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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 9, 2017
Commission File Number: 1-9390

DELAWARE	95-2698708
(State of Incorporation)	(I.R.S. Employer Identification No.)
9330 BALBOA AVENUE, SAN DIEGO, CA	92123
(Address of principal executive offices)	(Zip Code)

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
As of the close of business August 4, 2017, 29,424,476 shares of the registrant's common stock were outstanding.

JACK IN THE BOX INC. AND SUBSIDIARIES
INDEX

		Page
	PART I – FINANCIAL INFORMATION	
Item 1.	Condensed Consolidated Financial Statements (Unaudited):	
	Condensed Consolidated Balance Sheets	2
	Condensed Consolidated Statements of Earnings	3
	Condensed Consolidated Statements of Comprehensive Income	4
	Condensed Consolidated Statements of Cash Flows	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	39
Item 4.	Controls and Procedures	40
	PART II – OTHER INFORMATION	
Item 1.	Legal Proceedings	40
Item 1A.	Risk Factors	40
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 3.	Defaults of Senior Securities	40
Item 4.	Mine Safety Disclosures	40
Item 5.	Other Information	40
Item 6.	Exhibits	41
	Signature	42

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	July 9, 2017	October 2, 2016
ASSETS		
Current assets:		
Cash	$7,560	$17,030
Accounts and other receivables, net	56,245	73,360
Inventories	7,418	8,229
Prepaid expenses	52,071	40,398
Assets held for sale	36,755	14,259
Other current assets	2,656	2,129
Total current assets	162,705	155,405
Property and equipment, at cost	1,516,247	1,605,576
Less accumulated depreciation and amortization	(881,240)	(886,526)
Property and equipment, net	635,007	719,050
Intangible assets, net	14,776	14,042
Goodwill	172,963	166,046
Other assets, net	269,768	290,469
	$1,255,219	$1,345,012
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current maturities of long-term debt	$60,115	$55,935
Accounts payable	34,857	40,736
Accrued liabilities	151,580	181,250
Total current liabilities	246,552	277,921
Long-term debt, net of current maturities	1,124,798	935,372
Other long-term liabilities	322,865	348,925
Stockholders' deficit:		
Preferred stock $0.01 par value, 15,000,000 shares authorized, none issued	—	—
Common stock $0.01 par value, 175,000,000 shares authorized, 81,835,883 and 81,598,524 issued, respectively	818	816
Capital in excess of par value	450,830	432,564
Retained earnings	1,467,671	1,399,721
Accumulated other comprehensive loss	(167,876)	(187,021)
Treasury stock, at cost, 52,411,407 and 49,190,992 shares, respectively	(2,190,439)	(1,863,286)
Total stockholders' deficit	(438,996)	(217,206)
	$1,255,219	$1,345,012

See accompanying notes to condensed consolidated financial statements.

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

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Revenues:				
Company restaurant sales	$264,839	$278,829	$911,176	$903,842
Franchise rental revenues	52,849	52,878	175,639	175,218
Franchise royalties and other	40,158	37,231	128,353	121,852
	357,846	368,938	1,215,168	1,200,912
Operating costs and expenses, net:				
Company restaurant costs:				
Food and packaging	80,159	81,825	272,007	272,802
Payroll and employee benefits	74,898	76,910	264,578	250,954
Occupancy and other	61,716	59,118	209,330	196,344
Total company restaurant costs	216,773	217,853	745,915	720,100
Franchise occupancy expenses	39,837	38,848	129,703	128,475
Franchise support and other costs	2,928	3,654	9,507	12,423
Selling, general and administrative expenses	38,365	42,768	129,861	155,535
Impairment and other charges, net	6,212	10,519	15,600	14,598
Gains on the sale of company-operated restaurants	(13,250)	(409)	(21,166)	(1,224)
	290,865	313,233	1,009,420	1,029,907
Earnings from operations	66,981	55,705	205,748	171,005
Interest expense, net	11,433	7,613	35,091	22,699
Earnings from continuing operations and before income taxes	55,548	48,092	170,657	148,306
Income taxes	18,427	17,308	62,682	54,597
Earnings from continuing operations	37,121	30,784	107,975	93,709
Losses from discontinued operations, net of income tax benefit	(770)	(595)	(2,601)	(1,617)
Net earnings	$36,351	$30,189	$105,374	$92,092
Net earnings per share - basic:				
Earnings from continuing operations	$1.26	$0.94	$3.49	$2.75
Losses from discontinued operations	(0.03)	(0.02)	(0.08)	(0.05)
Net earnings per share (1)	$1.23	$0.92	$3.40	$2.70
Net earnings per share - diluted:				
Earnings from continuing operations	$1.25	$0.93	$3.46	$2.72
Losses from discontinued operations	(0.03)	(0.02)	(0.08)	(0.05)
Net earnings per share (1)	$1.22	$0.91	$3.37	$2.67
Weighted-average shares outstanding:				
Basic	29,474	32,642	30,976	34,073
Diluted	29,718	33,016	31,234	34,469
Cash dividends declared per common share	$0.40	$0.30	$1.20	$0.90

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

3

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

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Net earnings	$36,351	$30,189	$105,374	$92,092
Cash flow hedges:				
Net change in fair value of derivatives	2,887	(7,825)	21,992	(28,008)
Net loss reclassified to earnings	1,009	860	4,294	3,180
	3,896	(6,965)	26,286	(24,828)
Tax effect	(1,507)	2,696	(10,170)	9,610
	2,389	(4,269)	16,116	(15,218)
Unrecognized periodic benefit costs:				
Actuarial losses and prior service costs reclassified to earnings	1,483	1,050	4,944	3,498
Tax effect	(574)	(408)	(1,916)	(1,355)
	909	642	3,028	2,143
Other:				
Foreign currency translation adjustments	3	2	2	(19)
Tax effect	(1)	—	(1)	8
	2	2	1	(11)
Other comprehensive income (loss), net of tax	3,300	(3,625)	19,145	(13,086)
Comprehensive income	$39,651	$26,564	$124,519	$79,006

See accompanying notes to condensed consolidated financial statements.

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

	Year-to-date	
	July 9, 2017	July 3, 2016
Cash flows from operating activities:		
Net earnings	$105,374	$92,092
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	69,527	70,314
Deferred finance cost amortization	2,707	2,049
Excess tax benefits from share-based compensation arrangements	(4,133)	(3,822)
Deferred income taxes	5,824	15,672
Share-based compensation expense	8,855	9,220
Pension and postretirement expense	3,242	10,374
Gains on cash surrender value of company-owned life insurance	(364)	(5,008)
Gains on the sale of company-operated restaurants	(21,166)	(1,224)
Losses on the disposition of property and equipment	2,186	2,295
Impairment charges and other	4,320	2,928
Changes in assets and liabilities, excluding acquisitions and dispositions:		
Accounts and other receivables	6,026	(16,333)
Inventories	1,000	(557)
Prepaid expenses and other current assets	(8,057)	(7,677)
Accounts payable	2,238	(7,466)
Accrued liabilities	(27,485)	1,534
Pension and postretirement contributions	(4,110)	(14,700)
Other	(6,077)	(2,992)
Cash flows provided by operating activities	139,907	146,699
Cash flows from investing activities:		
Purchases of property and equipment	(47,210)	(74,971)
Purchases of assets intended for sale and leaseback	(3,248)	(5,593)
Proceeds from the sale and leaseback of assets	2,466	7,748
Proceeds from the sale of company-operated restaurants	62,923	1,434
Collections on notes receivable	1,426	3,237
Acquisition of franchise-operated restaurants	—	324
Proceeds from the sale of property and equipment	2,898	140
Other	(1,713)	(89)
Cash flows provided by (used in) investing activities	17,542	(67,770)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	638,500	576,000
Repayments of borrowings on revolving credit facilities	(400,000)	(376,000)
Principal repayments on debt	(43,162)	(19,651)
Dividends paid on common stock	(37,194)	(30,513)
Proceeds from issuance of common stock	5,166	5,093
Repurchases of common stock	(334,361)	(250,000)
Excess tax benefits from share-based compensation arrangements	4,133	3,822
Change in book overdraft	—	1,213
Cash flows used in financing activities	(166,918)	(90,036)
Effect of exchange rate changes on cash	(1)	11

Net decrease in cash	(9,470)	(11,096)
Cash at beginning of period	17,030	17,743
Cash at end of period	$7,560	$6,647

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:

	July 9, 2017	July 3, 2016
Jack in the Box:		
Company-operated	340	415
Franchise	1,915	1,839
Total system	2,255	2,254
Qdoba:		
Company-operated	381	344
Franchise	339	344
Total system	720	688

References to the Company throughout these notes to condensed consolidated financial statements are made using the first person notations of "we," "us" and "our."

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

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

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

Fiscal year — Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal year 2017 includes 52 weeks, while fiscal year 2016 includes 53 weeks. Our first quarter includes 16 weeks and all other quarters include 12 weeks, with the exception of the fourth quarter of fiscal 2016, which includes 13 weeks. All comparisons between 2017 and 2016 refer to the 12-weeks ("quarter") and 40-weeks ("year-to-date") ended July 9, 2017 and July 3, 2016, respectively, unless otherwise indicated.

Principles of consolidation — The condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and the accounts of any variable interest entities ("VIEs") where we are deemed the primary beneficiary. All significant intercompany accounts and transactions are eliminated. The financial results and position of our VIE are immaterial to our condensed consolidated financial statements.

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

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

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

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The standard simplifies the subsequent measurement of goodwill, requiring only a single-step quantitative test to identify and measure impairment based on the excess of a reporting unit's carrying amount over its fair value. A qualitative assessment may still be completed first for an entity to determine if a quantitative impairment test is necessary. This standard is effective for fiscal years beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The standard requires adoption on a prospective basis. We adopted this standard in the second quarter of 2017 and we do not expect the adoption of this standard to have an impact on our consolidated financial statements.

