

JACK IN THE BOX INC /NEW/
Form 10-Q
May 14, 2015

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 12, 2015
Commission File Number: 1-9390

JACK IN THE BOX INC.
(Exact name of registrant as specified in its charter)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of the close of business May 8, 2015, 37,380,529 shares of the registrant's common stock were outstanding.

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

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JACK IN THE BOX INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

(Unaudited)

	April 12, 2015	September 28, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,386	\$ 10,578
Accounts and other receivables, net	69,455	50,014
Inventories	7,335	7,481
Prepaid expenses	29,448	36,314
Deferred income taxes	36,810	36,810
Assets held for sale	10,505	4,766
Other current assets	2,097	597
Total current assets	166,036	146,560
Property and equipment, at cost	1,508,360	1,519,947
Less accumulated depreciation and amortization	(812,898)	(797,818)
Property and equipment, net	695,462	722,129
Intangible assets, net	15,146	15,604
Goodwill	149,042	149,074
Other assets, net	236,717	237,298
	\$ 1,262,403	\$ 1,270,665
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 10,898	\$ 10,871
Accounts payable	28,505	31,810
Accrued liabilities	159,633	163,626
Total current liabilities	199,036	206,307
Long-term debt, net of current maturities	592,989	497,012
Other long-term liabilities	307,433	309,435
Stockholders' equity:		
Preferred stock \$0.01 par value, 15,000,000 shares authorized, none issued	—	—
Common stock \$0.01 par value, 175,000,000 shares authorized, 81,036,074 and 80,127,387 issued, respectively	810	801
Capital in excess of par value	395,087	356,727
Retained earnings	1,288,272	1,244,897
Accumulated other comprehensive loss	(90,285)	(90,132)
Treasury stock, at cost, 43,655,712 and 41,571,752 shares, respectively	(1,430,939)	(1,254,382)
Total stockholders' equity	162,945	257,911
	\$ 1,262,403	\$ 1,270,665

See accompanying notes to condensed consolidated financial statements.

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

(Dollars in thousands, except per share data)

(Unaudited)

	Quarter April 12, 2015	April 13, 2014	Year-to-date April 12, 2015	April 13, 2014
Revenues:				
Company restaurant sales	\$268,904	\$257,773	\$620,800	\$596,602
Franchise revenues	89,218	83,097	205,943	194,350
	358,122	340,870	826,743	790,952
Operating costs and expenses, net:				
Company restaurant costs:				
Food and packaging	84,032	81,422	197,141	189,660
Payroll and employee benefits	73,073	71,616	168,752	165,432
Occupancy and other	56,468	56,998	131,499	131,707
Total company restaurant costs	213,573	210,036	497,392	486,799
Franchise costs	43,059	41,996	100,200	97,507
Selling, general and administrative expenses	52,472	48,660	115,567	107,816
Impairment and other charges, net	2,130	9,056	4,310	10,965
Losses (gains) on the sale of company-operated restaurants	5,020	(1,757)	4,170	(2,218)
	316,254	307,991	721,639	700,869
Earnings from operations	41,868	32,879	105,104	90,083
Interest expense, net	4,220	4,311	9,433	8,853
Earnings from continuing operations and before income taxes	37,648	28,568	95,671	81,230
Income taxes	14,286	10,304	35,211	29,956
Earnings from continuing operations	23,362	18,264	60,460	51,274
Losses from discontinued operations, net of income tax benefit	(357)	(2,463)	(1,620)	(3,187)
Net earnings	\$23,005	\$15,801	\$58,840	\$48,087
Net earnings per share - basic:				
Earnings from continuing operations	\$0.62	\$0.44	\$1.58	\$1.22
Losses from discontinued operations	(0.01)	(0.06)	(0.04)	(0.08)
Net earnings per share (1)	\$0.61	\$0.38	\$1.53	\$1.14
Net earnings per share - diluted:				
Earnings from continuing operations	\$0.61	\$0.43	\$1.55	\$1.18
Losses from discontinued operations	(0.01)	(0.06)	(0.04)	(0.07)
Net earnings per share (1)	\$0.60	\$0.37	\$1.51	\$1.11
Weighted-average shares outstanding:				
Basic	37,970	41,464	38,353	42,018
Diluted	38,566	42,632	39,039	43,336
Cash dividends declared per common share	\$0.20	\$—	\$0.40	\$—

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

See accompanying notes to condensed consolidated financial statements.

