

JACK IN THE BOX INC /NEW/  
Form 10-Q  
February 18, 2016

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

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 17, 2016

Commission File Number: 1-9390

DELAWARE 95-2698708  
(State of Incorporation) (I.R.S. Employer Identification No.)

9330 BALBOA AVENUE, SAN DIEGO, CA 92123  
(Address of principal executive offices) (Zip Code)

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

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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  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  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  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

As of the close of business February 12, 2016, 34,681,826 shares of the registrant's common stock were outstanding.

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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)

|  | January 17,<br>2016 | September 27,<br>2015 |
|--|---------------------|-----------------------|
| <b>ASSETS</b>  |                     |                       |
| Current assets:  |                     |                       |
| Cash and cash equivalents  | \$7,100             | \$ 17,743             |
| Accounts and other receivables, net  | 51,673              | 47,975                |
| Inventories  | 7,871               | 7,376                 |
| Prepaid expenses   | 20,365              | 16,240                |
| Assets held for sale   | 19,359              | 15,516                |
| Other current assets   | 3,018               | 3,106                 |
| Total current assets   | 109,386             | 107,956               |
| Property and equipment, at cost  | 1,570,364           | 1,563,377             |
| Less accumulated depreciation and amortization   | (852,360 )          | (835,114 )            |
| Property and equipment, net  | 718,004             | 728,263               |
| Intangible assets, net   | 14,552              | 14,765                |
| Goodwill   | 149,012             | 149,027               |
| Other assets, net  | 282,053             | 303,968               |
|  | <b>\$1,273,007</b>  | <b>\$ 1,303,979</b>   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                     |                       |
| Current liabilities:   |                     |                       |
| Current maturities of long-term debt   | \$24,760            | \$ 26,677             |
| Accounts payable   | 43,995              | 32,137                |
| Accrued liabilities  | 143,854             | 170,575               |
| Total current liabilities  | 212,609             | 229,389               |
| Long-term debt, net of current maturities  | 761,252             | 688,579               |
| Other long-term liabilities  | 359,265             | 370,058               |
| Stockholders' (deficit) 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, 81,270,513 and 81,096,156 issued, respectively | 813                 | 811                   |
| Capital in excess of par value   | 409,607             | 402,986               |
| Retained earnings  | 1,338,724           | 1,316,119             |
| Accumulated other comprehensive loss   | (137,830 )          | (132,530 )            |
| Treasury stock, at cost, 46,588,687 and 45,314,529 shares, respectively                                      | (1,671,433 )        | (1,571,433 )          |
| Total stockholders' (deficit) equity   | (60,119 )           | 15,953                |
|  | <b>\$1,273,007</b>  | <b>\$ 1,303,979</b>   |

See accompanying notes to condensed consolidated financial statements.

JACK IN THE BOX INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)  
(Unaudited)

|  | Sixteen Weeks Ended |                     |
|--|---------------------|---------------------|
|  | January 17,<br>2016 | January 18,<br>2015 |
| Revenues:  |                     |                     |
| Company restaurant sales                                       | \$353,221           | \$351,896           |
| Franchise rental revenues                                      | 69,738              | 69,446              |
| Franchise royalties and other                                  | 47,864              | 47,279              |
|  | 470,823             | 468,621             |
| Operating costs and expenses, net:                             |                     |                     |
| Company restaurant costs:                                      |                     |                     |
| Food and packaging   | 108,911             | 113,109             |
| Payroll and employee benefits                                  | 97,907              | 95,679              |
| Occupancy and other  | 77,699              | 75,031              |
| Total company restaurant costs                                 | 284,517             | 283,819             |
| Franchise occupancy expenses                                   | 52,219              | 52,418              |
| Franchise support and other costs                              | 4,862               | 4,723               |
| Selling, general and administrative expenses                   | 65,872              | 63,095              |
| Impairment and other charges, net                              | 1,657               | 2,180               |
| Gains on the sale of company-operated restaurants              | (818)               | (850)               |
|  | 408,309             | 405,385             |
| Earnings from operations                                       | 62,514              | 63,236              |
| Interest expense, net  | 8,175               | 5,213               |
| Earnings from continuing operations and before income taxes    | 54,339              | 58,023              |
| Income taxes   | 20,442              | 20,925              |
| Earnings from continuing operations                            | 33,897              | 37,098              |
| Losses from discontinued operations, net of income tax benefit | (676)               | (1,263)             |
| Net earnings   | \$33,221            | \$35,835            |
| Net earnings per share - basic:                                |                     |                     |
| Earnings from continuing operations                            | \$0.96              | \$0.96              |
| Losses from discontinued operations                            | (0.02)              | (0.03)              |
| Net earnings per share (1)                                     | \$0.94              | \$0.93              |
| Net earnings per share - diluted:                              |                     |                     |
| Earnings from continuing operations                            | \$0.94              | \$0.94              |
| Losses from discontinued operations                            | (0.02)              | (0.03)              |
| Net earnings per share (1)                                     | \$0.92              | \$0.91              |
| Weighted-average shares outstanding:                           |                     |                     |
| Basic  | 35,458              | 38,640              |
| Diluted  | 35,946              | 39,384              |
| Cash dividends declared per common share                       | \$0.30              | \$0.20              |

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

See accompanying notes to condensed consolidated financial statements.



JACK IN THE BOX INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

|  | Sixteen Weeks Ended |                     |
|--|---------------------|---------------------|
|  | January 17,<br>2016 | January 18,<br>2015 |
| Net earnings   | \$33,221            | \$35,835            |
| Cash flow hedges:  |                     |                     |
| Net change in fair value of derivatives                                | (11,437 )           | (6,758 )            |
| Net loss reclassified to earnings                                      | 1,444               | 627                 |
|  | (9,993 )            | (6,131 )            |
| Tax effect   | 3,868               | 2,347               |
|  | (6,125 )            | (3,784 )            |
| Unrecognized periodic benefit costs:                                   |                     |                     |
| Actuarial losses and prior service costs reclassified to earnings      | 1,398               | 3,035               |
| Tax effect   | (541 )              | (1,162 )            |
|  | 857                 | 1,873               |
| Other:   |                     |                     |
| Foreign currency translation adjustments                               | (52 )               | 6                   |
| Tax effect   | 20                  | (3 )                |
|  | (32 )               | 3                   |
| Other comprehensive loss, net of tax                                   | (5,300 )            | (1,908 )            |
| Comprehensive income   | \$27,921            | \$33,927            |
| 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)

|   | Sixteen Weeks Ended |                     |
|---|---------------------|---------------------|
|   | January 17,<br>2016 | January 18,<br>2015 |
| Cash flows from operating activities:   |                     |                     |
| Net earnings  | \$33,221            | \$35,835            |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                     |                     |
| Depreciation and amortization   | 28,514              | 27,370              |
| Deferred finance cost amortization  | 823                 | 661                 |
| Excess tax benefits from share-based compensation arrangements                      | (2,020)             | (14,533)            |
| Deferred income taxes   | (2,128)             | 973                 |
| Share-based compensation expense  | 4,088               | 3,885               |
| Pension and postretirement expense  | 4,149               | 5,769               |
| Losses (gains) on cash surrender value of company-owned life insurance              | 2,466               | (574)               |
| Gains on the sale of company-operated restaurants                                   | (818)               | (850)               |
| Losses on the disposition of property and equipment                                 | 651                 | 621                 |
| Impairment charges and other  | 446                 | 766                 |
| Changes in assets and liabilities:  |                     |                     |
| Accounts and other receivables  | (4,204)             | 3,999               |
| Inventories   | (495)               | (121)               |
| Prepaid expenses and other current assets   | 1,205               | 16,683              |
| Accounts payable  | 7,386               | (4,623)             |
| Accrued liabilities   | (25,403)            | (20,063)            |
| Pension and postretirement contributions  | (1,883)             | (6,880)             |
| Other   | (1,089)             | (1,571)             |
| Cash flows provided by operating activities   | 44,909              | 47,347              |
| Cash flows from investing activities:   |                     |                     |
| Purchases of property and equipment   | (31,543)            | (19,885)            |
| Purchases of assets intended for sale and leaseback                                 | (3,274)             | —                   |
| Proceeds from the sale and leaseback of assets                                      | 5,803               | —                   |
| Proceeds from the sale of company-operated restaurants                              | 1,021               | 1,174               |
| Collections on notes receivable   | 441                 | 5,050               |
| Acquisition of franchise-operated restaurants                                       | 324                 | —                   |
| Other   | (28)                | 22                  |
| Cash flows used in investing activities   | (27,256)            | (13,639)            |
| Cash flows from financing activities:   |                     |                     |
| Borrowings on revolving credit facilities   | 176,000             | 154,000             |
| Repayments of borrowings on revolving credit facilities                             | (97,000)            | (98,000)            |
| Principal repayments on debt  | (8,479)             | (5,279)             |
| Dividends paid on common stock  | (10,592)            | (7,791)             |
| Proceeds from issuance of common stock  | 492                 | 11,302              |
| Repurchases of common stock   | (100,000)           | (104,669)           |
| Excess tax benefits from share-based compensation arrangements                      | 2,020               | 14,533              |
| Change in book overdraft  | 9,295               | 423                 |
| Cash flows used in financing activities   | (28,264)            | (35,481)            |
| Effect of exchange rate changes on cash and cash equivalents                        | (32)                | 3                   |
| Net decrease in cash and cash equivalents   | (10,643)            | (1,770)             |

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|  |         |         |
|--|---------|---------|
| Cash and cash equivalents at beginning of period | 17,743  | 10,578  |
| Cash and cash equivalents at end of period       | \$7,100 | \$8,808 |

See accompanying notes to condensed consolidated financial statements.

