JACK IN THE BOX INC /NEW/
Form 10-Q
May 16, 2013

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 14, 2013
Commission File Number: 1-9390

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
As of the close of business May 10, 2013, 44,480,489 shares of the registrant's common stock were outstanding.

JACK IN THE BOX INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	April 14, 2013	September 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$10,202	$ 8,469
Accounts and other receivables, net	52,185	78,798
Inventories	8,713	7,752
Prepaid expenses	31,992	32,821
Deferred income taxes	26,931	26,932
Assets held for sale and leaseback	39,569	45,443
Assets of discontinued operations held for sale	—	30,591
Other current assets	452	375
Total current assets	170,044	231,181
Property and equipment, at cost	1,543,068	1,529,650
Less accumulated depreciation and amortization	(736,854)	(708,858)
Property and equipment, net	806,214	820,792
Goodwill	148,935	140,622
Other assets, net	276,544	271,130
	$1,401,737	$ 1,463,725
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$20,960	$ 15,952
Accounts payable	24,123	94,713
Accrued liabilities	160,581	164,637
Total current liabilities	205,664	275,302
Long-term debt, net of current maturities	369,728	405,276
Other long-term liabilities	369,667	371,202
Stockholders' equity:		
Preferred stock $0.01 par value, 15,000,000 shares authorized, none issued	—	—
Common stock $0.01 par value, 175,000,000 shares authorized, 77,559,191 and 75,827,894 issued, respectively	776	758
Capital in excess of par value	266,500	221,100
Retained earnings	1,154,650	1,120,671
Accumulated other comprehensive loss	(129,344)	(136,013)
Treasury stock, at cost, 33,362,162 and 31,955,606 shares, respectively	(835,904)	(794,571)
Total stockholders' equity	456,678	411,945
	$1,401,737	$ 1,463,725

See accompanying notes to condensed consolidated financial statements.

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

	Quarter		Year-to-Date	
	April 14, 2013	April 15, 2012	April 14, 2013	April 15, 2012
Revenues:				
Company restaurant sales	$277,197	$290,803	$637,291	$654,905
Franchise revenues	78,426	75,681	183,855	169,500
	355,623	366,484	821,146	824,405
Operating costs and expenses, net:				
Company restaurant costs:				
Food and packaging	90,688	94,910	206,789	217,017
Payroll and employee benefits	79,620	84,566	183,684	191,377
Occupancy and other	63,152	66,184	146,506	152,127
Total company restaurant costs	233,460	245,660	536,979	560,521
Franchise costs	39,661	37,996	92,149	87,855
Selling, general and administrative expenses	52,972	54,497	120,308	120,214
Impairment and other charges, net	2,382	5,074	5,645	9,425
Losses (gains) on the sale of company-operated restaurants	2,418	(14,078)	1,670	(15,200)
	330,893	329,149	756,751	762,815
Earnings from operations	24,730	37,335	64,395	61,590
Interest expense, net	3,426	4,534	8,791	10,591
Earnings from continuing operations and before income taxes	21,304	32,801	55,604	50,999
Income taxes	7,894	11,169	18,250	17,417
Earnings from continuing operations	13,410	21,632	37,354	33,582
Losses from discontinued operations, net of income tax benefit	(120)	—	(3,375)	—
Net earnings	$13,290	$21,632	$33,979	$33,582
Net earnings per share - basic:				
Earnings from continuing operations	$0.31	$0.49	$0.86	$0.77
Losses from discontinued operations	—	—	(0.08)	—
Net earnings per share (1)	$0.30	$0.49	$0.78	$0.77
Net earnings per share - diluted:				
Earnings from continuing operations	$0.30	$0.48	$0.84	$0.75
Losses from discontinued operations	—	—	(0.08)	—
Net earnings per share (1)	$0.29	$0.48	$0.76	$0.75
Weighted-average shares outstanding:				
Basic	43,747	43,937	43,319	43,896
Diluted	45,274	44,911	44,736	44,775

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

See accompanying notes to condensed consolidated financial statements.

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

	Quarter		Year-to-Date	
	April 14, 2013	April 15, 2012	April 14, 2013	April 15, 2012
Net earnings	$13,290	$21,632	$33,979	$33,582
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax benefit of $1,$0,$1 and $0, respectively	2	—	5	—
Actuarial losses and prior service cost reclassified to earnings, net of tax benefit of $1,672, $1,146, $3,901 and $2,673, respectively	2,689	1,839	6,274	4,291
Cash flow hedges:				
Change in fair value of derivatives, net of tax expense of $34, $82, $33 and $237, respectively	(60)	(132)	(57)	(382)
Net loss reclassified to earnings, net of tax benefit of $118, $115, $277 and $268, respectively	193	184	447	429
Other comprehensive income	2,824	1,891	6,669	4,338
Comprehensive income	$16,114	$23,523	$40,648	$37,920

See accompanying notes to condensed consolidated financial statements.

