JACK IN THE BOX INC /NEW/
Form 10-Q
May 15, 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 April 13, 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 May 9, 2014, 40,037,523 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 share data)
(Unaudited)

	April 13, 2014	September 29, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$9,112	$ 9,644
Accounts and other receivables, net	56,317	41,749
Inventories	7,821	7,181
Prepaid expenses	45,344	19,970
Deferred income taxes	26,685	26,685
Assets held for sale	3,569	11,875
Other current assets	1,103	108
Total current assets	149,951	117,212
Property and equipment, at cost	1,507,467	1,516,913
Less accumulated depreciation and amortization	(772,567)	(746,054)
Property and equipment, net	734,900	770,859
Intangible assets, net	16,006	16,390
Goodwill	149,115	148,988
Other assets, net	264,414	265,760
	$1,314,386	$ 1,319,209
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$10,851	$ 20,889
Accounts payable	32,149	36,899
Accrued liabilities	135,772	153,886
Total current liabilities	178,772	211,674
Long-term debt, net of current maturities	498,882	349,393
Other long-term liabilities	275,579	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, 79,639,009 and 78,515,171 issued, respectively	796	785
Capital in excess of par value	337,678	296,764
Retained earnings	1,219,910	1,171,823
Accumulated other comprehensive loss	(60,508)	(62,662)
Treasury stock, at cost, 39,604,361 and 35,926,269 shares, respectively	(1,136,723)	(934,692)
Total stockholders' equity	361,153	472,018
	$1,314,386	$ 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)

	Quarter		Year-to-Date	
	April 13, 2014	April 14, 2013	April 13, 2014	April 14, 2013
Revenues:				
Company restaurant sales	$257,773	$268,797	$596,602	$617,703
Franchise revenues	83,097	78,426	194,350	183,855
	340,870	347,223	790,952	801,558
Operating costs and expenses, net:				
Company restaurant costs:				
Food and packaging	81,422	88,036	189,660	200,572
Payroll and employee benefits	71,616	76,188	165,432	175,764
Occupancy and other	56,998	58,619	131,707	135,988
Total company restaurant costs	210,036	222,843	486,799	512,324
Franchise costs	41,996	39,661	97,507	92,149
Selling, general and administrative expenses	48,660	52,482	107,816	119,168
Impairment and other charges, net	9,056	2,373	10,965	5,625
(Gains) losses on the sale of company-operated restaurants	(1,757)	2,418	(2,218)	1,670
	307,991	319,777	700,869	730,936
Earnings from operations	32,879	27,446	90,083	70,622
Interest expense, net	4,311	3,426	8,853	8,791
Earnings from continuing operations and before income taxes	28,568	24,020	81,230	61,831
Income taxes	10,304	8,935	29,956	20,636
Earnings from continuing operations	18,264	15,085	51,274	41,195
Losses from discontinued operations, net of income tax benefit	(2,463)	(1,795)	(3,187)	(7,216)
Net earnings	$15,801	$13,290	$48,087	$33,979
Net earnings per share - basic:				
Earnings from continuing operations	$0.44	$0.34	$1.22	$0.95
Losses from discontinued operations	(0.06)	(0.04)	(0.08)	(0.17)
Net earnings per share (1)	$0.38	$0.30	$1.14	$0.78
Net earnings per share - diluted:				
Earnings from continuing operations	$0.43	$0.33	$1.18	$0.92
Losses from discontinued operations	(0.06)	(0.04)	(0.07)	(0.16)
Net earnings per share (1)	$0.37	$0.29	$1.11	$0.76
Weighted-average shares outstanding:				
Basic	41,464	43,747	42,018	43,319
Diluted	42,632	45,274	43,336	44,736

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

See accompanying notes to condensed consolidated financial statements.