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

(Dollars in thousands)

(Unaudited)

	Quarter		Year-to-date	
	April 12, 2015	April 13, 2014	April 12, 2015	April 13, 2014
Net earnings	\$23,005	\$15,801	\$58,840	\$48,087
Cash flow hedges:				
Net change in fair value of derivatives	86	(31	) (6,672	) (85
Net loss reclassified to earnings	468	322	1,095	748
Tax effect	554	291	(5,577	) 663
	(212	) (112	) 2,135	(254
	342	179	(3,442	) 409
Unrecognized periodic benefit costs:				
Actuarial losses and prior service costs reclassified to earnings	2,276	1,210	5,311	2,825
Tax effect	(871	) (464	) (2,033	) (1,084
	1,405	746	3,278	1,741
Other:				
Foreign currency translation adjustments	10	—	16	7
Tax effect	(2	) —	(5	) (3
	8	—	11	4
Other comprehensive income (loss), net of tax	1,755	925	(153	) 2,154
Comprehensive income	\$24,760	\$16,726	\$58,687	\$50,241

See accompanying notes to condensed consolidated financial statements.

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

(Dollars in thousands)

(Unaudited)

	Year-to-date	
	April 12, 2015	April 13, 2014
Cash flows from operating activities:		
Net earnings	\$58,840	\$48,087
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	47,875	49,725
Deferred finance cost amortization	1,155	1,177
Excess tax benefits from share-based compensation arrangements	(17,073)	(12,017)
Deferred income taxes	(2,785)	(384)
Share-based compensation expense	7,367	6,348
Pension and postretirement expense	10,096	7,410
Gains on cash surrender value of company-owned life insurance	(3,635)	(3,428)
Losses (gains) on the sale of company-operated restaurants	4,170	(2,218)
Losses on the disposition of property and equipment	466	594
Impairment charges and other	2,180	8,088
Loss on early retirement of debt	—	789
Changes in assets and liabilities, excluding acquisitions and dispositions:		
Accounts and other receivables	(21,841)	(14,274)
Inventories	146	(640)
Prepaid expenses and other current assets	27,181	(8,746)
Accounts payable	(1,459)	1,725
Accrued liabilities	(8,991)	(13,543)
Pension and postretirement contributions	(8,113)	(7,831)
Other	(4,659)	(9,910)
Cash flows provided by operating activities	90,920	50,952
Cash flows from investing activities:		
Purchases of property and equipment	(32,959)	(31,196)
Purchases of assets intended for sale and leaseback	(5,355)	(19)
Proceeds from the sale of assets	—	2,105
Proceeds from the sale of company-operated restaurants	2,630	7,842
Collections on notes receivable	5,314	1,774
Acquisitions of franchise-operated restaurants	—	(1,750)
Other	1,786	36
Cash flows used in investing activities	(28,584)	(21,208)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	264,000	509,000
Repayments of borrowings on revolving credit facilities	(160,000)	(379,000)
Proceeds from issuance of debt	—	200,000
Principal repayments on debt	(7,996)	(190,549)
Debt issuance costs	—	(3,527)
Dividends paid on common stock	(15,395)	—
Proceeds from issuance of common stock	13,894	22,457
Repurchases of common stock	(174,115)	(205,453)
Excess tax benefits from share-based compensation arrangements	17,073	12,017
Change in book overdraft	—	4,774

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Cash flows used in financing activities	(62,539)	(30,281)
Effect of exchange rate changes on cash and cash equivalents	11		5	
Net decrease in cash and cash equivalents	(192	)	(532)
Cash and cash equivalents at beginning of period	10,578		9,644	
Cash and cash equivalents at end of period	\$10,386		\$9,112	

See accompanying notes to condensed consolidated financial statements.

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JACK IN THE BOX INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

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

	April 12, 2015	April 13, 2014
Jack in the Box:		
Company-operated	412	455
Franchise	1,836	1,799
Total system	2,248	2,254
Qdoba:		
Company-operated	310	303
Franchise	334	323
Total system	644	626

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

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

These financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended September 28, 2014. The accounting policies used in preparing these condensed consolidated financial statements are the same as those described in our Form 10-K with the exception of new accounting pronouncements adopted in fiscal 2015 which are described below.