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

	Year-to-Date	
	April 14, 2013	April 15, 2012
Cash flows from operating activities:		
Net earnings	$33,979	$33,582
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	52,590	51,874
Deferred finance cost amortization	1,249	1,431
Deferred income taxes	2,536	(2,560)
Share-based compensation expense	7,599	3,562
Pension and postretirement expense	16,772	14,372
Gains on cash surrender value of company-owned life insurance	(5,669)	(8,427)
Losses (gains) on the sale of company-operated restaurants	1,670	(15,200)
Losses on the disposition of property and equipment	416	2,858
Impairment charges and other	4,828	2,109
Loss on early retirement of debt	939	—
Changes in assets and liabilities, excluding acquisitions and dispositions:		
Accounts and other receivables	25,227	(8,680)
Inventories	25,883	5,213
Prepaid expenses and other current assets	751	(4,627)
Accounts payable	(32,036)	(6,178)
Accrued liabilities	(4,256)	6,237
Pension and postretirement contributions	(7,052)	(6,573)
Other	(3,821)	595
Cash flows provided by operating activities	121,605	69,588
Cash flows from investing activities:		
Purchases of property and equipment	(41,754)	(40,609)
Purchases of assets intended for sale and leaseback	(25,165)	(22,000)
Proceeds from sale and leaseback of assets	22,892	9,312
Proceeds from the sale of company-operated restaurants	2,866	21,964
Collections on notes receivable	2,987	9,669
Disbursements for loans to franchisees	—	(3,977)
Acquisitions of franchise-operated restaurants	(11,014)	(39,195)
Other	3,694	244
Cash flows used in investing activities	(45,494)	(64,592)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	479,000	333,020
Repayments of borrowings on revolving credit facilities	(539,000)	(308,324)
Proceeds from issuance of debt	200,000	—
Principal repayments on debt	(170,540)	(10,662)
Debt issuance costs	(4,392)	(741)
Proceeds from issuance of common stock	37,113	2,015
Repurchases of common stock	(40,465)	(6,901)
Excess tax benefits from share-based compensation arrangements	599	287
Change in book overdraft	(36,693)	(13,806)
Cash flows used in financing activities	(74,378)	(5,112)

Net increase (decrease) in cash and cash equivalents	1,733	(116)
Cash and cash equivalents at beginning of period	8,469	11,424
Cash and cash equivalents at end of period	$ 10,202	$ 11,308

See accompanying notes to condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION

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

	April 14, 2013	April 15, 2012
Jack in the Box:		
Company-operated	546	601
Franchise	1,710	1,641
Total system	2,256	2,242
Qdoba:		
Company-operated	340	289
Franchise	307	316
Total system	647	605

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

Basis of presentation — The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission ("SEC"). During fiscal 2012, we entered into an agreement to outsource our Jack in the Box distribution business. As such, the results of operations for our distribution business for all periods presented are reported as discontinued operations. Refer to Note 2, Discontinued Operations, for additional information. In our opinion, all adjustments considered necessary for a fair presentation of financial condition and results of operations for these interim periods have been included. Operating results for one interim period are not necessarily indicative of the results for any other interim period or for the full year.

These financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012. The accounting policies used in preparing these condensed consolidated financial statements are the same as those described in our Form 10-K.

Principles of consolidation — The condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and the accounts of any variable interest entities ("VIEs") where we are deemed the primary beneficiary. All significant intercompany accounts and transactions are eliminated. For information related to the VIE included in our condensed consolidated financial statements, refer to Note 13, Variable Interest Entities.

Fiscal year — Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal years 2013 and 2012 include 52 weeks. Our first quarter includes 16 weeks and all other quarters include 12 weeks. All comparisons between 2013 and 2012 refer to the 12-weeks ("quarter") and 28-weeks ("year-to-date") ended April 14, 2013 and April 15, 2012, respectively, unless otherwise indicated.

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

2. DISCONTINUED OPERATIONS

During fiscal 2012, we entered into an agreement with a third party distribution service provider pursuant to a Board-approved plan to sell our Jack in the Box distribution business. During the first quarter of fiscal 2013, we completed the transition of our distribution centers. The distribution business assets sold in the transaction are classified as assets of discontinued operations in the condensed consolidated balance sheet as of September 30, 2012. The operations and cash flows of the business have been eliminated and in accordance with the provisions of the Accounting Standards Codification ("ASC") 360, Property, Plant, and Equipment, the results are reported as discontinued operations for all periods presented.

