JACK IN THE BOX INC /NEW/
Form 10-Q
August 10, 2012

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 8, 2012
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 August 3, 2012, 44,579,115 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 per share data)
(Unaudited)

	July 8, 2012	October 2, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$10,815	$11,424
Accounts and other receivables, net	84,899	86,213
Inventories	36,997	38,931
Prepaid expenses	32,175	18,737
Deferred income taxes	44,166	45,520
Assets held for sale and leaseback	62,400	51,793
Other current assets	517	1,793
Total current assets	271,969	254,411
Property and equipment, at cost	1,532,655	1,518,799
Less accumulated depreciation and amortization	(707,105)	(663,373)
Property and equipment, net	825,550	855,426
Goodwill	140,470	105,872
Other assets, net	241,099	216,613
	$1,479,088	$1,432,322
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$21,400	$21,148
Accounts payable	67,541	94,348
Accrued liabilities	176,766	167,487
Total current liabilities	265,707	282,983
Long-term debt, net of current maturities	430,441	447,350
Other long-term liabilities	340,376	290,723
Deferred income taxes	5,310	5,310
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, 75,600,656 and 74,992,487 issued, respectively	756	750
Capital in excess of par value	215,539	202,684
Retained earnings	1,108,194	1,063,020
Accumulated other comprehensive loss, net	(115,776)	(95,940)
Treasury stock, at cost, 31,072,631 and 30,746,099 shares, respectively	(771,459)	(764,558)
Total stockholders' equity	437,254	405,956
	$1,479,088	$1,432,322

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	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Revenues:				
Company restaurant sales	$285,376	$326,033	$940,281	$1,084,182
Distribution sales	138,839	125,704	473,779	393,753
Franchise revenues	77,605	67,542	247,105	211,194
	501,820	519,279	1,661,165	1,689,129
Operating costs and expenses, net:				
Company restaurant costs:				
Food and packaging	92,155	110,596	309,172	359,725
Payroll and employee benefits	81,806	96,723	274,875	329,235
Occupancy and other	64,316	78,100	214,751	259,896
Total company restaurant costs	238,277	285,419	798,798	948,856
Distribution costs	138,839	126,063	473,779	395,242
Franchise costs	38,604	31,589	126,459	101,268
Selling, general and administrative expenses	52,566	51,344	172,780	170,854
Impairment and other charges, net	15,181	2,101	24,606	10,191
Gains on the sale of company-operated restaurants	(3,733)	(10,190)	(18,933)	(38,940)
	479,734	486,326	1,577,489	1,587,471
Earnings from operations	22,086	32,953	83,676	101,658
Interest expense, net	4,371	4,016	14,962	12,573
Earnings before income taxes	17,715	28,937	68,714	89,085
Income taxes	6,123	10,192	23,540	31,138
Net earnings	$11,592	$18,745	$45,174	$57,947
Net earnings per share:				
Basic	$0.26	$0.39	$1.03	$1.15
Diluted	$0.26	$0.38	$1.01	$1.13
Weighted-average shares outstanding:				
Basic	44,156	48,498	43,975	50,435
Diluted	45,153	49,252	44,892	51,225

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	
	July 8, 2012	July 10, 2011
Cash flows from operating activities:		
Net earnings	$45,174	$57,947
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	74,210	74,342
Deferred finance cost amortization	2,068	1,954
Deferred income taxes	(2,314)	(7,771)
Share-based compensation expense	5,001	6,755
Pension and postretirement expense	26,853	18,343
Gains on cash surrender value of company-owned life insurance	(8,781)	(8,287)
Gains on the sale of company-operated restaurants	(18,933)	(38,940)
Gains on the acquisition of franchised-operated restaurants	—	(426)
Losses on the disposition of property and equipment, net	3,762	6,084
Impairment charges	2,765	1,684
Changes in assets and liabilities, excluding acquisitions and dispositions:		
Accounts and other receivables	(2,891)	(14,198)
Inventories	1,934	(754)
Prepaid expenses and other current assets	(12,346)	2,453
Accounts payable	(5,395)	(3,071)
Accrued liabilities	13,210	4,950
Pension and postretirement contributions	(9,998)	(3,522)
Other	(2,737)	(5,527)
Cash flows provided by operating activities	111,582	92,016
Cash flows from investing activities:		
Purchases of property and equipment	(56,205)	(99,485)
Purchases of assets held for sale and leaseback	(31,565)	(17,442)
Proceeds from the sale of assets held for sale and leaseback	18,457	25,753
Proceeds from the sale of company-operated restaurants	29,253	76,915
Collections on notes receivable	10,198	20,014
Disbursements for loans to franchisees	(3,976)	(7,582)
Acquisitions of franchise-operated restaurants	(48,262)	(22,077)
Other	315	2,170
Cash flows used in investing activities	(81,785)	(21,734)
Cash flows from financing activities:		
Borrowings on revolving credit facility	444,380	543,000
Repayments of borrowings on revolving credit facility	(445,104)	(453,000)
Principal repayments on debt	(15,933)	(8,549)
Debt issuance costs	(741)	(989)
Proceeds from issuance of common stock	7,096	4,260
Repurchases of common stock	(6,901)	(138,050)
Excess tax benefits from share-based compensation arrangements	525	883
Change in book overdraft	(13,728)	(16,418)
Cash flows used in financing activities	(30,406)	(68,863)
Net increase (decrease) in cash and cash equivalents	(609)	1,419