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

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires a lessee to recognize assets and liabilities on the balance sheet for those leases classified as operating leases under previous guidance. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As such, we will be required to adopt this standard in the first quarter of fiscal 2020. This standard requires adoption based upon a modified retrospective transition approach, with early adoption permitted. Based on a preliminary assessment, we expect that most of our operating lease commitments will be subject to the new guidance and recognized as operating lease liabilities and right-of-use assets upon adoption, resulting in a significant increase in the assets and liabilities on our consolidated balance sheets. We are continuing our evaluation, which may identify additional impacts this standard will have on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-04, Liabilities-Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products, which is designed to provide guidance and eliminate diversity in the accounting for the derecognition of financial liabilities related to certain prepaid stored-value products using a revenue-like breakage model. This standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. As such, we will be required to adopt this standard in the first quarter of fiscal 2019. This standard is to be applied retrospectively or using a cumulative effect transition method as of the date of adoption. We are currently evaluating which transition method to use, but believe the impact this standard will have on our consolidated financial statements and related disclosures will be immaterial upon adoption.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This standard is intended to simplify various aspects of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. This standard is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period, with early adoption permitted. As such, we will be required to adopt this standard in fiscal 2018 and will classify the excess tax benefits from share-based compensation arrangements, which were $4.1 million year-to-date 2017, as a discrete item within income tax expense on the consolidated statements of earnings, rather than recognizing such excess income tax benefits in capital in excess of par value on the consolidated statements of stockholders’ deficit. This reclassification will be made on a prospective basis and will also impact the related classification on our consolidated statements of cash flows as excess tax benefits from share-based compensation arrangements will only be reported in cash flows from operating activities rather than as currently reported in cash flows from operating activities and cash flows used in investing activities. Other than these reclassifications, we do not believe the adoption of this ASU will materially impact our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This standard is intended to address eight classification issues related to the statement of cash flows to reduce diversity in practice in how certain transactions are classified. This standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. As such, we will be required to adopt this standard in the first quarter of fiscal 2019. This standard requires adoption based upon a retrospective transition method. We are currently evaluating this standard, but do not believe it will have a material impact on the classification of cash flows within our statement of cash flows.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This standard requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than deferring the recognition until the asset has been sold to an outside party. This standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. As such, we will be required to adopt this standard in the first quarter of fiscal 2019. The standard requires adoption on a modified retrospective basis through a cumulative-effect adjustment to retained earnings. We are currently evaluating this standard, but do not believe it will have a material impact on our consolidated financial statements.

In December 2016, the FASB issued ASU 2016-19, Technical Corrections and Improvements. This standard contains amendments that affect a wide variety of topics in the Accounting Standards Codification. The amendments include differences between original FASB guidance and the Accounting Standards Codification, guidance clarification and reference corrections, simplification and minor improvements. This standard is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period, with early adoption permitted. As such, we will be required to adopt this standard in the first quarter of fiscal 2018. This standard is not expected

have a significant effect on our accounting policies or on our consolidated financial statements and related disclosures.
In February 2017, the FASB issued ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The standard provides clarification about the term “in substance nonfinancial asset” and guidance for recognizing gains and losses from the transfer of nonfinancial assets and for partial sales of nonfinancial assets. The standard is required to be adopted retrospectively, in conjunction with ASU 2014-09. As such, we will be required to adopt this standard in the first quarter of fiscal 2019. This standard is not expected to have a material impact on our consolidated financial statements.
In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This standard requires the presentation of the service cost component of net benefit cost to be in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. All other components of net benefit cost

should be presented separately from the service cost component and outside of a subtotal of earnings from operations, or separately disclosed. The standard is effective for annual and interim periods beginning after December 15, 2017 and must be adopted retrospectively. Early adoption is permitted as of the beginning of an annual period, but we plan to adopt this standard in the first quarter of fiscal 2019. Upon adoption of this standard, we will separately present the components of net periodic benefit cost, excluding the service cost component, outside of earnings from operations. Net periodic benefit cost, excluding the service cost component, was $1.6 million and $6.3 million year-to-date in 2017 and 2016, respectively.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This standard provides guidance that clarifies when changes to the terms or conditions of a share-based payment award require the application of modification accounting under ASC 718. This new guidance will allow for certain changes to be made to awards without accounting for them as modifications. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The standard is required to be applied prospectively to awards modified on or after the adoption date. We will be required to adopt this standard in the first quarter of fiscal 2019. This standard is not expected to have a significant effect on our accounting policies or on our consolidated financial statements and related disclosures.

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 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 2017 and 2016, results of discontinued operations were immaterial to our condensed consolidated results of operations. Our liability for lease commitments related to our distribution centers is immaterial to our condensed consolidated balance sheets as of July 9, 2017 and October 2, 2016. The lease commitment balance relates to one distribution center lease that expires in July 2017 and is currently subleased at a loss.

2013 Qdoba Closures — During 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 table summarizes the results related to the 2013 Qdoba Closures for each period (in thousands):

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Unfavorable lease commitment adjustments	$(153)	$(675)	$(3,092)	$(2,143)
Bad debt related to subtenants	(524)	(225)	(72)	(349)
Ongoing facility related and other costs	(4)	(2)	(169)	(72)
Broker commissions	—	—	(56)	(21)
Loss before income tax benefit	$(681)	$(902)	$(3,389)	$(2,585)

We do not expect the remaining costs to be incurred related to these closures to be material; however, our estimates related to our future lease obligations, primarily sublease income, 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.

9

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 in the accompanying condensed consolidated balance sheets and has changed as follows in 2017 (in thousands):

Balance as of October 2, 2016	$2,943
Adjustments (1)	3,092
Cash payments	(3,335)
Balance as of July 9, 2017 (2)	$2,700

(1) Adjustments relate to revisions to certain sublease assumptions due to changes in market conditions, as well as charges to terminate five lease agreements, and includes interest expense.
(2) The weighted average remaining lease term related to these commitments is approximately 2 years.

3. SUMMARY OF REFRANCHISINGS, FRANCHISEE DEVELOPMENT AND ACQUISITIONS

Refranchisings and franchisee development — The following table summarizes the number of restaurants sold to franchisees, the number of restaurants developed by franchisees, and the related fees and gains recognized in each period (dollars in thousands):

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Restaurants sold to Jack in the Box franchisees	58	—	118	1
New restaurants opened by franchisees:				
Jack in the Box	2	4	15	9
Qdoba	1	1	13	11
Initial franchise fees	$2,352	$205	$5,354	$710
Proceeds from the sale of company-operated restaurants (1)	$31,534	$413	$62,923	$1,434
Net assets sold (primarily property and equipment)	(9,532)	—	(19,838)	(196)
Lease commitment charges (2)	(3,203)	—	(10,854)	—
Goodwill related to the sale of company-operated restaurants	(4,453)	(5)	(4,795)	(15)
Other (3)	(1,096)	1	(6,270)	1
Gains on the sale of company-operated restaurants	$13,250	$409	$21,166	$1,224

(1) Amounts in 2017 include additional proceeds of $0.1 million year-to-date, and none in the quarter, related to restaurants sold in a prior year. Amounts in 2016 include additional proceeds of $0.4 million and $1.4 million in the quarter and year-to-date, respectively, related to the extension of the underlying franchise and lease agreements from the sale of restaurants in prior years.
(2) Charges are for operating restaurant leases with lease commitments in excess of our sublease rental income.
(3) Amounts in year-to-date 2017 primarily represent impairment of $3.2 million and equipment write-offs of $1.4 million related to restaurants closed in connection with the sale of the related markets. In the 2017 quarter, amounts primarily represent maintenance and repair charges related to the sales. As of July 9, 2017, there was $8.8 million of property related to these closed restaurants classified as assets held for sale on our condensed consolidated balance sheet.

As of the end of the 2017 quarter, we had signed non-binding letters of intent with franchisees to sell an additional 63 company-operated restaurants. Pre-tax gross proceeds related to these sales are estimated at $35.0 million to $40.0 million. Equipment of $10.6 million related to these sales has been classified as assets held for sale on our July 9, 2017 condensed consolidated balance sheet.

Franchise acquisitions —During year-to-date 2017 and 2016, we acquired 50 and one Jack in the Box franchise restaurants, respectively. Of the 50 restaurants acquired in 2017, we took over 31 restaurants in the third quarter as a result of an agreement with an underperforming franchisee who was in violation of franchise and lease agreements with the Company. Under this agreement, the franchisee voluntarily agreed to turn over the restaurants. The acquisition of the additional 19 restaurants in 2017 was the result of a legal action filed in September 2013 against a franchisee in which we obtained a judgment in January 2017 granting us possession of the restaurants. Of the 50 restaurants acquired in 2017, we sold eight of the restaurants to a franchisee and closed three during the quarter. We plan to sell the remaining restaurants

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

acquired in 2017 as part of our refranchising strategy. Refer to Note 6, Impairment and Other Charges, Net, for additional information regarding impairment charges related to the restaurants closed subsequent to acquisition.
We account for the acquisition of franchised restaurants using the acquisition method of accounting for business combinations. The purchase price allocations were based on fair value estimates determined using significant unobservable inputs (Level 3). The goodwill recorded primarily relates to the sales growth potential of the markets acquired and is expected to be deductible for income tax purposes.
Total consideration in each year is non-cash, and in 2017 is primarily comprised of $2.2 million and $10.1 million in the quarter and year-to-date, respectively, of receivables that were eliminated in the acquisition accounting. In 2017, consideration also includes accounts payable of $0.4 million and $4.2 million in the quarter and year-to-date, respectively, that was recorded in acquisition accounting and is primarily due to third parties to waive their liens and security interest on certain assets acquired.
The following table provides detail of the acquisitions in each period (dollars in thousands):

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Restaurants acquired from franchisees	31	—	50	1
Goodwill (gain on bargain purchase)	$1,891	$ —	$11,712	$(289)
Intangible assets	793	—	1,260	37
Inventory	189	—	189	—
Property and equipment	—	—	2,238	58
Cash	—	—	—	324
Liabilities assumed	(302)	—	(1,116)	—
Total consideration	$2,571	$ —	$14,283	$130

4. FAIR VALUE MEASUREMENTS

Financial assets and liabilities — The following table presents our 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 July 9, 2017:				
Non-qualified deferred compensation plan (1)	$(36,429)	$ (36,429)	$—	$ —
Interest rate swaps (Note 5) (2)	(21,479)	—	(21,479)	—
Total liabilities at fair value	$(57,908)	$ (36,429)	$(21,479)	$ —
Fair value measurements as of October 2, 2016:				
Non-qualified deferred compensation plan (1)	$(36,933)	$ (36,933)	$—	$ —
Interest rate swaps (Note 5) (2)	(47,765)	—	(47,765)	—
Total liabilities at fair value	$(84,698)	$ (36,933)	$(47,765)	$ —

(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 rate 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, discount rates and forward yield curves.

