

REED'S, INC.  
Form DEFC14A  
November 14, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant To Section 14(a) of the Securities Exchange Act of 1934**

Filed by the registrant  [X]

Filed by a party other than the registrant  [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

[ ] Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))

[X] Definitive Proxy Statement

[ ] Definitive additional materials

[ ] Soliciting material Pursuant to Rule 14a-11(c) or Rule 14a-12

**REED'S, INC.**

(Name of Registrant as Specified in Its Charter)

Payment of filing fee (check the appropriate box):

No fee required.

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## Message from the Founder, Chairman and Chief Executive Officer

To Our Stockholders:

You are cordially invited to attend the 2016 Annual Meeting of Stockholders of Reed's (the "Company"), which will be held at 1:00 P.M. Pacific Standard Time on November 29, 2016 at the corporate offices of Reed's Inc., 13000 S. Spring Street, Los Angeles, CA 90061. The formal Notice of Annual Meeting of Stockholders and Proxy Statement, which are contained in the following pages, outline the actions that will, or may, if properly presented, be taken by the stockholders at the meeting. Enclosed you should have received a **WHITE** proxy card or **WHITE** voting instruction form and postage-paid return envelope, which are being solicited on behalf of our board of directors (the "board").

I'm thrilled to announce our new team of board of Directors. Your independent board will be a tremendous resource for our company. This new board will include myself and 4 independent board members with significant and specific areas of expertise.

**John Bello** will be Reed's Chairman of the Board – our first independent Chairman - and our marketing and sales expert. Mr. Bello is the creator, founder and former CEO of Sobe Beverages, which sold to PepsiCo in 2001 for \$370 million.

**Lewis Jaffe** will be our new Board's governance expert. Mr. Jaffe is Entrepreneur-in-Residence at the Fred Kiesner Center for Entrepreneurship, Loyola Marymount University, Los Angeles. He has extensive public and private board governance experience and a Masters Professional Director Certification from the American College of Corporate Directors.

**Charles Cargile** will be our finance expert. Mr. Cargile has over 20 years experience in financial leadership in three different public companies, including 15 years as Chief Financial Officer. Mr. Cargile has his Professional Director Certification from the American College of Corporate Directors and has served on public company boards and audit committees.

**Stefan Freeman** will be our Operations and Supply Chain expert. Mr. Freeman resides in Los Angeles and has over 25 years experience in sales operations, manufacturing, and supply chain operations. Mr. Freeman has been Director of Sales Operations for Dr. Pepper Snapple Group, Supply Chain Manager and Plant Manager for Pepsi-Cola Bottling Group, Regional Vice President of Manufacturing for Coca-Cola Refreshments and Vice President of Fleet Operations for Coca-Cola Refreshments.

Reed's, continues to lead the Natural and Craft Soda renaissance nationally. Our core brands, Reed's Ginger Brews and Virgil's Sodas are back on track and growing again in the marketplace after 2015 supply chain issues. Reed's Ginger Brews grew 14% and Virgil's soda grew 13% during the third quarter of 2016. Our new Reed's Stronger Ginger Brew continues to grow with 3<sup>rd</sup> quarter of 2016 sales up 293% year over year and our Butterscotch Beer sales were also up 170% year over year.

We continue to add new retailers. Recent additions include 1300 Target stores, 1100 CVS stores and the entire Stater Bros. chain. We have added significant new distribution in the last year including the Southern California and San Diego marketplaces, Indiana, select New England markets and Nevada regions for direct store distribution ("DSD"). International Sales increased 250% year over year with new distributors in England and the Middle East.

Reed's Culture Club Kombucha line experienced significant out of stock instances in 2015 due to supply chain issues. In addition, this promising brand is also under heavy pressure from a large influx of new Kombucha brands. That being said, we are very enthusiastic about our upcoming opportunities for our Kombucha beverages. We are preparing to relaunch and aggressively market our Kombucha brand after a revamp of the product line with positive new innovations from our research and development team. We still make the best tasting Kombucha brand in the marketplace and with these new changes to our Kombucha products, we will become even more appealing to consumers.

We have been exhibiting at trade shows nationwide and have hosted booths at the Natural Products shows, the National Restaurant show, the National Convenient Store show and the National Specialty Food shows this year. In addition, we continue to participate with many of our large grocery partners' consumer marketing programs including in-store advertising and circulars, and participation in consumer events to drive awareness around our brands.

Capacity at our new plants is progressing as planned. Our fully automated Los Angeles facility is scheduled to come online by the end of the year and will be capable of producing three times more product than the old line with much more efficiency. The east coast back-up facilities have been handling our overflow very well since earlier this year. We now have redundant capacity which will ensure that we avoid the out of stock issues we experienced last year and will allow us to rationalize the usage in 2017.

In 2015, because our largest plant had a catastrophic equipment failure, we created significant out of stocks on our products. During this time, these out of stock issues caused us to lose approximately 20% of our shelf placements. We continue to reach out to our customers to assure them that our out of stock issues were caused by one time events and that we are now back in stock. Our fill rate on orders is now 97% and we have recovered approximately 25% of the shelf placements we had lost.

By bringing the west coast facility on line and returning to more steady-state production, we expect to increase our profit margins. Our goal is to exceed 30% gross margins by the end of the 2<sup>nd</sup> quarter 2017. This will be accomplished by negotiating better packaging contracts, improving production processes and enhancing plant efficiencies. The margin improvements should result in significant improvement in profitability. We generated cash in the 3<sup>rd</sup> quarter of 2016 and with the improvement in margins, we expect to continue to generate positive cash flow moving forward.

This year we have continued to focus on research and development with our primary focus being the development of the first natural soda fountain system, which we are designing for one of the largest fast casual restaurant chains in the country. In addition, we have developed new processes for making our Ginger Brews that will simplify the brewing process and improve profitability without sacrificing quality. We are revamping our Kombucha line to make it more appealing to customers while retaining the great flavor of these products. We expect the revised Kombucha line to launch in early 2017. Our research and development team has also developed a new line of products aimed at large national retailers that we will unveil shortly.

As the quarterly financials continue to improve, we anticipate lower interest rates on working capital lines of credit. In 2017, we anticipate refinancing our current working capital line of credit resulting in significantly lower interest expenses.

In 2017, we expect continued and accelerating sales growth leading to increased profitability and shareholder value. We eagerly await our launch of the first natural soda fountain to consumers. As the company continues its march to profitability, we expect to be able to ramp up the marketing around our products. We are excited about our new product innovations that will soon launch and the re-launch of our Kombucha. We are excited about our new board and management team that we have assembled around Reed's.

Chris Reed

Founder, Chief Executive Officer and Chairman, Reed's, Inc.

NYSE MKT: REED

## FORWARD LOOKING STATEMENTS

This statement contains forward-looking statements. These statements include projections, predictions, expectations or statements as to beliefs or future events or results or refer to other matters that are not historical facts.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by these statements. The forward-looking statements contained herein are based on various factors and were derived using numerous assumptions. In some cases, you can identify these forward-looking statements by the words “anticipate”, “estimate”, “plan”, “project”, “continuing”, “ongoing”, “to”, “aim”, “expect”, “believe”, “intend”, “may”, “will”, “should”, “could”, or the negative of those words and other comparable words. You should be aware that those statements reflect only the Company’s predictions. If known or unknown risks or uncertainties should materialize, or if underlying assumptions should prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind not to place undue reliance on these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements contained in this statement are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

**REED'S, INC.**

13000 South Spring Street Los Angeles, California 90061

**NOTICE OF 2016 ANNUAL MEETING OF STOCKHOLDERS**

**To be held November 29, 2016**

Dear Stockholder:

You are cordially invited to attend our annual meeting of stockholders at 1:00 P.M. Pacific Standard Time at 13000 S. Spring Street, Los Angeles, CA 90061 on November 29, 2016. The business of the annual meeting will be to:

Elect Christopher Reed, John Bello, Stefan Freeman, Lewis Jaffe and Charles Cargile to serve as directors until the 2017 annual meeting, or until each director's successor is elected and qualified;

Ratify the selection of Weinberg & Company, P.A. as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017;

Consider and vote on whether to approve, on an advisory basis, the compensation paid to our Named Executive Officers (as that term is defined in the Proxy Statement for the 2016 Annual Meeting) for the fiscal year ended December 31, 2015;

Approve management proposal to re-price previously issued stock options;

To amend the advance notice provisions of our amended and restated bylaws;

Consider a shareholder proposal entitled "Independent Board Chairman", if properly presented by the relevant shareholder proponent;

Consider a shareholder proposal entitled "Shareholder Proxy Access", if properly presented by the relevant shareholder proponent; and

To transact such other business as may properly come before the 2016 Annual Meeting and any adjournments or postponements thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice of Annual Meeting of Stockholders. The board recommends: a vote “**FOR**” each of the five director nominees named in the accompanying Proxy Statement, a vote “**FOR**” Proposal Nos. 2, 3, 4 and 5 and a vote “**AGAINST**” Proposal Nos. 6 and 7 on the enclosed **WHITE** proxy card.

The board has fixed the close of business on October 24, 2016 as the record date for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and at any continuation, postponement or adjournment thereof.

\* \* \* IMPORTANT NOTICE \* \* \*

Regarding Internet Availability of Proxy Materials

for the 2016 Annual Meeting of Stockholders to be held on November 29, 2016.

In accordance with rules issued by the Securities and Exchange Commission, you

may access our 2015 Annual Report and our Proxy Statement at

<https://www.sec.gov/Archives/edgar/data/1140215/000149315215005836/defr14a.htm>

The board recommends a vote “**FOR**” the election of each of the director nominees named in the accompanying Proxy Statement and on the enclosed **WHITE** proxy card, and strongly urges you NOT to sign or return any proxy card(s) or instruction form(s) that you may receive from the Committee or any of their affiliates.



**Please submit a WHITE proxy as soon as possible so that your shares can be represented and voted at the Annual Meeting in accordance with your instructions. For specific instructions on submitting a proxy to have your shares voted, please refer to the instructions on the WHITE proxy card or the information forwarded by your bank, broker or other nominee. Even if you have submitted a White proxy, you may still vote in person if you attend the Annual Meeting. Please note, however, that if your shares are held of record by a bank, broker or other nominee and you wish to vote in person at the Annual Meeting, you must obtain a legal proxy issued in your name from such bank, broker or other nominee.**

**If you have previously signed a proxy card sent to you by the Committee or any of their affiliates in respect of the Annual Meeting, you can revoke that proxy and submit a White proxy to vote for the board's nominees by signing, dating and returning the enclosed WHITE proxy card or by following the instructions provided in the WHITE proxy card to submit a proxy to vote your shares over the Internet or by telephone or by voting in person at the Annual Meeting. Signing, dating and returning any proxy card that the Committee or any of their affiliates may send to you, even with instructions to vote "withhold" with respect to the Committee Nominees, will cancel any proxy you may have previously submitted to have your shares voted for the board's nominees on a WHITE proxy card as only your latest proxy card or voting instruction form will be counted. If you are a beneficial holder of shares held in "street name," you should follow the voting instructions provided by your bank, broker or other nominee to ensure that your shares are represented and voted at the Annual Meeting, or to revoke prior voting instructions. The board urges you to sign, date and return only the enclosed WHITE proxy card.**

**Your vote is very important. Please submit your WHITE proxy card even if you plan to attend the Annual Meeting. To submit a White proxy card or to vote your shares over the Internet or by telephone, please follow the instructions on the enclosed WHITE proxy card.**

The accompanying Proxy Statement provides a detailed description of the business to be conducted at the Annual Meeting. We urge you to read the accompanying Proxy Statement, including the appendices and any documents incorporated by reference, carefully and in their entirety.

