
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K/A

(Amendment No. 1)

**CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): **November 29, 2007**

IHOP CORP.

(Exact Name of Registrant as Specified in Charter)

Delaware
(State or other jurisdiction of
incorporation)

001-15283
(Commission
File Number)

95-3038279
(I.R.S. Employer
Identification No.)

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

91203
(Zip Code)

(818) 240-6055
(Registrant's telephone number, including area code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K/A filing is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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This Current Report on Form 8-K/A (Amendment No. 1) amends IHOP Corp.'s Current Report on Form 8-K filed on December 5, 2007, in which IHOP Corp. reported the completion of its acquisition of Applebee's International, Inc. This amendment is being filed to include the financial statements and pro forma financial information required under Item 9.01 of Form 8-K. The information previously reported in the Current Report on Form 8-K filed on December 5, 2007, is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The audited consolidated balance sheets of Applebee's International, Inc. and Subsidiaries as of December 31, 2006 and December 25, 2005 and the related consolidated statements of earnings, stockholders' equity, and cash flows for the years ended December 31, 2006, December 25, 2005, and December 26, 2004, and the notes related thereto, which have been adjusted to reflect certain discontinued operations, are filed as Exhibit 99.1 to this amendment and incorporated herein by reference.

The condensed consolidated balance sheets of Applebee's International, Inc. and Subsidiaries as of September 30, 2007 (unaudited) and December 31, 2006 and the related unaudited condensed consolidated statements of earnings, stockholder's equity, and cash flows for the 13 and 39 weeks ended September 30, 2007 and September 24, 2006, and the notes related thereto, are incorporated herein by reference to Item 1. of Applebee's International, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007.

(b) Pro Forma Financial Information

The unaudited pro forma combined condensed financial statements with respect to the transaction are filed as Exhibit 99.2 to this amendment and are incorporated herein by reference.

(d) Exhibits

23.1 Consent of Independent Registered Public Accounting Firm.

99.1 The audited consolidated balance sheets of Applebee's International, Inc. and Subsidiaries as of December 31, 2006 and December 25, 2005 and the related consolidated statements of earnings, stockholders' equity, and cash flows for the years ended December 31, 2006, December 25, 2005 and December 26, 2004 and the notes related thereto.

99.2 Unaudited Pro Forma Condensed Combined Financial Statements of IHOP Corp.

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 hereunto duly authorized.

Date: February 12, 2008

IHOP CORP.

By: /s/ THOMAS CONFORTI
Thomas Conforti
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description
23.1	Consent of Independent Registered Public Accounting Firm.
99.1	The audited consolidated balance sheets of Applebee's International, Inc. and Subsidiaries as of December 31, 2006 and December 25, 2005 and the related consolidated statements of earnings, stockholders' equity, and cash flows for the years ended December 31, 2006, December 25, 2005 and December 26, 2004 and the notes related thereto.
99.2	Unaudited Pro Forma Condensed Combined Financial Statements of IHOP Corp.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-46361 and 333-71768 on Form S-8 of IHOP Corp. and subsidiaries of our reports dated February 28, 2007 (October 29, 2007 as to Note 6), relating to the consolidated financial statements of Applebee's International, Inc. and subsidiaries (which report included an explanatory paragraph regarding a change in accounting for stock-based compensation upon adoption of Statement of Financial Accounting Standards No. 123R, Share-Based Payment) and management's report on the effectiveness of internal control over financial reporting appearing in this Current Report on Form 8-K/A of IHOP Corp. and subsidiaries dated on or about February 11, 2008.

/s/ Deloitte & Touche LLP

Kansas City, MO
February 11, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Applebee's International, Inc. and Subsidiaries
Overland Park, KS

We have audited the accompanying consolidated balance sheets of Applebee's International, Inc. and subsidiaries (the "Company") as of December 31, 2006 and December 25, 2005, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and December 25, 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation upon adoption of Financial Accounting Standards Board Statement No. 123R, *Share-Based Payment*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007, expressed an unqualified opinion on management's assessment of effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Kansas City, MO
February 28, 2007 (October 29, 2007 as to the effects of discontinued operations discussed in Note 6)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Applebee's International, Inc. and Subsidiaries
Overland Park, Kansas

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Applebee's International, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006, of the Company and our report dated February 28, 2007 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding a change in accounting for stock-based compensation upon adoption of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment."

/s/ DELOITTE & TOUCHE LLP

Kansas City, Missouri
February 28, 2007

APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	<u>December 31,</u> <u>2006</u>	<u>December 25,</u> <u>2005</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22,309	\$ 13,040
Short-term investments, at market value	293	286
Receivables, net of allowance	47,771	37,857
Receivables related to captive insurance subsidiary	453	1,712
Inventories	11,524	20,373
Prepaid income taxes	55	1,991
Prepaid and other current assets	15,255	13,518
Assets held for sale	7,633	—
Current assets related to discontinued operations	1,630	1,497
Total current assets	<u>106,923</u>	<u>90,274</u>
Property and equipment, net	618,492	571,227
Goodwill	138,950	138,443
Restricted assets related to captive insurance subsidiary	13,356	19,329
Other intangible assets, net	6,408	8,050
Other assets, net	34,351	30,832
Non-current assets related to discontinued operations	19,705	20,482
	<u>\$ 938,185</u>	<u>\$ 878,637</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 265	\$ 259
Notes payable	—	7,900
Accounts payable	43,235	63,445
Accrued expenses and other current liabilities	113,641	100,995
Loss reserve related to captive insurance subsidiary	6,094	10,235
Accrued dividends	16,299	14,840
Accrued income taxes	9,015	—
Total current liabilities	<u>188,549</u>	<u>197,674</u>
Non-current liabilities:		
Long-term debt, less current portion	174,920	180,208
Deferred income taxes	26,225	37,771
Other non-current liabilities	61,837	50,374
Total non-current liabilities	<u>262,982</u>	<u>268,353</u>
Total liabilities	<u>451,531</u>	<u>466,027</u>
Commitments and contingencies (Notes 12, 13 and 18)		
Stockholders' equity:		
Preferred stock – par value \$0.01 per share: authorized – 1,000,000 shares; no shares issued	—	—
Common stock – par value \$0.01 per share: authorized – 125,000,000 shares; issued – 108,503,243 shares	1,085	1,085
Additional paid-in capital	265,122	234,988
Unearned compensation	—	(2,614)
Retained earnings	774,884	710,277
	<u>1,041,091</u>	<u>943,736</u>
Treasury stock – 34,393,331 shares in 2006 and 34,304,693 shares in 2005, at cost	<u>(554,437)</u>	<u>(531,126)</u>
Total stockholders' equity	<u>486,654</u>	<u>412,610</u>
	<u>\$ 938,185</u>	<u>\$ 878,637</u>

See notes to consolidated financial statements.

APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(in thousands, except per share amounts)

	Fiscal Year Ended		
	December 31, 2006	December 25, 2005	December 26, 2004
Operating revenues:			
Company restaurant sales	\$ 1,168,703	\$ 1,056,905	\$ 957,096
Franchise royalties and fees	139,855	128,813	121,221
Other franchise income	1,808	5,196	13,615
Total operating revenues	1,310,366	1,190,914	1,091,932
Cost of company restaurant sales:			
Food and beverage	312,337	279,587	253,841
Labor	392,159	348,232	310,099
Direct and occupancy	312,649	277,551	237,656
Pre-opening expense	4,348	4,334	2,682
Total cost of company restaurant sales	1,021,493	909,704	804,278
Cost of other franchise income	2,699	4,892	14,401
General and administrative expenses	140,824	109,768	104,810
Amortization of intangible assets	721	878	663
Impairment and other restaurant closure costs	4,494	2,225	—
Loss on disposition of property and equipment	2,556	1,998	1,902
Operating earnings	137,579	161,449	165,878
Other income (expense):			
Investment income	2,768	1,695	1,284
Interest expense	(11,421)	(4,365)	(1,626)
Other income	16	1,762	3,557
Total other income (expense)	(8,637)	(908)	3,215
Earnings from continuing operations before income taxes	128,942	160,541	169,093
Income taxes	43,970	56,248	57,999
Earnings from continuing operations	84,972	104,293	111,094
Loss from discontinued operations, net of tax	(4,066)	(2,266)	(229)
Cumulative effect of change in accounting principle, net of tax	—	(225)	—
Net Earnings	\$ 80,906	\$ 101,802	\$ 110,865
Basic net earnings per common share:			
Basic earnings from continuing operations	\$ 1.15	\$ 1.33	\$ 1.36
Loss from discontinued operations, net of tax	(0.05)	(0.03)	—
Cumulative effect of change in accounting principle, net of tax	—	—	—
Basic net earnings per common share	\$ 1.09	\$ 1.29	\$ 1.36
Diluted net earnings per common share:			
Diluted earnings from continuing operations	\$ 1.13	\$ 1.30	\$ 1.33
Loss from discontinued operations, net of tax	(0.05)	(0.03)	—
Cumulative effect of change in accounting principle, net of tax	—	—	—
Diluted net earnings per common share	\$ 1.08	\$ 1.27	\$ 1.33
Basic weighted average shares outstanding	74,001	78,650	81,528
Diluted weighted average shares outstanding	74,936	80,010	83,600

See notes to consolidated financial statements.

APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except per share amounts)

	Common Stock		Additional Paid-In Capital	Unearned Compensation	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance, December 28, 2003	108,503	\$ 1,085	\$ 201,951	\$ (1,377)	\$ 517,365	\$ (265,881)	\$ 453,143
Net earnings	—	—	—	—	110,865	—	110,865
Purchases of treasury stock	—	—	—	—	—	(99,723)	(99,723)
Dividends declared on common stock, \$0.06 per share	—	—	—	—	(4,867)	—	(4,867)
Stock options exercised and related tax benefit	—	—	13,756	—	—	16,200	29,956
Shares issued under employee benefit plans	—	—	3,747	—	—	2,232	5,979
Nonvested shares awarded under equity incentive plans, net of forfeitures	—	—	1,443	(1,969)	—	526	—
Amortization of unearned compensation relating to nonvested shares	—	—	—	1,422	—	—	1,422
Dividends paid for fractional shares	—	—	—	—	(48)	—	(48)
Balance, December 26, 2004	108,503	1,085	220,897	(1,924)	623,315	(346,646)	496,727
Net earnings	—	—	—	—	101,802	—	101,802
Purchases of treasury stock	—	—	—	—	—	(196,066)	(196,066)
Dividends declared on common stock, \$0.20 per share	—	—	—	—	(14,840)	—	(14,840)
Stock options exercised and related tax benefit	—	—	9,274	—	—	9,080	18,354
Shares issued under employee benefit plans	—	—	2,586	—	—	1,816	4,402
Nonvested shares awarded under equity incentive plans, net of forfeitures	—	—	2,231	(2,921)	—	690	—
Amortization of unearned compensation relating to nonvested shares	—	—	—	2,231	—	—	2,231
Balance, December 25, 2005	108,503	1,085	234,988	(2,614)	710,277	(531,126)	412,610
Net earnings	—	—	—	—	80,906	—	80,906
Purchases of treasury stock	—	—	—	—	—	(38,522)	(38,522)
Dividends declared on common stock, \$0.22 per share	—	—	—	—	(16,299)	—	(16,299)
Reclassification of unearned compensation related to the adoption of Statement of Financial Accounting Standards No. 123(R) (Note 3)	—	—	(2,614)	2,614	—	—	—
Stock options exercised and related tax benefit	—	—	10,017	—	—	11,981	21,998
Shares issued under employee benefit plans	—	—	1,935	—	—	2,232	4,167
Nonvested shares awarded under equity incentive plans	—	—	(998)	—	—	998	—
Stock-based compensation expense related to employee-based equity awards	—	—	21,794	—	—	—	21,794
Balance, December 31, 2006	108,503	\$ 1,085	\$ 265,122	\$ —	\$ 774,884	\$ (554,437)	\$ 486,654

See notes to consolidated financial statements.

APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Fiscal Year Ended		
	December 31, 2006	December 25, 2005	December 26, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 80,906	\$ 101,802	\$ 110,865
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Cumulative effect of change in accounting principle, net of tax	—	225	—
Depreciation and amortization	64,738	54,580	46,051
Amortization of intangible assets	721	878	663
Stock-based compensation	21,794	2,231	1,422
Other amortization	366	246	309
Deferred income tax provision (benefit)	(12,083)	9,871	25,313
Inventory impairment	—	—	2,000
Impairment and other restaurant closure costs	8,800	3,900	—
Loss on disposition of property and equipment	2,573	2,067	1,955
Income tax benefit from stock-based compensation	2,757	5,370	10,459
Changes in assets and liabilities, exclusive of effects of acquisitions:			
Receivables	(9,202)	1,371	(7,218)
Receivables related to captive insurance subsidiary	1,259	154	(2,116)
Inventories	8,907	15,753	(16,925)
Prepaid and other current assets	(2,246)	(2,583)	(665)
Accounts payable	(16,194)	18,757	5,197
Accrued expenses and other current liabilities	13,694	11,842	(3,542)
Loss reserve and unearned premiums related to captive insurance subsidiary	(8,143)	(1,202)	6,880
Income taxes	10,818	(5,941)	8,378
Other non-current liabilities	7,070	4,866	2,702
Other	(1,941)	(2,984)	(1,123)
NET CASH PROVIDED BY OPERATING ACTIVITIES	174,594	221,203	190,605
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(122,896)	(139,396)	(104,620)
Change in restricted assets related to captive insurance subsidiary	5,973	(1,943)	(6,623)
Acquisition of restaurants	(8,120)	(47,616)	(13,817)
Lease acquisition costs	—	—	(4,875)
Acquisition of other intangible asset	—	—	(2,809)
Proceeds from sale of property and equipment	281	1,237	66
Proceeds from sale—leaseback transaction	3,090	—	—
Maturities and sales of short-term investments	—	—	(253)
Other investing activities	—	—	(1,124)
NET CASH USED BY INVESTING ACTIVITIES	(121,672)	(187,718)	(134,055)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchases of treasury stock	(38,522)	(196,066)	(99,723)
Dividends paid	(14,840)	(4,867)	(3,911)
Issuance of common stock upon exercise of stock options	17,072	12,984	19,497
Shares issued under employee benefit plans	4,167	4,402	5,979
Excess tax benefits from stock-based compensation	2,169	—	—
Net debt proceeds (payments)	(13,182)	152,673	14,832
Deferred financing costs relating to issuance of long-term debt	(517)	(213)	(449)
NET CASH USED BY FINANCING ACTIVITIES	(43,653)	(31,087)	(63,775)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,269	2,398	(7,225)
CASH AND CASH EQUIVALENTS, beginning of period	13,040	10,642	17,867
CASH AND CASH EQUIVALENTS, end of period	\$ 22,309	\$ 13,040	\$ 10,642

See notes to consolidated financial statements.

	Fiscal Year Ended		
	December 31, 2006	December 25, 2005	December 26, 2004

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

Income taxes	\$ 37,580	\$ 45,402	\$ 12,428
Interest	\$ 11,575	\$ 3,340	\$ 1,056

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

We issued nonvested shares (referred to as restricted stock prior to fiscal 2006) with grant date fair values of \$4,500,000 in 2006, \$2,921,000 in 2005 and \$1,945,000 in 2004.

In 2002, we entered into a rabbi trust agreement to protect the assets of the nonqualified deferred compensation plan for certain of our associates. The plan investments are included in other assets and the offsetting obligation is included in other non-current liabilities in our consolidated balance sheets. We had non-cash increases in these balances of \$3,357,000, \$3,940,000 and \$3,881,000 in 2006, 2005 and 2004, respectively.

We made matching contributions in shares of our common stock to a profit sharing plan and trust established in accordance with Section 401(k) of the Internal Revenue Code of \$1,308,000 in 2004. In 2005, we began matching contributions in cash.

We had property and equipment purchases accrued in accounts payable of approximately \$10,400,000 and \$11,100,000 as of December 31, 2006 and December 25, 2005, respectively.

We declared cash dividends of \$16,299,000, \$14,840,000 and \$4,867,000 in 2006, 2005 and 2004 which were subsequently paid in the following year.

See notes to consolidated financial statements.

APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Applebee's International, Inc. and our subsidiaries develop, franchise and operate casual dining restaurants under the name "Applebee's Neighborhood Grill & Bar." As of December 31, 2006, there were 1,930 Applebee's restaurants. Franchisees operated 1,409 of these restaurants and 521 restaurants were company-owned. These restaurants were located in 49 states, 16 countries outside of the United States and one U.S. territory.

On September 20, 2002, we formed Neighborhood Insurance, Inc., a regulated Vermont corporation and a wholly-owned subsidiary, as a captive insurance company. Neighborhood Insurance, Inc. was established to provide Applebee's International, Inc. and qualified franchisees with workers' compensation and general liability insurance. In 2006, we discontinued writing insurance coverage for new or existing participants (Note 14).

2. Summary of Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. We have eliminated all intercompany profits, transactions and balances.

Fiscal year: Our fiscal year ends on the last Sunday of the calendar year. The fiscal year ended December 31, 2006 contained 53 weeks. The fiscal years ended December 25, 2005 and December 26, 2004 each contained 52 weeks. These fiscal years will be referred to hereafter as 2006, 2005 and 2004, respectively.

Cash and cash equivalents: We consider all money market investment instruments to be cash and cash equivalents. Periodically, we have outstanding checks that are written in excess of the cash balances at our bank which create a book overdraft and are required to be presented as a current liability. As of December 25, 2005, we had checks written in excess of a bank balance of \$13,430,000 which were included in accounts payable in the consolidated balance sheets. This balance was subsequently funded through our credit facility in 2006.

Financial instruments: Our financial instruments as of December 31, 2006 and December 25, 2005 consist of cash equivalents, short-term investments, accounts receivable, notes payable and long-term debt, excluding capitalized lease obligations. The carrying amount of cash equivalents and accounts receivable (including receivables related to the captive insurance subsidiary) approximates fair value because of the short maturity of those instruments. We based the carrying amount of short-term investments on quoted market prices. We based the fair value of our long-term debt, excluding capitalized lease obligations, on quotations made on similar issues. The fair value of these financial instruments approximates the carrying amounts reported in the consolidated balance sheets.