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

The fair values of our debt instruments are based on the amount of future cash flows associated with each instrument discounted using our borrowing rate. At July 9, 2017, the carrying value of all financial instruments was not materially different from fair value, as the borrowings are prepayable without penalty. The estimated fair values of our capital lease obligations approximated their carrying values as of July 9, 2017.

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 2017, no material fair value adjustments were required. Refer to Note 6, Impairment and Other Charges, Net, for additional information regarding impairment charges.

During fiscal 2017, we closed six Jack in the Box company-operated restaurants in connection with the sale of the related markets to franchisees, and recorded an impairment charge of $3.1 million against the gain on sale of company-operated restaurants. Refer to Note 3, Summary of Refranchisings, Franchisee Development and Acquisitions, for additional information regarding these sales.

5. DERIVATIVE INSTRUMENTS

Objectives and strategies — We are exposed to interest rate volatility with regard to our variable rate debt. In April 2014, to reduce our exposure to rising interest rates, we entered into nine forward-starting interest rate swap agreements that effectively converted $300.0 million of our variable rate borrowings to a fixed-rate basis from October 2014 through October 2018. Additionally, in June 2015, we entered into eleven forward-starting interest rate swap agreements that effectively converted an additional $200.0 million of our variable rate borrowings to a fixed rate from October 2015 through October 2018, and $500.0 million from October 2018 through October 2022.

These agreements have been designated as cash flow hedges under the terms of the FASB authoritative guidance for derivatives and hedging. To the extent that they are effective in offsetting the variability of the hedged cash flows, changes in the fair values of the derivatives are not included in earnings, but are included in other comprehensive income ("OCI"). These changes in fair value are subsequently reclassified into net earnings as a component of interest expense as the hedged interest payments are made on our variable rate debt.

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

	Balance Sheet Location	Fair Value July 9, 2017	Fair Value October 2, 2016
Derivatives designated as cash flow hedging instruments:			
Interest rate swaps	Accrued liabilities	$(3,747)	$(5,857)
Interest rate swaps	Other long-term liabilities	(17,732)	(41,908)
Total derivatives (Note 4)		$(21,479)	$(47,765)

Financial performance — The following table summarizes the OCI activity related to our interest rate swap derivative instruments (in thousands):

	Location of Loss in Income	Quarter July 9, 2017	Quarter July 3, 2016	Year-to-date July 9, 2017	Year-to-date July 3, 2016
Gain (loss) recognized in OCI	N/A	$2,887	$(7,825)	$21,992	$(28,008)
Loss reclassified from accumulated OCI into net earnings	Interest expense, net	$1,009	$860	$4,294	$3,180

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.

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

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):

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Costs of closed restaurants and other (primarily lease obligations)	$2,244	$914	$5,434	$2,489
Restructuring costs	1,837	7,744	6,081	7,744
Losses on disposition of property and equipment, net	952	637	2,186	2,283
Accelerated depreciation	674	673	1,394	1,531
Restaurant impairment charges	505	551	505	551
	$6,212	$10,519	$15,600	$14,598

Restructuring costs — Restructuring charges in 2017 and 2016 are the result of a plan that management initiated in fiscal 2016 to reduce our general and administrative costs. This plan includes cost saving initiatives from workforce reductions, relocation and consolidation of our Qdoba corporate support center, refranchising initiatives, and the consolidation of information technology across both brands. Restructuring charges in 2017 also include costs related to the evaluation of potential alternatives with respect to the Qdoba brand (the “Qdoba Evaluation”).

The following is a summary of our restructuring costs (in thousands):

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Qdoba Evaluation costs (1)	$1,654	$—	$1,654	$—
Employee severance and related costs	179	6,487	722	6,487
Facility closing costs (2)	—	847	2,908	847
Other (3)	4	410	797	410
	$1,837	$7,744	$6,081	$7,744

(1) Qdoba Evaluation costs are primarily comprised of third party consulting, legal services, and audit fees.

(2) Year-to-date 2017 facility closing costs includes $2.9 million in costs for the accrual of the future lease commitment and expected ancillary costs, net of anticipated sublease rental, for our Qdoba corporate support center, which was offset by $0.9 million due to the reversal of the related tenant improvement allowance, and $0.3 million due to the reversal of the related straight-line rent expense. Year-to-date 2017, facility closing costs also includes $1.2 million of accelerated depreciation related to the relocation of our Qdoba corporate support center.

(3) Other primarily represents employee relocation costs and moving expenses related to the relocation of our Qdoba corporate support center.

The following is a summary of our 2017 restructuring costs by operating segment (in thousands):

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Jack in the Box restaurant operations	$—	$1,796	$159	$1,796
Shared services (1)	168	1,535	439	1,535
Qdoba restaurant operations (2)	1,669	4,413	5,483	4,413
	$1,837	$7,744	$6,081	$7,744

(1) Shared service functions consist primarily of accounting/finance, information technology, human resources, audit services, legal, tax and treasury.
(2) Includes Qdoba Evaluation costs.

At this time, we are unable to estimate additional charges to be incurred.

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

Total accrued facility closing costs related to our restructuring activities, which are comprised of the future lease commitment and expected ancillary costs, net of anticipated sublease rental, are included in accrued liabilities and other long-term liabilities, and changed as follows during 2017 (in thousands):

Balance as of October 2, 2016	$—
Additions	2,927
Interest expense	3
Cash payments	(212)
Balance as of July 9, 2017	$2,718

Total accrued severance costs related to our restructuring activities are included in accrued liabilities and changed as follows during 2017 (in thousands):

Balance as of October 2, 2016	$4,198
Additions	722
Cash payments	(4,253)
Balance as of July 9, 2017	$667

Restaurant closing costs — Costs of closed restaurants primarily consist of future lease commitments and expected ancillary costs, net of anticipated sublease rentals. In 2017, restaurant closing costs include $0.5 million in property and equipment impairment charges and $0.5 million in future lease commitment charges related to the closure of three underperforming Jack in the Box restaurants acquired in the third quarter of 2017, as well as $0.4 million in equipment impairment charges resulting from the closure of one Qdoba restaurant in the second quarter of 2017. Accrued restaurant closing costs, included in accrued liabilities and other long-term liabilities, changed as follows during 2017 (in thousands):

Balance as of October 2, 2016	$7,231
Additions	482
Adjustments (1)	966
Interest expense	1,196
Cash payments	(3,501)
Balance as of July 9, 2017 (2) (3)	$6,374

(1) Adjustments relate primarily to revisions of certain sublease and cost assumptions. Our estimates 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.

(2) The weighted average remaining lease term related to these commitments is approximately 4 years.

(3) This balance excludes $2.2 million of restaurant closing costs that are included in accrued liabilities and other long-term liabilities, which were initially recorded as losses on the sale of company-operated restaurants upon sale to Jack in the Box franchisees in prior years.

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 2017, accelerated depreciation primarily relates to Jack in the Box and Qdoba restaurant remodels, as well as the anticipated closure of two Jack in the Box and three Qdoba company-operated restaurants. In 2016, accelerated depreciation was primarily related to expenses at Jack in the Box company-operated restaurants for exterior facility enhancements and the replacement of technology equipment.

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

7. INCOME TAXES

The 2017 income tax provisions reflect tax rates of 33.2% in the quarter and 36.7% year-to-date, compared with 36.0% and 36.8%, respectively, in 2016. The major components of the year-over-year change in tax rates were a partial release of valuation allowance against state tax credits, partially offset by a decrease in current year tax credits and a decrease in gains from the market performance of insurance products used to fund certain non-qualified retirement plans, which are excluded from taxable income. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual 2017 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 2014 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 2012 and forward.

8. RETIREMENT PLANS

Defined benefit pension plans — We sponsor two defined benefit pension plans, a "Qualified Plan" covering substantially all full-time employees hired prior to January 1, 2011, and an unfunded supplemental executive retirement plan ("SERP") 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 employee's years of service and compensation over defined periods of employment.

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

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

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Defined benefit pension plans:				
Interest cost	$5,247	$5,579	$17,491	$18,599
Service cost	505	1,212	1,682	4,040
Expected return on plan assets	(6,494)	(5,020)	(21,647)	(16,735)
Actuarial loss (1)	1,411	943	4,703	3,144
Amortization of unrecognized prior service costs (1)	35	56	117	185
Net periodic benefit cost	$704	$2,770	$2,346	$9,233
Postretirement healthcare plans:				
Interest cost	$232	$292	$772	$972
Actuarial loss (1)	37	51	124	169
Net periodic benefit cost	$269	$343	$896	$1,141

(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, 2016, the date of our last actuarial funding valuation, there was no minimum contribution funding requirement. Details regarding 2017 contributions are as follows (in thousands):

	SERP	Postretirement Healthcare Plans
Net year-to-date contributions	$3,350	$ 760
Remaining estimated net contributions during fiscal 2017	$1,100	$ 300

We continue to evaluate contributions to our Qualified Plan based on changes in pension assets as a result of asset performance in the current market and the economic environment. We do not anticipate making any contributions to our Qualified Plan in fiscal 2017.

