
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-8360

IHOP CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-3038279

(I.R.S. Employer Identification No.)

**450 North Brand Boulevard,
Glendale, California**
(Address of principal executive offices)

91203-1903

(Zip Code)

(818) 240-6055

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding as of June 30, 2001 |
|-------------------------------|---------------------------------|
| Common Stock, \$.01 par value | 20,399,905 |

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

**IHOP CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)**

| | June 30, 2001 | December 31, 2000 |
|--|------------------|----------------------|
| | (Unaudited) | |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 5,886 | \$ 7,208 |
| Receivables, net | 36,863 | 39,600 |
| Reacquired franchises and equipment held for sale, net | 2,907 | 3,172 |
| Inventories | 610 | 691 |
| Prepaid expenses | 5,222 | 431 |
| | <u>51,488</u> | <u>51,102</u> |
| Total current assets | 51,488 | 51,102 |
| Long-term receivables | 293,162 | 287,346 |
| Property and equipment, net | 216,893 | 193,624 |
| Reacquired franchises and equipment held for sale, net | 17,035 | 17,973 |
| Excess of costs over net assets acquired, net | 10,981 | 11,196 |
| Other assets | 2,531 | 971 |
| | <u>592,090</u> | <u>562,212</u> |
| Total assets | \$ 592,090 | \$ 562,212 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Current maturities of long-term debt | \$ 9,819 | \$ 8,939 |
| Accounts payable | 12,136 | 20,588 |
| Accrued employee compensation and benefits | 6,231 | 6,776 |
| Other accrued expenses | 7,130 | 7,835 |
| Deferred income taxes | 2,011 | 3,957 |
| Capital lease obligations | 2,003 | 1,878 |
| | <u>39,330</u> | <u>49,973</u> |

| | | |
|---|------------|------------|
| Total current liabilities | 39,330 | 49,973 |
| Long-term debt | 50,232 | 36,363 |
| Deferred income taxes | 50,054 | 46,585 |
| Capital lease obligations and other | 169,895 | 169,296 |
| Shareholders' equity | | |
| Preferred stock, \$1 par value, 10,000,000 shares authorized; none issued | — | — |
| Common stock, \$.01 par value, 40,000,000 shares authorized: June 30, 2001; 20,606,987 shares issued and 20,399,905 shares outstanding; December 31, 2000; 20,299,091 shares issued and 20,011,341 shares outstanding | 206 | 203 |
| Additional paid-in capital | 73,683 | 69,655 |
| Retained earnings | 211,274 | 193,632 |
| Treasury stock, at cost (207,082 and 287,750 shares at June 30, 2001 and December 31, 2000) | (3,386) | (5,170) |
| Contribution to ESOP | 802 | 1,675 |
| Total shareholders' equity | 282,579 | 259,995 |
| Total liabilities and shareholders' equity | \$ 592,090 | \$ 562,212 |

See the accompanying Notes to Consolidated Financial Statements.

IHOP CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-----------|---------------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| Revenues | | | | |
| Franchise operations | | | | |
| Rent | \$ 16,130 | \$ 12,697 | \$ 30,574 | \$ 24,418 |
| Service fees and other | 35,056 | 32,525 | 70,343 | 65,461 |
| | 51,186 | 45,222 | 100,917 | 89,879 |
| Sale of franchises and equipment | 13,639 | 8,425 | 17,238 | 14,402 |
| Company operations | 18,000 | 16,657 | 34,776 | 34,429 |
| Total revenues | 82,825 | 70,304 | 152,931 | 138,710 |
| Costs and Expenses | | | | |
| Franchise operations | | | | |
| Rent | 9,179 | 6,814 | 17,503 | 13,105 |
| Other direct costs | 11,861 | 10,945 | 23,692 | 22,366 |
| | 21,040 | 17,759 | 41,195 | 35,471 |
| Cost of sales of franchises and equipment | 8,761 | 5,459 | 11,552 | 9,741 |
| Company operations | 17,249 | 15,938 | 33,699 | 32,858 |
| Field, corporate and administrative | 10,432 | 9,546 | 19,994 | 17,809 |
| Depreciation and amortization | 3,667 | 3,338 | 7,227 | 6,652 |
| Interest | 5,286 | 5,221 | 10,614 | 10,821 |
| Other (income) and expense, net | (143) | (443) | (36) | 117 |
| Total costs and expenses | 66,292 | 56,818 | 124,245 | 113,469 |
| Income before income taxes | 16,533 | 13,486 | 28,686 | 25,241 |
| Provision for income taxes | 6,365 | 5,192 | 11,044 | 9,718 |