Investments: We have certificates of deposit that are included in short-term investments and auction rate securities that are included in restricted assets related to the captive insurance subsidiary in our consolidated balance sheets. We have classified all investments as available-for-sale. Due to the short time period between reset dates of the interest rates, there are no unrealized gains or losses associated with the auction rate securities. The contractual maturities of the auction rate securities range from 2030 to 2033.

Inventories: We state inventories at the lower of cost, using the first-in, first-out method, or market. When necessary, we record inventory reserves for obsolescence and shrinkage based upon inventory turnover trends, historical experience and the specific identification method.

Property and equipment: We report property and equipment at historical cost less accumulated depreciation. Depreciation is recorded on a straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the lease term, as defined in operating leases below, or the estimated useful life of the related asset. The general ranges of original depreciable lives are as follows:

• Buildings	20 years
• Leasehold improvements	15-20 years
• Furniture and equipment	2-7 years

We record capitalized interest in connection with the development of new restaurants and amortize it over the estimated useful life of the related asset. We capitalized \$959,000 in interest costs during 2006, \$462,000 during 2005 and \$189,000 during 2004.

Software costs: Costs incurred in connection with the development of internal-use software are capitalized and amortized over the expected useful life of the asset.

Goodwill: Goodwill is not subject to amortization but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. If an impairment is indicated, the fair value of the reporting unit's goodwill is determined by allocating the unit's fair value to its assets and liabilities (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. The amount of impairment for goodwill is measured as the excess of its carrying value over its implied fair value.

Impairment of long-lived assets: We review our restaurant property and equipment for impairment quarterly on a restaurant-by-restaurant basis using historical cash flows as well as current estimates of future cash flows and/or appraisals.

We review other non-amortizing long-lived assets annually and when events or circumstances indicate that the carrying value of the asset may not be recoverable. The recoverability is assessed in most instances by comparing the carrying value to its undiscounted cash flows.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates, which are frequently made in consultation with certain third-party advisors, include, but are not limited to, estimates for legal actions and general liability, workers' compensation and health insurance, long-term incentives and the collectibility of receivables.

We are periodically involved in various legal actions arising in the normal course of business. We are required to assess the probability of any adverse judgments as well as the potential range of loss. We determine the required accruals after consideration of the probability of adverse judgment and a review of the facts of each legal action.

The estimated liability for general liability, workers' compensation and health insurance is established based upon historical claims data and third-party actuarial estimates of settlement costs for incurred claims. We recognized expense of \$24,168,000 in 2006, \$27,557,000 in 2005 and \$25,116,000 in 2004 related to these types of insurance in our consolidated financial statements. Unanticipated changes in these factors may require us to revise our estimates.

We have various long-term associate incentive compensation plans which require us to make estimates to determine our liability based upon projected performance of plan criteria. If actual performance against the criteria differs from our estimates in the future, we will be required to adjust our liability accordingly.

We continually assess the collectibility of our franchise receivables. We establish our allowance for bad debts based on several factors, including historical collection experience, the current economic environment and other specific information available to us at the time. The allowance for bad debts may change in the future due to changes in the factors above or other new developments.

Estimates and assumptions used by management affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition: We recognize company restaurant sales when food and beverage items are sold. Company restaurant sales are reported net of sales tax collected from our guests and are remitted to the appropriate taxing authorities.

We record a liability in the period in which a gift card is issued and proceeds are received. As gift cards are redeemed, this liability is reduced and revenue is recognized. We recognize gift card slippage income when the likelihood of the redemption of the card becomes remote.

We recognize royalties on a franchisee's sales in the period in which the sales are reported to have occurred. The recognition of franchise fees is deferred until we have performed substantially all of our related obligations as franchisor, typically when the restaurant opens. Franchise fees, included in franchise royalties and fees in the consolidated statements of earnings, totaled \$3,957,000 for 2006, \$3,358,000 for 2005 and \$3,096,000 for 2004.

Other franchise income includes insurance premiums from franchisee participation in our captive insurance program in 2005 and 2004 and revenue from information technology products and services provided to certain franchisees in all periods. Income from franchisee premiums and information technology services is recognized ratably over the related contract period. Income from information technology products is recognized when the products are installed at the restaurant.

Advertising costs: We recognize company-owned restaurant contributions to the national marketing pool in the period the contribution accrues. We expense most local advertising costs for company-owned restaurants as we incur them, but we expense the production costs of advertising the first time the advertising takes place. Advertising expense related to company-owned restaurants was \$56,731,000 for 2006, \$51,969,000 for 2005 and \$46,324,000 for 2004.

Operating leases: We account for our restaurant and office space leases in accordance with Statement of Financial Accounting Standards (“SFAS”) No.13, “Accounting for Leases” and other authoritative guidance. We recognize rent expense for our operating leases, which have escalating rentals over the term of the lease, on a straight-line basis over the initial term and those option periods where failure to exercise such options would result in an economic penalty such that the renewal appears reasonably assured. In addition, the lease term is deemed to commence on the date we become legally obligated for rent payments. Prior to 2006, we capitalized the straight-line rent amounts during the construction period of leased properties. In 2006, we changed our policy to expense the straight-line rent during the construction period as required by FASB Staff Position (“FSP”) 13-1, “Accounting for Rental Costs Incurred during a Construction Period.” The impact of FSP 13-1 was not material to our consolidated financial statements. Straight-line rent subsequent to the construction period and prior to the restaurant opening is recognized as expense. We use a consistent lease term when calculating depreciation of leasehold improvements, determining straight-line rent expense and determining classification of our leases as either operating or capital. Contingent rents are generally amounts due as a result of sales in excess of amounts stipulated in certain restaurant leases and are included in rent expense as they accrue.

Certain of our lease agreements contain tenant improvement allowances, rent holidays, lease premiums, rent escalation clauses and/or contingent rent provisions. For purposes of recognizing incentives, premiums, rent holidays and minimum rental expenses on a straight-line basis over the terms of the leases, we use the date of initial possession to begin amortization, which is generally when we enter the property and begin to make improvements in preparation of its intended use.

For tenant improvement allowances, we record a deferred rent liability in either other current liabilities or other non-current liabilities on the consolidated balance sheet and amortize the deferred rent over the term of the lease as a reduction to direct and occupancy costs in the consolidated statements of earnings.

Asset Retirement Obligations: In 2005, we adopted FASB Interpretation No. 47 “Accounting for Conditional Asset Retirement Obligations” (“FIN 47”). We have entered into certain leases which may require us to return the property to the landlord in its original condition. Beginning in 2005, we recorded expenses for these leases in our consolidated financial statements in direct and occupancy costs. We recorded an expense of \$350,000 (\$225,000, net of income taxes) for years prior to 2005 as a cumulative effect of a change in accounting principle as required by FIN 47.

Pre-opening expense: We expense direct training, food and beverage costs and other costs, including rent expense subsequent to the construction period but prior to restaurant opening, related to opening new or relocated restaurants as they are incurred, which is typically in the month of opening.

Income taxes: We use the asset and liability method to determine deferred income taxes. Deferred tax assets and liabilities are computed based upon future tax consequences associated with differences between the financial statement carrying amount and the tax bases of assets and liabilities.

Net earnings per share: We compute basic net earnings per common share by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted net earnings per common share reflects the potential dilution that could occur if holders of options or other contracts to issue common stock exercised or converted their holdings into common stock. Outstanding stock options, stock appreciation rights and other equity-based compensation represent the only dilutive effects on weighted average shares. The chart below presents a reconciliation between basic and diluted weighted average shares outstanding and the related net earnings per share. All amounts in the chart, except per share amounts, are expressed in thousands.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Earnings from continuing operations	\$ 84,972	\$ 104,293	\$ 111,094
Loss from discontinued operations, net of tax	(4,066)	(2,266)	(229)
Cumulative effect of change in accounting principle, net of tax	—	(225)	—
Net Earnings	<u>\$ 80,906</u>	<u>\$ 101,802</u>	<u>\$ 110,865</u>
Basic weighted average shares outstanding	74,001	78,650	81,528
Dilutive effect of stock options, SARs and other equity-based compensation	935	1,360	2,072
	<u>74,936</u>	<u>80,010</u>	<u>83,600</u>
Basic net earnings per common share:			
Basic earnings from continuing operations	\$ 1.15	\$ 1.33	\$ 1.36
Loss from discontinued operations, net of tax	(0.05)	(0.03)	—
Cumulative effect of change in accounting principle, net of tax	—	—	—
Basic net earnings per common share	<u>\$ 1.09</u>	<u>\$ 1.29</u>	<u>\$ 1.36</u>
Diluted net earnings per common share:			
Diluted earnings from continuing operations	\$ 1.13	\$ 1.30	\$ 1.33
Loss from discontinued operations, net of tax	(0.05)	(0.03)	—
Cumulative effect of change in accounting principle, net of tax	—	—	—
Diluted net earnings per common share	<u>\$ 1.08</u>	<u>\$ 1.27</u>	<u>\$ 1.33</u>

We excluded stock options and stock appreciation rights (“SARs”) with exercise prices greater than the average market price of our common stock for the applicable periods from the computation of diluted weighted average shares outstanding as the effect would be anti-dilutive. We excluded approximately 5,400,000, 2,800,000 and 1,500,000 of these options and SARs from our diluted weighted average share computation for 2006, 2005 and 2004, respectively.

