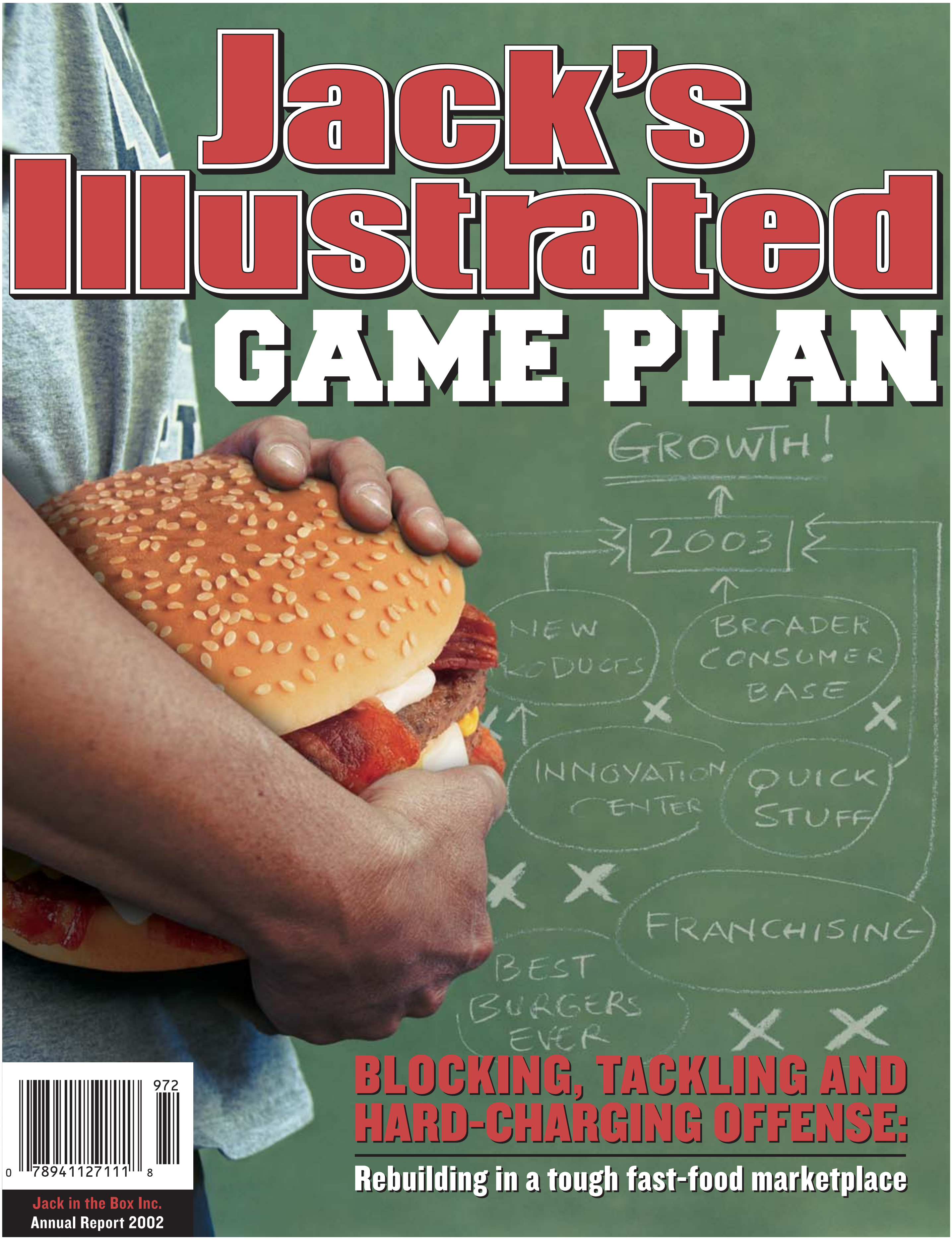
CEO BOB NUGENT TALKS STRAIGHT ABOUT HITS, MISSES AND PLANS FOR THE FUTURE

# Jack's Illustrated

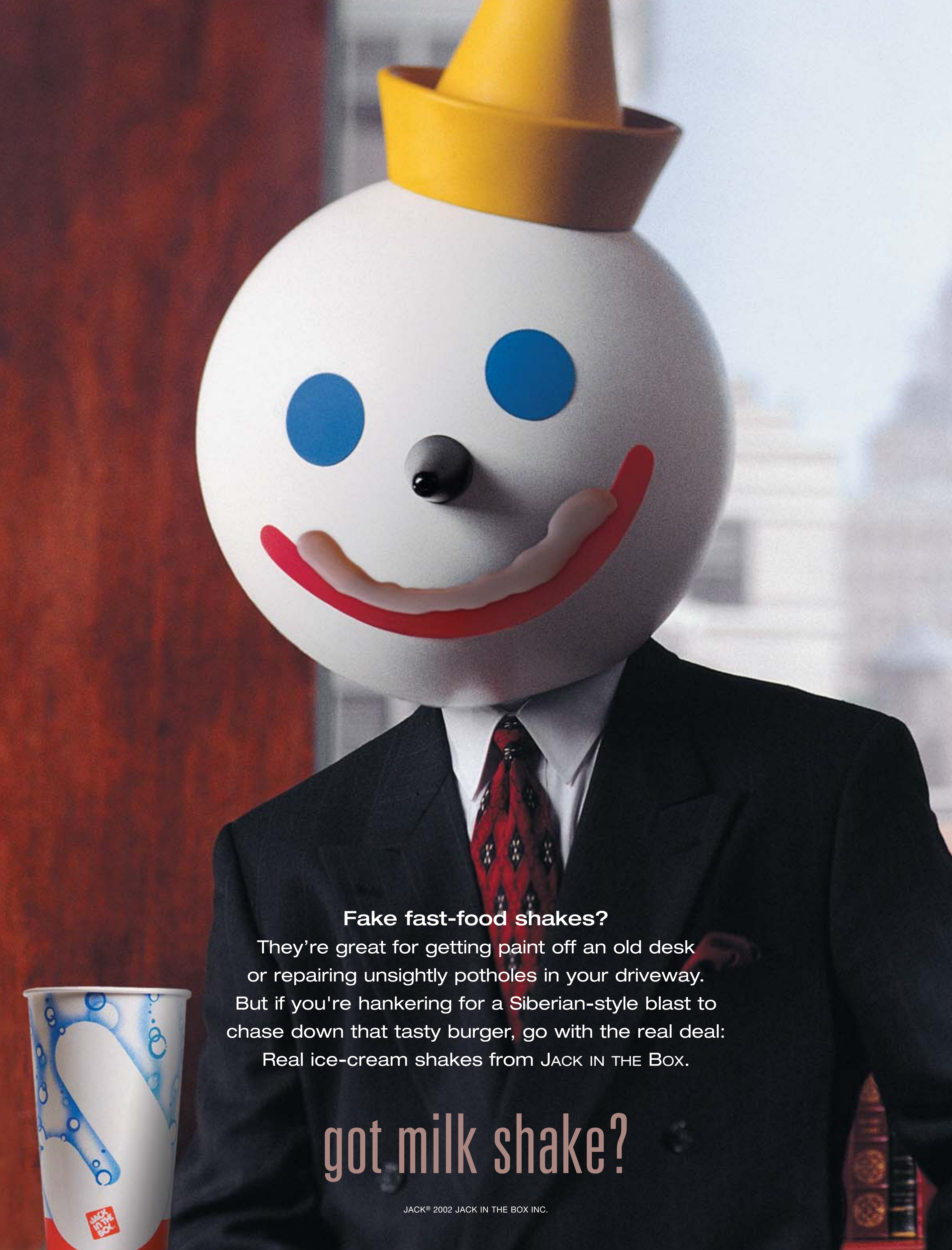
## GAME PLAN




## BLOCKING, TACKLING AND HARD-CHARGING OFFENSE:

**Rebuilding in a tough fast-food marketplace**

Jack in the Box Inc.
Annual Report 2002


Fake fast-food shakes?
They’re great for getting paint off an old desk
or repairing unsightly potholes in your driveway.
But if you're hankering for a Siberian-style blast to
chase down that tasty burger, go with the real deal:
Real ice-cream shakes from JACK IN THE BOX.
got milk shake?
JACK® 2002 JACK IN THE BOX INC.

# Jack's Illustrated GAME PLAN

**Jack in the Box Inc.**
ANNUAL REPORT 2002

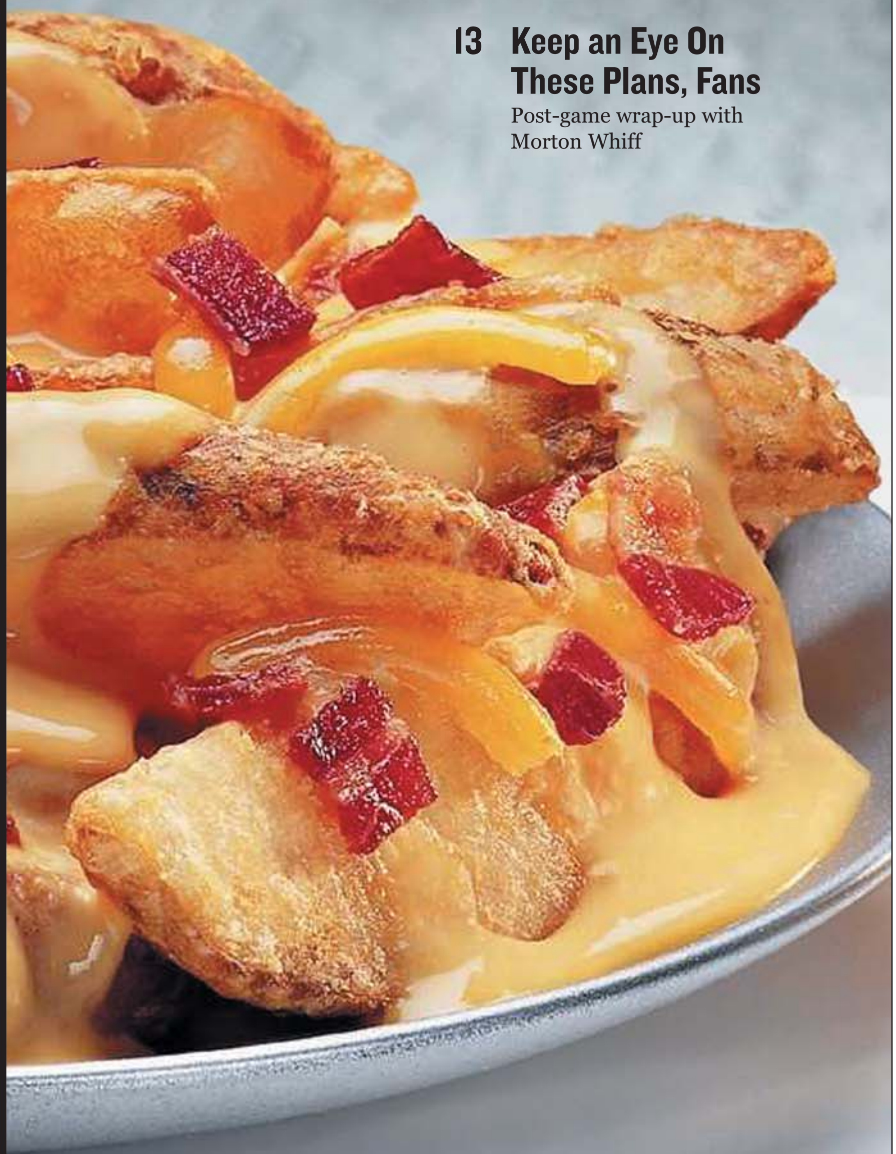
# What's Cookin'

## DEPARTMENTS



## INSIDE...





## COVER

PHOTOGRAPH BY PETE SIZZLES

**jackinthebox.com**
Complete coverage of JACK IN THE BOX restaurants at **www.jackinthebox.com**

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 1,862 restaurants in 17 states. JACK IN THE BOX has 44,000 employees and is headquartered in San Diego.