Your vote will be especially important at the meeting. As you may know, Joseph Grace, Edwin R. Lozano, James G. McRitchie, Gary W. Spiro, Mathew D. Tekulsky, Jeffrey T. Glidden and Jeffrey V. Hembrook (collectively referred to herein as the "Committee"), have notified the Company that they intend to nominate a slate of five director nominees for election in opposition to the director nominees recommended by our board of directors.

The board recommends a vote "**FOR**" the election of each of the director nominees named in the accompanying Proxy Statement and on the enclosed **WHITE** proxy card, and strongly urges you **NOT** to sign or return any proxy card(s) or instruction form(s) that you may receive from the Committee or any of their affiliates.

If you have any questions or require any additional information concerning this Proxy Statement, please contact Okapi Partners at the address set forth below.

1212 Avenue of the Americas, 24th Floor

New York, NY 10036

(212) 297-0720

Call Toll-Free at: (877) 274-8654

E-mail: [info@okapipartners.com](mailto:info@okapipartners.com)

By Order of the Board of Directors,  
Los Angeles, California Christopher J. Reed,  
November 14, 2016 Chief Executive Officer and Chairman

PROXY STATEMENT

**FOR THE 2016 ANNUAL MEETING OF STOCKHOLDERS OF  
REED'S, INC.**

**To Be Held on November 29, 2016**

The enclosed the enclosed **WHITE** proxy card is being delivered with this Proxy Statement on behalf of the board of directors (the “board”) of Reed’s, Inc., a Delaware corporation, for use at the 2016 Annual Meeting of Stockholders (the “Annual Meeting”) of Reed’s, Inc. and all postponements, continuations or adjournments thereof. These proxy materials and the enclosed Annual Report on Form 10K for the year ended December 31, 2015, as amended, (“Annual Report”) are being mailed to our stockholders on or about November 14, 2016. In this Proxy Statement, we use the terms the “Company”, “Reed’s”, “we”, “our” and “us” to refer to Reed’s, Inc.

**Is my vote important?** Your vote will be particularly important at the Annual Meeting. As you may know, the Company has received a notice from Joseph Grace, Edwin R. Lozano, James G. McRitchie, Gary W. Spiro, Mathew D. Tekulsky, Jeffrey T. Glidden and Jeffrey V. Hembrock (the “Committee”) regarding their intent to nominate a competing slate of directors (the “Committee Nominees”) at the Annual Meeting.

The board recommends a vote “**FOR**” the election of each of the director nominees named in this Proxy Statement on the enclosed **WHITE** proxy card, and strongly urges you **NOT** to sign or return any proxy card(s) or voting instruction form(s) that you may receive from the Committee or any of their affiliates.

To vote for all of the board’s nominees, you must sign, date and return the enclosed **WHITE** proxy card or follow the instructions provided in the **WHITE** proxy card for submitting a proxy over the Internet or by telephone or vote in person at the Annual Meeting.

If you have previously signed any proxy card sent to you by the Committee or any of their affiliates in respect of the Annual Meeting, you can revoke it by signing, dating and returning the enclosed **WHITE** proxy card or by following the instructions provided in the **WHITE** proxy card for submitting a proxy to vote your shares over the Internet or by telephone or voting in person at the Annual Meeting. Signing, dating and returning any proxy card that the Committee or any of their affiliates may send to you, even with instructions to vote “withhold” with respect to the Committee Nominees, will cancel any proxy you may have previously submitted to have your shares voted for the board’s

nominees as only your latest proxy card or voting instruction form will be counted. Beneficial holders who hold their shares in "street name" should follow the voting instructions provided by their bank, broker or other nominee to ensure that their shares are represented and voted at the Annual Meeting, or to revoke prior voting instructions.

**The board urges you to sign, date and return only the enclosed WHITE proxy card.**

**Where and when is the Annual Meeting?** Our Annual Meeting will be held on November 29, 2016 at 1:00 P.M. Pacific Standard Time at the corporate offices of Reed's Inc., 13000 S. Spring Street, Los Angeles, CA 90061.

**Why did I receive these materials?** You received this Proxy Statement because you held shares of our common stock on October 24, 2016, the record date fixed by our board, and you are entitled to vote at the Annual Meeting. This Proxy Statement and a copy of our Annual Report will be mailed on or about November 14, 2016. Although the Proxy Statement and Annual Report are being mailed together, the Annual Report is not incorporated into, and should not be deemed part of, this Proxy Statement.

**Who can attend the Annual Meeting?** Only stockholders as of the record date, their authorized representatives, and invited guests will be able to attend the Annual Meeting.

**Who is entitled to vote?** Only holders of record of our common stock at the close of business on October 24, 2016, the record date, are entitled to vote at the Annual Meeting. Each share is entitled to vote on each matter properly brought before the meeting. As of the record date, there were 13,973,726 shares of our common stock outstanding. Holders of Series A preferred stock do not have voting rights on any matters, including, without limitation, the election of directors.

**Who are the proxies?** The board of the Company has appointed Daniel Miles, our Chief Financial Officer and Mark Beaton, our Chief Operating Officer to serve as proxies at the Annual Meeting. When you fill out your **WHITE** proxy card and return it, or if you vote electronically, you will be giving the proxies your instruction on how to vote your shares at the Annual Meeting.

**Will there be a proxy contest at the Annual Meeting?** The Committee has provided notice to the Company that the Committee intends to nominate a competing slate of directors in opposition to the board's highly qualified director nominees. Our board does **NOT** endorse or recommend the election of the Committee Nominees as directors. You may receive proxy solicitation materials from the Committee or any of their affiliates, including an opposition proxy statement or proxy card. The board strongly urges you **NOT** to sign or return any proxy card(s) or voting instruction form(s) that you may receive from the Committee or any of their affiliates.



Please be advised that the Company is not responsible for the accuracy of any information provided by, or relating to, the Committee or any Committee Nominee contained in any proxy solicitation materials filed or disseminated by, or on behalf of, the Committee or any of their affiliates or any other statements that the Committee or any of their affiliates or representatives may otherwise make.

Our board is pleased to nominate for election as director the five persons — Christopher Reed, John Bello, Lewis Jaffe, Charles Cargile, and Stefan Freeman — named in this Proxy Statement and on the enclosed **WHITE** proxy card. We believe our five director nominees have the breadth of relevant and diverse experiences, integrity and commitment necessary to continue to grow the Company for the benefit of all of the Company's stockholders.

### **What do I do if I receive a proxy card or voting instruction form from the Committee?**

The board strongly urges you **NOT** to sign or return any proxy card(s) or voting instruction form(s) that you may receive from the Committee or any of their affiliates, even with instructions to vote "withhold" with respect to the Committee Nominees. Instructions to withhold votes with respect to the Committee Nominees on a proxy card provided by, or on behalf of, the Committee or their affiliates will cancel any proxy previously submitted by you to vote for the board's nominees on a **WHITE** proxy card or **WHITE** voting instruction form as only your latest proxy card or voting instruction form will be counted.

If you previously signed a proxy card or submitted a voting instruction form sent to you by, or on behalf of, the Committee or their affiliates, you can change or revoke that proxy and have your shares voted for the board's nominees by (i) signing, dating and returning only the enclosed **WHITE** proxy card in the enclosed postage-paid return envelope to submit your proxy by mail, (ii) following the instructions provided in the **WHITE** proxy card for submitting a proxy over the Internet or by telephone, or (iii) attending the Annual Meeting to vote in person. Only your latest dated proxy will be counted at the Annual Meeting.

If you need assistance changing or revoking your proxy, please call the Company's proxy solicitor, Okapi Partners, toll free at (877) 274-8654 (within the U.S.).

**How do I vote if I am a registered stockholder?** You may vote in person, electronically via the Internet, or by proxy. Proxies are solicited to give all stockholders who are entitled to vote on the matters that come before the meeting the opportunity to do so whether or not they attend the meeting in person. If you are a registered holder, you can vote your **WHITE** proxy card by mail, electronically via the Internet, or in person at the Annual Meeting. *If you choose to vote by mail, mark your **WHITE** proxy card enclosed with this Proxy Statement, date and sign it, and mail it in the postage-paid envelope. If you wish to vote in person, you can vote the **WHITE** proxy card in person at the Annual Meeting. Signing and returning a proxy will not prevent you from voting in person at the meeting.*

**How do I vote electronically?** If you are a registered stockholder, you may vote electronically via the Internet. Please review the voting instructions on the **WHITE** proxy card.

**How do I specify how I want my shares voted?** If you are a registered stockholder, you can specify how you want your shares voted on each proposal by marking the appropriate boxes on the **WHITE** proxy card. Please review the voting instructions on the **WHITE** proxy card and read the entire text of the proposals and the positions of the board of Directors in the Proxy Statement prior to marking your vote. *If your **WHITE** proxy card is signed and returned without specifying a vote, it will be voted according to the recommendation of the board of Directors on that proposal.*

**How do I vote if I am a beneficial stockholder?** If you are a beneficial stockholder, you have the right to direct your broker or nominee on how to vote your shares. You should complete a voting instruction card which your broker or nominee is obligated to provide to you. If you wish to vote in person at the meeting, you must first obtain from the record holder a **WHITE** proxy card issued in your name.

**What items will be voted upon at the Annual Meeting?** The following items will be voted upon at the Annual Meeting:

Elect Christopher Reed, John Bello, Stefan Freeman, Lewis Jaffe and Charles Cargile to serve as directors until the 2017 annual meeting, or until each director's successor is elected and qualified;

Ratify the selection of Weinberg & Company, P.A. as the Company's independent registered public accounting firm to audit the financial statements of the Company for the fiscal year ending December 31, 2017;

Consider and vote on whether to approve, on an advisory basis, the compensation paid to our Named Executive Officers (as that term is defined in the Proxy Statement for the 2016 Annual Meeting) for the fiscal year ended December 31, 2015;

Approve management proposal to re-price previously issued stock options;

Vote for the amendment of the advance notice provisions of our amended and restated bylaws;

Consider a shareholder proposal entitled "Independent Board Chairman", if properly presented by the relevant shareholder proponent; and

Consider a shareholder proposal entitled "Shareholder Proxy Access", if properly presented by the relevant shareholder proponent.

