JACK IN THE BOX INC /NEW/
Form 10-Q
August 08, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 8, 2007
Commission File Number: 1-9390
JACK IN THE BOX INC.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Yes o No þ

Number of shares of common stock, $.01 par value, outstanding as of the close of business August 3, 2007 31,420,972.

JACK IN THE BOX INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	July 8, 2007	October 1, 2006
ASSETS		
Current assets:		
Cash and cash equivalents (includes restricted cash of $47,789 and $47,655, respectively)	$ 86,512	$ 233,906
Accounts and other receivables, net	47,003	30,874
Inventories	44,879	41,202
Prepaid expenses	27,586	23,489
Deferred income taxes	43,889	43,889
Assets held for sale and leaseback	25,325	23,059
Other current assets	8,634	6,711
Total current assets	283,828	403,130
Property and equipment, at cost	1,545,488	1,505,306
Less accumulated depreciation and amortization	625,183	590,530
Property and equipment, net	920,305	914,776
Other assets, net	224,055	202,555
	$ 1,428,188	$ 1,520,461
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 5,960	$ 37,539
Accounts payable	61,343	61,059
Accrued liabilities	212,609	240,320
Total current liabilities	279,912	338,918
Long-term debt, net of current maturities	428,441	254,231
Other long-term liabilities	156,494	145,587
Deferred income taxes	57,672	70,840
Stockholders equity:		
Preferred stock $.01 par value, 15,000,000 authorized, none issued		
	426	470

Common stock $.01 par value, 75,000,000 authorized, 42,610,192 and 46,960,155 issued, respectively		
Capital in excess of par value	126,102	431,624
Retained earnings	654,352	555,046
Accumulated other comprehensive loss, net	(752)	(1,796)
Treasury stock, at cost, 11,196,728 shares	(274,459)	(274,459)
Total stockholders equity	505,669	710,885
	$ 1,428,188	$ 1,520,461

See accompanying notes to consolidated financial statements.

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

	Twelve Weeks Ended		Forty Weeks Ended	
	July 8, 2007	**July 9, 2006**	**July 8, 2007**	**July 9, 2006**
Revenues:				
Restaurant sales	$ 503,080	$ 488,054	$ 1,654,933	$ 1,615,756
Distribution and other sales	143,972	130,076	437,529	378,159
Franchised restaurant revenues	33,151	25,216	105,100	81,197
	680,203	643,346	2,197,562	2,075,112
Operating costs and expenses:				
Restaurant costs of sales	164,372	149,399	521,703	504,913
Restaurant operating costs	250,998	247,598	834,386	829,164
Distribution and other costs of sales	142,329	128,218	433,483	373,510
Franchised restaurant costs	13,201	10,679	42,544	33,530
Selling, general and administrative expenses	62,170	68,193	221,074	226,874
Gains on sale of company-operated restaurants	(12,638)	(5,642)	(27,039)	(19,829)
	620,432	598,445	2,026,151	1,948,162
Earnings from operations	59,771	44,901	171,411	126,950
Interest expense, net	6,099	2,685	16,874	10,115
Earnings before income taxes	53,672	42,216	154,537	116,835
Income taxes	18,929	14,375	55,231	41,984
Net earnings	$ 34,743	$ 27,841	$ 99,306	$ 74,851
Net earnings per share:				
Basic	$ 1.11	$ .79	$ 2.98	$ 2.15
Diluted	$ 1.08	$ .77	$ 2.90	$ 2.09
Weighted-average shares outstanding:				
Basic	31,180	35,073	33,328	34,858
Diluted	32,027	36,018	34,267	35,850

See accompanying notes to consolidated financial statements.

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

	Forty Weeks Ended	
	July 8, 2007	July 9, 2006
Cash flows from operating activities:		
Net earnings	$ 99,306	$ 74,851
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71,856	67,440
Deferred finance cost amortization	1,085	866
Provision for deferred income taxes	(13,811)	(3,254)
Share-based compensation expense for equity-classified awards	8,353	6,500
Pension and postretirement expense	12,404	19,593
Gains on cash surrender value of company-owned life insurance	(6,843)	(1,990)
Gains on sale of company-operated restaurants	(27,039)	(19,829)
Losses on the disposition of property and equipment, net	10,751	7,109
Loss on early retirement of debt	1,939	
Impairment charges and other	488	2,161
Changes in assets and liabilities:		
Increase in receivables	(16,144)	(3,974)
Increase in inventories	(3,677)	(957)
Decrease (increase) in prepaid expenses and other current assets	(4,073)	1,355
Increase in accounts payable	3,491	10,859
Pension and postretirement contributions	(11,014)	(15,797)
Increase (decrease) in other liabilities	(4,539)	15,480
Cash flows provided by operating activities	122,533	160,413
Cash flows from investing activities:		
Purchases of property and equipment	(106,984)	(96,845)
Proceeds from the sale of property and equipment	1,199	1,865
Proceeds from the sale of company-operated restaurants	34,606	27,109
Proceeds from assets held for sale and leaseback, net	56	22,280
Collections on notes receivable	61	850
Purchase of investments	(5,174)	(6,491)
Acquisition of franchise-operated restaurants	(6,960)	
Other	(1,490)	(484)
Cash flows used in investing activities	(84,686)	(51,716)
Cash flows from financing activities:		
Proceeds from issuance of debt	475,000	
Principal payments on debt	(332,833)	(6,139)

Debt costs	(7,357)	(260)
Repurchase of common stock	(363,402)	(49,997)
Excess tax benefits from share-based compensation arrangements	16,649	8,885
Proceeds from issuance of common stock	26,702	26,629
Cash flows used in financing activities	(185,241)	(20,882)
Net increase (decrease) in cash and cash equivalents	$ (147,394)	$ 87,815

See accompanying notes to consolidated financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations Jack in the Box Inc. (the Company) operates and franchises Jack in the Box® quick-service restaurants and Qdoba Mexican Grill® fast-casual restaurants.

Basis of Presentation and Fiscal Year The accompanying consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with U.S. generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission (SEC). In our opinion, all adjustments considered necessary for a fair presentation of financial condition and results of operations for these interim periods have been included. Operating results for one interim period are not necessarily indicative of the results for any other interim period or for the full year. Certain prior year amounts in the consolidated financial statements and notes thereto have been reclassified to conform to the current year presentation, including the reclassification of gains on the sale of company-operated restaurants as a reduction of operating costs and expenses from revenues.

These financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended October 1, 2006.

Our fiscal year is 52 or 53 weeks ending the Sunday closest to September 30. Fiscal year 2007 and 2006 include 52 weeks. Our first quarter includes 16 weeks and each remaining quarter includes 12 weeks. All comparisons between 2007 and 2006 refer to the 12-week (quarter) and 40-week (year-to-date) periods ended July 8, 2007 and July 9, 2006, respectively, unless otherwise indicated.