This Annual report contains forward-looking statements about, among other items, the components of the company's five-year strategic plan, other initiatives such as our Profit Improvement Program and "Our Best Burgers Ever"™, and the growth we believe will result from these plans and initiatives. These include growth in sales, earnings, returns on investment, number of units and ratio of franchise to company units; new products; improvement of core products; decreases in services time and costs. These forward-looking statements are subject to risks and uncertainties. Risk factors that could cause our actual results to differ materially from those expressed in the forward looking statements include but are not limited to our ability to successfully execute strategic plans and integrate acquisitions, achieve adequate returns on investments, the success of new products, delays in the opening of restaurants, the availability of financing on terms satisfactory to us and our franchisees, the attractiveness of our franchise offerings, national and local political or economic conditions and other risk factors listed from time to time in our reports filed with Securities and Exchange Commission. Statements about the company's past performance are not necessarily indicative of its future results.

# Financial Highlights

DOLLARS IN MILLIONS, EXCEPT PER-SHARE DATA

| | FOR THE FISCAL YEAR ENDED | | |
|---|---|---|---|
| | SEPT. 29, 2002 | SEPT. 30, 2001 | OCT. 1, 2000 |
| JACK IN THE BOX restaurants | 1,862 | 1,762 | 1,634 |
| Company-operated | 1,507 | 1,431 | 1,311 |
| Franchise-operated | 355 | 331 | 323 |
| Same-store sales increase (decrease) | (0.8)% | 4.1% | 3.3% |
| Systemwide restaurant sales | $ 2,239.6 | $ 2,121.0 | $ 1,921.3 |
| Revenues | $ 1,966.4 | $ 1,833.6 | $ 1,633.3 |
| Earnings before interest and taxes* | $ 164.2 | $ 154.8 | $ 148.6 |
| Earnings* | $ 93.4 | $ 84.1 | $ 77.4 |
| Earnings per diluted share* | $ 2.33 | $ 2.11 | $ 1.97 |
| Net earnings | $ 83.0 | $ 82.2 | $ 100.3 |
| Net earnings per diluted share | $ 2.07 | $ 2.06 | $ 2.55 |
| Total assets | $ 1,063.5 | $ 1,029.8 | $ 906.8 |
| Total stockholders' equity | $ 464.1 | $ 413.5 | $ 316.4 |
| Book value per share | $ 12.04 | $ 10.54 | $ 8.25 |
| Common shares outstanding, in thousands | 38,558 | 39,248 | 38,349 |

*Before unusual and extraordinary items. In 2002, excludes $15.7 million, or $10.4 million after taxes, to settle a class-action lawsuit and to close eight under-performing restaurants. In 2001, excludes a $1.9 million charge for the cumulative effect of an accounting change, SAB 101. In 2000, excludes $22.9 million in tax benefits.

# Of Dynasties, Dynamos and Dynamism

## with "Elk" Mason

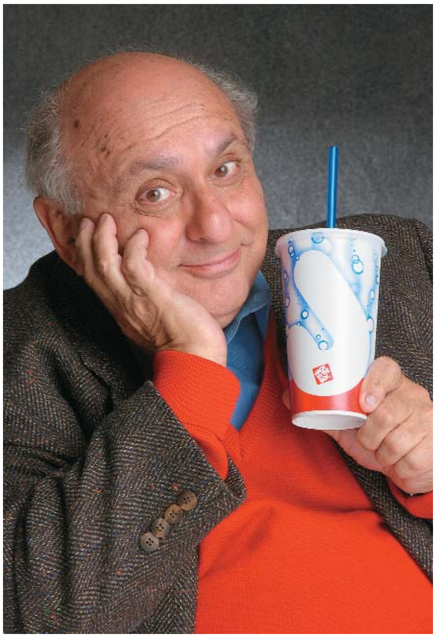
Take a knee, my little rally monkeys. Time for a quick lesson in perseverance, agility and managing for change.

Some weeks ago, I was holding court at First-Round Draughts, my favorite big-screen pilsner pit, when I overheard some college types at the far end of the bar carrying on about great team dynasties. They rattled off the obvious ones: Vince Lombardi's Green Bay Packers, Red Auerbach's Boston Celtics, the 1953-60 Montreal Canadiens. But being a little wet behind the ears, they'd made an omission big enough to drive a Zamboni through. I hollered across the room, "Hey! What about Jack in the Box Inc.?"

They seemed mystified by my suggestion. "Are you daft, old-timer?" one said. "We're not talking about fast-food. We're talking about the best teams of all time!"

"So am I, kid," I said, "so am I."

Between 1996 and 2001, Jack's fearless company of long-ball hitters was the fast-food equivalent of the Murderer's Row Yankees, racking up a DiMaggio-like streak of sales and earnings records while increasing market share by more than 25 percent. They did it through major quality and service improvements, steady growth in company-operated restaurants, and a relentless marketing emphasis on a popular batch of core products.



**TRUE GRIT:** Mason (above) says the mark of a team with staying power is the ability to refocus, regroup and come out swinging.

Then, this past year, the game changed. With the economy slumping, the fast-casual category surging ahead, and competitors rolling out scads of new products while slashing prices to levels not seen since George Steinbrenner lost his boyish idealism, the company's fiscal 2002 earnings increased to $2.07 per share, a penny more than last year. Same-store sales, meanwhile, fell slightly less than 1 percent, versus an increase of more than 4 percent in 2001.

"So does that mean Jack's dynasty is ... history?" one of my young friends asked.

"No chance, kid," I replied. "The mark of a team with real staying power is the ability to shake off a tough season, refocus, regroup, and come out swinging with the strength and confidence of a young Marvin Hagler. So when 2002 threw nothing but curve balls their way, Jack's management team adjusted their stance accordingly. They instituted a smart profit-improvement program, unveiled their 'Our Best Burgers Ever™' initiative, and emerged with an enterprising new five-year strategic plan tailored to fit the rigorous demands of a changing quick-service game. That plan entails expanding everything from the chain's target customer base to its menu offerings to its franchising efforts to its inventory of market-tested restaurant/fuel/convenience-store sites. It even includes the potential for acquisitions. All told, the plan is intended to help nudge JACK IN THE BOX closer to its goal of becoming a national restaurant company."

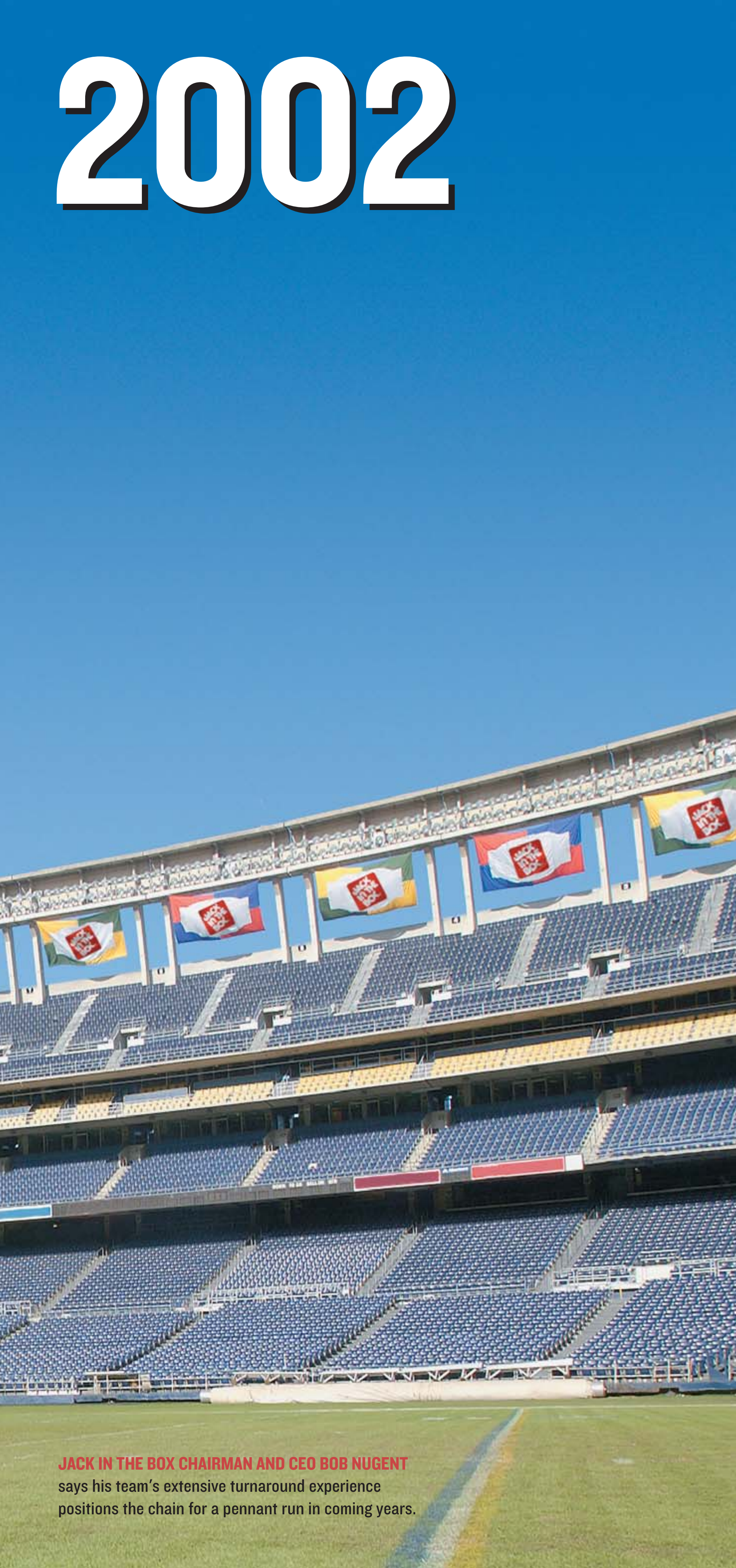
"Gosh mister, you sure know your sports metaphors!" my wide-eyed new chums exclaimed.

That I do, kiddies, that I do. But there's a whole lot more to tell about Jack's 2002 season and plans for the future. You'll find it in the pages that follow. Batter up! □

# Instant Replay

## JBX year-end analysis and commentary with head coach Bob Nugent

# 2002



**JACK IN THE BOX CHAIRMAN AND CEO BOB NUGENT** says his team's extensive turnaround experience positions the chain for a pennant run in coming years.

Cutthroat competition, nail-biting suspense, "no-holds-barred" aggression — this is fast-food restauranting in the 2000s. The old rules — the ones that allowed Jack in the Box Inc. to consistently score sales and earnings records with a relatively simple core-product strategy targeted at 18- to 34-year-old men — no longer apply. Any chain worth its salt must now deliver more value, more quality, more speed, more consistency and more novel products to more different kinds of consumers. It's a whole new world out there.

As chairman and CEO of Jack in the Box Inc., Bob Nugent presided over one of the most dominant players in the quick-service game during the mid-to-late 1990s. Here in 2002, though, he acknowledges that he's not exactly in the catbird seat: The fast-casual segment is nipping at Jack's heels, same-store sales have been softer than expected, and many of the most reliable weapons in the chain's arsenal haven't produced in the clutch the way they did in the past.

Still, Nugent says the company's new strategic plan and solid experience with turnarounds leave the chain ideally positioned for a pennant run in coming years. In this interview, he talks frankly about the setbacks the chain weathered in 2002 and his bold plans for reviving Jack's fortunes.

> “We announced in September a comprehensive five-year game plan to help us regain our momentum.”