| | | | | |
|--|-----------|----------|-----------|-----------|
| Net income | \$ 10,168 | \$ 8,294 | \$ 17,642 | \$ 15,523 |
| Net Income Per Share | | | | |
| Basic | \$ 0.50 | \$ 0.41 | \$ 0.88 | \$ 0.78 |
| Diluted | \$ 0.49 | \$ 0.41 | \$ 0.86 | \$ 0.77 |
| Weighted Average Shares Outstanding | | | | |
| Basic | 20,272 | 19,988 | 20,160 | 20,026 |
| Diluted | 20,625 | 20,202 | 20,522 | 20,223 |

See the accompanying Notes to Consolidated Financial Statements.

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IHOP CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | Six Months Ended June 30, | |
|--|---------------------------|-----------|
| | 2001 | 2000 |
| Cash flows from operating activities | | |
| Net income | \$ 17,642 | \$ 15,523 |
| Adjustments to reconcile net income to cash provided by operating activities | | |
| Depreciation and amortization | 7,227 | 6,652 |
| Deferred taxes | 1,523 | 2,373 |
| Contribution to ESOP | 802 | 760 |
| Change in current assets and liabilities | | |
| Accounts receivable | 2,467 | 4,095 |
| Inventories | 81 | 433 |
| Prepaid expenses | (4,791) | (31) |
| Accounts payable | (8,452) | (1,616) |
| Accrued employee compensation and benefits | (545) | (1,962) |
| Other accrued expenses | (705) | 2,335 |
| Other, net | (1,246) | 778 |
| Cash provided by operating activities | 14,003 | 29,340 |
| Cash flows from investing activities | | |
| Additions to property and equipment | (47,952) | (37,473) |
| Additions to notes | (5,850) | (4,344) |
| Principal receipts from notes and equipment contracts receivable | 7,632 | 6,172 |
| Additions to reacquired franchises held for sale | (954) | (698) |
| Cash used in investing activities | (47,124) | (36,343) |
| Cash flows from financing activities | | |
| Proceeds from issuance of long-term debt, including revolving line of credit | 26,319 | 4,700 |
| Proceeds from sale and lease back arrangements | 13,803 | 7,056 |
| Repayment of long-term debt, including revolving line of credit | (11,570) | (4,983) |
| Principal payments on capital lease obligations | (893) | (624) |
| Treasury stock transactions | (23) | (4,041) |
| Exercise of stock options | 4,163 | 883 |

| | | |
|--|-----------|-----------|
| Cash provided by financing activities | 31,799 | 2,991 |
| Net change in cash and cash equivalents | (1,322) | (4,012) |
| Cash and cash equivalents at beginning of period | 7,208 | 4,176 |
| Cash and cash equivalents at end of period | \$ 5,886 | \$ 164 |
| Supplemental disclosures | | |
| Interest paid, net of capitalized amounts | \$ 10,639 | \$ 10,711 |
| Income taxes paid | 5,646 | 7,052 |
| Capital lease obligations incurred | 530 | 1,975 |

See the accompanying Notes to Consolidated Financial Statements.

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IHOP CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General: The accompanying consolidated financial statements for the three months and six months ended June 30, 2001, have been prepared in accordance with generally accepted accounting principles ("GAAP"). These financial statements have not been audited by independent public accountants but include all adjustments, consisting of normal, recurring accruals, which in the opinion of management of IHOP Corp. and Subsidiaries ("IHOP") are necessary for a fair statement of the financial position and the results of operations for the periods presented. The accompanying consolidated balance sheet as of December 31, 2000, has been derived from audited financial statements, but does not include all disclosures required by GAAP. The results of operations for the three months and six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year ending December 31, 2001.