Cash flows: For purposes of the consolidated statements of cash flows, we consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

New accounting pronouncements: In March 2006, the Emerging Issues Task Force (“EITF”) issued EITF Issue 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).” A consensus was reached that entities may adopt a policy of presenting sales taxes in the income statement on either a gross or net basis. If taxes are significant, an entity should disclose its policy of presenting taxes and the amounts of taxes. The guidance is effective for periods beginning after December 15, 2006. We present company sales net of sales taxes in our consolidated financial statements. The impact of this adoption did not change our method for recording sales taxes in our consolidated financial statements.

In July 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. (“FIN”) 48, “Accounting for Uncertainty in Income Taxes,” which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” FIN 48 is effective for fiscal years beginning after December 15, 2006. The impact of this adoption will not be material to our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” This statement defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The statement applies whenever other statements require or permit assets or liabilities to be measured at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The impact of this adoption will not be material to our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans.” This statement requires companies to recognize a net liability or asset and an offsetting adjustment to accumulated other comprehensive income to report the funded status of defined benefit pension and other postretirement benefit plans. The statement requires prospective application, and the recognition and disclosure requirements are effective for companies with fiscal years ending after December 15, 2006. Additionally, SFAS No. 158 requires companies to measure plan assets and obligations at their year-end balance sheet date. This requirement is effective for fiscal years ending after December 15, 2008. The impact of this adoption was not material to our consolidated financial statements and we are in compliance with the measurement date provisions of this statement as of December 31, 2006.

In September 2006, the SEC issued Staff Accounting Bulletin (“SAB”) No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements,” which provides interpretive guidance regarding the consideration given to prior year misstatements when determining materiality in current year financial statements. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The impact of this adoption was not material to our consolidated financial statements.

In October 2006, the FASB issued FASB Staff Position (“FSP”) FAS 123 (R)-5, “Amendment to FSP FAS 123 (R)-1.” FSP FAS 123(R)-5 addresses whether a modification of an instrument in connection with an equity restructuring should be considered a modification for purposes of applying FSP FAS 123(R)-1. This FSP states that no change in the recognition or the measurement (due to a change in classification as a result of a modification solely to reflect an equity restructuring that occurs when the holders are no longer employees) of the instruments will result if two conditions are met: (1) there is no increase in fair value of the award or the antidilution provision is not added to the terms of the award in contemplation of an equity restructuring and (2) all holders of the same class of equity instruments are treated in the same manner. The effective date of FSP FAS 123(R)-5 is the first reporting period beginning after October 10, 2006. The impact of this adoption was not material to our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Liabilities.” This statement permits entities to choose to measure many financial instruments and certain other items at fair value. If the fair value option is elected, unrealized gains and losses will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of this adoption on our consolidated financial statements.

3. Stock-Based Compensation

Our Board of Directors has approved the Amended and Restated 1995 Equity Incentive Plan (“1995 Plan”) and the 1999 Employee Incentive Plan (“1999 Plan”) which allow for the granting of stock options, SARs, nonvested shares, performance units and performance shares to eligible participants. Grants of stock options may be either incentive or nonqualified. There are 19,900,000 and 2,473,875 shares authorized under the 1995 Plan and the 1999 Plan, respectively. As of December 31, 2006, we estimate there are 3,382,155 shares available for grant under the 1995 Plan. This estimate is based upon the total number of SARs that would be exercised using the market price of our stock as of December 29, 2006. We will not make additional grants under the 1999 Plan. Only shares actually issued upon exercise of a SAR are counted against the shares authorized under the 1995 Plan. We issue shares out of our treasury for stock option exercises, SAR exercises and nonvested share issuances.

In 2002, our Board of Directors approved performance share plans with a three-year performance period. Performance shares represent rights to receive our common stock, cash or any combination thereof, based upon certain performance criteria. In 2004, we reversed \$447,000 of compensation expense previously recognized due to the 2004 performance versus our three-year performance criteria. We recorded compensation expense of \$65,000 in 2005 related to these grants. These amounts were based on the market price of our common stock at the end of each fiscal year. We no longer grant performance shares.

Prior to 2006, we accounted for these stock-based compensation equity awards under the intrinsic method of Accounting Principles Board (“APB”) Opinion No. 25. APB Opinion No. 25 required compensation cost to be recognized based on the excess, if any, between the quoted market price of the stock at the date of grant and the amount an employee must pay to acquire the stock. All options awarded under both of our plans were granted with an exercise price equal to the fair market value on the date of the grant and, accordingly, no compensation expense was recognized for stock option awards. In addition, we adopted the disclosure provisions of SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123.” The statement required prominent disclosures in financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

Under APB Opinion No. 25, pro forma expense for stock-based compensation was calculated using a graded vesting schedule over the explicit vesting period. The following table presents the effect on our net earnings and earnings per share had we adopted the fair value method of accounting for stock-based compensation under SFAS No. 123, "Accounting for Stock-Based Compensation" for 2005 and 2004 (in thousands, except for per share amounts).

	<u>2005</u>	<u>2004</u>
Net earnings, as reported	\$ 101,802	\$ 110,865
Add: Stock-based compensation expense included in net earnings, net of related taxes	1,409	638
Less: Total stock-based employee compensation expense determined under fair value based methods for all equity awards, net of related taxes(1)	<u>8,536</u>	<u>8,555</u>
Pro forma net earnings	<u>\$ 94,675</u>	<u>\$ 102,948</u>
Basic net earnings per common share, as reported	<u>\$ 1.29</u>	<u>\$ 1.36</u>
Basic net earnings per common share, as adjusted	<u>\$ 1.20</u>	<u>\$ 1.26</u>
Diluted net earnings per common share, as reported	<u>\$ 1.27</u>	<u>\$ 1.33</u>
Diluted net earnings per common share, as adjusted	<u>\$ 1.18</u>	<u>\$ 1.23</u>

(1) SFAS No. 123 (revised 2004) requires compensation expense to be recognized over the requisite service period which is generally from the grant date to the earlier of a) the explicit vesting date or b) the date on which the employee becomes retirement eligible. If pro forma expense for 2005 and 2004 had been derived using this approach, additional stock-based compensation would have been \$2,731 and \$2,013, net of tax, respectively, and pro forma net income would have been \$91,944 and \$100,935, respectively. Additionally, basic and diluted pro forma earnings per share would have been \$1.17 and \$1.15, respectively, for 2005 and \$1.24 and \$1.21, respectively, for 2004.

We adopted the fair value recognition provisions of SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)") at the beginning of 2006. SFAS No. 123(R) requires all stock-based compensation, including grants of employee stock options, to be recognized in the statement of earnings based on fair value. With limited exceptions, the amount of compensation cost is measured based on the fair value on the grant date of the equity or liability instruments issued. Compensation cost is recognized over the period that an employee provides service for that award. We adopted this accounting treatment using the modified prospective transition method; therefore, results for prior periods have not been restated.

Beginning in 2006, we changed our method of determining the fair value of stock-based equity awards from the Black-Scholes model to a binomial model. The binomial model considers a range of assumptions relative to volatility, risk-free interest rates and employee exercise behavior, which models actual employee behaviors. We believe the binomial model provides a fair value that is more representative of actual and future experience as compared to the Black-Scholes model.

Compensation costs for 2006 have been recognized for all new equity awards granted in 2006 and those equity awards granted prior to 2006 that have yet to reach the end of their service period. As required by SFAS No. 123(R), we began recognizing expense for employee stock-based compensation over the shorter of the vesting period or the period from the date of the grant until the date the employee becomes eligible for retirement. We recognize expense for stock-based compensation over the graded vesting period. We recognized stock-based compensation in the consolidated financial statements as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Labor	\$ 930	\$ —	\$ —
General and administrative expenses	20,864	2,231	975
Income taxes	<u>(7,410)</u>	<u>(822)</u>	<u>(337)</u>
Stock-based compensation expense included in net earnings, net of related tax	<u>\$ 14,384</u>	<u>\$ 1,409</u>	<u>\$ 638</u>

As of December 31, 2006, we had unrecognized compensation expense for stock options and SARs of \$16,300,000 to be recognized over a weighted average period of 1.8 years.

As required by SFAS No. 123(R), unearned compensation of \$2,614,000, which was previously reflected as a reduction to stockholders' equity as of December 25, 2005, was reclassified as a reduction to additional paid-in capital upon our adoption of this statement.

Stock Options

Prior to 2005, we granted substantially all of our equity awards through stock options once per year. These stock options generally vest over three years and expire ten years from the date of the grant.

In 2005, we granted substantially all of our equity awards through quarterly stock option grants. Grants issued in the first quarter of each year vest three years from the date of the grant. Grants issued in subsequent quarters vest on the same date as the first quarterly stock option grant of that year. In 2005 and 2006, we also granted to certain employees stock options with 25% of the grant vesting four years from the grant date and the remaining 75% of the grant vesting five years from the grant date. The 2005 option grants expire six to seven years from the date of the grant. In the first quarter of 2006, we issued grants to certain employees and members of the Board of Directors which vest either one or three years from the date of the grant. As part of their compensation package, the outside members of the board of directors receive a grant of options in the first quarter of every year which expire ten years from the grant date.