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

	Quarter		Year-to-Date	
	April 13, 2014	April 14, 2013	April 13, 2014	April 14, 2013
Net earnings	$15,801	$13,290	$48,087	$33,979
Cash flow hedges:				
Net change in fair value of derivatives	(31)	(94)	(85)	(90)
Net loss reclassified to earnings	322	311	748	724
	291	217	663	634
Tax effect	(112)	(84)	(254)	(244)
	179	133	409	390
Unrecognized periodic benefit costs:				
Actuarial losses and prior service costs reclassified to earnings	1,210	4,361	2,825	10,175
Tax effect	(464)	(1,672)	(1,084)	(3,901)
	746	2,689	1,741	6,274
Other:				
Foreign currency translation adjustments	—	3	7	6
Tax effect	—	(1)	(3)	(1)
	—	2	4	5
Other comprehensive income	925	2,824	2,154	6,669
Comprehensive income	$16,726	$16,114	$50,241	$40,648

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)

	Year-to-Date	
	April 13, 2014	April 14, 2013
Cash flows from operating activities:		
Net earnings	$48,087	$33,979
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	49,725	52,590
Deferred finance cost amortization	1,177	1,249
Deferred income taxes	5,221	2,536
Share-based compensation expense	6,348	7,599
Pension and postretirement expense	7,410	16,772
Gains on cash surrender value of company-owned life insurance	(3,428)	(5,669)
(Gains) losses on the sale of company-operated restaurants	(2,218)	1,670
Losses on the disposition of property and equipment	1,745	416
Impairment charges and other	6,937	4,828
Loss on early retirement of debt	789	939
Changes in assets and liabilities, excluding acquisitions and dispositions:		
Accounts and other receivables	(14,274)	25,227
Inventories	(640)	25,883
Prepaid expenses and other current assets	(26,368)	751
Accounts payable	1,725	(32,036)
Accrued liabilities	(13,543)	(4,256)
Pension and postretirement contributions	(7,831)	(7,052)
Other	(9,910)	(3,821)
Cash flows provided by operating activities	50,952	121,605
Cash flows from investing activities:		
Purchases of property and equipment	(31,196)	(41,754)
Purchases of assets intended for sale and leaseback	(19)	(25,165)
Proceeds from the sale of assets	2,105	22,892
Proceeds from the sale of company-operated restaurants	7,842	2,866
Collections on notes receivable	1,774	2,987
Acquisitions of franchise-operated restaurants	(1,750)	(11,014)
Other	36	3,694
Cash flows used in investing activities	(21,208)	(45,494)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	509,000	479,000
Repayments of borrowings on revolving credit facilities	(379,000)	(539,000)
Proceeds from issuance of debt	200,000	200,000
Principal repayments on debt	(190,549)	(170,540)
Debt issuance costs	(3,527)	(4,392)
Proceeds from issuance of common stock	22,457	37,113
Repurchases of common stock	(205,453)	(40,465)
Excess tax benefits from share-based compensation arrangements	12,017	599
Change in book overdraft	4,774	(36,693)
Cash flows used in financing activities	(30,281)	(74,378)
Effect of exchange rate changes on cash and cash equivalents	5	—

Net (decrease) increase in cash and cash equivalents	(532)	1,733
Cash and cash equivalents at beginning of period	9,644	8,469
Cash and cash equivalents at end of period	$9,112	$10,202

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® brand quick-service restaurants and Qdoba Mexican Grill® (“Qdoba”) brand fast-casual restaurants. The following table summarizes the number of restaurants as of the end of each period:

	April 13, 2014	April 14, 2013
Jack in the Box:		
Company-operated	455	546
Franchise	1,799	1,710
Total system	2,254	2,256
Qdoba:		
Company-operated	303	340
Franchise	323	307
Total system	626	647

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 13, 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 12-weeks (“quarter”) and 28-weeks (“year-to-date”) ended April 13, 2014 and April 14, 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.

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

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	
	April 13, 2014	April 14, 2013	April 13, 2014	April 14, 2013
Revenue	$—	$—	$—	$37,743
Operating loss before income tax benefit	$(124)	$(175)	$(696)	$(5,437)

The loss on the sale of the distribution business was not material to our results of operations in 2013. The year-to-date operating loss in 2014 includes $0.4 million related to insurance settlements and $0.2 million for lease commitment adjustments. 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):

	Quarter		Year-to-Date	
	April 13, 2014	April 14, 2013	April 13, 2014	April 14, 2013
Balance at beginning of period	$1,127	$2,277	$1,318	$697
Additions	—	—	—	1,846
Adjustments	119	185	198	208
Cash payments	(503)	(346)	(773)	(635)
Balance at end of period	$743	$2,116	$743	$2,116

Adjustments in 2014 relate to the termination of a lease agreement and the execution of a sublease agreement. Adjustments in 2013 primarily represent revisions to certain sublease and cost assumptions due to changes in market conditions. The balance at April 13, 2014 relates to one distribution center subleased at a loss.