### JACK IN THE BOX was unbeatable for seven straight years. So what happened in 2002?

The game plan that served us so well since the mid-’90s just didn’t deliver for us this past season. To recap: We spent 1995 through 2001 building one of the most admired fast-food brands in the country through major food-quality and guest-service improvements supported by smart, aggressive marketing. Thanks in part to the most popular, longest running ad campaign in the business – a campaign to increase awareness of our core products — we successfully repositioned ourselves as a preferred chain among die-hard 18- to 34-year-old fast-food fans. We grew our base of company-operated restaurants and made substantial gains in market share. We enjoyed significant gains in sales and earnings growth that paid off handsomely for shareholders.

But several forces combined to make 2002 exceptionally tough. It wasn’t just a weaker economy that took a heavy toll in several of our key markets. It wasn’t just the price wars many of our larger competitors engaged in. And it wasn’t just the growing fast-casual segment. All of these factors hurt us to varying degrees. So after taking some immediate steps to adjust to the situation, we announced in September a comprehensive five-year game plan to help us regain our momentum.

### Talk about your 2002 stats.

They were subpar. For instance, same-store sales were down .8 percent for the year. That’s unacceptable, even though we were up against a 4.1 percent increase in 2001. Net earnings were $83 million, or $2.07 per diluted share, factoring in $15.7 million in pre-tax costs to settle labor litigation and close some poorly performing company restaurants. But it’s important to note that without those items and a one-time accounting adjustment to 2001 earnings, EPS would have increased 10.4 percent over our 2001 total, climbing to $2.33


*Before unusual and extraordinary items. In 2002, excludes $15.7 million ($10.4 million after taxes) to settle a class-action lawsuit and to close eight under-performing restaurants. In 2001, excludes a $1.9 million effect of adopting SAB 101. In 2000, excludes a $22.9 million tax benefit. In 1999, excludes an $18 million reduction ($11.4 million after taxes) in restaurant operating costs and a 53rd week that contributed an extra $1.4 million in net earnings. In 1998, excludes $45.8 million litigation settlement income and an $8.2 million non-cash charge.

per share from $2.11. Earnings overall would have reached $93.4 million, versus $84.1 million during the previous year. Among the other numbers of note:

• Company restaurant sales grew 6.3 percent to $1.82 billion.

• Systemwide sales grew 5.6 percent to $2.24 billion.

• Fiscal-year 2002 revenues were up 7.2 percent, to $1.97 billion, over our 2001 total.

• Gross profit rate for the year was even with the prior year, at 19.4 percent of revenues.

• The company opened 100 new restaurants in fiscal 2002, bringing the company restaurant total to 1,507 and the systemwide total to 1,862 at the close of the year.

**So it got a little ugly out there. What did you do in the short run?**

Remember that you're dealing with a 51-year-old company whose executive team knows a thing or two about turnarounds. When our assumptions were challenged, we began examining everything we do to identify our weaknesses and ways to overcome them. We began with a companywide profit-improvement program designed, in part, to shore up our return on investment. We also found ways to substantially reduce the cost of building new restaurants without compromising the quality of the experience we offer our guests. The new prototype has expansion potential built-in should we need additional inside seating or another service window at the drive-thru.

**"Our Best Burgers Ever™" didn't deliver the immediate sales boost you hoped for, though, did it?**

While we'd obviously hoped it might be a bigger transaction-driver straight out of the gate, it was always viewed as an across-the-board quality improvement initiative. We're making an investment whose impact will be felt over time and will help distinguish us from competitors.

## Red-Hot Growth Prospect

### Co-branded food/fuel/convenience-store sites make the leap to the big leagues

All across America, particularly during those tedious NFL halftime shows, people have been saying to themselves, "Man, I sure could use a Sourdough Jack®, a tank of unleaded, scratch tickets, bottled water, a trial-size box of detergent, french fries, transmission fluid, breath mints, corn chips and a six-pack of diet papaya root beer right about now."

That's a joke, of course. No one makes a low-calorie papaya root beer yet. Still, judging from consumers' highly positive response to the 12 co-branded restaurant, fuel and "Quick Stuff®" convenience-store sites that we've tested in California, Texas and Arizona for the past couple of years, the basic sentiment described above is right on the money. And that means Jack in the Box Inc. is ready to promote the co-branding concept from the farm team to the Show. Here's why:

• **Strong gate receipts:** Combined profits from these businesses run more than twice that of an average stand-alone restaurant site.

• **Great field position:** Shared development costs justify first-rate, high-traffic locations.

• **More big team logos:** Pairing with major fuel brands helps drive traffic to on-site JACK IN THE BOX restaurants.

Typically, fast-food competitors alongside convenience stores and fuel pumps are scaled-down versions of the real thing. The JACK IN THE BOX program includes a full-size restaurant, our own branded convenience store, "Quick Stuff,®" and branded fuel pumps. All are company operated.

JACK IN THE BOX will open eight additional co-branded sites in 2003, and expect such locations will constitute 20-to-25 percent of company-owned unit growth over the next five years.


**FILL UP, FUEL UP, STOCK UP:** Jack's co-branded sites help busy guests cover all bases.

# Offensive Play of the Year

## New Innovation Center to tackle quality and new products

Want to grab a quick bite? Fine, but you've got some hard choices to make. Right now, there are dozens of quick-service and fast-casual chains vying for your dining dollar, to say nothing of all the prepared foods lining your local grocery-store shelves.

**MEET THE REAL MEAT ... AND CHEESE:** The Bacon Ultimate Cheeseburger.

The key to winning over growing legions of on-the-go eaters is to offer a toothsome batch of memorable core products, augmented by innovative new menu items that prompt adventurous palates to visit often.

With that in mind, Jack in the Box rolled out the "Our Best Burgers Ever™" campaign in 2002 – an across-the-board quality initiative – while also announcing plans to develop a new, 70,000-square-foot Innovation Center replete with R&D kitchen, quality assurance lab, consumer-research facility and marketing office space. Also in the playbook: new sandwiches, burgers and lighter fare designed to broaden our appeal beyond the traditional consumer target: 18- to 34-year-old guys.

**Why not compete on the basis of price like the big guys?**

Because that's not our game, and it's not a way to win big in this business over the long haul, anyway. In keeping with the two-tier menu strategy we implemented several years back, we continue to offer and promote value items that help us appeal to the consumer for whom price takes precedence over everything else. But we're focusing more on broadening our customer base to attract people who are looking for something besides a bargain-basement quick-service experience.

**Including more women?**

Exactly. We still regard young men as a primary target, but we want to do more to make ourselves exceptionally attractive to consumers we haven't courted in the past.

**In September, you announced a five-year strategy that surprised some people.**

Given how quickly and dramatically the quick-service industry is evolving, we had to develop a long-term plan that will help us respond effectively to new realities. Enhancing convenience and quality is an important part of the picture. Offering new and higher-quality products is essential, too. And we're already looking at creative growth opportunities to help us deliver value to both customers and shareholders.

**How does the plan address sales and profitability?**

While continuing to improve our core products, we'll also develop a variety of unique new items and product lines.

At the same time, we'll upgrade our restaurant facilities and chip away at the time it takes for guests to get their meals. We've shortened our transaction time by more than a minute in the past two years, but there is still more to do. "Fast" is still important in fast food — maybe more so than ever.

You have to realize, too, that the investments we're making will be offset in part by anticipated savings in the cost of building new restaurants and other areas identified in our profit-improvement program.

**"Offering new and higher-quality products is essential..."**

**The Innovation Center is an obvious response to the new products your competitors launched in 2002. Why do you believe new products are a key to future success in quick service?**

Consumers today have dozens more choices than they had even two or three years ago. The competition from other fast-food outlets, fast-casual chains and even home-meal replacement options in grocery stores has put the heat on quick-service players. As our 2002 results show, we didn't respond quickly enough to this changing business environment. The key will be to augment our high-quality line of favorites with a series of memorable and distinctive new items that prompts people to come by more often.

**Not long ago, you embraced company-restaurant growth as a prudent and profitable strategy. But the new plan puts a renewed emphasis on franchising as part of an overall growth strategy. What changed?**

First, understand that we will continue to build company-operated stores at a rate of 5-to-7 percent per year. We're still a restaurant operator. But we've realized that an 80-20 company-to-franchise ratio is capital and overhead intensive. It drags down profit margins and returns that impact shareholder value. So through prudent restaurant conversions and the addition of new franchised restaurants, we intend to bring that ratio down to the 65-35 range during the next five years.

**Didn't restaurant conversions contribute to earnings this year? How does that reflect on the business?**

We converted 22 company restaurants — about 1 percent of our total restaurant base — to franchises, which added about $20 million to other revenues compared with about $9 million last year. But it was even more important to us long-term. Increasing our franchise-to-company unit ratio allows us to invest in higher-return projects that expand the business.

**And then there was the mention of possible acquisitions.**

We think there are opportunities to grow faster, add shareholder value and diversify beyond our mature category

# Defensive Play of the Year

## Profit-improvement program

When your top line takes a hit, you have to hit back with a little expense-line defense. In addition to new plans to improve sales and profitability, JACK IN THE BOX drew on the observations and ideas of employees to trim millions of dollars in costs and knock more than $100,000 from the cost of building each new restaurant...without compromising the guest experience. Those dollars will come in handy as the company invests more on functional upgrades and cosmetic improvements to the interiors of existing facilities.

by acquiring restaurant concepts in other categories. These acquisitions would have to meet our exacting criteria. We're seeking brands with significant growth and franchising potential.

**Has the Southeast proven to be tougher to penetrate than you envisioned?**

No question about it. Because these are non-contiguous markets, it will take longer than we first anticipated to reach our goals there. But we did add 30 new stores in the Southeast this past year. As we develop a stronger presence in the Carolinas, Tennessee and Louisiana, we're approaching critical mass, where we believe we'll be able to build our brand in a way that drives transaction growth. In addition, we believe we'll see better returns from building our new, more cost-effective restaurant prototype in the Southeast. This has been an excellent opportunity for us to learn about opening additional new markets.

> "We think there are opportunities to grow faster..."

**In 2002, the company's Board of Directors authorized an additional $80 million for stock repurchases, bringing the total amount authorized to about $90 million. What's the reasoning there?**

Quite honestly, with the introduction of our new strategic plan, we're confident in the company's potential and believe the current stock price represents a great buying opportunity.

**With this new five-year plan, is it realistic to target annual average EPS growth of 10-to-15 percent?**

Over time, we think so. We have a realistic, balanced growth plan, creative marketing, a strong brand, high-quality products, experience with bold innovations, incredible people and a commitment to continuous improvement. We're excited about all that lies ahead, and about the potential to continue returning increased value to shareholders.

**Is there anything else you'd like to add?**

Yes. At the end of the calendar year, Ken Williams, our company president, retired after 37 years with JACK IN THE BOX. He was an invaluable member of our team and had an uncanny ability to manage through our most difficult periods as well as during our best years. We will miss Ken, his wisdom and his leadership. □

## Clutch Hit

### Speed-of-service gets a tomahawk chop

Today's consumers want MORE: More choice, more quality, more value for the dollar. But when it comes to time spent waiting for their food, they'd prefer less, thanks very much. In the past two years, JACK IN THE BOX knocked off a full minute of average wait time, and through a new labor-optimization system and streamlined kitchen procedures, the company intends to beat the clock again.

**SPEED-OF-SERVICE:** JACK IN THE BOX restaurants made significant progress in 2002.

# Hall of Fame Honors

## A corporate governance plaudit from the folks in the skyboxes

Based on an extensive survey last year of U.S. portfolio managers, securities analysts and retail investors, *Investor Relations Magazine* says Jack in the Box Inc. boasts the best corporate governance program among small-cap companies.