2. Segments: IHOP identifies its operating segments based on the organizational units used by management to monitor performance and make operating decisions. The Franchise Operations segment includes restaurants operated by franchisees and area licensees in the United States, Canada and Japan (see Note 3, below). The Company Operations segment includes company-operated restaurants in the United States. We measure segment profit as operating income, which is defined as income before field, corporate and administrative expense, interest expense, and income taxes. Information on segments and reconciliation to income before income taxes are as follows:

| | Franchise Operations | Company Operations | Sales of Franchises and Equipment | Consolidating Adjustments and Other | Consolidated Total |
|---|-------------------------------|-----------------------|---|---|--------------------|
| | (In thousands) (Unaudited) | | | | |
| Three Months Ended June 30, 2001 | | | | | |
| Revenues from external customers | \$ 51,186 | \$ 18,000 | \$ 13,639 | \$ — | \$ 82,825 |
| Intercompany real estate charges (revenues) | 1,459 | 219 | — | (1,678) | — |
| Depreciation and amortization | 1,393 | 1,079 | — | 1,195 | 3,667 |
| Operating income (loss) | 22,602 | (1,030) | 4,878 | 5,801 | 32,251 |
| Field, corporate and administrative | | | | | 10,432 |
| Interest expense | | | | | 5,286 |
| Income before income taxes | | | | | 16,533 |
| Additions to long-lived assets | 13,328 | 337 | 300 | 13,258 | 27,223 |
| Total assets | 450,602 | 42,756 | 19,942 | 78,790 | 592,090 |
| Three Months Ended June 30, 2000 | | | | | |
| Revenues from external customers | \$ 45,222 | \$ 16,657 | \$ 8,425 | \$ — | \$ 70,304 |
| Intercompany real estate charges (revenues) | 1,662 | 144 | — | (1,806) | — |
| Depreciation and amortization | 1,059 | 965 | — | 1,314 | 3,338 |
| Operating income (loss) | 20,564 | (948) | 2,966 | 5,671 | 28,253 |
| Field, corporate and administrative | | | | | 9,546 |
| Interest expense | | | | | 5,221 |
| Income before income taxes | | | | | 13,486 |
| Additions to long-lived assets | 12,433 | 3,381 | 215 | 5,886 | 21,915 |
| Total assets | 393,427 | 47,221 | 19,129 | 74,645 | 534,422 |

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2. Segments (Continued):

| | Franchise Operations | Company Operations | Sales of Franchises and Equipment | Consolidating Adjustments and Other | Consolidated Total |
|--|-------------------------|-----------------------|---|---|--------------------|
| Six Months Ended June 30, 2001 | | | | | |
| Revenues from external customers | \$ 100,917 | \$ 34,776 | \$ 17,238 | \$ — | \$ 152,931 |
| Intercompany real estate charges (revenues) | 2,779 | 375 | — | (3,154) | — |
| Depreciation and amortization | 2,694 | 2,145 | — | 2,388 | 7,227 |
| Operating income (loss) | 45,166 | (2,468) | 5,686 | 10,910 | 59,294 |
| Field, corporate and administrative | | | | | 19,994 |
| Interest expense | | | | | 10,614 |
| Income before income taxes | | | | | 28,686 |
| Additions to long-lived assets | 28,007 | 1,512 | 954 | 18,433 | 48,906 |
| Total assets | 450,602 | 42,756 | 19,942 | 78,790 | 592,090 |
| Six Months Ended June 30, 2000 | | | | | |
| Revenues from external customers | \$ 89,879 | \$ 34,429 | \$ 14,402 | \$ — | \$ 138,710 |
| Intercompany real estate charges (revenues) | 3,157 | 315 | — | (3,472) | — |
| Depreciation and amortization | 2,067 | 2,022 | — | 2,563 | 6,652 |
| Operating income (loss) | 40,588 | (1,901) | 4,661 | 10,523 | 53,871 |
| Field, corporate and administrative | | | | | 17,809 |
| Interest expense | | | | | 10,821 |
| Income before income taxes | | | | | 25,241 |
| Additions to long-lived assets | 25,488 | 4,500 | 698 | 7,485 | 38,171 |
| Total assets | 393,427 | 47,221 | 19,129 | 74,645 | 534,422 |

For management reporting purposes, we treat all restaurant lease revenues and expenses as operating lease revenues and expenses, although most of these leases are direct financing leases (revenues) or capital leases (expenses). The accounting adjustments required to bring lease revenues and expenses into conformance with GAAP are included in the Consolidating Adjustments and Other segment. All of IHOP's owned land and restaurant buildings are included in the total assets of the Consolidating Adjustments and Other segment and are leased to the Franchise Operations and Company Operations segments.