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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<sup>®</sup>Box quick-service restaurants and Qdoba Mexican Eats<sup>®</sup> (“Qdoba”) fast-casual restaurants. The following table summarizes the number of restaurants as of the end of each period:

|                  | January 17,<br>2016 | January 18,<br>2015 |
|------------------|---------------------|---------------------|
| Jack in the Box: |                     |                     |
| Company-operated | 413                 | 431                 |
| Franchise        | 1,840               | 1,822               |
| Total system     | 2,253               | 2,253               |
| Qdoba:           |                     |                     |
| Company-operated | 330                 | 311                 |
| Franchise        | 344                 | 330                 |
| Total system     | 674                 | 641                 |

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 27, 2015 (“2015 Form 10-K”). The accounting policies used in preparing these condensed consolidated financial statements are the same as those described in our 2015 Form 10-K with the exception of new accounting pronouncements adopted in fiscal 2016 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. The financial results and position of our VIE are immaterial to our condensed consolidated financial statements.

Reclassifications and adjustments — Certain prior year amounts in the condensed consolidated financial statements have been reclassified to conform to the fiscal 2016 presentation.

In our 2015 Form 10-K, on our consolidated statements of earnings, we began to separately state our franchise revenues derived from rentals and those derived from royalties and other. To provide clarity, we additionally have separately stated the associated rental expense, and depreciation and amortization related to the rental income received from franchisees. For comparison purposes, we have reclassified prior year franchise revenue and franchise costs line items to reflect the new method of presentation in our accompanying condensed consolidated statements of earnings.

Fiscal year — Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal year 2016 includes 53 weeks, while fiscal year 2015 includes 52 weeks. Our first quarter includes 16 weeks and all other quarters include 12

weeks, with the exception of the fourth quarter of fiscal 2016, which includes 13 weeks. All comparisons between 2016 and 2015 refer to the 16-weeks (“quarter”) ended January 17, 2016 and January 18, 2015, 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

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

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 May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue Recognition — Revenue from Contracts with Customers (Topic 606), which provides a comprehensive new revenue recognition model that requires an entity to recognize revenue in an amount that reflects the consideration to which the entity expects to receive for the transfer of promised goods or services to its customers. The standard also requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This guidance is effective for annual and interim periods beginning after December 15, 2017. As such, we will be required to adopt the standard in the first quarter of fiscal 2018. This ASU is to be applied retrospectively or using a cumulative effect transition method, and early adoption is not permitted. We are currently evaluating which transition method to use and the effect that this pronouncement will have on our consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred income taxes. This standard requires deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial position. The standard is effective prospectively or retrospectively for all periods presented for annual and interim periods beginning after December 15, 2017, with early adoption permitted. We early adopted this standard in the first quarter of 2016 and the prior period was retrospectively adjusted, resulting in a \$40.0 million reclassification of current deferred income taxes to other assets, net on our September 27, 2015 condensed consolidated balance sheet.

## 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 the FASB authoritative guidance on the presentation of financial statements, the results are reported as discontinued operations for all periods presented. In 2016 and 2015, results of discontinued operations were immaterial for both periods. Our liability for lease commitments related to our distribution centers is included in accrued liabilities and other long-term liabilities, and was \$0.2 million as of January 17, 2016 and September 27, 2015. The lease commitment balance as of January 17, 2016 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 the FASB authoritative guidance on the presentation of financial statements, the results of operations for these restaurants are reported as discontinued operations for all periods presented.

The following is a summary of the results of operations related to the 2013 Qdoba Closures for each period (in thousands):

|  | Sixteen Weeks Ended |                     |
|--|---------------------|---------------------|
|  | January 17,<br>2016 | January 18,<br>2015 |
| Unfavorable lease commitment adjustments | \$ (1,006 )         | \$ (1,799 )         |
| Bad debt expense related to a subtenant  | (124 )              | —                   |
| Ongoing facility related costs           | (38 )               | (61 )               |

|  |          |      |          |   |
|--|----------|------|----------|---|
| Broker commissions                             | —        | (112 | )        |   |
| Total operating loss before income tax benefit | \$(1,168 | )    | \$(1,972 | ) |

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.

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## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 2016 (in thousands):

|                                  |         |   |
|----------------------------------|---------|---|
| Balance as of September 27, 2015 | \$4,256 |   |
| Adjustments                      | 1,006   |   |
| Cash payments                    | (1,179  | ) |
| Balance as of January 17, 2016   | \$4,083 |   |

Adjustments primarily relate to revisions to certain sublease and cost assumptions due to changes in market conditions.

## 3. 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 and fees recognized (dollars in thousands):

|  | Sixteen Weeks Ended |                     |
|--|---------------------|---------------------|
|  | January 17,<br>2016 | January 18,<br>2015 |
| Restaurants sold to Jack in the Box franchisees              | 1                   | 1                   |
| New restaurants opened by franchisees:                       |                     |                     |
| Jack in the Box  | 5                   | 6                   |
| Qdoba  | 6                   | 6                   |
| Initial franchise fees                                       | \$385               | \$375               |
| Proceeds from the sale of company-operated restaurants (1)   | \$1,021             | \$1,174             |
| Net assets sold (primarily property and equipment)           | (193                | ) (489              |
| Goodwill related to the sale of company-operated restaurants | (10                 | ) (16               |
| Other  | —                   | 181                 |
| Gains on the sale of company-operated restaurants            | \$818               | \$850               |

(1) Amounts in 2016 and 2015 include additional proceeds recognized upon the extension of the underlying franchise and lease agreements related to restaurants sold in a prior year of \$1.0 million and \$0.1 million, respectively.

Franchise acquisitions — In 2016, we acquired one Jack in the Box franchise restaurant, and in 2015, there was no acquisition activity. 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 2016 acquisition was not material to our accompanying condensed consolidated financial statements.

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 4. 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<br>in Active<br>Markets for<br>Identical<br>Assets (3)<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs (3)<br>(Level 2) | Significant<br>Unobservable<br>Inputs (3)<br>(Level 3) |
|---|-------------|---|---|--|
| Fair value measurements as of January 17, 2016:   |             |   |   |  |
| Non-qualified deferred compensation plan (1)      | \$(34,347 ) | \$(34,347 )   | \$—   | \$—  |
| Interest rate swaps (Note 5) (2)                  | (36,367 )   | —   | (36,367 )   | —  |
| Total liabilities at fair value                   | \$(70,714 ) | \$(34,347 )   | \$(36,367 )   | \$—  |
| Fair value measurements as of September 27, 2015: |             |   |   |  |
| Non-qualified deferred compensation plan (1)      | \$(35,003 ) | \$(35,003 )   | \$—   | \$—  |
| Interest rate swaps (Note 5) (2)                  | (26,374 )   | —   | (26,374 )   | —  |
| Total liabilities at fair value                   | \$(61,377 ) | \$(35,003 )   | \$(26,374 )   | \$—  |

(1) We maintain an unfunded defined contribution plan for key executives and other members of management. 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 January 17, 2016, 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 January 17, 2016.

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 2016, no material fair value adjustments were required. Refer to Note 6, Impairment and Other Charges, Net for additional information regarding impairment charges.

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 5. 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 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, and future expected 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 in accordance with the provisions 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 loan debt.

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

|  | Balance Sheet Location      | January 17, 2016 Fair Value | September 27, 2015 Fair Value |
|--|-----------------------------|-----------------------------|-------------------------------|
| Derivatives designated as hedging instruments: |                             |                             |                               |
| Interest rate swaps (Note 4)                   | Accrued liabilities         | \$(3,231 )                  | \$(3,379 )                    |
| Interest rate swaps (Note 4)                   | Other long-term liabilities | (33,136 )                   | (22,995 )                     |
| Total derivatives                              |                             | \$(36,367 )                 | \$(26,374 )                   |

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 | Sixteen Weeks Ended |                  |
|--|----------------------------|---------------------|------------------|
|  |                            | January 17, 2016    | January 18, 2015 |
| Loss recognized in OCI                                   | N/A                        | \$(11,437 )         | \$(6,758 )       |
| Loss reclassified from accumulated OCI into net earnings | Interest expense, net      | \$1,444             | \$627            |

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.

## 6. 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):

|   | Sixteen Weeks Ended |                  |
|---|---------------------|------------------|
|   | January 17, 2016    | January 18, 2015 |
| Losses on the disposition of property and equipment, net            | \$651               | \$621            |
| Costs of closed restaurants (primarily lease obligations) and other | 560                 | 786              |
| Accelerated depreciation  | 446                 | 752              |
| Restaurant impairment charges                                       | —                   | 14               |
| Restructuring costs   | —                   | 7                |

\$1,657      \$2,180

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Restaurant closing costs — Costs of closed restaurants primarily consist of future lease commitments and expected ancillary costs, net of anticipated sublease rentals. Accrued restaurant closing costs, included in accrued liabilities and other long-term liabilities, changed as follows in 2016 (in thousands):

|                                  |          |
|----------------------------------|----------|
| Balance as of September 27, 2015 | \$9,707  |
| Additions                        | 208      |
| Adjustments (1)                  | 677      |
| Cash payments                    | (1,688 ) |
| Balance as of January 17, 2016   | \$8,904  |

Adjustments relate primarily to revisions of 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.

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. In 2016, accelerated depreciation primarily relates to expenses at our Jack in the Box company restaurants for exterior facility enhancements as well as the replacement of technology equipment, and in 2015, charges primarily relate to the replacement of technology equipment and costs associated with Jack in the Box restaurant closures.

Restaurant 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 2015 were not material.

#### 7. INCOME TAXES

The income tax provisions reflect tax rates of 37.6% in 2016, and 36.1% in 2015. The major components of the year-over-year change in tax rates were a decrease in operating earnings before income taxes, an increase in the Company's state tax rate, 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 Company recognized a benefit from the retroactive reenactment of the Work Opportunity Tax Credit for calendar year 2015 during the first quarter of 2016. Similarly, a retroactive reenactment occurred for calendar year 2014 during the first quarter of 2015. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual 2016 rate could differ from our current estimates.

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 statute of limitations has not expired for fiscal years 2012 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 2011 and forward.