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 towards the financial success of the Company. During 2017, we granted the following shares related to our share-based compensation awards:

Nonvested stock units	65,947
Performance share awards	29,625
Stock options	89,792

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

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Nonvested stock units	$1,241	$745	$5,250	$4,472
Performance share awards	496	238	1,736	2,372
Stock options	363	316	1,532	2,039
Nonvested stock awards	20	20	67	67
Deferred compensation for non-management directors	—	—	270	270
Total share-based compensation expense	$2,120	$1,319	$8,855	$9,220

10. STOCKHOLDERS' EQUITY

Repurchases of common stock — In fiscal 2017, we repurchased 3.2 million common shares at an aggregate cost of $327.2 million. As of July 9, 2017, there was approximately $181.0 million remaining under Board-authorized stock-buyback programs which expire in November 2018. In our condensed consolidated statement of cash flows for 2017, repurchases of common stock includes $7.2 million related to repurchase transactions traded in the prior fiscal year that settled in 2017.

Dividends — During year-to-date 2017, the Board of Directors declared three cash dividends of $0.40 per common share which were paid on June 12, 2017, March 20, 2017 and December 16, 2016 to shareholders of record as of the close of business on May 30, 2017, March 7, 2017 and December 5, 2016, respectively, and totaled $37.4 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):

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Weighted-average shares outstanding – basic	29,474	32,642	30,976	34,073
Effect of potentially dilutive securities:				

Nonvested stock awards and units	175	176	180	182
Stock options	53	145	62	161
Performance share awards	16	53	16	53
Weighted-average shares outstanding – diluted	29,718	33,016	31,234	34,469
Excluded from diluted weighted-average shares outstanding:				
Antidilutive	90	170	72	176
Performance conditions not satisfied at the end of the period	79	61	79	61

12. CONTINGENCIES AND LEGAL MATTERS

Legal matters — We assess contingencies, including litigation contingencies, to determine the degree of probability and range of possible loss for potential accrual in our 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. In 2016, the court dismissed the federal claims and those relating to franchise employees. In June 2017, the court granted class certification with respect to state law claims of improper deductions and late payment of final wages. 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 continue to believe that no additional losses are probable beyond this accrual. Nor can we estimate a possible loss contingency or range of reasonably possible loss contingencies beyond the accrual. 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. We 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; however, it is possible that our business, results of operations, liquidity, or financial condition could be materially affected in a particular future reporting period by the unfavorable resolution of one or more matters or contingencies during such period.

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

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 a reportable operating segment. 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. 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; nor do they include unallocated costs such as pension expense, share-based compensation and restructuring expense. These costs are reflected in the caption “Shared services and unallocated costs.” The following table provides information related to our operating segments in each period (in thousands):

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Revenues by segment:				
Jack in the Box restaurant operations	$246,101	$264,493	$865,166	$876,138
Qdoba restaurant operations	111,745	104,445	350,002	324,774
Consolidated revenues	$357,846	$368,938	$1,215,168	$1,200,912
Earnings from operations by segment:				
Jack in the Box restaurant operations	$59,423	$69,528	$220,485	$218,364
Qdoba restaurant operations	11,905	14,172	29,126	33,532
Shared services and unallocated costs	(17,597)	(28,404)	(65,029)	(82,115)
Gains on the sale of company-operated restaurants	13,250	409	21,166	1,224
Consolidated earnings from operations	66,981	55,705	205,748	171,005
Interest expense, net	11,433	7,613	35,091	22,699
Consolidated earnings from continuing operations and before income taxes	$55,548	$48,092	$170,657	$148,306
Total depreciation expense by segment:				
Jack in the Box restaurant operations	$13,731	$14,877	$47,503	$50,409
Qdoba restaurant operations	4,875	4,536	16,274	14,403
Shared services and unallocated costs	1,608	1,401	5,222	4,936
Consolidated depreciation expense	$20,214	$20,814	$68,999	$69,748

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 October 2, 2016	$48,415	$117,631	$166,046
Sale of company-operated restaurants to franchisees	(4,795)	—	(4,795)
Acquisition of franchise-operated restaurants	11,712	—	11,712
Balance at July 9, 2017	$55,332	$117,631	$172,963

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)

	Year-to-date	
	July 9, 2017	July 3, 2016
Cash paid during the year for:		
Income tax payments	$68,554	$33,453
Interest, net of amounts capitalized	$34,678	$22,919
Decrease in obligations for purchases of property and equipment	$6,066	$4,882
Decrease in obligations for treasury stock repurchases	$7,208	$—
Non-cash transactions:		
Consideration for franchise acquisitions	$14,283	$130
Decrease in equipment capital leases and related obligations from the sale of company-operated restaurants	$3,825	$—
Equipment capital lease obligations incurred	$1,286	$702
Increase in dividends accrued or converted to common stock equivalents	$230	$163

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

15. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION (in thousands)

	July 9, 2017	October 2, 2016
Accounts and other receivables, net:		
Trade	$51,419	$66,837
Notes receivable	1,381	1,603
Other	7,463	7,680
Allowance for doubtful accounts	(4,018)	(2,760)
	$56,245	$73,360
Prepaid expenses:		
Prepaid income taxes	$29,539	$12,113
Prepaid rent	14,753	18,613
Other	7,779	9,672
	$52,071	$40,398
Other assets, net:		
Company-owned life insurance policies	$107,997	$105,957
Deferred tax assets	99,668	117,587
Deferred rent receivable	46,646	47,485
Other	15,457	19,440
	$269,768	$290,469
Accrued liabilities:		
Insurance	$39,148	$38,368
Payroll and related taxes	29,584	44,627
Advertising	15,093	21,827
Deferred rent income	13,000	15,909
Sales and property taxes	10,593	14,311
Beverage allowance	9,783	5,926
Gift card liability	5,199	5,183
Deferred franchise fees	1,149	929
Other	28,031	34,170
	$151,580	$181,250
Other long-term liabilities:		
Defined benefit pension plans	$155,178	$161,003
Straight-line rent accrual	46,844	47,070
Other	120,843	140,852
	$322,865	$348,925

16. SUBSEQUENT EVENTS

On August 3, 2017, the Board of Directors declared a cash dividend of $0.40 per common share, to be paid on September 5, 2017 to shareholders of record as of the close of business on August 22, 2017.

20

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

GENERAL

All comparisons between 2017 and 2016 refer to the 12-weeks ("quarter") and 40-weeks ("year-to-date") ended July 9, 2017 and July 3, 2016, respectively, unless otherwise indicated.

For an understanding of the significant factors that influenced our performance during 2017 and 2016, 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 October 2, 2016.

Our MD&A consists of the following sections:

- Overview — a general description of our business and 2017 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 pension and postretirement health contributions, capital expenditures, sale of company-operated restaurants, our credit facility, 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 changes in sales at restaurants open more than one year ("same-store sales") and average unit volumes ("AUVs"). Same-store sales and 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.

Due to the transition from a 53-week year in fiscal 2016 to a 52-week year in fiscal 2017, year-over-year same-store sales comparisons are off by one week. As such, we have included changes in same-store sales on a calendar basis to provide a clearer comparison. Same-store sales data that matches the periods presented in our financial statements is referred to as fiscal basis same-store sales.

Same-store sales and AUVs 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 July 9, 2017, we operated and franchised 2,255 Jack in the Box quick-service restaurants, primarily in the western and southern United States, including one in Guam, and 720 Qdoba fast-casual restaurants operating primarily throughout the United States 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 year-to-date in fiscal 2017, and certain trends compared to a year ago:

- Calendar Basis Same-Store Sales — Calendar basis same-store sales increased 0.9% year-to-date at Jack in the Box system restaurants compared with a year ago primarily driven by an increase in franchise restaurant AUVs. Qdoba's year-to-date calendar basis same-store sales decreased 2.7% at company-operated restaurants compared with a year ago, driven primarily by declines in traffic, partially offset by catering growth and an increase in the average check.
- Commodity Costs — Commodity costs decreased approximately 1.1% and 0.4% year-to-date at our Jack in the Box and Qdoba restaurants, respectively, in 2017 compared with a year ago. We expect our overall commodity costs in fiscal year 2017 to be approximately flat at both our Jack in the Box and Qdoba restaurants. 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 1%.
- Company Restaurant Operations — Consolidated company restaurant costs as a percentage of company restaurant sales increased in 2017 to 81.9% from 79.7% a year ago. Jack in the Box company restaurant costs as a percentage of company restaurant sales increased to 79.6% from 78.7% a year ago primarily due to sales deleverage, higher labor costs related to wage inflation, and higher maintenance and repair costs, partially offset by the impact from refranchising completed year-to-date in 2017. Restaurant costs as a percentage of restaurant sales at our Qdoba company-operated restaurants increased in 2017 to 85.7% from 81.6% a year ago primarily reflecting sales deleverage, an increase in food costs resulting from unfavorable mix, and new restaurant activity, partially offset by lower costs for insurance.
- Jack in the Box Franchise Operations — Franchise costs as a percent of franchise revenues decreased in 2017 to 47.1%, from 48.8% in the prior year, primarily driven by an increase in franchise fees resulting from the sale of 118 company-operated restaurants to franchisees, and a decrease in franchise support costs primarily due to savings realized in connection with our restructuring plan.
- Jack in the Box Franchising Program — Franchisees opened a total of 15 restaurants. As part of our refranchising strategy, we sold 118 company-operated restaurants to franchisees in several different markets during 2017 resulting in proceeds of approximately $62.9 million. In fiscal year 2017, we expect to open approximately 20 to 25 Jack in the Box restaurants system-wide, the majority of which will be franchise locations. Our Jack in the Box system was 85% franchised as of July 9, 2017. We plan to increase franchise ownership of the Jack in the Box system to over 90%. Prior to the end of the third quarter, we additionally signed non-binding letters of intent with franchisees to sell 63 company-operated restaurants in several markets. Pre-tax gross proceeds related to these sales are estimated at $35.0 million to $40.0 million, and we have classified $10.6 million of equipment related to these sales as assets held for sale in our July 9, 2017 condensed consolidated balance sheet.
- Jack in the Box Acquisition of Franchise-Operated Restaurants — We acquired 50 franchise-operated Jack in the Box restaurants from two franchisees for total consideration of $14.3 million in two non-cash transactions. In the third quarter of 2017, we took back 31 restaurants as the result of an agreement with an underperforming franchisee who voluntarily agreed to turn over the restaurants. The additional 19 restaurants acquired in 2017 were the result of a legal action filed in September 2013 against a franchisee in which we obtained a judgment in January 2017 granting the Company possession of the restaurants.
- Qdoba New Unit Growth — We opened 18 company-operated restaurants, and franchisees opened 13 restaurants of which nine were in non-traditional locations such as military bases and college campuses. In fiscal 2017, we expect