3. Other Transactions: The area licensee in Japan negotiated an early termination of the area license agreement as of April 30, 2001 that was originally scheduled to terminate in August 2003. A termination fee of approximately \$250,000 was received by IHOP and the area licensee discontinued the operation of the 32 IHOP restaurants in Japan. Royalty income from this area licensee was:

| | 2001 | 2000 |
|----------------------------|-----------|------------|
| Three months ended June 30 | \$ 4,000 | \$ 76,000 |
| Six months ended June 30 | \$ 61,000 | \$ 152,000 |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The following table sets forth certain operating data for IHOP restaurants:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------|-----------------------------|------------|---------------------------|------------|
| | 2001 | 2000 | 2001 | 2000 |
| (In thousands) (Unaudited) | | | | |
| Restaurant Data | | | | |
| Effective restaurants(a) | | | | |
| Franchise | 754 | 690 | 749 | 684 |
| Company | 74 | 71 | 73 | 74 |
| Area license(d) | 130 | 150 | 141 | 149 |
| Total | 958 | 911 | 963 | 907 |
| System-wide | | | | |
| Sales(b) | \$ 331,131 | \$ 308,663 | \$ 661,829 | \$ 607,485 |

| | | | | | |
|--|----|---------|------------|------------|------------|
| Percent increase | | 7.3% | 10.8% | 8.9% | 10.8% |
| Average sales per effective restaurant | \$ | 346 | \$ 339 | \$ 687 | \$ 670 |
| Percent increase | | 2.1% | 3.0% | 2.5% | 2.6% |
| Comparable average sales per restaurant(c) | \$ | 360 | \$ 355 | \$ 715 | \$ 699 |
| Percent change | | (0.2)% | 0.6% | 0.8% | 0.2% |
| Franchise | | | | | |
| Sales | \$ | 280,512 | \$ 255,459 | \$ 555,711 | \$ 499,556 |
| Percent increase | | 9.8% | 12.4% | 11.2% | 11.7% |
| Average sales per effective restaurant | \$ | 372 | \$ 370 | \$ 742 | \$ 730 |
| Percent increase | | 0.5% | 1.6% | 1.6% | 1.5% |
| Comparable average sales per restaurant(c) | \$ | 371 | \$ 367 | \$ 739 | \$ 724 |
| Percent change | | (0.1)% | 0.8% | 1.0% | 0.5% |
| Company | | | | | |
| Sales | \$ | 18,000 | \$ 16,657 | \$ 34,776 | \$ 34,429 |
| Percent change | | 8.1% | (7.6)% | 1.0% | 1.2% |
| Average sales per effective restaurant | \$ | 243 | \$ 235 | \$ 476 | \$ 465 |
| Percent change | | 3.4% | (2.1)% | 2.4% | (1.7)% |
| Area License | | | | | |
| Sales | \$ | 32,619 | \$ 36,547 | \$ 71,342 | \$ 73,500 |
| Percent change | | (10.7)% | 10.2% | (2.9)% | 9.7% |
| Average sales per effective restaurant | \$ | 251 | \$ 244 | \$ 506 | \$ 493 |
| Percent change | | 2.9% | 7.5% | 2.6% | 6.7% |

- (a) "Effective restaurants" are the number of restaurants in a given fiscal period adjusted to account for restaurants open for only a portion of the period.
- (b) "System-wide sales" are retail sales of franchisees, area licensees and company-operated restaurants, as reported to IHOP.
- (c) "Comparable average sales" reflects sales for restaurants that are operated for the entire fiscal period in which they are being compared. The restaurants included in the calculations typically will be different from period to period. Comparable average sales do not include data on restaurants located in Florida and Japan.
- (d) Excluding the units in Japan, system-wide sales increased 9.3% for the quarter and 10.5% for the six months ended June 30; effective restaurants grew by 8.0% in the quarter and 7.8% for the six months ended June 30; average sales per effective restaurants increased 1.2% in the quarter and 2.5% for the six months ended June 30, 2001 over the same periods in 2000.