Principles of consolidation — The condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and the accounts of any variable interest entities (“VIEs”) where we are deemed the primary beneficiary. All significant intercompany accounts and transactions are eliminated. For information related to the VIE included in our condensed consolidated financial statements, refer to Note 12, Variable Interest Entities.

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

Fiscal year — Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal years 2015 and 2014 include 52 weeks. Our first quarter includes 16 weeks and all other quarters include 12 weeks. All comparisons between 2015 and 2014 refer to the 12-weeks (“quarter”) and 28-weeks (“year-to-date”) ended April 12, 2015 and April 13, 2014, respectively, unless otherwise indicated.

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

actuaries and other experts in a particular area. Actual amounts could differ materially from these estimates.

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

JACK IN THE BOX INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides a comprehensive new revenue recognition model that requires a company to recognize revenue in an amount that reflects the consideration it expects to receive for the transfer of promised goods or services to its customers. The standard also requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU is effective for annual periods and interim periods beginning after December 15, 2016. The ASU is to be applied retrospectively or using a cumulative effect transition method and early adoption is not permitted. In April 2015, the FASB proposed a deferral of this ASU's effective date by one year, to December 15, 2017. The proposed deferral allows early adoption at the original effective date. We are currently evaluating the effect that this pronouncement will have on our consolidated financial statements and related disclosures.

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

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in financial statements. Under this ASU, an entity presents such costs on the balance sheet as a direct deduction from the related debt liability rather than as an asset. This new standard is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, with early adoption permitted. We do not plan to adopt this standard early and do not expect that it will have a material impact on our consolidated financial statements or disclosures upon adoption.

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

2. DISCONTINUED OPERATIONS

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

We recognized operating losses before taxes of \$0.1 million in both periods of 2015, and \$0.1 million and \$0.7 million in the quarter and year-to-date, respectively, in 2014. Year-to-date, operating losses before taxes include \$0.1 million and \$0.2 million in 2015 and 2014, respectively, related to our lease commitments, and \$0.4 million in 2014 related to insurance settlements.

Our liability for lease commitments related to our distribution centers is included in accrued liabilities and other long-term liabilities, and was \$0.3 million and \$0.5 million as of April 12, 2015 and September 28, 2014, respectively.

The lease commitment balance as of April 12, 2015 relates to one distribution center subleased at a loss.

2013 Qdoba Closures — During the third quarter of fiscal 2013, we closed 62 Qdoba restaurants. The decision to close these restaurants was based on a comprehensive analysis that took into consideration levels of return on investment and other key operating performance metrics. Since the closed locations were not predominantly located near those remaining in operation, we did not expect the majority of cash flows and sales lost from these closures to be recovered. In addition, we did not anticipate any ongoing involvement or significant direct cash flows from the closed stores. Therefore, in accordance with the provisions of ASC 205, Presentation of Financial Statements, the results of operations for these restaurants are reported as discontinued operations for all periods presented. In the quarter and year-to-date periods, we recognized operating losses before income taxes of \$0.5 million and \$2.5 million, respectively, in 2015, and \$3.8 million and \$4.4 million, respectively, in 2014.

JACK IN THE BOX INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In 2015, the year-to-date operating losses include \$2.2 million of unfavorable lease commitment adjustments, \$0.2 million of ongoing facility related costs and \$0.1 million of broker commissions. In 2014, the year-to-date operating losses include \$3.0 million of unfavorable lease commitment adjustments, \$0.4 million for asset impairments, \$0.6 million of ongoing facility related costs and \$0.3 million of broker commissions. We do not expect the remaining costs to be incurred related to these closures to be material; however, the estimates we make related to our future lease obligations, primarily 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.

