the art of the meal

JACK IN THE BOX INC. ANNUAL REPORT 2001

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Jack in the Box Inc. is the operator and franchiser of JACK IN THE BOX restaurants, one of the nation's largest fast-food hamburger chains. Known for its menu variety in addition to hamburgers, the company operates more than 1,760 restaurants in 16 states. JACK IN THE BOX has about 43,000 employees and is headquartered in San Diego.

ADVANCE PRAISE FOR "THE ART OF THE MEAL"

"This Jack really is serving it up 'straight from the gut.' … [A] series of tasty — and tastefully rendered — portraits selected from the private collection of Jack in the Box founder Jack provides ample proof that there is indeed an art to running a fast-food restaurant chain, and Jack has mastered it."

—SKYLER WIDENFORK, *KIRKUS REVIEWS*

"A spirited, sumptuous collection. Investors have long seen the beauty in Jack's solid bottom line, first-rate food and service, classic brand, and disciplined growth strategy, but seldom have these assets been captured so vividly, or preserved for posterity, between two covers."

—*NEW YORK TIMES BOOK REVIEW*

"Jack — entrepreneur, aesthete, fast-food visionary — carves out a comfortable niche for himself at the intersection of art and commerce. Not since Chainsaw Al Dunlap auctioned off his prodigious collection of Salvador Dali beer steins and Beetle Bailey underwear has a corporate executive exhibited such discriminating taste in fine art …"

—FRENT MARTINS, *WASHINGTON POST*

"Relatively few art enthusiasts are aware that Jack in the Box fast food inspired some of the greats to do their most memorable work. Rodin's 'The Thinker' was actually a depiction of a man contemplating whether to order an Ultimate Cheeseburger or a Jack's Spicy Chicken® sandwich at the drive-thru window. And Jackson Pollack's whole career was a testament to what one man with a really foul temper can do with an electric fan and a chocolate ice cream shake."

—FRIEDA TWITCHINGHAM, *ARTFORUM*

"Besides Jack, only a businessman with the guts, brains and riveting good looks of a Donald Trump could possibly have assembled a collection of artwork this classy."

—DONALD TRUMP

FINANCIAL HIGHLIGHTS

(Dollars in millions, except per share data)

	FOR THE FISCAL YEAR ENDED		
	SEPT. 30, 2001	OCT. 1, 2000	OCT. 3, 1999
JACK IN THE BOX restaurants	1,762	1,634	1,517
Company-operated	1,431	1,311	1,191
Franchise-operated	331	323	326
Same-store sales increases	4.1%	3.3%	8.7%
Systemwide restaurant sales	$ 2,121.0	$ 1,921.3	$ 1,757.6
Revenues	$ 1,833.6	$ 1,633.3	$ 1,456.9
Earnings before interest and taxes*	$ 154.8	$ 148.6	$ 128.9
Earnings*	$ 84.1	$ 77.4	$ 63.7
Earnings per diluted share*	$ 2.11	$ 1.97	$ 1.62
Net earnings	$ 82.2	$ 100.3	$ 76.5
Net earnings per diluted share	$ 2.06	$ 2.55	$ 1.95
Total assets	$ 1,029.8	$ 906.8	$ 833.6
Total stockholders' equity	$ 413.5	$ 316.4	$ 217.8
Book value per share	$ 10.40	$ 8.25	$ 5.69
Common shares outstanding, in thousands	39,248	38,349	38,276

*Before unusual and extraordinary items. In 2001, excludes a $1.9 million charge for the cumulative effect of an accounting change resulting from the adoption of SAB 101. In 2000, excludes $22.9 million in tax benefits, primarily from the settlement of a tax case. In 1999, excludes an $18.0 million reduction in restaurant operating costs, $11.4 million net of taxes, and a 53rd week that contributed an extra $1.4 million in net earnings.

FOREWORD

Like many fabulously successful entrepreneurs, Jack, founder of the 1,700-plus-unit Jack in the Box restaurant chain, has amassed a collection of artwork envied by collectors and curators worldwide. It's a passion he is often asked about but seldom discusses.

"Steve Wynn showed up at my place late one night after knocking back a couple of sarsaparillas," Jack recalled recently. "He started yammering about how I should show the stuff, how I should offer it to a museum, or put it on display at the Bellagio. That's when I said: 'Do I know you? How did you find my house? And who let you in here?' Maybe he thought he was at Steve Martin's place. The two of us do look alike, especially if you're squinting a little bit.

"But the idea wasn't a bad one. I started thinking, why not share the best of what I've got with an appreciative audience? I called an old football buddy of mine who runs a private exhibit space in SoHo, and we talked about putting some of the best works on display and developing a collection for publication."

Jack's passion for art dates back to his childhood, when his parents enrolled him in an enrichment program for gifted and talented children. By high school, though, his artistic predilections had yielded to an uncommonly sharp business sense: "All the kids in my art classes were dressing in black, not showering all that much and reading Allen Ginsberg," he recalls. "It was pretty tired. I was more interested in building a top-notch burger chain." After hitting paydirt with the smashing success of his Jack in the Box restaurants, he began to indulge his taste for rare works by great masters from the Renaissance to the present.

Jack says this collection, the first and only planned for publication, represents the very best of his private stock. And he insists it's purely coincidental that each of the selections featured here happens to illustrate or illuminate some aspect of his personal business philosophy.

Was anything left out that he wishes he'd included? "There are a couple of standouts that didn't make the cut, like my M.C. Escher of three long-toed salamanders eating tacos on a huge spiral staircase. Other than that, this is it."

"JEUNES FILLES MANGEANT UN HAMBURGER" oil on canvas, 20 x 26 inches

the art of the meal

The beauty of a first-rate, fast-food restaurant experience lies in its subtleties: the way a thick, creamy ice cream shake coats and cools your throat after you've scarfed down a mouthful of piping-hot fries … the smell of a freshly prepared burger wafting toward you as you peel the wrapper away from the bun … the satisfying crunch of fresh lettuce as you bear down hard on a mouthwatering chicken sandwich.

Noted impressionists of the late 19th century strove to capture just these sorts of sensual pleasures in their deeply nuanced paintings celebrating the spirit of innocence and the hedonistic thrill of all-out gluttony. As Auguste Renoir once mused, "What man can call himself a man who does not know the carnal pleasure of an Ultimate Cheeseburger?"

For Jack in the Box guests, great fast food is both a staple and an indulgence. And so, for generations now, we've worked to perfect one of the most varied menus in our business, one that encompasses everything from burgers and fries to chicken sandwiches to finger-foods, a fajita pita, and even seasonal specials such as our root beer float and eggnog shake. An emphasis on delivering food that's hot, freshly made, and capable of satisfying even the most discriminating palates means we're constantly putting our products through the wringer – tasting, testing, reformulating and reassessing to see whether we can do better. In 2001, for instance, we introduced our Sourdough Grilled Chicken Club sandwich with a chicken fillet that consumer research revealed to be juicier and tastier than our previous product. At the same time, we continued to fine-tune our Assemble-to-Order system, which enables us to prepare sandwiches only after they're ordered. Response from guests has been appropriately enthusiastic.

And while it may not be among the first things they think of when choosing a fast-food restaurant, guests also benefit from our unparalleled expertise in food safety. Our Hazard Analysis & Critical Control Points system is rigorous and uncompromising in protecting against contamination. Yes, the idyllic expanse of a verdant, rolling meadow depicted in this serene canvas finds its psychic parallel in the peace of mind Jack in the Box guests get from eating a burger prepared under our stringent food-safety system.

All of which is to say, "This is some seriously tasty grub."

"STEPPING ON IT" sumi ink on paper, 25 x 16½ inches

Motion. Dynamism. Speed. Vitality.

Courtesy. Congeniality. Responsiveness. Commitment.

They call it "fast food," not "fast, friendly food," but maybe they should rethink that. After all, having great food is just a starting point. The overall quality of a guest's experience at Jack in the Box depends largely on the people who serve that food. Do they hustle to get your order together? Do they greet you with a smile and a sincere welcome? Do they ask you if you need ketchup, salt or extra napkins before you drive away? And do they arrange the items in your bag so that the hot stuff stays hot and the cold stuff stays cold? These may sound like details, but if you're 200 pounds of hurried American male with a size XXL appetite and a short lunch break, everything counts.

Jack in the Box operates according to a remarkably simple philosophy: We take good care of our employees so they will take good care of our guests. And when we take care of our guests, those guests come back more often. And that makes us money. Simple as a stick figure.

The performance bar, though, is being nudged higher every year. Fast-food regulars don't want to trade off food quality for speed: They want it all. So Jack in the Box strives for a balance of continuous improvement across the board. By the end of fiscal year 2001, through a variety of training initiatives and some technological enhancements, we succeeded in lopping 40 seconds off the duration of our average transaction. Trust us: The faster we get these people their burgers, the happier they are. And that means complacency just isn't on the menu.

"THE TASTE OF THE DELECTABLE" oil on canvas, 25⅝ x 19 inches

the art of understanding your customer

He's your son, your pal, your boyfriend, your brother, your husband, your uncle, your cousin, your nephew. He's outspoken. He's quiet. He's opinionated. He's deferential. He's a mass of contradictions.

He's the 18- to 34-year-old male fast-food consumer, or what the professionals call the heavy fast-food user. And if you think you've got him pegged, you may not be paying enough attention.

This much we know: While his tastes in clothes and cars may be fickle, his lust for burgers and fries is steadfast and true – he can eat them every single day. In short, he's our best customer, and we're fighting valiantly for his repeat business.

So, we at JACK IN THE BOX spend a lot of time trying to figure out what makes this young stallion tick. We talk to him through focus groups and surveys. We find out how he defines value. We ask him to try new products – and even help us formulate some – before they hit our restaurants. And we ask him to reveal the most private, intimate, deeply held personal convictions buried in the murky recesses of his subconscious: You like cheese? If so, how much? Sourdough or regular bun? Bacon or no bacon? Sixteen or 24-ounce Coke®? Would you come by more often if our chicken sandwich were a little spicier? What if we offered a new combo meal with a choice of side orders?

Like the Salvadoran knock-kneed tree gorilla, the young male fast-foodie is elusive and hard to track. JACK IN THE BOX has found it takes a stealthy research effort and an in-depth knowledge of his habits – and his habitats – to make him a regular guest. But the hard work is paying off in stronger sales. So call us the Dian Fossey of fast food.