The following table summarizes IHOP's restaurant development and franchising activity:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|------|---------------------------|------|
| | 2001 | 2000 | 2001 | 2000 |
| (Unaudited) | | | | |
| RESTAURANT DEVELOPMENT ACTIVITY | | | | |
| IHOP-beginning of period | 978 | 909 | 968 | 903 |
| New openings | | | | |
| IHOP-developed | 18 | 15 | 25 | 22 |
| Investor and conversion programs | 3 | 2 | 6 | 3 |
| Area license | 1 | 4 | 3 | 4 |
| | 22 | 21 | 34 | 29 |
| Closings | | | | |
| Company and franchise | (3) | (7) | (5) | (8) |
| Area license | (32) | — | (32) | (1) |
| | 965 | 923 | 965 | 923 |
| IHOP-end of period | 965 | 923 | 965 | 923 |

| | | | | |
|--|-----|-----|-----|-----|
| Summary-end of period | | | | |
| Franchise | 774 | 697 | 774 | 697 |
| Company | 70 | 74 | 70 | 74 |
| Area license | 121 | 152 | 121 | 152 |
| Total IHOP | 965 | 923 | 965 | 923 |
| RESTAURANT FRANCHISING ACTIVITY | | | | |
| IHOP-developed | 21 | 12 | 26 | 20 |
| Investor and conversion programs | 3 | 2 | 6 | 3 |
| Rehabilitated and refranchised | 3 | 2 | 4 | 5 |
| Total restaurants franchised | 27 | 16 | 36 | 28 |
| Reacquired by IHOP | (2) | (3) | (4) | (6) |
| Closed | (3) | (2) | (5) | (3) |
| Net addition | 22 | 11 | 27 | 19 |

Forward-Looking Statements

The following discussion and analysis provides information we believe is relevant to an assessment and understanding of IHOP's consolidated results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and notes thereto. Certain forward-looking statements are contained in this report. They use such words as "may," "will," "expect," "believe," "plan," or other similar terminology. These statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results to be materially different than those expressed or implied in such statements. These factors include, but are not limited to: availability of suitable locations, and terms for the sites designated for development; legislation and government regulation, including the ability to obtain satisfactory regulatory approvals; conditions beyond IHOP's control such as weather or natural disasters; availability and cost of materials and labor; power outages; higher utility costs; costs and availability of capital; competition; continuing acceptance of the International House of Pancakes and IHOP brands and concepts by guests and franchisees; IHOP's overall marketing, operational and financial performance; economic and political conditions; adoption of new, or changes in accounting policies and practices and other factors discussed from time to time in our Press Releases, Public Statements and/or filings with the Securities and Exchange Commission.

Forward-looking information is provided by us pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 and should be evaluated in the context of these factors. In addition, we disclaim any intent or obligation to update these forward-looking statements.

General

IHOP's revenues are recorded in three categories: franchise operations, sales of franchises and equipment, and company operations.

Franchise operations revenues include payments from franchisees of rents, royalties and advertising fees, proceeds from the sale of proprietary products, interest income received in connection with the financing of franchise and development fees and equipment sales, interest income received from direct financing leases on franchised restaurant buildings, and payments from area licensees of royalties and advertising fees.

Sale of franchises and equipment and the associated costs of such sales are affected by the number and mix of restaurants franchised. We franchise four types of restaurants: restaurants newly developed by IHOP, restaurants developed by franchisees, restaurants developed by area licensees and restaurants that have been previously reacquired from franchisees. Franchise rights for restaurants newly developed by IHOP normally sell for a franchise fee of \$200,000 to \$375,000 or more, have minor associated franchise cost of sales and usually include a separate equipment sale in excess of \$300,000 that is usually at a price that includes little or no profit margin. Franchise rights for restaurants developed by franchisees normally sell for a franchise fee of \$50,000, have minor associated franchise cost of sales and typically do not include an equipment sale. Area license rights, which we are not currently pursuing, have been granted in return for a one-time development fee that is recognized ratably as restaurants are developed in the area. Previously reacquired franchises normally sell for a franchise fee of \$100,000 to \$375,000 or more, include an equipment sale, and may have substantial costs of sales associated with both the franchise and the equipment. The timing of sales of franchises is affected by the timing of new restaurant openings and the number of restaurants in our inventory of restaurants that are available for refranchising.

Company operations revenues consist of retail sales at IHOP-operated restaurants.