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

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

Restricted Cash To reduce our letter of credit fees incurred under the credit facility, we entered into a separate cash-collateralized letter of credit agreement in October 2004. At July 8, 2007, we had letters of credit outstanding under this agreement of $43.4 million, which were collateralized by approximately $47.8 million of cash and cash equivalents. Although we intend to continue this agreement, we have the ability to terminate the cash-collateralized letter of credit agreement thereby eliminating the restrictions on cash and cash equivalents.

Company-owned Life Insurance We have elected to purchase company-owned life insurance policies to support our non-qualified benefit plans. The cash surrender values of these policies were $65.6 million and $54.4 million as of July 8, 2007 and October 1, 2006, respectively, and are included in other assets, net in the accompanying condensed consolidated balance sheets. A portion of these policies resides in an umbrella trust for use only to pay plan benefits to participants or to pay creditors if the Company becomes insolvent. As of July 8, 2007 and October 1, 2006, the trust includes cash surrender values of $26.7 million and $24.4 million, respectively, and cash of $0.8 million.

New Accounting Pronouncements Adopted In June 2006, the FASB ratified the consensuses of Emerging Issues Task Force (EITF) Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental*

Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) (EITF 06-3). EITF 06-3 indicates that the income statement presentation on either a gross basis or a net basis of the taxes within the scope of the Issue is an accounting policy decision. Our accounting policy is to present the taxes within the scope of EITF 06-3 on a net basis.

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

2. INDEBTEDNESS

Credit Facility On December 15, 2006, we replaced our existing credit facility with a new credit facility intended to provide a more flexible capital structure and facilitate the execution of our strategic plan. The new credit facility is comprised of (i) a $150.0 million revolving credit facility maturing on December 15, 2011 and (ii) a $475.0 million term loan maturing on December 15, 2012, initially both with London Interbank Offered Rate (LIBOR) plus 1.375%. As part of the credit agreement, we may also request the issuance of up to $75.0 million in letters of credit, the outstanding amount of which reduces the net borrowing capacity under the agreement. The new credit facility requires the payment of an annual commitment fee based on the unused portion of the credit facility. The credit facility s interest rates and the annual commitment rate are based on a financial leverage ratio, as defined in the credit agreement. Our obligations under the new credit facility are secured by first priority liens and security interests in the capital stock, partnership, and membership interests owned by us and (or) our subsidiaries, and any proceeds thereof, subject to certain restrictions set forth in the credit agreement. Additionally, the credit agreement includes a negative pledge on all tangible and intangible assets (including all real and personal property) with customary exceptions.

Loan origination costs associated with the new credit facility were $7.4 million and are included as deferred costs in other assets, net in the accompanying condensed consolidated balance sheet as of July 8, 2007. Deferred financing fees of $1.9 million related to the prior credit facility were written-off in the first quarter and are included in interest expense, net in the accompanying consolidated statement of earnings for the year-to-date period ended July 8, 2007.

At inception, we borrowed $475.0 million under the term loan facility and used the proceeds to repay all borrowings under the prior credit facility, to pay related transaction fees and expenses and to repurchase a portion of our outstanding stock. On April 13, 2007, we elected to make, without penalty, a $60.0 million optional prepayment of our term loan, which will be applied to the remaining scheduled principal installments in the direct order of maturity. The prepayment reduced the interest rate on the credit facility by 25 basis points to LIBOR plus 1.125%. At July 8, 2007, we had no borrowings under the revolving credit facility, $328.1 million outstanding under the term loan and had letters of credit outstanding of $0.2 million.

Concurrent with the termination of our prior credit facility, we liquidated our then existing interest rate swap agreements. In connection with the liquidation, the fair value of the interest rate swaps recorded as a component of accumulated other comprehensive loss was reversed and we realized a net gain of $0.4 million, included in interest expense, net in the accompanying consolidated statement of earnings for the year-to-date period ended July 8, 2007.

New Interest Rate Swaps We are exposed to interest rate volatility with regard to our variable rate debt. To reduce our exposure to rising interest rates, in March 2007, we entered into two interest rate swap agreements that will effectively convert $200.0 million of our variable rate term loan borrowings to a fixed rate basis for three years. These agreements have been designated as cash flow hedges under the terms of Statement of Financial Accounting Standards (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities*, with effectiveness assessed based on changes in the present value of interest payments on the term loan. As such, the gains or losses on these derivatives will be reported in other comprehensive income.

3. RETIREMENT PLANS

Defined Benefit Pension Plans We have non-contributory defined benefit pension plans covering those employees meeting certain eligibility requirements. The plans provide retirement benefits based on years of service

and compensation and are subject to modification at any time. It is our practice to fund retirement costs as necessary.

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

3. RETIREMENT PLANS (continued)

The components of net periodic pension cost under these plans for each period are (in thousands):

	Twelve Weeks Ended		Forty Weeks Ended	
	July 8, 2007	July 9, 2006	July 8, 2007	July 9, 2006
Service cost	$ 2,200	$ 3,044	$ 8,381	$ 9,770
Interest cost	3,276	3,383	12,325	10,941
Expected return on plan assets	(2,998)	(2,892)	(11,542)	(9,537)
Recognized actuarial loss	465	2,097	1,791	6,318
Net amortization	304	378	1,027	1,248
Net periodic pension cost	$ 3,247	$ 6,010	$ 11,982	$ 18,740

In 2007, we contributed $9.0 million to our qualified plan and $1.6 million to our non-qualified plan. We expect to contribute approximately $3.5 million to our pension plans during the remainder of fiscal 2007.

Postretirement Benefit Plans We also sponsor health care plans that provide postretirement medical benefits for employees who meet minimum age and service requirements. The plans are contributory and contain 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.

The components of net periodic postretirement benefit cost for each period are (in thousands):

	Twelve Weeks Ended		Forty Weeks Ended	
	July 8, 2007	July 9, 2006	July 8, 2007	July 9, 2006
Service cost	$ 49	$ 63	$ 164	$ 209
Interest cost	249	236	831	787
Net amortization	(172)	(43)	(573)	(143)
Net periodic postretirement benefit cost	$ 126	$ 256	$ 422	$ 853

In 2007, we contributed $0.4 million to our postretirement benefit plans and we expect to contribute approximately $0.2 million during the remainder of fiscal 2007.

4. RESTAURANT CLOSING CHARGES

Total accrued restaurant closing costs, included in accrued liabilities and other long-term liabilities, were $4.7 million as of July 8, 2007 and $5.0 million as of October 1, 2006. In the years ended 2007 and 2006, lease exit costs of $0.4 million and $0.3 million, respectively, were charged to operations, resulting primarily from revisions to certain sublease assumptions. Cash payments of $0.7 million and $0.6 million, were applied against the restaurant closing costs accrual in the years ended 2007 and 2006, respectively.

5. INCOME TAXES

The income tax provisions reflect year-to-date tax rates of 35.7% in 2007 and 35.9% in 2006. The decrease in the effective tax rate compared with a year ago is due primarily to the retroactive reinstatement of the Work

Opportunity Tax Credit program recorded as a discrete item in the first quarter of fiscal 2007. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual rate could differ from our current estimates.