"BRAND COMPOSITION #6" oil on canvas, 45 x 45 inches

the art of the brand

It's a busy world out there. Lots of people, lots of companies, lots of choices, lots of clutter, lots of noise. Everybody wants something from consumers – eyeballs, earshare, click-throughs, share of mind, share of stomach, awareness, recognition, participation, attention, reaction, retention. Corporate marketers have now surpassed polled Hereford ranchers as America's top advocates for "branding."

But enough with the catchphrases. Is there really anything to this branding babble? There is. Brands simplify people's lives by making consumer choices easier. Given $25 and the option of donating it to your local United Way or to Horton's Blood Bank in Racine, Wis., most of us will go with the name we know. Brands, in essence, are the sum of all the experiences and associations people have with a product or service. Building a brand that people respect and trust is an ongoing, intensive process. But tended properly, a solid brand can be a company's most valuable asset.

JACK IN THE BOX is a classic American brand. In the popular imagination, we're inextricably linked with our founder, Jack, the star of our successful ad campaign, and a figure who stands tall – very tall – for the values we espouse as a company: great food, great service, continuous improvement, care and respect for our employees and guests, and pride in our work. We call that approach "fast food done Jack's way."

The ad campaign, now in its seventh award-winning year, is hysterically funny, but it offers a serious underlying message as well – namely, that Jack is fighting hard for the fast-food interests of his customers. He's committed to making sure that every time they visit a JACK IN THE BOX restaurant, they consistently get what they're looking for.

It's no exaggeration to say that everything we do as a company is geared toward reinforcing and extending the reach of our brand. Regardless of whether they spot our logo in Seattle, St. Louis or Spartanburg, it's essential that consumers view our red and white JACK IN THE BOX sign as a signifier of quality, commitment and value.

"JAZZED" stencil print on paper, 16⅝ x 10⅝ inches

the art of making money

Five consecutive years of record earnings before taxes and 27 consecutive quarters of same-store sales increases … you don't need an artist's trained eye to see a pattern emerging here. In spite of pressures brought about by unusually high utility, occupancy and labor costs and an uncertain economic climate, Jack in the Box has continued to post earnings growth and return solid value to shareholders. And while we work diligently to manage expenses, we flatly refuse to institute sweeping, quick-fix, belt-tightening measures that could compromise the overall restaurant experience we offer our guests and thereby hurt our brand. A cheaper chicken breast or a skeleton lunchtime crew in our restaurants might put a few pennies in our pocket today, but the bad taste in our guests' mouths would linger for years. Think it's hard to win a regular customer? Try winning one back. We're committed to exceeding every guest's expectations, and we won't get there by cutting critical corners. Instead, we've launched initiatives such as an energy-conservation program aimed at exploring near- and long-term solutions to utility costs.

Why the long view? In a word, experience. A management team with decades of combined experience on the front lines of the restaurant and retail industries provides Jack in the Box with the depth, historical perspective and sound judgment needed to carry out a prudent business plan – one built to weather hard times and see the company through to the next economic upturn. We're laying the groundwork for long-term growth and profitability today in anticipation of making even grander strides tomorrow. Tailoring our plans and projections to reflect current economic realities is more than practical – it's essential to meet ambitious long-term goals.

"UPWARD BOUND" oil on canvas, 51⅛ x 35¼ inches

the art of smart growth

Prolific cubist Ernesto Perro used to brag that he could create more paintings in a week than Picasso could produce in a year. He was right. Sadly, though, most critics agree that after 1913, Perro – best known for his exquisitely distorted depiction of three Spanish milkmen in traction following a lawn-bowling accident – burned himself out. For a while, the art-buying public couldn't get enough of Perro's work. But then, one day, cubism fell out of vogue. At about the same time, as the quality of his form, style and composition deteriorated, Perro lost his audience – and his grip. By the time of his death in 1948, he hadn't painted a thing in more than 17 years, and he was destitute, friendless and unshaven when the authorities came to collect him.

Such are the perils of too much too soon, and of unchecked ambition that doesn't respond to changes in the marketplace.

There's a lesson for all smart companies in Ernesto Perro's story, as well as in every single episode ever produced of VH-1's "Behind the Music" and E!'s "True Hollywood Story": Grow smart, not just fast. Keep refining your skills and focusing on the fundamentals of your craft. And stay on top of shifting economic trends and conditions that affect your business.

The year 2001 saw JACK IN THE BOX expanding into Greenville/Spartanburg, S.C., its fourth new market in the southeastern region, with experienced JACK IN THE BOX managers, well versed in the company's unique systems and culture, overseeing the region's 55 outlets. The company will continue expanding in fiscal 2002, but the current year will also see us embarking on a campaign to ensure that each of our more than 1,760 outlets is capable of carrying the distinction of being our best restaurant. To that end, we will conserve capital and protect our earnings stream by moderating our new restaurant growth projections and undertaking improvements in existing restaurants, with an emphasis on areas such as food quality and safety, new product development, speed of service, brand-building advertising in new markets, and refurbishing older outlets. And, even as we adopt this more conservative approach, we will also actively explore alternative growth strategies to better position the company for the future.

Like great art, a smart growth plan demands perspective, discipline, sensitivity, attention to detail and strong execution. By continuing to invest in our brand and our business, by ensuring that the overall guest experience at each of our units is marked by quality and consistency, we're laying the groundwork for a sound and attractive future.

"BOB NUGENT" screenprint on lenox museum board, 43 x 32 inches

a message from the curator

DEAR SHAREHOLDERS:

The business climate of the late 1990s was one of high energy, excitement, and a sense of discovery and opportunity. It would be overly simplistic to characterize all that's happened in the world of business since then as a return to basics. The technological advances that fueled the speculative atmosphere of the '90s boom are still advancing, and even if back-to-basics is a guiding philosophy in business these days, leaders in traditional industries such as ours learned valuable lessons from the era of great expectations and valuations.

We at Jack in the Box Inc. emerged from the late '90s with a renewed appreciation of the role of innovation and the importance of adjusting to shifting market conditions and evolving consumer preferences. At the same time, we have been heartened to find that, in the past two years, many of the values we've believed in for decades found favor in the new-economy sector: a bottom-line orientation, strict attention to product quality and customer service, the importance of building a strong brand, and a refusal to cut corners for short-term gains. Taken together, these learnings shaped our response to a number of developments that made 2001 challenging, but ultimately rewarding for the company as well as those with a vested interest in its long-term success.

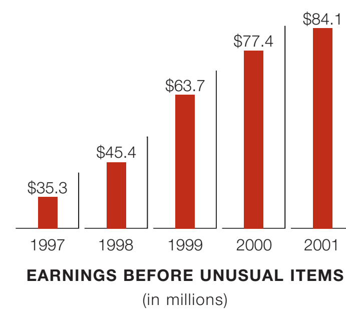
For fiscal year 2001, sales at JACK IN THE BOX company restaurants increased 12.1 percent to $1.71 billion, with revenues growing 12.3 percent to $1.83 billion. Same-store sales, a key indicator of vitality in our industry, improved 4.1 percent over the 3.3 percent increase we notched in fiscal 2000. Our earnings for the fiscal year, before an accounting change adopted in the fourth quarter, grew 8.7 percent to $84.1 million, or $2.11 per diluted share, from last year's $77.4 million, or $1.97 per diluted share before an unusual income tax item that added $22.9 million, or 58 cents per diluted share. A total of 126 new company restaurants opened for business in 2001, a 9.2 percent increase in total company restaurants compared with the previous year.

These gains came despite significant pressures rising from utility, wage and occupancy costs. It's worth noting that there are really two ways for a company to respond to these kinds of pressures: The first is to quickly compensate by making deep cuts, which has the potential to weaken one's brand and, therefore, its long-term growth prospects. The alternative is to take steps to ensure that cost-control tactics don't impact the customer experience or our strategic positioning. With both eyes fixed squarely on the future, we've resolutely chosen the latter course.

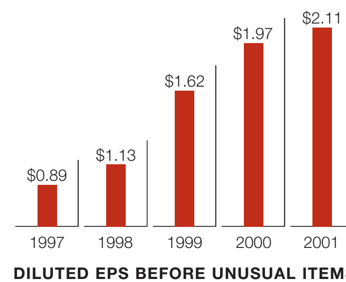
In the short run, what this means to shareholders is that while we will continue to grow our company-operated stores at a healthy rate, we will do so in a measured, responsible way. We will conserve capital and protect our earnings stream by moderating company restaurant growth and focusing on improvement initiatives in our existing outlets – initiatives encompassing everything from food safety and quality to new product development to the refurbishing of older restaurants.

Rather than reducing the size of our lunchtime crews to cut costs, which would invariably result in long lines and frustrated guests, we've focused on implementing systems and technologies that trimmed the speed of an average customer transaction. Since the successful rollout of our Assemble-to-Order initiative, we have improved speed of service by about 40 seconds. That's a lifetime in fast-food terms, and our research shows that guests are noticing the difference. Rather than shun product and service innovation, we introduced a popular new product, the Sourdough Grilled Chicken Club, featuring an improved chicken fillet. And rather than offer guests the quick-fix, energy-efficient experience of fast-food dining by candlelight, we've instead launched a more sweeping companywide energy-conservation initiative designed not just to cut this month's bills, but to look at how we can conserve kilowatts and therms for years to come.

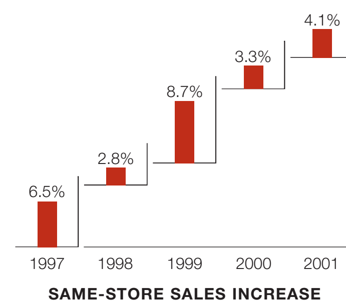
We plan to open 100 new company-owned JACK IN THE BOX restaurants in fiscal 2002 as part of a comprehensive strategy that will also see us evaluating a variety of new options for growth. Our experiences in developing new southeastern U.S. markets – including Greenville/Spartanburg, S.C. in 2001 – have produced insights that will help make our ongoing expansion more systematic and efficient.



