	$ (39,336)	$ (39,336)	$ (39,336)	$ (39,336)
		Fair Value Measurements as of January 22, 2012		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Interest rate swaps (Note 4) (1)	$ (2,689)	$	$ (2,689)	$
Non-qualified deferred compensation plan (2)	(36,647)	(36,647)		
Total liabilities at fair value	$ (39,336)	$ (36,647)	$ (2,689)	$

	$ (39,336)	$ (39,336)	$ (39,336)	$ (39,336)
		Fair Value Measurements as of October 2, 2011		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Interest rate swaps (Note 4) (1)	$ (2,682)	$	$ (2,682)	$
Non-qualified deferred compensation plan (2)	(34,288)	(34,288)		
Total liabilities at fair value	$ (36,970)	$ (34,288)	$ (2,682)	$

(1) 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 valuation models as reported by our counterparties.

(2) 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.

The fair values of each of our long-term debt instruments are based on quoted market values, where available, or on the amount of future cash flows associated with each instrument, discounted using our current borrowing rate for similar debt instruments of comparable maturity. The estimated fair values of our term loan and capital lease obligations approximated their carrying values as of January 22, 2012.

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 of the assets are written down to fair value.

In connection with our impairment reviews during the quarters ended January 22, 2012, no material fair value adjustments were required. Refer to Note 5, *Impairment, Disposition of Property and Equipment, and Restaurant Closing Costs,* for additional information regarding impairment charges.

4. 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.

JACK IN THE BOX INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	January 22, 2012		October 2, 2011	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments:				
Interest rate swaps (Note 3)	Accrued liabilities	$ (2,689)	Accrued liabilities	$ (2,682)
Total derivatives		$ (2,689)		$ (2,682)

Financial performance The following is a summary of the gains or losses recognized on our interest rate swap derivative instruments *(in thousands)*:

	Location of Loss in Income	**Sixteen Weeks Ended January 22, 2012**	**Sixteen Weeks Ended January 23, 2011**
Gain/(loss) recognized in OCI (Note 9)	N/A	$ (405)	$ 1,437
Gain/(loss) reclassified from accumulated OCI into income (Note 9)	Interest expense, net	$ (398)	$

Amounts reclassified from accumulated other comprehensive income (OCI) into interest expense represent payments made to the counterparty for the effective portions of the interest rate swaps that were recognized in accumulated other comprehensive income (loss) and reclassified into earnings as an increase to interest expense. During the periods presented, our interest rate swaps had no hedge ineffectiveness.

5. IMPAIRMENT, DISPOSITION OF PROPERTY AND EQUIPMENT, AND RESTAURANT CLOSING COSTS

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. We typically estimate fair value based on the estimated discounted cash flows of the related asset using marketplace participant assumptions. Impairment charges in 2012 primarily represent charges to write down the carrying value of two underperforming Jack in the Box restaurants and three Jack in the Box restaurants we intend to or have closed.

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 charges from our ongoing re-image and logo program and normal capital maintenance activities.

The following impairment and disposal costs are included in impairment and other charges, net in the accompanying condensed consolidated statements of earnings (*in thousands*):

	Sixteen Weeks Ended January 22, 2012	**Sixteen Weeks Ended January 23, 2011**

Impairment charges	$ 1,199	$ 289
Losses on the disposition of property and equipment, net	$ 1,083	$ 2,796

JACK IN THE BOX INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 statement of earnings. Total accrued restaurant closing costs, included in accrued liabilities and other long-term liabilities, changed as follows (*in thousands*):

	Sixteen Weeks Ended	
	January 22, 2012	**January 23, 2011**
Balance at beginning of year	$ 21,657	$ 25,020
Additions and adjustments	1,246	805
Cash payments	(1,675)	(1,887)
Balance at end of quarter	$ 21,228	$ 23,938

Additions and adjustments in both periods primarily relate to revisions to certain sublease and cost assumptions.

6. INCOME TAXES

The income tax provisions reflect year-to-date effective tax rates of 34.3% in 2012 and 35.2% in 2011. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual 2012 rate could differ from our current estimates.

At January 22, 2012, 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 remain unchanged from the end of fiscal year 2011. It is reasonably possible that changes to the gross unrecognized tax benefits will be required within the next twelve months. These changes relate 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 2008 and forward. 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 2008 and forward.

7. RETIREMENT PLANS

Defined benefit pension plans We sponsor a defined benefit pension plan covering substantially all full-time employees which will no longer accrue benefits effective December 31, 2015, and was closed to new participants effective January 1, 2011. We also sponsor an unfunded supplemental executive retirement plan which provides certain employees additional pension benefits and which 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 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.

JACK IN THE BOX INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Net periodic benefit cost The components of net periodic benefit cost were as follows in each period (*in thousands*):

	Sixteen Weeks Ended	
	January 22, 2012	January 23, 2011
Defined benefit pension plans:		
Service cost	$ 2,900	$ 3,319
Interest cost	6,966	6,640
Expected return on plan assets	(6,149)	(6,379)
Actuarial loss	3,819	3,023
Amortization of unrecognized prior service cost	133	150
Net periodic benefit cost	$ 7,669	$ 6,753
Postretirement healthcare plans:		
Service cost	$ 19	$ 24
Interest cost	497	488
Actuarial loss	27	62
Amortization of unrecognized prior service cost		10
Net periodic benefit cost	$ 543	$ 584

Future cash flows Our policy is to fund our plans at or above the minimum required by law. Details regarding 2012 contributions are as follows (*in thousands*):

	Defined Benefit Pension Plans	Postretirement Healthcare Plans
Net year-to-date contributions	$ 1,040	$ 411
Remaining estimated net contributions during fiscal 2012	$ 12,300	$ 1,000

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.

8. SHARE-BASED EMPLOYEE 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. During the quarter ended January 22, 2012, we authorized the following share-based compensation awards in connection with our annual award grants in November:

	Shares
Stock options	485,057
Performance-vested stock awards	234,258
Nonvested stock units	83,552

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

	Sixteen Weeks Ended	
	January 22, 2012	January 23, 2011
Stock options	$ 1,190	$ 1,512
Performance-vested stock awards	330	738
Nonvested stock awards	180	186
Nonvested stock units	322	230
Total share-based compensation expense	$ 2,022	$ 2,666

JACK IN THE BOX INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

9. STOCKHOLDERS EQUITY

Repurchases of common stock In May 2011, the Board of Directors approved a program to repurchase up to $100.0 million in shares of our common stock expiring November 2012. During the first quarter, we repurchased approximately 0.3 million shares at an aggregate cost of $6.4 million, completing the May 2011 authorization. In November 2011, the Board of Directors approved a new program to repurchase $100.0 million in shares of our common stock within the next two years. As of the end of the first quarter, the $100.0 million remains available under this authorization.

Comprehensive income Our total comprehensive income, net of taxes, was as follows (*in thousands*):

	Sixteen Weeks Ended	
	January 22, 2012	**January 23, 2011**
Net earnings	$ 11,950	$ 32,401
Cash flow hedges:		