#### 8. 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 the sunset of our qualified plan whereby participants 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):

|  | Sixteen Weeks Ended |                     |
|--|---------------------|---------------------|
|  | January 17,<br>2016 | January 18,<br>2015 |
| Defined benefit pension plans:                       |                     |                     |
| Service cost   | \$1,616             | \$2,544             |
| Interest cost  | 7,440               | 6,983               |
| Expected return on plan assets                       | (6,694              | ) (7,161            |
| Actuarial loss (1)                                   | 1,257               | 2,896               |
| Amortization of unrecognized prior service costs (1) | 74                  | 83                  |
| Net periodic benefit cost                            | \$3,693             | \$5,345             |
| Postretirement healthcare plans:                     |                     |                     |
| Interest cost  | \$389               | \$368               |
| Actuarial loss (1)                                   | 67                  | 56                  |
| Net periodic benefit cost                            | \$456               | \$424               |

(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 January 1, 2015, the date of our last actuarial funding valuation, there was no minimum contribution funding requirement. Details regarding 2016 contributions are as follows (in thousands):

|  | Defined Benefit<br>Pension Plans | Postretirement<br>Healthcare Plans |
|--|----------------------------------|------------------------------------|
| Net year-to-date contributions                           | \$ 1,496                         | \$ 387                             |
| Remaining estimated net contributions during fiscal 2016 | \$ 23,000                        | \$ 900                             |

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.

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 9. 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 2016, we granted the following shares related to our share-based compensation awards:

|                          |         |
|--------------------------|---------|
| Stock options            | 99,923  |
| Performance share awards | 32,970  |
| Nonvested stock units    | 130,952 |

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

|  | Sixteen Weeks Ended |                     |
|--|---------------------|---------------------|
|  | January 17,<br>2016 | January 18,<br>2015 |
| Stock options                          | \$975               | \$999               |
| Performance share awards               | 1,271               | 1,081               |
| Nonvested stock awards                 | 27                  | 61                  |
| Nonvested stock units                  | 1,815               | 1,744               |
| Total share-based compensation expense | \$4,088             | \$3,885             |

## 10. STOCKHOLDERS' EQUITY

Repurchases of common stock — During 2016, we repurchased 1.3 million shares at an aggregate cost of \$100.0 million. As of January 17, 2016, there was \$100.0 million remaining under a stock-buyback program which expires in November 2017.

Dividends — In 2016, the Board of Directors declared a cash dividend of \$0.30 per share which was paid on December 22, 2015 to shareholders of record as of the close of business on December 9, 2015, and totaled \$10.6 million. Future dividends are subject to approval by our Board of Directors.

## 11. 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 and non-management director stock equivalents. 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.

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

|  | Sixteen Weeks Ended |                     |
|--|---------------------|---------------------|
|  | January 17,<br>2016 | January 18,<br>2015 |
| Weighted-average shares outstanding – basic                | 35,458              | 38,640              |
| Effect of potentially dilutive securities:                 |                     |                     |
| Stock options  | 176                 | 397                 |
| Nonvested stock awards and units                           | 187                 | 198                 |
| Performance share awards                                   | 125                 | 149                 |
| Weighted-average shares outstanding – diluted              | 35,946              | 39,384              |
| Excluded from diluted weighted-average shares outstanding: |                     |                     |

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|   |     |    |
|---|-----|----|
| Antidilutive  | 149 | 60 |
| Performance conditions not satisfied at the end of the period | —   | 20 |

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JACK IN THE BOX INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

12. CONTINGENCIES AND LEGAL MATTERS

Legal matters — The Company assesses contingencies, including litigation 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. When evaluating litigation contingencies, we may be unable to provide a meaningful estimate due to a number of factors, including the procedural status of the matter in question, the availability of appellate remedies, insurance coverage related to the claim or claims in question, the presence of complex or novel legal theories, and/or the ongoing discovery and development of information important to the matter. In addition, damage amounts claimed in litigation against us may be unsupported, exaggerated or unrelated to possible outcomes, and as such are not meaningful indicators of our potential liability or financial exposure. We regularly review contingencies to determine the adequacy of the accruals and related disclosures. The ultimate amount of loss may differ from these estimates.

*Gessele v. Jack in the Box Inc.* — In August 2010, five former employees instituted litigation in federal court in Oregon alleging claims under the federal Fair Labor Standards Act and Oregon wage and hour laws. The plaintiffs alleged that the Company failed to pay non-exempt employees for certain meal breaks and improperly made payroll deductions for shoe purchases and for workers' compensation expenses, and later added additional claims relating to timing of final pay and related wage and hour claims involving employees of a franchisee. The most recent complaint seeks damages of \$45.0 million but does not provide a basis for that amount. In fiscal 2012, we accrued for a single claim for which we believe a loss is both probable and estimable; this accrued loss contingency did not have a material effect on our results of operations. We have not established a loss contingency accrual for those claims as to which we believe liability is not probable or estimable, and we plan to vigorously defend against this lawsuit. Nonetheless, an unfavorable resolution of this matter in excess of our current accrued loss contingencies could have a material adverse effect on our business, results of operations, liquidity or financial condition.

Other legal matters — In addition to the matter described above, we are subject to normal and routine litigation brought by former, current or prospective employees, customers, franchisees, vendors, landlords, shareholders or others. We intend to defend ourselves in any such matters. Some of these matters may be covered, at least in part, by insurance. Our insurance liability (undiscounted) and reserves are established in part by using independent actuarial estimates of expected losses for reported claims and for estimating claims incurred but not reported. Our estimated liability for general liability and workers' compensation claims exceeded our self-insurance retention limits by \$25.8 million as of September 27, 2015, and was reduced by \$21.7 million in 2016 due to a judgment paid by our insurance providers. We expect to be fully covered for the remaining amounts that exceed our self-insurance retention limits by our insurance providers. Although we currently believe that the ultimate determination of liability in connection with legal claims pending against us, if any, in excess of amounts already provided for such matters in the condensed consolidated financial statements, will not have a material adverse effect on our business, our annual results of operations, liquidity or financial position, it is possible that our results of operations, liquidity, or financial position could be materially affected in a particular future reporting period by the unfavorable resolution of one or more matters or contingencies during such period.

13. SEGMENT REPORTING

Our principal business consists of developing, operating and franchising our Jack in the Box and Qdoba restaurant concepts, each of which we consider reportable operating segments. This segment reporting structure reflects our current management structure, internal reporting method and financial information used in deciding how to allocate our resources. Based upon certain quantitative thresholds, each operating segment is considered a reportable segment.



## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

We measure and evaluate our segments based on segment revenues and earnings from operations. The reportable segments do not include an allocation of the costs related to shared service functions, such as accounting/finance, human resources, audit services, legal, tax and treasury; nor do they include unallocated costs such as pension expense and share-based compensation. These costs are reflected in the caption "Shared services and unallocated costs," and therefore, the measure of segment profit or loss is before such items. The following table provides information related to our operating segments in each period (in thousands):

|  | Sixteen Weeks Ended |                     |
|--|---------------------|---------------------|
|  | January 17,<br>2016 | January 18,<br>2015 |
| Revenues by segment:   |                     |                     |
| Jack in the Box restaurant operations                                    | \$ 347,583          | \$ 351,951          |
| Qdoba restaurant operations  | 123,240             | 116,670             |
| Consolidated revenues  | \$ 470,823          | \$ 468,621          |
| Earnings from operations by segment:                                     |                     |                     |
| Jack in the Box restaurant operations                                    | \$ 85,690           | \$ 80,857           |
| Qdoba restaurant operations  | 8,737               | 14,676              |
| Shared services and unallocated costs                                    | (32,731 )           | (33,147 )           |
| Gains on the sale of company-operated restaurants                        | 818                 | 850                 |
| Consolidated earnings from operations                                    | 62,514              | 63,236              |
| Interest expense, net  | 8,175               | 5,213               |
| Consolidated earnings from continuing operations and before income taxes | \$ 54,339           | \$ 58,023           |
| Total depreciation expense by segment:                                   |                     |                     |
| Jack in the Box restaurant operations                                    | \$ 20,473           | \$ 19,615           |
| Qdoba restaurant operations  | 5,588               | 5,280               |
| Shared services and unallocated costs                                    | 2,225               | 2,260               |
| Consolidated depreciation expense  | \$ 28,286           | \$ 27,155           |

We do not evaluate, manage or measure performance of segments using asset, interest income and expense, or income tax information; accordingly, this information by segment is not prepared or disclosed.

The following table provides detail of the change in the balance of goodwill for each of our reportable segments (in thousands):

|                               | Jack in the<br>Box | Qdoba      | Total      |
|-------------------------------|--------------------|------------|------------|
| Balance at September 27, 2015 | \$ 48,430          | \$ 100,597 | \$ 149,027 |
| Disposals                     | (15 )              | —          | (15 )      |
| Balance at January 17, 2016   | \$ 48,415          | \$ 100,597 | \$ 149,012 |

Refer to Note 3, Summary of Refranchisings, Franchisee Development and Acquisitions, for information regarding the transactions resulting in the changes in goodwill.