Transactions for stock options relative to both plans for 2004 to 2006 were as follows:

	1995 Plan			
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 28, 2003	5,487,048	\$ 12.84	7.4 years	
Granted	1,596,944	\$ 25.82		
Exercised	(1,445,331)	\$ 10.09		\$ 22,138
Forfeited	(570,853)	\$ 14.91		
Options outstanding at December 26, 2004	5,067,808	\$ 17.48	7.3 years	
Granted	3,277,725	\$ 25.69		
Exercised	(638,163)	\$ 11.89		\$ 9,188
Forfeited	(341,437)	\$ 23.80		
Options outstanding at December 25, 2005	7,365,933	\$ 21.33	6.5 years	
Granted	453,943	\$ 22.16		
Exercised	(1,058,021)	\$ 13.45		\$ 10,838
Expired	(120)	\$ 8.30		
Forfeited	(586,486)	\$ 25.62		
Options outstanding at December 31, 2006	6,175,249	\$ 22.33	5.8 years	\$ 20,139
Options vested and expected to vest at December 31, 2006	5,667,470	\$ 22.07	1.1 years	\$ 19,786
Options exercisable at December 31, 2006	1,985,145	\$ 16.02	5.4 years	\$ 17,473

1999 Plan

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Options outstanding at December 28, 2003	1,775,097	\$ 12.77	7.7 years	
Granted	—	—		
Exercised	(572,048)	\$ 10.46		\$ 8,744
Forfeited	(73,439)	\$ 14.81		
Options outstanding at December 26, 2004	1,129,610	\$ 13.80	7.0 years	
Granted	—	—		
Exercised	(418,813)	\$ 13.67		\$ 5,325
Forfeited	(46,141)	\$ 16.02		
Options outstanding at December 25, 2005	664,656	\$ 13.73	6.0 years	
Granted	—	—		
Exercised	(213,758)	\$ 13.74		\$ 2,090
Expired	—	—		
Forfeited	(505)	\$ 13.22		
Options outstanding at December 31, 2006	450,393	\$ 13.72	4.9 years	\$ 4,933
Options vested and expected to vest at December 31, 2006	450,315	\$ 13.72	4.9 years	\$ 4,932
Options exercisable at December 31, 2006	445,893	\$ 13.69	4.9 years	\$ 4,895

The aggregate intrinsic value was calculated using the difference between the current market price and the grant price for only those equity awards that have a grant price that is less than the current market price.

The following table summarizes information relating to our fixed-priced stock options outstanding for both plans at December 31, 2006.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
1995 Plan:					
\$ 6.18 to \$ 14.72	849,089	4.0 years	\$ 11.40	849,089	\$ 11.40
\$ 16.12 to \$ 21.00	820,438	6.0 years	\$ 17.09	709,677	\$ 16.54
\$21.01 to \$ 23.22	1,136,137	6.0 years	\$ 22.39	136,330	\$ 21.47
\$ 23.35 to \$ 25.72	262,273	6.4 years	\$ 24.87	50,999	\$ 24.80
\$ 25.79 to \$ 25.79	940,453	7.0 years	\$ 25.79	131,220	\$ 25.79
\$ 25.85 to \$ 26.29	111,705	7.8 years	\$ 25.98	96,580	\$ 26.00
\$ 26.30 to \$ 26.30	1,429,000	5.6 years	\$ 26.30	—	—
\$ 26.31 to \$ 28.91	626,154	5.6 years	\$ 27.95	11,250	\$ 26.87
\$ 6.18 to \$ 28.91	<u>6,175,249</u>	5.8 years	\$ 22.33	<u>1,985,145</u>	\$ 16.02
1999 Plan:					
\$ 7.24 to \$ 13.22	161,969	4.0 years	\$ 10.27	161,969	\$ 10.27
\$ 13.60 to \$ 16.13	156,496	5.1 years	\$ 15.12	151,996	\$ 15.09
\$ 16.15 to \$ 17.60	131,928	5.9 years	\$ 16.29	131,928	\$ 16.29
\$ 7.24 to \$ 17.60	<u>450,393</u>	4.9 years	\$ 13.72	<u>445,893</u>	\$ 13.69

The number of options exercisable for each plan are summarized below:

	1995 Plan		1999 Plan	
	Options Exercisable	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
December 26, 2004	1,572,468	\$ 10.70	403,863	\$ 10.95
December 25, 2005	1,919,347	\$ 13.33	556,656	\$ 13.24
December 31, 2006	1,985,145	\$ 16.02	445,893	\$ 13.69

We derived the following weighted-average assumptions using the binomial model in 2006 and the Black-Scholes model for 2005 and 2004 for stock options:

	2006	2005	2004
	(Binomial)	(Black-Scholes)	(Black-Scholes)
Expected term in years	4.8	5.1	4.8
Expected stock price volatility	31.5%	32.3%	41.6%
Expected dividend yield	0.9%	0.7%	0.3%
Risk-free interest rate	4.6%	3.9%	2.7%
Fair value of options granted	\$ 6.85	\$ 8.43	\$ 9.84

Stock Appreciation Rights

Beginning in 2006, we began granting substantially all of our equity awards through quarterly nonvested share and SAR grants which are exercisable in shares of our common stock. Grants issued for the first quarter of each year vest three years from the date of the grant. Grants issued in subsequent quarters vest on the same date as the first quarterly grant of that year. The SARs granted in 2006 expire six to seven years from the date of the grant. Transactions for SARs for 2006 were as follows:

1995 Plan				
	Number of SARs	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
SARs outstanding at December 25, 2005	—	—		
Granted ⁽¹⁾	1,231,467	\$ 21.81		
Exercised	—	—		
Expired	—	—		
Forfeited	(64,600)	\$ 22.17		
SARs outstanding at December 31, 2006	<u>1,166,867</u>	\$ 21.80	6.2 years	\$ 3,354
SARs vested and expected to vest at December 31, 2006	<u>997,571</u>	\$ 21.80	2.2 years	\$ 2,868
SARs exercisable at December 31, 2006	<u>—</u>			

⁽¹⁾ Upon exercise of SARs, employees will receive the number of shares of common stock equal in value to the appreciation in the fair market value based on the difference between the fair market value on the grant date and the fair market value on the date of exercise. The number of shares of common stock delivered as payment of such appreciation will reduce the shares available for issuance under the 1995 Plan.

The following table summarizes information related to our SARs outstanding at December 31, 2006.

Range of Exercise Prices	SARs Outstanding			SARs Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
1995 Plan:					
\$ 19.92 to \$ 21.00	598,164	6.2 years	\$ 20.66	—	—
\$ 22.34 to \$ 22.34	267,978	6.2 years	\$ 22.34	—	—
\$ 23.57 to \$ 23.57	300,725	6.2 years	\$ 23.57	—	—
\$ 19.92 to \$ 23.57	<u>1,166,867</u>	6.2 years	\$ 21.80	—	—

We derived the following weighted-average assumptions for SARs using the binomial model:

<u>2006</u>	
Expected term in years	4.2
Expected stock price volatility	31.7%
Expected dividend yield	0.9%
Risk-free interest rate	4.7%
Fair value of SARs granted	\$ 6.27

Assumptions

We determined our assumptions for stock options and SAR grants based on the following methodology:

Expected term: We have determined the expected term based upon the assumption that all outstanding options and SARs will be exercised at the midpoint of the current holding period and the full contractual term.

Expected volatility: We have determined the expected volatility based on a weighted average of Applebee's volatility over the expected term, historical volatility of certain peer group restaurant volatilities and Applebee's implied volatility.

Expected dividend yield: We have determined the expected dividend yield based upon our expected dividends as a percentage of our current stock price.

Risk-free interest rate: We have determined the risk-free interest rate using the U.S. Treasury yield curve in effect at the time of the grant for the expected term of the equity award.

Nonvested Shares

We grant nonvested shares under our 1995 Plan. Nonvested shares vest either one, two or three years after the date of the grant. The fair value of nonvested shares granted is equal to the market price of the stock at the date of grant. Transactions during 2004 to 2006 were as follows:

	<u>Number of Awards</u>	<u>Weighted Average Fair Value</u>
Nonvested share awards outstanding as of December 28, 2003	182,602	\$ 16.59
Granted	84,882	25.08
Vested	(73,031)	14.99
Forfeited	(7,183)	22.26
Nonvested share awards outstanding as of December 26, 2004	187,270	\$ 20.85
Granted	117,679	27.66
Vested	(33,917)	18.53
Forfeited	(13,219)	25.30
Nonvested share awards outstanding as of December 25, 2005	257,813	\$ 24.03
Granted	204,501	21.79
Vested	(105,168)	19.29
Forfeited	(37,245)	25.85
Nonvested share awards outstanding as of December 31, 2006	319,901	\$ 23.95

As of December 31, 2006, we had unrecognized compensation expense related to nonvested share awards of approximately \$2,200,000, which will be recognized over a weighted average period of 1.5 years.