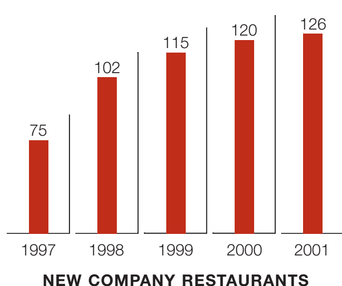
EARNINGS BEFORE UNUSUAL ITEMS
(in millions)



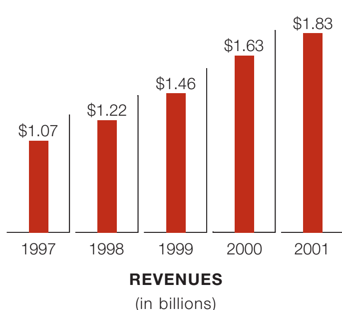
DILUTED EPS BEFORE UNUSUAL ITEMS



SAME-STORE SALES INCREASE



NEW COMPANY RESTAURANTS



REVENUES
(in billions)

Throughout the world, optimism was the rarest of commodities in 2001, and yet, even a quick glance at the fundamentals on which Jack in the Box Inc. is based provides reassurance and confidence in the company's prospects. Ours is a classic, memorable American brand whose popularity is exemplified by the unusual appeal of Jack, our company founder and one of the most popular advertising icons in recent history. Jack has our consumer's ear, which makes him the ideal channel through which we transmit messages about the experience and products that distinguish JACK IN THE BOX from competitors. Our award-winning ad campaign, targeted at young males but enjoyed by a much wider customer audience, continues to push the creative envelope and showcase a favorable brand image in all our markets.

Of course, Jack also establishes high expectations about service and quality that we're obligated to meet if we're to win repeat business. Consumer research continues to demonstrate that the wealth of improvements we've instituted in recent years, from our made-to-order kitchen overhauls to our efforts to streamline the drive-thru, underscore the promises set by the campaign.

Even in the best of economic times, our management team has always taken pride in its view that complacency is not the way we do business. Now, in this complex and changing environment, that sentiment resonates more than ever. A few years ago, it seemed that potential alone would transport entrepreneurs and shareholders to financial success. Today, even great ideas backed by sound strategies can't carry the day. Discipline, determination, creativity, patience, and an artist's eye for opportunity are now essential ingredients as well. As a company, we exhibited many of these qualities in 2001. We'll be relying on them in years ahead.

Respectfully,

ROBERT J. NUGENT
CHAIRMAN AND CEO
JACK IN THE BOX INC.

JACK IN THE BOX RESTAURANTS

(At Sept. 30, 2001)

	COMPANY-OPERATED	FRANCHISE-OPERATED	TOTAL
Arizona	89	45	134
California	544	244	788
Hawaii	28	1	29
Idaho	22	–	22
Illinois	13	–	13
Louisiana	14	–	14
Missouri	47	–	47
Nevada	40	11	51
New Mexico	–	2	2
North Carolina	16	–	16
Oregon	35	2	37
South Carolina	6	–	6
Tennessee	19	–	19
Texas	451	26	477
Utah	1	–	1
Washington	106	–	106
Total	**1431**	**331**	**1762**

financials

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Jack in the Box Inc.:

We have audited the accompanying consolidated balance sheets of Jack in the Box Inc. and subsidiaries as of September 30, 2001 and October 1, 2000, and the related consolidated statements of earnings, cash flows and stockholders' equity for the fifty-two weeks ended September 30, 2001 and October 1, 2000, and the fifty-three weeks ended October 3, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jack in the Box Inc. and subsidiaries as of September 30, 2001 and October 1, 2000, and the results of their operations and their cash flows for the fifty-two weeks ended September 30, 2001 and October 1, 2000, and the fifty-three weeks ended October 3, 1999, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

San Diego, California
November 5, 2001

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

ASSETS	SEPTEMBER 30, 2001	OCTOBER 1, 2000
Current assets:		
Cash and cash equivalents	$ 6,328	$ 6,836
Accounts receivable, net	21,816	13,667
Inventories	28,993	25,722
Prepaid expenses	19,268	19,329
Assets held for sale and leaseback	48,329	33,855
Total current assets	124,734	99,409
Property and equipment:		
Land	95,435	88,617
Buildings	499,681	429,845
Restaurant and other equipment	453,376	393,885
Construction in progress	63,345	55,485
	1,111,837	967,832
Less accumulated depreciation and amortization	332,369	288,474
	779,468	679,358
Other assets, net	125,620	128,061
	$ 1,029,822	$ 906,828

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 2,255	$ 2,034
Accounts payable	55,036	53,082
Accrued liabilities	169,628	153,356
Total current liabilities	226,919	208,472
Long-term debt, net of current maturities	279,719	282,568
Other long-term liabilities	91,439	86,968
Deferred income taxes	18,215	12,468
Stockholders' equity:		
Preferred stock	–	–
Common stock $.01 par value, 75,000,000 authorized, 42,418,742 and 41,483,369 issued, respectively	424	415
Capital in excess of par value	310,107	294,380
Retained earnings	144,018	61,817
Treasury stock, at cost, 3,170,574 and 3,134,774 shares, respectively	(41,019)	(40,260)
Total stockholders' equity	413,530	316,352
	$ 1,029,822	$ 906,828

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	FISCAL YEAR		
	2001	2000	1999
Revenues:			
Restaurant sales	$ 1,714,126	$ 1,529,328	$ 1,372,899
Distribution and other sales	66,565	59,091	41,828
Franchise rents and royalties	43,825	41,432	39,863
Other	9,060	3,461	2,309
	1,833,576	1,633,312	1,456,899
Costs of revenues:			
Restaurant costs of sales	528,070	473,373	432,231
Restaurant operating costs	864,135	750,736	646,815
Costs of distribution and other sales	64,490	57,543	41,217
Franchised restaurant costs	20,353	20,105	22,732
	1,477,048	1,301,757	1,142,995
Gross profit	356,528	331,555	313,904
Selling, general and administrative	201,715	182,961	164,297
Earnings from operations	154,813	148,594	149,607
Interest expense	24,453	25,830	28,249
Earnings before income taxes and cumulative effect of accounting change	130,360	122,764	121,358
Income taxes	46,300	22,500	44,900
Earnings before cumulative effect of accounting change	84,060	100,264	76,458
Cumulative effect of adopting SAB 101	(1,859)	–	–
Net earnings	$ 82,201	$ 100,264	$ 76,458
Net earnings per share – basic:			
Earnings before cumulative effect of accounting change	$ 2.17	$ 2.62	$ 2.00
Cumulative effect of adopting SAB 101	(.05)	–	–
Net earnings per share	$ 2.12	$ 2.62	$ 2.00
Net earnings per share – diluted:			
Earnings before cumulative effect of accounting change	$ 2.11	$ 2.55	$ 1.95
Cumulative effect of adopting SAB 101	(.05)	–	–
Net earnings per share	$ 2.06	$ 2.55	$ 1.95
Weighted-average shares outstanding:			
Basic	38,791	38,267	38,144
Diluted	39,780	39,334	39,281

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	FISCAL YEAR		
	2001	2000	1999
Cash flows from operating activities:			
Net earnings	$ 82,201	$ 100,264	$ 76,458
Non-cash items included in operations:			
Depreciation and amortization	64,195	56,766	45,857
Deferred finance cost amortization	2,075	1,664	1,794
Deferred income taxes	5,747	4,413	5,708
Cumulative effect of accounting change	1,859	–	–
Tax benefit associated with exercise of stock options	7,531	2,589	1,663
Decrease (increase) in receivables	(8,149)	(1,676)	3,125
Increase in inventories	(3,271)	(5,833)	(1,950)
Decrease (increase) in prepaid expenses	61	(3,672)	(3,319)
Increase (decrease) in accounts payable	1,954	8,902	(7,906)
Increase (decrease) in other liabilities	19,144	(18,768)	35,537
Cash flows provided by operating activities	173,347	144,649	156,967
Cash flows from investing activities:			
Additions to property and equipment	(166,522)	(127,361)	(134,333)
Dispositions of property and equipment	8,642	5,938	12,172
Increase in trading area rights	(1,486)	(2,656)	(3,864)
Decrease (increase) in assets held for sale and leaseback	(14,474)	4,917	(11,695)
Other	(4,427)	(4,286)	(4,024)
Cash flows used in investing activities	(178,267)	(123,448)	(141,744)
Cash flows from financing activities:			
Borrowings under revolving bank loans	503,500	386,000	334,000
Principal repayments under revolving bank loans	(504,500)	(406,000)	(345,500)
Proceeds from issuance of long-term debt	–	825	4,347
Principal payments on long-term debt, including current maturities	(2,034)	(1,777)	(9,833)
Repurchase of common stock	(759)	(5,797)	–
Proceeds from issuance of common stock	8,205	1,459	2,736
Cash flows provided by (used in) financing activities	4,412	(25,290)	(14,250)
Net increase (decrease) in cash and cash equivalents	$ (508)	$ (4,089)	$ 973
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 22,635	$ 24,392	$ 26,873
Income tax payments	$ 30,174	$ 41,110	$ 26,451

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands)

	COMMON STOCK		CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TREASURY STOCK	TOTAL
	NUMBER OF SHARES	AMOUNT				
Balance at September 27, 1998	40,756,899	$ 408	$ 285,940	$ (114,905)	$ (34,463)	$ 136,980
Exercise of stock options and warrants	348,535	3	2,733	–	–	2,736
Tax benefit associated with exercise of stock options	–	–	1,663	–	–	1,663
Net earnings	–	–	–	76,458	–	76,458
Balance at October 3, 1999	41,105,434	411	290,336	(38,447)	(34,463)	217,837
Exercise of stock options	377,935	4	1,455	–	–	1,459
Tax benefit associated with exercise of stock options	–	–	2,589	–	–	2,589
Purchases of treasury stock	–	–	–	–	(5,797)	(5,797)
Net earnings	–	–	–	100,264	–	100,264
Balance at October 1, 2000	41,483,369	415	294,380	61,817	(40,260)	316,352
Exercise of stock options	935,373	9	8,196	–	–	8,205
Tax benefit associated with exercise of stock options	–	–	7,531	–	–	7,531
Purchase of treasury stock	–	–	–	–	(759)	(759)
Net earnings	–	–	–	82,201	–	82,201
Balance at September 30, 2001	42,418,742	$ 424	$ 310,107	$ 144,018	$ (41,019)	$ 413,530

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – Jack in the Box Inc. (the "Company") operates and franchises JACK IN THE BOX quick-serve restaurants, principally in the western and southern United States.

Basis of presentation and fiscal year – The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions are eliminated. Certain prior year amounts in the consolidated financial statements have been reclassified to conform with the 2001 presentation. Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal years 2001 and 2000 include 52 weeks and fiscal year 1999 includes 53 weeks.

Financial instruments – The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate the carrying amounts due to their short maturities. The fair values of each of our long-term debt instruments are based on quoted market values, where available, or on the amount of future cash flows associated with each instrument, discounted using our current borrowing rate for similar debt instruments of comparable maturity. The estimated fair values of our long-term debt at September 30, 2001 and October 1, 2000 approximate their carrying values.

