JACK IN THE BOX INC /NEW/
Form 10-Q
May 16, 2007

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 April 15, 2007
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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

Number of shares of common stock, $.01 par value, outstanding as of the close of business May 11, 2007 31,308,921.

JACK IN THE BOX INC. AND SUBSIDIARIES
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	April 15, 2007	October 1, 2006
ASSETS		
Current assets:		
Cash and cash equivalents (includes restricted cash of $47,824 and $47,655, respectively)	$ 77,113	$ 233,906
Accounts and notes receivable, net	42,927	30,874
Inventories	45,495	41,202
Prepaid expenses	25,122	23,489
Deferred income taxes	43,889	43,889
Assets held for sale and leaseback	22,544	23,059
Other current assets	6,980	6,711
Total current assets	264,070	403,130
Property and equipment, at cost	1,521,866	1,505,306
Less accumulated depreciation and amortization	617,869	590,530
Property and equipment, net	903,997	914,776
Other assets, net	215,269	202,555
	$ 1,383,336	$ 1,520,461
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 5,950	$ 37,539
Accounts payable	53,035	61,059
Accrued liabilities	216,375	240,320
Total current liabilities	275,360	338,918
Long-term debt, net of current maturities	429,911	254,231
Other long-term liabilities	153,133	145,587
Deferred income taxes	62,390	70,840
Stockholders equity:		
Preferred stock $.01 par value, 15,000,000 authorized, none issued		
	425	470

Common stock $.01 par value, 75,000,000 authorized, 42,487,986 and 46,960,155 issued, respectively		
Capital in excess of par value	118,903	431,624
Retained earnings	619,609	555,046
Accumulated other comprehensive loss, net	(1,936)	(1,796)
Treasury stock, at cost, 11,196,728 shares	(274,459)	(274,459)
Total stockholders equity	462,542	710,885
	$ 1,383,336	$ 1,520,461

See accompanying notes to consolidated financial statements.

3

Table of Contents

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

	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	April 15, 2007	April 16, 2006	April 15, 2007	April 16, 2006
Revenues:				
Restaurant sales	$ 500,445	$ 487,822	$ 1,151,853	$ 1,127,702
Distribution and other sales	129,807	108,122	293,557	248,083
Franchised restaurant revenues	30,415	22,819	71,949	55,981
	660,667	618,763	1,517,359	1,431,766
Operating costs and expenses:				
Restaurant costs of sales	155,205	151,569	357,331	355,514
Restaurant operating costs	253,750	250,418	583,388	581,566
Distribution and other costs of sales	128,359	107,134	291,154	245,292
Franchised restaurant costs	12,923	9,984	29,343	22,851
Selling, general and administrative expenses	69,552	69,131	158,904	158,681
Gains on sale of company-operated restaurants	(7,244)	(7,473)	(14,401)	(14,187)
	612,545	580,763	1,405,719	1,349,717
Earnings from operations	48,122	38,000	111,640	82,049
Interest expense, net	5,281	3,440	10,775	7,430
Earnings before income taxes	42,841	34,560	100,865	74,619
Income taxes	15,632	12,773	36,302	27,609
Net earnings	$ 27,209	$ 21,787	$ 64,563	$ 47,010
Net earnings per share:				
Basic	$ .82	$ .63	$ 1.89	$ 1.35
Diluted	$ .80	$ .61	$ 1.83	$ 1.31
Weighted-average shares outstanding:				
Basic	33,060	34,482	34,249	34,766

Diluted	33,944	35,701	35,213	35,921

See accompanying notes to consolidated financial statements.