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 14. SUPPLEMENTAL CONSOLIDATED CASH FLOW INFORMATION (in thousands)

|  | Sixteen Weeks Ended |                     |
|--|---------------------|---------------------|
|  | January 17,<br>2016 | January 18,<br>2015 |
| Cash paid during the year for:   |                     |                     |
| Interest, net of amounts capitalized                                   | \$8,378             | \$5,115             |
| Income tax payments  | \$16,012            | \$152               |
| Non-cash transactions:   |                     |                     |
| Equipment capital lease obligations incurred                           | \$271               | \$—                 |
| Decrease in accrued treasury stock repurchases                         | \$—                 | \$3,112             |
| Increase in dividends accrued or converted to common stock equivalents | \$53                | \$35                |
| Decrease in obligations for purchases of property and equipment        | \$6,025             | \$7,829             |

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

## 15. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION (in thousands)

|                                       | January 17,<br>2016 | September 27,<br>2015 |
|---------------------------------------|---------------------|-----------------------|
| Accounts and other receivables, net:  |                     |                       |
| Trade                                 | \$35,386            | \$ 36,990             |
| Notes receivable                      | 3,610               | 1,726                 |
| Other                                 | 14,726              | 10,814                |
| Allowance for doubtful accounts       | (2,049              | ) (1,555 )            |
|                                       | \$51,673            | \$ 47,975             |
| Prepaid expenses:                     |                     |                       |
| Prepaid income taxes                  | \$6,653             | \$ 7,645              |
| Prepaid rent                          | 5,552               | 318                   |
| Other                                 | 8,160               | 8,277                 |
|                                       | \$20,365            | \$ 16,240             |
| Other assets, net:                    |                     |                       |
| Deferred tax assets                   | \$120,749           | \$ 118,184            |
| Company-owned life insurance policies | 97,047              | 99,513                |
| Deferred rent receivable              | 46,194              | 45,330                |
| Other                                 | 18,063              | 40,941                |
|                                       | \$282,053           | \$ 303,968            |
| Accrued liabilities:                  |                     |                       |
| Payroll and related taxes             | \$41,403            | \$ 56,223             |
| Insurance                             | 35,326              | 35,370                |
| Advertising                           | 14,600              | 20,692                |
| Sales and property taxes              | 8,275               | 11,574                |
| Deferred franchise fees               | 1,187               | 1,198                 |
| Gift card liability                   | 5,835               | 4,608                 |
| Other                                 | 37,228              | 40,910                |
|                                       | \$143,854           | \$ 170,575            |
| Other long-term liabilities:          |                     |                       |
| Pension plans                         | \$181,342           | \$ 180,476            |
| Straight-line rent accrual            | 46,863              | 46,807                |
| Other                                 | 131,060             | 142,775               |
|                                       | \$359,265           | \$ 370,058            |

## 16. SUBSEQUENT EVENTS

On February 12, 2016, the Board of Directors declared a cash dividend of \$0.30 per share, to be paid on March 14, 2016 to shareholders of record as of the close of business on March 1, 2016.

On February 12, 2016, the Board of Directors approved an additional \$100.0 million stock buy-back program that expires in November 2017.

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

### GENERAL

All comparisons between 2016 and 2015 refer to the 16-weeks ("quarter") ended January 17, 2016 and January 18, 2015, respectively, unless otherwise indicated.

For an understanding of the significant factors that influenced our performance during the quarterly periods ended January 17, 2016 and January 18, 2015, our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Consolidated Financial Statements and related Notes included in this Quarterly Report and our Annual Report on Form 10-K for the fiscal year ended September 27, 2015.

Our MD&A consists of the following sections:

• Overview — a general description of our business and 2016 highlights.

• Financial reporting — a discussion of changes in presentation, if any.

• Results of operations — an analysis of our condensed 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, dividends, known trends that may impact liquidity and the impact of inflation, if applicable.

• 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.

We have included in our MD&A certain performance metrics that management uses to assess Company performance and which we believe will be useful in analyzing and understanding our results of operations. These metrics include the following:

Changes in sales at restaurants open more than one year ("same-store sales") and average unit volumes ("AUVs") are presented for franchised restaurants and on a system-wide basis, which includes company and franchise restaurants.

• Franchise sales represent sales at franchise restaurants and are revenues of our franchisees. We do not record franchise sales as revenues; however, our royalty revenues and percentage rent revenues are calculated based on a percentage of franchise sales. We believe franchise and system same-store sales and AUV information is useful to investors as a significant indicator of the overall strength of our business.

• Company restaurant margin ("restaurant margin") is defined as Company restaurant sales less expenses incurred directly by our restaurants in generating those sales (food and packaging costs, payroll and employee benefits, and occupancy and other costs). We also present restaurant margin as a percentage of Company restaurant sales.

• Franchise margin is defined as total franchise revenues less franchise costs and is also presented as a percentage of franchise revenues.

Restaurant margin and franchise margin are not measurements determined in accordance with generally accepted accounting principles ("GAAP") and should not be considered in isolation, or as an alternative, to income from operations, or other similarly titled measures of other companies.

### OVERVIEW

As of January 17, 2016, we operated and franchised 2,253 Jack in the Box quick-service restaurants, primarily in the western and southern United States, including one in Guam, and 674 Qdoba fast-casual restaurants operating primarily throughout the United States as well as the District of Columbia and Canada.

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 rental revenue, royalties (based upon a percent of sales) and franchise fees. In addition, we recognize gains or losses from the sale of company-operated restaurants to franchisees, which are included as a line item within operating costs and expenses, net in the accompanying condensed consolidated statements of earnings.



The following summarizes the most significant events occurring in 2016, and certain trends compared to a year ago:

**Same-Store Sales Growth** — Same-store sales grew 0.5% at company-operated Jack in the Box restaurants primarily driven by price increases. Qdoba's same-store sales increase of 1.5% at company-operated restaurants was driven primarily by an increase in transactions and double-digit catering growth.

**Commodity Costs** — Commodity costs decreased approximately 1.7% at our Jack in the Box restaurants, and decreased approximately 5.4% at our Qdoba restaurants in 2016 compared with a year ago. We expect our overall commodity costs in fiscal 2016 to decrease approximately 2% and 4% at our Jack in the Box and Qdoba restaurants, respectively. Beef represents the largest portion, or approximately 20%, of the Company's overall commodity spend. We typically do not enter into fixed price contracts for our beef needs. For the full year, we currently expect beef costs to decrease approximately 15-20%.

**Restaurant Margin Expansion** — Our consolidated company-operated restaurant margin increased 20 basis points in 2016 to 19.5%. Jack in the Box's company-operated restaurant margin improved 150 basis points to 20.9% due primarily to lower costs for food and packaging and benefits of refranchising. Company-operated restaurant margins at our Qdoba restaurants decreased 270 basis points to 16.6% primarily reflecting higher staffing levels and an increase in new restaurant activity.

**Jack in the Box Franchising Program** — Year-to-date, franchisees opened a total of five restaurants. In fiscal 2016, we expect franchisees to open approximately 16 Jack in the Box restaurants. Our Jack in the Box system was 82% franchised at the end of the first quarter. We plan to increase franchise ownership of the Jack in the Box system to at least 90% within the next two years.

**Qdoba New Unit Growth** — Year-to-date, we opened nine company-operated restaurants and franchisees opened six restaurants. In fiscal 2016, we plan to open 50 to 60 Qdoba restaurants, of which approximately half are expected to be company-operated restaurants.

**Return of Cash to Shareholders** — During 2016, we returned cash to shareholders in the form of share repurchases and cash dividends. We repurchased 1.3 million shares of our common stock at an average price of \$78.48 per share, totaling \$100.0 million, including the costs of brokerage fees. We also declared dividends of \$0.30 per share totaling \$10.6 million.

## FINANCIAL REPORTING

The condensed consolidated statements of earnings for all periods presented have been prepared reflecting the results of operations for the 62 Qdoba restaurants we closed in the third quarter of fiscal 2013 (the "2013 Qdoba Closures") and charges incurred as a result of closing these restaurants as discontinued operations. During fiscal 2012, we entered into an agreement to outsource our Jack in the Box distribution business, the results of operations and costs incurred to outsource our distribution business are also reflected as discontinued operations for all periods presented. Refer to Note 2, Discontinued Operations, in the Notes to our Condensed Consolidated Financial Statements for more information.

In 2016, we adopted an updated accounting standard which simplifies the presentation of deferred income taxes and requires deferred tax liabilities and assets to be classified as non-current in a classified statement of financial position. Upon adoption in 2016, we retrospectively applied the new standard which resulted in a \$40.0 million reclassification of current deferred income taxes to other assets, net on our September 27, 2015 condensed consolidated balance sheet. Refer to Note 1, Basis of Presentation, in the notes to our condensed consolidated financial statements for more information.

## 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.

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS DATA

|   | Sixteen Weeks Ended |    |                     |    |
|---|---------------------|----|---------------------|----|
|   | January 17,<br>2016 |    | January 18,<br>2015 |    |
| Revenues:   |                     |    |                     |    |
| Company restaurant sales                          | 75.0                | %  | 75.1                | %  |
| Franchise rental revenues                         | 14.8                | %  | 14.8                | %  |
| Franchise royalties and other                     | 10.2                | %  | 10.1                | %  |
| Total revenues                                    | 100.0               | %  | 100.0               | %  |
| Operating costs and expenses, net:                |                     |    |                     |    |
| Company restaurant costs:                         |                     |    |                     |    |
| Food and packaging (1)                            | 30.8                | %  | 32.1                | %  |
| Payroll and employee benefits (1)                 | 27.7                | %  | 27.2                | %  |
| Occupancy and other (1)                           | 22.0                | %  | 21.3                | %  |
| Total company restaurant costs (1)                | 80.5                | %  | 80.7                | %  |
| Franchise occupancy expenses (2)                  | 74.9                | %  | 75.5                | %  |
| Franchise support and other costs (3)             | 10.2                | %  | 10.0                | %  |
| Selling, general and administrative expenses      | 14.0                | %  | 13.5                | %  |
| Impairment and other charges, net                 | 0.4                 | %  | 0.5                 | %  |
| Gains on the sale of company-operated restaurants | (0.2)               | )% | (0.2)               | )% |
| Earnings from operations                          | 13.3                | %  | 13.5                | %  |
| Income tax rate (4)                               | 37.6                | %  | 36.1                | %  |

(1) As a percentage of company restaurant sales.

(2) As a percentage of franchise rental revenues.

(3) As a percentage of franchise royalties and other.

(4) As a percentage of earnings from continuing operations and before income taxes.