Cash and cash equivalents at beginning of period	11,424	10,607
Cash and cash equivalents at end of period	$10,815	$12,026

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 in 44 states. The following table summarizes the number of restaurants as of the end of each period:

	July 8, 2012	July 10, 2011
Jack in the Box:		
Company-operated	586	735
Franchise	1,661	1,485
Total system	2,247	2,220
Qdoba:		
Company-operated	304	229
Franchise	310	335
Total system	614	564

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 2, 2011. 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 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.

Fiscal year — Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal years 2012 and 2011 include 52 weeks. Our first quarter includes 16 weeks and all other quarters include 12 weeks. All comparisons between 2012 and 2011 refer to the 12-weeks (“quarter”) and 40-weeks (“year-to-date”) ended July 8, 2012 and July 10, 2011, respectively, unless otherwise indicated.

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.

2. 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	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Restaurants sold to franchisees	18	112	55	226
New restaurants opened by franchisees	7	12	36	40
Initial franchise fees	$933	$5,130	$3,423	$11,009
Proceeds from the sale of company-operated restaurants (1)	$7,289	$27,327	$29,253	$76,915
Net assets sold (primarily property and equipment)	(2,586)	(16,372)	(8,419)	(36,244)
Goodwill related to the sale of company-operated restaurants	(199)	(556)	(851)	(1,522)
Other	(771)	(209)	(1,050)	(209)
Gains on the sale of company-operated restaurants	$3,733	$10,190	$18,933	$38,940

(1) Amounts in 2012 include additional proceeds of $0.2 million in the quarter and $2.3 million year-to-date recognized upon the extension of the underlying franchise and lease agreements related to restaurants sold in a prior year.

Franchise acquisitions — During fiscal 2012 and 2011, we acquired Qdoba franchise restaurants in select markets where we believe there is continued opportunity for restaurant development. 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 markets acquired. The following table provides detail of the combined allocations in each period (dollars in thousands):

	Year-to-Date	
	July 8, 2012	July 10, 2011
Restaurants acquired from franchisees	45	24
Property and equipment	$12,330	$4,858
Reacquired franchise rights	604	280
Liabilities assumed	(121)	(74)
Goodwill	35,449	17,439
Gain on the acquisition of franchise-operated restaurants	—	(426)
Total consideration	$48,262	$22,077

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 at the end of each period (in thousands):

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1) (3)	Significant Other Observable Inputs (Level 2) (3)	Significant Unobservable Inputs (Level 3)
Fair value measurements as of July 8, 2012:				
Interest rate swaps (Note 4) (1)	$(2,564)	$—	$(2,564)	$—
Non-qualified deferred compensation plans (2)	(38,151)	(38,151)	—	—
Total liabilities at fair value	$(40,715)	$(38,151)	$(2,564)	$—
Fair value measurements as of October 2, 2011:				
Interest rate swaps (Note 4) (1)	$(2,682)	$—	$(2,682)	$—

Non-qualified deferred compensation plan (2)	(34,288)	(34,288)	—	—
Total liabilities at fair value	$(36,970)	$ (34,288)	$(2,682)	$—

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(1) We entered into interest rate swaps to reduce our exposure to rising interest rates on our variable debt. The fair values of our interest

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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.