From time-to-time, we use interest rate derivative instruments to manage our exposure to variability in interest rates related to our bank credit facility and commodity derivatives to reduce the risk of price fluctuations related to raw material requirements for commodities such as beef and pork. We do not speculate using derivative instruments and purchase derivative instruments only for the purpose of risk management.

Effective October 2, 2000, we adopted Statement of Financial Accounting Standards ("SFAS") 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS 137 and 138, which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 requires that entities recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Accounting for changes in the fair value of a derivative depends on the intended use and resulting designation of the derivative. For derivatives designated as hedges, changes in the fair value are either offset against the change in fair value of the assets or liabilities through earnings or recognized in accumulated other comprehensive income in the balance sheet until the hedged item is recognized in earnings.

Upon the adoption of SFAS 133, we did not designate our derivative instruments as hedge transactions. The transition adjustment recorded upon the adoption of SFAS 133 was not material to our consolidated statement of earnings. The changes in the fair value of our commodity derivatives are included in restaurant costs of sales and changes in the fair value of our interest rate swap, which expired in June 2001, are included in interest expense in the accompanying consolidated statement of earnings for the fiscal year ended September 30, 2001.

At September 30, 2001, we had no other material financial instruments subject to significant market exposure.

Cash and cash equivalents – We invest cash in excess of operating requirements in short term, highly liquid investments with original maturities of three months or less, which are considered cash equivalents.

Inventories are valued at the lower of cost (first-in, first-out method) or market.

Assets held for sale and leaseback primarily represent the costs for new sites that will be sold and leased back when construction is completed. Gains and losses realized on the sale leaseback transactions are deferred and credited to income over the lease terms. The leases are classified in accordance with SFAS 13, *Accounting for Leases*.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)
(continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Preopening costs are those typically associated with the opening of a new restaurant and consist primarily of employee training costs. Preopening costs are expensed as incurred.

Property and equipment at cost – Expenditures for new facilities and equipment and those that substantially increase the useful lives of the property are capitalized. Facilities leased under capital leases are stated at the present value of minimum lease payments at the beginning of the lease term, not to exceed fair value. Maintenance repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts, and gains or losses on the dispositions are reflected in results of operations.

Buildings, equipment and leasehold improvements are depreciated using the straight-line method based on the estimated useful lives of the assets or over the lease term for certain capital leases (buildings 15 to 33 years and equipment 3 to 30 years).

Other assets primarily include trading area rights, lease acquisition costs, deferred franchise contract costs, deferred finance costs and goodwill. Trading area rights represent the amount allocated under purchase accounting to reflect the value of operating existing restaurants within their specific trading area. These rights are amortized on a straight-line basis over the period of control of the property, not exceeding 40 years, and are retired when a restaurant is franchised or sold.

Lease acquisition costs represent the acquired values of existing lease contracts having contractual rents lower than fair market rents and are amortized over the remaining lease term. Deferred franchise contract costs, which represent the acquired value of franchise contracts in existence at the time the Company was acquired in 1988, are amortized over the term of the franchise agreement, usually 20 years. Deferred finance costs are amortized using the interest method over the terms of the respective loan agreements, from 4 to 10 years, and goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over 40 years.

Impairment of long-lived assets – We evaluate impairment on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. We also account for long-lived assets that are held for disposal at the lower of cost or fair value.

Franchise operations – Franchise arrangements generally provide for initial license fees of $50 per restaurant and continuing payments to us based on a percentage of sales. Among other things, the franchisee may be provided the use of land and building, generally for a period of 20 years, and is required to pay negotiated rent, property taxes, insurance and maintenance. Franchise fees are recorded as revenue when we have substantially performed all of our contractual obligations. Expenses associated with the issuance of the franchise are expensed as incurred. Franchise royalties are recorded in income on an accrual basis. Gains on the sale of restaurant businesses to franchisees are recorded as other revenue when the sales are consummated and certain other criteria are met.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 101, *Revenue Recognition in Financial Statements*. SAB 101 requires a change in the recognition of franchise percentage rents, which are contingent upon certain annual sales levels, from an accrual basis to recognition in the period in which the contingency is met. We adopted SAB 101 in the fourth quarter of fiscal year 2001 and have reported the cumulative effect of this change in our 2001 consolidated statement of earnings. Other than the recording of this one-time cumulative effect, the adoption of SAB 101 did not have a material effect on our annual results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)
(continued)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes – Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as tax loss and credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Net earnings per share – Basic earnings per share is computed using the weighted-average number of shares outstanding during the period. Diluted earnings per share is computed using the additional dilutive effect of stock options and warrants.

Stock options – Stock options are accounted for under the intrinsic value based method, whereby compensation expense is recognized for the excess, if any, of the quoted market price of the Company stock at the date of grant over the option price. Our policy is to grant stock options at fair value at the date of grant. We have included pro forma information in Note 7, as required by SFAS 123, *Accounting for Stock-Based Compensation*.

Advertising costs – The Company maintains a marketing fund consisting of funds contributed by us equal to approximately 5% of gross sales of all Company-operated Jack in the Box restaurants and contractual marketing fees paid monthly by franchisees. Production costs of commercials, programming and other marketing activities are expensed to the marketing fund when the advertising is first used, and the costs of advertising are charged to operations as incurred. Our contributions to the marketing fund and other marketing expenses, which are included in selling, general and administrative expenses in the accompanying consolidated statements of earnings, were $86,539, $77,799 and $70,297 in 2001, 2000 and 1999, respectively.

Segment reporting – An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, and about which separate financial information is regularly evaluated by the chief operating decision maker in deciding how to allocate resources. Similar operating segments can be aggregated into a single operating segment if the businesses are similar. Jack in the Box Inc. operates its business in a single segment.

Estimations – In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, 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 from and consider information provided by actuaries and other experts in a particular area. Actual amounts could differ from these estimates.

In 1999, we reduced accrued liabilities and restaurant operating costs by $18.0 million, primarily due to a change in estimates resulting from improvements to our loss prevention and risk management programs, which were more successful than anticipated. This change in estimates was supported by an independent actuarial study conducted to evaluate the self-insured portion of our workers' compensation, general liability and other insurance programs.

2. LONG-TERM DEBT

	2001	2000
The detail of long-term debt at each year end follows:		
Bank loans, variable interest rate based on established market indicators that approximate the prime rate or less, 4.7% at September 30, 2001	$ 65,000	$ 66,000
Senior subordinated notes, 8 3/8% interest, net of discount of $137 and $158, respectively, reflecting an 8.4% effective interest rate due April 15, 2008, redeemable beginning April 15, 2003	124,863	124,842
Financing lease obligations, net of discounts of $646 and $1,031, respectively, reflecting a 10.3% effective interest rate, semi-annual payments of $3,413 and $747 to cover interest and sinking fund requirements, respectively, due in equal installments on January 1, 2003 and November 1, 2003	69,354	68,969
Secured notes, 11 1/2% interest, due in monthly installments through May 1, 2005	5,077	6,139
Capitalized lease obligations, 11% average interest rate	15,565	16,229
Other notes, principally unsecured, 10% average interest rate	2,115	2,423
	281,974	284,602
Less current portion	2,255	2,034
	$ 279,719	$ 282,568

On April 1, 1998, we entered into a revolving bank credit agreement, which expires March 31, 2003 and provides for a credit facility of up to $175 million, including letters of credit of up to $25 million. The credit agreement requires the payment of an annual commitment fee based on the unused credit line. At September 30, 2001, we had borrowings of $65 million and approximately $95.9 million of availability under the agreement.

We are subject to a number of customary covenants under our various credit agreements, including limitations on additional borrowings, capital expenditures, lease commitments and dividend payments, and requirements to maintain certain financial ratios, cash flows and net worth. In September 1999, the collateral securing the bank loans was released. Real and personal property previously held as collateral for the bank loans cannot be used to secure other indebtedness of the Company. In addition, certain of our real and personal property secure other indebtedness.

In January 1994, we entered into financing lease arrangements with two limited partnerships (the “Partnerships”), in which interests in 76 restaurants for a specified period of time were sold. The acquisition of the properties, including costs and expenses, was funded through the issuance of $70 million in senior secured notes by a special purpose corporation acting as agent for the Partnerships. On January 1, 2003 and November 1, 2003, we must make offers to reacquire 50% of the properties at a price that is sufficient, in conjunction with previous sinking fund deposits, to retire the notes. If the Partnerships reject the offers, we may purchase the properties at less than fair market value or cause the Partnerships to fund the remaining principal payments on the notes and, at our option, cause the Partnerships to acquire our residual interest in the properties. If the Partnerships are allowed to retain their interests, we have available options to extend the leases for total terms of up to 35 years, at which time the ownership of the property will revert to us. The transactions are reflected as financings with the properties remaining in our consolidated financial statements.

2. LONG-TERM DEBT (continued)

Aggregate maturities and sinking fund requirements on all long-term debt are $3,750, $89,025, $37,680, $2,336 and $1,377 for the years 2002 through 2006, respectively. The 2003 amount is net of accumulated sinking fund payments of $13,453.

Interest capitalized during the construction period of restaurants was $2,441, $2,259 and $1,469 in 2001, 2000 and 1999, respectively.

3. LEASES

As Lessee – We lease restaurants and other facilities under leases having terms expiring at various dates through 2054. The leases generally have renewal clauses of 5 to 20 years exercisable at our option and, in some instances, have provisions for contingent rentals based upon a percentage of defined revenues. Total rent expense for all operating leases was $142,351, $123,465 and $108,700, including contingent rentals of $7,200, $6,551 and $6,066, in 2001, 2000 and 1999, respectively.

Future minimum lease payments under capital and operating leases are as follows:

FISCAL YEAR	CAPITAL LEASES	OPERATING LEASES
2002	$ 2,376	$ 120,992
2003	2,376	118,852
2004	2,376	116,216
2005	2,359	106,058
2006	2,335	96,061
Thereafter	17,830	747,208
Total minimum lease payments	29,652	$ 1,305,387
Less amount representing interest	14,087	
Present value of obligations under capital leases	15,565	
Less current portion	738	
Long-term capital lease obligations	$ 14,827	

Building assets recorded under capital leases were $13,843 and $14,651, net of accumulated amortization of $7,089 and $6,284, as of September 30, 2001, and October 1, 2000, respectively.