We report separately those expenses that are attributable to franchise operations, the cost of sales of franchises and equipment and company operations. Expenses recorded under field, corporate and administrative, depreciation and amortization, and interest relate to

franchise operations, sales of franchises and equipment, and company operations.

Other income and expense, net consists of revenues and expenses not related to IHOP's core business operations. These include gains and losses realized from closing and selling restaurants and are unpredictable in timing and amount.

Our results of operations are impacted by the timing of additions of new restaurants, and by the timing of the franchising of those restaurants. When a restaurant is franchised, we no longer include in our revenues the retail sales from that restaurant, but we receive a one-time franchise and development fee, periodic interest on the portion of such fee financed by us and recurring payments as described above under franchise operations revenues.

Comparison of the Second Quarter and the Six Months Ended June 30, 2001 to the Second Quarter and Six Months Ended June 30, 2000

The second quarter and the six months ended June 30, 2001 and 2000 were both comprised of 13 weeks (91 days) and 26 weeks (182 days), respectively.

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System-Wide Retail Sales

System-wide retail sales include the sales of all IHOP restaurants as reported to IHOP by its franchisees, area licensees and company-operated restaurants. System-wide retail sales grew by 7.3% in the second quarter and by 8.9% in the first six months of 2001 over the same periods in the prior year. Growth in the number of effective restaurants and increases in average per unit sales caused the growth in system-wide sales. "Effective restaurants" are the number of restaurants in operation in a given fiscal period, adjusted to account for restaurants in operation for only a portion of the fiscal period. Effective restaurants grew by 5.2% in the second quarter and by 6.2% in the first six months of 2001 over the same periods in 2000 due to new restaurant development. Newly developed restaurants generally have higher seating capacity and sales than the system-wide averages. System-wide comparable average sales per restaurant (exclusive of area license restaurants in Florida and Japan) declined by 0.2% in the second quarter and grew by 0.8% in the first six months of 2001. Management continues to pursue growth in sales through new restaurant development, advertising and marketing efforts, new products, improvements in customer service and operations, and remodeling of existing restaurants.

Franchise Operations

Franchise operations revenues are the revenues received by IHOP from its franchisees and include rent, royalties, proprietary product sales, advertising fees and interest. Franchise operations revenues grew by 13.2% in the second quarter and by 12.3% in the first six months of 2001 compared to the same periods of the prior year. Retail sales in franchise restaurants increased 9.8% and 11.2% for the second quarter and first six months of 2001. Effective franchise restaurants grew by 9.3% in the second quarter and by 9.5% in the first six months of 2001 over the same periods in the prior year. Average sales per effective franchise restaurant grew 0.5% in the second quarter and 1.6% in the first six months of 2001.

Franchise operations costs and expenses include facility rent, advertising, the cost of proprietary products, and other direct costs associated with franchise operations. Franchise operations costs and expenses increased by 18.5% in the second quarter and by 16.1% in the first six months of 2001 over the same periods in the prior year. Increases in franchise operations costs and expenses were generally in line with the growth in franchise operations revenue. However, the percentage increase exceeded that of revenues primarily due to higher rent expense.

Rent expense has been effected primarily by lease accounting issues not economic ones. Most of the leases and subleases entered into by the company beginning in 2000 have been accounted for as operating leases, whereas most leases prior to 2000 were accounted for as capital leases. As a result, rent income and expense are increasing and interest income and expense related to real estate leases, (and associated receivables and liabilities) are not.

Sublease transactions with franchisees are structured with little or no margin at inception of the sublease, but with margin improvement over the life of the lease. New unit development will therefore have a negative effect on rent margin percentages. Actual profit margin on rent transactions increased \$1.1 million to \$7 million in the second quarter, an 18.2% improvement over the \$5.9 million rent margin in the second quarter of 2000. This reflects the margin improvement achieved as the subleases mature. The timing of lease transactions also have an impact on rent expense.

Franchise operations margin as a percent of revenues was 58.9% and 59.2% in the second quarter and first six months of 2001 compared with 60.7% and 60.5% in the same periods of 2000. The decrease in the margin percentage was primarily due to lease accounting issues mentioned above.

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Sales of Franchises and Equipment

Sales of franchises and equipment increased by 61.9% in the second quarter and by 19.7% in the first six months of 2001 over the comparable periods in the prior year. An increase in the number of restaurants franchised was the primary cause of the increase in sales of franchises and equipment. IHOP franchised 27 restaurants in the second quarter and 36 in the first six months of 2001, compared to 16 and 28 in the same periods of 2000.

