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

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
As of the close of business February 12, 2016, 34,681,826 shares of the registrant’s common stock were outstanding.

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

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	January 17, 2016	September 27, 2015
ASSETS		
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
	$1,273,007	$ 1,303,979
LIABILITIES AND STOCKHOLDERS' EQUITY		
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
	$1,273,007	$ 1,303,979

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, 2016	January 18, 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.

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

	Sixteen Weeks Ended	
	January 17, 2016	January 18, 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, 2016	January 18, 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)

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.

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

1. BASIS OF PRESENTATION

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

	January 17, 2016	January 18, 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, 2016	January 18, 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.

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, 2016	January 18, 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 in Active Markets for Identical Assets (3) (Level 1)	Significant Other Observable Inputs (3) (Level 2)	Significant Unobservable Inputs (3) (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	Sixteen Weeks Ended 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	Sixteen Weeks Ended 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

(1) 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, 2016	January 18, 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 Pension Plans	Postretirement 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, 2016	January 18, 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, 2016	January 18, 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:		

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

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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.

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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, 2016	January 18, 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 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.

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14. SUPPLEMENTAL CONSOLIDATED CASH FLOW INFORMATION (in thousands)

	Sixteen Weeks Ended	
	January 17, 2016	January 18, 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

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15. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION (in thousands)

	January 17, 2016	September 27, 2015
Accounts and other receivables, net:		
Trade	$35,386	$ 36,990
Notes receivable	3,610	1,726