As Lessor – We lease or sublease restaurants to certain franchisees and others under agreements that generally provide for the payment of percentage rentals in excess of stipulated minimum rentals, usually for a period of 20 years. Total rental revenue was $27,213, $25,900 and $25,134, including contingent rentals of $11,091, $10,642 and $9,655, in 2001, 2000 and 1999, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)
(continued)

3. LEASES (continued)

The minimum rents receivable under these non-cancelable leases are as follows:

FISCAL YEAR	SALES-TYPE LEASES	OPERATING LEASES
2002	$ 98	$ 17,960
2003	98	16,839
2004	98	15,921
2005	99	14,728
2006	88	13,004
Thereafter	781	74,857
Total minimum future rentals	1,262	$ 153,309
Less amount representing interest	630	
Net investment (included in other assets)	$ 632	

Land and building assets held for lease were $45,133 and $42,531, net of accumulated amortization of $22,787 and $21,697, as of September 30, 2001, and October 1, 2000, respectively.

4. INCOME TAXES

The fiscal year income taxes consist of the following:

	2001	2000	1999
Federal – current	$ 34,658	$ 14,036	$ 31,227
– deferred	5,419	3,535	6,709
State – current	4,695	4,051	7,965
– deferred	328	878	(1,001)
Subtotal	45,100	22,500	44,900
Income tax benefit related to cumulative effect of accounting change	1,200	–	–
Income taxes	$ 46,300	$ 22,500	$ 44,900

A reconciliation of the federal statutory income tax rate to our effective tax rate is as follows:

	2001	2000	1999
Computed at federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	2.5	2.6	3.7
Benefit of jobs tax credits	(1.2)	(1.0)	(1.1)
Adjustment of tax loss, contribution and tax credit carryforwards	1.7	–	.4
Reduction to valuation allowance	(2.6)	(19.3)	(1.5)
Other, net	.1	1.0	.5
	35.5%	18.3%	37.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)
(continued)

4. INCOME TAXES (continued)

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at each year end are presented below:

	2001	2000
Deferred tax assets:		
Accrued pension and postretirement benefits	$ 17,039	$ 18,247
Accrued insurance	10,086	10,513
Accrued vacation pay expense	9,558	8,542
Deferred income	13,449	11,279
Other reserves and allowances	4,212	5,471
Tax loss and tax credit carryforwards	–	3,386
Other, net	7,824	8,599
Total gross deferred tax assets	62,168	66,037
Less valuation allowance	–	3,386
Net deferred tax assets	62,168	62,651
Deferred tax liabilities:		
Property and equipment, principally due to differences in depreciation	71,773	65,941
Intangible assets	8,610	9,178
Total gross deferred tax liabilities	80,383	75,119
Net deferred tax liabilities	$ 18,215	$ 12,468

During fiscal year 2000, we reached a final agreement with the U.S. Internal Revenue Service ("IRS") to settle a tax case related to the disposition in November 1995 of our interest in Family Restaurants, Inc. We recognized tax benefits of $22,900, primarily as a result of this settlement, which reduced our fiscal year 2000 provision for income taxes.

The valuation allowance decreased $3,386 in fiscal year 2001 due to the resolution of tax loss carryforwards and $23,579 in fiscal year 2000 due to the IRS settlement and the expected use of deferred tax assets. As of September 30, 2001, we have not recorded a valuation allowance because we believe it is more likely than not that the net deferred tax assets will be realized through future taxable income or alternative tax strategies.

From time to time, we may take positions for filing our tax returns that may differ from the treatment of the same item for financial reporting purposes. The ultimate outcome of these items will not be known until such time as the IRS has completed its examination or until the statute of limitations has expired.

5. RETIREMENT, SAVINGS AND BONUS PLANS

We have non-contributory defined benefit pension plans covering substantially all salaried and hourly employees meeting certain eligibility requirements. These plans are subject to modification at any time. The plans provide retirement benefits based on years of service and compensation. It is our practice to fund retirement costs as necessary.

	QUALIFIED PLANS		NON–QUALIFIED PLAN	
	2001	2000	2001	2000
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 66,839	$ 68,942	$ 17,877	$ 17,391
Service cost	3,917	4,706	255	245
Interest cost	5,442	4,991	1,432	1,305
Actuarial (gain) loss	5,729	(10,097)	2,151	(774)
Benefits paid	(2,424)	(1,703)	(543)	(438)
Plan amendment	–	–	1,500	148
Benefit obligation at end of year	$ 79,503	$ 66,839	$ 22,672	$ 17,877
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 68,550	$ 60,852	$ –	$ –
Actual return on plan assets	(1,223)	8,419	–	–
Employer contributions	5,500	982	543	438
Benefits paid	(2,424)	(1,703)	(543)	(438)
Fair value of plan assets at end of year	$ 70,403	$ 68,550	$ –	$ –
Reconciliation of funded status:				
Funded status	$ (9,100)	$ 1,712	$(22,672)	$(17,877)
Unrecognized net (gain) loss	7,247	(5,596)	3,949	1,798
Unrecognized prior service cost	(67)	(103)	5,132	4,111
Unrecognized net transition asset	–	9	3	31
Net liabilities recognized	$ (1,920)	$ (3,978)	$(13,588)	$(11,937)
Amounts recognized in the statement of financial position consist of:				
Accrued benefit liability	$ (1,920)	$ (3,978)	$(18,723)	$(15,565)
Intangible assets	–	–	5,135	3,628
Net liabilities recognized	$ (1,920)	$ (3,978)	$(13,588)	$(11,937)

In determining the present values of benefit obligations, our actuaries assumed discount rates of 7.75% and 8.00% at the measurement dates of June 30, 2001 and 2000, respectively. The assumed rate of increase in compensation levels was 4% for the qualified plans and 5% for the non-qualified plan in 2001 and 2000. The long-term rate of return on assets was 8.5% in both years. Assets of the qualified plans consist primarily of listed stocks and bonds.

5. RETIREMENT, SAVINGS AND BONUS PLANS (continued)

The components of the fiscal year net defined benefit pension cost are as follows:

	QUALIFIED PLANS			NON-QUALIFIED PLAN		
	2001	2000	1999	2001	2000	1999
Service cost	$ 3,917	$ 4,706	$ 4,744	$ 255	$ 245	$ 408
Interest cost	5,442	4,991	4,541	1,432	1,305	1,153
Expected return on plan assets	(5,889)	(5,082)	(5,257)	–	–	–
Net amortization	(28)	162	426	508	587	601
Net periodic pension cost	$ 3,442	$ 4,777	$ 4,454	$ 2,195	$ 2,137	$ 2,162

We maintain a savings plan pursuant to Section 401(k) of the Internal Revenue Code, which allows administrative and clerical employees who have satisfied the service requirements and reached age 21, to defer from 2% to 12% of their pay on a pre-tax basis. We contribute an amount equal to 50% of the first 4% of compensation that is deferred by the participant. Our contributions under this plan were $1,651, $1,426 and $1,328 in 2001, 2000 and 1999, respectively. We also maintain an unfunded, non-qualified deferred compensation plan, which was created in 1990 for key executives and other members of management who were then excluded from participation in the qualified savings plan. This plan allows participants to defer up to 15% of their salary on a pre-tax basis. We contribute an amount equal to 100% of the first 3% contributed by the employee. Our contributions under the non-qualified deferred compensation plan were $680, $609 and $481 in 2001, 2000 and 1999, respectively. In each plan, a participant's right to Company contributions vests at a rate of 25% per year of service.

We maintain a bonus plan that allows certain officers and management of the Company to earn annual bonuses based upon achievement of certain financial and performance goals approved by the Compensation Committee of our Board of Directors. Under this plan, $1,297, $4,654 and $6,390 was expensed in 2001, 2000 and 1999, respectively.

We maintain a deferred compensation plan for non-management directors. Under the plan's equity option, those who are eligible to receive directors' fees or retainers may choose to defer receipt of their compensation. The amounts deferred are converted into stock equivalents at the then-current market price of our common stock. We provide a deferment credit equal to 25% of the compensation initially deferred. Under this plan, a total of $234, $0 and $562 was expensed in 2001, 2000 and 1999, respectively, for both the deferment credit and the stock appreciation on the deferred compensation.

6. POSTRETIREMENT BENEFIT PLAN

We sponsor a health care plan that provides postretirement medical benefits for employees who meet minimum age and service requirements. The plan is contributory, with retiree contributions adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance. Our policy is to fund the cost of medical benefits in amounts determined at the discretion of management.

	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 16,769	$ 16,465
Service cost	247	586
Interest cost	537	1,233
Actuarial gain	(9,741)	(1,420)
Benefits paid	(83)	(95)
Benefit obligation at end of year	$ 7,729	$ 16,769
Change in plan assets:		
Fair value of plan assets at beginning of year	$ –	$ –
Employer contributions	83	95
Benefits paid	(83)	(95)
Fair value of plan assets at end of year	$ –	$ –
Reconciliation of funded status:		
Funded status	$ (7,729)	$ (16,769)
Unrecognized net gain	(11,792)	(3,351)
Net liability recognized	$ (19,521)	$ (20,120)

All of the net liability recognized in the reconciliation of funded status is included as an accrued benefit liability in the statements of financial position.

In determining the above information, our actuaries assumed a discount rate of 7.75% and 8.00% at the measurement dates of June 30, 2001 and 2000, respectively.

The components of the fiscal year net periodic postretirement benefit cost are as follows:

	2001	2000	1999
Service cost	$ 247	$ 586	$ 638
Interest cost	537	1,233	1,137
Net amortization	(1,282)	(34)	–
Net periodic pension (income) cost	$ (498)	$ 1,785	$ 1,775

6. POSTRETIREMENT BENEFIT PLAN (continued)

For measurement purposes, a 9.0% annual rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) was assumed for 2002. For plan participants under age 65, the rate was assumed to decrease .5% per year to 6.0% by the year 2008 and remain at that level thereafter. For plan participants age 65 years or older, a 9.0% annual health care cost trend rate was assumed for 2002. The rate was assumed to decrease .5% per year to 6.0% by the year 2008 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of September 30, 2001 by $1,638, or 21%, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 2001 by $208, or 27%.

7. STOCK OPTIONS

We offer stock option plans to attract, retain and motivate key officers, non-employee directors and employees to work toward the future financial success of the Company.

