

JACK IN THE BOX INC /NEW/  
Form 10-Q  
August 11, 2011  
Table of Contents

**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 10, 2011

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.)

Edgar Filing: JACK IN THE BOX INC /NEW/ - Form 10-Q

9330 BALBOA AVENUE, SAN DIEGO, CA  
(Address of principal executive offices)

92123  
(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  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  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

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

As of the close of business August 5, 2011, 46,385,371 shares of the registrant's common stock were outstanding.

**Table of Contents**

**JACK IN THE BOX INC. AND SUBSIDIARIES**

**INDEX**

	<b>Page</b>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. Condensed Consolidated Financial Statements (Unaudited):	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Earnings</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	27
<b>PART II OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	28
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 6. <u>Exhibits</u>	29
<u>Signature</u>	30

**Table of Contents**PART I. FINANCIAL INFORMATIONITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## JACK IN THE BOX INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

(Unaudited)

	July 10, 2011	October 3, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 12,026	\$ 10,607
Accounts and other receivables, net	72,219	81,150
Inventories	38,145	37,391
Prepaid expenses	34,937	36,100
Deferred income taxes	46,987	46,185
Assets held for sale	42,689	59,897
Other current assets	2,301	3,592
Total current assets	249,304	274,922
Property and equipment, at cost	1,525,532	1,562,729
Less accumulated depreciation and amortization	(671,857)	(684,690)
Property and equipment, net	853,675	878,039
Other assets, net	295,993	254,131
	\$ 1,398,972	\$ 1,407,092
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 21,148	\$ 13,781
Accounts payable	72,986	101,216
Accrued liabilities	166,191	168,186
Total current liabilities	260,325	283,183
Long-term debt, net of current maturities	426,401	352,630
Other long-term liabilities	256,891	250,440
Deferred income taxes	41	376
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, 74,888,758 and 74,461,632 issued, respectively	749	745
Capital in excess of par value	199,700	187,544
Retained earnings	1,040,367	982,420
Accumulated other comprehensive loss, net	(74,233)	(78,787)

Edgar Filing: JACK IN THE BOX INC /NEW/ - Form 10-Q

Treasury stock, at cost, 28,109,052 and 21,640,400 shares, respectively	(711,269)	(571,459)
Total stockholders' equity	455,314	520,463
	\$ 1,398,972	\$ 1,407,092

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

## JACK IN THE BOX INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

(Unaudited)

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
<b>Revenues:</b>				
Company restaurant sales	\$ 326,033	\$ 376,143	\$ 1,084,182	\$ 1,276,538
Distribution sales	125,704	94,039	393,753	289,419
Franchise revenues	67,542	53,112	211,194	168,361
	519,279	523,294	1,689,129	1,734,318
<b>Operating costs and expenses, net:</b>				
<b>Company restaurant costs:</b>				
Food and packaging	110,596	119,642	359,725	404,285
Payroll and employee benefits	96,723	114,526	329,235	388,011
Occupancy and other	78,100	88,381	259,896	298,422
Total company restaurant costs	285,419	322,549	948,856	1,090,718
Distribution costs	126,063	94,652	395,242	290,931
Franchise costs	31,589	23,798	101,268	76,310
Selling, general and administrative expenses	51,344	57,031	170,854	182,450
Impairment and other charges, net	2,101	7,103	10,191	13,234
Gains on the sale of company-operated restaurants	(10,190)	(23,687)	(38,940)	(36,054)
	486,326	481,446	1,587,471	1,617,589
Earnings from operations	32,953	41,848	101,658	116,729
Interest expense, net	4,016	2,421	12,573	11,729
Earnings before income taxes	28,937	39,427	89,085	105,000
Income taxes	10,192	15,185	31,138	38,830
Net earnings	\$ 18,745	\$ 24,242	\$ 57,947	\$ 66,170
<b>Net earnings per share:</b>				
Basic	\$ 0.39	\$ 0.44	\$ 1.15	\$ 1.19
Diluted	\$ 0.38	\$ 0.44	\$ 1.13	\$ 1.18
<b>Weighted-average shares outstanding:</b>				
Basic	48,498	54,937	50,435	55,478
Diluted	49,252	55,711	51,225	56,264

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

## JACK IN THE BOX INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Year-to-Date	
	July 10, 2011	July 4, 2010
Cash flows from operating activities:		
Net earnings	\$ 57,947	\$ 66,170
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	74,342	76,643
Deferred finance cost amortization	1,954	1,063
Deferred income taxes	(7,771)	(5,758)
Share-based compensation expense	6,755	7,564
Pension and postretirement expense	18,343	22,373
Gains on cash surrender value of company-owned life insurance	(8,287)	(1,006)
Gains on the sale of company-operated restaurants	(38,940)	(36,054)
Gain on the acquisition of franchise-operated restaurants	(426)	
Impairment charges	1,684	4,083
Losses on the disposition of property and equipment, net	6,084	5,858
Loss on early retirement of debt		513
Changes in assets and liabilities, excluding acquisitions and dispositions:		
Accounts and other receivables	(14,198)	(9,746)
Inventories	(754)	(2,252)
Prepaid expenses and other current assets	2,453	(23,002)
Accounts payable	(3,071)	(3,555)
Pension and postretirement contributions	(3,522)	(18,715)
Other	(577)	(36,298)
Cash flows provided by operating activities from continuing operations	92,016	47,881
Cash flows used in operating activities from discontinued operations		(2,172)
Cash flows provided by operating activities	92,016	45,709
Cash flows from investing activities:		
Purchases of property and equipment	(99,485)	(62,173)
Proceeds from the sale of company-operated restaurants	76,915	52,035
Collections on notes receivable	20,014	8,074
Proceeds from assets held for sale and leaseback, net	8,311	31,333
Acquisition of franchise-operated restaurants	(22,077)	(8,115)
Other	(5,412)	2,507
Cash flows provided by (used in) investing activities	(21,734)	23,661
Cash flows from financing activities:		
Borrowings on revolving credit facility	543,000	660,000
Repayments of borrowings on revolving credit facility	(453,000)	(512,000)
Proceeds from issuance of debt		200,000
Principal repayments on debt	(8,549)	(416,101)
Debt issuance costs	(989)	(9,126)

Edgar Filing: JACK IN THE BOX INC /NEW/ - Form 10-Q

Proceeds from issuance of common stock	4,260	4,079
Repurchases of common stock	(138,050)	(50,000)
Excess tax benefits from share-based compensation arrangements	883	1,234
Change in book overdraft	(16,418)	12,412
Cash flows used in financing activities	(68,863)	(109,502)
Net increase (decrease) in cash and cash equivalents	1,419	(40,132)
Cash and cash equivalents at beginning of period	10,607	53,002
Cash and cash equivalents at end of period	\$ 12,026	\$ 12,870

See accompanying notes to condensed consolidated financial statements.



**Table of Contents**

## 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<sup>®</sup> quick-service restaurants and Qdoba Mexican Grill<sup>®</sup> (Qdoba) fast-casual restaurants in 45 states. The following table summarizes the number of restaurants:

	July 10, 2011	July 4, 2010
<b>Jack in the Box:</b>		
Company-operated	735	1,094
Franchised	1,485	1,140
Total system	2,220	2,234
<b>Qdoba:</b>		
Company-operated	229	181
Franchised	335	334
Total system	564	515

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 3, 2010. The accounting policies used in preparing these condensed consolidated financial statements are the same as those described in our Form 10-K, with the exception of new accounting pronouncements adopted in fiscal 2011.

**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*.

**Reclassifications and adjustments** Certain prior year amounts in the condensed consolidated financial statements have been reclassified to conform to the fiscal 2011 presentation. At the end of 2010, we separated impairment and other charges, net from selling, general and administrative expenses in our consolidated statements of earnings. We believe the additional detail provided is useful when analyzing our results of operations.

**Fiscal year** Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal year 2011 includes 52 weeks while 2010 includes 53 weeks. Our first quarter includes 16 weeks and all other quarters include 12 weeks, with the exception of the fourth quarter of fiscal 2010, which includes 13 weeks. All comparisons between 2011 and 2010 refer to the twelve weeks (quarter) and forty weeks (year-to-date) ended July 10, 2011 and July 4, 2010, respectively, unless otherwise indicated.