The board does not currently know of any other matters that may be brought before the meeting for a vote. However, if any other matters are properly presented for action, it is the intention of the persons named on the **WHITE** proxy card to vote on them according to their best judgment.

**What is the board of directors' voting recommendation?** For the reasons set forth in more detail later in the Proxy Statement, the board recommends you vote using the enclosed **WHITE** proxy card **FOR** the election of all nominees for director proposed by our board (Proposal No. 1). The board has ratified the selection of Weinberg & Company, P.A. as the Company's independent registered public accounting firm to audit the financial statements of the Company for the fiscal year ending December 31, 2017 (Proposal No. 2) which selection was made by the Company's Audit Committee. The board recommends a vote **FOR** the ratification of the auditors (Proposal No. 2). The board recommends a vote **FOR** Proposal No. 3, the say-on-pay proposal, to approve, on an advisory basis, the compensation paid to our Named Executive Officers for the fiscal year ended December 31, 2015. The board recommends a vote **FOR** Proposal No. 4 to approve management proposal to re-price previously issued stock options. The board recommends a vote **FOR** Proposal No. 5 to amend the advance notice provision of our amended and restated bylaws and recommends a vote **AGAINST** shareholder proposals entitled "Independent Board Chairman and "Shareholder Proxy Access" (Proposal Nos. 6 and 7).



Please note that the best way to support the board's nominees is to vote "**FOR**" the board's nominees by signing, dating and returning the enclosed **WHITE** proxy card or by submitting a proxy over the Internet or by telephone by following the instructions on the **WHITE** proxy card. The board strongly urges you **NOT** to sign or return any proxy card(s) or voting instruction form(s) that you may receive from the Committee or any of their affiliates. Signing and returning any proxy card that the Committee or any of their affiliates may send to you, even to vote "withhold" with respect to the Committee Nominees, will cancel any proxy you may have previously submitted to have your shares voted for the board's nominees on a **WHITE** proxy card, as only your latest dated proxy card will be counted. Therefore, the board urges you to sign, date and return only the enclosed **WHITE** proxy card.

**How can I provide my comments to the Company?** We urge you to let us know your comments or to bring a particular matter to our attention by writing directly to us at Reed's, Inc., 13000 South Spring Street, Los Angeles, California 90061, attention: Judy Holloway Reed, Secretary.

**How many votes are needed to have the proposals pass?** The affirmative vote of the majority of the votes cast at the Annual Meeting is required to elect the directors, ratify the selection of the auditors, approve management proposal to re-price previously issued stock options and approve shareholder proposals for independent board Chairman and shareholder proxy access. The say-on-pay vote is advisory, and, therefore, not binding on us, our board of directors or our Compensation Committee. Notwithstanding the advisory nature of this vote, the resolution will be deemed approved and passed on an advisory basis with the affirmative vote of a majority of the votes cast at the Annual Meeting. Our board of directors and our Compensation Committee value the opinions that our stockholders express in their votes and will consider the outcome of this vote when considering future executive compensation arrangements as they deem appropriate.

**How are the votes counted?** You will have one vote for each share of our common stock that you owned on the record date. If the **WHITE** proxy card is properly executed and returned prior to the Annual Meeting, the shares of common stock it represents will be voted as you instruct on the **WHITE** proxy card. If a **WHITE** proxy card is unmarked, or if you indicate no vote, the shares of common stock it represents will be voted **FOR** Proposal No. 1, the election of directors recommended by the board, **FOR** Proposal No. 2 the ratification of the auditors for this year, **FOR** Proposal No. 3 the say-on-pay proposal **FOR** Proposal No. 4, management proposal to re-price previously issued stock options, **FOR** Proposal No. 5, the amendment to the advance notice provision of our amended and restated bylaws, and **AGAINST** shareholder proposals entitled "Independent Board Chairman" and "Shareholder Proxy Access" Proposal Nos. 6 and 7.

**No Cumulative Voting.** Holders of common stock shall not be entitled to cumulate their votes for the election of directors or any other matters.

**Abstentions.** Abstentions will be treated as present and entitled to vote for purposes of determining the presence of a quorum. Abstentions will not constitute a vote **FOR** or **AGAINST** any matter, and thus will be disregarded in the calculation of shares voting or votes cast on any matter submitted to the stockholders for a vote.



**Broker Non-Votes.** Brokers that are members of certain securities exchanges and that hold shares of our common stock in street name on behalf of beneficial owners have authority to vote on certain items when they have not received instructions from beneficial owners. Under the applicable rules governing such brokers, Proposal No. 2 to ratify the appointment of Weinberg & Company, P.A. as our independent registered public accounting firm is considered a “discretionary” item. This means that brokers may vote using their discretion on this proposal on behalf of beneficial owners who have not furnished voting instructions. In contrast, all other proposals are “non-discretionary matters”, which means your bank, brokerage firm, broker-dealer or other similar organization may not vote your shares without voting instructions from you. Therefore, you must give your broker instructions in order for your vote to be counted. If your shares are held of record by a bank, broker or other nominee, we urge you to give instructions to your bank, broker, or other nominee as to how you wish your shares to be voted so you may participate in the stockholder voting on these important matters.

**Quorum.** A majority of the shares of common stock outstanding on the record date, represented in person or by proxy, will constitute a quorum at the Annual Meeting. As of October 24, 2016 we had 13,973,726 shares of common stock outstanding. The number of shares required to be represented in person or by proxy at the Annual Meeting to constitute a quorum is 6,986,864.

**How can I revoke my proxy?** You may revoke your proxy at any time before it is voted at the meeting by taking one of the following three actions:

1. Giving timely written notice of the revocation to our Secretary,
2. Executing and delivering a WHITE proxy card with a later date, or
3. Voting in person at the meeting.

**Who will solicit proxies on behalf of the board?** Proxies may be solicited on behalf of the board, without additional compensation, by the Company’s directors, director nominees and certain executive officers and other employees of the Company. Such persons are listed in Appendix A to this Proxy Statement. Additionally, the Company has retained Okapi Partners, a proxy solicitation firm, who may solicit proxies on the board’s behalf. The original solicitation of proxies by mail may be supplemented by telephone, telegram, facsimile, electronic mail, Internet and personal solicitation by our directors, director nominees and certain of our executive officers and other employees (who will receive no additional compensation for such solicitation activities), or by Okapi Partners. You may also be solicited by advertisements in periodicals, press releases issued by us and postings on our corporate website or other websites. Unless expressly indicated otherwise, information contained on our corporate website is not part of this Proxy Statement. In addition, none of the information on the other websites listed in this Proxy Statement is part of this Proxy Statement. These website addresses are intended to be inactive textual references only.

**Who will pay for the costs involved in the solicitation of proxies?** The entire cost of soliciting proxies on behalf of the board, including the costs of preparing, assembling, printing and mailing this Proxy Statement, the **WHITE** proxy card and any additional soliciting materials furnished to stockholders by, or on behalf of, the Company, will be borne by the Company. Copies of the Company's solicitation material will be furnished to banks, brokerage houses, dealers, voting trustees, their respective nominees and other agents holding shares in their names, which are beneficially owned by others, so that they may forward such solicitation material, together with our 2015 Annual Report, which includes our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, to beneficial owners. In addition, if asked, the Company will reimburse these persons for their reasonable expenses in forwarding these materials to the beneficial owners. Due to the possibility of a proxy contest, we have engaged Okapi Partners to solicit proxies from stockholders in connection with the Annual Meeting. Okapi Partners expects that approximately 25 of its employees will assist in the solicitation of proxies. We will pay Okapi Partners a fee of up to \$90,000 plus costs and expenses. In addition, we have agreed to indemnify Okapi Partners and certain related persons against certain liabilities arising out of or in connection with their engagement.

The Company estimates that its additional out-of-pocket expenses beyond those normally associated with soliciting proxies for the Annual Meeting as a result of the potential proxy contest will be \$200,000 in the aggregate, of which approximately \$7,500 has been spent to date. Such additional solicitation costs are expected to include the fees incurred to retain Okapi Partners as the Company's proxy solicitor, as discussed above, fees of outside counsel, financial advisors and public relations advisors to advise the Company in connection with a possible contested solicitation of proxies, increased mailing costs, such as the costs of additional mailings of solicitation materials to stockholders, including printing costs, mailing costs and the reimbursement of reasonable expenses of banks, brokerage houses and other agents incurred in forwarding solicitation materials to beneficial owners, as described above, and the costs of retaining an independent inspector of election.

**Are there interests of certain persons in matters to be acted upon?** No director or executive officer of the Company who has served at any time since the beginning of the 2016 fiscal year, and no nominee for election as a director of the Company, or any of their respective associates, has any substantial interest, direct or indirect, in any matter to be acted upon at the Annual Meeting other than Proposal No. 1—Election of Directors. Other than Director Dan Muffoletto, who has indicated that he does not support certain of the board's nominees, no director has informed the Company in writing that he or she intends to oppose any action intended to be taken by the Company at the Annual Meeting.

**Do stockholders have any dissenters' right with regards to the matters proposed to be acted upon?** There are no rights of appraisal or other similar rights of dissenters under the laws of the State of Delaware with respect to any of the matters proposed to be acted upon herein.

**When will the voting results be announced?** The final voting results will be reported in a Current Report on Form 8-K, which will be filed with the Securities and Exchange Commission ("SEC") within four business days after the Annual Meeting. If our final voting results are not available within four business days after the Annual Meeting, we will file a Current Report on Form 8-K reporting the preliminary voting results and subsequently file the final voting results in an amendment to the Current Report on Form 8-K within four business days after the final voting results are known to us.



**Who can answer my questions?** Your vote at this year's Annual Meeting is especially important, no matter how many or how few shares you own. Please sign and date the enclosed **WHITE** proxy card or **WHITE** voting instruction form and return it in the enclosed postage-paid envelope promptly or vote by Internet or telephone. If you have any questions or require assistance in submitting a proxy for your shares, please call Okapi Partners, the firm assisting us in the solicitation of proxies:

**1212 Avenue of the Americas, 24th Floor**

**New York, NY 10036**

**(212) 297-0720**

**Call Toll-Free at: (877) 274-8654**

**E-mail: [info@okapipartners.com](mailto:info@okapipartners.com)**

How can I obtain additional copies of these materials or copies of other documents? Complete copies of this Proxy Statement and 2015 Annual Report, which includes our Annual Report on Form 10-K for the year ended December 31, 2015, are also available at:

<https://www.sec.gov/Archives/edgar/data/1140215/000149315216008215/form10-k.htm>

You may also contact Okapi Partners for additional copies. You are encouraged to access and review all of the important information contained in the proxy materials before voting.