(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.

(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 July 8, 2012, the carrying value of all financial instruments was not materially different from fair value, as the interest rates on variable rate debt approximated rates currently available to the Company. The estimated fair values of our capital lease obligations approximated their carrying values as of July 8, 2012.

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 property and equipment impairment reviews during the 40-weeks ended July 8, 2012, eight Jack in the Box restaurants determined to be underperforming or which we intend to close having a carrying amount of $2.7 million were written down to their implied fair value of $0.5 million, resulting in an impairment charge of $2.2 million. 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 5, Impairment, Disposition of Property and Equipment, Restaurant Closing Costs and Restructuring, 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 effectively convert $100.0 million of our variable rate term loan borrowings to a fixed-rate basis from September 2011 through September 2014.

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

	July 8, 2012		October 2, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps (Note 3)	Accrued liabilities	$(2,564)	Accrued liabilities	$(2,682)
Total derivatives		$(2,564)		$(2,682)

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	
		July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Loss recognized in OCI (Note 9)	N/A	$(264)	$(1,936)	$(883)	$(746)
Loss reclassified from accumulated OCI into income (Note 9)	Interest expense, net	$304	$—	$1,001	$—

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.

5. 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	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Impairment charges	$656	$517	$2,765	$1,684
Losses on the disposition of property and equipment, net	904	660	3,762	6,084
Costs of closed restaurants (primarily lease obligations) and other	2,337	924	5,270	2,423
Restructuring costs	11,284	—	12,809	—
	$15,181	$2,101	$24,606	$10,191

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 in 2012 primarily represent charges to write down the carrying value of five underperforming Jack in the Box restaurants and three 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 charges from our ongoing re-image and logo program and normal capital maintenance activities.

Restaurant closing costs consist of future lease commitments, net of anticipated sublease rentals and expected ancillary costs. Total accrued restaurant closing costs, included in accrued liabilities and other long-term liabilities, changed as follows (in thousands):

	Quarter		Year-to-Date	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Balance at beginning of period	$20,167	$22,163	$21,657	$25,020
Additions and adjustments	1,801	379	3,713	1,163
Cash payments	(1,649)	(1,661)	(5,051)	(5,302)
Balance at end of quarter	$20,319	$20,881	$20,319	$20,881

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

Restructuring costs — During fiscal 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. As part of these cost-saving initiatives, we announced a voluntary early retirement program ("VERP") to eligible employees and initiated workforce reductions. Restructuring costs consist primarily of pension and employee termination costs related to the VERP offered by the Company. The following is a summary of these costs in each period (in thousands):

	Quarter		Year-to-Date	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Enhanced pension benefits	$6,167	$—	$6,167	$—
Severance costs	3,972	—	5,497	—
Other	1,145	—	1,145	—
	$11,284	$—	$12,809	$—

Refer to Note 7, Retirement Plans, for further information regarding the costs associated with enhanced pension benefits. Total accrued severance costs related to our restructuring activities are included in accrued liabilities and

changed as follows in each period (in thousands):

	Quarter		Year-to-Date	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Balance at beginning of period	$1,525	$—	$—	$—
Additions	3,972	—	5,497	—
Cash payments	(2,826)	—	(2,826)	—
Balance at end of quarter	$2,671	$—	$2,671	$—

As part of the ongoing review of our organization structure, we expect to incur additional charges related to this activity; however, we are unable to reasonably estimate the additional costs at this time.

6. INCOME TAXES

The income tax provisions reflect year-to-date effective tax rates of 34.3% in 2012 and 35.0% in 2011. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual 2012 rate could differ from our current estimates.

At July 8, 2012, our gross unrecognized tax benefits associated with uncertain income tax positions were $0.9 million, which if recognized would favorably impact the effective income tax rate. The gross unrecognized tax benefits increased by $0.3 million from the end of fiscal year 2011 based on a preliminary assessment 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.

7. RETIREMENT PLANS

Defined benefit pension plans — We sponsor a defined benefit pension plan (our "Primary Plan") covering substantially all full-time employees, which will no longer accrue benefits effective December 31, 2015 and was closed to new participants effective January 1, 2011. 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.