## Edgar Filing: JACK IN THE BOX INC /NEW/ - Form 10-Q

*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.

**Table of Contents**

## 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*):

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
Restaurants sold to franchisees	112	58	226	111
New restaurants opened by franchisees	12	10	40	29
Initial franchise fees	\$ 5,130	\$ 2,583	\$ 11,009	\$ 5,558
Proceeds from the sale of company-operated restaurants:				
Cash	\$ 27,327	\$ 32,942	\$ 76,915	\$ 52,035
Notes receivable				2,730
	27,327	32,942	76,915	54,765
Net assets sold (primarily property and equipment)	(16,372)	(8,585)	(36,244)	(17,597)
Goodwill related to the sale of company-operated restaurants	(556)	(670)	(1,522)	(1,114)
Other	(209)		(209)	
Gains on the sale of company-operated restaurants	\$ 10,190	\$ 23,687	\$ 38,940	\$ 36,054

**Franchise acquisitions** During fiscal 2011, we acquired 24 Qdoba franchise-operated restaurants, 22 in the second quarter and two in the third quarter, consistent with our strategy to opportunistically acquire Qdoba franchise markets where we believe there is continued opportunity for restaurant development. The acquisition in the third quarter did not have a material impact on our consolidated financial statements. The purchase price allocations were based on fair value estimates determined using significant unobservable inputs (Level 3). The goodwill recorded relates primarily to the second quarter acquisition of 20 restaurants in Indianapolis and is largely attributable to the growth potential of the market. The following table provides detail of the combined allocations (*in thousands*):

Property and equipment	\$ 4,858
Reacquired franchise rights	280
Liabilities assumed	(74)
Goodwill	17,439
Gain on the acquisition of franchise-operated restaurants	(426)
Total	\$ 22,077

In 2010, we acquired 16 Qdoba restaurants from a franchisee for net consideration of \$8.1 million. The purchase price was allocated to property and equipment, reacquired franchise rights and goodwill.

**Table of Contents**

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**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 as of July 10, 2011 (*in thousands*):

	Total	Fair Value Measurements		
		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)	\$ (1,479)	\$	\$ (1,479)	\$
Non-qualified deferred compensation plan (2)	(38,695)	(38,695)		
<b>Total liabilities at fair value</b>	<b>\$ (40,174)</b>	<b>\$ (38,695)</b>	<b>\$ (1,479)</b>	<b>\$</b>

- (1) We entered into interest rate swaps to reduce our exposure to rising interest rates on our variable debt. The fair value of our interest rate swaps is 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 July 10, 2011.

**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 fiscal 2011, 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 will effectively convert \$100.0 million of our variable rate term loan borrowings to a fixed-rate basis beginning September 2011 through September 2014. Previously, we held two interest rate swaps that effectively converted \$200.0 million of our variable rate term loan borrowings to a fixed-rate basis from March 2007 to April 2010. These agreements have been designated as cash flow hedges under the terms of the Financial Accounting Standards Board (FASB) authoritative guidance for derivatives and hedging. To the extent that they are effective in offsetting the variability of the hedged cash flows, changes in the fair value of the derivatives are not included in net earnings but are included in other comprehensive income (OCI). These changes in fair value are subsequently reclassified into net earnings as a component of interest expense as the hedged interest payments are made on our term debt.

## Edgar Filing: JACK IN THE BOX INC /NEW/ - Form 10-Q

We are also exposed to the impact of utility price fluctuations related to unpredictable factors such as weather and various other market conditions outside our control. From time to time, we enter into futures and option contracts to manage these fluctuations. These contracts have not been designated as hedging instruments under the FASB authoritative guidance for derivative instruments and hedging. We have not entered into any such contracts during 2011, and the contracts entered into during 2010 were not material to our condensed consolidated financial statements.

**Table of Contents**

## 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*):

	July 10, 2011		October 3, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
	Accrued		Accrued	
Interest rate swaps (Note 3)	liabilities	\$ (1,479)	liabilities	\$ (733)
<b>Total derivatives</b>		<b>\$ (1,479)</b>		<b>\$ (733)</b>

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

	Location of Loss in Income	Quarter		Year-to-Date	
		July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
Gain/(loss) recognized in OCI (Note 9)	N/A	\$ (1,936)	\$	\$ (746)	\$ (104)
Gain/(loss) reclassified from accumulated OCI into income (Note 9)	Interest expense, net	\$	\$	\$	\$ (4,719)

During 2011 and 2010, 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 were not material in any period and primarily relate to certain excess Jack in the Box property and restaurants we have closed or plan to close, and in 2010 the write-down of certain 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 charges from our ongoing re-image 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*):

Edgar Filing: JACK IN THE BOX INC /NEW/ - Form 10-Q

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
Impairment charges	\$ 517	\$ 2,580	\$ 1,684	\$ 4,083
Losses on the disposition of property and equipment, net	\$ 660	\$ 3,498	\$ 6,084	\$ 5,858

**Table of Contents**

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

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
Balance at beginning of period	\$ 22,163	\$ 5,230	\$ 25,020	\$ 4,234
Additions and adjustments	379	310	1,163	1,934
Cash payments	(1,661)	(379)	(5,302)	(1,007)
Balance at end of period	\$ 20,881	\$ 5,161	\$ 20,881	\$ 5,161

Additions and adjustments primarily relate to revisions to sublease and cost assumptions and, in 2010, the closure of one Jack in the Box restaurant in the quarter and four year-to-date.

**6. INCOME TAXES**

The income tax provisions reflect year-to-date effective tax rates of 35.0% in 2011 and 37.0% in 2010. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual 2011 rate could differ from our current estimates.

At July 10, 2011, 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 beginning of the fiscal year. 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 tax years 2006 and forward. The statutes of limitations for California and Texas, which constitute the Company's major state tax jurisdictions, have not expired for tax years 2001 and 2006, respectively, and forward. Generally, the statutes of limitations for the other state jurisdictions have not expired for tax years 2006 and forward.

**7. RETIREMENT PLANS**

**Defined benefit pension plans** We sponsor a defined benefit pension plan covering substantially all full-time employees. In September 2010, the Board of Directors approved changes to this plan whereby participants will no longer accrue benefits effective December 31, 2015, and the plan was closed to new participants effective January 1, 2011. This change was accounted for as a plan curtailment in accordance with the authoritative guidance issued by the FASB. 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.





**Table of Contents**

## 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*):

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
<b>Defined benefit pension plans:</b>				
Service cost	\$ 2,489	\$ 2,898	\$ 8,298	\$ 9,658
Interest cost	4,980	4,779	16,600	15,929
Expected return on plan assets	(4,785)	(4,088)	(15,948)	(13,626)
Actuarial loss	2,268	2,575	7,557	8,583
Amortization of unrecognized prior service cost	113	135	376	452
<b>Net periodic benefit cost</b>	<b>\$ 5,065</b>	<b>\$ 6,299</b>	<b>\$ 16,883</b>	<b>\$ 20,996</b>
<b>Postretirement healthcare plans:</b>				
Service cost	\$ 19	\$ 25	\$ 61	\$ 82
Interest cost	366	331	1,220	1,104
Actuarial loss	46	15	155	49
Amortization of unrecognized prior service cost	7	42	24	142
<b>Net periodic benefit cost</b>	<b>\$ 438</b>	<b>\$ 413</b>	<b>\$ 1,460</b>	<b>\$ 1,377</b>

**Future cash flows** Our policy is to fund our plans at or above the minimum required by law. Details regarding 2011 contributions are as follows (*in thousands*):

	Defined Benefit Pension Plans	Postretirement Healthcare Plans
Net year-to-date contributions	\$ 2,341	\$ 1,181
Remaining estimated net contributions during fiscal 2011	\$ 700	\$ 400

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.