Cost of sales of franchises and equipment increased by 60.5% in the second quarter and by 18.6% in the first six months of 2001. The increase was generally in line with the increase in the sales of franchises and equipment. However, the Company also incurs preopening costs and site related costs that are not directly linked to the number of units franchised within a quarter.

Margin on sales of franchises and equipment as a percent of applicable revenues was 35.8% and 33.0% in the second quarter and first six months of 2001 compared with 35.2% and 32.4% in the same periods of 2000. The stability in margin reflects the consistency in the mix of units franchised, i.e. IHOP developed, investor developed or refranchised.

Company Operations

Company operations revenues are retail sales to customers at restaurants operated by IHOP. Company operations revenues increased by 8.1% in the second quarter and by 1.0% in the first six months of 2001 over the same periods in the prior year. An increase in the average sales per IHOP-operated restaurant caused the revenue increase. Effective IHOP-operated restaurants grew by 4.2% in the second quarter and decreased by 1.4% in the first six months of 2001 over the same periods in 2000. Average sales per effective IHOP-operated restaurant increased by 3.4% and 2.4% in the second quarter and first six months of 2001.

Company operations costs and expenses include food, labor and benefits, utilities and occupancy costs. Company operations costs increased by 8.2% in the second quarter and by 2.6% in the first six months of 2001. Company operations costs were primarily affected by increases in the number of effective restaurants, but were also impacted by increases in certain costs, primarily rent and utilities.

Company operations margin as a percent of company operations revenues was 4.2% and 3.1% in the second quarter and first six months of 2001 compared with 4.3% and 4.6% in the same periods in the prior year. Company operations margin was negatively impacted by the increases in rent and utility costs described above in the Company operations costs and expenses section.

Other Costs and Expenses

Field, corporate and administrative costs and expenses increased by 9.3% in the second quarter and by 12.3% in the first six months of 2001 over the same periods in the prior year. The rise in expenses was primarily due to higher compensation and rent expenses. The primary cause of the increases in rent expense was the initiation of a new 10-year lease for the Company's corporate headquarters in late 2000 and the opening of a new regional office in the Rocky Mountain area in early 2001. Field, corporate and administrative expenses were 3.2% and 3.0% of system-wide sales in the second quarter and first six months of 2001 compared to 3.1% and 2.9% in the same periods in 2000.

Depreciation and amortization expense increased by 9.9% in the second quarter and by 8.6% in the first six months of 2001 over the same periods in 2000. The increases were caused primarily by the addition of new restaurants to the IHOP chain from our restaurant development program.

Interest expense increased by 1.3% in the second quarter and decreased by 1.9% in the first six months of 2001 compared to the same periods in the prior year. Long term debt increased by

approximately \$15 million since December 31, 2000. However, the Company has benefited from lower interest rates currently available.

Balance Sheet Accounts

The balance of property and equipment, net at June 30, 2001, increased by 12.0% from December 31, 2000 primarily due to new restaurant development.

Liquidity and Capital Resources

The Company invests in its business primarily through the development of additional restaurants and, to a lesser extent, through the remodeling of older company-operated restaurants. Also, the Company began repurchasing shares of its common stock in 2000. As of June 30, 2001, the Company has cumulatively repurchased 389,168 shares of its common stock, of which 182,086 shares were contributed to the Employee Stock Ownership Plan. There were 1,000 shares repurchased in the first six months of 2001.

In the first six months of 2001, IHOP and its franchisees and area licensees developed and opened 34 IHOP restaurants. Of these, we developed and opened 25 restaurants, and franchisees and area licensees developed and opened 9 restaurants. Capital expenditures in the first six months of 2001, which included our portion of the above development program, were \$48 million. Funds for investment primarily came from operations, additional long term debt and our revolving line of credit.