## CHANGES IN SAME-STORE SALES

|                  | Sixteen Weeks Ended |                     |
|------------------|---------------------|---------------------|
|                  | January 17,<br>2016 | January 18,<br>2015 |
| Jack in the Box: |                     |                     |
| Company          | 0.5%                | 3.9%                |
| Franchise        | 1.8%                | 4.6%                |
| System           | 1.4%                | 4.4%                |
| Qdoba:           |                     |                     |
| Company          | 1.5%                | 12.9%               |
| Franchise        | 2.1%                | 15.1%               |
| System           | 1.8%                | 14.0%               |

The following table summarizes the changes in the number and mix of Jack in the Box (“JIB”) and Qdoba company and franchise restaurants:

|                           | January 17, 2016 |           |       | January 18, 2015 |           |       |   |
|---------------------------|------------------|-----------|-------|------------------|-----------|-------|---|
|                           | Company          | Franchise | Total | Company          | Franchise | Total |   |
| <b>Jack in the Box:</b>   |                  |           |       |                  |           |       |   |
| Beginning of year         | 413              | 1,836     | 2,249 | 431              | 1,819     | 2,250 |   |
| New                       | —                | 5         | 5     | 1                | 6         | 7     |   |
| Refranchised              | (1               | ) 1       | —     | (1               | ) 1       | —     |   |
| Acquired from franchisees | 1                | (1        | ) —   | —                | —         | —     |   |
| Closed                    | —                | (1        | ) (1  | ) —              | (4        | ) (4  | ) |
| End of period             | 413              | 1,840     | 2,253 | 431              | 1,822     | 2,253 |   |
| % of JIB system           | 18               | % 82      | % 100 | % 19             | % 81      | % 100 | % |
| % of consolidated system  | 56               | % 84      | % 77  | % 58             | % 85      | % 78  | % |
| <b>Qdoba:</b>             |                  |           |       |                  |           |       |   |
| Beginning of year         | 322              | 339       | 661   | 310              | 328       | 638   |   |
| New                       | 9                | 6         | 15    | 3                | 6         | 9     |   |
| Closed                    | (1               | ) (1      | ) (2  | ) (2             | ) (4      | ) (6  | ) |
| End of period             | 330              | 344       | 674   | 311              | 330       | 641   |   |
| % of Qdoba system         | 49               | % 51      | % 100 | % 49             | % 51      | % 100 | % |
| % of consolidated system  | 44               | % 16      | % 23  | % 42             | % 15      | % 22  | % |
| <b>Consolidated:</b>      |                  |           |       |                  |           |       |   |
| Total system              | 743              | 2,184     | 2,927 | 742              | 2,152     | 2,894 |   |
| % of consolidated system  | 25               | % 75      | % 100 | % 26             | % 74      | % 100 | % |

#### Jack in the Box Brand

##### Company Restaurant Operations

The following table presents Jack in the Box company restaurant sales, costs and margin, and restaurant costs and margin as a percentage of the related sales. Percentages may not add due to rounding (dollars in thousands):

|                                | Sixteen Weeks Ended |      |   |                  |      |   |
|--------------------------------|---------------------|------|---|------------------|------|---|
|                                | January 17, 2016    |      |   | January 18, 2015 |      |   |
| Company restaurant sales       | \$236,279           |      |   | \$241,343        |      |   |
| Company restaurant costs:      |                     |      |   |                  |      |   |
| Food and packaging             | 73,133              | 31.0 | % | 79,193           | 32.8 | % |
| Payroll and employee benefits  | 65,689              | 27.8 | % | 66,743           | 27.7 | % |
| Occupancy and other            | 48,171              | 20.4 | % | 48,631           | 20.2 | % |
| Total company restaurant costs | 186,993             | 79.1 | % | 194,567          | 80.6 | % |
| Restaurant margin              | \$49,286            | 20.9 | % | \$46,776         | 19.4 | % |

Jack in the Box company restaurant sales decreased \$5.1 million in 2016 due to a reduction in the average number of company-operated restaurants resulting from the execution of our refranchising strategy which includes the sale of restaurants to franchisees. Higher AUV growth in 2016 versus a year ago partially offset the sales decrease attributable to refranchising. The following table presents the approximate impact of these increases (decreases) on company restaurant sales (in thousands):

|   |            |
|---|------------|
| Jack in the Box AUV increase  | \$5,700    |
| Decrease in the average number of Jack in the Box company restaurants | (10,800 )  |
| Total decrease in company restaurant sales                            | \$(5,100 ) |



Same-store sales at Jack in the Box company-operated restaurants increased 0.5% in 2016 as compared to the prior year, primarily driven by price increases and to a lesser extent favorable product mix, which were nearly offset by a decline in transactions. The following table summarizes the change in company-operated same-store sales:

|                            | Sixteen Weeks Ended |    |                     |   |
|----------------------------|---------------------|----|---------------------|---|
|                            | January 17,<br>2016 |    | January 18,<br>2015 |   |
| Average check (1)          | 3.4                 | %  | 3.1                 | % |
| Transactions               | (2.9                | )% | 0.8                 | % |
| Change in same-store sales | 0.5                 | %  | 3.9                 | % |

(1) Amounts in 2016 and 2015 include price increases of approximately 2.8% and 2.1%, respectively.

Food and packaging costs as a percentage of company restaurant sales decreased to 31.0% in 2016, compared with 32.8% a year ago due to favorable product mix changes, lower commodity costs, and menu price increases.

Commodity costs decreased 1.7% due to lower costs for beef and cheese which were partially offset by higher costs for eggs, produce, poultry and pork. Beef, our most significant commodity, decreased nearly 22% versus last year while eggs increased most significantly by approximately 56% in 2016. For fiscal 2016, we currently expect commodity costs to decrease approximately 2% at our Jack in the Box restaurants compared with fiscal 2015.

Payroll and employee benefit costs as a percentage of company restaurant sales increased slightly to 27.8% in 2016 compared with 27.7% in 2015. In 2016, higher wages from minimum wage increases and higher costs for workers' compensation insurance were partially offset by lower levels of incentive compensation and the benefits of refranchising.

As a percentage of company restaurant sales, occupancy and other costs increased to 20.4% in 2016 from 20.2% a year ago due to higher costs for equipment upgrades, partially offset by lower costs for utilities and the benefits of refranchising.

#### Franchise Operations

The following table presents Jack in the Box franchise revenues, costs and margin in each period and other information we believe is useful in analyzing the change in franchise operating results (dollars in thousands):

|   | Sixteen Weeks Ended |   |                     |   |
|---|---------------------|---|---------------------|---|
|   | January 17,<br>2016 |   | January 18,<br>2015 |   |
| Franchise rental revenues                       | \$69,700            |   | \$69,382            |   |
| Royalties                                       | 40,870              |   | 40,252              |   |
| Franchise fees and other                        | 734                 |   | 974                 |   |
| Franchise royalties and other                   | 41,604              |   | 41,226              |   |
| Total franchise revenues                        | 111,304             |   | 110,608             |   |
| Rental expense                                  | 42,144              |   | 42,140              |   |
| Depreciation and amortization                   | 10,047              |   | 10,221              |   |
| Franchise occupancy expenses                    | 52,191              |   | 52,361              |   |
| Franchise support and other costs               | 3,338               |   | 3,627               |   |
| Total franchise costs                           | 55,529              |   | 55,988              |   |
| Franchise margin                                | \$55,775            |   | \$54,620            |   |
| Franchise margin as a % of franchise revenues   | 50.1                | % | 49.4                | % |
| Average number of franchise restaurants         | 1,838               |   | 1,822               |   |
| % increase                                      | 0.9                 | % |                     |   |
| Franchise restaurant AUVs                       | \$438               |   | \$429               |   |
| Increase in franchise-operated same-store sales | 1.8                 | % | 4.6                 | % |

|   |     |   |     |   |
|---|-----|---|-----|---|
| Royalties as a percentage of franchise restaurant sales | 5.1 | % | 5.2 | % |
|---|-----|---|-----|---|

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Total franchise revenues, which includes franchise rental revenues and franchise royalties and other, increased \$0.7 million or 0.6% in 2016 as compared to a year ago, primarily reflecting higher AUVs resulting in an increase in revenues from royalties and percentage rent.

Franchise occupancy expenses, principally rents and depreciation on properties subleased or leased to franchisees, decreased \$0.2 million in 2016 due to a decrease in depreciation expense as our building assets become fully depreciated.

Franchise support and other costs decreased \$0.3 million in 2016 versus a year ago primarily due to a decrease in bad debt expense.

Qdoba Brand

Company Restaurant Operations

The following table presents Qdoba company restaurant sales, costs and margin, and restaurant costs and margin as a percentage of the related sales. Percentages may not add due to rounding (dollars in thousands):

|                                | Sixteen Weeks Ended |      |   |                  |      |   |
|--------------------------------|---------------------|------|---|------------------|------|---|
|                                | January 17, 2016    |      |   | January 18, 2015 |      |   |
| Company restaurant sales       | \$ 116,942          |      |   | \$ 110,553       |      |   |
| Company restaurant costs:      |                     |      |   |                  |      |   |
| Food and packaging             | 35,778              | 30.6 | % | 33,916           | 30.7 | % |
| Payroll and employee benefits  | 32,218              | 27.6 | % | 28,936           | 26.2 | % |
| Occupancy and other            | 29,528              | 25.3 | % | 26,400           | 23.9 | % |
| Total company restaurant costs | 97,524              | 83.4 | % | 89,252           | 80.7 | % |
| Restaurant margin              | \$ 19,418           | 16.6 | % | \$ 21,301        | 19.3 | % |

Company restaurant sales increased \$6.4 million in 2016 as compared with the prior year due primarily to an increase in the number of Qdoba company-operated restaurants, and to a lesser extent, growth in AUVs. The following table presents the approximate impact of these increases on company restaurant sales (in thousands):

|   |          |
|---|----------|
| Increase in the average number of Qdoba company restaurants | \$ 5,100 |
| Qdoba AUV increase  | 1,300    |
| Total increase in company restaurant sales                  | \$ 6,400 |

Same-store sales at Qdoba company-operated restaurants increased 1.5% in 2016 primarily driven by transaction growth and catering. The following table summarizes the change in company-operated same-store sales:

|                            | Sixteen Weeks Ended |    |                  |   |
|----------------------------|---------------------|----|------------------|---|
|                            | January 17, 2016    |    | January 18, 2015 |   |
| Transactions               | 1.3                 | %  | 1.9              | % |
| Average check (1)          | (0.8)               | )% | 9.8              | % |
| Catering                   | 1.0                 | %  | 1.2              | % |
| Change in same-store sales | 1.5                 | %  | 12.9             | % |

(1) Amounts in 2016 and 2015 include price increases of approximately 0.7% and 0.6%, respectively, year-to-date. Food and packaging costs as a percentage of company restaurant sales decreased slightly to 30.6% in 2016 from 30.7% a year ago due to lower commodity costs which were partially offset by a higher frequency of guests choosing to add on extras like guacamole and queso at no additional charge. Commodity costs decreased 5.4% primarily due to lower beef and cheese costs, partially offset by higher costs for produce. In 2016, beef costs decreased by approximately 14%. For fiscal 2016, we currently expect commodity costs to decrease approximately 4% at our Qdoba restaurants compared with fiscal 2015.