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 predominantly 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):

	Quarter		Year-to-Date	
	April 13, 2014	April 14, 2013	April 13, 2014	April 14, 2013
Company restaurant sales	$—	$8,400	$—	$19,588
Operating loss before income tax benefit	$(3,828)	$(2,717)	$(4,416)	$(6,227)

In 2014, the year-to-date operating loss includes $3.0 million of unfavorable lease commitment adjustments, $0.4 million for asset impairments, $0.6 million of ongoing facility related costs and $0.3 million of broker commissions. 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):

	Quarter	Year-to-Date
Balance at beginning of period	$7,031	$10,712
Adjustments	3,265	2,979

Cash payments	(3,165)	(6,560)
Balance at end of period	$7,131	$7,131

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

In 2014, adjustments primarily relate to revisions to certain sublease and cost assumptions due to changes in market conditions as well as charges to terminate 13 lease agreements. These amounts were partially offset by favorable adjustments for locations that we have subleased.

3. INDEBTEDNESS

New credit facility — On March 19, 2014, 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 $600.0 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 1.25% to 2.00% with no floor. The initial interest rate was LIBOR plus 1.75%. The revolving credit facility and the term loan facility both have maturity dates of March 19, 2019. As part of the credit agreement, we may 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 April 13, 2014, we had borrowings under the revolving credit facility of $305.0 million, $200.0 million outstanding under the term loan and letters of credit outstanding of $23.0 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 $2.5 million from June 2014 through March 2016, $3.75 million from June 2016 through March 2018, and $5.0 million from June through December 2018 with the remainder due at the expiration of the term loan agreement in March 2019. 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 restaurants sold to franchisees, number of restaurants developed by franchisees and the related gains and fees recognized (dollars in thousands):

	Quarter		Year-to-Date	
	April 13, 2014	April 14, 2013	April 13, 2014	April 14, 2013
Restaurants sold to franchisees	14	4	14	4
New restaurants opened by franchisees	6	9	19	29
Initial franchise fees	$755	$389	$1,154	$1,035
Net proceeds (1)	$7,374	$2,033	$7,842	$2,866
Net assets sold (primarily property and equipment)	(2,240)	(1,635)	(2,240)	(1,720)
Goodwill related to the sale of company-operated restaurants	(120)	(67)	(129)	(67)
Other	(142)	—	(140)	—
Gains on the sale of company-operated restaurants	4,872	331	5,333	1,079
Losses on anticipated sale of Jack in the Box company-operated markets	(3,115)	(2,749)	(3,115)	(2,749)
Total gains (losses) on the sale of company-operated restaurants	$1,757	$(2,418)	$2,218	$(1,670)

(1) Amounts in 2014 and 2013 include additional proceeds recognized upon the extension of the underlying franchise and lease agreements related to restaurants sold in a prior year of $0.7 million and $0.2 million, respectively, in the quarter and $1.2 million and $1.0 million, respectively, year-to-date.

Franchise acquisitions — During 2014, we repurchased four Jack in the Box franchise restaurants. In 2013, we acquired twelve 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 year-to-date period (dollars in thousands):

	April 13, 2014	April 14, 2013		
	Jack in the Box	Qdoba	Jack in the Box	Total
Restaurants acquired from franchisees	4	12	1	13
Property and equipment	$1,398	$2,632	$145	$2,777
Reacquired franchise rights	96	106	34	140
Liabilities assumed	—	(281)	(2)	(283)
Goodwill	256	7,207	1,173	8,380
Total consideration	$1,750	$9,664	$1,350	$11,014

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 (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 April 13, 2014:				
Non-qualified deferred compensation plan (1)	$(37,378)	$ (37,378)	$—	$—
Interest rate swaps (Note 6) (2)	(527)	—	(527)	—
Total liabilities at fair value	$(37,905)	$ (37,378)	$(527)	$—
Fair value measurements as of September 29, 2013:				
Non-qualified deferred compensation plan (1)	$(39,135)	$ (39,135)	$—	$—
Interest rate swaps (Note 6) (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 April 13, 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 April 13, 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.