**IR IS FOR "IMPRESSIVE RECOGNITION":** Excellence in corporate governance earns a nod for Jack's squad.


# Consistency at the Plate

## Restaurant team members hit their stride in Jack's lineup

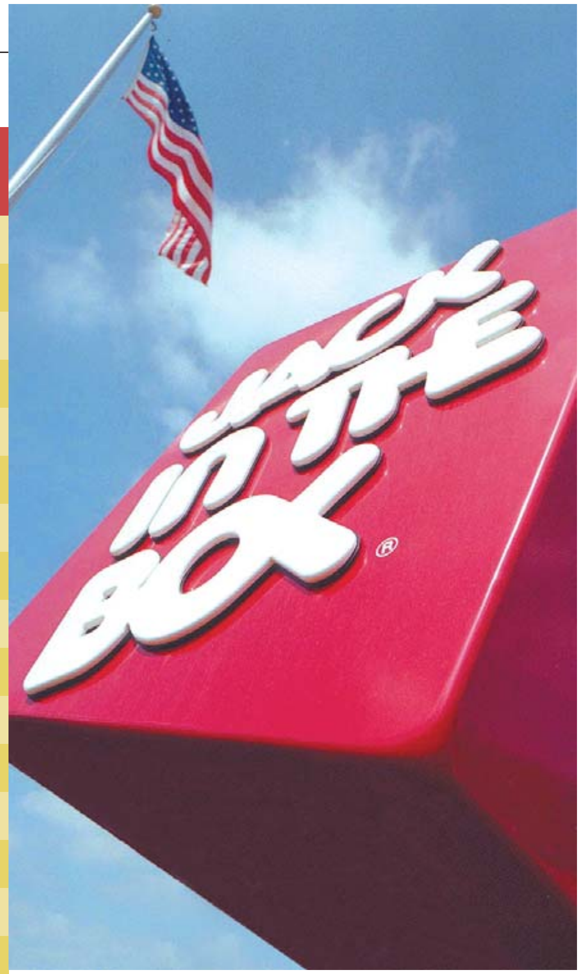
JACK IN THE BOX reduced turnover among hourly employees at its restaurants in 2002 due to programs and systems intended to create a positive employee environment. Turnover rates are an ongoing issue in the quick-serve business. Higher employee retention rates mean that more experienced employees are taking care of guests. And the company saves money on recruitment and training costs.

**SAFE AT HOME:** More JACK IN THE BOX stars stayed put in 2002.

# Jack in the Box Restaurants

AT SEPT. 29, 2002

| | COMPANY-OPERATED | FRANCHISE-OPERATED | TOTAL |
|---|---|---|---|
| Arizona | 88 | 52 | 140 |
| California | 553 | 261 | 814 |
| Hawaii | 28 | 1 | 29 |
| Idaho | 23 | – | 23 |
| Illinois | 13 | – | 13 |
| Louisiana | 17 | – | 17 |
| Missouri | 48 | – | 48 |
| Nevada | 44 | 11 | 55 |
| New Mexico | – | 2 | 2 |
| North Carolina | 24 | – | 24 |
| Oklahoma | 2 | – | 2 |
| Oregon | 40 | 2 | 42 |
| South Carolina | 19 | – | 19 |
| Tennessee | 25 | – | 25 |
| Texas | 467 | 26 | 493 |
| Utah | 2 | – | 2 |
| Washington | 114 | – | 114 |
| Total | 1,507 | 355 | 1,862 |




**SIGN OF THE TIMES:** Jack in the Box remains among the nation's preeminent fast-food hamburger chains.


**NO ERRORS:** The new growth plan leaves the playing field open for a variety of options.

# Fielding a First-Rate Expansion Team

## Franchising, acquisitions round out Jack's arsenal of growth options

While Jack in the Box will continue opening new company-operated restaurants at a rate of 5-to-7 percent per year, the company also intends to convert roughly 25 percent of existing company stores to franchise outlets within five years. At the same time, Jack in the Box plans to add about 200 new franchised units through the sale of development agreements. The five-year goal: to adjust the company's current 80-20 ratio of company-to-franchise restaurants to 65-35, which will improve operating margins and return on investment. Management will also selectively evaluate other restaurant concepts for potential acquisition to increase the company's growth rate.

# Afterword

## A Post-Game Wrap-Up with Morton Whiff

**BIG PLANS CALL FOR A BIG BURGER:** Whiff, with Bacon Ultimate Cheeseburger, digs in at the plate.

Look, anyone can have a plan. Custer had a plan. So did Pets.com. Ted Williams probably had a plan, too, though apparently he should have given his immediate family a better idea of what it was.

So how do you tell a good plan from one that doesn't stand a chance? Ask yourself three questions:

> The new JACK IN THE BOX five-year strategic plan passes muster on all three counts.

1 **Can it work?**

2 **Does it make sense long term?**

3 **Do the people putting it into action have what it takes to transform good ideas into actual results?**

**My two cents:** The new JACK IN THE BOX five-year strategic plan passes muster on all three counts. It offers realistic solutions to problems that dogged the venerable 51-year-old chain and many of its competitors in 2002. It outlines how the company will hold its own in a business that's getting tougher by the day. And it's being carried out by veteran executives with more than passing experience with successful turnarounds. That's a pretty solid track record.

**Remember, folks:** After every fumble, there's a recovery. And when you're really good, you recover your own.

We'll see you at the drive-thru. □

# 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 29, 2002 and September 30, 2001, and the related consolidated statements of earnings, cash flows and stockholders' equity for the fifty-two weeks ended September 29, 2002, September 30, 2001, and October 1, 2000. 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 29, 2002 and September 30, 2001, and the results of their operations and their cash flows for the fifty-two weeks ended September 29, 2002, September 30, 2001, and October 1, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

San Diego, California
November 4, 2002

## JACK IN THE BOX INC. AND SUBSIDIARIES

# CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

| | September 29, 2002 | September 30, 2001 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 5,620 | $ 6,328 |
| Accounts receivable, net | 26,215 | 21,816 |
| Inventories | 29,613 | 28,993 |
| Prepaid expenses and other current assets | 38,471 | 19,268 |
| Assets held for sale and leaseback | 12,626 | 48,329 |
| Total current assets | 112,545 | 124,734 |
| Property and equipment, at cost: | | |
| Land | 105,298 | 95,435 |
| Buildings | 581,651 | 499,681 |
| Restaurant and other equipment | 486,183 | 453,376 |
| Construction in progress | 46,355 | 63,345 |
| | 1,219,487 | 1,111,837 |
| Less accumulated depreciation and amortization | 372,556 | 332,369 |
| Property and equipment, net | 846,931 | 779,468 |
| Other assets, net | 104,007 | 125,620 |
| | $1,063,483 | $1,029,822 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current maturities of long-term debt | $ 106,265 | $ 2,255 |
| Accounts payable | 59,237 | 55,036 |
| Accrued liabilities | 167,914 | 169,628 |
| Total current liabilities | 333,416 | 226,919 |
| Long-term debt, net of current maturities | 143,364 | 279,719 |
| Other long-term liabilities | 96,727 | 91,439 |
| Deferred income taxes | 25,861 | 18,215 |
| Stockholders' equity: | | |
| Preferred stock | – | – |
| Common stock $.01 par value, 75,000,000 authorized, 42,936,810 and 42,418,742 issued, respectively | 429 | 424 |
| Capital in excess of par value | 319,810 | 310,107 |
| Retained earnings | 227,064 | 144,018 |
| Accumulated other comprehensive loss, net | (8,882) | – |
| Treasury stock, at cost, 4,378,774 and 3,170,574 shares, respectively | (74,306) | (41,019) |
| Total stockholders' equity | 464,115 | 413,530 |
| | $1,063,483 | $1,029,822 |

See accompanying notes to consolidated financial statements.

## JACK IN THE BOX INC. AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

| | Fiscal year 2002 | 2001 | 2000 |
|---|---|---|---|
| Revenues: | | | |
| Restaurant sales | $1,822,902 | $1,714,126 | $1,529,328 |
| Distribution and other sales | 77,445 | 66,565 | 59,091 |
| Franchise rents and royalties | 45,936 | 43,825 | 41,432 |
| Other | 20,077 | 9,060 | 3,461 |
| | 1,966,360 | 1,833,576 | 1,633,312 |
| Costs of revenues: | | | |
| Restaurant costs of sales | 555,232 | 528,070 | 473,373 |
| Restaurant operating costs | 931,686 | 864,271 | 750,736 |
| Costs of distribution and other sales | 75,341 | 64,490 | 57,543 |
| Franchised restaurant costs | 22,125 | 20,353 | 20,105 |
| | 1,584,384 | 1,477,184 | 1,301,757 |
| Gross profit | 381,976 | 356,392 | 331,555 |
| Selling, general and administrative | 233,426 | 201,579 | 182,961 |
| Earnings from operations | 148,550 | 154,813 | 148,594 |
| Interest expense | 22,914 | 24,453 | 25,830 |
| Earnings before income taxes and cumulative effect of accounting change | 125,636 | 130,360 | 122,764 |
| Income taxes | 42,590 | 46,300 | 22,500 |
| Earnings before cumulative effect of accounting change | 83,046 | 84,060 | 100,264 |
| Cumulative effect of adopting SAB 101 | – | (1,859) | – |
| Net earnings | $ 83,046 | $ 82,201 | $ 100,264 |
| Net earnings per share – basic: | | | |
| Earnings before cumulative effect of accounting change | $ 2.11 | $ 2.17 | $ 2.62 |
| Cumulative effect of adopting SAB 101 | – | (.05) | – |
| Net earnings per share | $ 2.11 | $ 2.12 | $ 2.62 |
| Net earnings per share – diluted: | | | |
| Earnings before cumulative effect of accounting change | $ 2.07 | $ 2.11 | $ 2.55 |
| Cumulative effect of adopting SAB 101 | – | (.05) | – |
| Net earnings per share | $ 2.07 | $ 2.06 | $ 2.55 |
| Weighted-average shares outstanding: | | | |
| Basic | 39,322 | 38,791 | 38,267 |
| Diluted | 40,112 | 39,780 | 39,334 |

See accompanying notes to consolidated financial statements.

## JACK IN THE BOX INC. AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

| | Fiscal year 2002 | 2001 | 2000 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net earnings | $ 83,046 | $ 82,201 | $ 100,264 |
| Non-cash items included in operations: | | | |
| Depreciation and amortization | 70,270 | 64,195 | 56,766 |
| Deferred finance cost amortization | 2,070 | 2,075 | 1,664 |
| Deferred income taxes | 7,646 | 5,747 | 4,413 |
| Cumulative effect of accounting change | – | 1,859 | – |
| Impairment charge | 2,517 | – | – |
| Tax benefit associated with additional pension liability | 5,655 | – | – |
| Tax benefit associated with exercise of stock options | 3,466 | 7,531 | 2,589 |
| Increase in receivables | (4,399) | (8,149) | (1,676) |
| Increase in inventories | (620) | (3,271) | (5,833) |
| Decrease (increase) in prepaid expenses and other current assets | (4,862) | 61 | (3,672) |
| Increase in accounts payable | 4,201 | 1,954 | 8,902 |
| Increase (decrease) in other liabilities | (10,004) | 19,144 | (18,768) |
| Cash flows provided by operating activities | 158,986 | 173,347 | 144,649 |
| Cash flows from investing activities: | | | |
| Additions to property and equipment | (142,588) | (166,522) | (127,361) |
| Dispositions of property and equipment | 8,401 | 8,642 | 5,938 |
| Increase in trading area rights | (36) | (1,486) | (2,656) |
| Decrease (increase) in assets held for sale and leaseback | 35,703 | (14,474) | 4,917 |
| Other | (865) | (4,427) | (4,286) |
| Cash flows used in investing activities | (99,385) | (178,267) | (123,448) |
| Cash flows from financing activities: | | | |
| Borrowings under revolving bank loans | 385,140 | 503,500 | 386,000 |
| Principal repayments under revolving bank loans | (416,140) | (504,500) | (406,000) |
| Proceeds from issuance of long-term debt | – | – | 825 |
| Principal payments on long-term debt, including current maturities | (2,264) | (2,034) | (1,777) |
| Repurchase of common stock | (33,287) | (759) | (5,797) |
| Proceeds from exercise of stock options | 6,242 | 8,205 | 1,459 |
| Cash flows provided by (used in) financing activities | (60,309) | 4,412 | (25,290) |
| Net decrease in cash and cash equivalents | $ (708) | $ (508) | $ (4,089) |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest, net of amounts capitalized | $ 21,670 | $ 22,635 | $ 24,392 |
| Income tax payments | $ 40,672 | $ 30,174 | $ 41,110 |
| Capital lease obligations incurred | $ 475 | $ – | $ – |

See accompanying notes to consolidated financial statements.