In April 2012, we announced a voluntary early retirement program to eligible employees. The offering period for participation in the VERP had ended as of July 8, 2012. As a result, we incurred a charge in the quarter and an increase to our pension benefit obligation ("PBO") of $6.2 million for enhanced retirement benefits under our Primary Plan. Additionally, we were required to re-measure the liability for our Primary Plan as of June 30, 2012. The discount rate and long-term rate of return on plan assets used for the June 30th re-measurement were 4.78% and 7.25% compared to 5.60% and 7.75%, respectively, at the end of fiscal 2011. In connection with the re-measurement, the PBO of our Primary Plan increased $42.4 million due to actuarial losses arising during the period with a corresponding increase to accumulated other comprehensive loss, net. Refer to Note 9, Stockholders' Equity, for additional information.

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.

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

	Quarter		Year-to-Date	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Defined benefit pension plans:				
Service cost	$2,229	$2,489	$7,304	$8,298
Interest cost	5,347	4,980	17,538	16,600
Expected return on plan assets	(4,743)	(4,785)	(15,504)	(15,948)
Actuarial loss	2,974	2,268	9,657	7,557
Amortization of unrecognized prior service cost	99	113	332	376
Net periodic benefit cost	$5,906	$5,065	$19,327	$16,883
Postretirement healthcare plans:				
Service cost	$14	$19	$47	$61
Interest cost	374	366	1,244	1,220
Actuarial loss	21	46	69	155
Amortization of unrecognized prior service cost	—	7	—	24
Net periodic benefit cost	$409	$438	$1,360	$1,460

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 a $14.9 million minimum requirement that will be satisfied by September 15, 2013. Details regarding 2012 contributions are as follows (in thousands):

	Defined Benefit Pension Plans	Postretirement Healthcare Plans
Net year-to-date contributions	$ 11,148	$ 1,058
Remaining estimated net contributions during fiscal 2012	$ 6,000	$ 300

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.

8. 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 fiscal 2012, we granted the following share-based compensation awards:

	Shares
Stock options	485,057
Performance-vested stock awards	234,258
Nonvested stock units	86,052

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

	Quarter		Year-to-Date	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Stock options	$788	$1,175	$2,763	$3,861
Performance-vested stock awards	222	270	724	1,479
Nonvested stock awards	134	139	449	465
Nonvested stock units	295	199	910	777
Deferred compensation for non-management directors	—	—	155	173
Total share-based compensation expense	$1,439	$1,783	$5,001	$6,755

9. STOCKHOLDERS' EQUITY

Repurchases of common stock — In May 2011, the Board of Directors approved a program to repurchase up to $100.0 million in shares of our common stock expiring November 2012. During the first quarter, we repurchased approximately 0.3 million shares at an aggregate cost of $6.4 million, completing the May 2011 authorization. In November 2011, the

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Board of Directors approved a new program to repurchase $100.0 million in shares of our common stock expiring November 2013. As of the end of the third quarter, $100.0 million remains available under this authorization.
Comprehensive income — Our total comprehensive income, net of taxes, was as follows (in thousands):

	Quarter		Year-to-Date	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Net earnings	$11,592	$18,745	$45,174	$57,947
Cash flow hedges:				
Net change in fair value of derivatives	(264)	(1,936)	(883)	(746)
Net loss reclassified to earnings	304	—	1,001	—
Total	40	(1,936)	118	(746)
Tax effect	(15)	739	(46)	285
	25	(1,197)	72	(461)
Unrecognized periodic benefit costs:				
Actuarial losses arising during the period	(42,371)	—	(42,371)	—
Actuarial losses and prior service cost reclassified to earnings	3,094	2,434	10,058	8,112
Total	(39,277)	2,434	(32,313)	8,112
Tax effect	15,078	(929)	12,405	(3,097)
	(24,199)	1,505	(19,908)	5,015
Total comprehensive income (loss)	$(12,582)	$19,053	$25,338	$62,501

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):

	July 8, 2012	October 2, 2011
Unrecognized periodic benefit costs, net of tax benefits of $71,148 and $58,743, respectively	$(114,196)	$(94,288)
Net unrealized losses related to cash flow hedges, net of tax benefits of $984 and $1,030, respectively	(1,580)	(1,652)
Accumulated other comprehensive loss, net	$(115,776)	$(95,940)

10. 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-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.