The following table presents non-financial assets and liabilities measured at fair value on a nonrecurring basis during fiscal 2014 (in thousands):

	Fair Value Measurement	Impairment Charges
Long-lived assets held and used	$ 619	$180
Long-lived assets held for sale	$ 1,844	$3,115
Long-lived asset abandoned	$ —	$6,393

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 use 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 these impairment charges.

Long-lived assets held for sale were written down to fair value less costs to sell and relate to the anticipated sale of two Jack in the Box company-operated markets. We have signed letters of intent related to the sale of both markets and fair value was determined based on the terms contained therein. These impairment charges are included in gains (losses) on the sale of company-operated restaurants in the accompanying condensed consolidated statements of earnings.

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

The abandoned long-lived asset relates to the impairment of a restaurant software asset we no longer plan to place in service, and for which we have determined fair value to be zero. Refer to Note 7, Impairment, Disposition of Property and Equipment, Restaurant Closing Costs and Restructuring, for additional information regarding this impairment charge.

6. 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):

	April 13, 2014		September 29, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps (Note 5)	Accrued liabilities	$(527)	Accrued liabilities	$(1,190)
Total derivatives		$(527)		$(1,190)

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	Quarter April 13, 2014	Quarter April 14, 2013	Year-to-Date April 13, 2014	Year-to-Date April 14, 2013
Losses recognized in OCI	N/A	$(31)	$(94)	$(85)	$(90)
Losses reclassified from accumulated OCI into income	Interest expense, net	$(322)	$(311)	$(748)	$(724)

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 earnings is comprised of the following (in thousands):

	Quarter April 13, 2014	Quarter April 14, 2013	Year-to-Date April 13, 2014	Year-to-Date April 14, 2013
Restaurant impairment charges	$85	$362	$180	$2,884
Losses on the disposition of property and equipment, net	749	1,261	1,701	396
Costs of closed restaurants (primarily lease obligations) and other	731	407	1,295	1,190
Restructuring costs	7,491	343	7,789	1,155
	$9,056	$2,373	$10,965	$5,625

Restaurant 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

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recognized upon the sale of closed restaurant properties, and charges from our ongoing restaurant upgrade programs, remodels and rebuilds, and other corporate initiatives. Losses on the disposition of property and equipment for the year-to-date period ended April 14, 2013 include 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 earnings. Accrued restaurant closing costs, included in accrued liabilities and other long-term liabilities, changed as follows (in thousands):

	Quarter		Year-to-Date	
	April 13, 2014	April 14, 2013	April 13, 2014	April 14, 2013
Balance at beginning of period	$15,499	$19,561	$16,321	$20,677
Adjustments	650	312	1,262	738
Cash payments	(1,553)	(1,436)	(2,987)	(2,978)
Balance at end of quarter	$14,596	$18,437	$14,596	$18,437

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

Restructuring costs — Since the beginning of 2012, we have been engaged in efforts to improve our cost structure and identify opportunities to reduce general and administrative expenses as well as improve profitability across both brands. The following is a summary of the costs incurred in connection with these activities (in thousands):

	Quarter		Year-to-Date	
	April 13, 2014	April 14, 2013	April 13, 2014	April 14, 2013
Severance costs	$1,098	$302	$1,396	$670
Other	6,393	41	6,393	485
	$7,491	$343	$7,789	$1,155

In 2014, other relates to the impairment of a restaurant software asset we no longer plan to place in service as a result of our efforts to integrate certain systems across both of our brands and lower costs.

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

	Quarter		Year-to-Date	
	April 13, 2014	April 14, 2013	April 13, 2014	April 14, 2013
Balance at beginning of period	$98	$671	$253	$1,758
Additions	1,098	302	1,396	670
Cash payments	(1,196)	(934)	(1,649)	(2,389)
Balance at end of quarter	$—	$39	$—	$39

We expect to incur additional charges related to our restructuring activities; however, we are unable to make a reasonable estimate at this time.

8. INCOME TAXES

The income tax provisions reflect tax rates of 36.1% in the quarter and 36.9% year-to-date in 2014, compared with 37.2% and 33.4%, respectively, a year ago. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual 2014 rate could differ from our current estimates.

