JACK IN THE BOX INC /NEW/
Form 10-Q
August 06, 2015

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 5, 2015
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 July 31, 2015, 36,577,272 shares of the registrant’s common stock were outstanding.

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

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	July 5, 2015	September 28, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$17,706	$ 10,578
Accounts and other receivables, net	54,784	50,014
Inventories	7,448	7,481
Prepaid expenses	40,467	36,314
Deferred income taxes	37,377	36,810
Assets held for sale	13,440	4,766
Other current assets	1,494	597
Total current assets	172,716	146,560
Property and equipment, at cost	1,530,709	1,519,947
Less accumulated depreciation and amortization	(826,691)	(797,818)
Property and equipment, net	704,018	722,129
Intangible assets, net	14,955	15,604
Goodwill	149,042	149,074
Other assets, net	234,883	237,298
	$1,275,614	$ 1,270,665
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$18,483	$ 10,871
Accounts payable	26,064	31,810
Accrued liabilities	172,484	163,626
Total current liabilities	217,031	206,307
Long-term debt, net of current maturities	640,076	497,012
Other long-term liabilities	312,309	309,435
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, 81,070,256 and 80,127,387 issued, respectively	811	801
Capital in excess of par value	399,180	356,727
Retained earnings	1,303,892	1,244,897
Accumulated other comprehensive loss	(91,747)	(90,132)
Treasury stock, at cost, 44,517,922 and 41,571,752 shares, respectively	(1,505,938)	(1,254,382)
Total stockholders' equity	106,198	257,911
	$1,275,614	$ 1,270,665

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 5, 2015	July 6, 2014	July 5, 2015	July 6, 2014
Revenues:				
Company restaurant sales	$270,655	$264,398	$891,455	$861,000
Franchise revenues	88,851	84,094	294,794	278,444
	359,506	348,492	1,186,249	1,139,444
Operating costs and expenses, net:				
Company restaurant costs:				
Food and packaging	82,649	84,459	279,790	274,119
Payroll and employee benefits	72,896	71,733	241,648	237,165
Occupancy and other	56,103	57,671	187,602	189,378
Total company restaurant costs	211,648	213,863	709,040	700,662
Franchise costs	42,536	42,563	142,736	140,070
Selling, general and administrative expenses	50,986	47,422	166,553	155,238
Impairment and other charges, net	3,758	1,668	8,068	12,633
Losses (gains) on the sale of company-operated restaurants	183	(24)	4,353	(2,242)
	309,111	305,492	1,030,750	1,006,361
Earnings from operations	50,395	43,000	155,499	133,083
Interest expense, net	4,504	3,535	13,937	12,388
Earnings from continuing operations and before income taxes	45,891	39,465	141,562	120,695
Income taxes	17,528	13,338	52,739	43,294
Earnings from continuing operations	28,363	26,127	88,823	77,401
Losses from discontinued operations, net of income tax benefit	(1,532)	(1,424)	(3,152)	(4,611)
Net earnings	$26,831	$24,703	$85,671	$72,790
Net earnings per share - basic:				
Earnings from continuing operations	$0.76	$0.66	$2.34	$1.87
Losses from discontinued operations	(0.04)	(0.04)	(0.08)	(0.11)
Net earnings per share (1)	$0.72	$0.62	$2.26	$1.76
Net earnings per share - diluted:				
Earnings from continuing operations	$0.75	$0.64	$2.30	$1.82
Losses from discontinued operations	(0.04)	(0.03)	(0.08)	(0.11)
Net earnings per share (1)	$0.71	$0.61	$2.22	$1.71
Weighted-average shares outstanding:				
Basic	37,106	39,692	37,980	41,320
Diluted	37,661	40,787	38,630	42,605
Cash dividends declared per common share	$0.30	$0.20	$0.70	$0.20

(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
(Dollars in thousands)
(Unaudited)