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

As of April 14, 2013, there were no assets or liabilities classified as held for sale related to our distribution business.
The following is a summary of our distribution business assets held for sale as of September 30, 2012 (in thousands):

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

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

	Quarter		Year-to-Date	
	April 14, 2013	April 15, 2012	April 14, 2013	April 15, 2012
Revenue	$—	$140,146	$37,743	$334,940
Operating loss before income tax benefit	$(175)	$—	$(5,437)	$—

The loss on the sale of the distribution business was not material to our results of operations. The operating loss in 2013 includes $1.9 million for accelerated depreciation of a long-lived asset disposed of upon completion of the transaction, $2.1 million for future lease commitments and $1.2 million primarily related to costs incurred to exit certain vendor contracts. Our liability for lease commitments related to our distribution centers is included in other long-term debt and has changed during 2013 as follows (in thousands):

	Quarter	Year-to-Date
Balance at beginning of period	$2,277	$697
Additions and adjustments	185	2,054
Cash payments	(346)	(635)
Balance at end of quarter	$2,116	$2,116

3. INDEBTEDNESS

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

Use of proceeds — The Company borrowed $200.0 million under the new term loan and approximately $220.0 million under the new revolving credit facility. The proceeds from the refinancing transaction were used to repay all borrowings under the former facility and to pay related transaction fees and expenses associated with the refinance of the facility, and will also be available for permitted share repurchases, permitted dividends, permitted acquisitions, ongoing working capital requirements and other general corporate purposes. At April 14, 2013, we had borrowings under the revolving credit facility of $190.0 million, $195.0 million outstanding under the term loan and letters of credit outstanding of $30.9 million.

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

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

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

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

4. SUMMARY OF REFRANCHISINGS, FRANCHISE DEVELOPMENT AND ACQUISITIONS

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

	Quarter		Year-to-Date	
	April 14, 2013	April 15, 2012	April 14, 2013	April 15, 2012
Restaurants sold to franchisees	4	37	4	37
New restaurants opened by franchisees	9	9	29	29
Initial franchise fees	$389	$1,770	$1,035	$2,490
Proceeds from the sale of company-operated restaurants (1)	$2,033	$20,715	$2,866	$21,964
Net assets sold (primarily property and equipment)	(1,635)	(5,754)	(1,720)	(5,833)
Goodwill related to the sale of company-operated restaurants	(67)	(604)	(67)	(652)
Other	—	(279)	—	(279)
Gains on the sale of company-operated restaurants (1)	331	14,078	1,079	15,200
Loss on anticipated sale of Jack in the Box company-operated market	(2,749)	—	(2,749)	—
Total gains (losses) on the sale of company-operated restaurants	$(2,418)	$14,078	$(1,670)	$15,200

(1) Amounts in 2013 and 2012 include additional proceeds and gains recognized upon the extension of the underlying franchise and lease agreements related to restaurants sold in a prior year of $0.2 million and $0.9 million, respectively, in the quarter and $1.0 million and $2.1 million, respectively, year-to-date.

Franchise acquisitions — During 2013 and 2012, we acquired 12 and 36 Qdoba franchise restaurants, respectively, in select markets where we believe there is continued opportunity for restaurant development. Additionally, in 2013 we exercised our right of first refusal and acquired one Jack in the Box franchise restaurant. We account for the acquisition of franchised restaurants using the acquisition method of accounting for business combinations. The purchase price allocations were based on fair value estimates determined using significant unobservable inputs (Level 3). The goodwill recorded primarily relates to the sales growth potential of the locations acquired. The following table provides detail of the combined allocations in each year-to-date period (dollars in thousands):

	April 14, 2013			April 15, 2012
	Qdoba	Jack in the Box	Total	Qdoba
Restaurants acquired from franchisees	12	1	13	36
Property and equipment	$2,632	$145	$2,777	$9,559
Reacquired franchise rights	106	34	140	461
Liabilities assumed	(281)	(2)	(283)	(108)
Goodwill	7,207	1,173	8,380	29,283
Total consideration	$9,664	$1,350	$11,014	$39,195