Employee stock purchase plan

Our Board of Directors has authorized an employee stock purchase plan that allows associates to purchase shares of our common stock at a 15% discount through a payroll deduction. We record compensation for this plan using the Black-Scholes valuation model in the quarter that the purchase occurs. As of December 31, 2006, 142,480 shares of the 1,850,000 shares which were authorized under this plan were available for purchase.

4. Acquisitions

All of our acquisitions discussed below have been accounted for using the purchase method of accounting and, accordingly, our consolidated financial statements reflect the results of operations for each acquisition subsequent to the date of acquisition. The assets acquired and liabilities assumed are recorded at estimates of fair value as determined by management based upon information available. We finalize the allocation of purchase price to the fair value of assets acquired and liabilities assumed when we obtain information sufficient to complete the allocation, but in each case, no longer than one year after the acquisition date.

In April 2004, we completed our acquisition of the operations and assets of 10 Applebee's restaurants located in Southern California for approximately \$13,800,000 in cash. The purchase price was allocated to the fair value of property and equipment of \$2,500,000, goodwill of \$10,800,000, and other net assets of approximately \$500,000.

In May 2005, we completed the acquisition of 12 Applebee's restaurants in Missouri, Kansas and Arkansas, which included one restaurant under construction, for approximately \$39,500,000 in cash. The purchase price was allocated to the fair value of property and equipment of \$17,500,000, goodwill of \$21,500,000, reacquired franchise rights of approximately \$300,000, and other net assets of approximately \$200,000.

In January 2006, we completed the acquisition of four Applebee's restaurants in the Houston market for approximately \$8,100,000 in cash. The purchase price was allocated to the fair value of property and equipment of \$7,400,000, goodwill of approximately \$500,000, reacquired franchise rights of approximately \$100,000, and other net assets of approximately \$100,000.

The following table is comprised of actual company restaurant sales for the three restaurant acquisitions above, which are included in our consolidated financial statements for each period presented, and pro forma company restaurant sales. The pro forma company restaurant sales for 2006 include sales related to the January 2006 acquisition discussed above as if the acquisition had occurred as of the beginning of 2006. We closed one restaurant which we acquired in the January 2006 acquisition. This restaurant has been presented as discontinued operations and therefore, the restaurant sales are not included in the table below. The pro forma company restaurant sales for 2005 includes sales related to the January 2006 acquisition and the May 2005 acquisition discussed above as if the acquisitions had occurred as of the beginning of 2005. The pro forma company restaurant sales for 2004 includes sales related to the May 2005 acquisition and the April 2004 acquisition discussed above as if the acquisition had occurred as of the beginning of 2004.

	2006	2005	2004
Actual company restaurant sales for acquired restaurants	\$ 5,400	\$ 17,000	\$ 17,600
Pro forma company restaurant sales for acquired restaurants	\$ 6,000	\$ 31,400	\$ 52,600

In April 2005, we completed the acquisition of eight Applebee's restaurants in the Memphis market, which were closed in 2004 by a former franchisee, for approximately \$8,800,000 payable in cash. In connection with this acquisition, we paid approximately \$800,000 in 2004 and \$8,000,000 in 2005. The purchase price of \$8,800,000 was allocated to the fair value of property and equipment of approximately \$8,200,000 and goodwill of approximately \$600,000. We have remodeled and opened seven restaurants and the remaining restaurant was sold to a third-party.

5. Inventory Impairment

In 2004, we determined that we had excess inventories of riblets that no longer met our quality standards. Accordingly, we recorded an inventory impairment of \$2,000,000 (\$1,300,000, net of income taxes) in our consolidated statements of earnings for 2004. The portion of the riblet inventory impairment related to the company's historical usage of approximately \$400,000 was recorded in food and beverage cost and the portion related to the franchisee's historical usage of approximately \$1,600,000 was recorded in cost of other franchise income in the consolidated statements of earnings.

6. Restaurant Closures and Impairments

In 2006, we recorded impairment and other restaurant closure costs of approximately \$4,500,000 consisting of approximately \$1,200,000 of property and equipment, \$1,500,000 for a write-down of an investment, approximately \$900,000 for restaurant closure costs and approximately \$900,000 for a write-down of a corporate aircraft. This charge has been included in our consolidated statement of earnings for 2006.

In 2005, we recorded an impairment of approximately \$2,200,000 consisting of a \$900,000 write-down of the carrying value of the property and equipment of three restaurants that were not performing as expected and one restaurant that was closed and relocated and

a \$1,300,000 write-down of one other long-lived asset. This impairment charge has been included in our consolidated statements of earnings for 2005.

In March 2007, we announced that the Board of Directors had approved management's recommendation to close 24 underperforming restaurants located in 11 states which we determined did not have the potential to deliver acceptable long-term returns on invested capital. We closed 19 restaurants in the first fiscal quarter of 2007 and four restaurants in the second fiscal quarter of 2007, leaving one of the 24 underperforming restaurants still open.

We believe that four of the closed restaurants will have significant sales transfer to other existing restaurant locations and, therefore, are not presented as discontinued operations in our condensed consolidated financial statements as required by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The results of operations, impairment charges and lease obligations related to these four restaurants have been presented within operating earnings in the condensed consolidated statement of earnings.

In assessing restaurants for impairment, we use current and historical operating results to estimate future cash flows on a restaurant by restaurant basis. The asset impairment charges for 2005 and 2006 were calculated by comparing the carrying value of the restaurants' assets to the estimated future cash flow projections. In assessing the above non-restaurant assets for impairment, we used an estimate of their fair market value.

We have revised these financial statements to present the results of operations for 19 of the closed restaurants as discontinued operations in our condensed consolidated financial statements as required by SFAS No. 144. In addition, we have presented the impairment charge and lease obligations for these restaurants in discontinued operations. Company restaurant sales for the restaurants presented in discontinued operations were \$27,555,000 \$25,736,000 and \$19,702,000 for 2006, 2005 and 2004 respectively.

The charges for impairment and other restaurant closure costs and discontinued operations include the following (in thousands):

	December 31, 2006	
	Impairment and Other Restaurant Closure Costs	Discontinued Operations
Write-down of the carrying value of property and equipment and other assets	\$ 4,494	\$ 4,306
Loss from operations for discontinued operations	—	2,472
Loss on disposition of property and equipment	—	17
Income tax benefit for discontinued operations	—	(2,729)
Total costs	\$ 4,494	\$ 4,066

	December 25, 2005	
	Impairment and Other Restaurant Closure Costs	Discontinued Operations
Write-down of the carrying value of property and equipment and other assets	\$ 2,225	\$ 1,675
Loss from operations for discontinued operations	—	2,068
Loss on disposition of property and equipment	—	69
Income tax benefit for discontinued operations	—	(1,546)
Total costs	\$ 2,225	\$ 2,266

	December 26, 2004	
	Impairment and Other Restaurant Closure Costs	Discontinued Operations
Write-down of the carrying value of property and equipment and other assets	\$ —	\$ —
Loss from operations for discontinued operations	—	545
Loss on disposition of property and equipment	—	53
Income tax benefit for discontinued operations	—	(369)
Total costs	\$ —	\$ 229

The current and non-current assets of the 19 restaurants that are presented as discontinued operations in the condensed consolidated balance sheet are as follows (in thousands):

	December 31, 2006	December 25, 2005
Current assets:		
Property and equipment, net(1)	\$ —	\$ —
Other assets, net	—	—
Prepaid income taxes	1,630	1,497
Current assets related to discontinued operations	\$ 1,630	\$ 1,497
Non-current assets:		
Deferred income taxes	\$ 1,099	\$ 49
Property and equipment, net	17,539	19,366
Other assets, net	1,067	1,067
Non-current assets related to discontinued operations	\$ 19,705	\$ 20,482

7. Assets Held for Sale

We classify assets as held for sale when there is a plan for disposal of assets and those assets meet the held for sale criteria as defined in SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." During 2006, we began to actively market our existing corporate headquarters under a plan approved by management. Consequently, we have classified the building and land as held for sale as of December 31, 2006. In addition, we began to actively market a corporate aircraft and other assets with immaterial carrying values. We ceased amortizing these assets when we classify the assets as held for sale. In February 2007, the corporate aircraft was sold and we recognized an immaterial gain.

8. Receivables

Receivables are comprised of the following (in thousands):

	December 31, 2006	December 25, 2005
Franchise royalty, advertising and trade receivables	\$ 39,123	\$ 27,098
Credit card receivables	9,492	8,853
Other	73	2,246
	48,688	38,197
Less allowance for bad debts	917	340
	\$ 47,771	\$ 37,857

We had a provision for bad debts of \$592,000 in 2006. We did not have a provision for bad debts in 2005 or 2004. We had write-offs against the allowance for bad debts of \$15,000, \$77,000 and \$627,000 during 2006, 2005 and 2004, respectively.

9. Prepaid and Other Current Assets

Prepaid and other current assets are comprised of the following (in thousands):

	December 31, 2006	December 25, 2005
Deferred income taxes	\$ 5,825	\$ 6,338
Other	9,430	7,180
	\$ 15,255	\$ 13,518

10. Goodwill and Other Intangible Assets

We have completed the annual goodwill impairment test required under the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" in the fourth fiscal quarter for each year reported in our consolidated statements of earnings. We determined that no impairment existed and as a result, no impairment losses were recorded in any year.