	Quarter		Year-to-date	
	July 5, 2015	July 6, 2014	July 5, 2015	July 6, 2014
Net earnings	$26,831	$24,703	$85,671	$72,790
Cash flow hedges:				
Net change in fair value of derivatives	(5,027)	(14)	(11,699)	(99)
Net loss reclassified to earnings	461	324	1,556	1,072
	(4,566)	310	(10,143)	973
Tax effect	1,748	(119)	3,883	(373)
	(2,818)	191	(6,260)	600
Unrecognized periodic benefit costs:				
Actuarial losses and prior service costs reclassified to earnings	2,276	1,210	7,587	4,035
Tax effect	(872)	(464)	(2,905)	(1,548)
	1,404	746	4,682	2,487
Other:				
Foreign currency translation adjustments	(72)	(2)	(56)	5
Tax effect	24	1	19	(2)
	(48)	(1)	(37)	3
Other comprehensive income (loss), net of tax	(1,462)	936	(1,615)	3,090
Comprehensive income	$25,369	$25,639	$84,056	$75,880

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 5, 2015	July 6, 2014
Cash flows from operating activities:		
Net earnings	$85,671	$72,790
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	68,205	70,585
Deferred finance cost amortization	1,690	1,677
Excess tax benefits from share-based compensation arrangements	(17,781)	(15,167)
Deferred income taxes	(4,046)	(84)
Share-based compensation expense	10,041	8,128
Pension and postretirement expense	14,423	10,585
Gains on cash surrender value of company-owned life insurance	(1,960)	(8,312)
Losses (gains) on the sale of company-operated restaurants	4,353	(2,242)
Losses on the disposition of property and equipment	1,074	1,051
Impairment charges and other	4,813	8,543
Loss on early retirement of debt	—	789
Changes in assets and liabilities, excluding acquisitions and dispositions:		
Accounts and other receivables	(6,895)	(9,376)
Inventories	33	(516)
Prepaid expenses and other current assets	20,760	(4,647)
Accounts payable	690	(3,035)
Accrued liabilities	4,215	6,950
Pension and postretirement contributions	(14,359)	(14,107)
Other	(5,782)	(9,689)
Cash flows provided by operating activities	165,145	113,923
Cash flows from investing activities:		
Purchases of property and equipment	(54,832)	(43,825)
Purchases of assets intended for sale and leaseback	(8,323)	(19)
Proceeds from the sale of assets	—	5,698
Proceeds from the sale of company-operated restaurants	2,651	8,199
Collections on notes receivable	5,648	2,555
Acquisitions of franchise-operated restaurants	—	(1,750)
Other	1,888	2,838
Cash flows used in investing activities	(52,968)	(26,304)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	742,000	618,000
Repayments of borrowings on revolving credit facilities	(698,000)	(460,000)
Proceeds from issuance of debt	300,000	200,000
Principal repayments on debt	(198,217)	(193,262)
Debt issuance costs	(1,942)	(3,607)
Dividends paid on common stock	(26,556)	(7,990)
Proceeds from issuance of common stock	14,590	27,069
Repurchases of common stock	(254,668)	(284,258)
Excess tax benefits from share-based compensation arrangements	17,781	15,167
Change in book overdraft	—	1,507

Cash flows used in financing activities	(105,012)	(87,374)
Effect of exchange rate changes on cash and cash equivalents	(37)	3
Net increase in cash and cash equivalents	7,128	248
Cash and cash equivalents at beginning of period	10,578	9,644
Cash and cash equivalents at end of period	$17,706	$9,892

See accompanying notes to condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION

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

	July 5, 2015	July 6, 2014
Jack in the Box:		
Company-operated	413	455
Franchise	1,835	1,797
Total system	2,248	2,252
Qdoba:		
Company-operated	314	308
Franchise	334	324
Total system	648	632

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

Basis of presentation — The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission ("SEC"). During fiscal 2012, we entered into an agreement to outsource our Jack in the Box distribution business. In the third quarter of 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 September 28, 2014. The accounting policies used in preparing these condensed consolidated financial statements are the same as those described in our Form 10-K with the exception of new accounting pronouncements adopted in fiscal 2015 which are described below.

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

Reclassifications and adjustments — Certain prior year amounts in the condensed consolidated financial statements have been reclassified to conform to the fiscal 2015 presentation.

Fiscal year — Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal years 2015 and 2014 include 52 weeks. Our first quarter includes 16 weeks and all other quarters include 12 weeks. All comparisons between 2015 and 2014 refer to the 12-weeks ("quarter") and 40-weeks ("year-to-date") ended July 5, 2015 and July 6, 2014, respectively, unless otherwise indicated.