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

	Year-to-date
Balance as of September 28, 2014	\$5,737
Adjustments	2,185
Cash payments	(4,060)
Balance as of April 12, 2015	\$3,862

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

JACK IN THE BOX INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. SUMMARY OF REFRANCHISINGS, FRANCHISEE DEVELOPMENT AND ACQUISITIONS

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

	Quarter		Year-to-date	
	April 12, 2015	April 13, 2014	April 12, 2015	April 13, 2014
Restaurants sold to Jack in the Box franchisees	20	14	21	14
New restaurants opened by franchisees	10	6	22	19
Initial franchise fees	\$608	\$755	\$983	\$1,154
Proceeds from the sale of company-operated restaurants (1)	\$1,456	\$7,374	\$2,630	\$7,842
Net assets sold (primarily property and equipment)	(1,945)	(2,240)	(2,434)	(2,240)
Goodwill related to the sale of company-operated restaurants	(16)	(120)	(32)	(129)
Other (2)	(4,515)	(142)	(4,334)	(140)
(Losses) gains on the sale of company-operated restaurants	\$(5,020)	\$4,872	\$(4,170)	\$5,333
Losses on expected sale of Jack in the box company-operated markets (3)	—	(3,115)	—	(3,115)
Total (losses) gains on the sale of company-operated restaurants	\$(5,020)	\$1,757	\$(4,170)	\$2,218

Amounts in 2015 and 2014 include additional proceeds recognized upon the extension of the underlying franchise (1) and lease agreements related to restaurants sold in a prior year of \$0.0 million and \$0.7 million, respectively, in the quarter, and \$0.1 million and \$1.2 million, respectively, year-to-date.

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

(3) Amounts in 2014 relate to losses on the expected sale of approximately 30 company-operated restaurants in two Jack in the Box markets sold in the fourth quarter of 2014 and the second quarter of 2015.

Franchise acquisitions — In 2015, we acquired six Jack in the Box franchise restaurants in one market, and during 2014 we repurchased four Jack in the Box franchise restaurants in another market. We account for the acquisition of franchised restaurants using the acquisition method of accounting for business combinations. The purchase price allocations were based on fair value estimates determined using significant unobservable inputs (Level 3). Acquisitions were not material to our condensed consolidated financial statements in either year.

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

4. FAIR VALUE MEASUREMENTS

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

	Total	Quoted Prices in Active Markets for Identical Assets (3) (Level 1)	Significant Other Observable Inputs (3) (Level 2)	Significant Unobservable Inputs (Level 3)
Fair value measurements as of April 12, 2015:				
Non-qualified deferred compensation plan (1)	\$(37,701)	\$(37,701)	\$—	\$—
Interest rate swaps (Note 5) (2)	(7,366)	—	(7,366)	—
Total liabilities at fair value	\$(45,067)	\$(37,701)	\$(7,366)	\$—
Fair value measurements as of September 28, 2014:				
Non-qualified deferred compensation plan (1)	\$(35,602)	\$(35,602)	\$—	\$—
Interest rate swaps (Note 5) (2)	(1,789)	—	(1,789)	—
Total liabilities at fair value	\$(37,391)	\$(35,602)	\$(1,789)	\$—

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

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

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

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 April 12, 2015, the carrying value of all financial instruments was not materially different from fair value, as the borrowings are prepayable without penalty. The estimated fair values of our capital lease obligations approximated their carrying values as of April 12, 2015.

Non-financial assets and liabilities — Our non-financial instruments, which primarily consist of property and equipment, goodwill and intangible assets, are reported at carrying value and are not required to be measured at fair value on a recurring basis. However, on a periodic basis (at least annually for goodwill and intangible assets, and semi-annually for property and equipment) or whenever events or changes in circumstances indicate that their carrying value may not be recoverable, non-financial instruments are assessed for impairment. If applicable, the carrying values are written down to fair value.

In connection with our impairment reviews performed during 2015, no material fair value adjustments were required. Refer to Note 6, Impairment and Other Charges, Net for additional information regarding impairment charges.

JACK IN THE BOX INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. DERIVATIVE INSTRUMENTS

Objectives and strategies — We are exposed to interest rate volatility with regard to our variable rate debt. To reduce our exposure to rising interest rates, in August 2010, we entered into two interest rate swap agreements that effectively converted \$100.0 million of our variable rate term loan borrowings to a fixed-rate basis from September 2011 through September 2014. In April 2014, we entered into nine forward-starting interest rate swap agreements that effectively convert \$300.0 million of our variable rate borrowings to a fixed rate basis from October 2014 through October 2018. These agreements have been designated as cash flow hedges under the terms of the FASB authoritative guidance for derivatives and hedging. To the extent that they are effective in offsetting the variability of the hedged cash flows, changes in the fair values of the derivatives are not included in earnings, but are included in other comprehensive income (“OCI”). These changes in fair value are subsequently reclassified into net earnings as a component of interest expense as the hedged interest payments are made on our term debt.