#### **DELIVERY OF DOCUMENTS TO STOCKHOLDERS SHARING AN ADDRESS**

The SEC has adopted rules that permit companies and intermediaries, such as brokers, to satisfy delivery requirements for proxy statements with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as "householding," potentially provides extra convenience for stockholders and cost savings for us. Under this procedure, multiple stockholders who share the same last name and address will receive only one copy of the annual proxy materials, unless they notify us that they wish to continue receiving multiple copies. We have undertaken householding to reduce our printing costs and postage fees. If you wish to opt out of householding and receive multiple copies of the proxy materials at the same address you may do so at any time prior to thirty days before the mailing of proxy materials, which will typically be mailed in November of each year, by notifying us in writing at the address below. You may also request additional copies of the proxy materials by notifying us in writing at the address below or by contacting us at the phone number listed below, and we will undertake to deliver such additional copies promptly. If you share an address with another

stockholder and currently are receiving multiple copies of the proxy materials, you may request householding by notifying us at the above referenced address or telephone number. We will only deliver one Proxy Statement to multiple stockholders sharing an address unless we have received contrary instructions from one or more of the stockholders. We will promptly deliver a separate copy of this Proxy Statement to a stockholder at a shared address to which a single copy of the document was delivered upon oral or written request:

Reed's, Inc.

Attention: Judy Holloway Reed, Secretary 13000 South Spring Street

Los Angeles, California 90061 Tel: (310) 217-9400

Fax: (310) 217-9411

Stockholders may also address future requests for separate delivery of Proxy Statements and/or annual reports by contacting us at the address listed above. Stockholders sharing an address with another stockholder who has received multiple copies of the Company's proxy materials may contact us to request delivery of a single copy of these materials.

#### STOCKHOLDER ADVISORY VOTES

The current frequency of stockholder advisory vote on the compensation paid to our Named Executive Officers is every three years. The next stockholder advisory vote on the compensation paid to our Named Executive Officers and on how frequently we should seek approval from our stockholders, on an advisory basis, of the compensation paid to our Named Executive Officers will occur at the Company's 2019 annual meeting.

IMPORTANT

Your vote is important. No matter how many shares of Common Stock you own, please give the board your proxy FOR the election of the Nominees by taking three steps:

SIGNING the enclosed **WHITE** proxy card,

DATING the enclosed **WHITE** proxy card, and

Basic	38,640	42,434
Diluted	39,384	43,838
Cash dividends declared per common share \$		0.20 \$ —

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

See accompanying notes to condensed consolidated financial statements.



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

(Dollars in thousands)

(Unaudited)

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Net earnings	\$35,835	\$32,286
Cash flow hedges:		
Net change in fair value of derivatives	(6,758 )	(54 )
Net loss reclassified to earnings	627	426
	(6,131 )	372
Tax effect	2,347	(142 )
	(3,784 )	230
Unrecognized periodic benefit costs:		
Actuarial losses and prior service costs reclassified to earnings	3,035	1,614
Tax effect	(1,162 )	(619 )
	1,873	995
Other:		
Foreign currency translation adjustments	6	7
Tax effect	(3 )	(2 )
	3	5
Other comprehensive income (loss), net of tax	(1,908 )	1,230
Comprehensive income	\$33,927	\$33,516
See accompanying notes to condensed consolidated financial statements.		

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

(Dollars in thousands)

(Unaudited)

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Cash flows from operating activities:		
Net earnings	\$35,835	\$32,286
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	27,370	28,454
Deferred finance cost amortization	661	675
Excess tax benefits from share-based compensation arrangements	(14,533)	(5,307)
Deferred income taxes	973	(4,846)
Share-based compensation expense	3,885	3,801
Pension and postretirement expense	5,769	4,233
Gains on cash surrender value of company-owned life insurance	(574)	(3,117)
Gains on the sale of company-operated restaurants	(850)	(461)
Losses on the disposition of property and equipment	1,243	992
Impairment charges and other	215	393
Changes in assets and liabilities, excluding acquisitions and dispositions:		
Accounts and other receivables	3,999	1,582
Inventories	(121)	(682)
Prepaid expenses and other current assets	16,683	622
Accounts payable	(4,623)	(5,636)
Accrued liabilities	(20,063)	(16,781)
Pension and postretirement contributions	(6,880)	(6,558)
Other	(1,642)	(5,998)
Cash flows provided by operating activities	47,347	23,652
Cash flows from investing activities:		
Purchases of property and equipment	(19,885)	(21,310)
Proceeds from the sale of assets	—	2,105
Proceeds from the sale of company-operated restaurants	1,174	468
Collections on notes receivable	5,050	894
Acquisitions of franchise-operated restaurants	—	(1,750)
Other	22	36
Cash flows used in investing activities	(13,639)	(19,557)
Cash flows from financing activities:		
Borrowings on revolving credit facilities	154,000	163,000
Repayments of borrowings on revolving credit facilities	(98,000)	(103,000)
Principal repayments on debt	(5,279)	(10,330)
Dividends paid on common stock	(7,791)	—
Proceeds from issuance of common stock	11,302	17,650
Repurchases of common stock	(104,669)	(84,318)
Excess tax benefits from share-based compensation arrangements	14,533	5,307
Change in book overdraft	423	7,880
Cash flows used in financing activities	(35,481)	(3,811)
Effect of exchange rate changes on cash and cash equivalents	3	5
Net (decrease) increase in cash and cash equivalents	(1,770)	289
Cash and cash equivalents at beginning of period	10,578	9,644

Cash and cash equivalents at end of period	\$8,808	\$9,933
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See accompanying notes to condensed consolidated financial statements.

5

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## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 1. BASIS OF PRESENTATION

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

	January 18, 2015	January 19, 2014
Jack in the Box:		
Company-operated	431	469
Franchise	1,822	1,785
Total system	2,253	2,254
Qdoba:		
Company-operated	311	301
Franchise	330	319
Total system	641	620

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 16-weeks (“quarter”) ended January 18, 2015 and January 19, 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 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.

## 2. DISCONTINUED OPERATIONS

**Distribution business** — During fiscal 2012, we entered into an agreement with a third party distribution service provider pursuant to a plan approved by our board of directors to sell our Jack in the Box distribution business. During the first quarter of fiscal 2013, we completed the transition of our distribution centers. The operations and cash flows of the business have been eliminated and in accordance with the provisions of the Accounting Standards Codification (“ASC”) 205, Presentation of Financial Statements, the results are reported as discontinued operations for all periods presented. During 2015 and 2014, we recognized operating losses before taxes of \$0.1 million and \$0.6 million, respectively, including \$0.1 million in both years related to our lease commitments, and in 2014, \$0.4 million 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 \$0.5 million as of January 18, 2015 and September 28, 2014. The lease commitment balance as of January 18, 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.

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

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Operating loss before income tax benefit	\$(1,972	)\$ (588

In 2015, the operating loss includes \$1.8 million of unfavorable lease commitment adjustments, \$0.1 million of ongoing facility related costs and \$0.1 million of broker commissions. In 2014, the operating loss includes \$0.3 million for asset impairments, \$0.3 million of ongoing facility related costs and \$0.2 million of broker commissions, partially offset by favorable lease commitment adjustments of \$0.3 million. 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 thousands):

Sixteen Weeks Ended

	January 18, 2015	January 19, 2014
Balance at beginning of period	\$5,737	\$10,712
Adjustments	1,799	(286 )
Cash payments	(2,896 )	(3,395 )
Balance at end of period	\$4,640	\$7,031

7

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## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In 2015 and 2014, adjustments primarily relate to revisions to certain sublease and cost assumptions due to changes in market conditions as well as charges to terminate three lease agreements in 2015. In 2015, these amounts were partially offset, and in 2014, these amounts were more than offset by favorable adjustments for locations that we have subleased.

## 3. SUMMARY OF REFRANCHISINGS, FRANCHISEE DEVELOPMENT AND ACQUISITIONS

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

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Restaurants sold to Jack in the Box franchisees	1	—
New restaurants opened by franchisees	12	13
Initial franchise fees	\$375	\$399
Proceeds from the sale of company-operated restaurants (1)	\$1,174	\$468
Net assets sold (primarily property and equipment)	(489)	—
Goodwill related to the sale of company-operated restaurants	(16)	(9)
Other	181	2
Gains on the sale of company-operated restaurants	\$850	\$461

(1) Amounts in 2015 and 2014 include additional proceeds recognized upon the extension of the underlying franchise and lease agreements related to restaurants sold in a prior year of \$0.1 million and \$0.5 million, respectively.

Franchise acquisitions — In 2014, we repurchased four Jack in the Box franchise restaurants in one market. There was no acquisition activity in 2015. 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 locations acquired and is expected to be deductible for tax purposes. The following table provides detail of the purchase price allocation for the 2014 acquisition (in thousands):

Property and equipment	\$1,398
Reacquired franchise rights	96
Goodwill	256
Total consideration	\$1,750



## 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 January 18, 2015:				
Non-qualified deferred compensation plan (1)	\$ (36,084 )	\$ (36,084 )	\$ —	\$ —
Interest rate swaps (Note 5) (2)	(7,920 )	—	(7,920 )	—
Total liabilities at fair value	\$ (44,004 )	\$ (36,084 )	\$ (7,920 )	\$ —
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 the Company's debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's borrowing rate. At January 18, 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 January 18, 2015.

Non-financial assets and liabilities — The Company's 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 and 2014, no material fair value adjustments were required. Refer to Note 6, Impairment, Disposition of Property and Equipment, Restaurant Closing Costs and Restructuring, 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):

	January 18, 2015		September 28, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps (Note 4)	Accrued liabilities	\$(7,920 )	Accrued liabilities	\$(1,789 )
Total derivatives		\$(7,920 )		\$(1,789 )

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

	Location of Loss in Income	Sixteen Weeks Ended	
		January 18, 2015	January 19, 2014
Loss recognized in OCI	N/A	\$(6,758 )	\$(54 )
Loss reclassified from accumulated OCI into net earnings	Interest expense, net	\$(627 )	\$(426 )

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, DISPOSITION OF PROPERTY AND EQUIPMENT, RESTAURANT CLOSING COSTS AND RESTRUCTURING

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

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Restaurant impairment charges	\$215	\$95
Losses on the disposition of property and equipment, net	1,172	952
Restaurant closing costs and other	786	564
Restructuring costs	7	298
	\$2,180	\$1,909

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

Disposition of property and equipment — We also recognize accelerated depreciation and other costs on the disposition of property and equipment. When we decide to dispose of a long-lived asset, depreciable lives are adjusted based on the estimated disposal date and accelerated depreciation is recorded. Other disposal costs primarily relate to gains or losses

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

recognized upon the sale of closed restaurant properties, and charges from our ongoing restaurant upgrade programs, remodels and rebuilds, and other corporate initiatives.