In January 1992, we adopted the 1992 Employee Stock Incentive Plan (the “1992 Plan”) and, as part of a merger, assumed outstanding options to employees under our predecessor’s 1990 Stock Option Plan and assumed contractually the options to purchase 42,750 shares of common stock granted to two non-employee directors of the Company. Under the 1992 Plan, employees are eligible to receive stock options, restricted stock and other various stock-based awards. Subject to certain adjustments, up to a maximum of 3,775,000 shares of common stock may be sold or issued under the 1992 Plan. No awards shall be granted after January 16, 2002, although stock may be issued thereafter pursuant to awards granted prior to such date.

In August 1993, we adopted the 1993 Stock Option Plan (the “1993 Plan”). Under the 1993 Plan, employees who do not receive stock options under the 1992 Plan are eligible to receive annually stock options with an aggregate exercise price equivalent to a percentage of their eligible earnings. Subject to certain adjustments, up to a maximum of 3,000,000 shares of common stock may be sold or issued under the 1993 Plan. No awards shall be granted after December 11, 2003, although common stock may be issued thereafter pursuant to awards granted prior to such date.

In February 1995, we adopted the Non-Employee Director Stock Option Plan (the “Director Plan”). Under the Director Plan, any eligible director of Jack in the Box Inc. who is not an employee of the Company or its subsidiaries is granted annually an option to purchase shares of common stock at fair market value. The actual number of shares that may be purchased under the option is based on the relationship of a portion of each director’s compensation to the fair market value of the common stock, but is limited to fewer than 10,000 shares annually. Subject to certain adjustments, up to a maximum of 650,000 shares of common stock may be sold or issued under the Director Plan. Unless sooner terminated, no awards shall be granted after February 17, 2005, although common stock may be issued thereafter pursuant to awards granted prior to such date.

The terms and conditions of the stock-based awards under the plans are determined by the Compensation Committee of the Board of Directors on each award date and may include provisions for the exercise price, expirations, vesting, restriction on sales and forfeiture, as applicable. Options granted under the plans have terms not exceeding 11 years and provide for an option exercise price of not less than 100% of the quoted market value of the common stock at the date of grant.

7. STOCK OPTIONS (continued)

The following is a summary of stock option activity for the three fiscal years ended September 30, 2001:

		OPTION EXERCISE PRICE PER SHARE	
	SHARES	RANGE	WEIGHTED-AVERAGE
Balance at September 27, 1998	3,611,121	$ .96 - 19.06	$ 10.10
Granted	655,541	13.56 - 26.63	26.24
Exercised	(297,148)	.96 - 19.06	9.00
Canceled	(105,801)	5.75 - 26.63	15.27
Balance at October 3, 1999	3,863,713	.96 - 26.63	12.78
Granted	699,574	23.25 - 23.88	23.25
Exercised	(377,935)	.96 - 19.06	3.92
Canceled	(128,922)	5.75 - 26.63	20.39
Balance at October 1, 2000	4,056,430	1.13 - 26.63	15.16
Granted	996,699	26.00 - 32.77	26.27
Exercised	(935,373)	1.13 - 26.63	8.51
Canceled	(119,655)	5.75 - 26.63	23.20
Balance at September 30, 2001	3,998,101	4.19 - 32.77	19.24

The following is a summary of stock options outstanding at September 30, 2001:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
$ 4.19 - 12.13	1,082,043	3.86	$ 8.76	1,082,043	$ 8.76
12.25 - 23.25	1,405,656	7.60	19.74	711,376	18.29
23.88 - 32.77	1,510,402	9.17	26.29	364,732	25.99
4.19 - 32.77	3,998,101	7.18	19.24	2,158,151	14.81

At September 30, 2001, October 1, 2000 and October 3, 1999, the number of options exercisable were 2,158,151, 2,514,773 and 2,503,009, respectively, and the weighted-average exercise prices of those options were $14.81, $10.90 and $8.62, respectively.

For purposes of the following pro forma disclosures required by SFAS 123, the fair value of each option granted after fiscal year 1995 has been estimated on the date of grant using the Black-Scholes option-pricing model. Valuation models require the input of highly subjective assumptions, including the expected volatility of the stock price. Therefore, in management's opinion, the existing models do not provide a reliable single measure of the value of employee stock options. The following assumptions were used for grants: risk-free interest rates of 5.8%, 5.9% and 5.5% in 2001, 2000 and 1999, respectively; expected volatility of 40% in 2001 and 2000 and 35% in 1999; and an expected life of six years in each year. We have not paid any cash dividends and do not anticipate paying dividends in the foreseeable future; therefore, the expected dividend yield is zero.

7. STOCK OPTIONS (continued)

The weighted-average fair value of options granted was $12.70 in 2001, $11.26 in 2000 and $11.58 in 1999. Had compensation expense been recognized for stock-based compensation plans in accordance with provisions of SFAS 123, the Company would have recorded net earnings of $77,739, or $2.00 per basic share and $1.95 per diluted share, in 2001; $97,620, or $2.55 per basic share and $2.48 per diluted share, in 2000 and $74,391, or $1.95 per basic share and $1.89 per diluted share, in 1999.

For the pro forma disclosures, the estimated fair values of the options were amortized over their vesting periods of up to five years. The pro forma disclosures do not include a full five years of grants since SFAS 123 does not apply to grants before 1996. Therefore, these pro forma amounts are not indicative of anticipated future disclosures.

8. STOCKHOLDERS' EQUITY

We have 15,000,000 shares of preferred stock authorized for issuance at a par value of $.01 per share. No preferred shares have been issued.

On July 26, 1996, the Board of Directors declared a dividend of one preferred stock purchase right (a "Right") for each outstanding share of our common stock, which Rights expire on July 26, 2006. Each Right entitles a stockholder to purchase for an exercise price of $40, subject to adjustment, one one-hundredth of a share of the Company's Series A Junior Participating Cumulative Preferred Stock, or, under certain circumstances, shares of common stock of Jack in the Box Inc. or a successor company with a market value equal to two times the exercise price. The Rights would only become exercisable for all other persons when any person has acquired or commences to acquire a beneficial interest of at least 20% of the Company's outstanding common stock. The Rights have no voting privileges and may be redeemed by the Board of Directors at a price of $.001 per Right at any time prior to or shortly after the acquisition of a beneficial ownership of 20% of the outstanding common shares. There are 383,486 shares of Series A Junior Participating Cumulative Preferred Stock reserved for issuance upon exercise of the Rights.

At September 30, 2001, we had 5,133,351 shares of common stock reserved for issuance upon the exercise of stock options.

9. AVERAGE SHARES OUTSTANDING

Net earnings per share for each fiscal year is based on the weighted-average number of common shares outstanding during the year, determined as follows:

	2001	2000	1999
Shares outstanding, beginning of fiscal year	38,348,595	38,276,460	37,927,925
Effect of common stock issued	470,040	200,074	215,635
Effect of common stock reacquired	(27,212)	(209,048)	–
Weighted-average shares outstanding – basic	38,791,423	38,267,486	38,143,560
Assumed additional shares issued upon exercise of stock options and warrants, net of shares reacquired at the average market price	988,644	1,066,579	1,136,949
Weighted-average shares outstanding – diluted	39,780,067	39,334,065	39,280,509

The diluted weighted-average shares outstanding computation excludes 496,125, 1,047,684 and 345,040 antidilutive stock options in 2001, 2000 and 1999, respectively.

10. CONTINGENCIES AND LEGAL MATTERS

As previously reported, we have reached a settlement in an action filed in 1995 regarding alleged failure to comply with the Americans with Disabilities Act ("ADA"). The settlement requires compliance with ADA Access Guidelines at Company-operated restaurants by October 2005. We are in the process of making modifications to improve accessibility at our restaurants. We currently expect to spend approximately $10 million over the next four years in connection with these modifications in addition to amounts previously invested.

On April 18, 2001, an action was filed by Robert Bellmore and Jeffrey Fairbairn, individually and on behalf of all others similarly situated, in the Superior Court of the State of California, San Diego County, seeking class action status and alleging violations of California wage and hour laws. The complaint alleges that salaried restaurant management personnel in California were improperly classified as exempt from California overtime laws, thereby depriving them of overtime pay. The complaint seeks damages in an unspecified amount, penalties, injunctive relief, prejudgment interest, costs and attorneys' fees. We believe our employee classifications are appropriate and plan to vigorously defend this action. A motion for class certification is scheduled to be heard on May 3, 2002 and a trial date has been set for January 17, 2003.

We are also subject to normal and routine litigation in the ordinary course of business. The amount of liability from the claims and actions against us cannot be determined with certainty, but in our opinion the ultimate liability from all pending legal proceedings, asserted legal claims and known potential legal claims that are probable of assertion should not materially affect our results of operations and liquidity.

We have three wholly-owned subsidiaries, consisting of Foodmaker International Franchising Inc. (the "Subsidiary Guarantor") and two other non-guarantor subsidiaries (collectively, the "Non-Guarantor Subsidiaries"). The Non-Guarantor Subsidiaries conduct no material operations, have no significant assets on a consolidated basis and account for only an insignificant share of our consolidated revenues. The Subsidiary Guarantor's guaranty of our $125 million senior subordinated notes is full and unconditional. The Subsidiary Guarantor has no significant operations or any significant assets or liabilities other than the guaranty of indebtedness of the Company, and therefore, no separate financial statements of the Subsidiary Guarantor are presented because they are not material to investors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)
(continued)

11. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

	SEPTEMBER 30, 2001	OCTOBER 1, 2000
Accounts receivable:		
Trade	$ 7,163	$ 5,871
Construction advances	8,426	5,857
Other	6,808	3,034
Allowances for doubtful accounts	(581)	(1,095)
	$ 21,816	$ 13,667
Other assets:		
Trading area rights, net of amortization of $37,330 and $33,183, respectively	$ 68,825	$ 71,565
Other, net of amortization of $46,058 and $42,159, respectively	56,795	56,496
	$ 125,620	$ 128,061
Accrued liabilities:		
Payroll and related taxes	$ 46,058	$ 47,842
Sales and property taxes	17,970	15,364
Insurance	27,771	27,696
Advertising	13,228	11,419
Capital improvements	15,898	13,142
Income tax liabilities	13,181	5,887
Other	35,522	32,006
	$ 169,628	$ 153,356

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share data)
(continued)

12. QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following fiscal year 2001 quarterly results of operations reflect the adoption of SAB 101 as described in Note 1:

FISCAL YEAR 2001	16 WEEKS ENDED JAN. 21, 2001	12 WEEKS ENDED APR. 15, 2001	JULY 8, 2001	SEPT. 30, 2001
Revenues	$ 543,223	$ 413,219	$ 434,633	$ 442,501
Gross profit	109,998	77,394	84,750	84,386
Net earnings before cumulative effect of accounting change	25,580	16,771	21,034	20,675
Net earnings	23,721	16,771	21,034	20,675
Net earnings per share before cumulative effect of accounting change:				
Basic	.67	.43	.54	.53
Diluted	.65	.42	.53	.52
Net earnings per share:				
Basic	.62	.43	.54	.53
Diluted	.60	.42	.53	.52

Although the impact of adopting SAB 101 on full fiscal year operating results was not significant, the results for each of the respective quarters presented above reflect the following SAB 101 adjustments. Revenues and gross profit increased (decreased) $2,481, $(2,353), $(1,440) and $1,259. Net earnings before cumulative effect of accounting change increased (decreased) $1,541, $(1,460), $(927) and $812. Net earnings increased (decreased) $622, $(2,353), $(1,440) and $1,259. Basic and diluted net earnings per share before cumulative effect of accounting change increased (decreased) $.04, $(.04), $(.02) and $.02. Basic and diluted net earnings per share increased (decreased) $(.01), $(.04), $(.02) and $.02.