approximately 45 Qdoba restaurants to open system-wide, of which 25 are expected to be company-operated restaurants.

- Restructuring Costs (including costs related to the Qdoba Evaluation) — In 2016, we announced a plan to reduce our general and administrative costs, and in the third quarter of 2017, we began an evaluation of potential alternatives with respect to the Qdoba brand. In connection with these activities, we have recorded $6.1 million of restructuring charges in 2017, which includes $1.7 million related to the Qdoba Evaluation, which are included in impairment and other costs, net in the accompanying condensed consolidated statements of earnings.

- Return of Cash to Shareholders — We returned cash to shareholders in the form of share repurchases and cash dividends. We repurchased 3.2 million shares of our common stock in 2017 at an average price of $101.59 per share, totaling $327.2 million, including the costs of brokerage fees. We also declared three cash dividends of $0.40 per share totaling $37.4 million.

FINANCIAL REPORTING

During fiscal 2012, we entered into an agreement to outsource our Jack in the Box distribution business. In fiscal 2013, we closed 62 Qdoba restaurants (the "2013 Qdoba Closures") as part of a comprehensive Qdoba market performance review. All charges related to our distribution business and the 2013 Qdoba Closures are reported as discontinued operations for all periods presented. Refer to Note 2, Discontinued Operations, in the notes to condensed consolidated financial statements for additional information. Unless otherwise noted, amounts and disclosures throughout our MD&A relate to our continuing operations.

In the first quarter of fiscal 2017, we adopted an Accounting Standards Update ("ASU") which changes the presentation of debt issuance costs on the balance sheet. Under this ASU, debt issuance costs are to be presented on the balance sheet as a direct deduction from the related debt liability rather than as an asset. We retrospectively adopted this guidance which resulted in the reclassification of $3.8 million in debt issuance costs from other assets, net to current maturities of long-term debt and long-term debt, net of current maturities in the amount of $1.6 million and $2.2 million, respectively, in our October 2, 2016 condensed consolidated balance sheet. Refer to Note 1, Basis of Presentation, in the notes to 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

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Revenues:				
Company restaurant sales	74.0 %	75.6 %	75.0 %	75.3 %
Franchise rental revenues	14.8 %	14.3 %	14.5 %	14.6 %
Franchise royalties and other	11.2 %	10.1 %	10.6 %	10.1 %
Total revenues	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses, net:				
Company restaurant costs:				
Food and packaging (1)	30.3 %	29.3 %	29.9 %	30.2 %
Payroll and employee benefits (1)	28.3 %	27.6 %	29.0 %	27.8 %
Occupancy and other (1)	23.3 %	21.2 %	23.0 %	21.7 %
Total company restaurant costs (1)	81.9 %	78.1 %	81.9 %	79.7 %
Franchise occupancy expenses (2)	75.4 %	73.5 %	73.8 %	73.3 %
Franchise support and other costs (3)	7.3 %	9.8 %	7.4 %	10.2 %
Selling, general and administrative expenses	10.7 %	11.6 %	10.7 %	13.0 %
Impairment and other charges, net	1.7 %	2.9 %	1.3 %	1.2 %
Gains on the sale of company-operated restaurants	(3.7)%	(0.1)%	(1.7)%	(0.1)%
Earnings from operations	18.7 %	15.1 %	16.9 %	14.2 %
Income tax rate (4)	33.2 %	36.0 %	36.7 %	36.8 %

(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

23

	Quarter			Year-to-date		
	Calendar Basis	Fiscal Basis		Calendar Basis	Fiscal Basis	
	July 9, 2017	July 9, 2017	July 3, 2016	July 9, 2017	July 9, 2017	July 3, 2016
Jack in the Box:						
Company	(1.6)%	(1.8)%	(0.2)%	(0.9)%	(1.0)%	(0.2)%
Franchise	0.1 %	— %	1.5 %	1.5 %	1.4 %	1.3 %
System	(0.2)%	(0.4)%	1.1 %	0.9 %	0.9 %	0.9 %
Qdoba:						
Company	(1.1)%	(1.7)%	1.0 %	(2.7)%	(2.7)%	1.8 %
Franchise	2.3 %	1.1 %	0.1 %	0.5 %	0.2 %	1.3 %
System	0.5 %	(0.4)%	0.6 %	(1.2)%	(1.3)%	1.6 %

The following table summarizes the changes in Jack in the Box and Qdoba company-operated same-store sales:

	Quarter			Year-to-date		
	Calendar Basis	Fiscal Basis		Calendar Basis	Fiscal Basis	
	July 9, 2017	July 9, 2017	July 3, 2016	July 9, 2017	July 9, 2017	July 3, 2016
Jack in the Box:						
Average check (1)	2.8 %	3.2 %	3.5 %	4.3 %	4.5 %	2.8 %
Transactions	(4.4)%	(5.0)%	(3.7)%	(5.2)%	(5.5)%	(3.0)%
Change in same-store sales	(1.6)%	(1.8)%	(0.2)%	(0.9)%	(1.0)%	(0.2)%
Qdoba:						
Transactions	(2.8)%	(3.6)%	0.4 %	(4.4)%	(4.4)%	1.8 %
Average Check (2)	0.7 %	1.1 %	— %	1.0 %	1.1 %	(0.7)%
Catering	1.0 %	0.8 %	0.6 %	0.7 %	0.6 %	0.7 %
Change in same-store sales	(1.1)%	(1.7)%	1.0 %	(2.7)%	(2.7)%	1.8 %

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(1) Amounts in 2017 on a calendar and fiscal basis include price increases of approximately 1.7% in the quarter, and 2.5% year-to-date. Amounts in 2016 include price increases of approximately 3.3% in the quarter, and 3.1% year-to-date.

(2) Amounts in 2017 on a calendar and fiscal basis include price changes of approximately flat in the quarter, and an increase of 0.3% year-to-date. Amounts in 2016 include price increases of approximately 1.3% in the quarter, and 1.0% year-to-date.

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

	2017			2016		
	Company	Franchise	Total	Company	Franchise	Total
Jack in the Box:						
Beginning of year	417	1,838	2,255	413	1,836	2,249
New	2	15	17	2	9	11
Refranchised	(118)	118	—	(1)	1	—
Acquired from franchisees	50	(50)	—	1	(1)	—
Closed	(11)	(6)	(17)	—	(6)	(6)
End of period	340	1,915	2,255	415	1,839	2,254
% of JIB system	15 %	85 %	100 %	18 %	82 %	100 %
Qdoba:						
Beginning of year	367	332	699	322	339	661
New	18	13	31	26	11	37
Closed	(4)	(6)	(10)	(4)	(6)	(10)
End of period	381	339	720	344	344	688
% of Qdoba system	53 %	47 %	100 %	50 %	50 %	100 %
Consolidated:						
Total system end of period	721	2,254	2,975	759	2,183	2,942
% of consolidated system	24 %	76 %	100 %	26 %	74 %	100 %

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

	Quarter				Year-to-date			
	July 9, 2017		July 3, 2016		July 9, 2017		July 3, 2016	
Company restaurant sales	$157,772		$179,458		$576,618		$595,401	
Company restaurant costs:								
Food and packaging	46,182	29.3%	51,893	28.9%	166,213	28.8%	179,142	30.1%
Payroll and employee benefits	46,486	29.5%	50,654	28.2%	171,198	29.7%	167,744	28.2%
Occupancy and other	34,644	22.0%	36,446	20.3%	121,723	21.1%	121,522	20.4%
Total company restaurant costs	$127,312	80.7%	$138,993	77.5%	$459,134	79.6%	$468,408	78.7%

Jack in the Box company restaurant sales decreased $21.7 million in the quarter and $18.8 million year-to-date in 2017 as compared with the prior year primarily driven by a decrease in the average number of restaurants and, to a lesser extent, by a decrease in traffic, partially offset by menu price increases and favorable product mix. The following table presents the approximate impact of these (decreases) increases on company restaurant sales (in thousands):

	Quarter	Year-to-date
Decrease in the average number of restaurants	$(23,700)	$ (15,600)
AUV increase (decrease)	2,000	(3,200)
Total change in company restaurant sales	$(21,700)	$ (18,800)

Fiscal basis same-store sales at Jack in the Box company-operated restaurants decreased 1.8% in the quarter, and 1.0% year-to-date versus last year primarily due to a decline in transactions, offset by menu price increases and favorable mix. The following table summarizes the change in company-operated fiscal basis same-store sales:

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Average check (1)	3.2 %	3.5 %	4.5 %	2.8 %
Transactions	(5.0)%	(3.7)%	(5.5)%	(3.0)%
Change in fiscal-basis same-store sales	(1.8)%	(0.2)%	(1.0)%	(0.2)%

(1) Amounts in 2017 and 2016 include price increases of approximately 1.7% and 3.3%, respectively, in the quarter, and 2.5% and 3.1%, respectively, year-to-date.