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

5. FAIR VALUE MEASUREMENTS

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

	Total	Quoted Prices in Active Markets for Identical Assets (3) (Level 1)	Significant Other Observable Inputs (3) (Level 2)	Significant Unobservable Inputs (Level 3)
Fair value measurements as of April 14, 2013:				
Non-qualified deferred compensation plan (1)	$(39,656)	$ (39,656)	$—	$—
Interest rate swaps (Note 6) (2)	(1,799)	—	(1,799)	—
Total liabilities at fair value	$(41,455)	$ (39,656)	$(1,799)	$—
Fair value measurements as of September 30, 2012:				
Non-qualified deferred compensation plan (1)	$(38,537)	$ (38,537)	$—	$—
Interest rate swaps (Note 6) (2)	(2,433)	—	(2,433)	—
Total liabilities at fair value	$(40,970)	$ (38,537)	$(2,433)	$—

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

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

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

The fair values of the Company's debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's borrowing rate. At April 14, 2013, the carrying values of the credit facility obligations were not materially different from fair value, as the borrowings are prepayable without penalty. The estimated fair values of our capital lease obligations approximated their carrying values as of April 14, 2013.

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

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

	Fair Value Measurement	Impairment Charges
Long-lived assets held and used	$ 300	$2,878
Long-lived assets held for sale	$ 100	2,657

Long-lived assets held and used consist primarily of Jack in the Box restaurants determined to be underperforming or which we intend to close. To determine fair value, we used the income approach, which assumes that the future cash flows reflect current market expectations. The future cash flows are generally based on the assumption that the highest and best use of the asset is to sell the store to a franchisee (market participant). These fair value measurements require significant judgment using Level 3 inputs, such as discounted cash flows, which are not observable from the market, directly or indirectly. Refer to Note 7, Impairment, Disposition of Property and Equipment, Restaurant Closing Costs and Restructuring, for additional information regarding impairment charges.

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

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

6. DERIVATIVE INSTRUMENTS

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

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

	April 14, 2013		September 30, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps (Note 5)	Accrued liabilities	$(1,799)	Accrued liabilities	$(2,433)
Total derivatives		$(1,799)		$(2,433)

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

	Location of Loss in Income	Quarter		Year-to-Date	
		April 14, 2013	April 15, 2012	April 14, 2013	April 15, 2012
Loss recognized in OCI	N/A	$(94)	$(214)	$(90)	$(619)
Loss reclassified from accumulated OCI into income	Interest expense, net	$(311)	$(299)	$(724)	$(697)

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

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

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

	Quarter		Year-to-Date	
	April 14, 2013	April 15, 2012	April 14, 2013	April 15, 2012
Impairment charges	$362	$910	$2,884	$2,109
Losses on the disposition of property and equipment, net	1,248	1,775	416	2,858
Costs of closed restaurants (primarily lease obligations) and other	429	864	1,190	2,933
Restructuring costs	343	1,525	1,155	1,525
	$2,382	$5,074	$5,645	$9,425

Impairment — When events and circumstances indicate that our long-lived assets might be impaired and their carrying amount is greater than the undiscounted cash flows we expect to generate from such assets, we recognize an impairment loss as the amount by which the carrying value exceeds the fair value of the assets. Impairment charges in 2013 and in 2012 primarily represent charges to write down the carrying value of underperforming Jack in the Box restaurants and Jack in the Box restaurants we intend to or have closed.

Disposition of property and equipment — We also recognize accelerated depreciation and other costs on the disposition of property and equipment. When we decide to dispose of a long-lived asset, depreciable lives are adjusted based on the estimated disposal date and accelerated depreciation is recorded. Other disposal costs primarily relate to gains or losses recognized upon the sale of closed restaurant properties, and charges from our ongoing re-image and logo program and normal capital maintenance activities. Losses on the disposition of property and equipment, net for the 28-weeks ended April 14, 2013 includes income of $2.4 million from the resolution of two eminent domain matters involving Jack in the Box restaurants.

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

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

	Quarter		Year-to-Date	
	April 14, 2013	April 15, 2012	April 14, 2013	April 15, 2012
Balance at beginning of period	$19,561	$21,228	$20,677	$21,657
Additions and adjustments	312	666	738	1,912
Cash payments	(1,436)	(1,727)	(2,978)	(3,402)
Balance at end of quarter	$18,437	$20,167	$18,437	$20,167

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

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

	Quarter		Year-to-Date	
	April 14, 2013	April 15, 2012	April 14, 2013	April 15, 2012
Severance costs	$302	$1,525	$670	$1,525
Other	41	—	485	—
	$343	$1,525	$1,155	$1,525

Total accrued severance costs related to our restructuring activities are included in accrued liabilities and changed as follows in 2013 (in thousands):

	Quarter	Year-to-Date
Balance at beginning of period	$671	$ 1,758
Additions	302	670
Cash payments	(934)	(2,389)
Balance at end of quarter	$39	$ 39

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

8. INCOME TAXES

The income tax provisions reflect year-to-date effective tax rates of 32.8% in 2013 and 34.2% in 2012. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual 2013 rate could differ from our current estimates.