**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 first and second quarters of fiscal 2011, we granted share-based compensation awards as follows:

	Year-to-Date Weighted- Average Grant Date Fair Value
Shares	

Edgar Filing: JACK IN THE BOX INC /NEW/ - Form 10-Q

Stock options	444,890	\$ 8.25
Performance-vested stock awards	220,343	\$ 21.74
Nonvested stock units	68,784	\$ 20.49

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

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
Stock options	\$ 1,175	\$ 1,672	\$ 3,861	\$ 5,415
Performance-vested stock awards	270	187	1,479	899
Nonvested stock awards	139	140	465	783
Nonvested stock units	199	65	777	188
Deferred compensation for non-management directors			173	279
Total share-based compensation expense	\$ 1,783	\$ 2,064	\$ 6,755	\$ 7,564

**Table of Contents**

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**9. STOCKHOLDERS EQUITY**

**Repurchases of common stock** In November 2010, the Board of Directors approved a program to repurchase up to \$100.0 million in shares of our common stock expiring November 2011. In May 2011, the Board of Directors authorized a new program to repurchase up to \$100.0 million in shares of our common stock expiring November 2012. Through the end of the third quarter, we repurchased approximately 6.5 million shares at an aggregate cost of \$139.8 million, of which 0.1 million shares, or \$1.7 million, settled after the end of the quarter. As of July 10, 2011, the remaining amount authorized for repurchase was \$60.2 million.

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

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
Net earnings	\$ 18,745	\$ 24,242	\$ 57,947	\$ 66,170
Cash flow hedges:				
Net change in fair value of derivatives	(1,936)		(746)	(104)
Net loss reclassified to earnings				4,719
<b>Total</b>	<b>(1,936)</b>		<b>(746)</b>	<b>4,615</b>
Tax effect	739		285	(1,761)
	(1,197)		(461)	2,854
Unrecognized periodic benefit costs:				
Actuarial losses and prior service cost reclassified to earnings	2,434	2,767	8,112	9,226
Tax effect	(929)	(1,056)	(3,097)	(3,521)
	1,505	1,711	5,015	5,705
<b>Total comprehensive income</b>	<b>\$ 19,053</b>	<b>\$ 25,953</b>	<b>\$ 62,501</b>	<b>\$ 74,729</b>

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

	July 10, 2011	October 3, 2010
Unrecognized periodic benefit costs, net of tax benefits of \$45,282 and \$48,379, respectively	\$ (73,319)	\$ (78,334)
Net unrealized gains (losses) related to cash flow hedges, net of tax benefit (expense) of \$565 and \$280, respectively	(914)	(453)
<b>Accumulated other comprehensive loss, net</b>	<b>\$ (74,233)</b>	<b>\$ (78,787)</b>

**10. AVERAGE SHARES OUTSTANDING**

## Edgar Filing: JACK IN THE BOX INC /NEW/ - Form 10-Q

Our basic earnings per share calculations are computed based on the weighted-average number of common shares outstanding. Our diluted earnings per share calculations are 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-vested stock 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.

**Table of Contents**

## 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 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
Weighted-average shares outstanding basic	48,498	54,937	50,435	55,478
Effect of potentially dilutive securities:				
Stock options	397	533	440	534
Nonvested stock awards and units	224	185	216	180
Performance-vested stock awards	133	56	134	72
Weighted-average shares outstanding diluted	49,252	55,711	51,225	56,264
Excluded from diluted weighted-average shares outstanding:				
Antidilutive	3,059	3,202	3,009	3,146
Performance conditions not satisfied at the end of the period	354	263	354	263

**11. VARIABLE INTEREST ENTITIES**

In January 2011, we formed an entity, Jack in the Box Franchise Finance, LLC ( FFE ), for the purpose of operating a franchisee lending program which will provide up to \$100.0 million to assist franchisees in re-imaging their restaurants. We are the sole equity investor in FFE. The \$100.0 million lending program is 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 ( FFE Facility ) entered into with a third party. The FFE Facility is a 12-month revolving loan and security agreement bearing a variable interest rate. As of July 10, 2011, we have contributed \$8.6 million to FFE, \$7.6 million of which has been used to assist franchisees in re-imaging their restaurants, and FFE has not borrowed against its third party revolving credit facility. We expect to make additional contributions of \$5.0-\$10.0 million to FFE during the remainder of fiscal 2011.

We have determined that FFE is a variable interest entity ( VIE ) and that the Company is its primary beneficiary. The primary beneficiary of a VIE is an enterprise that has a controlling financial interest in the VIE. Controlling financial interest exists when an enterprise has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the 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 impact of FFE's liabilities and net loss were not material to the Company's condensed consolidated financial statements. The assets of FFE consisted of the following at July 10, 2011 (*in thousands*):

Cash	\$ 157
Other current assets (1)	947
Other assets, net (1)	7,325

Edgar Filing: JACK IN THE BOX INC /NEW/ - Form 10-Q

Total assets

\$ 8,429

(1) Consists primarily of amounts due from franchisees and \$0.9 million of deferred finance fees included in other assets, net. The Company's maximum exposure to loss is equal to its outstanding contributions that are expected to range from \$10.0-\$20.0 million and 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.

**Table of Contents**

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**12. LEGAL MATTERS**

The Company is subject to normal and routine legal proceedings, including litigation. We have reserves for certain of these legal proceedings; however, the outcomes of such proceedings are subject to inherent uncertainties. Based on current information, including our reserves and insurance coverage, management believes that the ultimate liability from all pending legal proceedings, individually and in the aggregate, will not have a material adverse effect on the Company's operating results, financial position or liquidity.

**13. SEGMENT REPORTING**

Reflecting the information currently being used in managing the Company as a two-branded restaurant operations business, our segments comprise results related to system restaurant operations for our Jack in the Box and Qdoba 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, both operating segments are considered reportable segments.

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

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
<b>Revenues by segment:</b>				
Jack in the Box restaurant operations segment	\$ 337,980	\$ 388,649	\$ 1,135,626	\$ 1,323,259
Qdoba restaurant operations segment	55,595	40,606	159,750	121,640
Distribution operations	125,704	94,039	393,753	289,419
Consolidated revenues	\$ 519,279	\$ 523,294	\$ 1,689,129	\$ 1,734,318
<b>Earnings from operations by segment:</b>				
Jack in the Box restaurant operations segment	\$ 28,500	\$ 39,097	\$ 95,675	\$ 110,342
Qdoba restaurant operations segment	4,698	3,357	7,582	7,864
Distribution operations and other	(245)	(606)	(1,599)	(1,477)
Consolidated earnings from operations	\$ 32,953	\$ 41,848	\$ 101,658	\$ 116,729

Interest income and expense, income taxes and total assets are not reported for our segments, in accordance with our method of internal reporting.

**14. SUPPLEMENTAL CONSOLIDATED CASH FLOW INFORMATION**

Additional information related to cash flows is as follows (*in thousands*):

Year-to-Date



Edgar Filing: JACK IN THE BOX INC /NEW/ - Form 10-Q

	July 10, 2011	July 4, 2010
Cash paid during the year for:		
Interest, net of amounts capitalized	\$ 10,811	\$ 14,374
Income tax payments	\$ 40,367	\$ 58,396

**Table of Contents**

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**15. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION (in thousands)**

	July 10, 2011	October 3, 2010
Other assets, net:		
Goodwill	\$ 100,958	\$ 85,041
Company-owned life insurance policies	84,583	76,296
Other	110,452	92,794
	\$ 295,993	\$ 254,131
Accrued liabilities:		
Payroll and related	\$ 43,917	\$ 31,259
Advertising	20,275	15,686
Other	101,999	121,241
	\$ 166,191	\$ 168,186

**16. SUBSEQUENT EVENT**

On July 18, 2011, we acquired 8 Qdoba restaurants in Nebraska and South Dakota from a franchisee for approximately \$9.0 million.

**17. FUTURE APPLICATION OF ACCOUNTING PRINCIPLES**

Any accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

---

**Table of Contents**

ITEM 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**GENERAL**

All comparisons between 2011 and 2010 refer to the 12-week ( quarter ) and 40-week ( year-to-date ) periods ended July 10, 2011 and July 4, 2010, respectively, unless otherwise indicated.