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

6. STOCKHOLDERS EQUITY

Repurchases of Common Stock On November 21, 2006, we announced the commencement of a modified Dutch Auction tender offer (Tender Offer) for up to 5.5 million shares of our common stock at a price per share not less than $55.00 and not greater than $61.00, for a maximum aggregate purchase price of $335.5 million. On December 19, 2006, we accepted for purchase approximately 2.3 million shares of common stock at a purchase price of $61.00 per share, for a total cost of $143.3 million.

On December 20, 2006, the Board of Directors authorized an additional program to repurchase up to 3.3 million shares in calendar year 2007. In the second quarter of fiscal 2007, under a 10b5-1 plan, we repurchased 3.2 million shares for $220.1 million.

The Tender Offer and the additional repurchase program were funded through the new credit facility and available cash, and all shares repurchased were subsequently retired.

Outstanding Stock Repurchase Programs Pursuant to a stock repurchase program authorized by our Board of Directors in September 2005, we have approximately $100.0 million of repurchase availability, which expires in September 2008.

Comprehensive Income Our total comprehensive income, net of taxes, was as follows (in thousands):

	Twelve Weeks Ended		Forty Weeks Ended	
	July 8, 2007	July 9, 2006	July 8, 2007	July 9, 2006
Net earnings	$ 34,743	$ 27,841	$ 99,306	$ 74,851
Net unrealized gains related to cash flow hedges	1,184	272	1,278	1,329
Net realized gains reclassified into net earnings on liquidation of interest rate swaps			(234)	
Total comprehensive income	$ 35,927	$ 28,113	$ 100,350	$ 76,180

The components of accumulated other comprehensive loss, net of taxes, were as follows at the end of each period (in thousands):

	July 8, 2007	October 1, 2006
Additional minimum pension liability adjustment	$ (2,393)	$ (2,393)
Net unrealized gains related to cash flow hedges	1,641	597
Accumulated other comprehensive loss, net	$ (752)	$ (1,796)

7. SHARE-BASED EMPLOYEE COMPENSATION

Compensation Expense We offer share-based compensation plans to attract, retain, and motivate key officers, non-employee directors, and employees to work toward the financial success of the Company. The components of

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

	Twelve Weeks Ended		Forty Weeks Ended	
	July 8, 2007	July 9, 2006	July 8, 2007	July 9, 2006
Stock options	$ 1,087	$ 1,215	$ 5,425	$ 4,999
Performance-vested stock awards	536	219	1,786	894
Nonvested stock awards	395	187	856	607
Deferred compensation for directors	66	(289)	610	1,400
Total share-based compensation expense	$ 2,084	$ 1,332	$ 8,677	$ 7,900

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

7. SHARE-BASED EMPLOYEE COMPENSATION (continued)

Deferred Compensation Plan for Non-Management Directors We maintain a deferred compensation plan for non-management directors under which those who are eligible to receive 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. Effective November 9, 2006, the deferred compensation plan has been amended to eliminate a 25% company match of such deferred amounts and require settlement in shares of our common stock based on the number of stock equivalents at the time of a participant s separation from the Board of Directors. As a result of changing the method of settlement from cash to stock, the deferred compensation obligation has been reclassified from accrued liabilities to capital in excess of par value in the accompanying condensed consolidated balance sheet as of July 8, 2007.

8. AVERAGE SHARES OUTSTANDING

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

	Twelve Weeks Ended		**Forty Weeks Ended**	
	July 8, 2007	**July 9, 2006**	**July 8, 2007**	**July 9, 2006**
Weighted-average shares outstanding basic	31,180	35,073	33,328	34,858
Assumed additional shares issued upon exercise of stock options, net of shares reacquired at the average market price	709	858	804	929
Assumed vesting of nonvested stock, net of shares reacquired at the average market price	138	87	135	63
Weighted-average shares outstanding diluted	32,027	36,018	34,267	35,850
Stock options excluded (1)		313	259	317
Performance-vested awards excluded (2)	209	144	209	144

(1) These stock options were not included in the computation of diluted earnings per share because the effect would have been antidilutive.

(2) These performance-vested awards were not included in the computation of diluted earnings per

share because achievement of the performance metrics necessary for the issuance of the related shares had not been attained as of July 8, 2007 and July 9, 2006.

9. CONTINGENCIES AND LEGAL MATTERS

Legal Matters We are 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 pending legal proceedings, asserted legal claims and known potential legal claims should not materially affect our operating results, financial position or liquidity.

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

10. SEGMENT REPORTING

We operate our business in two operating segments, Jack in the Box and Qdoba Mexican Grill (Qdoba), based on management s structure and internal method of reporting. Based upon certain quantitative thresholds, only Jack in the Box is considered a reportable segment.

Summarized financial information concerning our reportable segment follows (in thousands):

	Twelve Weeks Ended		Forty Weeks Ended	
	July 8, 2007	July 9, 2006	July 8, 2007	July 9, 2006
Jack in the Box revenues	$ 656,672	$ 624,576	$ 2,128,758	$2,019,607
Jack in the Box earnings from operations	56,536	42,243	163,948	120,526

Interest expense and income taxes are not reported for operating segments in accordance with our method of internal reporting.

A reconciliation of reportable segment revenues to consolidated revenue follows (in thousands):

	Twelve Weeks Ended		Forty Weeks Ended	
	July 8, 2007	July 9, 2006	July 8, 2007	July 9, 2006
Jack in the Box revenues	$ 656,672	$ 624,576	$ 2,128,758	$ 2,019,607
Qdoba revenues	23,531	18,770	68,804	55,505
Consolidated revenues	$ 680,203	$ 643,346	$ 2,197,562	$ 2,075,112

A reconciliation of reportable segment earnings from operations to consolidated earnings from operations follows (in thousands):

	Twelve Weeks Ended		Forty Weeks Ended	
	July 8, 2007	July 9, 2006	July 8, 2007	July 9, 2006
Jack in the Box earnings from operations	$ 56,536	$ 42,243	$ 163,948	$ 120,526
Qdoba earnings from operations	3,235	2,658	7,463	6,424
Consolidated earnings from operations	$ 59,771	$ 44,901	$ 171,411	$ 126,950

11. CASH FLOW INFORMATION

Additional information related to cash flows are as follows (in thousands):

	Forty Weeks Ended	
	July 8, 2007	July 9, 2006
Cash paid during the year for:		
Interest, net of amounts capitalized	$ 23,603	$ 16,166
Income tax payments	75,213	31,751
Capital lease obligations incurred	464	159

The presentation of cash flows related to accrued purchases of property and equipment in the consolidated statement of cash flows for the forty weeks ended July 9, 2006 has changed in accordance with SFAS 95, *Statement of Cash Flows.* As a result, cash flows from operating activities increased and cash flows from investing activities decreased by $6.4 million. There was no impact of this change on the consolidated statement of cash flows for the year ended October 1, 2006.