Restaurant closing costs consist of future lease commitments, net of anticipated sublease rentals and expected ancillary costs, and are included in impairment and other charges, net in the accompanying condensed consolidated statements of earnings. Accrued restaurant closing costs, included in accrued liabilities and other long-term liabilities, changed as follows (in thousands):

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Balance at beginning of period	\$ 13,173	\$ 16,321
Adjustments	875	612
Cash payments	(1,665 )	(1,434 )
Balance at end of period	\$ 12,383	\$ 15,499

Adjustments in both years primarily relate 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. Restructuring costs in both years relate to severance costs. We expect to 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 36.1% in 2015 and 37.3% in 2014. The major components of the year-over-year change in tax rates were an increase in operating earnings before income taxes, an increase in tax credits, and a decrease in the market performance of insurance products used to fund certain non-qualified retirement plans which are excluded from taxable income. The Company recognized the benefit from the retroactive reenactment of the Work Opportunity Tax Credit for calendar year 2014 during the first quarter of fiscal year 2015. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual 2015 rate could differ from our current estimates.

At January 18, 2015, our gross unrecognized tax benefits associated with uncertain income tax positions were \$0.4 million, which if recognized would favorably impact the effective income tax rate. There was no significant change in our gross unrecognized tax benefits from the end of fiscal year 2014. It is reasonably possible that changes to the gross unrecognized tax benefits will be required within the next twelve months due to the possible settlement of a state tax audit.

We file income tax returns in the United States and all state and local jurisdictions in which we operate that impose an income tax. The federal statutes of limitations have not expired for fiscal years 2011 and forward. The Company's federal statute of limitations for fiscal year 2009 was extended and remains open. The statutes of limitations for California and Texas, which constitute the Company's major state tax jurisdictions, have not expired for fiscal years 2010 and forward. However, the Company has a pending appeal for California (related to fiscal years 2001 to 2007) for a specific claim.

#### 8. RETIREMENT PLANS

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

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

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Defined benefit pension plans:		
Service cost	\$2,544	\$2,499
Interest cost	6,983	7,152
Expected return on plan assets	(7,161	) (7,536
Actuarial loss	2,896	1,364
Amortization of unrecognized prior service costs	83	83
Net periodic benefit cost	\$5,345	\$3,562
Postretirement healthcare plans:		
Interest cost	\$368	\$504
Actuarial loss	56	167
Net periodic benefit cost	\$424	\$671

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

	Defined Benefit Pension Plans	Postretirement Healthcare Plans
Net year-to-date contributions	\$6,453	\$427
Remaining estimated net contributions during fiscal 2015	\$18,000	\$800

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

## 9. SHARE-BASED COMPENSATION

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

Stock options	123,042
Performance share awards	40,594
Nonvested stock units	87,081

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

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Stock options	\$999	\$1,289
Performance share awards	1,081	1,497
Nonvested stock awards	61	173
Nonvested stock units	1,744	842
Total share-based compensation expense	\$3,885	\$3,801

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 10. STOCKHOLDERS' EQUITY

Repurchases of common stock — In February 2014 and July 2014, the Board of Directors approved two programs, both expiring in November 2015, which provided repurchase authorizations for up to \$200.0 million and \$100.0 million, respectively, in shares of our common stock. Additionally, in November 2014, the Board of Directors approved another \$100.0 million stock buyback program that expires in November 2016. During fiscal 2015, we repurchased 1.31 million shares at an aggregate cost of \$101.6 million and fully utilized the February 2014 authorization. As of January 18, 2015, there was \$115.5 million remaining under our stock-buyback programs, of which \$15.5 million expires in November 2015 and \$100.0 million expires in November 2016.

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

Dividends — During the third quarter of fiscal 2014, the Board of Directors approved the initiation of a regular quarterly cash dividend. In fiscal 2015, the Board of Directors declared a cash dividend of \$0.20 per share which was paid on December 12, 2014 to shareholders of record as of December 1, 2014 and totaled \$7.8 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, non-management director stock equivalents and shares issuable under our employee stock purchase plan. Performance share awards are included in the average diluted shares outstanding each period if the performance criteria have been met at the end of the respective periods.

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

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Weighted-average shares outstanding – basic	38,640	42,434
Effect of potentially dilutive securities:		
Stock options	397	765
Nonvested stock awards and units	198	372
Performance share awards	149	267
Weighted-average shares outstanding – diluted	39,384	43,838
Excluded from diluted weighted-average shares outstanding:		
Antidilutive	60	151
Performance conditions not satisfied at the end of the period	20	52

## 12. VARIABLE INTEREST ENTITIES

In January 2011, we formed Jack in the Box Franchise Finance, LLC (“FFE”) for the purpose of operating a franchisee lending program to assist Jack in the Box franchisees in re-imaging their restaurants. We are the sole equity investor in FFE. The lending program was comprised of a \$20.0 million commitment from the Company in the form of a capital note and an \$80.0 million Senior Secured Revolving Securitization Facility entered into with a third party. The

lending period and the revolving period expired in June 2012. At January 18, 2015, we had no borrowings under the FFE Facility and we do not plan to make any further contributions.

We have determined that FFE is a VIE, and that the Company is the primary beneficiary. We considered a variety of factors in identifying the primary beneficiary of FFE including, but not limited to, who holds the power to direct matters that most significantly impact FFE's economic performance (such as determining the underwriting standards and credit management policies), as well as what party has the obligation to absorb the losses of FFE. Based on these considerations,



## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

we have determined that the Company is the primary beneficiary and the entity is reflected in the accompanying condensed consolidated financial statements.

FFE's assets consolidated by the Company represent assets that can be used only to settle obligations of the consolidated VIE. Likewise, FFE's liabilities consolidated by the Company do not represent additional claims on the Company's general assets; rather they represent claims against the specific assets of FFE. The impacts of FFE's results were not material to the Company's condensed consolidated statements of earnings or cash flows.

The FFE's balance sheet consisted of the following at the end of each period (in thousands):

	January 18, 2015	September 28, 2014
Cash	\$—	\$—
Other current assets (1)	1,056	2,494
Other assets, net (1)	2,849	5,776
Total assets	\$3,905	\$ 8,270
Current liabilities (2)	\$ 1,203	\$ 2,833
Other long-term liabilities (2)	2,574	5,367
Retained earnings	128	70
Total liabilities and stockholders' equity	\$3,905	\$ 8,270

(1) Consists primarily of amounts due from franchisees.

(2) Consists primarily of the capital note contribution from Jack in the Box which is eliminated in consolidation. The Company's maximum exposure to loss is equal to its outstanding contributions as of January 18, 2015. This amount represents estimated losses that would be incurred should all franchisees default on their loans without any consideration of recovery. To offset the credit risk associated with the Company's variable interest in FFE, the Company holds a security interest in the assets of FFE subordinate and junior to all other obligations of FFE.

### 13. CONTINGENCIES AND LEGAL MATTERS

Legal matters — The Company assesses contingencies, including litigation contingencies, to determine the degree of probability and range of possible loss for potential accrual in its financial statements. An estimated loss contingency is accrued in the financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Because litigation is inherently unpredictable, assessing contingencies is highly subjective and requires judgments about future events. When evaluating litigation contingencies, we may be unable to provide a meaningful estimate due to a number of factors, including the procedural status of the matter in question, the availability of appellate remedies, insurance coverage related to the claim or claims in question, the presence of complex or novel legal theories, and/or the ongoing discovery and development of information important to the matter. In addition, damage amounts claimed in litigation against us may be unsupported, exaggerated or unrelated to possible outcomes, and as such are not meaningful indicators of our potential liability or financial exposure. The Company regularly reviews 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. In April 2014, the district court granted our motion for summary judgment, and dismissed all claims without prejudice to re-filing in state court. In July 2014, the plaintiffs re-filed similar claims, and additional claims relating to timing of final pay and related wage and hour claims involving employees of a franchisee, in Oregon state court. The amended complaint seeks damages of \$45.0 million

but does not provide a basis for that amount. In fiscal 2012, we accrued for a single claim for which we believe a loss is both probable and estimable; this accrued loss contingency did not have a material effect on our results of operations. We have not established a loss contingency accrual for those claims as to which we believe liability is not probable or estimable, and we plan to vigorously defend against this lawsuit. Nonetheless, an unfavorable resolution of this matter in excess of our current accrued loss contingencies could have a material adverse effect on our business, results of operations, liquidity or financial condition.

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

Other legal matters — In addition to the matter described above, the Company is 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. As of January 18, 2015, our estimated liability for general liability and workers' compensation claims exceeded our self-insurance retention limits by \$24.6 million. We expect to be fully covered for these amounts by surety bond issuers or our insurance providers. Although the Company currently believes that the ultimate determination of liability in connection with legal claims pending against it, if any, in excess of amounts already provided for these matters in the consolidated financial statements will not have a material adverse effect on our business, the Company's annual results of operations, liquidity or financial position, it is possible that our results of operations, liquidity, or financial position could be materially affected in a particular future reporting period by the unfavorable resolution of one or more of these matters or contingencies during such period.

Lease guarantees — In connection with the sale of the distribution business, we have assigned the leases at two of our distribution centers to third parties. Under these agreements, which expire in 2015 and 2017, we remain secondarily liable for the lease payments for which we were responsible under the original lease. As of January 18, 2015, the amount remaining under these lease guarantees totaled \$1.8 million. We have not recorded a liability for the guarantees as the likelihood of the third party defaulting on the assignment agreements was deemed to be less than probable.

#### 14. SEGMENT REPORTING

Our principal business consists of developing, operating and franchising our Jack in the Box and Qdoba restaurant concepts, each of which we consider reportable operating segments. This segment reporting structure reflects the Company's current management structure, internal reporting method and financial information used in deciding how to allocate Company 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, such as accounting/finance, human resources, audit services, legal, tax and treasury; nor do they include unallocated costs such as pension expense and share-based compensation. These costs are reflected in the caption "Shared services and unallocated costs," and therefore, the measure of segment profit or loss is before such items. The following table provides information related to our segments in each period (in thousands):

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Revenues by segment:		
Jack in the Box restaurant operations	\$351,951	\$349,824
Qdoba restaurant operations	116,670	100,257
Consolidated revenues	\$468,621	\$450,081
Earnings from operations by segment:		
Jack in the Box restaurant operations	\$80,857	\$76,366
Qdoba restaurant operations	14,676	9,606
Shared services and unallocated costs	(33,147 )	(29,229 )
Gains on the sale of company-operated restaurants	850	461
Consolidated earnings from operations	63,236	57,204
Interest expense, net	5,213	4,542

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Consolidated earnings from continuing operations and before income taxes	\$58,023	\$52,662
Total depreciation expense by segment:		
Jack in the Box restaurant operations	\$19,615	\$20,851
Qdoba restaurant operations	5,280	5,230
Shared services and unallocated costs	2,260	2,139
Consolidated depreciation expense	\$27,155	\$28,220

Income taxes and total assets are not reported for our segments in accordance with our method of internal reporting.