For an understanding of the significant factors that influenced our performance during the quarterly periods ended July 10, 2011 and July 4, 2010, our Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes included in this Quarterly Report and our Annual Report on Form 10-K for the fiscal year ended October 3, 2010.

Our MD&A consists of the following sections:

**Overview** a general description of our business and fiscal 2011 highlights.

**Financial reporting** a discussion of changes in presentation.

**Results of operations** an analysis of our consolidated statements of earnings for the periods presented in our condensed consolidated financial statements.

**Liquidity and capital resources** an analysis of our cash flows including capital expenditures, aggregate contractual obligations, share repurchase activity, known trends that may impact liquidity and the impact of inflation.

**Discussion of critical accounting estimates** a discussion of accounting policies that require critical judgments and estimates.

**New accounting pronouncements** a discussion of new accounting pronouncements, dates of implementation and impact on our consolidated financial position or results of operations, if any.

**Cautionary statements regarding forward-looking statements** a discussion of the risks and uncertainties that may cause our actual results to differ materially from any forward-looking statements made by management.

**OVERVIEW**

As of July 10, 2011, we operated and franchised 2,220 Jack in the Box quick-service restaurants ( QSR ), primarily in the western and southern United States, and 564 Qdoba Mexican Grill ( Qdoba ) fast-casual restaurants throughout the United States.

Our primary source of revenue is from retail sales at Jack in the Box and Qdoba company-operated restaurants. We also derive revenue from Jack in the Box and Qdoba franchise restaurants, including royalties (based upon a percent of sales), rents, franchise fees and distribution sales of food and packaging commodities. In addition, we recognize gains from the sale of company-operated restaurants to franchisees, which are presented as a reduction of operating costs and expenses, net in the accompanying condensed consolidated statements of earnings.

The following summarizes the most significant events occurring in fiscal 2011 and certain trends compared to a year ago:

**Restaurant Sales** Sales at restaurants open more than one year ( same-store sales ) increased (decreased) as follows:

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
Jack in the Box:				
Company	4.7%	(9.4%)	2.4%	(9.9%)
Franchise	2.4%	(9.6%)	0.9%	(9.5%)
System	3.2%	(9.5%)	1.4%	(9.8%)
Qdoba system	5.1%	4.6%	5.8%	1.8%

**Table of Contents**

**Commodity Costs** Pressures from higher commodity costs continue to impact our business. Overall commodity costs at our Jack in the Box restaurants increased approximately 6.5% in the quarter and 4.3% year-to-date compared to a year ago. We expect our overall commodity costs to increase approximately 5.0% in fiscal 2011.

**New Unit Development** We continued to grow our brands with the opening of new company-operated and franchise-operated restaurants. Year-to-date, we opened 21 Jack in the Box locations and 47 Qdoba locations, system-wide.

**Franchising Program** We refranchised 226 Jack in the Box restaurants, while Qdoba and Jack in the Box franchisees opened a total of 40 restaurants year-to-date. We are ahead of our timeline to increase franchise ownership to 70-80% of the Jack in the Box system, and we were approximately 67% franchised at the end of the third quarter.

**Share Repurchases** Pursuant to share repurchase programs authorized by our Board of Directors, we repurchased approximately 6.5 million shares of our common stock at an average price of \$21.61 per share year-to-date, including the cost of brokerage fees.

**Franchise Financing Entity** We formed an entity, Jack in the Box Franchise Finance, LLC, for the purpose of operating a franchisee lending program used primarily to assist franchisees in re-imaging their restaurants. Year-to-date, FFE provided \$7.6 million to franchisees. The impact of this entity on the Company's condensed consolidated financial statements as of and for the period ended July 10, 2011 was not material.

**FINANCIAL REPORTING**

At the end of fiscal 2010, we separated impairment and other charges, net from selling, general and administrative expenses in our consolidated statements of earnings. Prior year amounts have been reclassified to conform to this new presentation.

**RESULTS OF OPERATIONS**

The following table presents certain income and expense items included in our condensed consolidated statements of earnings as a percentage of total revenues, unless otherwise indicated. Percentages may not add due to rounding.

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
<b>Statement of Earnings Data:</b>				
Revenues:				
Company restaurant sales	62.8%	71.9%	64.2%	73.6%
Distribution sales	24.2%	18.0%	23.3%	16.7%
Franchise revenues	13.0%	10.1%	12.5%	9.7%
	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses, net:				
Company restaurant costs:				
Food and packaging (1)	33.9%	31.8%	33.2%	31.7%
Payroll and employee benefits (1)	29.7%	30.4%	30.4%	30.4%
Occupancy and other (1)	24.0%	23.5%	24.0%	23.4%
Total company restaurant costs (1)	87.5%	85.8%	87.5%	85.4%
Distribution costs (1)	100.3%	100.7%	100.4%	100.5%
Franchise costs (1)	46.8%	44.8%	48.0%	45.3%

Edgar Filing: JACK IN THE BOX INC /NEW/ - Form 10-Q

Selling, general and administrative expenses	9.9%	10.9%	10.1%	10.5%
Impairment and other charges, net	0.4%	1.4%	0.6%	0.8%
Gains on the sale of company-operated restaurants	(2.0%)	(4.5%)	(2.3%)	(2.1%)
Earnings from operations	6.3%	8.0%	6.0%	6.7%
Income tax rate (2)	35.2%	38.5%	35.0%	37.0%

- (1) As a percentage of the related sales and/or revenues.
- (2) As a percentage of earnings before income taxes.

**Table of Contents**

The following table summarizes the year-to-date changes in the number of Jack in the Box and Qdoba company and franchise restaurants:

	July 10, 2011			July 4, 2010		
	Company	Franchise	Total	Company	Franchise	Total
<b>Jack in the Box:</b>						
Beginning of period	956	1,250	2,206	1,190	1,022	2,212
New	11	10	21	18	14	32
Refranchised	(226)	226		(111)	111	
Acquired from franchisees				1	(1)	
Closed	(6)	(1)	(7)	(4)	(6)	(10)
End of period	735	1,485	2,220	1,094	1,140	2,234
% of system	33%	67%	100%	49%	51%	100%
<b>Qdoba:</b>						
Beginning of period	188	337	525	157	353	510
New	17	30	47	8	15	23
Acquired from franchisees	24	(24)		16	(16)	
Closed		(8)	(8)		(18)	(18)
End of period	229	335	564	181	334	515
% of system	41%	59%	100%	35%	65%	100%
<b>Consolidated:</b>						
Total system	964	1,820	2,784	1,275	1,474	2,749
% of system	35%	65%	100%	46%	54%	100%

**Revenues**

As we execute our refranchising strategy, which includes the sale of restaurants to franchisees, we expect the number of Jack in the Box company-operated restaurants and the related sales to decrease while revenues from franchise restaurants increase. As such, company restaurant sales decreased \$50.1 million, or 13.3%, in the quarter and \$192.4 million, or 15.1%, year-to-date, reflecting the decline in the number of Jack in the Box company-operated restaurants. This decrease was partially offset by increases in same-store sales at Jack in the Box and Qdoba company-operated restaurants and an increase in the number of Qdoba company-operated restaurants. The following table represents the approximate impact of these increases (decreases) on company restaurant sales (*in thousands*):

	Quarter	Year-to-Date
Reduction in the average number of Jack in the Box restaurants	\$ (97,300)	\$ (306,300)
Jack in the Box per-store average ( PSA ) sales increase	32,200	76,600
Change in Qdoba restaurant sales	15,000	37,300
Total decrease in company restaurant sales	\$ (50,100)	\$ (192,400)

Same-store sales at Jack in the Box company-operated restaurants grew 4.7% in the quarter and 2.4% year-to-date as follows:

	Quarter	Year-to-Date
Increase in transactions	3.4%	1.7%
Average check growth (1)	1.3%	0.7%

(1) Includes price increases of approximately 2.2% in the quarter and 1.6% year-to-date compared with a year ago. Distribution sales to Jack in the Box and Qdoba franchisees grew \$31.7 million in the quarter and \$104.3 million year-to-date from a year ago. This growth primarily reflects an increase in the number of Jack in the Box franchise restaurants that purchase ingredients and supplies from our distribution centers, which contributed additional sales of approximately \$24.7 million in the quarter and \$88.9 million year-to-date. Higher commodity prices also contributed to the increase in distribution sales in both periods.