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

12. FUTURE APPLICATION OF ACCOUNTING PRINCIPLES

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. We are currently evaluating the impact of FIN 48 on our consolidated financial statements, which is effective for fiscal years beginning after December 15, 2006.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for the first fiscal year ending after November 15, 2006. The adoption of this statement is not expected to have a material impact on our consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. SFAS 157 clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements. This statement applies under other accounting pronouncements that currently require or permit fair value measurements and is effective for fiscal years beginning after November 15, 2007. We are currently in the process of assessing the impact that SFAS 157 will have on our consolidated financial statements.

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In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 permits entities to voluntarily choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently in the process of determining whether to elect the fair value measurement options available under this standard.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

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

13. SUBSEQUENT EVENT

On August 3, 2007, the Company s Board of Directors approved a 2-for-1 split of the Company s common stock, to be effected in the form of a special 100% stock dividend. The split is subject to stockholder approval of a charter amendment to increase the Company s authorized common stock. The proposed increase in authorized common stock would provide sufficient authorized and unissued shares of common stock to ensure consummation of the split, satisfy the Company s obligations under its benefit plans and accommodate other corporate purposes. We will hold a special meeting of stockholders on September 21, 2007, to vote on such increase in the number of authorized shares of common stock.

If the increase in the number of authorized shares is approved, the stock split will require retroactive restatement of all historical share and per share data in our Form 10-K for the fiscal year ending on September 30, 2007. Shareholders equity will also be restated to give retroactive recognition of the split. For all periods presented, the par value of the additional shares will be reclassified from capital in excess of par value to common stock.

All numbers in the condensed consolidated financial statements are presented on a pre-split basis. The Company s historical net earnings per share on a pro-forma basis, assuming the stock split had occurred on October 3, 2006, would be as follows:

	Twelve Weeks Ended		**Forty Weeks Ended**	
	July 8, 2007	**July 9, 2006**	**July 8, 2007**	**July 9, 2006**
Net earnings per share:				
Basic	$.56	$.40	$1.49	$1.07
Diluted	$.54	$.39	$1.45	$1.04

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

Results of Operations

All comparisons under this heading between 2007 and 2006 refer to the 12-week (quarter) and 40-week (year-to-date) periods ended July 8, 2007 and July 9, 2006, respectively, unless otherwise indicated.

Overview

As of July 8, 2007, Jack in the Box Inc. (the Company) owned, operated, and franchised 2,107 Jack in the Box quick-service restaurants and 371 Qdoba Mexican Grill (Qdoba) fast-casual restaurants.

The Company s primary source of revenue is from retail sales at company-operated restaurants. The Company also derives revenue from sales of food and packaging to Jack in the Box and Qdoba franchises, retail sales from fuel and convenience stores (Quick Stuff), and revenue from franchisees including royalties, based upon a percent of sales, franchise fees and leased real estate.

The Company also recognizes gains from the sale of company-operated restaurants to franchisees which are presented as a reduction of operating costs and expenses in the accompanying consolidated statements of earnings. Effective in the first quarter of 2007, the Company is reporting gains as a discrete line item within operating costs and expenses, rather than within revenues, as previously presented. Last year s gains on sale of company-operated restaurants to franchisees have been reclassified to conform with the current year presentation.

The quick-service restaurant industry has become more complex and challenging in recent years. Challenges presently facing the sector include higher levels of consumer expectations, intense competition with respect to market share, restaurant locations, labor, menu and product development, changes in the economy, including costs of commodities, and trends for healthier eating.

To address these challenges and others, management has developed a strategic plan focused on three key initiatives. The first initiative is a holistic reinvention of the Jack in the Box brand through menu innovation, upgrading guest service and re-imaging Jack in the Box restaurant facilities to reflect the personality of Jack the chain s fictional founder and popular spokesman. The second initiative is a multifaceted growth strategy that includes opening new restaurants and improving the unit economics of each concept. The third strategic initiative is to expand franchising through new restaurant development and the sales of company-operated restaurants to franchisees to generate higher returns and higher margins, while mitigating business-cost and investment risks.

The following summarizes the most significant events occurring in fiscal year 2007:

Restaurant Sales. New product introductions, including our 100% Sirloin Burger, Sirloin Steak n Cheddar and Steak n Mushroom Ciabatta sandwiches, and strong customer response to marketing messages promoting the chain s premium products and value menu contributed to sales growth at Jack in the Box restaurants increasing both the average

check and number of transactions. This positive sales momentum resulted in increases in same-store sales (those restaurants open more than one year) of 6.4% at Jack in the Box company-operated restaurants and 4.2% at Qdoba system restaurants.

Re-Image Program. We continued to re-image our Jack in the Box restaurants and remain on pace to re-image 150-200 restaurants in fiscal 2007. Through the first three quarters of fiscal 2007, we re-imaged 118 restaurants with a comprehensive program that includes a complete redesign of the dining room and common areas. According to a proprietary brand image and loyalty study, the newly re-imaged restaurants are expanding their customer base, generating more guest visits and gaining more loyal guests.

Franchising Program. We continued to make progress on our strategic initiative to expand franchising through new restaurant development and sales of company-operated restaurants to franchisees. Included among the 52 Jack in the Box restaurants refranchised in fiscal 2007 was a transaction involving 14 locations in Houston, which was previously a company-operated market. Additionally, we have signed franchise development agreements to expand the Jack in the Box brand into three new contiguous markets.

Stock Repurchases. Pursuant to a modified Dutch Auction tender offer (Tender Offer) in the first quarter and a 10b5-1 plan for a stock repurchase program authorized by our Board of Directors in the second quarter, we repurchased 5.5 million shares of our common stock for $363.4 million.

Credit Agreement. In the first quarter, we entered into a new credit agreement consisting of a revolving credit facility of $150 million with a five-year maturity and a term loan facility of $475 million with a six-year maturity.

Debt Prepayment. Using our available cash resources, in the second quarter we prepaid without penalty $60 million of our term loan which is expected to result in annualized interest savings of approximately $2 million.

Interest Rate Swaps. To reduce exposure to rising interest rates, we converted $200 million of our term loan at floating rates to a fixed interest rate for the next three years by entering into two interest rate swap contracts.

The following table sets forth, unless otherwise indicated, the percentage relationship to total revenues of certain items included in the Company s consolidated statements of earnings.