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	Qdoba	Jack in the Box	Total
Balance at September 28, 2014	\$ 100,597	\$48,477	\$ 149,074
Disposals	—	(16 )	(16 )
Balance at January 18, 2015	\$ 100,597	\$48,461	\$ 149,058

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

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

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Cash paid during the year for:		
Interest, net of amounts capitalized	\$5,115	\$5,357
Income tax payments	\$152	\$16,684
Non-cash transactions:		
Increase in dividends accrued at period end	\$35	\$—
Increase in property and equipment through accrued purchases at period end	\$7,829	\$8,248

## JACK IN THE BOX INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	January 18, 2015	September 28, 2014
Prepaid expenses:		
Prepaid income taxes	\$27,322	\$ 27,956
Other	10,544	8,358
	\$37,866	\$ 36,314
Other assets, net:		
Company-owned life insurance policies	\$101,327	\$ 100,753
Deferred tax assets	46,950	50,807
Other	83,163	85,738
	\$231,440	\$ 237,298
Accrued liabilities:		
Payroll and related taxes	\$42,985	\$ 54,905
Sales and property taxes	10,633	11,760
Advertising	15,464	21,452
Insurance	34,417	34,834
Lease commitments related to closed or refranchised locations	9,472	10,258
Other	34,402	30,417
	\$147,373	\$ 163,626
Other long-term liabilities:		
Pension plans	\$139,751	\$ 143,838
Straight-line rent accrual	48,628	48,835
Other	116,197	116,762
	\$304,576	\$ 309,435

## 17. SUBSEQUENT EVENTS

Declaration of dividend — On February 12, 2015, the Board of Directors approved a cash dividend of \$0.20 per share, to be paid on March 19, 2015 to shareholders of record as of the close of business on March 6, 2015. Future dividends will be subject to approval by our Board of Directors.

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

### GENERAL

All comparisons between 2015 and 2014 refer to the 16-weeks ("quarter") ended January 18, 2015 and January 19, 2014, respectively, unless otherwise indicated.

For an understanding of the significant factors that influenced our performance during the quarterly periods ended January 18, 2015 and January 19, 2014, our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes included in this Quarterly Report and our Annual Report on Form 10-K for the fiscal year ended September 28, 2014.

Our MD&A consists of the following sections:

• Overview — a general description of our business and 2015 highlights.

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

• Results of operations — an analysis of our consolidated statements of earnings for the periods presented in our condensed consolidated financial statements.

• Liquidity and capital resources — an analysis of our cash flows including capital expenditures, share repurchase activity, dividends, known trends that may impact liquidity and the impact of inflation.

• Discussion of critical accounting estimates — a discussion of accounting policies that require critical judgments and estimates.

• New accounting pronouncements — a discussion of new accounting pronouncements, dates of implementation and the impact on our consolidated financial position or results of operations, if any.

• Cautionary statements regarding forward-looking statements — a discussion of the risks and uncertainties that may cause our actual results to differ materially from any forward-looking statements made by management.

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

Changes in same-store sales and average unit volumes ("AUVs") are presented for franchised restaurants and on a system-wide basis, which includes company and franchise restaurants. Franchise sales represent sales at franchise restaurants and are revenues of our franchisees. We do not record franchise sales as revenues; however, our royalty revenues and percentage rent revenues are calculated based on a percentage of franchise sales. We believe franchise and system sales and average unit volume information is useful to investors as a significant indicator of the overall strength of our business. Company, franchise and system changes in same-store sales include the results of all restaurants that have been open more than one year.

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

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

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

### OVERVIEW

As of January 18, 2015, we operated and franchised 2,253 Jack in the Box quick-service restaurants, primarily in the western and southern United States, including one in Guam, and 641 Qdoba Mexican Grill ("Qdoba") fast-casual restaurants throughout the United States, including four in 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 royalties (based upon a percent of sales), franchise fees and rents from Jack in the Box franchisees. In addition, we recognize gains or losses from the sale of company-operated





restaurants to franchisees, which are included as a line item within operating costs and expenses, net in the accompanying condensed consolidated statements of earnings.

The following summarizes the most significant events occurring in the first quarter of fiscal 2015, and certain trends compared to a year ago:

**Qdoba's New Pricing Structure** — In October 2014, Qdoba restaurants rolled out a new simplified pricing structure system-wide where guests pay a set price per entrée based on the protein chosen and without being charged extra for additional items such as guacamole or queso. This resulted in an increase in the average check.

**Same-Store Sales Growth** — Same-store sales grew 3.9% at company-operated Jack in the Box restaurants driven by increases in all day-parts, with the largest growth coming from breakfast, as well as transaction growth. Qdoba's same-store sales increase of 12.9% at company-operated restaurants reflects growth primarily driven by our new simplified pricing structure as well as menu innovation, transaction growth, catering and less discounting.

**Commodity Costs** — Commodity costs increased approximately 3.9% and 6.2% at our Jack in the Box and Qdoba restaurants, respectively, in 2015 compared with a year ago. We expect our overall commodity costs to increase approximately 3.0% in fiscal 2015, with higher inflation in the first half of the year. 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 increase approximately 15-20%.

**Restaurant Margin Expansion** — Our consolidated company-operated restaurant margin increased 100 basis points in 2015 to 19.3%. Jack in the Box's company-operated restaurant margin improved 30 basis points to 19.4% due primarily to leverage from same-store sales increases and benefits from refranchising activities. Restaurant margins at our Qdoba company-operated restaurants improved 290 basis points to 19.3% primarily reflecting benefits from the new simplified pricing structure and leverage from same-store sales growth.

**Jack in the Box Franchising Program** — Jack in the Box franchisees opened a total of six restaurants year-to-date and we have a signed letter of intent to sell approximately 20 restaurants in one market. Our Jack in the Box system was 81% franchised at the end of the first quarter and we plan to maintain franchise ownership in the Jack in the Box system at a level between 80% to 85%.

**Qdoba New Unit Growth** — Year-to-date, we opened three company-operated locations and six franchised locations. Of the new locations, four were in non-traditional locations such as airports and college campuses. In fiscal 2015, we expect the majority of our franchise new unit development to be in non-traditional locations.

**Tax Rate** — The tax rate was favorably impacted by the retroactive reenactment of the Work Opportunity Tax Credit ("WOTC") for calendar year 2014 which resulted in higher tax credits in the quarter.

**Return of Cash to Shareholders** — During 2015 we returned cash to shareholders in the form of share repurchases and a cash dividend. We repurchased 1.31 million shares of our common stock at an average price of \$77.70 per share, totaling \$101.6 million, including the costs of brokerage fees, and declared dividends of \$0.20 per share totaling \$7.8 million.

## FINANCIAL REPORTING

The condensed consolidated statements of earnings for all periods presented have been prepared reflecting the results of operations for the 2013 Qdoba Closures and charges incurred as a result of closing these restaurants as discontinued operations. The results of operations and costs incurred to outsource our distribution business are also reflected as discontinued operations for all periods presented. Refer to Note 2, Discontinued Operations, in the Notes to our Condensed Consolidated Financial Statements for more information.

## 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.

## CONSOLIDATED STATEMENTS OF EARNINGS DATA

	Sixteen Weeks Ended			
	January 18, 2015		January 19, 2014	
Revenues:				
Company restaurant sales	75.1	%	75.3	%
Franchise revenues	24.9	%	24.7	%
Total revenues	100.0	%	100.0	%
Operating costs and expenses, net:				
Company restaurant costs:				
Food and packaging (1)	32.1	%	31.9	%
Payroll and employee benefits (1)	27.2	%	27.7	%
Occupancy and other (1)	21.3	%	22.0	%
Total company restaurant costs (1)	80.7	%	81.7	%
Franchise costs (1)	49.0	%	49.9	%
Selling, general and administrative expenses	13.5	%	13.1	%
Impairment and other charges, net	0.5	%	0.4	%
Gains on the sale of company-operated restaurants	(0.2)	)%	(0.1)	)%
Earnings from operations	13.5	%	12.7	%
Income tax rate (2)	36.1	%	37.3	%

(1) As a percentage of the related sales and/or revenues.

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

## CHANGES IN SAME-STORE SALES

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Jack in the Box:		
Company	3.9%	2.1%
Franchise	4.6%	1.8%
System	4.4%	1.9%
Qdoba:		
Company	12.9%	2.0%
Franchise	15.1%	2.6%
System	14.0%	2.3%

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

	January 18, 2015			January 19, 2014			
	Company	Franchise	Total	Company	Franchise	Total	
<b>Jack in the Box:</b>							
Beginning of year	431	1,819	2,250	465	1,786	2,251	
New	1	6	7	—	5	5	
Refranchised	(1	) 1	—	—	—	—	
Acquired from franchisees	—	—	—	4	(4	) —	
Closed	—	(4	) (4	) —	(2	) (2	)
End of period	431	1,822	2,253	469	1,785	2,254	
% of JIB system	19	% 81	% 100	% 21	% 79	% 100	%
% of consolidated system	58	% 85	% 78	% 61	% 85	% 78	%
<b>Qdoba:</b>							
Beginning of year	310	328	638	296	319	615	
New	3	6	9	6	8	14	
Closed	(2	) (4	) (6	) (1	) (8	) (9	)
End of period	311	330	641	301	319	620	
% of Qdoba system	49	% 51	% 100	% 49	% 51	% 100	%
% of consolidated system	42	% 15	% 22	% 39	% 15	% 22	%
<b>Consolidated:</b>							
Total system	742	2,152	2,894	770	2,104	2,874	
% of consolidated system	26	% 74	% 100	% 27	% 73	% 100	%

#### Jack in the Box Brand

##### Company Restaurant Operations

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

	Sixteen Weeks Ended			
	January 18, 2015		January 19, 2014	
Company restaurant sales	\$241,343		\$243,871	
Company restaurant costs:				
Food and packaging	79,193	32.8	% 79,865	32.7
Payroll and employee benefits	66,743	27.7	% 67,482	27.7
Occupancy and other	48,631	20.2	% 49,987	20.5
Total company restaurant costs	194,567	80.6	% 197,334	80.9
Restaurant margin	\$46,776	19.4	% \$46,537	19.1

As we have executed our Jack in the Box refranchising strategy, which includes the sale of restaurants to franchisees, we expect the number of company-operated restaurants and the related sales to decrease while revenues from franchise restaurants increase. As such, Jack in the Box company restaurant sales decreased \$2.5 million as compared with the prior year due to a decrease in the average number of company-operated restaurants reducing sales by approximately \$19.5 million, partially offset by an increase in AUVs which contributed approximately \$17.0 million of additional sales.

Same-store sales at Jack in the Box company-operated restaurants increased 3.9% in 2015 primarily driven by price increases, favorable product mix changes, and an increase in transactions. The following table summarizes the change in company-operated same-store sales:

	Sixteen Weeks Ended			
	January 18, 2015		January 19, 2014	
Transactions	0.8	%	(0.7)	)%
Average check (1)	3.1	%	2.8	%
Change in same-store sales	3.9	%	2.1	%

(1) Includes price increases of approximately 2.1% and 2.6% in 2015 and 2014, respectively.