At April 13, 2014, our gross unrecognized tax benefits associated with uncertain income tax positions were $0.8 million, which if recognized would favorably impact the effective income tax rate. There was no significant change in our gross unrecognized tax benefits from the end of fiscal year 2013. 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 has refund claims related to fiscal years 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 2009 and forward. However, the Company has pending appeals for California (related to fiscal years 2001 to 2007) and Texas (related to fiscal year 2007) for specific claims.

9. RETIREMENT PLANS

Defined benefit pension plans — We sponsor two defined benefit pension plans: a qualified plan covering substantially all full-time employees hired prior to January 1, 2011, and an unfunded supplemental executive plan which provides certain employees additional pension benefits and was closed to new participants effective January 1, 2007. In fiscal 2011, the Board of Directors approved changes to our qualified plan whereby participants will no longer accrue benefits under this plan effective December 31, 2015. 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 two healthcare plans, closed to new participants, that provide postretirement medical benefits to certain employees who have met 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	
	April 13, 2014	April 14, 2013	April 13, 2014	April 14, 2013
Defined benefit pension plans:				
Service cost	$1,875	$2,481	$4,374	$5,789
Interest cost	5,364	5,222	12,516	12,185
Expected return on plan assets	(5,652)	(5,242)	(13,188)	(12,231)
Actuarial loss	1,024	4,116	2,388	9,604
Amortization of unrecognized prior service cost	62	62	145	145
Net periodic benefit cost	$2,673	$6,639	$6,235	$15,492
Postretirement healthcare plans:				
Interest cost	$379	$366	$883	$854
Actuarial loss	125	183	292	426
Net periodic benefit cost	$504	$549	$1,175	$1,280

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 2014 contributions are as follows (in thousands):

	Defined Benefit Pension Plans	Postretirement Healthcare Plans
Net year-to-date contributions	$7,167	$ 664
Remaining estimated net contributions during fiscal 2014	$17,200	$ 800

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

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 2014, we granted the following shares related to our share-based compensation awards:

Stock options	215,248
Performance share awards	55,668

Nonvested stock units	111,538

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

	Quarter		Year-to-Date	
	April 13, 2014	April 14, 2013	April 13, 2014	April 14, 2013
Stock options	$489	$1,269	$1,778	$3,159
Performance share awards	999	547	2,496	1,664
Nonvested stock awards	45	85	218	219
Nonvested stock units	796	1,416	1,638	2,337
Deferred compensation for non-management directors	218	220	218	220
Total share-based compensation expense	$2,547	$3,537	$6,348	$7,599

11. STOCKHOLDERS' EQUITY

Repurchases of common stock — In November 2012 and August 2013, the Board of Directors approved two programs, each of which provide repurchase authorizations for up to $100.0 million in shares of our common stock, expiring November 2014 and November 2015, respectively. Additionally, in February 2014, the Board of Directors approved a program which provides repurchase authorization for up to an additional $200.0 million in shares of our common stock, expiring November 2015. During 2014, we repurchased 3.7 million shares at an aggregate cost of $202.0 million and fully utilized the November 2012 and August 2013 authorizations. As of April 13, 2014, there was $134.7 million remaining under the February 2014 authorization.

Repurchases of common stock included in our condensed consolidated statement of cash flows for the year-to-date period ended April 13, 2014, excludes $3.9 million related to a repurchase transaction traded in the second quarter of fiscal 2014, and settled in the third quarter of fiscal 2014 and includes $7.3 million related to repurchase transactions traded in fiscal 2013 and settled in 2014.

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.

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

	Quarter		Year-to-Date	
	April 13, 2014	April 14, 2013	April 13, 2014	April 14, 2013
Weighted-average shares outstanding – basic	41,464	43,747	42,018	43,319
Effect of potentially dilutive securities:				
Stock options	640	950	725	840
Nonvested stock awards and units	243	368	318	350
Performance share awards	285	209	275	227
Weighted-average shares outstanding – diluted	42,632	45,274	43,336	44,736
Excluded from diluted weighted-average shares outstanding:				
Antidilutive	185	215	152	1,094

Performance conditions not satisfied at the end of the period	20	223	30	223

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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. At April 13, 2014, we had no borrowings under the FFE Facility and we do not plan to make any further contributions.

We have determined that FFE is a VIE, and that the Company is the primary beneficiary. 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 the entity is reflected 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 earnings or cash flows.