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STATEMENTS OF EARNINGS DATA

	Twelve Weeks Ended		Forty Weeks Ended	
	July 8, 2007	July 9, 2006	July 8, 2007	July 9, 2006
Revenues:				
Restaurant sales	74.0%	75.9%	75.3%	77.9%
Distribution and other sales	21.1	20.2	19.9	18.2
Franchise restaurant revenues	4.9	3.9	4.8	3.9
Total revenues	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:				
Restaurant costs of sales (1)	32.7%	30.6%	31.5%	31.2%
Restaurant operating costs (1)	49.9	50.7	50.4	51.3
Distribution and other costs of sales (1)	98.9	98.6	99.1	98.8
Franchise restaurant costs (1)	39.8	42.4	40.5	41.3
Selling, general and administrative expenses	9.1	10.6	10.1	10.9
Gains on sale of company-operated restaurants	(1.9)	(0.9)	(1.2)	(1.0)
Earnings from operations	8.8	7.0	7.8	6.1

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

The following table summarizes the number of systemwide restaurants:

SYSTEMWIDE RESTAURANT UNITS

	July 8, 2007	October 1, 2006	July 9, 2006
Jack in the Box:			
Company-operated	1,440	1,475	1,499
Franchised	667	604	566
Total system	2,107	2,079	2,065
Qdoba:			
Company-operated	83	70	66
Franchised	288	248	232
Total system	371	318	298
Consolidated:			

Company-operated	1,523	1,545	1,565
Franchised	955	852	798
Total system	2,478	2,397	2,363

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Revenues

Restaurant sales increased $15.0 million, or 3.1%, in the quarter and $39.2 million, or 2.4% year-to-date. This sales growth primarily reflects an increase in per store average (PSA) sales at Jack in the Box and Qdoba company-operated restaurants, offset in part by a decrease in the number of company-operated restaurants. Same-store sales at Jack in the Box company-operated restaurants increased 7.4% and 6.4%, respectively, in 2007 compared with a year ago, reflecting an increase in both average check and transactions primarily due to the success of new product introductions and continued focus on our brand reinvention initiatives. The number of company-operated Jack in the Box restaurants decreased by 59 since a year ago, primarily reflecting the sale of restaurants to franchisees, which was partially offset by an increase in Qdoba restaurants.

Distribution and other sales, which include Quick Stuff fuel and convenience store sales, grew to $144.0 million and $437.5 million, respectively, in 2007 from $130.1 million and $378.2 million in 2006. Distribution sales to Jack in the Box and Qdoba franchisees grew primarily due to an increase in the number of franchised restaurants serviced by our distribution centers. Sales from our Quick Stuff locations increased primarily due to an increase in the number of locations to 58 at the end of the quarter from 50 a year ago, offset in part by a decrease in PSA fuel gallons sold.

Franchised restaurant revenues, which include rents, royalties and fees from restaurants operated by franchisees, increased to $33.2 million and $105.1 million, respectively, in 2007 from $25.2 million and $81.2 million in 2006, primarily reflecting growth in the number of franchised restaurants and increases in PSA sales at franchised restaurants. The number of franchised restaurants at the end of the quarter grew to 955 from 798 a year ago, reflecting the franchising of Jack in the Box company-operated restaurants and new restaurant development by Jack in the Box and Qdoba franchisees.

Costs and Expenses

Restaurant costs of sales, which include food and packaging costs, were $164.4 million and $521.7 million, respectively, in 2007 compared with $149.4 million and $504.9 million in 2006. As a percentage of restaurant sales, restaurant costs of sales increased to 32.7% and 31.5% in 2007 from 30.6% and 31.2% in 2006. In both periods, higher commodity costs, primarily beef, eggs and cheese, and product mix changes were offset by lower packaging costs and modest selling price increases. Beef costs for the quarter were up approximately 9% versus prior year. Egg and cheese costs were also up substantially in the quarter. We expect higher food costs to continue for the balance of the year.

Restaurant operating costs increased to $251.0 million and $834.4 million, respectively, in 2007 from $247.6 million and $829.2 million in 2006. As a percentage of restaurant sales, restaurant operating costs decreased to 49.9% and 50.4%, respectively, in 2007 from 50.7% and 51.3% in 2006. The percentage improvement in 2007 is primarily due to fixed-cost leverage on same-store sales growth, lower costs for utilities, profit improvement initiatives, and fairly stable labor rates offset in part by the costs of brand re-invention.

Distribution and other cost of sales increased to $142.3 million and $433.5 million, respectively, in 2007 from $128.2 million and $373.5 million in 2006, primarily reflecting an increase in the related sales. As a percentage of the related sales, these costs increased to 98.9% and 99.1%, respectively, in 2007 from 98.6% and 98.9% in 2006. In the quarter, the percentage increase was impacted by higher commodity costs offset in part by an increase in our gross profit per gallon. Year-to-date, the percent of sales increase primarily relates to the impact of higher retail prices per gallon of fuel at our Quick Stuff locations, which had proportionately higher costs, but yielded stable penny profits.

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Franchised restaurant costs, principally rents and depreciation on properties leased to Jack in the Box franchisees, increased to $13.2 million and $42.5 million, respectively, in 2007 from $10.7 million and $33.5 million in 2006, due primarily to an increase in the number of franchised restaurants.

Selling, general and administrative expenses (SG&A) were $62.2 million and $221.1 million, respectively, in 2007 compared with $68.2 million and $226.9 million in 2006. SG&A expenses improved to 9.1% and 10.1% of revenues, respectively, in 2007 compared with 10.6% and 10.9%, respectively, in 2006 due primarily to the leverage from higher sales and franchise revenues, lower pension expense, insurance proceeds received for a legal matter previously settled by the Company as well as the impact of the Company s refranchising strategy.

Gains on sale of company-operated restaurants to franchisees were $12.6 million and $27.0 million, respectively, from the sale of 22 and 52 Jack in the Box restaurants, in 2007 compared with $5.6 million and $19.8 million, from the sale of 17 and 47 Jack in the Box restaurants, in 2006. The average gain per restaurant is related to the specific sales and cash flows of the restaurants sold.

Interest expense, net increased $3.4 million in the quarter and $6.8 million year-to-date. In the quarter and year-to-date, higher average bank borrowings and increased interest rates incurred on our credit facility contributed to the increase. Year-to-date, this increase was offset in part by an increase in interest income of $3.5 million year-to-date, reflecting higher cash balances at the beginning of the year and interest rates on invested cash. Year-to-date interest expense, net also includes a $1.9 million charge to write off deferred financing fees associated with our prior credit facility.

The income tax provisions reflect a decrease in the effective tax rate to 35.7% in 2007 from 35.9% in 2006 due primarily to the retroactive reinstatement of the Work Opportunity Tax Credit program recorded as a discrete item in the first quarter of fiscal 2007. We expect the annual tax rate for fiscal year 2007 to be 36.75% 37.25%. The final annual tax rate cannot be determined until the end of the fiscal year; therefore, the actual rate could differ from our current estimates.

Net Earnings

Net earnings were $34.7 million in the quarter, or $1.08 per diluted share, in 2007 compared to $27.8 million, or $0.77 per diluted share, in 2006. Year-to-date net earnings were $99.3 million, or $2.90 per diluted share, in 2007 compared to $74.9 million, or $2.09 per diluted share, in 2006.

Liquidity and Capital Resources

General. Cash and cash equivalents decreased $147.4 million to $86.5 million at July 8, 2007 from $233.9 million at the beginning of the fiscal year. This decrease is primarily due to the use of cash to repurchase the Company s common stock, the repayment of our prior credit facility, a $60.0 million prepayment made on the Company s new credit facility and property and equipment expenditures, which were offset in part by borrowings under the Company s new credit facility, cash flows provided by operating activities and proceeds from the issuance of common stock and from the sale of restaurants to franchisees. We generally reinvest available cash flows from operations to develop new or enhance existing restaurants, to repurchase shares of our common stock and to reduce debt.