Food and packaging costs as a percentage of company restaurant sales increased 10 basis points to 32.8% in 2015 from 32.7% in 2014 as increases in commodity costs were nearly offset by the benefit of selling price increases and product mix changes. Commodity costs increased 3.9% in 2015 compared with the prior year. Costs were higher for beef, produce, dairy and eggs, with beef increasing most significantly by 26%. We expect Jack in the Box commodity costs for fiscal 2015 to increase approximately 3.0% - 3.5%.

Payroll and employee benefit costs as a percentage company restaurant sales remained flat at 27.7% in both years. Sales leverage and the benefits of refranchising offset higher wages from minimum wage increases and higher levels of incentive compensation driven by improved operating performance.

As a percentage of company restaurant sales, occupancy and other costs improved to 20.2% from 20.5% a year ago due to sales leverage and the benefits of refranchising. These benefits were partially offset by higher costs for utilities, uniforms, credit card fees and maintenance and repair expenses.

#### Franchise Operations

The following table reflects the detail of our Jack in the Box franchise revenues and costs in each period and other information we believe is useful in analyzing the change in franchise operations (dollars in thousands):

	Sixteen Weeks Ended			
	January 18, 2015		January 19, 2014	
Royalties	\$40,252		\$38,112	
Rental income	69,382		66,975	
Franchise fees and other	974		866	
Total franchise revenues	\$110,608		\$105,953	
Rental expense	\$42,140		\$41,127	
Depreciation and amortization	10,221		10,490	
Other franchise support costs	3,627		2,711	
Total franchise costs	55,988		54,328	
Franchise margin	\$54,620		\$51,625	
Franchise margin as a % of franchise revenues	49.4	%	48.7	%
Average number of franchise restaurants	1,822		1,785	
% increase	2.1	%		
Franchise restaurant AUV's	\$429		\$411	
Increase in franchise-operated same-store sales	4.6	%	1.8	%
Royalties as a percentage of estimated franchise restaurant sales	5.2	%	5.2	%

Franchise revenues increased \$4.7 million, or 4.4%, in 2015 as compared to a year ago, primarily reflecting higher AUV's resulting in an increase in revenues from royalties and percentage rent. To a lesser extent, an increase in the average number of restaurants also contributed to the increase.



Franchise costs, principally including rents and depreciation on properties leased to Jack in the Box franchisees, increased \$1.7 million in the quarter, driven by an increase in the number of franchised restaurants and bad debt expense recorded in the current year of \$0.5 million.

#### Qdoba Brand

#### Company Restaurant Operations

The following table presents Qdoba company restaurant sales, costs and margin, and restaurant costs and margin as a percentage of the related sales (in thousands):

	Sixteen Weeks Ended			
	January 18, 2015		January 19, 2014	
Company restaurant sales	\$ 110,553		\$ 94,957	
Company restaurant costs:				
Food and packaging	33,916	30.7 %	28,373	29.9 %
Payroll and employee benefits	28,936	26.2 %	26,334	27.7 %
Occupancy and other	26,400	23.9 %	24,722	26.0 %
Total company restaurant costs	89,252	80.7 %	79,429	83.6 %
Restaurant margin	\$ 21,301	19.3 %	\$ 15,528	16.4 %

Company restaurant sales increased \$15.6 million in 2015 as compared with the prior year. The increase in restaurant sales is due primarily to growth in AUVs which added approximately \$11.1 million of sales and to a lesser extent an increase in the number of Qdoba company-operated restaurants.

Same-store sales at Qdoba company-operated restaurants increased 12.9% in 2015 primarily driven by the new simplified menu pricing structure. Transaction growth, catering, menu innovation and lower discounting also contributed to the same-store sales increase. The following table summarizes the change in company-operated same-store sales:

	Sixteen Weeks Ended			
	January 18, 2015		January 19, 2014	
Transactions	1.9	% (2.3	)	%
Average check (1)	9.8	% 3.7		%
Catering	1.2	% 0.6		%
Change in same-store sales	12.9	% 2.0		%

(1)Includes price increases of approximately 0.6% and 0.4% in 2015 and 2014, respectively.

Food and packaging costs increased 80 basis points to 30.7% of company restaurant sales in 2015 from 29.9% a year ago primarily reflecting a 6.2% increase in commodity costs due to higher costs for beef, cheese and dairy and changes in product mix related to the new pricing structure. These increases were partially offset by selling price increases and the benefit of the new pricing structure which increased average check. We expect Qdoba commodity costs for fiscal 2015 to increase approximately 2.0% - 2.5%.

Payroll and employee benefit costs as a percentage of company restaurant sales improved 150 basis points to 26.2% in 2015 from 27.7% a year ago. Leverage from same-store sales increases and a change in our staffing mix made in the second quarter of last year that utilizes a more variable labor model were partially offset by higher levels of incentive compensation driven by improved operating performance.

Occupancy and other costs improved to 23.9% of company restaurant sales in 2015 compared with 26.0% a year ago, primarily due to sales leverage, partially offset by higher costs for utilities, smallwares, credit card fees and property taxes.

## Franchise Operations

The following table reflects the detail of our Qdoba franchise revenues and costs in each period and other information we believe is useful in analyzing the change in franchise operations (dollars in thousands):

	Sixteen Weeks Ended			
	January 18, 2015	January 19, 2014		
Royalties	\$5,577	\$4,589		
Franchise fees and other	540	711		
Total franchise revenues	6,117	5,300		
Franchise support costs and other	1,153	1,182		
Total franchise costs	\$1,153	\$1,182		
Franchise margin	\$4,964	\$4,118		
Franchise margin as a % of franchise revenues	81.2	% 77.7	%	%
Average number of franchise restaurants	331	319		
% increase	3.8	%		
Franchise restaurant AUV's	\$336	\$291		
Increase in franchise-operated same-store sales	15.1	% 2.6	%	%
Royalties as a percentage of estimated franchise restaurant sales	5.0	% 4.9	%	%

Franchise revenues increased \$0.8 million, or 15.4%, in 2015 as compared to a year ago, primarily reflecting higher AUV's at Qdoba franchise restaurants. To a lesser extent, an increase in the average number of Qdoba franchise restaurants also contributed to the increase in franchise revenues.

Franchise costs, principally support costs, decreased slightly quarter over quarter.

Selling, general and administrative ("SG&A") expenses

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

	Increase / (Decrease)
Cash surrender value of COLI policies, net	\$1,607
Pension and postretirement benefits	1,535
Advertising	846
Employee relocation costs	(885)
Other	836
	\$3,939

The cash surrender value of our COLI policies, net of changes in our non-qualified deferred compensation obligation supported by these policies, are subject to market fluctuations. The changes in market values had a negative impact of \$0.2 million compared with a positive impact of \$1.4 million a year ago.

In 2015, pension and postretirement benefits increased, principally driven by the change in discount rates as compared with a year ago.

Advertising costs associated with our Qdoba locations were \$1.0 million higher than a year ago due to an increased number of restaurants, and the timing of spending. These increases were partially offset by lower advertising costs related to our Jack in the Box company-operated restaurants due to a decrease in the number of restaurants.

## Impairment and other charges, net

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

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Restaurant impairment charges	\$215	\$95
Losses on the disposition of property and equipment, net	1,172	952
Costs of closed restaurants (primarily lease obligations) and other	786	564
Restructuring costs	7	298
	\$2,180	\$1,909

Impairment and other charges, net increased \$0.3 million in 2015 versus a year ago primarily due to an increase in charges associated with Jack in the Box restaurants that we have closed or intend to close, partially offset by income of \$0.6 million recognized in 2015 related to an eminent domain matter and a reduction in restructuring costs.

Restructuring costs were incurred in connection with a comprehensive review of our organizational structure and primarily relate to severance costs. Refer to Note 6, Impairment, Disposition of Property and Equipment, Restaurant Closing Costs and Restructuring, of the notes to the condensed consolidated financial statements for additional information regarding costs associated with closed restaurants.

## Gains on the sale of company-operated restaurants

Gains on the sale of company-operated restaurants were \$0.9 million and \$0.5 million, in 2015 and 2014, respectively. We sold one Jack in the Box restaurant in 2015 and none in 2014. Gains are impacted by the number of restaurants sold and changes in average gains recognized, which relate to the specific sales and cash flows of those restaurants. In 2015 and 2014, gains on the sale of company operated restaurants include additional gains of \$0.1 million and \$0.5 million, respectively, recognized upon the extension of the underlying franchise and lease agreements related to Jack in the Box restaurants sold in previous years.

## Interest Expense, Net

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

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Interest expense	\$5,404	\$4,739
Interest income	(191)	(197)
Interest expense, net	\$5,213	\$4,542

Interest expense, net increased \$0.7 million in 2015 versus 2014 driven by higher average borrowings partially offset by lower interest rates.

## Income Taxes

The tax rate in 2015 was 36.1%, compared with 37.3% a year ago. The major components of the year-over-year change in tax rates were an increase in operating earnings before income taxes, an increase in tax credits due to the retroactive reenactment of the Work Opportunity Tax Credit for calendar year 2014, and a decrease in the market performance of insurance products used to fund certain non-qualified retirement plans which are excluded from taxable income. We expect the fiscal year tax rate to be approximately 37.0%. The annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual rate could differ from our current estimates.

## Earnings from Continuing Operations

Earnings from continuing operations were \$37.1 million, or \$0.94 per diluted share in 2015, versus \$33.0 million, or \$0.75 per diluted share, last year.

## Losses from Discontinued Operations, Net

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





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

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Distribution business	\$(36 )	\$(357 )
2013 Qdoba Closures	(1,227 )	(367 )
	\$(1,263 )	\$(724 )

In both years, losses from discontinued operations related to our distribution business include lease commitment charges in addition to insurance settlement costs in 2014. In 2015 and 2014, the loss from discontinued operations related to the 2013 Qdoba Closures primarily includes unfavorable lease commitment adjustments, ongoing facility costs and broker commissions.

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

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Distribution business	\$—	\$(0.01 )
2013 Qdoba Closures	(0.03 )	(0.01 )
	\$(0.03 )	\$(0.02 )

## 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 improve our restaurant facilities and develop new 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, current liabilities are in excess of current assets, which results in a working capital deficit.

## Cash Flows

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

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Total cash provided by (used in):		
Operating activities	\$47,347	\$23,652
Investing activities	(13,639 )	(19,557 )
Financing activities	(35,481 )	(3,811 )
Effect of exchange rate changes	3	5
Net (decrease) increase in cash and cash equivalents	\$(1,770 )	\$289

**Operating Activities.** Operating cash flows increased \$23.7 million compared with a year ago due primarily to a decrease in prepayments for advertising compared to the same period a year ago, a decrease in payments for income taxes, and an increase in net earnings in fiscal 2015.

**Investing Activities.** Cash used in investing activities decreased \$5.9 million compared with a year ago due primarily to an increase in collections on notes receivable and a decrease in cash used to purchase property and equipment and franchise-operated restaurants, partially offset by a decrease in proceeds from the sale of assets held for sale and leaseback.