## JACK IN THE BOX INC. AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands)

| | Common stock | | Capital in excess of par value | Retained earnings (accumulated deficit) | Accumulated other compreh-ensive loss | Treasury stock | Total |
|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | | | | | |
| 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 |
| Purchase 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 |
| Exercise of stock options | 518,068 | 5 | 6,237 | – | – | – | 6,242 |
| Tax benefit associated with exercise of stock options | – | – | 3,466 | – | – | – | 3,466 |
| Comprehensive income: Net earnings | – | – | – | 83,046 | – | – | 83,046 |
| Additional minimum pension liability, net | – | – | – | – | (8,882) | – | (8,882) |
| Total comprehensive income | – | – | – | 83,046 | (8,882) | – | 74,164 |
| Purchase of treasury stock | – | – | – | – | – | (33,287) | (33,287) |
| Balance at September 29, 2002 | 42,936,810 | $429 | $319,810 | $227,064 | $ (8,882) | $(74,306) | $464,115 |

See accompanying notes to consolidated financial statements.

JACK IN THE BOX INC. AND SUBSIDIARIES

# 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 2002 presentation. Our fiscal year is 52 or 53 weeks, ending the Sunday closest to September 30. Fiscal years 2002, 2001 and 2000 include 52 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 29, 2002 and September 30, 2001 approximate their carrying values.

From time-to-time, we use 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 on 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 on 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. Changes in the fair value of our interest rate swap, which expired in June 2001, are included in interest expense in the consolidated statement of earnings for the fiscal year ended September 30, 2001.

At September 29, 2002, we had no other material financial instruments subject to significant market exposure.

*Cash and cash equivalents* – We invest cash in excess of operating requirements only 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.*

JACK IN THE BOX INC. AND SUBSIDIARIES

# 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, goodwill, lease acquisition costs, deferred franchise contract costs and deferred finance costs. 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 have been 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. Goodwill, which represents the excess of purchase price over fair value of net assets acquired, has been amortized on a straight-line basis over 40 years. Beginning September 30, 2002, we will adopt the provisions of SFAS 142, *Goodwill and Other Intangible Assets,* and as a result, beginning with fiscal year 2003, our trading area rights will be reclassified as goodwill and goodwill totaling $66.6 million will no longer be amortized.

Lease acquisition costs represent the fair values of acquired 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.

*Impairment of long-lived assets* – We evaluate impairment on long-lived assets when indicators of impairment are present and recognize impairment when 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 lower of cost or fair value.

*Lease exit charges* – We charge lease exit costs to operations when management commits to close a restaurant. Lease exit costs, which are included in selling, general and administraive expenses, consist of future lease commitments, net of anticipated sublease rentals, and expected ancillary costs.

*Self-insurance* – We are self insured for a portion of our workers' compensation, automotive, general liability and employee medical and dental claims. We utilize a paid loss plan for our workers' compensation, automotive and general liability programs and have in place predetermined loss limits to limit our loss exposure per occurrence and in the aggregate. We establish our insurance liability and reserves using independent actuarial estimates of expected losses as the basis for determining reported claims and for estimating claims incurred but not reported.

## JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

*Franchise operations* – Franchise arrangements generally provide for initial franchise fees 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 required 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 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.

*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.

*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 8, 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 sales at 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 $91,157, $86,539 and $77,799 in 2002, 2001 and 2000, 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.

**JACK IN THE BOX INC. AND SUBSIDIARIES**

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

*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.

## 2. LONG-TERM DEBT

| | 2002 | 2001 |
|---|---|---|
| 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, 2.7% at September 29, 2002 | $ 34,000 | $ 65,000 |
| Senior subordinated notes, 8 3/8% interest, net of discount of $116 and $137, respectively, reflecting an 8.4% effective interest rate due April 15, 2008, redeemable beginning April 15, 2003 | 124,884 | 124,863 |
| Financing lease obligations, net of discounts of $223 and $646, respectively, reflecting a 10.3% effective interest rate, semi-annual payments of $3,413 and $747 to cover interest and sinking fund requirements | 69,777 | 69,354 |
| Secured notes, 11 1/2% interest, due in monthly installments through May 1, 2005 | 3,887 | 5,077 |
| Capitalized lease obligations, 10.83% average interest rate | 15,290 | 15,565 |
| Other notes, principally unsecured, 10% average interest rate | 1,791 | 2,115 |
| | 249,629 | 281,974 |
| Less current portion | 106,265 | 2,255 |
| | $143,364 | $279,719 |

On April 1, 1998, we entered into a revolving bank credit agreement, expiring in March 2003, which 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 29, 2002, we had borrowings of $34 million and approximately $125 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. As of September 29, 2002 we were in compliance with these covenants. 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.

JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 2. LONG-TERM DEBT (continued)

In January 1994, we entered into financing lease arrangements with two limited partnerships (the "Partnerships"), in which we sold interests in 76 restaurants for a specified period of time. The acquisition of the properties, including costs and expenses, was funded through the issuance of $70 million in 10.3% senior secured notes by a special purpose corporation acting as agent for the Partnerships. The transactions have been reflected as financings with the properties remaining in our consolidated financial statements. On August 29, 2002, pursuant to the terms of the financing lease arrangements, we made an Offer (the "Offer") to reacquire, on January 2, 2003, the interests in the restaurants at a price which is sufficient, in conjunction with previous sinking fund deposits, to retire the senior secured notes. In connection with the Offer, we entered into an agreement with the Partnerships in which we agreed to pay a $1.3 million consent fee to accelerate retirement of this high interest rate debt.

Aggregate maturities and sinking fund requirements on all long-term debt are $90,354, $2,703, $2,352, $1,393 and $1,356 for the years 2003 through 2007, respectively. The 2003 amount is net of accumulated sinking fund payments of $16,134.

Interest capitalized during the construction period of restaurants was $1,696, $2,441 and $2,259 in 2002, 2001 and 2000, 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 $160,046, $142,351 and $123,465, including contingent rentals of $7,292, $7,200 and $6,551 and sublease rentals of $15,113, $13,629 and $13,603, in 2002, 2001 and 2000, respectively.

Future minimum lease payments under capital and operating leases, including those in the closed restaurant reserve, are as follows:

| Fiscal year | Capital leases | Operating leases |
|---|---|---|
| 2003 | $ 2,426 | $ 148,875 |
| 2004 | 2,426 | 144,043 |
| 2005 | 2,409 | 131,767 |
| 2006 | 2,386 | 119,668 |
| 2007 | 2,356 | 109,514 |
| Thereafter | 16,138 | 812,973 |
| Total minimum lease payments | 28,141 | $1,466,840 |
| Less amount representing interest | (12,851) | |
| Present value of obligations under capital leases | 15,290 | |
| Less current portion | (820) | |
| Long-term capital lease obligations | $ 14,470 | |

JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 3. LEASES (continued)

Total minimum lease payments have not been reduced for future minimum sublease rents of $188,177 expected to be recovered under our operating subleases. Building assets recorded under capital leases were $13,505 and $13,843, net of accumulated amortization of $7,881 and $7,089, as of September 29, 2002 and September 30, 2001, 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 $28,755, $27,213 and $25,900, including contingent rentals of $10,559, $11,091 and $10,642, in 2002, 2001 and 2000, respectively.

The minimum rents receivable expected to be received under these non-cancelable leases, excluding contingent rentals, are as follows:

| Fiscal year | Direct financing lease | Operating leases |
|---|---|---|
| 2003 | $ 106 | $ 21,386 |
| 2004 | 106 | 20,294 |
| 2005 | 106 | 19,080 |
| 2006 | 106 | 17,338 |
| 2007 | 106 | 15,797 |
| Thereafter | 1,503 | 115,232 |
| Total minimum future rentals | 2,033 | $209,127 |
| Less amount representing unearned income | (1,889) | |
| Net investment (included in other assets) | $ 144 | |

Land and building assets held for lease were $46,904 and $45,133, net of accumulated amortization of $26,882 and $22,787 as of September 29, 2002 and September 30, 2001, respectively.

## 4. RESTAURANT CLOSING AND IMPAIRMENT CHARGES

In the fourth quarter of fiscal year 2002, management committed to closing eight under-performing restaurants during 2003. As a result of management's plan to close these restaurants, in 2002, we recorded non-cash charges of $2.5 million for the impairment of the related long-lived assets and lease exit charges of $3.9 million. These charges have been included in selling, general and administrative expenses in the consolidated statement of earnings. As of September 29, 2002, our accrual for restaurant lease exit charges was $7.0 million.

## JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 5. INCOME TAXES

The fiscal year income taxes consist of the following:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Federal – current | $24,745 | $34,658 | $14,036 |
| – deferred | 11,249 | 5,419 | 3,535 |
| State – current | 4,545 | 4,695 | 4,051 |
| – deferred | 2,051 | 328 | 878 |
| Subtotal | 42,590 | 45,100 | 22,500 |
| Income tax benefit related to cumulative effect of accounting change | – | 1,200 | – |
| Income taxes | $42,590 | $46,300 | $22,500 |

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

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Computed at federal statutory rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal tax benefit | 3.6 | 2.5 | 2.6 |
| Benefit of jobs tax credits | (1.1) | (1.2) | (1.0) |
| Adjustment of tax loss, contribution and tax credit carryforwards | – | 1.7 | – |
| Reduction to valuation allowance | – | (2.6) | (19.3) |
| Adjustment to estimated tax accruals | (4.4) | – | – |
| Other, net | .8 | .1 | 1.0 |
| | 33.9% | 35.5% | 18.3% |

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:

| | 2002 | 2001 |
|---|---|---|
| Deferred tax assets: | | |
| Accrued pension and postretirement benefits | $19,229 | $17,039 |
| Accrued insurance | 11,222 | 10,086 |
| Accrued vacation pay expense | 10,711 | 9,558 |
| Deferred income | 13,248 | 13,449 |
| Other reserves and allowances | 10,489 | 4,212 |
| Other, net | 7,812 | 7,824 |
| Total gross deferred tax assets | 72,711 | 62,168 |
| Deferred tax liabilities: | | |
| Property and equipment, principally due to differences in depreciation | 85,139 | 71,773 |
| Intangible assets | 13,433 | 8,610 |
| Total gross deferred tax liabilities | 98,572 | 80,383 |
| Net deferred tax liabilities | $25,861 | $18,215 |

JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 5. INCOME TAXES (continued)

During fiscal year 2002, we finalized an examination by the U.S. Internal Revenue Service ("IRS") for tax years 1997 to 1999. This exam included a review of the tax treatment of certain settlements that we entered into during these years. We recognized tax benefits of $5,544, primarily as a result of the resolution of these items, which reduced our fiscal year 2002 provision for income taxes.

During fiscal year 2000, we reached a final agreement with the 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.

As of September 29, 2002, 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, which 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.

JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 6. 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 | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | $ 79,503 | $ 66,839 | $ 22,672 | $ 17,877 |
| Service cost | 4,586 | 3,917 | 298 | 255 |
| Interest cost | 6,063 | 5,442 | 1,747 | 1,432 |
| Actuarial (gain) loss | 5,779 | 5,729 | (672) | 2,151 |
| Benefits paid | (1,843) | (2,424) | (795) | (543) |
| Plan amendment | – | – | 340 | 1,500 |
| Benefit obligation at end of year | $ 94,088 | $ 79,503 | $ 23,590 | $ 22,672 |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | $ 70,403 | $ 68,550 | $ – | $ – |
| Actual return on plan assets | (7,573) | (1,223) | – | – |
| Employer contributions | 3,920 | 5,500 | 795 | 543 |
| Benefits paid | (1,843) | (2,424) | (795) | (543) |
| Fair value of plan assets at end of year | $ 64,907 | $ 70,403 | $ – | $ – |
| Reconciliation of funded status: | | | | |
| Funded status | $ (29,181) | $ (9,100) | $ (23,590) | $(22,672) |
| Unrecognized net loss | 26,516 | 7,247 | 3,090 | 3,949 |
| Unrecognized prior service cost | (31) | (67) | 4,892 | 5,132 |
| Unrecognized net transition asset | – | – | – | 3 |
| Additional contribution | 15,195 | – | – | – |
| Net amount recognized | $ 12,499 | $ (1,920) | $ (15,608) | $(13,588) |
| Amounts recognized in the statement of financial position consist of: | | | | |
| Accrued benefit liability | $ (15,155) | $ (1,920) | $ (22,578) | $(18,723) |
| Accumulated other comprehensive loss | 12,459 | – | 2,078 | – |
| Additional contribution | 15,195 | – | – | – |
| Intangible assets | – | – | 4,892 | 5,135 |
| Net amount recognized | $ 12,499 | $ (1,920) | $ (15,608) | $(13,588) |

A minimum pension liability adjustment is required when the accumulated benefit obligation exceeds the fair value of plan assets and accrued benefit liabilities at the measurement date. The downturn in the fixed income and equity markets has caused the market value of our pension plan assets to decline, and lower interest rates have caused our accumulated benefit obligation to increase. As a result, we were required to recognize additional minimum pension liabilities at September 29, 2002 and record total pre-tax cumulative charges of $14,537 to other comprehensive income in fiscal 2002. In the fourth quarter of fiscal year 2002, subsequent to the June 30 measurement date for qualified plans, we made a total contribution of $15,195 to return the qualified plans to a funded status. All defined benefit pension plan obligations, regardless of the funding status of the underlying plans, are fully supported by the financial strength of the Company.

JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 6. RETIREMENT, SAVINGS AND BONUS PLANS (continued)

In determining the present values of benefit obligations, we assumed discount rates of 7.30% and 7.75% at the measurement dates of June 30, 2002 and 2001, respectively. The assumed rate of increase in compensation levels was 3.5% and 4.0%, respectively, for the qualified plans and 5% for the non-qualified plan in 2002 and 2001. 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.

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

| | Qualified plans | | | Non-qualified plan | | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 2002 | 2001 | 2000 |
| Service cost | $ 4,586 | $ 3,917 | $ 4,706 | $ 298 | $ 255 | $ 245 |
| Interest cost | 6,063 | 5,442 | 4,991 | 1,747 | 1,432 | 1,305 |
| Expected return on plan assets | (5,917) | (5,889) | (5,082) | – | – | – |
| Net amortization | (36) | (28) | 162 | 770 | 508 | 587 |
| Net periodic pension cost | $ 4,696 | $ 3,442 | $ 4,777 | $2,815 | $ 2,195 | $ 2,137 |

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 $1,838, $1,651 and $1,426 in 2002, 2001 and 2000, 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 are excluded from participation in the qualified savings plan. This plan allows participants to defer up to 15% of their salary, including bonuses, on a pre-tax basis. We match an amount equal to 100% of the first 3% contributed by the employee. Our contributions under the non-qualified deferred compensation plan were $617, $680 and $609 in 2002, 2001 and 2000, 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, $3,682, $1,297 and $4,654 was expensed in 2002, 2001 and 2000, 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 $(312), $234 and $(14) was (credited) expensed in 2002, 2001 and 2000, respectively, for both the deferment credit and the stock appreciation (depreciation) on the deferred compensation.

JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 7. 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.

| | 2002 | 2001 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | $ 7,729 | $ 16,769 |
| Service cost | 278 | 247 |
| Interest cost | 595 | 537 |
| Actuarial (gain) loss | 722 | (9,741) |
| Benefits paid | (225) | (83) |
| Benefit obligation at end of year | $ 9,099 | $ 7,729 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | $ – | $ – |
| Employer contributions | 225 | 83 |
| Benefits paid | (225) | (83) |
| Fair value of plan assets at end of year | $ – | $ – |
| Reconciliation of funded status: | | |
| Funded status | $ (9,099) | $ (7,729) |
| Unrecognized net gain | (9,957) | (11,792) |
| Net liability recognized | $(19,056) | $(19,521) |

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, we assumed a discount rate of 7.30% and 7.75% at the measurement dates of June 30, 2002 and 2001, respectively.

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

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Service cost | $ 278 | $ 247 | $ 586 |
| Interest cost | 595 | 537 | 1,233 |
| Net amortization | (1,113) | (1,282) | (34) |
| Net periodic pension (income) cost | $ (240) | $ (498) | $ 1,785 |

For measurement purposes, an 8.5% annual rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) was assumed for 2003. 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, an 8.5% annual health care cost trend rate was assumed for 2003. 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 29, 2002 by $1,956, or 21.5%, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 2002 by $231, or 26.5%.

JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 8. 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. All of the Plans are administered by the Compensation Committee of the Board of Directors and have been approved by the stockholders 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. 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 3, 2002, although common 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 February 12, 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.

In February 2002, we adopted the Jack in the Box Inc. 2002 Stock Incentive Plan (the "2002 Plan"), to continue the objectives of the 1992 Employee Stock Incentive Plan. Under the 2002 Plan, officers and other key employees are eligible to receive stock options and incentive stock awards. Subject to certain adjustments, up to a maximum of 1,900,000 shares of common stock may be sold or issued under the 2002 Plan.

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.

JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 8. STOCK OPTIONS (continued)

The following is a summary of stock option activity for the three fiscal years ended September 29, 2002:

| | | Option exercise price per share | |
|---|---|---|---|
| | Shares | Range | Weighted-average |
| 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 |
| Granted | 815,341 | 23.00 - 31.87 | 25.01 |
| Exercised | (518,068) | 22.52 - 34.09 | 29.56 |
| Canceled | (114,442) | 7.50 - 26.63 | 24.42 |
| Balance at September 29, 2002 | 4,180,932 | 4.19 - 32.77 | 21.12 |

The following is a summary of stock options outstanding at September 29, 2002:

| | 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 - 19.06 | 1,419,193 | 4.70 | $12.96 | 1,319,065 | $ 12.50 |
| 23.00 - 25.00 | 1,415,797 | 8.68 | 24.24 | 383,899 | 23.65 |
| 26.00 - 26.63 | 1,300,942 | 8.22 | 26.22 | 517,857 | 26.33 |
| 31.87 - 32.77 | 45,000 | 9.17 | 32.67 | 8,000 | 32.77 |
| $ 4.19 - 32.77 | 4,180,932 | 7.19 | 21.12 | 2,228,821 | 17.71 |

At September 29, 2002, September 30, 2001 and October 1, 2000, the number of options exercisable were 2,228,821, 2,158,151 and 2,514,773, respectively, and the weighted-average exercise prices of those options were $17.71, $14.81, and $10.90, respectively.

For purposes of the following pro forma disclosures required by SFAS 123, the fair value of each option granted 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 4.2%, 5.8% and 5.9% in 2002, 2001 and 2000, respectively; expected volatility of 40% in each year; 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.

JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 8. STOCK OPTIONS (continued)

The weighted-average fair value of options granted was $11.35 in 2002, $12.70 in 2001 and $11.26 in 2000. 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 $78,596, or $2.00 per basic share and $1.96 per diluted share, in 2002; $77,739, or $2.00 per basic share and $1.95 per diluted share, in 2001; and $97,620, or $2.55 per basic share and $2.48 per diluted share, in 2000. For the pro forma disclosures, the estimated fair values of the options were amortized over their vesting periods of up to five years.

## 9. 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 29, 2002, we had 6,515,283 shares of common stock reserved for issuance upon the exercise of stock options.

JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 10. 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:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Shares outstanding, beginning of fiscal year | 39,248,168 | 38,348,595 | 38,276,460 |
| Effect of common stock issued | 273,782 | 470,040 | 200,074 |
| Effect of common stock reacquired | (199,591) | (27,212) | (209,048) |
| Weighted-average shares outstanding – basic | 39,322,359 | 38,791,423 | 38,267,486 |
| Assumed additional shares issued upon exercise of stock options, net of shares reacquired at the average market price | 789,791 | 988,644 | 1,066,579 |
| Weighted-average shares outstanding – diluted | 40,112,150 | 39,780,067 | 39,334,065 |

The diluted weighted-average shares outstanding computation excludes 468,050, 496,125 and 1,047,684 antidilutive stock options in 2002, 2001 and 2000, respectively.

## 11. 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, as amended, requires compliance with ADA Access Guidelines at Company-operated restaurants by October 2003. We are in the process of making modifications to improve accessibility at our restaurants. We currently expect to spend approximately $3.4 million in fiscal 2003 in connection with these modifications in addition to amounts previously invested. We expect to comply with our settlement obligations by the October 2003 settlement deadline.

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 in alleging violations of California wage and hour laws. The complaint alleged that salaried restaurant management personnel in California were improperly classified as exempt from California overtime laws, thereby depriving them of overtime pay. The complaint sought damages in an unspecified amount, penalties, injunctive relief, prejudgment interest, costs and attorneys' fees. The Company settled the action in fiscal year 2002 for approximately $9.3 million without admission of liability. The settlement is subject to certain conditions and court approval.

We are also subject to normal and routine litigation. In the opinion of management, based in part on the advice of legal counsel, the ultimate liability from all other pending legal proceedings, asserted legal claims and known potential legal claims should not materially affect our operating results and liquidity.

The Company's wholly-owned subsidiary Foodmaker International Franchising Inc. (the "Subsidiary Guarantor") guarantees, fully and unconditionally, our $125 million senior subordinated notes. 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.

JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 12. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

| | September 29, 2002 | September 30, 2001 |
|---|---|---|
| Accounts receivable: | | |
| Trade | $ 6,777 | $ 7,163 |
| Construction advances | 1,942 | 8,426 |
| Notes receivable | 12,186 | 1,753 |
| Other | 5,620 | 5,055 |
| Allowances for doubtful accounts | (310) | (581) |
| | $ 26,215 | $ 21,816 |
| Other assets: | | |
| Trading area rights, net of amortization of $41,077 and $37,330, respectively | $ 64,628 | $ 68,825 |
| Other, net of amortization of $44,999 and $46,065, respectively | 39,379 | 56,795 |
| | $ 104,007 | $ 125,620 |
| Accrued liabilities: | | |
| Payroll and related taxes | $ 55,204 | $ 46,058 |
| Sales and property taxes | 19,280 | 17,970 |
| Insurance | 27,606 | 27,771 |
| Advertising | 13,339 | 13,228 |
| Capital improvements | 8,444 | 15,898 |
| Income tax liabilities | 390 | 13,181 |
| Other | 43,651 | 35,522 |
| | $ 167,914 | $ 169,628 |

JACK IN THE BOX INC. AND SUBSIDIARIES

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 13. QUARTERLY RESULTS OF OPERATIONS (Unaudited)

| Fiscal year 2002 | 16 weeks ended Jan. 20, 2002 | 12 weeks ended Apr. 14, 2002 | 12 weeks ended July 7, 2002 | 12 weeks ended Sept. 29, 2002 |
|---|---|---|---|---|
| Revenues | $ 594,180 | $ 447,630 | $ 461,219 | $ 463,331 |
| Gross profit | 115,187 | 83,634 | 92,362 | 90,793 |
| Net earnings | 26,674 | 18,186 | 24,202 | 13,984 |
| Net earnings per share: | | | | |
| Basic | .68 | .46 | .61 | .36 |
| Diluted | .67 | .45 | .60 | .35 |

| Fiscal year 2001 | 16 weeks ended Jan. 21, 2001 | 12 weeks ended Apr. 15, 2001 | 12 weeks ended July 8, 2001 | 12 weeks ended Sept. 30, 2001 |
|---|---|---|---|---|
| Revenues | $ 543,223 | $ 413,219 | $ 434,633 | $ 442,501 |
| Gross profit | 109,960 | 77,367 | 84,723 | 84,342 |
| 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 |

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

### Results of Operations

All comparisons under this heading among 2002, 2001 and 2000 refer to the 52-week periods ended September 29, 2002, September 30, 2001, and October 1, 2000, respectively, unless otherwise indicated.

