JACK IN THE BOX INC /NEW/
Form 10-Q
February 23, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 22, 2017
Commission File Number: 1-9390

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 February 17, 2017, 31,641,734 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
(In thousands, except share and per share data)
(Unaudited)

	January 22, 2017	October 2, 2016
ASSETS		
Current assets:		
Cash	$6,090	$17,030
Accounts and other receivables, net	54,711	73,360
Inventories	8,344	8,229
Prepaid expenses	12,631	40,398
Assets held for sale	18,357	14,259
Other current assets	2,371	2,129
Total current assets	102,504	155,405
Property and equipment, at cost	1,596,676	1,605,576
Less accumulated depreciation and amortization	(899,077)	(886,526)
Property and equipment, net	697,599	719,050
Intangible assets, net	13,793	14,042
Goodwill	166,045	166,046
Other assets, net	278,616	290,469
	$1,258,557	$1,345,012
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current maturities of long-term debt	$55,931	$55,935
Accounts payable	30,052	40,736
Accrued liabilities	134,701	181,250
Total current liabilities	220,684	277,921
Long-term debt, net of current maturities	985,588	935,372
Other long-term liabilities	325,526	348,925
Stockholders' deficit:		
Preferred stock $0.01 par value, 15,000,000 shares authorized, none issued	—	—
Common stock $0.01 par value, 175,000,000 shares authorized, 81,824,541 and 81,598,524 issued, respectively	818	816
Capital in excess of par value	445,147	432,564
Retained earnings	1,422,614	1,399,721
Accumulated other comprehensive loss	(170,388)	(187,021)
Treasury stock, at cost, 50,182,807 and 49,190,992 shares, respectively	(1,971,432)	(1,863,286)
Total stockholders' deficit	(273,241)	(217,206)
	$1,258,557	$1,345,012

See accompanying notes to condensed consolidated financial statements.

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

	Sixteen Weeks Ended	
	January 22, 2017	January 17, 2016
Revenues:		
Company restaurant sales	$367,270	$353,221
Franchise rental revenues	71,469	69,738
Franchise royalties and other	49,194	47,864
	487,933	470,823
Operating costs and expenses, net:		
Company restaurant costs:		
Food and packaging	108,936	108,911
Payroll and employee benefits	106,921	97,907
Occupancy and other	83,044	77,699
Total company restaurant costs	298,901	284,517
Franchise occupancy expenses	51,449	52,219
Franchise support and other costs	3,838	4,862
Selling, general and administrative expenses	55,708	65,872
Impairment and other charges, net	5,057	1,657
Gains on the sale of company-operated restaurants	(137)	(818)
	414,816	408,309
Earnings from operations	73,117	62,514
Interest expense, net	12,717	8,175
Earnings from continuing operations and before income taxes	60,400	54,339
Income taxes	23,366	20,442
Earnings from continuing operations	37,034	33,897
Losses from discontinued operations, net of income tax benefit	(1,105)	(676)
Net earnings	$35,929	$33,221
Net earnings per share - basic:		
Earnings from continuing operations	$1.15	$0.96
Losses from discontinued operations	(0.03)	(0.02)
Net earnings per share (1)	$1.12	$0.94
Net earnings per share - diluted:		
Earnings from continuing operations	$1.14	$0.94
Losses from discontinued operations	(0.03)	(0.02)
Net earnings per share (1)	$1.11	$0.92
Weighted-average shares outstanding:		
Basic	32,168	35,458
Diluted	32,442	35,946
Cash dividends declared per common share	$0.40	$0.30

(1) Earnings per share may not add due to rounding.
See accompanying notes to condensed consolidated financial statements.

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

	Sixteen Weeks Ended	
	January 22, 2017	January 17, 2016
Net earnings	$35,929	$ 33,221
Cash flow hedges:		
Net change in fair value of derivatives	23,086	(11,437)
Net loss reclassified to earnings	2,066	1,444
	25,152	(9,993)
Tax effect	(9,731)	3,868
	15,421	(6,125)
Unrecognized periodic benefit costs:		
Actuarial losses and prior service costs reclassified to earnings	1,978	1,398
Tax effect	(766)	(541)
	1,212	857
Other:		
Foreign currency translation adjustments	—	(52)
Tax effect	—	20
	—	(32)
Other comprehensive income (loss), net of tax	16,633	(5,300)
Comprehensive income	$52,562	$ 27,921

See accompanying notes to condensed consolidated financial statements.

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

	Sixteen Weeks Ended	
	January 22, 2017	January 17, 2016
Cash flows from operating activities:		
Net earnings	$35,929	$ 33,221
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	27,987	28,514
Deferred finance cost amortization	1,123	823
Excess tax benefits from share-based compensation arrangements	(3,981)	(2,020)
Deferred income taxes	2,239	(2,128)
Share-based compensation expense	3,814	4,088
Pension and postretirement expense	1,297	4,149
Losses on cash surrender value of company-owned life insurance	326	2,466
Gains on the sale of company-operated restaurants	(137)	(818)
Losses on the disposition of property and equipment	699	651
Impairment charges and other	1,871	446
Changes in assets and liabilities:		
Accounts and other receivables	19,378	(4,204)
Inventories	(115)	(495)
Prepaid expenses and other current assets	31,506	1,205
Accounts payable	(5,487)	7,386
Accrued liabilities	(43,328)	(25,403)
Pension and postretirement contributions	(1,440)	(1,883)
Other	(726)	(1,089)
Cash flows provided by operating activities	70,955	44,909
Cash flows from investing activities:		
Purchases of property and equipment	(20,865)	(31,543)
Purchases of assets intended for sale and leaseback	(1,770)	(3,274)
Proceeds from the sale and leaseback of assets	2,466	5,803
Proceeds from the sale of company-operated restaurants	138	1,021
Collections on notes receivable	298	441
Acquisition of franchise-operated restaurants	—	324
Other	51	(28)
Cash flows used in investing activities	(19,682)	(27,256)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	231,000	176,000
Repayments of borrowings on revolving credit facilities	(167,000)	(97,000)
Principal repayments on debt	(14,438)	(8,479)
Dividends paid on common stock	(12,962)	(10,592)
Proceeds from issuance of common stock	4,756	492
Repurchases of common stock	(115,354)	(100,000)
Excess tax benefits from share-based compensation arrangements	3,981	2,020
Change in book overdraft	7,804	9,295
Cash flows used in financing activities	(62,213)	(28,264)
Effect of exchange rate changes on cash	—	(32)
Net decrease in cash	(10,940)	(10,643)