Financial Condition. As is common in the restaurant industry, we maintain relatively low levels of accounts receivable and inventories, and our vendors grant trade credit for purchases such as food and supplies. We also continually invest in our business through the addition of new units and refurbishment of existing units, which are reflected as long-term assets.

Capital Expenditures. We used cash flows of $107.0 million for purchases of property and equipment in 2007 compared with $96.8 million in 2006. The increase in capital expenditures compared with a year ago primarily relates to our on-going comprehensive re-image program. We expect capital expenditures to be $170 - $175 million in fiscal 2007.

Sale of Company-Operated Restaurants. We have continued our strategy of selectively franchising Jack in the Box company-operated restaurants to franchisees, selling 22 and 52 restaurants respectively, 2007 compared with 17 and 47 a year ago. Year to date proceeds from the sale of company-operated restaurants were $34.6 million in 2007 and $27.1 million in 2006.

Acquisition of Franchise-Operated Restaurants. In the quarter, Qdoba acquired nine franchise-operated restaurants for approximately $7.0 million in cash. The primary assets acquired include $2.5 million in net property and equipment and $4.5 million in goodwill.

New Financing. On December 15, 2006, we replaced our existing credit facility with a new credit facility intended to provide a more flexible capital structure and facilitate the execution of our strategic plan. The new credit facility is comprised of (i) a $150.0 million revolving credit facility maturing on December 15, 2011 and (ii) a $475.0 million term loan maturing on December 15, 2012, initially both with London Interbank Offered Rate (LIBOR) plus 1.375%. As part of the credit agreement, we may also request the issuance of up to $75.0 million in letters of credit, the outstanding amount of which reduces the net borrowing capacity under the agreement. The new credit facility requires the payment of an annual commitment fee based on the unused portion of the credit facility. The credit facility s interest rates and the annual commitment rate are based on a financial leverage ratio, as defined in the credit agreement. Our obligations under the new credit facility are secured by first priority liens and security interests in the capital stock, partnership, and membership interests owned by us and (or) our subsidiaries, and any proceeds thereof, subject to certain restrictions set forth in the credit agreement. Additionally, the credit agreement includes a negative pledge on all tangible and intangible assets (including all real and personal property) with customary exceptions.

Loan origination costs associated with the new credit facility were $7.4 million and are included as deferred costs in other assets, net in the accompanying condensed consolidated balance sheet as of July 8, 2007. Deferred financing fees of $1.9 million related to the prior credit facility were written-off in the first quarter and are included in interest expense, net in the accompanying consolidated statement of earnings for the year-to-date period ended July 8, 2007.

At inception, we borrowed $475.0 million under the term loan facility and used the proceeds to repay all borrowings under the prior credit facility, to pay related transaction fees and expenses and to repurchase a portion of our outstanding stock. On April 13, 2006, we elected to make, without penalty, a $60.0 million optional prepayment of our term loan, which will be applied to the remaining scheduled principal installments in the direct order of maturity. The prepayment reduced the interest rate on the credit facility by 25 basis points to LIBOR plus 1.125%, which is expected to result in an annualized interest savings of approximately $2.0 million. At July 8, 2007, we had no borrowings under the revolving credit facility, $328.1 million outstanding under the term loan and had letters of credit outstanding of $0.2 million.

Letter of Credit Agreement. To reduce our letter of credit fees, we entered into a cash-collateralized letter of credit agreement in October 2004. At July 8, 2007, we had letters of credit outstanding under this agreement of $43.4 million, which were collateralized by approximately $47.8 million of cash and cash equivalents. Although we intend to continue this arrangement, we have the ability to terminate the cash-collateralized letter of credit agreement thereby eliminating the restrictions on and cash equivalents.

Interest Rate Swaps. Concurrent with the termination of our prior credit facility, we liquidated three swap agreements and reversed the fair value of the swaps recorded as a component of accumulated other comprehensive loss, net. We realized a net gain of $0.4 million, included in interest expense, net in the accompanying consolidated statement of earnings for the year-to-date period ended July 8, 2007. To reduce our exposure to rising interest rates under our new credit facility, in March 2007, we entered into two interest rate swap agreements that will effectively

convert $200.0 million of our variable rate term loan borrowings to a fixed rate basis for three years.

Debt Covenants. We are subject to a number of covenants under our various debt instruments, including limitations on additional borrowings, acquisitions, loans to franchisees, capital expenditures, lease commitments, stock repurchases and dividend payments, as well as requirements to maintain certain financial ratios, cash flows and net worth. As of July 8, 2007, we were in compliance with all debt covenants.

Debt Outstanding. Total debt outstanding increased to $434.4 million at July 8, 2007 from $291.8 million at the beginning of the fiscal year. Current maturities of long-term debt decreased $31.6 million and long-term debt, net of current maturities increased $174.2 million due to borrowings under the new credit facility. At October 1, 2006, $29.1 million was classified as current under the prior credit facility related to a clause in the agreement requiring prepayments based on an excess cash flow calculation.

Repurchases of Common Stock. On November 21, 2006, we announced the commencement of a modified Dutch Auction tender offer (Tender Offer) for up to 5.5 million shares of our common stock at a price per share not less than $55.00 and not greater than $61.00, for a maximum aggregate purchase price of $335.5 million. On December 19, 2006, we accepted for purchase approximately 2.3 million shares of common stock at a purchase price of $61.00 per share, for a total cost of $143.3 million.

On December 20, 2006, the Board of Directors authorized an additional program to repurchase up to 3.3 million shares in calendar year 2007. In the second quarter of 2007, under a 10b5-1 plan, we repurchased 3.2 million shares for $220.1 million.

The Tender Offer and the additional repurchase program were funded through the new credit facility and available cash, and all shares repurchased were subsequently retired.

Outstanding Stock Repurchase Programs. Pursuant to a stock repurchase program authorized by our Board of Directors in September 2005, we have approximately $100.0 million of repurchase availability, which expires in September 2008.

Future Liquidity. We require capital principally to grow the business through new restaurant construction, as well as to maintain, improve and refurbish existing restaurants, and for general operating purposes. Our primary short-term and long-term sources of liquidity are expected to be cash flows from operations, the revolving bank credit facility, the sale of company-operated restaurants to franchisees and the sale and leaseback of certain restaurant properties. Based upon current levels of operations and anticipated growth, we expect that cash flows from operations, combined with other financing alternatives in place or available, will be sufficient to meet our capital expenditure, working capital and debt service requirements.

Discussion of Critical Accounting Policies

We have identified the following as our 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 our other significant accounting policies are disclosed in Note 1 of our most recent Annual Report on Form 10-K filed with the SEC.

Share-based Compensation We account for share-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) 123R. Under the provisions of SFAS 123R, share-based compensation cost is estimated at the grant date based on the award s fair-value as calculated by an option pricing model and is recognized as expense ratably over the requisite service period. The option pricing models require various highly judgmental assumptions including volatility, forfeiture rates, and expected option life. If any of the assumptions used in the model change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period.

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Retirement Benefits We sponsor pension and other retirement plans in various forms covering those 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 our 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 affect the amount of pension expense we record.