Since SAB 101 was adopted as of the beginning of fiscal year 2001, the following fiscal year 2000 quarterly results of operations have not been adjusted:

FISCAL YEAR 2000	16 WEEKS ENDED JAN. 23, 2000	12 WEEKS ENDED APR. 16, 2000	JULY 9, 2000	OCT. 1, 2000
Revenues	$ 476,806	$ 370,495	$ 390,311	$ 395,700
Gross profit	94,133	74,280	82,170	80,972
Net earnings	20,392	16,085	20,808	42,979
Net earnings per share:				
Basic	.53	.42	.54	1.12
Diluted	.52	.41	.53	1.09

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

All comparisons under this heading among 2001, 2000 and 1999 refer to the 52-week periods ended September 30, 2001 and October 1, 2000, and the 53-week period ended October 3, 1999, respectively, unless otherwise indicated.

Revenues

Company-operated restaurant sales were $1,714.1 million, $1,529.3 million and $1,372.9 million in 2001, 2000 and 1999, respectively. In 1999, restaurant sales included approximately $28 million from an additional 53rd week. Restaurant sales improved from the prior year by $184.8 million, or 12.1%, in 2001 and $156.4 million, or 11.4%, in 2000, reflecting increases in the number of Company-operated restaurants and in per store average ("PSA") sales. The number of Company-operated restaurants at the end of the fiscal year grew to 1,431 in 2001 from 1,311 in 2000 and 1,191 in 1999 with new restaurant openings of 126, 120 and 115, respectively. PSA weekly sales for comparable Company restaurants increased 4.1% in 2001, 3.3% in 2000 and 8.7% in 1999 compared to the respective prior year, due to increases in both the number of transactions and the average transaction amounts. We believe restaurant sales improvements have resulted from our two-tier marketing strategy featuring both premium sandwiches and value-priced alternatives, as well as to a popular brand-building advertising campaign that features our fictional founder, "Jack". Also contributing to sales growth were price increases and our strategic initiatives, including our ongoing focus on food quality and guest service.

Distribution and other sales were $66.6 million, $59.1 million and $41.8 million in 2001, 2000 and 1999, respectively. The $7.5 million increase in 2001 compared to 2000 is primarily due to increases in the number of restaurants serviced by our distribution division and PSA sales growth at franchised restaurants. The $17.3 million increase in 2000 compared to 1999 is due principally to an increase in the number of fuel and convenience stores we operate.

Franchise rents and royalties were $43.8 million, $41.4 million and $39.9 million in 2001, 2000 and 1999, or 10.8%, 10.6% and 10.4%, respectively, of sales at franchise-operated restaurants. Franchise restaurant sales were $406.9 million in 2001, $391.1 million in 2000 and $384.7 million in 1999. The percentage of sales in 2001 and 2000 grew primarily due to increases in percentage rents at certain franchised restaurants.

Other revenues, representing franchise gains and fees and interest income from investments and notes receivable, increased to $9.1 million in 2001 from $3.5 million in 2000 and $2.3 million in 1999, primarily due to increased franchising activities.

Costs and Expenses

Restaurant costs of sales and operating costs increased with sales growth and the addition of Company-operated restaurants. Restaurant costs of sales, which include food and packaging costs, increased to $528.1 million in 2001 from $473.4 million in 2000 and $432.2 million in 1999. As a percent of restaurant sales, costs of sales were 30.8% in 2001, 31.0% in 2000 and 31.5% in 1999. The restaurant costs of sales percentage improved in 2001 and 2000 compared to prior years primarily due to favorable overall ingredient costs and selling price increases.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(continued)

Restaurant operating costs were $864.1 million, $750.7 million and $646.8 million in 2001, 2000 and 1999, respectively. In 1999, we reduced accrued liabilities and restaurant operating costs by $18.0 million, primarily due to a change in estimates resulting from improvements to our asset protection and risk management programs, which were more successful than anticipated. This change in estimates was supported by an independent actuarial study conducted to evaluate the self-insured portion of our workers' compensation, general liability and other insurance programs. Restaurant operating costs were 50.4% of restaurant sales in 2001, 49.1% in 2000 and 48.4% in 1999, excluding the change in estimates. The restaurant operating costs percentage increased in 2001 compared to 2000, reflecting an increase in occupancy costs, principally utilities and to a lesser extent higher labor-related expenses. The percentage in 2000 increased compared to 1999, primarily reflecting costs related to initiatives designed to improve the overall guest experience and slightly higher labor-related costs.

Costs of distribution and other sales were $64.5 million in 2001, $57.5 million in 2000 and $41.2 million in 1999, reflecting an increase in the related sales. As a percent of distribution and other sales, these costs improved to 96.9% in 2001, from 97.4% in 2000 and 98.5% in 1999, primarily due to improved margins from our fuel and convenience store operations resulting from our revised fuel pricing strategy and a decrease in start up costs.

Franchised restaurant costs, which consist principally of rents and depreciation on properties leased to franchisees and other miscellaneous costs, were $20.4 million, $20.1 million and $22.7 million in 2001, 2000 and 1999, respectively. The declines in 2001 and 2000 compared to 1999 principally reflect decreases in franchise-related legal expenses.

Selling, general and administrative expenses were $201.7 million, $183.0 million and $164.3 million in 2001, 2000 and 1999, respectively. Advertising and promotion costs were $86.5 million in 2001, $77.8 million in 2000 and $70.3 million in 1999, just over 5% of restaurant sales in all years. General, administrative and other costs were approximately 6.3% of revenues in 2001, 6.4% in 2000 and 6.5% in 1999. The percentage improvement in 2001 compared to 2000 is primarily due to lower bonus and pension expenses. The higher percentage in 1999 reflects costs associated with the implementation of guest initiatives, accelerated restaurant growth and higher incentive compensation and pension expense.

Interest expense declined to $24.5 million in 2001 from $25.8 million in 2000 and $28.2 million in 1999. The reduction in 2001 compared to 2000 is principally due to lower average interest rates. The reduction in 2000 compared to 1999 is principally due to a reduction in total debt outstanding.

The tax provisions reflect effective annual tax rates of 35.5%, 18.3% and 37.0% of pre-tax earnings in 2001, 2000 and 1999, respectively. The favorable income tax rates in each year have resulted from our ability to realize previously unrecognized tax benefits such as business tax credit, tax loss and minimum tax credit carryforwards. Also contributing to the effective rate decline in 2000 was our settlement with the U.S. Internal Revenue Service of a tax case related to the disposition in November 1995 of our interest in Family Restaurants, Inc. We recognized tax benefits of $22.9 million, primarily as a result of this settlement.

In 2001, we adopted Staff Accounting Bulletin ("SAB") 101 which requires that franchise percentage rents, which are contingent upon certain annual sales levels, be recognized in the period in which the contingency is met instead of being accrued for ratably. As a result of adopting SAB 101, we recorded a one-time after-tax cumulative effect of this accounting change of $1.9 million related to the deferral of franchise percentage rents not yet earned as of the beginning of fiscal year 2001.

Net earnings were $82.2 million, or $2.06 per diluted share, in 2001, $100.3 million, or $2.55 per diluted share, in 2000 and $76.5 million, or $1.95 per diluted share, in 1999. Each year includes unusual items. In 2001, net earnings included the aforementioned $1.9 million charge for the cumulative effect of accounting change, or $.05 per diluted share. In 2000, we reached a final agreement with the U.S. Internal Revenue Service to settle a tax case as described above. This settlement increased 2000 net earnings by $22.9 million, or $.58 per diluted share. In 1999, restaurant operating costs were reduced by $18.0 million due to a change in estimates as described above. This change in estimates increased 1999 net earnings by $11.4 million, or $.29 per diluted share, net of income taxes. In addition, 1999 included a 53rd week that contributed an extra $1.4 million in net earnings, or $.04 per diluted share. Excluding these unusual items, net earnings increased 8.7% to $84.1 million, or $2.11 per diluted share, in 2001 from $77.4 million, or $1.97 per diluted share, in 2000, which had increased 21.5% from $63.7 million, or $1.62 per diluted share, in 1999.

Liquidity and Capital Resources

Cash and cash equivalents decreased $.5 million to approximately $6.3 million at September 30, 2001 from approximately $6.8 million at the beginning of the fiscal year. We expect to maintain low levels of cash and cash equivalents, reinvesting available cash flows from operations to develop new or enhance existing restaurants and to reduce borrowings under the revolving credit agreement.

Our working capital deficit decreased $6.9 million to $102.2 million at September 30, 2001 from $109.1 million at October 1, 2000, principally due to an increase in accounts receivable and assets held for sale and leaseback, offset in part by an increase in total current liabilities. The Company and the restaurant industry in general, maintain relatively low levels of accounts receivable and inventories, and 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.

Our revolving bank credit agreement provides for a credit facility expiring in 2003 of up to $175 million, including letters of credit of up to $25 million. At September 30, 2001, we had borrowings of $65.0 million and approximately $95.9 million of availability under the agreement. Total debt outstanding decreased $2.6 million to $282.0 million at September 30, 2001 from $284.6 million at the beginning of fiscal year 2001.

We are subject to a number of customary covenants under our various debt instruments, including limitations on additional borrowings, capital expenditures, lease commitments and dividend payments, and requirements to maintain certain financial ratios, cash flows and net worth. In September 1999, the collateral securing the bank credit facility was released. Real and personal property previously held as collateral for the bank credit facility cannot be used to secure other indebtedness of the Company. In addition, certain of our real and personal property secure other indebtedness.