Franchise revenues increased \$14.4 million, or 27.2%, in the quarter and \$42.8 million, or 25.4%, year-to-date due primarily to a 25.9% increase in the average number of Jack in the Box franchise restaurants, which contributed additional royalties and rents of approximately \$11.9 million and \$38.3 million, respectively. Additionally, increases in



**Table of Contents**

the number of restaurants sold to and developed by franchisees resulted in higher revenues from initial franchise fees. These increases were partially offset by an increase in re-image contributions to franchisees, which are recorded as a reduction of franchise revenues. The following table reflects the detail of our franchise revenues in each period and other information we believe is useful in analyzing the change in franchise revenues (*in thousands*):

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
Royalties	\$ 25,637	\$ 21,120	\$ 81,982	\$ 67,506
Rents	37,587	29,087	120,313	94,133
Re-image contributions to franchisees	(1,905)	(235)	(4,620)	(885)
Franchise fees and other	6,223	3,140	13,519	7,607
<b>Franchise revenues</b>	<b>\$ 67,542</b>	<b>\$ 53,112</b>	<b>\$ 211,194</b>	<b>\$ 168,361</b>
Increase (decrease) in Jack in the Box franchise-operated same-store sales	2.4%	(9.6%)	0.9%	(9.5%)
Royalties as a percentage of estimated franchise restaurant sales:				
Jack in the Box	5.3%	5.3%	5.3%	5.3%
Qdoba	5.0%	5.0%	5.0%	5.0%

**Operating Costs and Expenses**

Food and packaging costs increased to 33.9% of company restaurant sales in the quarter and 33.2% year-to-date from 31.8% and 31.7%, respectively, a year ago. Overall commodity costs at our company-operated Jack in the Box restaurants increased approximately 6.5% in the quarter and 4.3% year-to-date, driven by higher costs for beef, cheese, pork, dairy, eggs and shortening, partially offset year-to-date by lower costs for poultry and bakery. Additionally, the unfavorable impact of product mix and promotions was partially offset by the benefit of higher prices.

Payroll and employee benefit costs were 29.7% of company restaurant sales in the quarter and 30.4% year-to-date, compared to 30.4% in each period in 2010, reflecting leverage from same-store sales increases and lower insurance costs. These decreases were offset by increases in unemployment taxes in several states in which we operate and higher levels of staffing designed to improve the guest experience.

Occupancy and other costs were 24.0% of company restaurant sales in both the quarter and year-to-date compared with 23.5% and 23.4%, respectively, last year. The higher percentage in 2011 is due primarily to costs associated with the rollout of new uniforms and menu boards that were introduced at Jack in the Box restaurants in the quarter, as well as other guest service initiatives during the fiscal year. Higher PSA depreciation expense related to the Jack in the Box re-image program and higher rent expense as a percentage of sales resulting from a greater proportion of company-operated Qdoba restaurants compared with last year also contributed to the percent of sales increase. These increases were partially offset by lower utilities expense and leverage from same-store sales increases.

Distribution costs increased \$31.4 million in the quarter and \$104.3 million year-to-date, primarily reflecting an increase in the related sales. In the quarter, these costs were 100.3% of distribution sales in 2011 compared with 100.7% a year ago primarily reflecting lower average operating costs. Year-to-date, these costs decreased slightly to 100.4% from 100.5% last year.

Franchise costs, principally rents and depreciation on properties we lease to Jack in the Box franchisees, increased \$7.8 million to 46.8% of the related revenues in the quarter and \$25.0 million to 48.0% year-to-date, from 44.8% and 45.3%, respectively, a year ago. The percentage increase is primarily due to higher rent and depreciation expense relating to an increase in the percentage of locations we lease to franchisees and the impact of higher re-image contributions, which were partially offset by the leverage provided from higher franchise fee revenue.

**Table of Contents**

The following table presents the change in selling, general and administrative ( SG&A ) expenses compared with the prior year (*in thousands*):

	Increase / (Decrease)	
	Quarter	Year-to-Date
Advertising	\$ (5,977)	\$ (12,711)
Refranchising strategy	(428)	(5,486)
Incentive compensation	770	4,487
Cash surrender value of COLI policies, net	(2,249)	(3,864)
Pension and postretirement benefits	(1,209)	(4,030)
Qdoba general and administrative	533	3,589
Hurricane Ike insurance proceeds in 2010	2,000	3,004
Other	873	3,415
	\$ (5,687)	\$ (11,596)

Our refranchising strategy has resulted in a decrease in the number of company-operated restaurants and the related overhead expenses to manage and support those restaurants. As such, advertising costs, which are primarily contributions to our marketing fund determined as a percentage of restaurant sales, decreased at Jack in the Box and were partially offset by higher advertising expense year-to-date at Qdoba due to sales growth. The increase in our incentive compensation accruals in 2011 reflects the expected improvement in the Company's results compared with performance goals. The cash surrender value of our company-owned life insurance ( COLI ) policies, net of changes in our non-qualified deferred compensation obligation supported by these policies, are subject to market fluctuations. The changes in market values had no impact in the quarter versus a negative impact of \$2.2 million in the same quarter last year, and positively impacted SG&A by \$4.4 million year-to-date compared to \$0.5 million a year ago. The decrease in pension and postretirement benefits expense principally relates to changes to the Company's qualified pension plan whereby participants will no longer accrue benefits after December 31, 2015. The increase in Qdoba costs is primarily due to higher overhead to support our growing number of company-operated restaurants.

Impairment and other charges, net is comprised of the following (*in thousands*):

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
Impairment charges	\$ 517	\$ 2,580	\$ 1,684	\$ 4,083
Losses on the disposition of property and equipment, net	660	3,498	6,084	5,858
Costs of closed restaurants (primarily lease obligations) and other	924	1,025	2,423	3,293
	\$ 2,101	\$ 7,103	\$ 10,191	\$ 13,234

Impairment and other charges, net decreased \$5.0 million in the quarter and \$3.0 million year-to-date from a year ago. These decreases are due primarily to the impairment of underperforming locations in 2010 of \$2.4 million in the quarter and \$2.9 million year-to-date. Additionally, charges related to our restaurant re-image and new logo program have decreased in the quarter as this program nears completion. This program is expected to be substantially complete by the end of 2011.

Gains on the sale of company-operated restaurants to franchisees, net are detailed in the following table (*dollars in thousands*):

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
Number of restaurants sold to franchisees	112	58	226	111
Gains on the sale of company-operated restaurants	\$ 10,190	\$ 23,687	\$ 38,940	\$ 36,054

## Edgar Filing: JACK IN THE BOX INC /NEW/ - Form 10-Q

Average gain on restaurants sold	\$	91	\$	408	\$	172	\$	325
----------------------------------	----	----	----	-----	----	-----	----	-----

Gains were impacted by the number of restaurants sold and the specific sales and cash flows of those restaurants, which affected the changes in average gains recognized. The second quarter sale of 22 restaurants in one market and the third quarter sale of 70 restaurants in another market had lower-than-average sales volumes and cash flows; however, we expect the sales of these markets to be accretive to future operating earnings.

**Table of Contents****Interest Expense, Net**

Interest expense, net is comprised of the following (*in thousands*):

	Quarter		Year-to-Date	
	July 10, 2011	July 4, 2010	July 10, 2011	July 4, 2010
Interest expense	\$ 4,369	\$ 2,747	\$ 13,520	\$ 12,644
Interest income	(353)	(326)	(947)	(915)
Interest expense, net	\$ 4,016	\$ 2,421	\$ 12,573	\$ 11,729

Interest expense, net increased \$1.6 million in the quarter and \$0.8 million year-to-date reflecting an increase in the amortization of deferred finance fees related to the refinancing of our credit facility a year ago and higher average interest rates and borrowings in the quarter. These increases were offset by a \$0.5 million loss on the early retirement of debt recorded in the prior year and, year-to-date, lower average interest rates compared to a year ago.