4

Table of Contents

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

	Twenty-Eight Weeks Ended	
	April 15, 2007	**April 16, 2006**
Cash flows from operating activities:		
Net earnings	$ 64,563	$ 47,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,736	47,198
Deferred finance cost amortization	726	599
Provision for deferred income taxes	(8,353)	(2,761)
Share-based compensation expense for equity-classified awards	6,251	4,878
Pension and postretirement expense	9,030	13,327
Gains on cash surrender value of company-owned life insurance	(4,793)	(2,015)
Gains on the sale of company-operated restaurants	(14,401)	(14,187)
Losses on the disposition of property and equipment, net	6,065	4,480
Loss on early retirement of debt	1,939	
Impairment charges and other	383	435
Changes in assets and liabilities:		
Increase in receivables	(12,067)	(2,194)
Decrease (increase) in inventories	(4,293)	218
Decrease (increase) in prepaid expenses and other current assets	(1,098)	4,677
Increase (decrease) in accounts payable	(2,026)	7,159
Pension contributions	(7,329)	(7,217)
Increase in other liabilities	744	11,110
Cash flows provided by operating activities	85,077	112,717
Cash flows from investing activities:		
Purchases of property and equipment	(68,697)	(61,805)
Proceeds from the sale of property and equipment	51	702
Proceeds from the sale of company-operated restaurants	19,292	18,784
Proceeds from assets held for sale and leaseback, net	1,878	13,642
Collections on notes receivable	46	395
Purchase of investments	(4,275)	(5,655)
Other	(1,478)	(424)
Cash flows used in investing activities	(53,183)	(34,361)
Cash flows from financing activities:		
Proceeds from issuance of debt	475,000	
Principal payments on debt	(331,373)	(4,180)

Debt costs	(7,357)	(260)
Repurchase of common stock	(363,303)	(49,997)
Excess tax benefits from share-based compensation arrangements	14,374	8,045
Proceeds from issuance of common stock	23,972	23,462
Cash flows used in financing activities	(188,687)	(22,930)
Net increase (decrease) in cash and cash equivalents	$ (156,793)	$ 55,426

See accompanying notes to consolidated financial statements.

Table of Contents

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations Jack in the Box Inc. (the Company) operates and franchises Jack in the Box® quick-service restaurants and Qdoba Mexican Grill® fast-casual restaurants.

Basis of Presentation and Fiscal Year The accompanying consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles 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. Certain prior year amounts in the consolidated financial statements and notes thereto have been reclassified to conform to the current year presentation, including the reclassification of gains on the sale of company-operated restaurants as a reduction of operating costs and expenses from revenues.

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 1, 2006.

Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal year 2007 and 2006 include 52 weeks. Our first quarter includes 16 weeks and each remaining quarter includes 12 weeks. All comparisons between 2007 and 2006 refer to the 12-week (quarter) and 28-week (year-to-date) periods ended April 15, 2007 and April 16, 2006, respectively, unless otherwise indicated.

References to the Company throughout these notes to the consolidated financial statements are made using the first person notations of we, us and our.

Estimations In preparing the 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 from, and consider information provided by, actuaries and other experts in a particular area. Actual amounts could differ materially from these estimates.

Restricted Cash To reduce our letter of credit fees incurred under the credit facility, we entered into a separate cash-collateralized letter of credit agreement in October 2004. At April 15, 2007, we had letters of credit outstanding under this agreement of $43.4 million, which were collateralized by approximately $47.8 million of cash and cash equivalents. Although we intend to continue this agreement, we have the ability to terminate the cash-collateralized letter of credit agreement thereby eliminating the restrictions on cash and cash equivalents.

Company-owned Life Insurance We have elected to purchase company-owned life insurance policies to support our non-qualified benefit plans. The cash surrender values of these policies were $61.9 million and $54.4 million as of April 15, 2007 and October 1, 2006, respectively, and are included in other assets, net in the accompanying condensed consolidated balance sheets. A portion of these policies resides in an umbrella trust for use only to pay plan benefits to participants or, to pay creditors if the Company becomes insolvent. As of April 15, 2007 and October 1, 2006, the trust includes cash surrender values of $25.9 million and $24.4 million, respectively, and cash of $0.8 million.

New Accounting Pronouncements Adopted In June 2006, the FASB ratified the consensuses of Emerging Issues Task Force (EITF) Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* (EITF 06-3). EITF 06-3 indicates that the income statement presentation on either a gross basis or a net basis of the taxes within the scope of the Issue is an accounting policy decision. Our accounting policy is to present the taxes within the scope of EITF 06-3 on a net basis.

2. INDEBTEDNESS

Credit Facility On December 15, 2006, we replaced our existing credit facility with a new credit facility intended to provide a more flexible capital structure and facilitate the execution of our strategic plan. The new credit facility is comprised of (i) a $150.0 million revolving credit facility maturing on December 15, 2011 and (ii) a $475.0 million term loan maturing on December 15, 2012, initially both with London Interbank Offered Rate

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

2. INDEBTEDNESS (continued)

(LIBOR) plus 1.375%. 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 new 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. Our 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 us and (or) our subsidiaries, and any proceeds thereof, subject to certain restrictions set forth in the credit agreement. Additionally, the credit agreement includes a negative pledge on all tangible and intangible assets (including all real and personal property) with customary exceptions.