Payroll and employee benefit costs as a percentage of company restaurant sales increased to 27.6% in 2016 from 26.2% in 2015 driven by increases in labor staffing and an increase in new restaurant openings, partially offset by lower levels of incentive compensation.

As a percentage of company restaurant sales, occupancy and other costs increased to 25.3% in 2016 from 23.9% a year ago primarily due to higher costs for uniforms and depreciation expense related to technology and kitchen equipment upgrades, as well as an increase in new restaurant openings.

#### Franchise Operations

The following table presents our Qdoba franchise revenues, costs and margin in each period and other information we believe is useful in analyzing the change in franchise operating results (dollars in thousands):

|   | Sixteen Weeks Ended |                     |  |   |
|---|---------------------|---------------------|--|---|
|   | January 17,<br>2016 | January 18,<br>2015 |  |   |
| Franchise rental revenues   | \$38                | \$64                |  |   |
| Royalties   | 5,792               | 5,577               |  |   |
| Franchise fees and other  | 468                 | 476                 |  |   |
| Franchise royalties and other                                     | 6,260               | 6,053               |  |   |
| Total franchise revenues  | 6,298               | 6,117               |  |   |
| Rental expense (1)  | 28                  | 57                  |  |   |
| Franchise support and other costs                                 | 1,524               | 1,096               |  |   |
| Total franchise costs   | 1,552               | 1,153               |  |   |
| Franchise margin  | \$4,746             | \$4,964             |  |   |
| Franchise margin as a % of franchise revenues                     | 75.4                | % 81.2              |  | % |
| Average number of franchise restaurants                           | 342                 | 331                 |  |   |
| % increase  | 3.3                 | %                   |  |   |
| Franchise restaurant AUVs   | \$344               | \$336               |  |   |
| Increase in franchise-operated same-store sales                   | 2.1                 | % 15.1              |  | % |
| Royalties as a percentage of estimated franchise restaurant sales | 4.9                 | % 5.0               |  | % |

(1) Included in franchise occupancy expenses in the accompanying condensed consolidated statements of earnings. Franchise royalties and other increased \$0.2 million or 3.4%, in 2016, primarily reflecting an increase in the average number of franchise restaurants, and to a lesser extent, higher AUVs resulting in an increase in revenue from royalties. Franchise support and other costs, increased \$0.4 million in 2016 versus a year ago, primarily related to bad debt expense of \$0.2 million recorded in 2016.

## Selling, General and Administrative (“SG&amp;A”) Expenses

The following table presents the change in SG&A expenses compared with the prior year (in thousands):

|   | Increase /<br>(Decrease) |
|---|--------------------------|
| Advertising   | \$1,945                  |
| Pre-opening costs   | 1,129                    |
| Qdoba brand conference  | 833                      |
| Cash surrender value of COLI policies, net  | 813                      |
| Consulting  | 512                      |
| Incentive compensation (including share-based compensation and related payroll taxes) | (1,202 )                 |
| Pension and postretirement benefits   | (1,620 )                 |
| Other   | 367                      |
|   | \$2,777                  |

Advertising costs associated with our Qdoba brand were \$2.1 million higher in 2016 versus a year ago due primarily to the timing of spending. Advertising costs at our Jack in the Box brand are primarily contributions to our marketing fund and determined as a percentage of gross restaurant sales. Jack in the Box advertising costs decreased \$0.2 million compared to a year ago due to our refranchising strategy which resulted in a decrease in the number of company-operated restaurants.

Pre-opening costs increased in 2016 as compared to a year ago due to an increase in both the number of Qdoba restaurants opened, and under construction in the period.

In 2016, as part of its brand evolution, Qdoba held a conference to communicate the vision and direction of the brand strategy to key stakeholders, which resulted in an increase in 2016 SG&A expenses.

The cash surrender value of our COLI policies, net of changes in our non-qualified deferred compensation obligations supported by these policies, are subject to market fluctuations. The changes in market values had a negative impact of \$1.0 million in 2016, compared with \$0.2 million a year ago.

Incentive compensation decreased \$1.2 million compared with a year ago due primarily to a decrease in costs related to our annual incentive compensation plans and a reduction in payroll taxes associated with our stock compensation awards.

Pension and postretirement benefit costs decreased \$1.6 million primarily due to the sunseting of our qualified pension plan on December 31, 2015 resulting in a decrease in the service cost component of our expense and a change in the amortization period for actuarial gains and losses from the average remaining service period to the average future lifetime of all participants. To a lesser extent, an increase in our discount rate also contributed to the decrease.

## Impairment and Other Charges, Net

Impairment and other charges, net is comprised of the following (in thousands):

|   | Sixteen Weeks Ended |                     |
|---|---------------------|---------------------|
|   | January 17,<br>2016 | January 18,<br>2015 |
| Losses on the disposition of property and equipment, net            | \$651               | \$621               |
| Costs of closed restaurants (primarily lease obligations) and other | 560                 | 786                 |
| Accelerated depreciation  | 446                 | 752                 |
| Restaurant impairment charges                                       | —                   | 14                  |
| Restructuring costs   | —                   | 7                   |
|   | \$1,657             | \$2,180             |

Impairment and other charges, net decreased \$0.5 million in 2016 versus a year ago primarily related to decreases in accelerated depreciation and costs of closed restaurants and other. Accelerated depreciation related to Jack in the Box restaurant closures and technology upgrades decreased versus a year ago and was partially offset by an increase associated with exterior lighting upgrades at our Jack in the Box restaurants. Costs of closed restaurants and other decreased primarily due to decreases in charges for future lease commitments, partially offset by income of \$0.6 million recognized in 2015 related to an eminent domain matter. Refer to Note 6, Impairment and Other Charges, Net

of the notes to the condensed consolidated financial statements for additional information regarding these costs.

### Gains on the Sale of Company-Operated Restaurants

Gains on the sale of company-operated restaurants were \$0.8 million and \$0.9 million in 2016 and 2015, respectively. We sold one Jack in the Box restaurant in each year. Gains are impacted by the number of restaurants sold and changes in average gains or losses recognized, which relate to the specific sales and cash flows of those restaurants. In 2016 and 2015, gains on the sale of company-operated restaurants include additional gains of \$1.0 million and \$0.1 million, respectively, recognized upon the extension of the underlying franchise and lease agreements related to Jack in the Box restaurants sold in previous years. Refer to Note 3, Summary of Refranchisings, Franchisee Development and Acquisitions, of the notes to the condensed consolidated financial statements for additional information regarding these gains.

### Interest Expense, Net

Interest expense, net is comprised of the following (in thousands):

|                       | Sixteen Weeks Ended |                     |
|-----------------------|---------------------|---------------------|
|                       | January 17,<br>2016 | January 18,<br>2015 |
| Interest expense      | \$8,231             | \$5,404             |
| Interest income       | (56                 | ) (191              |
| Interest expense, net | \$8,175             | \$5,213             |

Interest expense, net increased \$3.0 million during 2016 compared with a year ago due primarily to higher average borrowings.

### Income Taxes

The tax rate in 2016 was 37.6%, compared with 36.1% a year ago. The major components of the year-over-year change in tax rates were a decrease in operating earnings before income taxes, an increase in the Company's state tax rate, 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 Company recognized a benefit from the retroactive reenactment of the Work Opportunity Tax Credit for calendar year 2015 during the first quarter of 2016. Similarly, a retroactive reenactment occurred for calendar year 2014 during the first quarter of 2015. We expect the fiscal year tax rate to be approximately 38%. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual 2016 rate could differ from our current estimates.

### Losses from Discontinued Operations, Net

As described in Note 2, Discontinued Operations, in the notes to the condensed consolidated financial statements, the results of operations from our distribution business and the 2013 Qdoba Closures have been reported as discontinued operations for all periods presented.

Losses from discontinued operations, net of tax are as follows for each discontinued operation (in thousands):

|                       | Sixteen Weeks Ended |                     |
|-----------------------|---------------------|---------------------|
|                       | January 17,<br>2016 | January 18,<br>2015 |
| Distribution business | \$21                | \$(36               |
| 2013 Qdoba Closures   | (697                | ) (1,227            |
|                       | \$(676              | ) \$(1,263          |

In 2016 and 2015, losses from discontinued operations incurred in connection with the 2013 Qdoba Closures primarily relate to unfavorable lease commitment adjustments.

Losses from discontinued operations reduced diluted earnings per share by the following in each period (earnings per share may not add due to rounding):

|                       | Sixteen Weeks Ended |                     |
|-----------------------|---------------------|---------------------|
|                       | January 17,<br>2016 | January 18,<br>2015 |
| Distribution business | \$—                 | \$—                 |
| 2013 Qdoba Closures   | (0.02               | ) (0.03             |
|                       | \$(0.02             | ) \$(0.03           |



## LIQUIDITY AND CAPITAL RESOURCES

## General

Our primary sources of short-term and long-term liquidity are expected to be cash flows from operations and our revolving bank credit facility.