Food and packaging costs as a percentage of company restaurant sales increased to 29.3% in the quarter, and decreased to 28.8% year-to-date in 2017, compared with 28.9% and 30.1%, respectively, in 2016. In the quarter, an increase in commodity costs was partially offset by favorable product mix changes and menu price increases. The year-to-date decrease was driven by favorable product mix changes, lower commodity costs, and menu price increases. Commodity costs increased 4.9% in the quarter, and decreased 1.1% year-to-date compared to a year ago. In the quarter, the increase in commodity costs was due primarily to higher costs for beef, produce, pork, and beverages. Year-to-date, the decrease was driven by lower costs for eggs, produce, and pork, partially offset by higher costs for beverages and potatoes. Beef, our most significant commodity, increased approximately 17.0% in the quarter and approximately 0.6% year-to-date compared with the prior year. For fiscal 2017, we currently expect commodity costs to be approximately flat at our Jack in the Box restaurants compared with fiscal 2016.

Payroll and employee benefit costs as a percentage of company restaurant sales increased to 29.5% in the quarter, and 29.7% year-to-date in 2017 compared with 28.2% in 2016 due primarily to wage inflation resulting from an increase in the minimum wage in certain markets, highly competitive labor markets, and labor management, and an increase in worker’s compensation costs during the quarter.

Occupancy and other costs decreased $1.8 million in the quarter, and increased $0.2 million year-to-date in 2017 compared to the prior year due to a decrease in the average number of restaurants, impacting occupancy and other costs by approximately $5.2 million in the quarter and $3.3 million year-to-date. This decrease was partially offset in the quarter, and more than offset year-to-date, by higher maintenance and repair expenses, an increase in property rent on a per store average basis due to routine rent increases, and higher costs for utilities.

Franchise Operations

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

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Franchise rental revenues	$52,824	$52,849	$175,555	$175,126
Royalties	33,150	31,770	107,426	104,190
Franchise fees and other	2,355	416	5,567	1,421
Franchise royalties and other	35,505	32,186	112,993	105,611
Total franchise revenues	88,329	85,035	288,548	280,737
Rental expense	32,547	31,571	106,280	103,708
Depreciation and amortization	7,266	7,253	23,342	24,692
Franchise occupancy expenses	39,813	38,824	129,622	128,400
Franchise support and other costs	1,952	2,515	6,223	8,614
Total franchise costs	$41,765	$41,339	$135,845	$137,014
Franchise costs as a % of total franchise revenues	47.3 %	48.6 %	47.1 %	48.8 %
Average number of franchise restaurants	1,875	1,839	1,848	1,838
% increase	2.0 %		0.5 %	
Increase in franchise-operated fiscal basis same-store sales	— %	1.5 %	1.4 %	1.3 %
Franchise restaurant AUVs	$342	$340	$1,135	$1,115
Royalties as a percentage of total franchise restaurant sales	5.2 %	5.1 %	5.1 %	5.1 %

Franchise rental revenues stayed relatively consistent in the quarter, and year-to-date, decreasing less than $0.1 million in the quarter, and increasing $0.4 million, or 0.2%, year-to-date, as compared with a year ago. In the quarter, the increase in franchise rental revenues was driven by an increase in the average number of franchise restaurants, offset by a reduction in revenues of $1.0 million due to the termination of lease agreements associated with the 31 franchise restaurants that we acquired in the third quarter of 2017. The slight increase in year-to-date franchise rental revenues is primarily due to an increase in revenues from percentage rent due to an increase in franchise-operated fiscal basis same-store sales, and an increase in the average number of franchise restaurants, which was partially offset by the $1.0 million reduction in revenues due to the termination of lease agreements mentioned above.

Franchise royalties and other increased $3.3 million, or 10.3%, in the quarter, and $7.4 million, or 7.0% year-to-date in 2017 versus a year ago primarily reflecting an increase in franchise fees related to the sale of 60 and 58 company-operated restaurants to franchisees during the second and third quarters of 2017, respectively, and an increase in royalties driven by the increase in average number of franchise restaurants primarily resulting from refranchising, and an increase in year-to-date AUVs.

Franchise occupancy expenses, principally rents and depreciation on properties subleased or leased to franchisees, increased $1.0 million in the quarter, and $1.2 million year-to-date in 2017 versus a year ago due primarily to a decrease of $0.1 million in the quarter and $1.8 million year-to-date in favorable lease commitment adjustments related to previously refranchised markets based on sales performance over the first year resulting in higher rent, and an increase in company-operated restaurants sold to franchises in 2017. These increases were partially offset by the impact of restaurants acquired by the Company in 2017, and, year-to-date, a decrease in depreciation expense as our building assets become fully depreciated.

Franchise support and other costs decreased $0.6 million in the quarter, and $2.4 million year-to-date in 2017 as compared with prior year, primarily due to savings realized in connection with our restructuring plan.

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

	Quarter				Year-to-date			
	July 9, 2017		July 3, 2016		July 9, 2017		July 3, 2016	
Company restaurant sales	$107,067		$99,371		$334,558		$308,441	
Company restaurant costs:								
Food and packaging	33,977	31.7%	29,932	30.1%	105,794	31.6%	93,660	30.4%
Payroll and employee benefits	28,412	26.5%	26,256	26.4%	93,380	27.9%	83,210	27.0%
Occupancy and other	27,072	25.3%	22,672	22.8%	87,607	26.2%	74,822	24.3%
Total company restaurant costs	$89,461	83.6%	$78,860	79.4%	$286,781	85.7%	$251,692	81.6%

Company restaurant sales increased $7.7 million in the quarter, and $26.1 million year-to-date in 2017 as compared with the prior year due primarily to the net addition of 37 Qdoba company-operated restaurants since a year ago, partially offset by a decline in AUVs. The following table presents the approximate impact of these increases (decreases) on company restaurant sales (in thousands):

	Quarter	Year-to-date
Increase in the average number of company restaurants	$9,700	$ 37,000
AUV decrease	(2,000)	(10,900)
Total change in company restaurant sales	$7,700	$ 26,100

Fiscal basis same-store sales at Qdoba company-operated restaurants decreased 1.7% in the quarter, and 2.7% year-to-date in 2017 as compared with the prior year primarily driven by a decline in traffic, partially offset by catering growth, and year-to-date, menu price increases. The following table summarizes the change in company-operated fiscal basis same-store sales:

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Transactions	(3.6)%	0.4 %	(4.4)%	1.8 %
Average check (1)	1.1 %	— %	1.1 %	(0.7)%
Catering	0.8 %	0.6 %	0.6 %	0.7 %
Change in fiscal basis same-store sales	(1.7)%	1.0 %	(2.7)%	1.8 %

(1) Amounts in 2017 and 2016 include price changes of approximately flat and an increase of 1.3%, respectively, in the quarter and increases of 0.3% and 1.0%, respectively, year-to-date.

Food and packaging costs as a percentage of company restaurant sales in 2017 increased to 31.7% in the quarter, and 31.6% year-to-date, compared with 30.1% and 30.4%, respectively, in 2016. In the quarter, unfavorable product mix and higher commodity costs were partially offset by a decrease in discounting. Year-to-date, unfavorable product mix was partially offset by a decrease in discounting, lower commodity costs and menu price increases. Commodity costs increased approximately 2.5% in the quarter due to higher costs for avocados and produce, partially offset by lower costs for beef and tortillas. Year-to-date, commodity costs decreased by approximately 0.4% due to lower costs for beef, tortillas, cheese and poultry which were partially offset by higher costs for avocados and beans. In 2017, beef costs decreased most significantly by approximately 8% in the quarter and year-to-date as compared with a year ago. Avocados increased most significantly by approximately 60% in the quarter, and 37% year-to-date as compared with a year ago. For fiscal 2017, we currently expect commodity costs to be approximately flat at our Qdoba restaurants compared with fiscal 2016.

Payroll and employee benefit costs as a percentage of company restaurant sales in 2017 increased to 26.5% in the quarter and 27.9% year-to-date, from 26.4% and 27.0%, respectively, in 2016. The percent of sales increase in both periods is primarily due to the impact of new restaurant openings, wage inflation due to highly competitive labor markets, deleverage from a decrease in fiscal basis same-store sales and, year-to-date, labor inefficiencies, partially offset by lower insurance costs and lower levels of incentive compensation driven by operating results. Restaurants opened since the third quarter of the prior year negatively impacted payroll and employee benefit costs as a percentage of company restaurant sales by approximately 40 basis points in both the 2017 quarter and year-to-date periods.

Occupancy and other costs increased $4.4 million in the quarter, and $12.8 million year-to-date in 2017 compared with the prior year, primarily driven by an increase in the number of restaurants, impacting occupancy and other costs by approximately $2.5 million in the quarter, and $9.7 million year-to-date. To a lesser extent, the increase in occupancy and other costs was driven by increases in utilities, increases in property rent due to routine rent increases and higher average rent for new locations, as well as higher maintenance and repair expenses, and equipment upgrades.