We borrowed $475.0 million under the term loan facility and used the proceeds to repay all borrowings under the prior credit facility, to pay related transaction fees and expenses and to repurchase a portion of our outstanding stock. On April 13, 2007, we elected to make, without penalty, a $60.0 million optional prepayment of our term loan, which will be applied to the remaining scheduled principal installments in the direct order of maturity. The prepayment will reduce the interest rate on the credit facility by 25 basis points to LIBOR plus 1.125%. At April 15, 2007, we had no borrowings under the revolving credit facility and had letters of credit outstanding of $0.3 million. Loan origination costs associated with the new credit facility were $7.4 million and are included as deferred costs in other assets, net in the accompanying consolidated balance sheet as of April 15, 2007. Deferred financing fees of $1.9 million related to the prior credit facility were written-off in the first quarter and are included in interest expense, net in the accompanying condensed consolidated statement of earnings for the year-to-date period ended April 15, 2007.

Concurrent with the termination of our prior credit facility, we liquidated our then existing interest rate swap agreements. In connection with the liquidation, the fair value of the interest rate swaps recorded as a component of accumulated other comprehensive loss was reversed and we realized a net gain of $0.4 million, included in interest expense, net in the accompanying consolidated statement of earnings for the year-to-date period ended April 15, 2007.

New Interest Rate Swaps We are exposed to interest rate volatility with regard to our variable rate debt. To reduce our exposure to rising interest rates, in March 2007, we entered into two interest rate swap agreements that will effectively convert $200.0 million of our variable rate term loan borrowings to a fixed rate basis for three years. These agreements have been designated as cash flow hedges under the terms of Statement of Financial Accounting Standards (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities*, with effectiveness assessed based on changes in the present value of interest payments on the term loan. As such, the gains or losses on these derivatives will be reported in other comprehensive income (loss).

3. RETIREMENT PLANS

Defined Benefit Pension Plans We have non-contributory defined benefit pension plans covering those employees meeting certain eligibility requirements. The plans provide retirement benefits based on years of service and compensation and are subject to modification at any time. It is our practice to fund retirement costs as necessary.

The components of net periodic pension cost under these plans for each period are (in thousands):

	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	April 15, 2007	April 16, 2006	April 15, 2007	April 16, 2006
Service cost	$ 2,200	$ 3,043	$ 6,181	$ 6,726
Interest cost	3,276	3,383	9,049	7,558
Expected return on plan assets	(2,998)	(2,891)	(8,544)	(6,645)
Recognized actuarial loss	465	2,097	1,326	4,221

Net amortization	304	378	723	870
Net periodic pension cost	$ 3,247	$ 6,010	$ 8,735	$ 12,730

Table of Contents

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

3. RETIREMENT PLANS (continued)

In 2007, we contributed $6.0 million to our qualified plan and $1.0 million to our non-qualified plan. Total qualified and non-qualified pension plan benefit payments expected during the remainder of fiscal 2007 are approximately $7.0 million.

Postretirement Benefit Plans We also sponsor health care plans that provide postretirement medical benefits for employees who meet minimum age and service requirements. The plans are contributory and contain cost-sharing features such as deductibles and coinsurance. Our policy is to fund the cost of medical benefits in amounts determined at the discretion of management.

The components of net periodic postretirement benefit cost for each period are (in thousands):

	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	April 15, 2007	April 16, 2006	April 15, 2007	April 16, 2006
Service cost	$ 49	$ 63	$ 115	$ 146
Interest cost	250	236	582	551
Net amortization	(173)	(43)	(402)	(100)
Net periodic postretirement benefit cost	$ 126	$ 256	$ 295	$ 597

In 2007, we contributed $0.3 million to our postretirement benefit plans. Future postretirement plan benefit payments expected during the remainder of fiscal 2007 are approximately $0.3 million.