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

	Quarter		Year-to-Date	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Weighted-average shares outstanding – basic	44,156	48,498	43,975	50,435
Effect of potentially dilutive securities:				
Stock options	505	397	431	440
Nonvested stock awards and units	264	224	267	216
Performance-vested stock awards	228	133	219	134
Weighted-average shares outstanding – diluted	45,153	49,252	44,892	51,225

Excluded from diluted weighted-average shares outstanding:				
Antidilutive	2,583	3,059	3,006	3,009
Performance conditions not satisfied at the end of the period	343	354	343	354

11. VARIABLE INTEREST ENTITIES (“VIEs”)

We formed Jack in the Box Franchise Finance, LLC (“FFE”) for the purpose of operating a franchisee lending program which may provide up to $100.0 million to assist Jack in the Box 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 revolving loan and security agreement bearing a variable interest rate. The revolving period expired in June 2012 and we do not plan to make any future contributions. We have determined that FFE is a VIE and that the Company is its primary beneficiary. We considered a variety of factors in identifying the primary beneficiary of FFE including, but not limited to, who holds the power to direct matters that most significantly impact FFE’s economic performance (such as determining the underwriting standards and credit management policies), as well as what party has the obligation to absorb the losses of FFE. Based on these considerations, we have determined that the Company is the primary beneficiary and 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 impacts of FFE’s results were not material to the Company’s condensed consolidated statements of earnings or cash flows. The FFE’s balance sheet consisted of the following at the end of each period (in thousands):

	July 8, 2012	October 2, 2011
Cash	$707	$531
Other current assets (1)	2,286	2,086
Other assets, net (1)	11,876	12,292
Total assets	$14,869	$14,909
Current liabilities	$89	$140
Revolving credit facility	—	1,160
Other long-term liabilities (2)	15,248	14,046
Retained earnings	(468)	(437)
Total liabilities and stockholders’ equity	$14,869	$14,909

(1) Consists primarily of amounts due from franchisees.

(2) Consists primarily of the capital note contributions from Jack in the Box which are eliminated in consolidation.

The Company’s maximum exposure to loss is equal to its outstanding contributions, which were approximately $15.2 million as of July 8, 2012. This amount represents estimated losses that would be incurred should all franchisees default on their loans without any consideration of recovery. To offset the credit risk associated with the Company’s variable interest in FFE, the Company holds a security interest in the assets of FFE subordinate and junior to all other obligations of FFE.

12. LEGAL MATTERS

The Company is subject to normal and routine litigation brought by former, current or prospective employees, customers, franchisees, vendors, landlords, shareholders or others. The Company assesses contingencies to determine the degree of probability and range of possible loss for potential accrual in its financial statements. An estimated loss contingency is accrued in the financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable, assessing contingencies is highly subjective and requires judgments about future events. The Company regularly reviews contingencies to determine the adequacy of the accruals and related disclosures. The ultimate amount of loss may differ from these estimates. Although the Company currently believes that the ultimate outcome of these matters will not have a material adverse effect on the results of operations, liquidity or financial position of the Company, it is possible that

the results of operations, liquidity or financial position of the Company could be materially affected in any particular future reporting period by the unfavorable resolution of one or more of these matters or contingencies.

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 tables (in thousands):

	Quarter		Year-to-Date	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Revenues by segment:				
Jack in the Box restaurant operations segment	$288,178	$337,980	$970,254	$1,135,626
Qdoba restaurant operations segment	74,803	55,595	217,132	159,750
Distribution operations	138,839	125,704	473,779	393,753
Consolidated revenues	$501,820	$519,279	$1,661,165	$1,689,129
Earnings from operations by segment:				
Jack in the Box restaurant operations segment	$15,439	$28,500	$71,085	$95,675
Qdoba restaurant operations segment	6,705	4,698	12,748	7,582
Distribution operations	—	(217)	—	(1,399)
FFE operations	(58)	(28)	(157)	(200)
Consolidated earnings from operations	$22,086	$32,953	$83,676	$101,658
Total depreciation expense by segment:				
Jack in the Box restaurant operations segment	$17,873	$19,001	$60,201	$63,658
Qdoba restaurant operations segment	4,120	3,195	12,872	9,657
Distribution operations	158	158	556	548
Consolidated depreciation expense	$22,151	$22,354	$73,629	$73,863

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

	July 8, 2012	October 2, 2011
Goodwill by segment (in thousands):		
Jack in the Box	$48,330	$49,181
Qdoba	92,140	56,691
Consolidated goodwill	$140,470	$105,872

Refer to Note 2, Summary of Refranchisings, Franchise Development and Acquisitions, for information regarding the segment changes in goodwill during 2012.