In 2001, IHOP and its franchisees and area licensees plan to develop and open approximately 75 to 85 restaurants. Included in that number is the development of 70 to 75 new restaurants by us and the development of 5 to 10 restaurants by our franchisees and area licensees. Capital expenditure projections for 2001, which include our portion of the above development program, are estimated to be approximately \$95 to \$105 million. In November 2001, the sixth annual installment of \$4.6 million in principal will be due on our 7.79% senior notes due 2002 and the second installment of \$3.9 million in principal will be due on our senior notes due 2008. We expect that funds from operations, sale and leaseback arrangements (estimated to be about \$40 to \$45 million) and other borrowings including our \$25 million revolving line of credit will be sufficient to cover our operating requirements, our budgeted capital expenditures and our principal repayments on our senior notes in 2001. At June 30, 2001, \$19 million was available to be borrowed under our noncollateralized bank revolving credit

Part II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

The annual meeting of shareholders (the "Meeting") was held on May 15, 2001. Shareholders voted in person or by proxy for the following purposes.

(a) Shareholders voted to elect three Class I directors, each to serve for a term of three years, as follows:

| Nominee | Votes For | Votes Withheld |
|-------------------|------------|----------------|
| Frank Edelstein | 15,393,192 | 3,765,530 |
| Neven C. Hulsey | 15,396,322 | 3,762,400 |
| Caroline W. Nahas | 15,432,307 | 3,726,415 |

There were no abstentions or broker non-votes. Directors whose terms of office continued after the meeting were Richard K. Herzer, H. Frederick Christie, Michael S. Gordon, Larry Alan Kay, Dennis M. Leifheit, and Patrick W. Rose.

(b) Shareholders voted to approve and ratify the adoption of the IHOP Corp. 2001 Stock Incentive Plan. 12,483,471 shares were voted in favor of the proposal, 4,078,406 shares were voted against, there were 282,062 abstentions and 2,314,783 broker non-votes.

(c) Shareholders voted to approve and ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent accountants for the year ending December 31, 2001. 19,117,193 shares were voted in favor of this proposal, 29,683 shares were voted against, there were 11,846 abstentions and no broker non-votes.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

- 3.1 Certificate of Incorporation of IHOP Corp. (Exhibit 3.1 to IHOP Corp.'s Form 10-K for the fiscal year ended December 31, 1997 (the "1997 Form 10-K") is incorporated herein by reference).
- 3.2 Bylaws of IHOP Corp. (Exhibit 3.2 to IHOP Corp.'s 1997 Form 10-K is incorporated herein by reference).
- 3.3 Amendment to the bylaws of IHOP Corp. dated November 14, 2000 (Exhibit 3.3 to IHOP Corp.'s Form 10-Q for the quarterly period ended March 31, 2001 is incorporated herein by reference).
- 11.0 Statement Regarding Computation of Per Share Earnings.

(b) No reports on Form 8-K were filed during the quarter ended June 30, 2001.

SIGNATURES

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.

IHOP CORP.
(Registrant)

July 31, 2001

(Date)

BY: /s/ RICHARD K. HERZER

Chairman of the Board, President and Chief
Executive Officer (Principal Executive Officer)

July 31, 2001

/s/ ALAN S. UNGER

(Date)

V.P.-Finance, Treasurer and Chief Financial
Officer (Principal Financial Officer)

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EXHIBIT 11.0

**IHOP CORP. AND SUBSIDIARIES
STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS
(In thousands, except per share data)
(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|----------|---------------------------|-----------|
| | 2001 | 2000 | 2001 | 2000 |
| NET INCOME PER COMMON SHARE BASIC | | | | |
| Weighted average shares outstanding | 20,272 | 19,988 | 20,160 | 20,026 |
| Net income available to common shareholders | \$ 10,168 | \$ 8,294 | \$ 17,642 | \$ 15,523 |
| Net income per share-basic | \$ 0.50 | \$ 0.41 | \$ 0.88 | \$ 0.78 |
| NET INCOME PER COMMON SHARE DILUTED | | | | |
| Weighted average shares outstanding | 20,272 | 19,988 | 20,160 | 20,026 |
| Net effect of dilutive stock options based on the treasury stock method using the average market price. | 353 | 214 | 362 | 197 |
| Total | 20,625 | 20,202 | 20,522 | 20,223 |
| Net income available to common shareholders | \$ 10,168 | \$ 8,294 | \$ 17,642 | \$ 15,523 |
| Net income per share-diluted | \$ 0.49 | \$ 0.41 | \$ 0.86 | \$ 0.77 |

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[IHOP CORP. AND SUBSIDIARIES STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS \(In thousands, except per share data\) \(Unaudited\)](#)