We generally reinvest available cash flows from operations to develop new restaurants or enhance existing restaurants, to reduce debt, to repurchase shares of our common stock and to pay cash dividends. Our cash requirements consist principally of:

- working capital;
- capital expenditures for new restaurant construction and restaurant renovations;
- income tax payments;
- debt service requirements; and
- obligations related to our benefit plans.

Based upon current levels of operations and anticipated growth, we expect that cash flows from operations, combined with other financing alternatives in place or available, will be sufficient to meet our capital expenditure, working capital and debt service requirements for at least the next twelve months and the foreseeable future.

As is common in the restaurant industry, we maintain relatively low levels of accounts receivable and inventories, and our vendors grant trade credit for purchases such as food and supplies. We also continually invest in our business through the addition of new units and refurbishment of existing units, which are reflected as long-term assets and not as part of working capital. As a result, we may at times maintain current liabilities in excess of current assets, which results in a working capital deficit.

## Cash Flows

The table below summarizes our cash flows from operating, investing and financing activities (in thousands):

|   | Sixteen Weeks Ended |                     |
|---|---------------------|---------------------|
|   | January 17,<br>2016 | January 18,<br>2015 |
| Total cash provided by (used in):         |                     |                     |
| Operating activities                      | \$44,909            | \$47,347            |
| Investing activities                      | (27,256 )           | (13,639 )           |
| Financing activities                      | (28,264 )           | (35,481 )           |
| Effect of exchange rate changes           | (32 )               | 3                   |
| Net decrease in cash and cash equivalents | \$(10,643 )         | \$(1,770 )          |

**Operating Activities.** Operating cash flows decreased \$2.4 million compared with a year ago primarily due to a \$16.0 million income tax payment in 2016, an increase in 2016 receivables due to the timing of property tax and other miscellaneous billings to franchisees, and a decrease in net earnings in 2016, partially offset by a reduction in tax benefits associated with stock-based compensation and an increase in accounts payable related to timing of disbursements.

**Investing Activities.** Cash used in investing activities increased \$13.6 million compared with a year ago due primarily to an increase in capital expenditures and a decrease in collections on notes receivable, partially offset by an increase in proceeds from assets held for sale and leaseback.

Capital Expenditures — The composition of capital expenditures in each period follows (in thousands):

|   | Sixteen Weeks Ended |                     |
|---|---------------------|---------------------|
|   | January 17,<br>2016 | January 18,<br>2015 |
| Jack in the Box:                        |                     |                     |
| Restaurant facility expenditures        | \$10,113            | \$6,135             |
| New restaurants                         | 3,059               | 2,771               |
| Other, including information technology | 706                 | 1,959               |
|   | 13,878              | 10,865              |
| Qdoba:                                  |                     |                     |
| New restaurants                         | 14,394              | 4,173               |
| Restaurant facility expenditures        | 1,127               | 1,772               |
| Other, including information technology | 757                 | —                   |
|   | 16,278              | 5,945               |
| Shared Services:                        |                     |                     |
| Information technology                  | 1,239               | 1,765               |
| Other, including facility improvements  | 148                 | 1,310               |
|   | 1,387               | 3,075               |
| Consolidated capital expenditures       | \$31,543            | \$19,885            |

Our capital expenditure program includes, among other things, investments in new locations and equipment, restaurant remodeling, and information technology enhancements. Capital expenditures increased \$11.7 million compared to a year ago as a result of an increase in spending related building new Qdoba restaurants, exterior enhancements at our Jack in the Box restaurants, and information technology infrastructure at Qdoba. We expect fiscal 2016 capital expenditures to be approximately \$100 - \$120 million. In 2016, we plan to open 50 to 60 Qdoba restaurants, of which approximately half are expected to be company-operated locations. Additionally, we plan to open approximately 20 Jack in the Box franchise and company-operated restaurants in fiscal 2016, of which four are expected to be company-operated locations.

**Sale of Company-Operated Restaurants** — We have continued to expand franchise ownership in the Jack in the Box system primarily through the sale of company-operated restaurants to franchisees. Proceeds received in 2016 of \$1.0 million are primarily related to the extension of the underlying franchise and lease agreements related to Jack in the Box restaurants sold in previous years. In 2015, proceeds of \$1.2 million are primarily related to the sale of a company-operated restaurant. For additional information, refer to Note 3, Summary of Refranchisings, Franchisee Development and Acquisitions, of the notes to the condensed consolidated financial statements.

**Assets Held for Sale and Leaseback** — We use sale and leaseback financing to lower the initial cash investment in our restaurants to the cost of the equipment, whenever possible. In 2016, we exercised our right of first refusal related to two leased properties which we intend to sell and leaseback within the next 12 months. We did not have any sale and leaseback transactions in 2015. The following table summarizes the cash flow activity related to our 2016 sale and leaseback transactions (dollars in thousands):

|   |           |
|---|-----------|
| Number of restaurants sold and leased back          | 3         |
| Proceeds from sale and leaseback transactions       | \$5,803   |
| Purchases of assets intended for sale and leaseback | \$(3,274) |

As of January 17, 2016, we had investments of \$19.1 million relating to eight restaurant properties that we expect to sell and leaseback during the next 12 months.

**Financing Activities.** Cash flows used in financing activities decreased \$7.2 million compared with a year ago primarily due to an increase in our borrowings on our credit facility and a decrease in cash used to repurchase shares of our common stock, partially offset by a decrease in excess tax benefits from share based compensation arrangements and a decrease in proceeds from issuance of our common stock.



**Credit Facility** — Our credit facility consists of (i) a \$900.0 million revolving credit agreement and (ii) a \$300.0 million term loan. Both the revolving credit agreement and the term loan have maturity dates of March 19, 2019. As part of the credit agreement, we may also request the issuance of up to \$75.0 million in letters of credit, the outstanding amount of which reduces our net borrowing capacity under the agreement. At January 17, 2016, we had \$292.2 million outstanding under the term loan, borrowings under the revolving credit agreement of \$474.0 million and letters of credit outstanding of \$25.2 million.

The interest rate on the credit facility is based on our leverage ratio and can range from London Interbank Offered Rate (“LIBOR”) plus 1.25% to 2.00% with no floor. The current interest rate is LIBOR plus 1.75%.

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, dividend payments and requirements to maintain certain financial ratios. We were in compliance with all covenants as of January 17, 2016.

**Interest Rate Swaps** — To reduce our exposure to rising interest rates under our credit facility, we consider interest rate swaps. 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 eleven forward-starting interest rate swap agreements that effectively convert an additional \$200.0 million of our variable rate borrowings and future expected variable rate borrowings to a fixed rate from October 2015 through October 2018, and \$500.0 million from October 2018 through October 2022. For additional information, refer to Note 5, Derivative Instruments, of the notes to the condensed consolidated financial statements and Item 3, Quantitative and Qualitative Disclosures About Market Risk, of this Report.

**Repurchases of Common Stock** — During 2016, we repurchased 1.3 million shares at an aggregate cost of \$100.0 million, compared with 1.3 million shares at an aggregate cost of \$101.6 million in 2015. As of January 17, 2016, there was \$100.0 million remaining under a stock-buyback program which expires in November 2017.

**Dividends** — In 2016, a quarterly cash dividend of \$0.30 per share was declared totaling \$10.6 million. Future dividends are subject to approval by our Board of Directors.

#### **Off-Balance Sheet Arrangements**

We are not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, results of operations, liquidity, capital expenditures or capital resources.

#### **DISCUSSION OF CRITICAL ACCOUNTING ESTIMATES**

Critical accounting estimates are those the Company believes are most important for the portrayal of the Company’s financial condition and results and that require management’s most subjective and complex judgments. Judgments and uncertainties regarding the application of these policies may result in materially different amounts being reported under various conditions or using different assumptions. There have been no material changes to the critical accounting estimates previously disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended September 27, 2015.

#### **NEW ACCOUNTING PRONOUNCEMENTS**

Refer to Note 1, Basis of Presentation, of the notes to the condensed consolidated financial statements.

#### **CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements within the meaning of the federal securities laws. Any statements contained herein that are not historical facts may be deemed to be forward-looking statements. Forward-looking statements may be identified by words such as “anticipate,” “assume,” “believe,” “estimate,” “expect,” “forecast,” “goals,” “guarantee,” “intend,” “plan,” “project,” “may,” “will,” “would”, “should” and similar expressions. These statements are based on management’s current expectations, estimates, forecasts and projections about our business and the industry in which we operate. These estimates and assumptions involve known and unknown risks, uncertainties, and other factors that are in some cases beyond our control. Factors that may cause our actual results to differ materially from any forward-looking statements include, but are not limited to:

- Food service businesses such as ours may be materially and adversely affected by changes in consumer preferences or dining habits, and economic, political and socioeconomic conditions. Adverse economic conditions such as unemployment and decreased discretionary spending may result in reduced restaurant traffic and sales and impose practical limits on pricing. We are also subject to geographic concentration risks,

with nearly 70% of system Jack in the Box restaurants located in California and Texas.

Our profitability depends in part on food and commodity costs and availability, including animal feed costs and fuel costs and other supply and distribution costs. The risks of increased commodities costs and volatility in costs could adversely affect our profitability and results of operations.

The success of our business strategy depends on the value and relevance of our brands. Multi-unit food service businesses such as ours can be materially and adversely affected by widespread negative publicity of any type, particularly regarding food quality, food safety or public health issues. Negative publicity regarding our brands or the restaurant industry in general could cause a decline in system restaurant sales and could have a material adverse effect on our financial condition and results of operations.

We are reliant on third party suppliers and distributors, and any shortages or interruptions in supply could adversely affect the availability, quality and cost of ingredients.