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

actuaries and other experts in a particular area. Actual amounts could differ materially from these estimates.
Effect of new accounting pronouncements — In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which modifies the definition of discontinued operations to include only disposals of an entity that represent strategic shifts that have or will have a major effect on an entity's operations and financial results. This ASU also expands the disclosure requirements for disposals which meet the definition of a discontinued operation and requires entities to

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disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. The standard is effective prospectively for annual and interim periods beginning after December 15, 2014, with early adoption permitted. We early adopted this standard on September 29, 2014. This pronouncement did not have a material impact on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides a comprehensive new revenue recognition model that requires a company to recognize revenue in an amount that reflects the consideration it 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. This ASU is effective for annual periods and interim periods beginning after December 15, 2016. The ASU is to be applied retrospectively or using a cumulative effect transition method and early adoption is not permitted. In July 2015, the FASB affirmed its proposal to defer this ASU's effective date by one year, to December 15, 2017. The deferral allows early adoption at the original effective date. We are currently evaluating the effect that this pronouncement will have on our consolidated financial statements and related disclosures.

In June 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments when the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, which requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. This standard is to be applied prospectively for annual and interim periods beginning after December 15, 2015, with early adoption permitted. We early adopted this standard on September 29, 2014. This pronouncement did not have a material impact on our condensed consolidated financial statements.

In April 2015, the FASB issued 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, with early adoption permitted. We do not plan to adopt this standard early and do not expect that it will have a material impact on our consolidated financial statements or disclosures upon adoption.

In April 2015, the FASB issued ASU 2015-04, Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets, which provides a practical expedient that permits a company to measure defined benefit plan assets and obligations using the month-end date that is closest to the company's fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if the company has more than one plan. This ASU is effective prospectively for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. We do not expect this standard to have a material impact our consolidated financial statements upon adoption.

2. DISCONTINUED OPERATIONS

Distribution business — During fiscal 2012, we entered into an agreement with a third party distribution service provider pursuant to a plan approved by our board of directors to sell our Jack in the Box distribution business. During the first quarter of fiscal 2013, we completed the transition of our distribution centers. The operations and cash flows of the business have been eliminated and in accordance with the provisions of ASC 205, Presentation of Financial Statements, the results are reported as discontinued operations for all periods presented.

In 2015 and 2014, we recognized operating losses before taxes of $0.3 million and $0.6 million, respectively, in the quarter, and $0.5 million and $1.3 million, respectively, year-to-date. In the year-to-date period, operating losses before taxes include $0.3 million and $0.9 million in 2015 and 2014, respectively, related to insurance and other settlements, and $0.2 million and $0.3 million, respectively, related to our lease commitments.

Our liability for lease commitments related to our distribution centers is included in accrued liabilities and other long-term liabilities, and was $0.3 million and $0.5 million as of July 5, 2015 and September 28, 2014, respectively.

The lease commitment balance as of July 5, 2015 relates to one distribution center subleased at a loss.
2013 Qdoba Closures — During the third quarter of fiscal 2013, we closed 62 Qdoba restaurants. The decision to close these restaurants was based on a comprehensive analysis that took into consideration levels of return on investment and other key operating performance metrics. Since the closed locations were not predominantly located near those remaining in operation, we did not expect the majority of cash flows and sales lost from these closures to be recovered. In addition, we did not anticipate any ongoing involvement or significant direct cash flows from the closed stores. Therefore, in accordance with the provisions of ASC 205, Presentation of Financial Statements, the results of operations for these restaurants are reported as discontinued operations for all periods presented. In the quarter and year-to-date periods, we recognized operating losses before income taxes of $2.2 million and $4.6 million, respectively, in 2015, and $1.7 million and $6.1 million, respectively, in 2014.

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

In 2015, the year-to-date operating losses include $3.9 million of unfavorable lease commitment adjustments, $0.3 million of bad debt expense related to a subtenant, $0.2 million of ongoing facility related costs and $0.2 million of broker commissions. In 2014, the year-to-date operating losses include $4.2 million of unfavorable lease commitment adjustments, $0.4 million for asset impairments, $0.7 million of ongoing facility related costs and $0.5 million of broker commissions. We do not expect the remaining costs to be incurred related to these closures to be material; however, the estimates we make related to our future lease obligations, primarily the sublease income we anticipate, are subject to a high degree of judgment and may differ from actual sublease income due to changes in economic conditions, desirability of the sites and other factors.