**Income Taxes**

The tax rate decreased to 35.2% in the quarter and 35.0% year-to-date, compared with 38.5% and 37.0%, respectively, in 2010. The decreases are due primarily to the impact of the market performance of insurance investment products used to fund certain non-qualified retirement plans. Changes in the cash value of the insurance products are not included in taxable income. We expect the fiscal year tax rate to be approximately 35.0%. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual rate could differ from our current estimates.

**Net Earnings**

Net earnings were \$18.7 million, or \$0.38 per diluted share, in the quarter compared with \$24.2 million, or \$0.44 per diluted share, a year ago. Year-to-date, net earnings were \$57.9 million, or \$1.13 per diluted share, compared with \$66.2 million, or \$1.18 per diluted share, a year ago.

**LIQUIDITY AND CAPITAL RESOURCES****General**

Our primary sources of short-term and long-term liquidity are expected to be cash flows from operations, the revolving bank credit facility, the sale and leaseback of certain restaurant properties and the sale of Jack in the Box company-operated restaurants to franchisees.

Our cash requirements consist principally of:

working capital;

capital expenditures for new restaurant construction and restaurant renovations;

income tax payments;

debt service requirements; and

obligations related to our benefit plans.

Based upon current levels of operations and anticipated growth, we expect that cash flows from operations, combined with other financing alternatives in place or available, will be sufficient to meet our capital expenditure, working capital and debt service requirements for the foreseeable future.

As is common in the restaurant industry, we maintain relatively low levels of accounts receivable and inventories, and our vendors grant trade credit for purchases such as food and supplies. We also continually invest in our business through the addition of new units and refurbishment of existing units, which are reflected as long-term assets and not as part of working capital. As a result, we typically maintain current liabilities in excess of current assets, which results in a working capital deficit.

Cash and cash equivalents increased \$1.4 million to \$12.0 million at the end of the quarter from \$10.6 million at the beginning of the fiscal year. This increase is primarily due to cash flows provided by operating activities, proceeds and collections of notes receivable from the sale of restaurants to franchisees, and borrowings under our revolving credit facility, offset in part by cash used to repurchase common stock, purchase property and equipment and acquire Qdoba restaurants previously operated by franchisees. We generally reinvest available cash flows from operations to improve our restaurant facilities and develop new restaurants, to reduce debt and to repurchase shares of our common stock.

**Table of Contents****Cash Flows**

The table below summarizes our cash flows from operating, investing and financing activities (*in thousands*):

	Year-to-Date	
	July 10, 2011	July 4, 2010
Total cash provided by (used in):		
Operating activities:		
Continuing operations	\$ 92,016	\$ 47,881
Discontinued operations		(2,172)
Investing activities	(21,734)	23,661
Financing activities	(68,863)	(109,502)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>\$ 1,419</b>	<b>\$ (40,132)</b>

**Operating Activities.** Operating cash flows from continuing operations increased \$44.1 million compared with a year ago due primarily to a reduction in payments for advertising (\$27.0 million), income taxes (\$18.0 million), bonuses (\$13.8 million) and pension contributions (\$14.5 million), partially offset by a \$29.8 million decrease in net income adjusted for non-cash items. Refer to the Results of Operations section of our MD&A for a discussion of factors leading to the decrease in net income.

**Investing Activities.** Investing activity cash flows decreased \$45.4 million compared with a year ago due primarily to an increase in capital expenditures, a decrease in net proceeds from assets held for sale and leaseback and an increase in cash used to acquire Qdoba franchise-operated restaurants, partially offset by an increase in proceeds from the sale of restaurants to franchisees and collections of notes receivables related to prior year refranchising activity.

**Assets Held for Sale and Leaseback** We use sale and leaseback financing to lower the initial cash investment in our Jack in the Box restaurants to the cost of the equipment, whenever possible. In 2011, we sold and leased back 14 restaurants, generating proceeds of \$25.9 million, compared with 35 restaurants and \$65.7 million a year ago. As of July 10, 2011, we had cash investments of \$42.7 million in 50 operating and under-construction restaurant properties that we expect to sell during the next twelve months.

**Capital Expenditures** Our capital expenditure program includes, among other things, investments in new locations, restaurant remodeling, new equipment and information technology enhancements. Capital expenditures in each period were as follows (*in thousands*):

	Year-to-Date	
	July 10, 2011	July 4, 2010
Jack in the Box:		
New restaurants	\$ 10,600	\$ 18,510
Restaurant facility improvements	61,904	28,203
Other, including corporate	10,204	7,577
Qdoba	16,777	7,883
<b>Total capital expenditures</b>	<b>\$ 99,485</b>	<b>\$ 62,173</b>

Capital expenditures increased compared to a year ago due primarily to an increase in spending related to our Jack in the Box restaurant re-image and new logo program, as well as new Qdoba restaurants, partially offset by a decrease in spending for new Jack in the Box locations. We expect fiscal 2011 capital expenditures to be approximately \$120-\$125 million, including investment costs related to the Jack in the Box restaurant re-image program. We plan to open approximately 16 Jack in the Box and 25 Qdoba company-operated restaurants in 2011.



**Table of Contents**

**Sale of Company-Operated Restaurants** We have continued to expand franchise ownership in the Jack in the Box system primarily through the sale of company-operated restaurants to franchisees. Proceeds received in connection with our refranchising activities are as follows (*dollars in thousands*):

	Year-to-Date	
	July 10, 2011	July 4, 2010
Number of restaurants sold to franchisees	226	111
Cash	\$ 76,915	\$ 52,035
Notes receivable		2,730
Total proceeds	\$ 76,915	\$ 54,765
Average proceeds	\$ 340	\$ 493

In certain instances, we may provide financing to facilitate the closing of certain transactions. As of July 10, 2011, the notes receivable balance related to prior year refranchisings was \$10.3 million, \$3.7 million of which is expected to be fully repaid by the end of the fiscal year. We expect total proceeds of \$95-\$105 million from the sale of 250-300 Jack in the Box restaurants in 2011.

**Acquisition of Franchise-Operated Restaurants** In 2011, we acquired 24 Qdoba franchise-operated restaurants for approximately \$22.1 million. The purchase price was allocated primarily to goodwill, property and equipment and reacquired franchise rights. For additional information, refer to Note 2, *Summary of Refranchisings, Franchisee Development and Acquisitions*, of the notes to the condensed consolidated financial statements.

**Financing Activities.** Cash used in financing activities decreased \$40.6 million compared with a year ago primarily attributable to an increase in borrowings under our credit facility, offset in part by an increase in cash used to repurchase shares of our common stock and the change in our book overdraft related to the timing of working capital receipts and disbursements.

**Credit Facility** Our credit facility is comprised of (i) a \$400.0 million revolving credit facility and (ii) a \$200.0 million term loan maturing on June 29, 2015, initially both with London Interbank Offered Rate ( LIBOR ) plus 2.50%. 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 the net borrowing capacity under the agreement. The credit facility requires the payment of an annual commitment fee based on the unused portion of the credit facility. The credit facility's interest rates and the annual commitment rate are based on a financial leverage ratio, as defined in the credit agreement. We may make voluntary prepayments of the loans under the revolving credit facility and term loan at any time without premium or penalty. Specific events, such as asset sales, certain issuances of debt and insurance and condemnation recoveries, may trigger a mandatory prepayment.

We are subject to a number of customary covenants under our credit facility, including limitations on additional borrowings, acquisitions, loans to franchisees, capital expenditures, lease commitments, stock repurchases, dividend payments and requirements to maintain certain financial ratios. We were in compliance with all covenants as of July 10, 2011.

At July 10, 2011, we had \$190.0 million outstanding under the term loan, borrowings under the revolving credit facility of \$250.0 million and letters of credit outstanding of \$35.8 million.

**Franchise Financing Entity Facility** FFE has a \$100.0 million lending program 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 ( FFE Facility ) entered into with a third party. The FFE Facility is a 12-month revolving loan and security agreement bearing a variable interest rate. As of July 10, 2011, we have contributed \$8.6 million to FFE, \$7.6 million of which has been used to assist franchisees in re-imaging their restaurants, and FFE has not borrowed against its third party revolving credit facility.