At April 14, 2013, our gross unrecognized tax benefits associated with uncertain income tax positions were $0.6 million, which if recognized would favorably impact the effective income tax rate. The gross unrecognized tax benefits decreased $0.3 million from the end of fiscal year 2012 based on the settlement of a state income tax audit. It is reasonably possible that changes to the gross unrecognized tax benefits will be required within the next twelve months due to the possible settlement of state tax audits.

The major jurisdictions in which the Company files income tax returns include the United States and states in which we operate that impose an income tax. The federal statutes of limitations have not expired for fiscal years 2009 and forward. The statutes of limitations for California and Texas, which constitute the Company's major state tax jurisdictions, have not expired for fiscal years 2001 and 2007, respectively, and forward. Generally, the statutes of limitations for the other state jurisdictions have not expired for fiscal years 2009 and forward.

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9. RETIREMENT PLANS

Defined benefit pension plans — We sponsor a qualified defined benefit pension plan covering substantially all full-time employees hired prior to January 1, 2011. Participants will no longer accrue benefits under this plan effective December 31, 2015. We also sponsor an unfunded supplemental executive retirement plan, which provides certain employees additional pension benefits and was closed to new participants effective January 1, 2007. Benefits under both plans are based on the employees' years of service and compensation over defined periods of employment.

Postretirement healthcare plans — We also sponsor healthcare plans that provide postretirement medical benefits to certain employees who meet minimum age and service requirements. The plans are contributory, with retiree contributions adjusted annually, and contain other cost-sharing features such as deductibles and coinsurance.

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

	Quarter		Year-to-Date	
	April 14, 2013	April 15, 2012	April 14, 2013	April 15, 2012
Defined benefit pension plans:				
Service cost	$2,481	$2,175	$5,789	$5,075
Interest cost	5,222	5,225	12,185	12,191
Expected return on plan assets	(5,242)	(4,612)	(12,231)	(10,761)
Actuarial loss	4,116	2,864	9,604	6,683
Amortization of unrecognized prior service cost	62	100	145	233
Net periodic benefit cost	$6,639	$5,752	$15,492	$13,421
Postretirement healthcare plans:				
Service cost	$—	$14	$—	$33
Interest cost	366	373	854	870
Actuarial loss	183	21	426	48
Net periodic benefit cost	$549	$408	$1,280	$951

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

	Defined Benefit Pension Plans	Postretirement Healthcare Plans
Net year-to-date contributions	$6,995	$628
Remaining estimated net contributions during fiscal 2013	$11,400	$800

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

10. SHARE-BASED COMPENSATION

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

	Year-to-Date
Stock options	376,793
Performance share awards	89,236
Nonvested stock units	141,616

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

	Quarter		Year-to-Date	
	April 14, 2013	April 15, 2012	April 14, 2013	April 15, 2012
Stock options	$1,269	$785	$3,159	$1,975
Performance share awards	547	172	1,664	502
Nonvested stock awards	85	135	219	315
Nonvested stock units	1,416	293	2,337	615
Deferred compensation for non-management directors	220	155	220	155
Total share-based compensation expense	$3,537	$1,540	$7,599	$3,562

11. STOCKHOLDERS' EQUITY

Repurchases of common stock — In November 2011, the Board of Directors approved a program, expiring November 2013, to repurchase $100.0 million in shares of our common stock. During 2013, we repurchased approximately 1.4 million shares at an aggregate cost of $41.3 million under this authorization. In November 2012, the Board of Directors approved a new program to repurchase up to an additional $100.0 million in shares of our common stock through November 2014. As of April 14, 2013, the aggregate remaining amount authorized for repurchase was $135.6 million under both authorizations.

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

	April 14, 2013	September 30, 2012
Unrecognized periodic benefit costs, net of tax benefits of $79,704 and $83,605, respectively	$(128,239)	$ (134,513)
Net unrealized losses related to cash flow hedges, net of tax benefits of $689 and $933, respectively	(1,110)	(1,500)
Foreign currency translation adjustment, net of tax expense of $2	5	—
Accumulated other comprehensive loss	$(129,344)	$ (136,013)

12. AVERAGE SHARES OUTSTANDING

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

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

	Quarter		Year-to-Date	
	April 14, 2013	April 15, 2012	April 14, 2013	April 15, 2012
Weighted-average shares outstanding – basic	43,747	43,937	43,319	43,896
Effect of potentially dilutive securities:				
Stock options	950	470	840	403

Nonvested stock awards and units