Our liability for lease commitments related to the 2013 Qdoba Closures is included in accrued liabilities and other long-term liabilities and changed as follows in 2015 (in thousands):

Balance as of September 28, 2014	$5,737
Adjustments	3,853
Cash payments	(5,225)
Balance as of July 5, 2015	$4,365

Adjustments primarily relate to revisions to certain sublease and cost assumptions due to changes in market conditions as well as charges to terminate four lease agreements. These amounts were partially offset by favorable adjustments for locations that we have subleased.

3. INDEBTEDNESS

Amended credit facility — On July 1, 2015, the Company amended its credit facility to increase our overall borrowing capacity. The amended credit facility was increased to $1.2 billion, consisting of (i) a $900.0 million revolving credit facility and (ii) a $300.0 million term loan facility. The interest rate did not change as a result of the amendment and continues to be based on the Company’s leverage ratio and can range from London Interbank Offered Rate (“LIBOR”) plus 1.25% to 2.00%. Both the revolving credit facility and the term loan facility maturity dates of March 19, 2019 did not change as part of the amendment. As part of the existing credit agreement, we may also request the issuance of up to $75.0 million in letters of credit, the outstanding amount of which reduces our net borrowing capacity under the agreement. The amendment also, among other things, amended certain covenants already contained in the credit agreement.

Use of proceeds — The Company borrowed $300.0 million under the amended term loan and approximately $360.0 million under the amended revolving credit facility. The proceeds from the amendment were used to repay all borrowings under the credit facility prior to the amendment and pay related transaction fees and expenses associated with amending the credit facility, and will also be available for permitted share repurchases, permitted dividends, permitted acquisitions, ongoing working capital requirements and other general corporate purposes. At July 5, 2015, we had borrowings under the revolving credit facility of $350.0 million, $300.0 million outstanding under the term loan and letters of credit outstanding of $22.1 million.

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

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

Repayments — The amended term loan requires amortization in the form of quarterly installments of $3.91 million from September 2015 through March 2016, $5.86 million million from June 2016 through March 2018, and $7.81 million from June 2018 through December 2018 with the remainder due at the expiration of the term loan agreement in March 2019. We are required to make certain mandatory prepayments under certain circumstances and we have the option to

make certain prepayments without premium or penalty. The credit facility includes events of default (and related remedies, including acceleration and increased interest rates following an event of default) that are customary for facilities and transactions of this type.

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

4. SUMMARY OF REFRANCHISINGS, FRANCHISEE DEVELOPMENT AND ACQUISITIONS

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

	Quarter		Year-to-date	
	July 5, 2015	July 6, 2014	July 5, 2015	July 6, 2014
Restaurants sold to Jack in the Box franchisees	—	—	21	14
New restaurants opened by franchisees:				
Jack in the Box	1	3	12	10
Qdoba	4	5	15	17
Initial franchise fees	$130	$207	$1,113	$1,361
Proceeds from the sale of company-operated restaurants (1)	$21	$357	$2,651	$8,199
Net assets sold (primarily property and equipment)	(204)	(7)	(2,638)	(2,247)
Goodwill related to the sale of company-operated restaurants	—	(5)	(32)	(134)
Other (2)	—	1	(4,334)	(139)
(Losses) gains on the sale of company-operated restaurants	$(183)	$346	$(4,353)	$5,679
Losses on expected sale of Jack in the Box company-operated markets (3)	—	(322)	—	(3,437)
Total (losses) gains on the sale of company-operated restaurants	$(183)	$24	$(4,353)	$2,242

(1) Amounts in 2015 and 2014 include additional proceeds recognized upon the extension of the underlying franchise and lease agreements related to restaurants sold in a prior year of $0.1 million and $0.4 million, respectively, in the quarter, and $0.2 million and $1.5 million, respectively, year-to-date.

(2) Amounts in 2015 include lease commitment charges related to restaurants closed in connection with the sale of the related market, and charges for operating restaurant leases with lease commitments in excess of our sublease rental income.

(3) Amounts in 2014 relate to losses on the expected sale of approximately 43 company-operated restaurants in three Jack in the Box markets sold in the fourth quarter of 2014 and the second quarter of 2015.