4. RESTAURANT CLOSING CHARGES

Total accrued restaurant closing costs, included in accrued liabilities and other long-term liabilities, were $4.8 million as of April 15, 2007 and $5.0 million as of October 1, 2006. In 2007 and 2006, lease exit costs of $0.3 million and $0.1 million, respectively, were charged to operations, resulting from revisions to certain sublease assumptions. Cash payments of $0.5 million and $0.4 million, were applied against the restaurant closing costs accrual in 2007 and 2006, respectively.

5. INCOME TAXES

The income tax provisions reflect year-to-date tax rates of 36.0% in 2007 and 37.0% in 2006. The decrease in the effective tax rate compared with a year ago is due primarily to the retroactive reinstatement of the Work Opportunity Tax Credit program recorded as a discrete item in the first quarter of fiscal 2007. 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.

6. STOCKHOLDERS EQUITY

Repurchases of Common Stock On November 21, 2006, we announced the commencement of a modified Dutch Auction tender offer (Tender Offer) for up to 5.5 million shares of our common stock at a price per share not less than $55.00 and not greater than $61.00, for a maximum aggregate purchase price of $335.5 million. On December 19, 2006, we accepted for purchase approximately 2.3 million shares of common stock at a purchase price of $61.00 per share, for a total cost of $143.2 million.

On December 20, 2006, the Board of Directors authorized an additional program to repurchase up to 3.3 million shares in calendar year 2007. In the second quarter of fiscal 2007, under a 10b5-1 plan, we repurchased 3.2 million shares for $220.1 million.

The Tender Offer and the additional repurchase program were funded through the new credit facility and available cash, and all shares repurchased were subsequently retired.

Outstanding Stock Repurchase Programs Pursuant to a stock repurchase program authorized by our Board of Directors in September 2005, we have approximately $100.0 million of repurchase availability, which expires in September 2008. We also have approximately 136,000 shares available to repurchase in calendar year 2007 under the December 20, 2006 stock repurchase authorization.

Table of Contents

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

6. STOCKHOLDERS EQUITY (continued)

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

	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	April 15, 2007	April 16, 2006	April 15, 2007	April 16, 2006
Net earnings	$ 27,209	$ 21,787	$ 64,563	$ 47,010
Net unrealized gains related to cash flow hedges	457	817	94	1,057
Net realized gains reclassified into net earnings on liquidation of interest rate swaps			(234)	
Total comprehensive income	$ 27,666	$ 22,604	$ 64,423	$ 48,067

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

	April 15, 2007	October 1, 2006
Additional minimum pension liability adjustment	$ (2,393)	$ (2,393)
Net unrealized gains related to cash flow hedges	457	597
Accumulated other comprehensive loss, net	$ (1,936)	$ (1,796)

7. SHARE-BASED EMPLOYEE COMPENSATION

Compensation Expense We offer share-based compensation plans to attract, retain, and motivate key officers, non-employee directors, and employees to work toward the financial success of the Company. The components of share-based compensation expense recognized in each period are as follows (in thousands):

	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	April 15, 2007	April 16, 2006	April 15, 2007	April 16, 2006
Stock options	$ 1,096	$ 1,178	$ 4,338	$ 3,784
Performance-vested stock awards	536	342	1,251	675
Nonvested stock awards	197	180	461	420
Deferred compensation for directors	81	1,046	544	1,684
Total share-based compensation expense	$ 1,910	$ 2,746	$ 6,594	$ 6,563

Deferred Compensation Plan for Non-Management Directors We maintain a deferred compensation plan for non-management directors under which those who are eligible to receive fees or retainers may choose to defer receipt of their compensation. The amounts deferred are converted into stock equivalents at the then current market price of our common stock. Effective November 9, 2006, the deferred compensation plan has been amended to eliminate a 25% company match of such deferred amounts and require settlement in shares of our common stock based on the number of stock equivalents at the time of a participant s separation from the Board of Directors. As a result of changing the method of settlement from cash to stock, the deferred compensation obligation has been reclassified from accrued liabilities to capital in excess of par value in the accompanying consolidated balance sheet as of April 15, 2007.

Table of Contents

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

8. AVERAGE SHARES OUTSTANDING

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

	Twelve Weeks Ended		Twenty-Eight Weeks Ended	
	April 15, 2007	**April 16, 2006**	**April 15, 2007**	**April 16, 2006**