Self Insurance We are self-insured for a portion of our losses related to workers compensation, general liability, automotive, medical and dental programs. In estimating our self-insurance accruals, 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, accruals might not be sufficient, and additional expense may be recorded.

Long-lived Assets Property, equipment and certain other assets, including amortized intangible assets, are reviewed for impairment when indicators of impairment are present. This review includes a restaurant-level analysis that takes into consideration a restaurant s operating cash flows, the period of time since a restaurant has been opened or remodeled, and the maturity of the related market. When indicators of impairment are present, we perform an impairment analysis on a restaurant-by-restaurant basis. If the sum of undiscounted future cash flows is less than the net 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.

Goodwill and Other Intangibles We also evaluate goodwill and intangible assets not subject to amortization annually or more frequently if indicators of impairment are present. If the determined fair values of these assets are less than the related carrying amounts, an impairment loss is recognized. The methods we use to estimate fair value include future cash flow assumptions, which may differ from actual cash flows due to, among other things, economic conditions or changes in operating performance. During the fourth quarter of fiscal 2006, we reviewed the carrying value of our goodwill and indefinite life intangible assets and determined that no impairment existed as of October 1, 2006.

Allowances for Doubtful Accounts Our trade receivables consist primarily of amounts due from franchisees for rents on subleased sites, royalties and distribution sales. We continually monitor amounts due from franchisees and maintain an allowance for doubtful accounts for estimated losses. This estimate is based on our assessment of the collectibility of specific franchisee accounts, as well as a general allowance based on historical trends, the financial condition of our franchisees, consideration of the general economy and the aging of such receivables. We have good relationships with our franchisees and high collection rates; however, if the future financial condition of our franchisees were to deteriorate, resulting in their inability to make specific required payments, we may be required to increase the allowance for doubtful accounts.

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.

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Future Application of Accounting Principles

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. We are currently evaluating the impact of FIN 48 on our consolidated financial statements, which is effective for fiscal years beginning after December 15, 2006.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for the first fiscal year ending after November 15, 2006. The adoption of this statement is not expected to have a material impact on our consolidated financial position or results of operations.

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Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

Cautionary Statements Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of the federal securities law. These forward-looking statements are principally contained in the sections captioned, Notes to Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements use such words as anticipate, assume, believe, estimate, seek, expect, intend, project, may, will, would, and similar expressions. These statements are based on management s current expectatio and are subject to known and unknown risks and uncertainties, which may cause actual results to differ materially from expectations. You should not rely unduly on forward-looking statements. The following are some of the factors that could materially affect our results.

- Any widespread negative publicity, whether or not based in fact, which affects consumer perceptions about the health, safety or quality of food and beverages served at our restaurants may adversely affect our results.
- Costs may exceed projections, including costs for food ingredients, labor (including increases in minimum wage, workers compensation and other insurance and healthcare) fuel, utilities, real estate, insurance, equipment, technology, and construction of new and remodeled restaurants. Conversion to trans fat free oil may increase our costs. Inflationary pressures affecting the cost of commodities, including speculation and increasing demand for corn for use in producing ethanol and other purposes, may adversely affect our food costs and our operating margins.
- There can be no assurances that new interior and exterior designs will foster increases in sales at re-imaged restaurants and yield the desired return on investment.
- There can be no assurances that the Company s growth objectives in the regional markets in which it operates restaurants and convenience stores will be met or that the new facilities will be profitable. Anticipated and unanticipated delays in development, sales softness and restaurant closures may have a material adverse effect on the Company s results of operations. The development and profitability of restaurants can be adversely affected by many factors, including the ability of the Company and its franchisees to select and secure suitable sites on satisfactory terms, costs of construction, the availability of financing and general business and economic conditions.
- There can be no assurances that we will be able to effectively respond to aggressive competition from numerous and varied competitors (some with significantly greater financial resources) in all areas of business, including new concepts, facility design, competition for labor, new product introductions, promotions and discounting. Additionally, the trend toward convergence in grocery, deli and other types of food services may increase the number of our competitors.

The realization of gains from the sale of company-operated restaurants to existing and new franchisees depends upon various factors, including sales trends, cost trends, the financing market and economic conditions. The number of franchises sold and the amount of gain realized from the sale of an on-going business may not be consistent from quarter-to-quarter and may not meet expectations.

The costs related to legal claims such as class actions involving employees, franchisees, shareholders or consumers, including costs related to potential settlement or judgments may adversely affect our results.

Changes in accounting standards, policies or practices or related interpretations by auditors or regulatory entities, including changes in tax accounting or tax laws may adversely affect our results.

The costs or exposures associated with maintaining the security of information and the use of cashless payments may exceed expectations. Such risks include increased investment in technology and costs of compliance with consumer protection and other laws.

Significant demographic changes, adverse weather, economic conditions such as inflation or recession or political conditions such as terrorist activity or the effects of war, or other significant events, particularly in California and Texas where approximately 70% of Jack in the Box restaurants are located; new legislation and governmental regulation; changes in accounting standards; the possibility of unforeseen events affecting the food service industry in general and other factors over which the Company has no control can each adversely affect our results of operation.

This discussion of uncertainties is not exclusive. Additional risk factors associated with our business are described in Management s Discussion and Analysis in this Form 10-Q and in our Annual Report on Form 10-K for fiscal year 2006 filed with the SEC. Jack in the Box Inc. does not intend to update these forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure relating to financial instruments is changes in interest rates. Our credit facility, which is comprised of a revolving credit facility and a term loan, bears interest at an annual rate equal to the prime rate or LIBOR plus an applicable margin based on a financial leverage ratio. As of July 8, 2007, the applicable margin for the LIBOR-based revolving loans and term loan was set at 1.125%.

We use interest rate swaps agreements to reduce exposure to interest rate fluctuations. At July 8, 2007, we had two interest rate swap agreements having an aggregate notional amount of $200.0 million expiring April 1, 2010. These agreements effectively convert a portion of our variable rate bank debt to fixed-rate debt and have an average pay rate of 4.87%, yielding a fixed-rate of 6.00% including the term loan s applicable margin of 1.125%.

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A hypothetical 100 basis point increase in short-term interest rates, based on the outstanding unhedged balance of our revolving credit facility and term loan at July 8, 2007 would result in an estimated increase of $2.2 million in annual interest expense.

Changes in interest rates also impact our pension expense, as do changes in the expected long-term rate of return on our pension plan assets. 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. Additionally, an assumed long-term rate of return on plan assets is used in determining the average rate of earnings expected on the funds invested or to be invested to provide the benefits to meet our projected benefit obligation. A hypothetical 25 basis point reduction in the assumed discount rate and expected long-term rate of return on plan assets would result in an estimated increase of $1.6 million and $0.3 million, respectively, in our future annual pension expense.

We are also exposed to the impact of commodity and utility price fluctuations related to unpredictable factors such as weather and various other market conditions outside our control. Our ability to recover increased costs through higher prices is limited by the competitive environment in which we operate. From time-to-time we enter into futures and option contracts to manage these fluctuations. Open commodity futures and option contracts at July 8, 2007 were not significant.