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

	Sixteen Weeks Ended	
	January 18, 2015	January 19, 2014
Jack in the Box:		
New restaurants	\$2,771	\$482
Restaurant facility expenditures	6,135	9,861
Other, including information technology	1,959	909
	10,865	11,252
Qdoba:		
New restaurants	4,173	6,908
Restaurant facility expenditures	1,772	2,165
	5,945	9,073
Shared Services:		
Information technology	1,765	845
Other, including facility improvements	1,310	140
	3,075	985
Consolidated capital expenditures	\$19,885	\$21,310

Our capital expenditure program includes, among other things, investments in new locations, restaurant remodeling, new equipment and information technology enhancements. Capital expenditures decreased compared to a year ago as a result of a decrease in spending related to building new Qdoba restaurants, remodels, and exterior re-images at our Jack in the Box restaurants, partially offset by an increase in spending related to new Jack in the Box restaurants and information technology infrastructure. We expect fiscal 2015 capital expenditures to be approximately \$90 - \$100 million. In 2015, we plan to open 50-60 Qdoba restaurants, of which approximately half are expected to be company-operated locations with the majority expected to open in the latter half of the fiscal year. Additionally, we plan to open 10-15 Jack in the Box restaurants in fiscal 2015, of which 2 are expected to be company-operated locations.

**Sale of Company-Operated Restaurants** — In 2015, one Jack in the Box restaurant was sold to a franchisee for which we received \$1.2 million in proceeds. No restaurants were sold to franchisees during the 16-weeks ended January 19, 2014. As of January 18, 2015, we classified as assets held for sale \$1.3 million relating to Jack in the Box operating restaurant properties that we expect to sell to a franchisee during the next 12 months and for which we have a signed letter of intent.

**Assets Held for Sale and Leaseback** — We use sale and leaseback financing to lower the initial cash investment in our restaurants to the cost of the equipment, whenever possible. There was no sale and leaseback activity in 2015. The following table summarizes the cash flow activity related to sale and leaseback transactions in 2014 (dollars in thousands):

Number of restaurants sold and leased back	1
Proceeds from sale and leaseback transactions	\$1,807
Purchases of assets intended for sale and leaseback	\$—

As of January 18, 2015, we had investments of \$3.5 million in two operating restaurant properties that we expect to sell and leaseback during the next 12 months.

**Acquisition of Franchise-Operated Restaurants** — There was no repurchase activity in 2015. The following table details franchise-operated restaurant acquisition activity in 2014 (dollars in thousands):

Number of Jack in the Box restaurants acquired from a franchisee in one market	4
Cash used to acquire franchise-operated restaurants	\$1,750

The purchase price was primarily allocated to property and equipment, goodwill and reacquired franchise rights. For additional information, refer to Note 3, Summary of Refranchisings, Franchisee Development and Acquisitions, of the notes to the condensed consolidated financial statements.



Financing Activities. Cash flows used in financing activities increased \$31.7 million compared with a year ago primarily due to an increase in cash used to repurchase shares of our common stock and to pay dividends, and decreases in borrowings made under our revolving credit facility and proceeds from the issuance of our common stock, partially offset by an increase in excess tax benefits from share based compensation arrangements and a decrease in payments made on our revolving credit facility and term loan.

Credit Facility — Our credit facility is comprised of (i) a \$600.0 million revolving credit facility and (ii) a \$200.0 million term loan facility. The interest rate on the new credit facility is based on the Company's leverage ratio and can range from London Interbank Offered Rate ("LIBOR") plus 1.25% to 2.00% with no floor. The current interest rate is LIBOR plus 1.75%. As part of the credit agreement, we may request the issuance of up to \$75.0 million in letters of credit, the outstanding amount of which reduces our net borrowing capacity under the agreement.

The revolving credit facility and the term loan facility both have maturity dates of March 19, 2019. The term loan requires amortization in the form of quarterly installments of \$2.5 million from June 2014 through March 2016, \$3.75 million from June 2016 through March 2018, and \$5.0 million from June through December 2018 with the remainder due at the maturity date. We are required to make certain mandatory prepayments under certain circumstances and we have the option to make certain prepayments without premium or penalty. The credit facility includes events of default (and related remedies, including acceleration and increased interest rates following an event of default) that are customary for facilities and transactions of this type.

As of January 18, 2015, we had \$192.5 million outstanding under the term loan, borrowings under the revolving credit facility of \$362.0 million and letters of credit outstanding of \$22.2 million.

We are subject to a number of customary covenants under our credit facility, including limitations on additional borrowings, acquisitions, loans to franchisees, capital expenditures, lease commitments, stock repurchases, dividend payments and requirements to maintain certain financial ratios defined in our credit agreement. We were in compliance with all covenants as of January 18, 2015.

Interest Rate Swaps — To reduce our exposure to rising interest rates, in April 2014, we entered into nine forward-starting interest rate swap agreements that effectively convert \$300.0 million of our variable rate borrowings to a fixed rate basis from October 2014 through October 2018. For additional information, refer to Note 5, Derivative Instruments, of the notes to the condensed consolidated financial statements.

Repurchases of Common Stock — In February 2014 and July 2014, the Board of Directors approved two programs, both expiring in November 2015, which provided repurchase authorizations for up to \$200.0 million and \$100.0 million, respectively, in shares of our common stock. Additionally, in November 2014, the Board of Directors approved another \$100.0 million stock buyback program that expires in November 2016. During fiscal 2015, we repurchased 1.31 million shares at an aggregate cost of \$101.6 million and fully utilized the February 2014 authorization. As of January 18, 2015, there was \$115.5 million remaining under two stock-buyback programs, of which \$15.5 million expires in November 2015 and \$100.0 million expires in November 2016.

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

Dividend — In fiscal 2015, the Board of Directors declared a cash dividend of \$0.20 per share that was paid on December 12, 2014 to shareholders of record as of December 1, 2014 and totaled \$7.8 million. Future dividends will be subject to approval by our Board of Directors.

#### Off-Balance Sheet Arrangements

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

#### DISCUSSION OF CRITICAL ACCOUNTING ESTIMATES

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

September 28, 2014.

29

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## CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

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

- Food service businesses such as ours may be materially and adversely affected by changes in consumer preferences or dining habits, and economic, political and socioeconomic conditions. Adverse economic conditions such as unemployment and decreased discretionary spending may result in reduced restaurant traffic and sales and impose practical limits on pricing. We are also subject to geographic concentration risks, with nearly 70% of system Jack in the Box restaurants located in California and Texas.

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

The success of our business strategy depends on the value and relevance of our brands. Multi-unit food service businesses such as ours can be materially and adversely affected by widespread negative publicity of any type, particularly regarding food quality 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 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 brand and reputation.

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

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

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

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

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



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

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

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

We have a significant amount of indebtedness, which could adversely affect our business and our ability to meet our obligations. Our ability to repay expected borrowings under our credit facility and to meet our other debt or contractual obligations will depend upon our future performance and our cash flows from operations, both of which are subject to prevailing economic conditions and financial, business and other known and unknown risks and uncertainties, certain of which are beyond our control.

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

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

These and other factors are identified and described in more detail in our filings with the Securities and Exchange Commission, including, but not limited to: the "Discussion of Critical Accounting Estimates" and other sections in this Form 10-Q and the "Risk Factors" section of our most recent Annual Report on Form 10-K for the fiscal year ended September 28, 2014 ("Form 10-K"). These documents may be read free of charge on the SEC's website at [www.sec.gov](http://www.sec.gov). Potential investors are urged to consider these factors, more fully described in our Form 10-K, carefully in evaluating any forward-looking statements, and are cautioned not to place undue reliance on the forward-looking statements. All forward-looking statements are made only as of the date issued, and we do not undertake any obligation to update any forward-looking statements.

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

Our primary exposure to risks relating to our financial instruments is changes in interest rates. Our credit facility, which is comprised of a revolving credit facility and a term loan, bears interest at an annual rate equal to the prime rate of LIBOR plus an applicable margin based on a financial leverage ratio. As of January 18, 2015, the applicable margin for the LIBOR-based revolving loans and term loan was set at 1.75%.

We use interest rate swap agreements to reduce exposure to interest rate fluctuations. In April 2014, we entered into nine forward-starting interest rate swap agreements that effectively convert \$300.0 million of our variable rate borrowings to a fixed rate basis from October 2014 through October 2018. Based on the applicable margin in effect as of January 18, 2015, these nine interest rate swaps would yield average fixed rates of 2.60%, 3.13%, 3.80% and 4.28% in years one through four, respectively.

A hypothetical 100 basis point increase in short-term interest rates, based on the outstanding unhedged balance of our revolving credit facility and term loan at January 18, 2015, would result in an estimated increase of \$2.5 million in annual interest expense.

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

### ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a - 15 and 15d - 15 of the Securities Exchange Act of 1934, as amended), as of the end of the Company's quarter ended January 18, 2015, the Company's Chief Executive Officer and Chief Financial Officer (its principal executive officer and principal financial officer, respectively) have concluded that the Company's disclosure controls and procedures were effective.

### Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended January 18, 2015 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 13, Contingencies and Legal Matters, of the notes to the unaudited 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 September 28, 2014, which we filed with the SEC on November 20, 2014. You should also consider the risks and uncertainties discussed under the heading "Cautionary Statements Regarding Forward-Looking Statements" in Item 2 of this Quarterly Report on Form 10-Q. You should also refer to the other information set forth in this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended September 28, 2014, including our financial statements and the related notes. There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended September 28, 2014. 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 February 2014 and July 2014, the Board of Directors approved two programs, both expiring in November 2015, which provided repurchase authorizations for up to \$200.0 million and \$100.0 million, respectively, in shares of our common stock. Additionally, in November 2014, the Board of Directors approved an additional \$100.0 million stock buyback program that expires in November 2016. During fiscal 2015, we repurchased 1.31 million shares at an aggregate cost of \$101.6 million and fully utilized the February 2014 authorization. As of January 18, 2015, there was \$115.5 million remaining under two stock-buyback programs, of which \$15.5 million expires in November 2015 and \$100.0 million expires in November 2016.

The following table summarizes shares repurchased during the quarter ended January 18, 2015. The average price paid per share in column (b) below does not include the cost of brokerage fees.

	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced programs	(d) Maximum dollar value that may yet be purchased under these programs
September 29, 2014 - October 26, 2014	24,039	\$64.75	24,039	\$ 217,077,119
October 27, 2014 - November 23, 2014	—	\$—	—	\$ 215,520,078
November 24, 2014 - December 21, 2014	841,000	\$77.15	841,000	\$ 150,614,732
December 22, 2014 - January 18, 2015	441,997	\$79.38	441,997	\$ 115,520,148
Total	1,307,036	\$77.68	1,307,036	

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

32

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

SIGNATURE

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

JACK IN THE BOX INC.

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

Date: February 18, 2015