### Revenues

Company-operated restaurant sales were $1,822.9 million, $1,714.1 million and $1,529.3 million in 2002, 2001 and 2000, respectively. Restaurant sales improved from the prior year by $108.8 million, or 6.3%, in 2002 and $184.8 million, or 12.1%, in 2001, primarily reflecting an increase in the number of Company-operated restaurants, as well as an increase in per store average ("PSA") sales in 2001. The number of Company-operated restaurants at the end of the fiscal year grew to 1,507 in 2002 from 1,431 in 2001 and 1,311 in 2000, with new restaurant openings of 100, 126 and 120, respectively. Sales at Company-operated restaurants open more than one fiscal year declined 0.8% in 2002 compared with 2001 due to increased competitive activity and economic softness in certain key markets. Such sales increased 4.1% in 2001 and 3.3% in 2000 compared to the respective prior year. We believe restaurant sales improvements in 2001 and 2000 resulted from our two-tier marketing strategy featuring both premium sandwiches and value-priced alternatives, as well as from price increases and our strategic initiatives, including our ongoing focus on improving food quality and guest service.

Distribution and other sales, representing distribution sales and sales from our fuel and convenience stores, were $77.4 million, $66.6 million and $59.1 million in 2002, 2001 and 2000, respectively. The $10.8 million increase in 2002 compared with 2001 is principally due to an increase in the number of fuel and convenience stores to 12 locations at September 29, 2002 from nine a year ago, as well as to an increase in distribution sales to franchised restaurants. The $7.5 million increase in 2001 compared with 2000 is due to an increase in the number of restaurants serviced by our distribution division and PSA sales growth at franchised restaurants.

Franchise rents and royalties increased to $45.9 million in 2002 from $43.8 million in 2001 and $41.4 million in 2000, primarily reflecting an increase in the number of franchised restaurants to 355 at the end of the year from 331 in 2001 and 323 in 2000. As a percentage of franchise restaurant sales, franchise rents and royalties grew to 11.0% in 2002 from 10.8% in 2001 and 10.6% in 2000, primarily due to increases in percentage rents at certain franchised restaurants.

Other revenues, principally franchise gains and fees, as well as interest income from notes and investments receivable, increased to $20.1 million in 2002 from $9.1 million in 2001 and $3.5 million in 2000, primarily due to a planned increase in the number of Company-operated restaurants converted to franchises. In 2002, we converted 22 Company-operated restaurants compared with 13 a year ago, resulting in an increase in other revenues of approximately $11 million. Other revenues grew in 2001 compared with 2000 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 $555.2 million in 2002 from $528.1 million in 2001 and $473.4 million in 2000. As a percentage of restaurant sales, costs of sales were 30.5% in 2002, 30.8% in 2001 and 31.0% in 2000. The restaurant costs of sales percentage improved in 2002 compared to 2001 as the impact of slightly higher ingredient costs was offset by increased selling prices and certain profit improvement initiatives. In 2001, the percentage improvement compared to 2000 was primarily due to favorable ingredient costs and selling price increases.

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

(continued)

Restaurant operating costs were $931.7 million, $864.3 million and $750.7 million in 2002, 2001 and 2000, respectively. As a percentage of restaurant sales, restaurant operating costs increased to 51.1% in 2002 from 50.4% in 2001 and 49.1% in 2000. The percentage increased in 2002 compared with 2001 primarily due to higher occupancy costs on newer stores whose sales have not yet matured and increased insurance costs, which were offset in part by improved utility and supply costs. Additionally, in 2002, savings generated from our Profit Improvement Program helped to offset the reduced leverage resulting from softer sales. The restaurant operating costs percentage increased in 2001 compared to 2000 primarily due to higher utility costs and to a lesser extent higher labor-related expenses.

Costs of distribution and other sales were $75.3 million in 2002, $64.5 million in 2001 and $57.5 million in 2000. As a percentage of distribution and other sales, these costs were 97.3% in 2002, 96.9% in 2001 and 97.4% in 2000. The percentage increased in 2002 compared with a year ago, primarily due to reduced margins in our distribution business related to softer sales at JACK IN THE BOX restaurants. The lower percentage in 2001 compared with 2000 reflects 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, increased to $22.1 million in 2002 from $20.4 million in 2001 and $20.1 million in 2000, primarily reflecting an increase in the number of franchised restaurants.

Selling, general and administrative expenses were $233.4 million, $201.6 million and $183.0 million in 2002, 2001 and 2000, respectively. Fiscal year 2002 includes unusual charges of $9.3 million to settle a class action lawsuit which alleged that Company restaurant management personnel in California were not always paid overtime properly, and $6.4 million for impairment and lease exit costs related to the closure of eight under-performing restaurants. Advertising and promotion costs were $91.2 million in 2002, $86.5 million in 2001 and $77.8 million in 2000. Excluding the unusual items in 2002, selling, general and administrative expenses were approximately 11.1% of revenues in 2002, 11.0% in 2001 and 11.2% in 2000. In 2002, higher pension, bonus and legal costs were mitigated in part by the increased leverage from higher revenues as well as savings generated from our Profit Improvement Program. The percentage improvement in 2001 compared to 2000 is primarily due to lower bonus and pension expenses.

Interest expense declined to $22.9 million in 2002 from $24.5 million in 2001 and $25.8 million in 2000, reflecting lower average levels of debt and lower average interest rates compared with the respective prior year.

The income tax provisions reflect effective annual tax rates of 33.9%, 35.5% and 18.3% of pre-tax earnings in 2002, 2001 and 2000, respectively. The lower income tax rate in 2002 resulted from the favorable resolution of certain long-standing tax matters. In 2001 and 2000, the favorable tax rates 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 from 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 $83.0 million, or $2.07 per diluted share, in 2002, $82.2 million, or $2.06 per diluted share, in 2001 and $100.3 million, or $2.55 per diluted share, in 2000. Each year includes unusual items. In 2002, net earnings included after-tax charges of $10.4 million, or $.26 per diluted share, for costs associated with the settlement of a class action lawsuit in California and the closure of eight under-performing restaurants. In 2001, net earnings included the $1.9 million charge for the cumulative effect of accounting change, or $.05 per diluted share. In 2000, net earnings included $22.9 million, or $.58 per diluted share, for the settlement of a tax case as described above. Excluding all unusual items, net earnings increased approximately 11% to $93.4 million, or $2.33 per diluted share, in 2002 from $84.1 million, or $2.11 per diluted share, in 2001, which had increased 8.7%, from $77.4 million, or $1.97 per diluted share, in 2000.

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

(continued)

## Liquidity and Capital Resources

*General.* Cash and cash equivalents decreased $0.7 million to approximately $5.6 million at September 29, 2002 from approximately $6.3 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 increased $118.7 million to $220.9 million at September 29, 2002 from $102.2 million at September 30, 2001. This increase is primarily due to the reclassifications to current liabilities of our revolving bank loans which expire in March 2003 and $70 million of financing lease obligations due in January 2003, offset in part by the related reclassification of $16.1 million in sinking fund payments to other current assets from other assets. The payment of the financing lease obligations will be funded from the sinking fund, operations and our credit facility. 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. At the end of the year, our current ratio was .3 to 1 compared with .6 to 1 at September 30, 2001, decreasing due to the reclassifications discussed above.

Our revolving bank credit agreement, expiring in March 2003, provides for a credit facility of up to $175 million, including letters of credit of up to $25 million. At September 29, 2002, we had borrowings of $34 million and approximately $125 million of availability under the agreement. We fully expect to secure new financing before the expiration date of the current credit facility and have engaged a leading bank to complete the arrangement. Total debt outstanding decreased $32.4 million to $249.6 million at September 29, 2002 from $282.0 million at the beginning of fiscal year 2002, primarily due to repayments under the revolving credit facility.

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, as well as requirements to maintain certain financial ratios, cash flows and net worth. As of September 29, 2002, we were in compliance with these covenants. In September 1999, the collateral securing the bank credit facility was released; however, the real and personal property previously held as collateral cannot be used to secure other indebtedness of the Company. In addition, certain of our real and personal property secure other indebtedness.

*Other Transactions.* In January 1994, we entered into financing lease arrangements with two limited partnerships (the "Partnerships"), in which we sold interests in 76 restaurants for a specified period of time. The acquisition of the properties, including costs and expenses, was funded through the issuance of $70 million in 10.3% senior secured notes by a special purpose corporation acting as agent for the Partnerships. On August 29, 2002, we entered into an agreement to repurchase the interests in the restaurant properties that had been encumbered by the financing lease transaction. Pursuant to the agreement, on January 2, 2003, we will reacquire the interests at a price which is sufficient, in connection with previous sinking fund payments, to retire the $70 million senior secured notes. To effect the acceleration of the retirement of this high interest rate bearing debt, we also agreed to pay a consent fee of $1.3 million.

In fiscal 2002, our Board of Directors authorized the repurchase of our outstanding common stock in the open market for an aggregate amount not to exceed $80 million and is in addition to our $10 million common stock repurchase amount authorized December 3, 1999. Through September 29, 2002, we had acquired 1,549,800 shares in connection with these authorizations for an aggregate cost of $39.8 million, and at the end of the year we had approximately $50.2 million of repurchase availability remaining. The stock repurchase program is intended to offset the dilutive effect of stock option exercises and to increase shareholder value.

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

(continued)

*Contractual Obligations and Commitments.* The following is a summary of the Company's contractual obligations and commercial commitments as of September 29, 2002:

| | Payments due by period (in thousands) | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 2-3 years | 4-5 years | After 5 years |
| **Contractual Obligations:** | | | | | |
| Revolving credit facility | $ 34,000 | $ 34,000 | $ – | $ – | $ – |
| Financing lease obligations (1) | 53,866 | 53,866 | – | – | – |
| Capital lease obligations | 15,290 | 820 | 1,851 | 2,197 | 10,422 |
| Other long-term debt obligations | 130,678 | 1,668 | 3,204 | 552 | 125,254 |
| Operating lease obligations | 1,466,840 | 148,875 | 275,810 | 229,182 | 812,973 |
| Total contractual obligations | $1,700,674 | $ 239,229 | $ 280,865 | $ 231,931 | $ 948,649 |
| **Other Commercial Comments:** | | | | | |
| Stand-by letters of credit | $ 16,175 | $ 16,175 | $ – | $ – | $ – |

(1) Amount is net of accumulated sinking fund payments of $16,134.

*Capital Expenditures.* Capital expenditures decreased $23.9 million to $142.6 million in 2002 from $166.5 million in 2001, primarily due to a $16.3 million decrease in new restaurant expenditures reflecting a reduction in the number of new restaurant openings to 100 in 2002 from 126 a year ago. In addition, fiscal year 2001 included non-recurring capital expenditures of $7.8 million related to the purchase of land in San Diego, on which we plan to develop our new Innovation Center. Fiscal year 2002 capital expenditures included $91.8 million for new restaurant expenditures, $37.9 million for existing restaurant improvements and $12.9 million for other additions.