Goodwill is summarized below (in thousands):

	December 31, 2006	December 25, 2005
Carrying amount, beginning of the year	\$ 138,443	\$ 116,344
Goodwill acquired during the year	507	22,099
Carrying amount, end of the year	<u>\$ 138,950</u>	<u>\$ 138,443</u>

Intangible assets subject to amortization pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets," are summarized below (in thousands):

	December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortized intangible assets:			
Franchise interest and rights	\$ 6,371	\$ 6,172	\$ 199
Lease acquisition costs(1)	3,430	650	2,780
Noncomplete agreement	350	199	151
Total	<u>\$ 10,151</u>	<u>\$ 7,021</u>	<u>\$ 3,130</u>
	December 25, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortized intangible assets:			
Franchise interest and rights	\$ 6,371	\$ 5,896	\$ 475
Lease acquisition costs(1)	4,939	743	4,196
Noncomplete agreement	350	109	241
Total	<u>\$ 11,660</u>	<u>\$ 6,748</u>	<u>\$ 4,912</u>

(1) In connection with the review of long-lived assets during our preparation of the second quarter of fiscal 2006 condensed consolidated financial statements, we recorded an asset impairment charge of approximately \$1,100,000, net of accumulated amortization, for lease acquisition costs related to two restaurants whose carrying amounts were not deemed recoverable (Note 6).

Amortizable other intangible assets consist of franchise interest and rights, lease acquisition costs and a noncomplete agreement.

Franchise interest and rights represent the allocation of the purchase price of our 1988 acquisition of the Applebee's concept to the restaurants we acquired and the franchise agreements that we assumed based on an independent valuation. We amortize the allocated costs over the estimated life of the restaurants or the franchise agreements on a straight-line basis which originally ranged from 7 to 20 years.

Franchise interest and rights are being amortized over the next one to two years, lease acquisition costs are being amortized over the next 5 to 18 years and the noncomplete agreement is being amortized over the next two years.

We expect annual amortization expense for amortizable other intangible assets for the next five fiscal years to range from approximately \$200,000 to \$500,000.

Intangible assets not subject to amortization are summarized below (in thousands):

	December 31, 2006	December 25, 2005
Carrying amount, beginning of the year	\$ 3,138	\$ 2,793
Nonamortizable intangible assets acquired during the year	140	345
Nonamortizable intangible assets amount, end of the year	<u>\$ 3,278</u>	<u>\$ 3,138</u>

In connection with our acquisition of four Applebee's restaurants in Houston from a franchisee in January 2006, we recorded approximately \$100,000 of reacquired franchise rights (Note 4).

In connection with our acquisition of 12 Applebee's restaurants in Missouri, Kansas and Arkansas from a franchisee in May 2005, we recorded approximately \$300,000 of reacquired franchise rights (Note 4).

The amount allocated to reacquired franchise rights is based upon the initial franchise fees received from these franchisees. This intangible asset has an indefinite life and, accordingly, will not be amortized but tested for impairment at least annually.

11. Other Assets

Other assets are comprised of the following (in thousands):

	<u>December 31, 2006</u>	<u>December 25, 2005</u>
Nonqualified deferred compensation plan investments (Note 20)	\$ 18,729	\$ 14,493
Liquor licenses	5,747	5,474
Notes receivable	1,305	1,478
Deferred financing costs, net	1,013	664
Minority investment in unaffiliated company, at net realizable value	750	2,250
Other	6,807	6,473
	<u>\$ 34,351</u>	<u>\$ 30,832</u>

12. Property and Equipment

Property and equipment, net, is comprised of the following (in thousands):

	<u>December 31, 2006</u>	<u>December 25, 2005</u>
Land	\$ 104,240	\$ 95,297
Buildings and leasehold improvements	512,419	464,995
Furniture and equipment	284,916	255,918
Construction in progress	28,717	25,589
	<u>930,292</u>	<u>841,799</u>
Less accumulated depreciation and capitalized lease amortization	311,800	270,572
	<u>\$ 618,492</u>	<u>\$ 571,227</u>

We have recorded capitalized leases of \$4,055,000 at both December 31, 2006 and December 25, 2005, which are included in buildings and leasehold improvements. We had accumulated amortization of such property of \$2,258,000 at December 31, 2006 and \$2,025,000 at December 25, 2005. These capitalized leases relate to the buildings on certain restaurant properties. The land portion of the restaurant property leases is accounted for as an operating lease.

We had depreciation and capitalized lease amortization expense relating to property and equipment of \$64,738,000 for 2006, \$54,580,000 for 2005 and \$46,051,000 for 2004. Of these amounts, capitalized lease amortization was \$233,000 during 2006, \$240,000 during 2005 and \$239,000 during 2004.

We lease certain of our restaurants. The leases generally provide for payment of minimum annual rent, real estate taxes, insurance and maintenance and, in some cases, contingent rent (calculated as a percentage of sales) in excess of minimum rent. Total rental expense for all operating leases is comprised of the following (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Minimum rent	\$ 26,860	\$ 23,929	\$ 20,416
Contingent rent	1,453	1,389	1,254
	<u>\$ 28,313</u>	<u>\$ 25,318</u>	<u>\$ 21,670</u>

The present value of capitalized lease payments and the future minimum lease payments under noncancelable operating leases over the lease term as defined in Note 2 (including leases executed for sites to be developed in 2007) as of December 31, 2006 are as follows (in thousands):

	Capitalized Leases	Operating Leases
2007	\$ 822	\$ 29,307
2008	851	29,234
2009	880	28,977
2010	895	28,544
2011	896	28,298
Thereafter	3,178	257,659
Total minimum lease payments	7,522	\$ 402,019
Less amounts representing interest	3,606	
Present value of minimum lease payments	\$ 3,916	

In October 2006, we entered into a sale-leaseback arrangement with a third-party finance company involving five restaurant properties. As a result of this transaction, we recorded a deferred gain of approximately \$3,100,000 which will be recognized over the 10-year remaining lease term on a straight-line basis.

13. Notes Payable and Long-Term Debt

Our debt, which includes both notes payable and long-term debt, including capitalized lease obligations, is comprised of the following (in thousands):

	December 31, 2006	December 25, 2005
Notes payable; interest at federal funds rate plus 0.50% at December 31, 2006, at federal funds rate plus 0.625% at December 25, 2005	\$ —	\$ 7,900
Unsecured revolving credit facility; interest at LIBOR plus 0.5% or prime rate at December 31, 2006, due December 2011 and LIBOR plus 0.625% or prime rate at December 25, 2005	170,000	175,000
Capitalized lease obligations (Note 12)	3,916	4,054
Other	1,269	1,413
Total notes payable and long-term debt	175,185	188,367
Less notes payable and current portion of long-term debt	265	8,159
Long-term debt, less current portion	\$ 174,920	\$ 180,208

In December 2006, we entered into a new five-year revolving credit facility. The terms of the bank credit agreement provide for \$400,000,000 in unsecured revolving credit and an additional \$200,000,000 of revolving credit upon satisfaction of the conditions set forth in the credit facility. The facility is subject to various covenants and restrictions which, among other things, require the maintenance of stipulated fixed charge and leverage ratios, as defined. There is no limit on cash dividends provided that the declaration and payment of such dividend does not cause a default of any other covenant contained in the agreement. The facility is subject to other standard terms, conditions, covenants and fees.

As of December 31, 2006, we are in compliance with the covenants contained in our credit agreement. As of December 31, 2006, we had borrowings of \$170,000,000, letters of credit of \$15,600,000 outstanding and approximately \$214,400,000 available under our revolving credit facility.

In December 2004, we had a \$150,000,000 unsecured revolving credit facility. The bank credit agreement provided for a \$150,000,000 five-year unsecured revolving credit facility, of which \$40,000,000 could be used for the issuance of letters of credit. The facility was subject to various covenants and restrictions which, among other things, required the maintenance of stipulated fixed charge, leverage and indebtedness to capitalization ratios, as defined. There was no limit on cash dividends provided that the declaration and payment of such dividend does not cause a default of any other covenant contained in the agreement. The facility was subject to other standard terms, conditions, covenants, and fees.

In September 2005, we entered into an amendment to our credit facility which increased the revolving credit commitment available from \$150,000,000 to \$200,000,000. In October 2005, we entered into a second amendment to our credit facility which increased the revolving credit commitment available from \$200,000,000 to \$250,000,000 and provided for an additional \$75,000,000 of revolving credit upon satisfaction of the conditions set forth in the credit facility.