Franchise acquisitions — In 2015, we acquired seven Jack in the Box franchise restaurants in two markets, and during 2014, we repurchased four Jack in the Box franchise restaurants in another market. 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). Acquisitions were not material to our condensed consolidated financial statements in either year.

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

5. FAIR VALUE MEASUREMENTS

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

	Total	Quoted Prices in Active Markets for Identical Assets (3) (Level 1)	Significant Other Observable Inputs (3) (Level 2)	Significant Unobservable Inputs (Level 3)
Fair value measurements as of July 5, 2015:				
Non-qualified deferred compensation plan (1)	$(37,182)	$ (37,182)	$—	$—
Interest rate swaps (Note 6) (2)	(11,932)	—	(11,932)	—
Total liabilities at fair value	$(49,114)	$ (37,182)	$(11,932)	$—
Fair value measurements as of September 28, 2014:				
Non-qualified deferred compensation plan (1)	$(35,602)	$ (35,602)	$—	$—
Interest rate swaps (Note 6) (2)	(1,789)	—	(1,789)	—
Total liabilities at fair value	$(37,391)	$ (35,602)	$(1,789)	$—

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

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

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

The fair values of our debt instruments are based on the amount of future cash flows associated with each instrument discounted using our borrowing rate. At July 5, 2015, the carrying value of all financial instruments was not materially different from fair value, as the borrowings are prepayable without penalty. The estimated fair values of our capital lease obligations approximated their carrying values as of July 5, 2015.

Non-financial assets and liabilities — Our 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 an annual basis or whenever events or changes in circumstances indicate that their carrying value may not be recoverable, non-financial instruments are assessed for impairment. If applicable, the carrying values are written down to fair value.

In connection with our impairment reviews performed during 2015, no material fair value adjustments were required. Refer to Note 7, Impairment and Other Charges, Net for additional information regarding impairment charges.

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6. 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 converted $100.0 million of our variable rate term loan borrowings to a fixed-rate basis from September 2011 through September 2014. In April 2014, we entered into nine forward-starting interest rate swap agreements that effectively convert $300.0 million of our variable rate borrowings to a fixed rate basis from October 2014 through October 2018. In June 2015, we entered into 11 forward-starting interest rate swap agreements that effectively convert an additional $200.0 million of our variable rate borrowings to a fixed rate from October 2015 through October 2018, and $500.0 million from October 2018 through October 2022. These agreements have been designated as cash flow hedges under the terms of the FASB authoritative guidance for derivatives and hedging. To the extent that they are effective in offsetting the variability of the hedged cash flows, changes in the fair values of the derivatives are not included in earnings, but are included in other comprehensive income ("OCI"). These changes in fair value are subsequently reclassified into net earnings as a component of interest expense as the hedged interest payments are made on our term debt.

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

	July 5, 2015		September 28, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps (Note 5)	Accrued liabilities	$(2,341)	Accrued liabilities	$(1,789)
Interest rate swaps (Note 5)	Other long-term liabilities	$(9,591)	Other long-term liabilities	$—
Total derivatives		$(11,932)		$(1,789)

Financial performance — The following is a summary of the OCI activity related to our interest rate swap derivative instruments (in thousands):

	Location of Loss in Income	Quarter		Year-to-date	
		July 5, 2015	July 6, 2014	July 5, 2015	July 6, 2014
Gain (loss) recognized in OCI	N/A	$(5,027)	$(14)	$(11,699)	$(99)
Loss reclassified from accumulated OCI into net earnings	Interest expense, net	$461	$324	$1,556	$1,072

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

7. IMPAIRMENT AND OTHER CHARGES, NET

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 5, 2015	July 6, 2014	July 5, 2015	July 6, 2014
Accelerated depreciation	$2,610	$152	$4,749	$1,302
Restaurant impairment charges	24	146	65	326

Losses on the disposition of property and equipment, net	228	491	580	1,042
Costs of closed restaurants (primarily lease obligations) and other	886	318	2,645	1,613
Restructuring costs	10	561	29	8,350
	$3,758	$1,668	$8,068	$12,633