We plan on spending approximately $182 million during fiscal year 2003 on capital expenditures. The projected increase when compared with 2002 reflects our decision to increase investments in remodeling restaurant facilities, additional interior enhancements, and our strategic plan to purchase more new restaurant properties verses leasing them as a means to mitigate increasing occupancy costs. The capital expenditures estimate for 2003 also reflects the refinement of our current restaurant prototype to reduce development costs and improve returns.

*Future Liquidity.* We require capital principally to grow the business through new restaurant construction, as well as to maintain and remodel existing restaurants, to service our debt obligations, and for general operating purposes. Our primary short-term and long-term sources of liquidity are expected to be cash flows from operations, our revolving bank credit facility and the conversion of Company-operated restaurants to franchised restaurants. Additional potential sources of liquidity include various financing opportunities and the sale and leaseback of restaurant properties. 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.

## 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.

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

(continued)

## Discussion of Critical Accounting Policies

We have identified the following as the Company's most critical accounting policies, which are those that are most important to the portrayal of the Company's financial condition and results and require management's most subjective and complex judgments. Information regarding the Company's other accounting policies are disclosed in Note 1 to our consolidated financial statements.

*Pension Benefits* - The Company sponsors pension and other retirement plans in various forms covering substantially all employees who meet certain eligibility requirements. Several statistical and other factors which attempt to anticipate future events are used in calculating the expense and liability related to the plans, including assumptions about the discount rate, expected return on plan assets and the rate of increase in compensation levels, as determined by the Company using specified guidelines. In addition, our outside actuarial consultants also use certain statistical factors such as turnover, retirement and mortality rates to estimate the Company's future benefit obligations. The actuarial assumptions used may differ materially from actual results due to changing market and economic conditions, higher or lower turnover and retirement rates or longer or shorter life spans of participants. These differences may impact the amount of pension expense recorded by the Company. Due to decreases in interest rates and declines in the return on assets in the plans, the pension expense in fiscal year 2003 is expected to be approximately 40% higher than in fiscal year 2002.

*Self Insurance* – The Company is self-insured for a portion of its current and prior years' losses related to its workers' compensation, general liability, automotive, medical and dental programs. In estimating the Company's self insurance reserves, we utilize independent actuarial estimates of expected losses, which are based on statistical analyses of historical data. These assumptions are closely monitored and adjusted when warranted by changing circumstances. Should a greater amount of claims occur compared to what was estimated, or medical costs increase beyond what was expected, reserves might not be sufficient, and additional expense may be recorded.

*Long-lived Assets* - Long-lived assets, including fixed assets and intangibles, are reviewed for impairment when indicators of impairment are present. If the sum of undiscounted future cash flows is less than the carrying value of the asset, we recognize an impairment loss by the amount which the carrying value exceeds the fair value of the asset. Our estimates of future cash flows may differ from actual cash flows due to, among other things, economic conditions or changes in operating performance. In the fourth quarter of fiscal year 2002, we recorded $2.5 million in impairment charges related to eight under-performing restaurants scheduled for closure in fiscal year 2003. During fiscal year 2002, we noted no other triggering events that would indicate the need for additional impairment of any of the Company's assets.

*Legal Accruals* – The Company is subject to claims and lawsuits in the ordinary course of its business. A determination of the amount accrued, if any, for these contingencies is made after analysis of each matter. We continually evaluate such accruals and may increase or decrease accrued amounts as we deem appropriate.

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

(continued)

## 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 ("APB") 16, *Business Combinations,* and APB 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.

In accordance with the provisions of SFAS 141 and 142, our trading area rights, which represent the amounts allocated under purchase accounting to reflect the value of operating existing restaurants within each specific trading area, will be reclassified as goodwill and will no longer be amortized effective September 30, 2002. As of September 29, 2002, the carrying values of our goodwill and trading area rights were $2.0 million and $64.6 million, respectively. We recorded goodwill and trading area rights amortization expense of $4.3 million in restaurant operating costs in 2002. We will adopt the provisions of SFAS 142 in the first quarter of 2003.

In June 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations,* which addresses accounting and reporting standards for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. We intend to adopt the provisions of SFAS 143 in the first quarter of fiscal year 2003 and expect that the adoption will not have a material impact on our results of operations or financial position.

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,* and the accounting and reporting provisions of APB Opinion 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* for the disposal of a segment of a business. This Statement retains the fundamental provisions of SFAS 121, but addresses its significant implementation issues. We will adopt the provisions of SFAS 144 in the first quarter of fiscal year 2003 and expect that the adoption will not have a material impact on our results of operations or financial position.

In April 2002, the FASB issued SFAS 145, *Rescission of FASB Statements 4, 44, and 64, Amendment of FASB Statement 13, and Technical Corrections*. SFAS 145 rescinds SFAS 4, *Reporting Gains and Losses from Extinguishment of Debt,* and an amendment of that Statement, SFAS 44, *Accounting for Leases* and SFAS 64, *Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements*. SFAS 145 addresses inconsistencies in accounting for sale-leaseback transactions and amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. We will adopt the provisions of SFAS 145 in the first quarter of fiscal year 2003 and expect that the adoption will not have a material impact on our results of operations or financial position.

In June 2002, the FASB issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS 146 Supersedes Emerging Issues Task Force ("EITF") 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit and Activity.* This Statement requires that costs associated with exit or disposal activities be recognized when they are incurred rather than at the date of a commitment to an exit or disposal plan. This Statement is effective for all exit or disposal activities initiated after December 31, 2002 and will have no impact on exit liabilities recorded by the Company prior to such date.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to financial market risks associated with interest rates and commodity prices. Our primary market risk exposure relates 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 29, 2002, our applicable margin was set at 0.625%. In fiscal year 2002, the average interest rate paid on the credit facility was approximately 3.4%. At September 29, 2002, a hypothetical 100 basis point increase in short-term interest rates would result in a reduction of $0.3 million in annual pre-tax earnings. The estimated reduction is based on the outstanding balance of our revolving credit facility at September 29, 2002.

Changes in interest rates also impact our pension expense. An assumed discount rate is used in determining the present value of future cash outflows currently expected to be required to satisfy the pension benefit obligation when due. A hypothetical 25 basis point reduction in the assumed discount rate would result in an estimated increase of $0.7 million in our future annual pension expense.

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. We had no open commodity futures and option contracts as of September 29, 2002.

At September 29, 2002, 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 include 52 weeks.

| | Fiscal year | | | | |
|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| **Statement of Operations Data:** | | | | | |
| Total revenues (1) | $ 1,966,360 | $ 1,833,576 | $ 1,633,312 | $ 1,456,899 | $ 1,224,056 |
| Depreciation and amortization | 70,270 | 64,195 | 56,766 | 45,857 | 40,201 |
| Earnings before interest and income taxes (2) (3) | 148,550 | 154,813 | 148,594 | 149,607 | 137,511 |
| Earnings (4) (5) | 83,046 | 84,060 | 100,264 | 76,458 | 71,053 |
| Earnings per share: (4) (5) | | | | | |
| Basic | 2.11 | 2.17 | 2.62 | 2.00 | 1.82 |
| Diluted | 2.07 | 2.11 | 2.55 | 1.95 | 1.77 |
| **Balance Sheet Data (at end of period):** | | | | | |
| Total assets | $ 1,063,483 | $ 1,029,822 | $ 906,828 | $ 833,644 | $ 743,588 |
| Long-term debt | 143,364 | 279,719 | 282,568 | 303,456 | 320,050 |
| Stockholders' equity | 464,115 | 413,530 | 316,352 | 217,837 | 136,980 |

(1) Fiscal year 1998 includes the recognition of a $45.8 million litigation settlement received from various meat suppliers.

(2) Fiscal year 1999 reflects an $18.0 million reduction of restaurant operating costs due to a change in estimates resulting from improvements to our asset protection and risk management programs.

(3) Fiscal year 2002 includes $9.3 million for costs associated with the settlement of a class action lawsuit and $6.4 million for costs related to the closure of eight under-performing restaurants as described in Management's Discussion and Analysis of Financial Condition and Results of Operations.

(4) Before cumulative effect of accounting change in 2001, as described in Note 1 to the consolidated financial statements, and extraordinary item in 1998.

(5) Fiscal year 2000 includes the recognition of $22.9 million in tax benefits primarily resulting from the settlement of a tax case as described in Management's Discussion and Analysis of Financial Condition and Results of Operations.

## STOCK PRICES

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

| | 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 |

| | 16 weeks ended | 12 weeks ended | | |
|---|---|---|---|---|
| | Jan. 20, 2002 | Apr. 14, 2002 | July 7, 2002 | Sept. 29, 2002 |
| High | $ 28.00 | $ 31.78 | $ 34.00 | $ 29.55 |
| Low | 23.00 | 25.85 | 29.19 | 22.24 |

**BOARD OF DIRECTORS:**

**Advisory Counsel to Gibson, Dunn & Crutcher LLP:** Michael E. Alpert
**Principal, Westgate Group LLC, Retired President & CEO of Protein Technologies International Inc.:** Jay W. Brown
**Insurance Consultant:** Paul T. Carter
**General Partner, Gibbons, Goodwin, van Amerongen:** Edward W. Gibbons
**Executive Vice President and Chief Administrative Officer, Gap Inc.:** Anne B. Gust (Effective 1/1/03)
**President, University of San Diego:** Alice B. Hayes, Ph.D.
**Retired Chairman and CEO, International Technology Corp.:** Murray H. Hutchison
**President and CEO, Sharp HealthCare:** Michael W. Murphy
**Chairman and Chief Executive Officer:** Robert J. Nugent
**President and Chief Executive Officer, Multi-Ventures, Inc.:** L. Robert Payne
**President and Chief Operating Officer:** Kenneth R. Williams (Retired 12/31/02)
Upon Mr. Williams retirement, Mr. Nugent will also assume the title of President.

**EXECUTIVE AND OTHER OFFICERS:**

**Chairman and Chief Executive Officer:** Robert J. Nugent
**President and Chief Operating Officer:** Kenneth R. Williams (Retired 12/31/02)
**Executive Vice President and Chief Financial Officer:** John F. Hoffner
**Executive Vice President of Marketing, Operations, Human Resources, and Information Systems:** Linda A. Lang
**Executive Vice President and Secretary:** Lawrence E. Schauf
**Senior Vice President of Human Resources and Strategic Planning:** Carlo E. Cetti
**Senior Vice President, Operations and Franchising:** Paul L. Schultz
**Senior Vice President, Quality and Logistics:** David M. Theno, Ph.D.
**Vice President, Corporate Communications:** Karen C. Bachmann
**Vice President, Financial Planning:** Pamela S. Boyd
**Vice President and Chief Information Officer:** Stephanie E. Cline
**Vice President of Operations, Division II:** Gladys H. DeClouet
**Vice President, Franchising:** Karen G. Gentry
**Vice President of Brand Communications and Regional Marketing:** Terri F. Graham
**Vice President of Operations, Division I:** David T. Kaufhold
**Vice President, Restaurant Development:** William F. Motts
**Vice President and Treasurer:** Harold L. Sachs
**Vice President of Brand Strategy and Product Development:** Karen H. Trissel
**Vice President, Real Estate and Construction:** Charles E. Watson

**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 2002 10-K is available free of charge.

**LEGAL COUNSEL:**

Gray Cary Ware & Freidenrich LLP

**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 of its capital stock.

**ANNUAL MEETING:**

Feb. 14, 2003, 2 p.m.
Marriott Mission Valley, 8757 Rio San Diego Drive, San Diego, CA 92108

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

Jack in the Box Inc.
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www.jackinthebox.com