Cash at beginning of period	17,030	17,743
Cash at end of period	$6,090	$ 7,100

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 Eats® (“Qdoba”) fast-casual restaurants. The following table summarizes the number of restaurants as of the end of each period:

	January 22, 2017	January 17, 2016
Jack in the Box:		
Company-operated	419	413
Franchise	1,842	1,840
Total system	2,261	2,253
Qdoba:		
Company-operated	376	330
Franchise	336	344
Total system	712	674

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 (“U.S. GAAP”) and the rules and regulations of the Securities and Exchange Commission (“SEC”). During fiscal 2012, we entered into an agreement to outsource our Jack in the Box distribution business. In fiscal 2013, we closed 62 Qdoba restaurants (the “2013 Qdoba Closures”) as part of a comprehensive Qdoba market performance review. The results of operations for our distribution business and for the 2013 Qdoba Closures are reported as discontinued operations for all periods presented. Refer to Note 2, Discontinued Operations, for additional information. Unless otherwise noted, amounts and disclosures throughout these notes to condensed consolidated financial statements relate to our continuing operations. In our opinion, all adjustments considered necessary for a fair presentation of financial condition and results of operations for these interim periods have been included. Operating results for one interim period are not necessarily indicative of the results for any other interim period or for the full year.

These financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended October 2, 2016 (“2016 Form 10-K”). The accounting policies used in preparing these condensed consolidated financial statements are the same as those described in our 2016 Form 10-K with the exception of two new accounting pronouncements adopted in fiscal 2017 which are described below.

Reclassifications and adjustments — Certain prior year amounts in the condensed consolidated balance sheets have been reclassified due to the adoption of a new accounting pronouncement. See discussion below.

Fiscal year — Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal year 2017 includes 52 weeks, while fiscal year 2016 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 2016, which includes 13 weeks. All comparisons between 2017 and 2016 refer to the 16 weeks (“quarter”) ended January 22, 2017 and January 17, 2016, respectively, unless otherwise indicated.

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. The financial results and position of our VIE are immaterial to our condensed consolidated financial statements.

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

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

Effect of new accounting pronouncements adopted in fiscal 2017 — In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in financial statements. Under this ASU, an entity presents such costs on the balance sheet as a direct deduction from the related debt liability rather than as an asset. This new standard is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. We adopted this standard in the first quarter of 2017 and the prior period was retrospectively adjusted. The adjustment resulted in a reclassification of $3.8 million in debt issuance costs from other assets, net to current maturities of long-term debt and long-term debt, net of current maturities in the amount of $1.6 million and $2.2 million, respectively, in our October 2, 2016 condensed consolidated balance sheet.

In August 2015, the FASB issued ASU No. 2015-15, Interest-Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which addresses line-of-credit arrangements that were omitted from ASU No. 2015-03. This ASU states that the SEC staff would not object to an entity deferring and presenting debt issuance costs related to a line-of-credit arrangement as an asset and subsequently amortizing those costs ratably over the term of the arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This new standard is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. We adopted this standard in the first quarter of 2017 and there was no impact on our consolidated financial statements as we continue to present debt issuance costs associated with our line-of-credit arrangement as an asset on our condensed consolidated balance sheets.

Effect of new accounting pronouncements to be adopted in future periods — In May 2014, the FASB issued ASU No. 2014-09, Revenue Recognition - Revenue from Contracts with Customers (Topic 606), which provides a comprehensive new revenue recognition model that requires an entity to recognize revenue in an amount that reflects the consideration the entity expects to receive for the transfer of promised goods or services to its customers. The standard also requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Further, in March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the guidance in ASU No. 2014-09 when evaluating when another party, along with the entity, is involved in providing a good or service to a customer. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the guidance in ASU No. 2014-09 regarding assessing whether promises to transfer goods or services are distinct, and whether an entity's promise to grant a license provides a customer with a right to use, or right to access the entity's intellectual property. In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Revenue from Contracts with Customers (Topic 606). This ASU clarifies the guidance in ASU 2014-09, providing technical corrections and improvements to clarify guidance and correct unintended applications of the guidance. All standards are effective for annual periods beginning after December 15, 2017, and interim periods within that reporting period. As such, we will be required to adopt these standards in the first quarter of fiscal 2019. These standards are to be applied retrospectively or using a cumulative effect transition method, and early adoption is not permitted. We do not believe the new revenue recognition standard will impact our recognition of restaurant sales, rental revenues or royalty fees from franchisees. However, we are still evaluating the impact that this pronouncement will have on the recognition of certain transactions on our consolidated financial statements, including the initial franchise fees currently recognized upon the opening of a fra