Franchise Operations

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

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Franchise rental revenues	$25	$29	$84	$92
Royalties	4,359	4,784	14,212	15,148
Franchise fees and other	294	261	1,148	1,093
Franchise royalties and other	4,653	5,045	15,360	16,241
Total franchise revenues	4,678	5,074	15,444	16,333
Rental expense (1)	24	24	81	75
Franchise support and other costs	976	1,139	3,284	3,809
Total franchise costs	$1,000	$1,163	$3,365	$3,884
Franchise costs as a % of total franchise revenues	21.4 %	22.9 %	21.8 %	23.8 %
Average number of franchise restaurants	338	346	336	343
% (decrease)	(2.3)%		(2.0)%	
Increase in franchise-operated fiscal basis same-store sales	1.1 %	0.1 %	0.2 %	1.3 %
Franchise restaurant AUVs	$270	$270	$876	$881
Royalties as a percentage of total franchise restaurant sales	4.8 %	5.1 %	4.8 %	5.0 %

(1) Included in franchise occupancy expenses in the accompanying condensed consolidated statements of earnings.

Franchise royalties and other decreased $0.4 million, or 7.8%, in the quarter, and $0.9 million, or 5.4%, year-to-date in 2017 as compared with 2016 primarily due to a decrease in the average number of franchise restaurants as we acquired 14 franchise-operated locations in the fourth quarter of 2016. The decrease was also partially attributable to a reduction in royalties as a percentage of franchise restaurant sales related to development incentives offering reduced royalties to franchisees who open new restaurants.

Franchise costs, principally support costs, decreased $0.2 million in the quarter, and $0.5 million year-to-date in 2017 versus a year ago primarily due to a decrease in support costs.

Selling, General and Administrative ("SG&A") Expenses
The following table presents the change in 2017 SG&A expenses compared with the prior year (in thousands):

	(Decrease) / Increase	
	Quarter	Year-to-date
Incentive compensation (including share-based compensation and related payroll taxes)	$(3,537)	$ (8,575)
Pension and postretirement benefits	(2,139)	(7,132)
Insurance	(2,050)	(3,661)
Qdoba brand conference	—	(833)
Consulting	33	(1,039)
Cash surrender value of COLI policies, net	73	1,554
Advertising	553	(2,439)
Pre-opening costs	1,728	352
Legal settlement	2,543	2,543
Other (including savings related to our restructuring plan)	(1,607)	(6,444)
	$(4,403)	$ (25,674)

Incentive compensation decreased due to lower levels of performance as compared to target bonus levels.
Pension and postretirement benefit costs decreased primarily due to $80.0 million of accelerated contributions made to our qualified pension plan in 2016 which are expected to result in a higher return on plan assets in fiscal 2017, and a resulting decrease in our fiscal 2017 Pension Benefit Guaranty Corporation premiums, which is a component of our pension expense. To a lesser extent, the sunsetting of our qualified pension plan during fiscal 2016 resulted in a decrease in the service cost component of our expense in 2017.
Insurance costs decreased due to a decrease in workers' compensation and general liability claim developments compared with a year ago, and a decrease in costs for group insurance related to lower claim payments.
Advertising costs at our Jack in the Box brand are primarily contributions to our marketing fund and are determined as a percentage of gross restaurant sales. Jack in the Box advertising costs decreased $1.5 million in the quarter and $3.0 million year-to-date in 2017 compared with a year ago due to a decrease in the number of company-operated restaurants, and year-to-date, a decrease in discretionary marketing fund contributions. In 2017, advertising costs associated with our Qdoba brand increased $2.0 million in the quarter and $0.6 million year-to-date versus a year ago due primarily to a shift in the timing of spending.
Pre-opening costs in both periods of 2017 increased over prior year periods primarily due to the acquisition of Jack in the Box restaurants in the current quarter, resulting in $2.2 million in costs that were incurred while the restaurants were closed. Higher year-to-date pre-opening costs related to the Jack brand acquisitions were partially offset by a decrease of $1.6 million in Qdoba brand pre-opening costs due to a decrease in the number of Qdoba restaurants opened and under construction during the period.
In the third quarter of 2016, we received notice that a claim we made in connection with the Deepwater Horizon Court Supervised Settlement Program was approved by the United States District Court for the Eastern District of Louisiana, resulting in a recovery of $2.5 million. The program compensated businesses for economic damages they incurred in connection with the 2010 oil rig spill in the Gulf of Mexico. Our claim related to certain Jack in the Box restaurants in Louisiana and Texas.
Other includes savings related to our restructuring plan announced in 2016 that includes workforce reductions and the relocation of our Qdoba corporate support center to reduce our corporate general and administrative costs.

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

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Costs of closed restaurants and other (primarily lease obligations)	$2,244	$914	$5,434	$2,489
Restructuring costs	1,837	7,744	6,081	7,744
Losses on disposition of property and equipment, net	952	637	2,186	2,283
Accelerated depreciation	674	673	1,394	1,531
Restaurant impairment charges	505	551	505	551
	$6,212	$10,519	$15,600	$14,598

Impairment and other charges, net decreased $4.3 million in the quarter, and increased $1.0 million year-to-date in 2017 compared with a year ago. In the quarter, the decrease was primarily driven by a $5.9 million reduction in restructuring charges recognized, offset by a $1.3 million increase in costs associated with closed restaurant properties which includes $1.0 million in costs related to the closure of three underperforming restaurants acquired from a franchisee. The year-to-date increase was primarily driven by a $2.9 million increase in costs associated with closed restaurant properties primarily related to revisions of certain sublease assumptions for our lease obligations and including $1.0 million in costs related to the closure of three underperforming restaurants acquired from a franchisee, partially offset by a $1.7 million decrease in restructuring charges recognized. Restructuring charges in 2017 and 2016 are the result of a plan that management initiated in fiscal 2016 to reduce our general and administrative costs. This plan includes cost saving initiatives from workforce reductions, relocation and consolidation of our Qdoba corporate support center, refranchising initiatives, and the consolidation of information technology across both brands. Restructuring charges in 2017 also include $1.7 million of costs related to the evaluation of potential alternatives with respect to the Qdoba brand. 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 (dollars in thousands)
Gains on the sale of company-operated restaurants, net are detailed in the following table (dollars in thousands):

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Number of restaurants sold to Jack in the Box franchisees	58	—	118	1
Gains on the sale of company-operated restaurants	$13,250	$ 409	$21,166	$1,224

Gains (losses) 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. Gains in 2017 include additional proceeds of $0.1 million year-to-date, and none in the quarter, related to Jack in the Box restaurants sold in a prior year. Gains in 2016 include additional proceeds of $0.4 million and $1.4 million in the quarter and year-to-date, respectively, related to the extension of the underlying franchise and lease agreements from the sale of Jack in the Box restaurants in prior 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):

	Quarter		Year-to-date	
	July 9, 2017	July 3, 2016	July 9, 2017	July 3, 2016
Interest expense	$11,447	$7,653	$35,163	$23,009
Interest income	(14)	(40)	(72)	(310)
Interest expense, net	$11,433	$7,613	$35,091	$22,699

Interest expense, net increased $3.8 million in the quarter, and $12.4 million year-to-date in 2017 compared with a year ago primarily due to higher average borrowings, which contributed additional interest expense of approximately $2.0 million and $5.7 million, respectively, and to a lesser extent, higher average interest rates, which contributed additional interest expense of approximately $1.2 million and $3.5 million, respectively.

Income Taxes

The tax rate in 2017 was 33.2% in the quarter and 36.7% year-to-date, compared with 36.0% and 36.8%, respectively, in 2016. We expect the fiscal year tax rate to be approximately 37.0%. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual 2017 rate could differ from our current estimates. Refer to Note 7, Income Taxes, of the notes to the condensed consolidated financial statements for additional information regarding income taxes.

Losses from Discontinued Operations, Net

As described in Note 2, Discontinued Operations, in the notes to 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. The losses from discontinued operations are immaterial to our condensed consolidated statements of earnings, and the majority of the discontinued operations activity in both years is related to the 2013 Qdoba Closures.

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):

	Year-to-date	
	July 9, 2017	July 3, 2016
Total cash provided by (used in):		
Operating activities	$139,907	$146,699
Investing activities	17,542	(67,770)
Financing activities	(166,918)	(90,036)
Effect of exchange rate changes on cash	(1)	11
Net decrease in cash	$(9,470)	$(11,096)

Operating Activities. Operating cash flows in 2017 decreased $6.8 million compared with a year ago primarily due to a $35.1 million and $11.8 million increase in income tax and interest payments, respectively, made in 2017 compared to 2016, partially offset by the timing of October rent payments of $16.8 million made prior to the end of 2016, and an increase in net earnings in 2017.

Pension and Postretirement Contributions — Our policy is to fund our pension plans at or above the minimum required by law. As of January 1, 2016, the date of our last actuarial funding valuation, there was no minimum contribution funding requirement for our qualified pension plan (“Qualified Plan”). In fiscal 2016, we made an $80.0 million accelerated contribution to our Qualified Plan and as such do not expect to make any contributions in fiscal 2017. Year-to-date 2017, we contributed $4.1 million to our non-qualified pension plan and postretirement plans.

Investing Activities. Cash provided by (used in) investing activities changed from a use of $67.8 million in 2016 to a source of $17.5 million in 2017. This change primarily resulted from $62.9 million in proceeds from the sale of 118 company-operated Jack in the Box restaurants in 2017, and a $27.8 million decrease in capital expenditures.

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

	Year-to-date	
	July 9, 2017	July 3, 2016
Jack in the Box:		
Restaurant facility expenditures	$18,329	$23,182
New restaurants	1,500	8,615
Other, including information technology	2,818	448
	22,647	32,245
Qdoba:		
New restaurants	13,629	32,302
Restaurant facility expenditures	7,909	3,796
Other, including information technology	991	3,129
	22,529	39,227
Shared Services:		
Information technology	1,974	3,310
Other, including facility improvements	60	189
	2,034	3,499
Consolidated capital expenditures	$47,210	$74,971

Our capital expenditure program includes, among other things, investments in new locations and equipment, restaurant remodeling, and information technology enhancements. Capital expenditures decreased $27.8 million compared to a year ago primarily resulting from a $18.7 million and $7.1 million decrease in spending related to building new Qdoba and Jack in the Box restaurants, respectively, and a $4.9 million decrease in spending related to Jack in the Box facility expenditures, primarily exterior facility enhancements. These decreases were partially offset by an increase in spending of $4.1 million associated with Qdoba restaurant facility expenditures primarily related to new signage. We expect fiscal 2017 capital expenditures to be approximately $80.0 million to $90.0 million. In fiscal 2017, we plan to open approximately 25 new Qdoba company-operated locations, and approximately five new Jack in the Box company-operated locations.