Our business can be materially and adversely affected by severe weather conditions or natural disasters, which can result in lost restaurant sales, supply chain interruptions and increased costs.

Growth and new restaurant development involve substantial risks, including risks associated with unavailability of suitable franchisees, limited financing availability, cost overruns and the inability to secure suitable sites on acceptable terms. In addition, our growth strategy includes opening restaurants in new or existing markets where we cannot assure that we will be able to successfully expand or acquire critical market presence, attract customers or otherwise operate profitably.

There are risks associated with our franchise business model, including the demand for our franchises, the selection of appropriate franchisees and whether our franchisees and new restaurant developers will have the capabilities to be effective operators and remain aligned with us on operating, promotional and capital-intensive initiatives, in an ever-changing competitive environment. Additionally, our franchisees and operators could experience operational, financial or other challenges that could affect payments to us of rents and/or royalties, or could damage our brands and reputation.

The restaurant and take-away food industry is highly competitive with respect to price, service, location, brand identification and menu quality and innovation. We cannot assure that we will be able to effectively respond to aggressive competitors (including competitors with significantly greater financial resources); or that our competitive strategies will increase our same-store sales and AUVs; or that our new products, service initiatives, overall strategies or execution of those strategies will be successful.

Should our advertising and promotions be less effective than our competitors, there could be a material adverse effect on our results of operations and financial condition.

The cost-saving initiatives planned or taken in recent years, including the outsourcing of our distribution business and integration of the Jack in the Box and Qdoba technology systems, are subject to risks and uncertainties, and we cannot assure that these activities, or any other activities we undertake in the future, will achieve the desired savings and efficiencies.

The loss of key personnel could have a material adverse effect on our business.

The costs of compliance with government regulations, including those resulting in increased labor costs, could negatively affect our results of operations and financial condition.

A material failure or interruption of service or a breach in security of our information technology systems or databases could cause reduced efficiency in operations, loss or misappropriation of data or business interruptions, which in turn could affect cash flows or our operating results. In addition, the costs of information security, regulatory compliance, investment in technology and risk mitigation measures may negatively affect our margins or financial results.

We maintain a documented system of internal controls, which is reviewed and monitored by an Internal Controls Committee and tested by the Company's full-time internal audit department. Any failures in the effectiveness of our internal controls could have a material adverse effect on our operating results or cause us to fail to meet our reporting obligations.

We are subject to risks of owning, operating and leasing property, including but not limited to environmental risks, which could result in the imposition of severe penalties or restrictions on operations by governmental agencies or courts of law, which could adversely affect operations.

We have a significant amount of indebtedness, which could adversely affect our business and our ability to meet our obligations. Our ability to repay expected borrowings under our credit facility and to meet our other debt or

contractual obligations will depend upon our future performance and our cash flows from operations, both of which are subject to prevailing economic conditions and financial, business and other known and unknown risks and uncertainties, certain of which are beyond our control.

Changes in accounting standards, policies or related interpretations by accountants or regulatory entities may negatively impact our results.

We are subject to litigation which is inherently unpredictable and can result in unfavorable resolutions where the amount of ultimate loss may exceed our estimated loss contingencies, impose other costs related to defense of claims, or distract management from our operations.

These and other factors are identified and described in more detail in our filings with the Securities and Exchange Commission, including, but not limited to: the “Discussion of Critical Accounting Estimates” and other sections in this Form 10-Q and the “Risk Factors” section of our most recent Annual Report on Form 10-K for the fiscal year ended September 27, 2015 (“Form 10-K”). These documents may be read free of charge on the SEC’s website at [www.sec.gov](http://www.sec.gov). Potential investors are urged to consider these factors, more fully described in our Form 10-K, carefully in evaluating any forward-looking statements, and are cautioned not to place undue reliance on the forward-looking statements. All forward-looking statements are made only as of the date issued, and we do not undertake any obligation to update any forward-looking statements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure to risks relating to our financial instruments is changes in interest rates. Our credit facility is comprised of a revolving credit facility and a term loan, bearing interest at an annual rate equal to the prime rate of LIBOR plus an applicable margin based on a financial leverage ratio. As of January 17, 2016, the applicable margin for the LIBOR-based revolving loans and term loan was set at 1.75%.

We use interest rate swap agreements to reduce exposure to interest rate fluctuations. 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 eleven 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. Based on the applicable margin in effect as of January 17, 2016, these twenty interest rate swaps would yield average fixed rates of 2.93%, 3.65%, 4.16%, 4.37%, 4.64%, 4.82%, 4.92% in years two through eight, respectively. For additional information related to our interest rate swaps, refer to Note 5, Derivative Instruments, of the notes to the condensed consolidated financial statements.

We are also exposed to the impact of commodity and utility price fluctuations. Many of the ingredients we use are commodities or ingredients that are affected by the price of other commodities, weather, seasonality, production, availability and various other factors outside our control. In order to minimize the impact of fluctuations in price and availability, we monitor the primary commodities we purchase and may enter into purchasing contracts and pricing arrangements when considered to be advantageous. However, certain commodities remain subject to price fluctuations. We are exposed to the impact of utility price fluctuations related to unpredictable factors such as weather and various other market conditions outside our control. Our ability to recover increased costs for commodities and utilities through higher prices is limited by the competitive environment in which we operate.

### ITEM 4. CONTROLS AND PROCEDURES

#### Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Based on an evaluation of the Company’s disclosure controls and procedures (as defined in Rules 13a - 15 and 15d - 15 of the Securities Exchange Act of 1934, as amended), as of the end of the Company’s quarter ended January 17, 2016, the Company’s Chief Executive Officer and Chief Financial Officer (its principal executive officer and principal financial officer, respectively) have concluded that the Company’s disclosure controls and procedures were effective.

#### Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting that occurred during the Company’s fiscal quarter ended January 17, 2016 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

### PART II. OTHER INFORMATION

There is no information required to be reported for any items under Part II, except as follows:

ITEM 1. LEGAL PROCEEDINGS

See Note 12, Contingencies and Legal Matters, of the notes to the unaudited condensed consolidated financial statements for a discussion of our contingencies and legal matters.

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**ITEM 1A. RISK FACTORS**

When evaluating our business and our prospects, you should consider the risks and uncertainties described under Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended September 27, 2015, which we filed with the SEC on November 19, 2015. You should also consider the risks and uncertainties discussed under the heading “Cautionary Statements Regarding Forward-Looking Statements” in Item 2 of this Quarterly Report on Form 10-Q. You should also refer to the other information set forth in this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended September 27, 2015, including our financial statements and the related notes. There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended September 27, 2015. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the risks or uncertainties actually occurs, our business and financial results could be harmed. In that case, the market price of our common stock could decline.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Our credit agreement provides for the potential payment of cash dividends and stock repurchases, subject to certain limitations based on our leverage ratio as defined in our credit agreement.

Stock Repurchases — During fiscal 2016, we repurchased 1.3 million shares at an aggregate cost of \$100.0 million. As of January 17, 2016, there was \$100.0 million remaining under a stock-buyback program which expires in November 2017.

The following table summarizes shares repurchased during the quarter ended January 17, 2016. The average price paid per share in column (b) below does not include the cost of brokerage fees.

|                                       | (a)<br>Total number<br>of shares<br>purchased | (b)<br>Average<br>price paid<br>per share | (c)<br>Total number<br>of shares<br>purchased as<br>part of<br>publicly<br>announced<br>programs | (d)<br>Maximum dollar<br>value that may yet<br>be purchased<br>under<br>these programs |
|---------------------------------------|---|---|--|--|
| September 28, 2015 - October 25, 2015 | —   | \$—                                       | —  | \$ 200,025,468   |
| October 26, 2015 - November 22, 2015  | —   | \$—                                       | —  | \$ 200,025,468   |
| November 23, 2015 - December 20, 2015 | 1,274,158                                     | \$78.46                                   | 99,999,916   | \$ 100,025,552   |
| December 21, 2015 - January 17, 2016  | —   | \$—                                       | —  | \$ 100,025,552   |
| Total                                 | 1,274,158                                     | \$78.46                                   | 99,999,916   |  |

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

ITEM 6. EXHIBITS

| Number   | Description   | Form Filed with SEC |
|----------|---|---------------------|
| 3.1      | Restated Certificate of Incorporation, as amended, dated September 21, 2007   | 10-K 11/20/2009     |
| 3.1.1    | Certificate of Amendment of Restated Certificate of Incorporation, dated September 21, 2007   | 8-K 9/24/2007       |
| 3.2      | Amended and Restated Bylaws, dated August 7, 2013   | 10-Q 8/8/2013       |
| 10.8.13* | Form of Time-Vested Restricted Stock Unit Awards Agreement under the 2004 Stock Incentive Plan  | 10-Q Filed herewith |
| 10.8.14* | Form of Stock Option and Performance Unit Awards Agreement under the 2004 Stock Incentive Plan  | 10-Q Filed herewith |
| 31.1     | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  | — Filed herewith    |
| 31.2     | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  | — Filed herewith    |
| 32.1     | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | — Filed herewith    |
| 32.2     | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | — Filed herewith    |
| 101.INS  | XBRL Instance Document  |                     |
| 101.SCH  | XBRL Taxonomy Extension Schema Document   |                     |
| 101.CAL  | XBRL Taxonomy Extension Calculation Linkbase Document   |                     |
| 101.DEF  | XBRL Taxonomy Extension Definition Linkbase Document  |                     |
| 101.LAB  | XBRL Taxonomy Extension Label Linkbase Document   |                     |
| 101.PRE  | XBRL Taxonomy Extension Presentation Linkbase Document  |                     |

\* Management contract or compensatory plan.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JACK IN THE BOX INC.

By: /S/ JERRY P. REBEL  
 Jerry P. Rebel  
 Executive Vice President and Chief Financial Officer (principal  
 financial officer)  
 (Duly Authorized Signatory)

Date: February 18, 2016