**Interest Rate Swaps** To reduce our exposure to rising interest rates under our credit facility, we consider interest rate swaps. In August 2010, we entered into two forward-looking swaps that will effectively convert \$100.0 million of our variable rate term loan to a fixed-rate basis beginning September 2011 through September 2014. Based on the term loan's applicable margin of 2.50% as of July 10, 2011, these agreements would have an average pay rate of 1.54%, yielding an all-in fixed rate of 4.04%. From March 2007 to April 2010, we held two interest rate swaps that effectively converted \$200.0 million of our variable rate term loan borrowings to a fixed-rate basis. For additional information related to our interest rate swaps, refer to Note 4, *Derivative Instruments*, of the notes to the condensed consolidated financial statements.





**Table of Contents**

**Repurchases of Common Stock** In November 2010, the Board of Directors approved a program to repurchase up to \$100.0 million in shares of our common stock expiring November 2011. In May 2011, the Board of Directors authorized a new program to repurchase up to \$100.0 million in shares of our common stock expiring November 2012. During 2011, we repurchased approximately 6.5 million shares at an aggregate cost of \$139.8 million, of which 0.1 million shares, or \$1.7 million, settled after the end of the quarter. As of July 10, 2011, the aggregate remaining amount authorized for repurchase was \$60.2 million.

**Off-Balance Sheet Arrangements**

Other than operating leases, we are not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, results of operations, liquidity, capital expenditures or capital resources. We finance a portion of our new restaurant development through sale-leaseback transactions. These transactions involve selling restaurants to unrelated parties and leasing the restaurants back.

**DISCUSSION OF CRITICAL ACCOUNTING ESTIMATES**

We have identified the following as our most critical accounting estimates, which are those that are most important to the portrayal of the Company's financial condition and results and that require management's most subjective and complex judgments. Information regarding our other significant accounting estimates and policies is disclosed in Note 1 of our most recent Annual Report on Form 10-K filed with the SEC.

**Long-lived Assets** Property, equipment and certain other assets, including amortized intangible assets, are reviewed for impairment when indicators of impairment are present. This review generally includes a restaurant-level analysis, except when we are actively selling a group of restaurants, in which case we perform our impairment evaluations at the group level. Impairment evaluations for individual restaurants take into consideration a restaurant's operating cash flows, the period of time since a restaurant has been opened or remodeled, franchising expectations and the maturity of the related market. Impairment evaluations for a group of restaurants take into consideration the group's expected future cash flows and sales proceeds from bids received, if any, or fair market value based on, among other considerations, the specific sales and cash flows of those restaurants. If the assets of a restaurant or group of restaurants subject to our impairment evaluation are not recoverable based upon the forecasted, undiscounted cash flows, we recognize an impairment loss as the amount by which the carrying value of the assets exceeds fair value. Our estimates of cash flows used to assess impairment are subject to a high degree of judgment and may differ from actual cash flows due to, among other things, economic conditions or changes in operating performance.

**Retirement Benefits** Our defined benefit and other postretirement plans' costs and liabilities are determined using several statistical and other factors, which attempt to anticipate future events, including assumptions about the discount rate and expected return on plan assets. We determine and set our discount rate annually, with assistance from our actuaries, by considering the average of pension yield curves constructed of a population of high-quality bonds with a Moody's or Standard and Poor's rating of AA- or better meeting certain other criteria. As of October 3, 2010, our discount rate was 5.82% for our defined benefit and postretirement benefit plans. Our expected long-term rate of return on assets is determined taking into consideration our projected asset allocation and economic forecasts prepared with the assistance of our actuarial consultants. As of October 3, 2010, our assumed expected long-term rate of return was 7.75% for our qualified defined benefit plan. The actuarial assumptions used may differ materially from actual results due to changing market and economic conditions, higher or lower turnover and retirement rates or longer or shorter life spans of participants. These differences may affect the amount of pension expense we record. A hypothetical 25 basis point reduction in the assumed discount rate and expected long-term rate of return on plan assets would have resulted in an estimated increase of \$2.7 million and \$0.7 million, respectively, in our fiscal 2011 pension and postretirement plan expense.

**Self Insurance** We are self-insured for a portion of our losses related to workers' compensation, general liability, automotive and health benefits. In estimating our self-insurance accruals, we utilize independent actuarial estimates of expected losses, which are based on statistical analysis of historical data. These assumptions are closely monitored and adjusted when warranted by changing circumstances. Should a greater amount of claims occur compared to what was estimated or medical costs increase beyond what was expected, accruals might not be sufficient, and additional expense may be recorded.

**Table of Contents**

**Restaurant Closing Costs** Restaurant closing costs consist of net future lease commitments and expected ancillary costs. We record a liability for the net present value of any remaining lease obligations, less estimated sublease income, at the date we cease using a property. Subsequent adjustments to the liability as a result of changes in estimates of sublease income or lease cancellations are recorded in the period incurred. The estimates we make related to sublease income are subject to a high degree of judgment and may differ from actual sublease income due to changes in economic conditions, desirability of the sites and other factors.

**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. Share-based compensation cost for our stock option grants is estimated at the grant date based on the award's fair-value as calculated by an option pricing model and is recognized as expense ratably over the requisite service period. The option pricing models require various highly judgmental assumptions, including volatility, forfeiture rates and expected option life. If any of the assumptions used in the model change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period.

**Goodwill and Other Intangibles** We also evaluate goodwill and non-amortizable intangible assets annually, or more frequently if indicators of impairment are present. If the determined fair values of these assets are less than the related carrying amounts, an impairment loss is recognized. The methods we use to estimate fair value include future cash flow assumptions, which may differ from actual cash flows due to, among other things, economic conditions or changes in operating performance. During the fourth quarter of fiscal 2010, we reviewed the carrying value of our goodwill and indefinite life intangible assets and determined that no impairment existed as of October 3, 2010 as the fair value of our reporting units substantially exceeded their carrying values.

**Legal Accruals** The Company is subject to claims and lawsuits in the ordinary course of its business. A determination of the amount accrued, if any, for these contingencies is made after analysis of each matter. We continually evaluate such accruals and may increase or decrease accrued amounts, as we deem appropriate.

**Income Taxes** We estimate certain components of our provision for income taxes. These estimates include, among other items, depreciation and amortization expense allowable for tax purposes, allowable tax credits, effective rates for state and local income taxes and the tax deductibility of certain other items. We adjust our effective income tax rate as additional information on outcomes or events becomes available. Our estimates are based on the best available information at the time that we prepare the income tax provision. We generally file our annual income tax returns several months after our fiscal year-end. Income tax returns are subject to audit by federal, state and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws.

**NEW ACCOUNTING PRONOUNCEMENTS**

Any accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

**CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements use such words as anticipate, assume, believe, estimate, expect, forecast, goals, guidance, intend, plan, project, may, will, would and could. Forward-looking statements are based on management's current expectations and are subject to risks and uncertainties, which may cause actual results to differ materially from expectations. You should not rely unduly on forward-looking statements. All forward-looking statements are made only as of the date issued. The estimates and assumptions underlying those forward-looking statements can and do change. We do not undertake any obligation to update any forward-looking statements. We caution the reader that the following important factors and the important factors described in the Discussion of Critical Accounting Estimates, and in other sections in this Form 10-Q and in our most recent Annual Report on Form 10-K and other Securities and Exchange Commission filings, could cause our results to vary materially from those expressed in any forward-looking statement:

Any widespread publicity, whether or not based in fact, about public health issues or pandemics, or the prospect of such events, which negatively affects consumer perceptions about the health, safety or quality of food and beverages served at our restaurants may adversely affect our results.

## **Table of Contents**

Food service businesses such as ours may be materially and adversely affected by changes in national and regional political and economic conditions. Unstable economic conditions, including inflation, lower levels of consumer confidence, low levels of employment, decreased consumer spending and changes in discretionary spending priorities, may adversely impact our sales, operating results and profits.

Costs may exceed projections, including costs for food ingredients, labor (including increases in minimum wage, workers compensation, healthcare and other insurance), fuel, utilities, real estate, insurance, equipment, technology and construction of new and remodeled restaurants. Inflationary pressures affecting the cost of commodities may adversely affect our food costs and our operating margins. Because a significant number of our restaurants are company-operated, we may have greater exposure to operating cost issues than if we were more heavily franchised.