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

	April 12, 2015		September 28, 2014	
	Balance	Fair	Balance	Fair
	Sheet	Value	Sheet	Value
	Location		Location	
Derivatives designated as hedging instruments:				
Interest rate swaps (Note 4)	Accrued liabilities	\$(7,366)	Accrued liabilities	\$(1,789)
Total derivatives		\$(7,366)		\$(1,789)

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

	Location of	Quarter		Year-to-date	
	Loss in	April 12,	April 13,	April 12,	April 13,
	Income	2015	2014	2015	2014
Gain (loss) recognized in OCI	N/A	\$86	\$(31)	\$(6,672)	\$(85)
Loss reclassified from accumulated OCI into net earnings	Interest expense, net	\$(468)	\$(322)	\$(1,095)	\$(748)

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

6. IMPAIRMENT AND OTHER CHARGES, NET

Impairment and other charges, net in the accompanying condensed consolidated statements of earnings is comprised of the following (in thousands):

	Quarter		Year-to-date	
	April 12,	April 13,	April 12,	April 13,
	2015	2014	2015	2014
Accelerated depreciation	\$1,387	\$487	\$2,139	\$1,151
Restaurant impairment charges	27	85	41	180
(Gains) losses on the disposition of property and equipment, net	(269)	262	352	550
Costs of closed restaurants (primarily lease obligations) and other	973	731	1,759	1,295
Restructuring costs	12	7,491	19	7,789

\$2,130 \$9,056 \$4,310 \$10,965

Accelerated depreciation — When a long-lived asset will be replaced or otherwise disposed of prior to the end of its estimated useful life, the useful life of the asset is adjusted based on the estimated disposal date and accelerated depreciation is recognized. Accelerated depreciation primarily relates to expenses at our Jack in the Box company restaurants for the replacement of technology and beverage equipment in 2015 and restaurant facility enhancement programs in 2014.

Impairment charges — When events and circumstances indicate that our long-lived assets might be impaired and their carrying amount is greater than the undiscounted cash flows we expect to generate from such assets, we recognize an impairment loss as the amount by which the carrying value exceeds the fair value of the assets. Impairment charges in

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all periods include charges for restaurants we intend to or have closed.

Disposition of property and equipment — Disposal costs primarily relate to gains or losses recognized upon the sale of closed restaurant properties. In 2015, losses on the disposition of property and equipment includes a gain of \$0.9 million from the resolution of one eminent domain matter involving a Jack in the Box restaurant.

Costs of closed restaurants — Costs of closed restaurants primarily consists of future lease commitments, net of anticipated sublease rentals and expected ancillary costs. Accrued restaurant closing costs, included in accrued liabilities and other long-term liabilities, changed as follows in 2015 (in thousands):

	Year-to-date
Balance as of September 28, 2014	\$13,173
Adjustments (1)	1,427
Cash payments	(3,319)
Balance as of April 12, 2015	\$11,281

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

Restructuring costs — Since the beginning of 2012, we have been engaged in efforts to improve our cost structure and identify opportunities to reduce general and administrative expenses as well as improve profitability across both brands. The following is a summary of the costs incurred in connection with these activities (in thousands):

	Quarter		Year-to-date	
	April 12, 2015	April 13, 2014	April 12, 2015	April 13, 2014
Severance costs	\$12	\$1,098	\$19	\$1,396
Other	—	6,393	—	6,393
	\$12	\$7,491	\$19	\$7,789

In 2014, other costs represent a \$6.4 million impairment charge recognized in the second quarter of fiscal 2014 related to a restaurant software asset we no longer planned to place in service as we integrate certain systems across both of our brands. We may incur additional charges related to our restructuring activities; however, we are unable to make a reasonable estimate at this time.

7. INCOME TAXES

The income tax provisions reflect tax rates of 37.9% in the quarter and 36.8% year-to-date in 2015, compared with 36.1% and 36.9%, respectively, a year ago. The quarter tax rates reflect the timing of the benefit recognized from the reenactment of the Work Opportunity Tax Credit and the benefit of 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 2015 rate could differ from our current estimates.

8. RETIREMENT PLANS

Defined benefit pension plans — We sponsor two defined benefit pension plans: a qualified plan covering substantially all full-time Jack in the Box employees hired prior to January 1, 2011, and an unfunded supplemental executive plan