The FFE's balance sheet consisted of the following at the end of each period (in thousands):

	April 13, 2014	September 29, 2013
Cash	$—	$ 250
Other current assets (1)	2,449	2,368
Other assets, net (1)	7,032	8,367
Total assets	$9,481	$ 10,985
Current liabilities	$3,064	$ 3,010
Other long-term liabilities (2)	6,422	8,076
Retained earnings	(5)	(101)
Total liabilities and stockholders' equity	$9,481	$ 10,985

(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 April 13, 2014. 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

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 availability of appellate remedies, insurance coverage related to the claim or claims 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.

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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 alleged that the Company failed to pay non-exempt employees for certain meal breaks and improperly made payroll deductions for shoe purchases and for workers' compensation expenses. In April 2014, the district court granted our motion for summary judgment, dismissed the federal law claims with prejudice and dismissed the state law claims without prejudice to re-filing in state court. The plaintiffs are challenging the court's decision to dismiss the federal claims. We continue to vigorously defend against this lawsuit. In light of the procedural status of this case, (1) we continue to accrue for a single claim for which we believe a loss is both probable and estimable; and (2) we have not established a loss contingency accrual for those claims as to which we believe liability is not probable or for which we are currently unable to estimate a range of loss. Our accrued loss contingency did not have a material effect on our results of operations. Nonetheless, an unfavorable resolution of this matter in excess of our current accrued loss contingencies 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. Some of these matters may be covered, at least in part, by insurance. Our insurance liability (undiscounted) and reserves are established in part by using independent actuarial estimates of expected losses for reported claims and for estimating claims incurred but not reported. As of April 13, 2014, our estimated liability for general liability and workers' compensation claims exceeded our self-insurance retention limits by $22.9 million. We expect to be fully covered for these amounts by surety bond issuers or our insurance providers. Although the Company currently believes that the ultimate determination of liability in connection with legal claims pending against it, if any, in excess of amounts already provided for these matters in the consolidated financial statements will not have a material adverse effect on our business, the Company's annual results of operations, liquidity or financial position, it is possible that our results of operations, liquidity, or financial position could be materially affected in a particular future reporting period by the unfavorable resolution of one or more of these matters or contingencies during such period.
Lease Guarantees — In connection with the sale of the distribution business, we have assigned the leases at three of our distribution centers to third parties. Under these agreements, which expire in 2014, 2015 and 2017, we remain secondarily liable for the lease payments for which we were responsible under the original lease. As of April 13, 2014, the amount remaining under these lease guarantees totaled $3.4 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
Our principal business consists of developing, operating and franchising our Jack in the Box and Qdoba restaurant concepts, each of which we consider reportable operating segments. Since the beginning of 2012, we have been engaged in restructuring activities related to our internal organization and have now instituted a shared-services model (refer also to Note 7, Impairment, Disposition of Property and Equipment, Restaurant Closing Costs and Restructuring). As a result, in fiscal 2014, our chief operating decision makers, which consist of a collective group of executive leadership, revised the method by which they determine performance and strategy for our segments. This change was made to reflect a shared-services model whereby each brand's results of operations are assessed separately and do not include costs related to certain corporate functions which support both brands. 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, each operating segment is considered a reportable segment. This change to our segment reporting did not change our reporting units for goodwill.

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We measure and evaluate our segments based on segment revenues and earnings from operations. The reportable segments do not include an allocation of the costs related to shared service functions, such as accounting/finance, human resources, audit services, legal, tax and treasury; nor do they include unallocated costs such as pension expense and share-based compensation. These costs are reflected in the caption "Shared services and unallocated costs," and therefore, the measure of segment profit or loss is before such items. As it was impractical to recast prior period information, 2014 segment information is reported under both the old basis and new basis of segmentation (in thousands):

	Quarter			Year-to-Date		
	April 13, 2014 (New)	April 13, 2014 (Old)	April 14, 2013	April 13, 2014 (New)	April 13, 2014 (Old)	April 14, 2013
Revenues by segment:						
Jack in the Box restaurant operations segment	$260,089	$260,089	$277,916	$609,912	$609,912	$645,492
Qdoba restaurant operations segment	80,781	80,781	69,307	181,040	181,040	156,066
Consolidated revenues	$340,870	$340,870	$347,223	$790,952	$790,952	$801,558
Earnings from operations by segment:						