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Accelerated depreciation — When a long-lived asset will be replaced or otherwise disposed of prior to the end of its estimated useful life, the useful life of the asset is adjusted based on the estimated disposal date and accelerated depreciation is recognized. Accelerated depreciation primarily relates to expenses at our Jack in the Box company restaurants for the replacement of technology and beverage equipment in 2015 and restaurant facility enhancement programs in 2014. In the third quarter of 2015, we recognized a $2.2 million charge related to the replacement of our beverage equipment at Jack in the Box restaurants.
Impairment charges — When events and circumstances indicate that our long-lived assets might be impaired and their carrying amount is greater than the undiscounted cash flows we expect to generate from such assets, we recognize an impairment loss as the amount by which the carrying value exceeds the fair value of the assets. Impairment charges in all periods were not material and primarily relate to charges for restaurants we intend to or have closed.
Disposition of property and equipment — Disposal costs primarily relate to gains or losses recognized upon the sale of closed restaurant properties. In 2015, losses on the disposition of property and equipment includes a gain of $0.9 million from the resolution of one eminent domain matter involving a Jack in the Box restaurant.
Costs of closed restaurants — Costs of closed restaurants primarily consist of future lease commitments, net of anticipated sublease rentals and expected ancillary costs related to our Jack in the Box restaurant operations. Accrued restaurant closing costs, included in accrued liabilities and other long-term liabilities, changed as follows in 2015 (in thousands):

Balance as of September 28, 2014	$13,173
Adjustments (1)	2,141
Cash payments	(4,760)
Balance as of July 5, 2015	$10,554

(1) Adjustments relate primarily to revisions to certain sublease and cost assumptions. The estimates we make related to our future lease obligations, primarily the sublease income we anticipate, are subject to a high degree of judgment and may differ from actual sublease income due to changes in economic conditions, desirability of the sites and other factors.
Restructuring costs — Since the beginning of 2012, we have been engaged in efforts to improve our cost structure and identify opportunities to reduce general and administrative expenses as well as improve profitability across both brands. The following is a summary of the costs incurred in connection with these activities (in thousands):

	Quarter		Year-to-date	
	July 5, 2015	July 6, 2014	July 5, 2015	July 6, 2014
Severance costs	$10	$468	$29	$1,864
Other	—	93	—	6,486
	$10	$561	$29	$8,350

In 2014, other costs represents an impairment charge recognized in the second quarter of fiscal 2014 related to a restaurant software asset we no longer planned to place in service as we integrate certain systems across both of our brands. We may incur additional charges related to our restructuring activities; however, we are unable to make a reasonable estimate at this time.

8. INCOME TAXES

The income tax provisions reflect tax rates of 38.2% in the quarter and 37.3% year-to-date in 2015, compared with 33.8% and 35.9%, respectively, a year ago. The major component of the year-over-year change in tax rates was an increase in operating earnings before income taxes and a decrease in the market performance of insurance products used to fund certain non-qualified retirement plans which are excluded from taxable income. The quarter tax rate reflects the conclusion of a state audit and the impact of the completion of the federal income tax return completed during the quarter. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual

2015 rate could differ from our current estimates.

At July 5, 2015, the Company no longer has any gross unrecognized tax benefits associated with uncertain income tax positions. During the quarter, the Company concluded an audit regarding a specific claim with California. The conclusion of this audit eliminated our unrecognized tax benefits associated with uncertain income tax positions. The Company's gross unrecognized tax benefits associated with uncertain tax positions were $0.4 million before the conclusion of this audit.

We file income tax returns in the United States and all state and local jurisdictions in which we operate that impose an income tax. The federal statutes of limitations have not expired for fiscal years 2012 and forward. The Company's federal statute of limitations for fiscal years 2009 and 2011 were extended and remain open. The statutes of limitations for California and Texas, which constitute the Company's major state tax jurisdictions, have not expired for fiscal years 2010 and forward.

9. RETIREMENT PLANS

Defined benefit pension plans — We sponsor two defined benefit pension plans: a qualified plan covering substantially all full-time Jack in the Box employees hired prior to January 1, 2011, and an unfunded supplemental executive plan which provides certain employees additional pension benefits and was closed to new participants effective January 1, 2007. In fiscal 2011, the Board of Directors approved changes to our qualified plan whereby participants will no longer accrue benefits effective December 31, 2015. Benefits under both plans are based on the employees' years of service and compensation over defined periods of employment.