At July 8, 2007, we had no other material financial instruments subject to significant market exposure.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

There were no changes in the Company s internal control over financial reporting during the period covered by this quarterly report on Form 10-Q that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

There is no information required to be reported for any items under Part II, except as follows:

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ITEM 1. LEGAL PROCEEDINGS

The Company is 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 pending legal proceedings, asserted legal claims and known potential legal claims should not materially affect our operating results, financial position and liquidity.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in the Company s Form 10-K for the year ended October 1, 2006. You should review the brief discussion of some of those risk factors appearing under the heading Cautionary Statements Regarding Forward-Looking Statements and throughout Management s Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-Q.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Pursuant to a stock repurchase program authorized by our Board of Directors in September 2005, we have approximately $100 million of repurchase availability, which expires in September 2008.

We did not pay any cash or other dividends during the last two fiscal years. Our credit agreement provides for a remaining aggregate amount of $297 million for the repurchase of our common stock and $50 million for the potential payment of cash dividends. However, we do not anticipate paying dividends in the foreseeable future.

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ITEM 6. EXHIBITS

Number	Description
3.1	Restated Certificate of Incorporation, as amended, which is incorporated herein by reference from registrant s Annual Report on Form 10-K for the fiscal year ended October 3, 1999.
3.2	Amended and Restated Bylaws, which are incorporated herein by reference from the registrant s Current Report on Form 8-K dated August 7, 2007.
10.1	Credit Agreement dated as of December 15, 2006 by and among Jack in the Box Inc. and the lenders named therein, which is incorporated herein by reference from the registrant s Current Report on Form 8-K dated December 15, 2006.
10.2	Collateral Agreement dated as of December 15, 2006 by and among Jack in the Box Inc. and the lenders named therein, which is incorporated herein by reference from the registrant s Current Report on Form 8-K dated December 15, 2006.
10.3	Guaranty Agreement dated as of December 15, 2006 by and among Jack in the Box Inc. and the lenders named therein, which is incorporated herein by reference from the registrant s Current Report on Form 8-K dated December 15, 2006.
10.4*	Amended and Restated 1992 Employee Stock Incentive Plan, which is incorporated herein by reference from registrant s Registration Statement on Form S-8 (No. 333-26781) filed May 9, 1997.
10.5*	Jack in the Box Inc. 2002 Stock Incentive Plan, which is incorporated herein by reference from the registrant s Definitive Proxy Statement dated January 18, 2002 for the Annual Meeting of Stockholders on February 22, 2002.
10.5.1*	Form of Restricted Stock Award for certain executives under the 2002 Stock Incentive Plan, which is incorporated herein by reference from registrant s Quarterly Report on Form 10-Q for the quarter ended January 19, 2003.
10.6*	Supplemental Executive Retirement Plan, which is incorporated herein by reference from registrant s Annual Report on Form 10-K for the fiscal year ended September 30, 2001.
10.6.1*	First Amendment dated as of August 2, 2002 to the Supplemental Executive Retirement Plan, which is incorporated herein by reference from registrant s Annual Report on Form 10-K for the fiscal year ended September 29, 2002.
10.6.2*	Second Amendment dated as of November 9, 2006 to the Supplemental Executive Retirement Plan, which is incorporated herein by reference from the registrant s Annual Report on Form 10-K for the year ended October 1, 2006.
10.6.3*	Third Amendment dated as of February 15, 2007 to the Supplemental Executive Retirement Plan, which is incorporated herin by reference from the registrant s Quarterly Report on Form 10-Q for the quarter ended April 15, 2007.
10.7*	Amended and Restated Performance Bonus Plan effective October 2, 2000, which is incorporated herein by reference from the registrant s Definitive Proxy Statement dated January 13, 2006 for the Annual

Meeting of Stockholders on February 17, 2006.

Number	Description
10.7.1*	Bonus Program for Fiscal 2007 Under the Performance Bonus Plan, which is incorporated herein by reference from the registrant s Current Report on Form 8-K dated September 18, 2006.
10.8*	Deferred Compensation Plan for Non-Management Directors, which is incorporated herein by reference from registrant s Definitive Proxy Statement dated January 17, 1995 for the Annual Meeting of Stockholders on February 17, 1995.
10.8.1*	Amended and Restated Deferred Compensation Plan for Non-Management Directors effective November 9, 2006, which is incorporated herein by reference from the registrant s Annual Report on Form 10-K for the year ended October 1, 2006.
10.9*	Amended and Restated Non-Employee Director Stock Option Plan, which is incorporated herein by reference from registrant s Annual Report on Form 10-K for the fiscal year ended October 3, 1999.
10.10*	Form of Compensation and Benefits Assurance Agreement for Executives, which is incorporated herein by reference from the registrant s Quarterly Report on Form 10-Q for the quarter ended July 9, 2006.
10.11*	Form of Indemnification Agreement between Jack in the Box Inc. and certain officers and directors, which is incorporated herein by reference from registrant s Annual Report on Form 10-K for the fiscal year ended September 29, 2002.
10.13*	Executive Deferred Compensation Plan, which is incorporated herein by reference from registrant s Quarterly Report on Form 10-Q for the quarter ended January 19, 2003.
10.14(a)*	Schedule of Restricted Stock Awards, which is incorporated herein by reference from the registrant s Annual Report on Form 10-K for the year ended October 1, 2006.
10.15*	Executive Retention Agreement between Jack in the Box Inc. and Gary J. Beisler, President and Chief Executive Officer of Qdoba Restaurant Corporation, which is incorporated herein by reference from registrant s Quarterly Report on Form 10-Q for the quarter ended April 13, 2003.
10.16*	Amended and Restated 2004 Stock Incentive Plan, which is incorporated herein by reference from the registrant s Current Report on Form 8-K dated February 24, 2005.
10.16.1*	Form of Restricted Stock Award for certain officers and other members of management under the 2004 Stock Incentive Plan.
10.16.1(a)	Form of Restricted Stock Award for certain executives under the 2004 stock Incentive Plan.
10.16.2*	Form of Stock Option Awards under the 2004 Stock Incentive Plan.
10.16.3*	Jack in the Box Inc. Non-Employee Director Stock Option Award Agreement under the 2004 Stock Incentive Plan, which is incorporated herein by reference from the registrant s Current Report on Form 8-K dated November 10, 2005.
10.21*	Executive Compensation Base Salaries effective October 2, 2006, which is incorporated herein by reference from the registrant s Annual Report on Form 10-K for the year ended October 1, 2006.

10.23*	Summary of Director Compensation effective fiscal 2007, which is incorporated herein by reference from the registrant s Annual Report on Form 10-K for the year ended October 1, 2006.

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Number	**Description**
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan.

ITEM 15(b) All required exhibits are filed herein or incorporated by reference as described in Item 15(a)(3).

ITEM 15(c) All supplemental schedules are omitted as inapplicable or because the required information is included in the consolidated financial statements or notes thereto.

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SIGNATURE

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

JACK IN THE BOX INC.

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

Date: August 8, 2007