14. SUPPLEMENTAL CONSOLIDATED CASH FLOW INFORMATION (in thousands)

	Year-to-Date	
	July 8, 2012	July 10, 2011
Cash paid during the quarter for:		
Interest, net of amounts capitalized	$16,812	$10,811
Income tax payments	$31,852	$40,367

15. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION (in thousands)

	July 8, 2012	October 2, 2011
Other assets, net:		
Company-owned life insurance policies	$83,775	$75,202
Deferred income tax asset	86,910	70,882
Other	70,414	70,529
	$241,099	$216,613
Accrued liabilities:		
Payroll and related	$50,431	$40,438
Advertising	24,969	21,899
Insurance	32,866	37,987
Other	68,500	67,163
	$176,766	$167,487
Other long-term liabilities:		
Pension	$191,586	$144,860
Straight-line rent accrual	54,080	53,659
Other	94,710	92,204
	$340,376	$290,723

16. SUBSEQUENT EVENT

Subsequent to the end of the third quarter, the Company entered into an agreement to outsource its distribution business. Subject to the anticipated completion of certain closing conditions, the transition should begin in the fourth quarter of fiscal 2012, and is expected to be completed by the end of the first quarter of fiscal 2013. We expect that the distribution business, including exit costs, will be reflected as discontinued operations beginning in the fourth quarter of fiscal 2012.

17. NEW ACCOUNTING PRINCIPLES

In May 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS, which was issued to update the language used in existing guidance to better align U.S. GAAP and IFRS fair value measurement guidance. This update also requires increased disclosure of quantitative and qualitative information about unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy. Other than requiring additional disclosures, adoption of this new guidance in the second quarter did not have a significant impact on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income, which was issued to enhance comparability between entities that report under U.S. GAAP and IFRS, and to provide a more consistent method of presenting non-owner transactions that affect an entity's equity. ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders' equity and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption of the new guidance is permitted, and full retrospective application is required.

Other accounting standards that have been issued or proposed 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.

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

GENERAL

All comparisons between 2012 and 2011 refer to the 12-weeks ("quarter") and 40-weeks ("year-to-date") ended July 8, 2012 and July 10, 2011, respectively, unless otherwise indicated.

For an understanding of the significant factors that influenced our performance during the quarterly periods ended July 8, 2012 and July 10, 2011, 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 2, 2011.

Our MD&A consists of the following sections:

- Overview — a general description of our business and fiscal 2012 highlights.
- 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, 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 the 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 8, 2012, we operated and franchised 2,247 Jack in the Box quick-service restaurants, primarily in the western and southern United States, and 614 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 2012 and certain trends compared to a year ago:

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

	Quarter		Year-to-Date	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Jack in the Box:				
Company	3.4 %	4.7 %	4.9 %	2.4 %
Franchise	2.6 %	2.4 %	3.0 %	0.9 %
System	2.8 %	3.2 %	3.5 %	1.4 %
Qdoba:				
Company	3.3 %	5.3 %	3.5 %	5.4 %
Franchise	0.9 %	5.0 %	2.5 %	6.1 %
System	2.1 %	5.1 %	3.0 %	5.8 %

- Commodity Costs — In the quarter, Jack in the Box commodity costs decreased approximately 0.3% compared to a year ago, while Qdoba commodity costs increased approximately 2.5%. Jack in the Box and Qdoba commodity costs increased by 3.1% and 7.8%, respectively, year-to-date. We expect our overall commodity costs to increase

approximately 3.5% in fiscal 2012 compared to a year ago.

- 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 30 Jack in the Box locations and 34 Qdoba locations system-wide.
- Franchising Program — Qdoba and Jack in the Box franchisees opened a total of 36 restaurants year-to-date. Our Jack in the Box system was approximately 74% franchised at the end of the third quarter and we plan to further increase franchise ownership to approximately 80% over the next couple years.

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.