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

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

	Quarter		Year-to-date	
	July 5, 2015	July 6, 2014	July 5, 2015	July 6, 2014
Defined benefit pension plans:				
Service cost	$1,908	$1,875	$6,360	$6,249
Interest cost	5,237	5,364	17,457	17,880
Expected return on plan assets	(5,370)	(5,652)	(17,901)	(18,840)
Actuarial loss (1)	2,172	1,023	7,240	3,411
Amortization of unrecognized prior service costs (1)	62	62	207	207
Net periodic benefit cost	$4,009	$2,672	$13,363	$8,907
Postretirement healthcare plans:				
Interest cost	$276	$379	$920	$1,261
Actuarial loss (1)	42	125	140	417
Net periodic benefit cost	$318	$504	$1,060	$1,678

(1) Amounts were reclassified from accumulated OCI into net earnings as a component of selling, general and administrative expenses.

Future cash flows — Our policy is to fund our plans at or above the minimum required by law. As of the date of our last actuarial funding valuation, there was no minimum contribution funding requirement. Details regarding fiscal 2015 contributions are as follows (in thousands):

	Defined Benefit Pension Plans	Postretirement Healthcare Plans
Net year-to-date contributions	$ 13,707	$ 652
Remaining estimated net contributions during fiscal 2015	$ 11,000	$ 600

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

10. SHARE-BASED COMPENSATION

We offer share-based compensation plans to attract, retain and motivate key officers, employees and non-employee directors to work toward the financial success of the Company. In fiscal 2015, we granted the following shares related to our share-based compensation awards:

Stock options	123,042
Performance share awards	40,594
Nonvested stock units	93,570

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

	Quarter		Year-to-date	
	July 5, 2015	July 6, 2014	July 5, 2015	July 6, 2014
Stock options	$585	$347	$2,139	$2,125
Performance share awards	1,335	891	3,407	3,386
Nonvested stock awards	31	46	127	264
Nonvested stock units	723	497	4,105	2,135
Deferred compensation for non-management directors	—	—	263	218
Total share-based compensation expense	$2,674	$1,781	$10,041	$8,128

11. STOCKHOLDERS' EQUITY

Repurchases of common stock — In February 2014 and July 2014, the Board of Directors approved two programs, both expiring in November 2015, which provided repurchase authorizations for up to $200.0 million and $100.0 million, respectively, in shares of our common stock. Additionally, in November 2014 and May 2015, the Board of Directors approved two $100.0 million stock buyback programs that expire in November 2016. During fiscal 2015, we repurchased 2.95 million shares at an aggregate cost of $251.6 million and fully utilized the February, July and November 2014 authorizations. As of July 5, 2015, there was $65.5 million remaining under our May 2015 stock-buyback program which expires in November 2016.

Repurchases of common stock included in our condensed consolidated statements of cash flows for 2015 and 2014 include $3.1 million and $7.3 million, respectively, related to repurchase transactions traded in the prior fiscal year and settled in the subsequent quarter.

Dividends — During the third quarter of fiscal 2014, the Board of Directors approved the initiation of a regular quarterly cash dividend. In fiscal 2015, the Board of Directors declared two cash dividends of $0.20 per share each, and one cash dividend of $0.30 per share, which were paid to shareholders of record as of December 1, 2014, March 6, 2015, and June 1, 2015, respectively, and totaled $26.7 million. Future dividends are subject to approval by our Board of Directors.

12. AVERAGE SHARES OUTSTANDING

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

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

	Quarter		Year-to-date	
	July 5, 2015	July 6, 2014	July 5, 2015	July 6, 2014
Weighted-average shares outstanding – basic	37,106	39,692	37,980	41,320
Effect of potentially dilutive securities:				
Stock options	213	576	301	684
Nonvested stock awards and units	196	247	197	327
Performance share awards	146	272	152	274
Weighted-average shares outstanding – diluted	37,661	40,787	38,630	42,605
Excluded from diluted weighted-average shares outstanding:				
Antidilutive	99	178	85	145
Performance conditions not satisfied at the end of the period	23	31	17	29

13. VARIABLE INTEREST ENTITIES

In January 2011, we formed Jack in the Box Franchise Finance, LLC (“FFE”) for the purpose of operating a franchisee lending program to assist Jack in the Box franchisees in re-imaging their restaurants. We are the sole equity investor in FFE. The lending program was 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 entered into with a third party. The lending period and the revolving period expired in June 2012. At July 5, 2015, we had no borrowings under the FFE Facility and we do not plan to make any further contributions.