Assets Held for Sale and Leaseback — We use sale and leaseback financing to limit the initial cash investment in our restaurants to the cost of the equipment, whenever possible. During 2017 and 2016, we exercised our right of first refusal related to two and three leased properties, respectively, which we intend to sell and leaseback within the next 12 months of the respective balance sheet date. The following table summarizes the cash flow activity related to sale and leaseback transactions in each period (dollars in thousands):

	Year-to-date	
	July 9, 2017	July 3, 2016
Number of restaurants sold and leased back	1	4
Purchases of assets intended for sale and leaseback	$(3,248)	$(5,593)
Proceeds from the sale and leaseback of assets	$2,466	$7,748

As of July 9, 2017, we had investments of $17.2 million relating to eight restaurant properties that we expect to sell and leaseback during the next 12 months.

Acquisition of Franchise-Operated Restaurants — We acquired 50 Jack in the Box franchise restaurants in 2017, and one Jack in the Box franchise restaurant in 2016. In 2017, 31 restaurants were acquired in the third quarter resulting from an agreement with an underperforming franchisee that was in violation of franchise and lease agreements with the Company. Under this agreement, the franchisee voluntarily agreed to turn over the restaurants. The acquisition of an additional 19 restaurants in 2017 was the result of a legal action filed in September 2013 against a franchisee in which we obtained a judgment in January 2017 granting us possession of the restaurants.

Of the 50 restaurants acquired in 2017, we sold eight of the restaurants to a franchisee and closed three during the quarter. We plan to sell the remaining restaurants acquired in 2017 as part of our refranchising strategy. For additional information, refer to Note 3, Summary of Refranchisings, Franchisee Development and Acquisitions, and Note 6, Impairment and Other Charges, Net, of the notes to the condensed consolidated financial statements.

Sale of Company-Operated Restaurants — We continue to expand franchise ownership in the Jack in the Box system primarily through the sale of company-operated restaurants to franchisees. The following table details proceeds received in connection with our refranchising activities in each period (dollars in thousands):

	Year-to-date	
	July 9, 2017	July 3, 2016
Number of restaurants sold to Jack in the Box franchisees	118	1
Proceeds from the sale of company-operated restaurants	$62,923	$1,434

Proceeds in 2017 include additional gains of $0.1 million related to Jack in the Box restaurants sold in previous years, and proceeds in 2016 include additional gains of $1.4 million related to the extension of the underlying franchise and lease agreements related to Jack in the Box restaurants sold in a prior year. For additional information, refer to Note 3, Summary of Refranchisings, Franchisee Development and Acquisitions, of the notes to condensed consolidated financial statements.

Financing Activities. Cash flows used in financing activities increased $76.9 million in 2017 compared with a year ago primarily due to an increase in cash used to repurchase common stock, a net increase in payments under our credit facility, and an increase in cash used to pay dividends, partially offset by an increase in proceeds from the issuance of our common stock.

Credit Facility — Our credit facility consists of (i) a $900.0 million revolving credit agreement and (ii) a $700.0 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. As of July 9, 2017, we had $653.1 million outstanding under the term loan, borrowings under the revolving credit agreement of $520.9 million, and letters of credit outstanding of $31.4 million.

The interest rate on our credit facility is based on our leverage ratio and can range from the London Interbank Offered Rate (“LIBOR”) plus 1.25% to 2.25% with a 0% floor on LIBOR. The current interest rate is LIBOR plus 2.00%.

We are subject to a number of customary covenants under our credit facility, including limitations on additional borrowings, acquisitions, loans to franchisees, lease commitments, stock repurchases and dividend payments, and requirements to maintain certain financial ratios as defined in the credit agreement. We were in compliance with all covenants as of July 9, 2017.

Interest Rate Swaps — To reduce our exposure to fluctuating 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 converted $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 converted 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. For additional information, refer to Note 5, Derivative Instruments, of the notes to our condensed consolidated financial statements and Item 3, Quantitative and Qualitative Disclosures About Market Risk, of this report.

Repurchases of Common Stock — During year-to-date 2017, we repurchased 3.2 million common shares at an aggregate cost of $327.2 million, compared with 3.5 million common shares at an aggregate cost of $250.0 million in 2016. As of July 9, 2017, there was approximately $181.0 million remaining under Board-authorized stock-buyback programs which expire in November 2018. In our condensed consolidated statement of cash flows for 2017, repurchases of common stock includes $7.2 million related to repurchase transactions traded in the prior fiscal year that settled in 2017.

Dividends — During year-to-date 2017, the Board of Directors declared three cash dividends of $0.40 per common share totaling $37.4 million. Future dividends are subject to approval by our Board of Directors.

Off-Balance Sheet Arrangements

We have entered into certain off-balance sheet contractual obligations and commitments in the ordinary course of business, which are recognized in our condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles. There has been no material change in these arrangements as disclosed in our Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended October 2, 2016. We are not a party to any other 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 that we believe 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 October 2, 2016.

NEW ACCOUNTING PRONOUNCEMENTS

Refer to Note 1, Basis of Presentation, of the notes to 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,” “gu “intend,” “plan,” “project,” “may,” “will,” “would”, “should” and similar expressions. These statements are based on managem 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, 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.
- Our plan to increase the percentage of Jack in the Box franchise restaurants to over 90% is subject to risks and uncertainties, and we may not achieve the level or the accompanying cost reductions that we desire. We may not be able to identify franchisee candidates with appropriate experience and financial resources or to negotiate mutually acceptable agreements with potential franchisees. Our franchisee candidates may not be able to obtain financing at acceptable rates and terms. We may not be able to increase the percentage of franchised restaurants at the rate we desire or achieve the ownership mix of franchise to company-operated restaurants that we desire.
- The restaurant and take-away food industry is highly competitive with respect to price, service, location, brand identification, menu quality and product and service 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.
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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.

- In recent years, we have identified strategies and taken steps to reduce operating costs to align with the increased Jack in the Box franchise ownership and to further integrate Jack in the Box and Qdoba brand systems. The ability to evaluate, identify and implement operating cost reductions through these initiatives is subject to risks and uncertainties, and we cannot assure that these activities, or any other activities that we may undertake in the future, will achieve the desired cost savings and efficiencies.

- While we have commenced an evaluation of potential alternatives with respect to the Qdoba brand, there can be no assurance that our evaluation will result in a definitive action. In the event that we do proceed with a potential alternative action with respect to the Qdoba brand, there is no guarantee that such action will be successful.
- 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, point of sale ("POS") systems, or databases could cause reduced efficiency in operations, loss or misappropriation of data or, loss of consumer confidence and/or potential costs, fines and litigation, including costs associated with reputation damage, consumer fraud, privacy breach, 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 financial results.
- We maintain a documented system of internal controls over financial reporting, 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. Any of this 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 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 occupy management's time.

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 October 2, 2016 ("Form 10-K"). These documents may be read free of charge on the SEC's website at 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 a rate equal to the prime rate or LIBOR plus an applicable margin based on a financial leverage ratio. As of July 9, 2017, the applicable margin for the LIBOR-based revolving loans and term loan was set at 2.00%.

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 converted $300.0 million of our variable rate borrowings to a fixed-rate basis from October 2014 through October 2018. Additionally, in June 2015, we entered into eleven forward-starting interest rate swap agreements that effectively converted 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 July 9, 2017, these twenty interest rate swaps would yield average fixed rates of 3.90%, 4.41%, 4.62%, 4.89%, 5.07%, 5.17% in years 2017 through 2022, respectively. For additional information related to our interest rate swaps, refer to Note 5, Derivative Instruments, of the notes to 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 July 9, 2017, 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 July 9, 2017 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 condensed consolidated financial statements for a discussion of our contingencies and legal matters.

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 October 2, 2016, which we filed with the SEC on November 22, 2016. 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 October 2, 2016, 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 October 2, 2016. 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 — In the third quarter of fiscal 2017, we did not repurchase any shares of our common stock. During fiscal 2017, we repurchased 3.2 million common shares at an aggregate cost of $327.2 million. As of July 9, 2017, there was approximately $181.0 million remaining under stock-buyback programs which expire in November 2018.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Item 5.03. Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

On and effective August 4, 2017, the Board of Directors, upon the recommendation of the Nominating & Governance Committee of the Board, amended and restated the By-Laws of the Company (the “By-Laws”) to add to Article VIII new Section 8.07. Section 8.07 provides that unless the Corporation, in writing, selects or consents to the selection of an alternative forum, the sole and exclusive forum for any current or former stockholder (including any current or former beneficial owner) to bring internal corporate claims (as defined below), to the fullest extent permitted by law, and subject to applicable jurisdictional requirements, shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, another state court or a federal court located within the State of Delaware). For purposes of this Section 8.07, internal corporate claims means claims, including claims in the right of the Corporation: (a) that are based upon a violation of a duty by a current or former director, officer, employee or stockholder in such capacity; or (b) as to which the Delaware General Corporation Law confers jurisdiction upon the Court of Chancery. The amendment also renumbers previous Section 8.07.

The foregoing is a summary of the amendments made to the By-Laws. This summary is qualified in its entirety by reference to the By-Laws, as amended and restated and filed as Exhibit 3.2, attached hereto and incorporated herein by reference.

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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 4, 2017	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: August 10, 2017