CONSOLIDATED STATEMENTS OF EARNINGS DATA

	Quarter		Year-to-Date	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Revenues:				
Company restaurant sales	56.9 %	62.8 %	56.6 %	64.2 %
Distribution sales	27.7 %	24.2 %	28.5 %	23.3 %
Franchise revenues	15.5 %	13.0 %	14.9 %	12.5 %
Total revenues	100.0 %	100.0 %	100.0 %	100.0 %
Operating costs and expenses, net:				
Company restaurant costs:				
Food and packaging (1)	32.3 %	33.9 %	32.9 %	33.2 %
Payroll and employee benefits (1)	28.7 %	29.7 %	29.2 %	30.4 %
Occupancy and other (1)	22.5 %	24.0 %	22.8 %	24.0 %
Total company restaurant costs (1)	83.5 %	87.5 %	85.0 %	87.5 %
Distribution costs (1)	100.0 %	100.3 %	100.0 %	100.4 %
Franchise costs (1)	49.7 %	46.8 %	51.2 %	48.0 %
Selling, general and administrative expenses	10.5 %	9.9 %	10.4 %	10.1 %
Impairment and other charges, net	3.0 %	0.4 %	1.5 %	0.6 %
Gains on the sale of company-operated restaurants	(0.7)%	(2.0)%	(1.1)%	(2.3)%
Earnings from operations	4.4 %	6.3 %	5.0 %	6.0 %
Income tax rate (2)	34.6 %	35.2 %	34.3 %	35.0 %

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

The following table presents Jack in the Box and Qdoba company restaurant sales, costs and costs as a percentage of the related sales. Percentages may not add due to rounding.

SUPPLEMENTAL COMPANY-OPERATED RESTAURANTS STATEMENTS OF EARNINGS DATA
(dollars in thousands)

	Quarter						Year-to-Date					
	July 8, 2012			July 10, 2011			July 8, 2012			July 10, 2011		
Jack in the Box:												
Company restaurant sales	$214,679			$274,876			$736,860			$938,930		
Company restaurant costs:												
Food and packaging	71,582	33.3	%	95,727	34.8	%	249,681	33.9	%	318,030	33.9	%
Payroll and employee benefits	63,372	29.5	%	82,789	30.1	%	218,761	29.7	%	288,183	30.7	%
Occupancy and other	45,842	21.4	%	63,920	23.3	%	158,341	21.5	%	216,849	23.1	%
Total company restaurant costs	$180,796	84.2	%	$242,436	88.2	%	$626,783	85.1	%	$823,062	87.7	%
Qdoba:												
Company restaurant sales	$70,697			$51,157			$203,421			$145,252		
Company restaurant costs:												
Food and packaging	20,573	29.1	%	14,869	29.1	%	59,491	29.2	%	41,695	28.7	%
Payroll and employee benefits	18,434	26.1	%	13,934	27.2	%	56,114	27.6	%	41,052	28.3	%
Occupancy and other	18,474	26.1	%	14,180	27.7	%	56,410	27.7	%	43,047	29.6	%
Total company restaurant costs	$57,481	81.3	%	$42,983	84.0	%	$172,015	84.6	%	$125,794	86.6	%

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

	July 8, 2012						July 10, 2011					
	Company		Franchise		Total		Company		Franchise		Total	
Jack in the Box:												
Beginning of year	629		1,592		2,221		956		1,250		2,206	
New	14		16		30		11		10		21	
Refranchised	(55	)	55		—		(226	)	226		—	
Closed	(2	)	(2	)	(4	)	(6	)	(1	)	(7	)
End of period	586		1,661		2,247		735		1,485		2,220	
% of system	26	%	74	%	100	%	33	%	67	%	100	%
Qdoba:												
Beginning of year	245		338		583		188		337		525	
New	14		20		34		17		30		47	
Acquired from franchisees	45		(45	)	—		24		(24	)	—	
Closed	—		(3	)	(3	)	—		(8	)	(8	)
End of period	304		310		614		229		335		564	
% of system	50	%	50	%	100	%	41	%	59	%	100	%
Consolidated:												
Total system	890		1,971		2,861		964		1,820		2,784	
% of system	31	%	69	%	100	%	35	%	65	%	100	%

Revenues

As we continue to 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 $40.7 million, or 12.5%, in the quarter and $143.9 million, or 13.3%, year-to-date. This decrease is due primarily to a decrease in the average number of Jack in the Box company-operated restaurants,