We require capital principally to grow the business through new restaurant construction, as well as to maintain, improve and refurbish existing restaurants, and for general operating purposes. Our primary sources of liquidity are expected to be cash flows from operations, the revolving bank credit facility, and the sale and leaseback of restaurant properties. Additional potential sources of liquidity include financing opportunities and the conversion of Company-operated restaurants to franchised restaurants.

Based upon current levels of operations and anticipated growth, we expect that sufficient cash flows will be generated from operations so that, combined with available financing alternatives, we will be able to meet our debt service, capital expenditure and working capital requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(continued)

Although we cannot determine with certainty the amount of liability from claims and actions described in Note 10 of the Consolidated Financial Statements, we believe the ultimate liability for such claims and actions should not materially affect our results of operations and liquidity.

On December 3, 1999, our Board of Directors authorized the purchase of our outstanding common stock in the open market for an aggregate amount not to exceed $10 million. Through September 30, 2001, we had acquired 341,600 shares in connection with this authorization for an aggregate cost of $6.6 million.

Seasonality

Our restaurant sales and profitability are subject to seasonal fluctuations and are traditionally higher during the spring and summer months because of factors such as increased travel and improved weather conditions, which affect the public's dining habits.

Future Accounting Changes

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 141, *Business Combinations*, and 142, *Goodwill and Other Intangible Assets*, which supersede Accounting Principles Board Opinion 17, *Intangible Assets*. SFAS 141 requires that all business combinations be accounted for under the purchase method. The statement further requires separate recognition of intangible assets that meet one of the two criteria, as defined in the statement. This statement applies to all business combinations initiated after June 30, 2001. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are to be tested at least annually for impairment. Separable intangible assets with defined lives will continue to be amortized over their useful lives. The provisions of SFAS 142 will apply to goodwill and intangible assets acquired before and after the statement's effective date. This new standard is required to be adopted by the first quarter of fiscal year 2003, although we may elect to adopt it in the first quarter of fiscal year 2002. We are currently evaluating the effect that such adoption will have on our results of operations and financial position.

In June 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations*. This new standard requires entities to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. When the liability is initially incurred, the cost is capitalized as part of the carrying amount of the long-lived asset. Over time, the liability is accreted to its present value each period through charges to operating expense and the capitalized cost is depreciated over the life of the asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The provisions of SFAS 143 are effective for fiscal years beginning after June 15, 2002. We have not yet determined the impact, if any, of adoption of SFAS 143.

In August 2001, the FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This new standard supersedes SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. The primary objectives of this statement were to develop one accounting model, based on the framework established in SFAS 121, for long-lived assets to be disposed of by sale and to address significant implementation issues related to SFAS 121. Statement 144 requires that all long-lived assets, including discontinued operations, be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. The provisions of SFAS 144 are effective for fiscal years beginning after December 15, 2001. We have not yet determined the impact, if any, of adoption of SFAS 144.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure relating to financial instruments is to changes in interest rates. Our $175 million credit facility bears interest at an annual rate equal to the prime rate or the London Interbank Offered Rate ("LIBOR") plus an applicable margin based on a financial leverage ratio. As of September 30, 2001, our applicable margin was .625%. In fiscal year 2001, the average interest rate paid on the credit facility was approximately 6.3%, including the impact of an interest rate swap that expired in June 2001. At September 30, 2001, a hypothetical one percentage point increase in short-term interest rates would result in a reduction of $.7 million in annual pre-tax earnings. The estimated reduction is based on holding our bank debt at its September 30, 2001 level.

We are also exposed to the impact of commodity price fluctuations related to unpredictable factors such as weather and various other market conditions outside our control. From time to time we enter into commodity futures and option contracts to manage these fluctuations. Open commodity futures and option contracts were not significant as of September 30, 2001.

At September 30, 2001, we had no other material financial instruments subject to significant market exposure.

FIVE YEAR FINANCIAL SUMMARY

(Dollars in thousands, except per share data)

The following selected financial data summarizes certain consolidated financial information for each fiscal year. Fiscal year 1999 included 53 weeks and all other years included 52 weeks.

	FISCAL YEAR				
	2001	2000	1999	1998	1997
Statement of operations data:					
Total revenues(1)	$ 1,833,576	$ 1,633,312	$ 1,456,899	$ 1,224,056	$ 1,071,742
Depreciation and amortization	64,195	56,766	45,857	40,201	37,922
Earnings before interest and income taxes (2)(3)	154,813	148,594	149,607	137,511	85,562
Earnings (3)(4)	84,060	100,264	76,458	71,053	35,303
Earnings per share (3)(4):					
Basic	2.17	2.62	2.00	1.82	0.91
Diluted	2.11	2.55	1.95	1.77	0.89
Balance sheet data (at end of period):					
Total assets	$ 1,029,822	$ 906,828	$ 833,644	$ 743,588	$ 681,758
Long-term debt	279,719	282,568	303,456	320,050	346,191
Stockholders' equity	413,530	316,352	217,837	136,980	87,879

(1) Includes the recognition of a $45.8 million litigation settlement received from various meat suppliers in 1998.
(2) Reflects an $18.0 million reduction of restaurant operating costs in 1999 as described in Note 1 to the consolidated financial statements.
(3) Before cumulative effect of accounting change in 2001, as described in Note 1 to the consolidated financial statements and extraordinary items in 1998 and 1997.
(4) Includes the recognition of $22.9 million in tax benefits in 2000 primarily from the settlement of a tax case as described in Note 4 to the consolidated financial statements.

STOCK PRICES

The following table sets forth the high and low closing sales prices for the Company's common stock during the fiscal quarters indicated, as reported on the New York Stock Exchange – Composite Transactions:

	16 WEEKS ENDED	12 WEEKS ENDED		
	JAN. 23, 2000	APR. 16, 2000	JULY 9, 2000	OCT. 1, 2000
High	$ 27.00	$ 26.00	$ 26.88	$ 26.88
Low	18.50	18.81	22.94	20.00

	16 WEEKS ENDED	12 WEEKS ENDED		
	JAN. 21, 2001	APR. 15, 2001	JULY 8, 2001	SEPT. 30, 2001
High	$ 30.56	$ 31.75	$ 26.47	$ 34.00
Low	20.06	24.46	23.91	25.55

BOARD OF DIRECTORS:

MICHAEL E. ALPERT
Advisory Counsel to
Gibson, Dunn & Crutcher LLP

JAY W. BROWN
Principal, Westgate Group LLC
Retired President & CEO,
Protein Technologies International

PAUL T. CARTER
Insurance Consultant

EDWARD W. GIBBONS
General Partner,
Gibbons, Goodwin, van Amerongen

ALICE B. HAYES, Ph.D.
President, University of San Diego

MURRAY H. HUTCHISON
Retired Chairman and CEO,
International Technology Corporation

ROBERT J. NUGENT
Chairman and Chief Executive Officer

L. ROBERT PAYNE
President and Chief Executive Officer,
Multi-Ventures, Inc.

KENNETH R. WILLIAMS
President and Chief Operating Officer

OFFICERS:

ROBERT J. NUGENT
Chairman and Chief Executive Officer

KENNETH R. WILLIAMS
President and Chief Operating Officer

JOHN F. HOFFNER
Executive Vice President and Chief Financial Officer

LAWRENCE E. SCHAUF
Executive Vice President and Secretary

LINDA A. LANG
Senior Vice President, Marketing

PAUL L. SCHULTZ
Senior Vice President, Operations and Franchising

DAVID M. THENO, Ph.D.
Senior Vice President, Quality and Logistics

KAREN C. BACHMANN
Vice President, Corporate Communications

PAMELA S. BOYD
Vice President, Financial Planning and Analysis

CARLO E. CETTI
Vice President, Human Resources and Strategic Planning

STEPHANIE E. CLINE
Vice President and Chief Information Officer

GLADYS H. DECLOUET
Vice President, Operations – Division II

KAREN G. GENTRY
Vice President, Franchising

DAVID T. KAUFHOLD
Vice President, Operations – Division I

WILLIAM F. MOTTS
Vice President, Restaurant Development

HAROLD L. SACHS
Vice President and Treasurer

CHARLES E. WATSON
Vice President, Real Estate and Construction

DARWIN J. WEEKS
Vice President, Controller and Chief Accounting Officer

VICTORIA S. BRUSH
Assistant Secretary and Corporate Counsel

DONNA J. O'DONNELL
Assistant Secretary

STEVEN P. SMITH
Assistant Secretary

MICHAEL J. SNIDER
Assistant Secretary and Corporate Counsel

CORPORATE OFFICES:
Jack in the Box Inc.
9330 Balboa Ave.
San Diego, CA 92123-1516
(858) 571-2121

INVESTOR NEWSLINE AND REQUESTS:
For financial information call (858) 694-1515,
or write to:
Treasury Department
Jack in the Box Inc.
9330 Balboa Ave.
San Diego, CA 92123-1516

INVESTOR INQUIRIES:
Harold Sachs
Vice President, Treasurer
(858) 571-2215
A copy of the company's 2001 Annual Report
on Form 10-K is available free of charge.

LEGAL COUNSEL:
Gibson, Dunn & Crutcher LLP
333 South Grand Ave.
Los Angeles, CA 90071

INDEPENDENT AUDITORS:
KPMG LLP
750 B Street
San Diego, CA 92101

TRANSFER AGENT AND REGISTRAR:
Mellon Investor Services LLC
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
www.melloninvestor.com
(800) 522-6645

STOCK EXCHANGE LISTING:
Jack in the Box Inc. common stock is traded on the New York Stock Exchange under the symbol *JBX.* The company is identified as *JackinBox* in most newspaper stock listings.

DIVIDEND POLICY:
Jack in the Box Inc. has not paid any cash or other dividends during its last three fiscal years and does not anticipate paying dividends in the foreseeable future. The company's credit agreements and its public debt instruments restrict its right to declare or pay dividends or make other distributions with respect to shares of its capital stock.

ANNUAL MEETING:
February 22, 2002, 2 p.m.
Marriott Mission Valley
8757 Rio San Diego Drive
San Diego, CA 92108

This document contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. Risk factors relating to such statements are described in the company's 10-K on file with the Securities and Exchange Commission.

For general information about Jack in the Box Inc., connect to the company's Web site at *www.jackinthebox.com*

JACK IN THE BOX INC.

9330 BALBOA AVENUE, SAN DIEGO, CALIFORNIA 92123

WWW.JACKINTHEBOX.COM