Regulatory changes, such as the federal healthcare legislation or possible changes to labor or other laws and regulations, could result in increased operating costs.

There can be no assurances that new interior and exterior designs, kitchen enhancements or new equipment will foster increases in sales at remodeled restaurants and yield the desired return on investment.

There can be no assurances that our growth objectives in the regional markets in which we operate restaurants will be met or that new facilities will be profitable. Development delays, sales softness and restaurant closures may have a material adverse effect on our results of operations. The development and profitability of restaurants can be adversely affected by many factors, including the ability of the Company and its franchisees to select and secure suitable sites on satisfactory terms, costs of construction, and general business and economic conditions. In addition, tight credit markets may negatively impact the ability of franchisees to fulfill their restaurant development commitments.

There can be no assurances that we will be able to effectively respond to aggressive competition from numerous and varied competitors (some with significantly greater financial resources) in all areas of business, including new concepts, facility design, competition for labor, new product introductions, customer service initiatives, promotions (including value promotions) and discounting. Additionally, the trend toward convergence in grocery, deli, convenience store and other types of food services may increase the number of our competitors. Such increased competition could decrease the demand for our products and negatively affect our sales and profitability. Moreover, there can be no assurance of the success of any new products, initiatives or overall strategies that we choose to pursue.

The realization of gains from the sale of company-operated restaurants to existing and new franchisees depends upon various factors, including sales trends, cost trends and economic conditions. The financing market, including the cost and availability of borrowed funds and the terms required by lenders, can impact the ability of franchisee candidates to purchase franchises and can potentially impact the sales prices and number of franchises sold. The number of franchises sold and the amount of gain realized from the sale of an on-going business may not be consistent from quarter to quarter and may not meet expectations.

As the number of franchisees increases, our revenues derived from rents and royalties at franchise restaurants will increase, as well as the risk that revenues could be negatively impacted by defaults in payment of rents and royalties.

Franchisee business obligations may not be limited to the operation of Jack in the Box or Qdoba restaurants, making them subject to business and financial risks unrelated to the operation of their restaurants. These unrelated risks could adversely affect a franchisee's ability to make full or timely payments to us.

## Edgar Filing: JACK IN THE BOX INC /NEW/ - Form 10-Q

The costs related to legal claims such as class actions involving employees, franchisees, shareholders or consumers, including costs related to potential settlement or judgments, may adversely affect our results.

Changes in accounting standards, policies or practices or related interpretations by auditors or regulatory entities, including changes in tax accounting or tax laws, may adversely affect our results.

The costs or exposures associated with maintaining the security of information and the use of cashless payments may exceed expectations. Such risks include increased investment in technology and costs of compliance with consumer protection and other laws.

---

## **Table of Contents**

Many factors affect the trading price of our stock, including factors over which we have no control, such as the current financial environment, government actions, reports on the economy as well as negative or positive announcements by competitors, regardless of whether the report relates directly to our business.

Significant demographic changes, adverse weather, political conditions such as terrorist activity or the effects of war, other significant events (particularly in California and Texas where nearly 70% of our Jack in the Box system restaurants are located), new legislation, governmental regulation, the possibility of unforeseen events affecting the food service industry in general and other factors over which we have no control can each adversely affect our results of operation.

This discussion of uncertainties is by no means exhaustive but is intended to highlight some important factors that may materially affect our results.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our primary exposure to risks relating to financial instruments is changes in interest rates. Our credit facility, which is comprised of a revolving credit facility and a term loan, bears interest at an annual rate equal to the prime rate or LIBOR plus an applicable margin based on a financial leverage ratio. As of July 10, 2011, the applicable margin for the LIBOR-based revolving loans and term loan was set at 2.50%.

We use interest rate swap agreements to reduce exposure to interest rate fluctuations. In August 2010, we entered into two interest rate swap agreements that will effectively convert \$100.0 million of our variable rate term loan borrowings to a fixed-rate basis beginning September 2011 through September 2014. Based on the term loan's applicable margin of 2.50% as of July 10, 2011, these agreements would have an average pay rate of 1.54%, yielding an all-in fixed rate of 4.04%.

A hypothetical 100 basis point increase in short-term interest rates, based on the outstanding balance of our revolving credit facility and term loan at July 10, 2011, would result in an estimated increase of \$4.4 million in annual interest expense.

We are also exposed to the impact of commodity and utility price fluctuations related to unpredictable factors such as weather and various other market conditions outside our control. Our ability to recover increased costs through higher prices is limited by the competitive environment in which we operate. From time to time, we enter into futures and option contracts to manage these fluctuations. At July 10, 2011, we had no such contracts in place.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### ***Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Securities and Exchange Act Rules 13a-15(e). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

#### ***Changes in Internal Control Over Financial Reporting***

There have been no significant changes in the Company's internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



**Table of Contents****PART II. OTHER INFORMATION**

There is no information required to be reported for any items under Part II, except as follows:

**ITEM 1. LEGAL PROCEEDINGS**

The Company is subject to normal and routine legal proceedings, including litigation. We have reserves for certain of these legal proceedings; however, the outcomes of such proceedings are subject to inherent uncertainties. Based on current information, including our reserves and insurance coverage, management believes that the ultimate liability from all pending legal proceedings, individually and in the aggregate, will not have a material adverse effect on the Company's operating results, financial position or liquidity.

**ITEM 1A. RISK FACTORS**

You should consider the risks and uncertainties described under Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended October 3, 2010, which we filed with the SEC on November 24, 2010, together with the risks and uncertainties discussed under the heading Cautionary Statements Regarding Forward-Looking Statements in Item 2 of this Quarterly Report on Form 10-Q when evaluating our business and our prospects. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the risks or uncertainties actually occurs, our business and financial results could be harmed. In that case, the market price of our common stock could decline. You should also refer to the other information set forth in this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended October 3, 2010, including our financial statements and the related notes.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

As of July 10, 2011, our credit agreement provides for up to \$313.2 million for the potential payment of cash dividends and stock repurchases, subject to certain limitations based on our leverage ratio as defined in our credit agreement.

**Dividends.** We did not pay any cash or other dividends during the last two fiscal years and do not anticipate paying dividends in the foreseeable future.

**Stock Repurchases.** In November 2010, the Board of Directors approved a program to repurchase up to \$100.0 million in shares of our common stock expiring November 2011. In May 2011, the Board of Directors authorized a new program to repurchase up to \$100.0 million in shares of our common stock expiring November 2012. As of July 10, 2011, the aggregate remaining amount authorized for repurchase was \$60.2 million. The following table summarizes shares repurchased pursuant to these programs during the quarter ended July 10, 2011:

	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced programs	(d) Maximum dollar value that may yet be purchased under these programs
April 18, 2011 - May 15, 2011				\$ 25,000,022
May 16, 2011 - June 12, 2011	1,670,000	\$ 21.31	1,670,000	\$ 89,374,722
June 13, 2011 - July 10, 2011	1,323,042	\$ 22.03	1,323,042	\$ 60,189,517
<b>Total</b>	<b>2,993,042</b>	<b>\$ 21.63</b>	<b>2,993,042</b>	





**Table of Contents**

ITEM 6. EXHIBITS

<b>Number</b>	<b>Description</b>
3.1	Restated Certificate of Incorporation, as amended, which is incorporated herein by reference from the registrant's Annual Report on Form 10-K for the fiscal year ended October 3, 1999.
3.1.1	Certificate of Amendment of Restated Certificate of Incorporation, which is incorporated herein by reference from the registrant's Current Report on Form 8-K dated September 21, 2007.
3.2	Amended and Restated Bylaws, which are incorporated herein by reference from the registrant's Current Report on Form 8-K dated August 4, 2011.
10.15(a)	Memorandum of Understanding clarifying date of employment with Qdoba Restaurant Corporation, which is incorporated herein by reference from the registrant's Quarterly Report on Form 10-Q for the quarter ended January 23, 2011.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be furnished and not filed.