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partially offset by an increase in the number of Qdoba company-operated restaurants and increases in per-store average sales ("PSA") at our Jack in the Box and 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	$(87,600)	$(313,000)
Jack in the Box PSA sales increase	27,400	111,000
Increase in the average number of Qdoba restaurants	15,800	49,100
Qdoba PSA sales increase	3,700	9,000
Total decrease in company restaurant sales	$(40,700)	$(143,900)

Same-store sales at Jack in the Box company-operated restaurants increased 3.4% in the quarter and 4.9% year-to-date driven by a combination of price increases and transaction growth. Same-store sales at Qdoba company-operated restaurants increased 3.3% in the quarter and 3.5% year-to-date primarily driven by price increases. The following table summarizes the change in company-operated same-store sales:

	Quarter	Year-to-Date
Jack in the Box transactions	1.2 %	2.5 %
Jack in the Box average check (1)	2.2 %	2.4 %
Jack in the Box change in same-store sales	3.4 %	4.9 %
Qdoba change in same-store sales (2)	3.3 %	3.5 %

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(1) Includes price increases of approximately 3.1% and 3.3% in the quarter and year-to-date, respectively.
(2) Includes price increases of approximately 3.2% and 3.8% in the quarter and year-to-date, respectively.

Distribution sales to Jack in the Box and Qdoba franchisees grew $13.1 million in the quarter and $80.0 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 $21.6 million and $80.8 million, respectively. Year-to-date, higher commodity prices also contributed to the sales increase. During the second quarter, Qdoba franchised restaurants ceased using our distribution services resulting in decreases in distribution sales of $8.0 million in the quarter and $10.5 million year-to-date. For additional information regarding our distribution operations, refer to Note 16, Subsequent Event, of the notes to the condensed consolidated financial statements.
Franchise revenues increased $10.1 million, or 14.9%, in the quarter and $35.9 million, or 17.0%, year-to-date due primarily to an increase in the average number of Jack in the Box franchise restaurants, which contributed additional royalties and rents of approximately $11.6 million and $41.1 million, respectively. This increase was partially offset by a decrease in revenues from franchise fees and other driven primarily by a decline in the number of restaurants sold to franchisees and a year-to-date 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 (dollars in thousands):

	Quarter		Year-to-Date	
	July 8, 2012	July 10, 2011	July 8, 2012	July 10, 2011
Royalties	$29,988	$25,637	$97,499	$81,982
Rents	45,982	37,587	150,076	120,313
Re-image contributions to franchisees	(189)	(1,905)	(6,723)	(4,620)
Franchise fees and other	1,824	6,223	6,253	13,519
Franchise revenues	$77,605	$67,542	$247,105	$211,194
% increase	14.9%		17.0%	
Average number of franchise restaurants	1,968	1,715	1,943	1,669
% increase	14.8%		16.4%	
Increase in franchise-operated same-store sales:				
Jack in the Box	2.6%	2.4%	3.0%	0.9%
Qdoba	0.9%	5.0%	2.5%	6.1%
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 decreased to 32.3% of company restaurant sales in the quarter and 32.9% year-to-date compared with 33.9% and 33.2%, respectively, a year ago. In 2012, higher commodity costs were more than offset in the quarter and partially offset year-to-date by the benefit of selling price increases, favorable product mix and a greater proportion of Qdoba company restaurants. Commodity costs increased (decreased) as follows compared with the prior year:

	Quarter	Year-to-Date
Jack in the Box	(0.3)%	3.1%
Qdoba	2.5%	7.8%

Commodity cost increases were driven by higher costs for most commodities other than produce and poultry. We expect overall commodity costs for fiscal 2012 to increase approximately 3.5%. Beef represents the largest portion, or approximately 20%, of the Company's overall commodity spend, and we typically do not enter into fixed price contracts for our beef needs. For the full year, we currently expect beef costs to increase approximately 5%, and most other major commodities to be higher in 2012 compared with last year.

Payroll and employee benefit costs decreased to 28.7% of company restaurant sales in the quarter and 29.2% year-to-date, compared to 29.7% and 30.4%, respectively, in 2011, reflecting the leverage from same-store sales increases, the benefits of refranchising and the favorable impact of recent acquisitions of Qdoba restaurants. These decreases were partially offset by higher levels of incentive compensation.

Occupancy and other costs decreased to 22.5% of company restaurant sales in the quarter and 22.8% year-to-date compared with 24.0% for both periods, last year. The lower percentage in 2012