Maturities of notes payable and long-term debt, including capitalized lease obligations, ending during the years indicated, are as follows (in thousands):

2007	\$ 265
2008	292
2009	368
2010	458
2011	170,519
Thereafter	3,283
	<u>\$ 175,185</u>

14. Captive Insurance Subsidiary

In 2002, we formed Neighborhood Insurance, Inc., a Vermont corporation and a wholly-owned captive insurance subsidiary to provide Applebee's International, Inc. and qualified franchisees with workers' compensation and general liability insurance. In 2005, we reduced the types of insurance coverage plans offered which resulted in fewer franchisee participants in our captive insurance program. Through 2005, Applebee's International, Inc. and covered franchisees made premium payments to the captive insurance company which pays administrative fees and insurance claims, subject to individual and aggregate maximum claim limits under the captive insurance company's reinsurance policies. Franchisee premium amounts billed by the captive insurance company were established based upon third-party actuarial estimates of settlement costs for incurred and anticipated claims and administrative fees. Franchisee premiums were included in other franchise income ratably over the policy year and the related offsetting expenses were included in cost of other franchise income. In 2006, we discontinued writing insurance coverage for new or existing participants. Cost of other franchise income includes costs related to the resolution of claims arising from franchisee participation in our captive insurance program. We do not expect franchisee participation in the captive insurance company to have a material impact on our net earnings. Our consolidated balance sheets include the following balances related to the captive insurance subsidiary:

- Franchise premium receivables of approximately \$400,000 and \$1,700,000 as of December 31, 2006 and December 25, 2005, respectively, included in receivables related to captive insurance subsidiary.
- Cash equivalent and other long-term investments restricted for the payment of claims of approximately \$12,600,000 and \$18,600,000 as of December 31, 2006 and December 25, 2005, respectively, included in restricted assets related to captive insurance subsidiary.
- Loss reserve related to captive insurance subsidiary of approximately \$12,600,000 and \$20,700,000 as of December 31, 2006 and December 25, 2005, respectively. Approximately \$6,500,000 and \$10,500,000 for December 31, 2006 and December 25, 2005, respectively, is included in other non-current liabilities.

Our activity in the loss and loss adjustment reserve, which includes Applebee's International, Inc. and participating franchisees, is summarized in the table below (in thousands):

	December 31, 2006	December 25, 2005
Total balance, beginning of the year	\$ 20,478	\$ 18,801
Incurred related to:		
Current year	—	7,141
Prior year	(2,190)	2,406
Total incurred	(2,190)	9,547
Paid related to:		
Current year	—	1,546
Prior year	5,878	6,324
Total paid	5,878	7,870
Total balance, end of the year	12,410	20,478
Less current portion	5,910	9,976
Long-term portion (Note 16)	<u>\$ 6,500</u>	<u>\$ 10,502</u>

Loss reserve estimates are established based upon third-party actuarial estimates of ultimate settlement costs for incurred claims (which includes claims incurred but not reported) using data currently available. The reserve estimates are regularly analyzed and adjusted when necessary. Unanticipated changes in the data used to determine the reserve may require us to revise our estimates.

Deferred policy acquisition costs include premium taxes, fronting fees and net commissions and are deferred and amortized over our fiscal year and, accordingly, we did not have any deferred policy acquisition costs as of December 31, 2006 or December 25, 2005. We had acquisition expenses payable of \$184,000 as of December 31, 2006 and \$259,000 as of December 25, 2005 that were included in the current portion of loss reserve and unearned premiums related to captive insurance subsidiary in the consolidated balance sheets.

15. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are comprised of the following (in thousands):

	December 31, 2006	December 25, 2005
Gift cards	\$ 48,252	\$ 39,162
Compensation and related taxes	31,701	35,488
Restaurant occupancy costs	13,821	9,271
Sales and use taxes	7,914	6,798
Insurance loss reserves	4,120	5,327
Other	7,833	4,949
	<u>\$ 113,641</u>	<u>\$ 100,995</u>

16. Other Non-Current Liabilities

Other non-current liabilities are comprised of the following (in thousands):

	December 31, 2006	December 25, 2005
Restaurant occupancy costs	\$ 22,307	\$ 19,969
Nonqualified deferred compensation plan liabilities (Note 20)	18,729	14,493
Long-term insurance loss reserves	7,117	—
Loss and loss adjustment reserve related to captive insurance subsidiary	6,500	10,502
Deferred gain on sale-leaseback	2,706	—
Compensation	2,190	3,033
Other	2,288	2,377
	<u>\$ 61,837</u>	<u>\$ 50,374</u>

17. Income Taxes

We, along with our subsidiaries, file a consolidated federal income tax return. We have revised certain items in this note to reflect the presentation of 19 restaurants as discontinued operations. The income tax provision consists of the following (in thousands):

	2006	2005	2004
Current provision:			
Federal	\$ 44,253	\$ 40,671	\$ 31,205
State and local	10,750	4,688	2,220
Deferred provision (benefit):			
Federal	(9,641)	10,198	22,936
State and local	(1,392)	691	1,638
Income taxes from continuing operations	43,970	56,248	57,999
Income taxes related to loss from discontinued operations	(2,729)	(1,546)	(369)
Income taxes related to the cumulative effect of change in accounting principle	—	(125)	—
Total income taxes	<u>\$ 41,241</u>	<u>\$ 54,577</u>	<u>\$ 57,630</u>

The deferred income tax provision (benefit) is comprised of the following (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Depreciation and amortization	\$ 2,181	\$ 12,726	\$ 23,559
Stock-based compensation	(6,842)	—	—
Impairment and other restaurant closure costs	(2,025)	—	—
Other	(4,347)	(1,837)	1,015
Net change in deferred income taxes before discontinued operations	(11,033)	10,889	24,574
Deferred income tax provision (benefit) related to discontinued operations	(1,050)	(1,018)	739
Net change in deferred income taxes	<u>\$ (12,083)</u>	<u>\$ 9,871</u>	<u>\$ 25,313</u>

A reconciliation between the income tax provision and the expected tax determined by applying the statutory federal income tax rates to earnings from continuing operations before income taxes follows (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Federal income tax at statutory rates	\$ 42,751	\$ 54,851	\$ 58,973
Increase (decrease) to income tax expense:			
State and local income taxes, net of federal benefit	7,778	4,654	3,377
Employment related tax credits, net	(6,445)	(4,391)	(3,819)
Other	(114)	1,134	(532)
Income taxes from continuing operations	43,970	56,248	57,999
Income taxes related to discontinued operations	(2,729)	(1,546)	(369)
Income taxes related to the cumulative effect of change in accounting principle	—	(125)	—
Total income taxes	<u>\$ 41,241</u>	<u>\$ 54,577</u>	<u>\$ 57,630</u>

The net current deferred income tax asset amounts are included in prepaid and other current assets and the net non-current deferred income tax liability amounts are included in other non-current liabilities in the accompanying consolidated balance sheets. The significant components of deferred income tax assets and liabilities and the related balance sheet classifications are as follows (in thousands):

	<u>December 31, 2006</u>	<u>December 25, 2005</u>
Classified as current:		
Accrued expenses	\$ 3,032	\$ 3,879
Allowance for bad debts	783	128
Other, net	2,010	2,331
Net deferred income tax asset	<u>\$ 5,825</u>	<u>\$ 6,338</u>
Classified as non-current:		
Depreciation and amortization	\$ (47,607)	\$ (47,311)
Stock-based compensation	7,926	—
Impairment and other restaurant closure costs	562	—
Franchise deposits	648	446
Other, net	12,246	9,094
Net deferred income tax liability	<u>\$ (26,225)</u>	<u>\$ (37,771)</u>

18. Commitments and Contingencies

Litigation, claims and disputes: We are subject from time to time to lawsuits, claims and governmental inspections or audits arising in the ordinary course of business. Some of these lawsuits purport to be class actions and/or seek substantial damages. In the opinion of management, these matters are adequately covered by insurance, or, if not so covered, are without merit or are of such a nature or involve amounts that would not have a material adverse impact on our business or consolidated financial position.

Lease guarantees and contingencies: In connection with the sale of restaurants to franchisees and other parties, we have, in certain cases, remained contingently liable for the remaining lease payments. As of December 31, 2006, we have outstanding lease guarantees of approximately \$15,300,000. In addition, we or our subsidiaries are contingently liable for various leases that we have assigned in connection with the sale of restaurants to franchisees and other parties in the potential amount of \$12,300,000. These leases expire at various times with the final lease agreement expiring in 2018. We did not record a liability related to these contingent lease liabilities as of December 31, 2006 or December 25, 2005.

Franchisee guarantees: In 2004, we arranged for a third-party financing company to provide up to \$250,000,000 to qualified franchisees for loans to fund development of new restaurants through October 2007, subject to our approval. We will provide a limited guarantee of 10% of certain loans advanced under this program. We will be released from our guarantee if certain operating results are met after the restaurant has been open for at least two years. As of December 31, 2006, there were loans outstanding to five franchisees for approximately \$65,800,000 under this program. The fair value of our guarantees under this financing program is approximately \$130,000 and is recorded in non-current liabilities in our consolidated balance sheet as of December 31, 2006.

Severance agreements: We have severance and employment agreements with certain officers providing for severance payments to be made in the event the officer resigns or is terminated not related to a change in control, some of which require payments to be made only if we enforce certain terms in the agreements. If the severance payments had been due as of December 31, 2006, we would have been required to make payments totaling approximately \$10,600,000. In addition, we have severance and employment agreements with certain officers which contain severance provisions related to a change in control. The agreements define the circumstances which will constitute a change in control. Those provisions would have required additional aggregate payments of approximately \$5,300,000 if such officers had been terminated as of December 31, 2006.

19. Stockholders' Equity

In October 2005, our Board of Directors authorized repurchases of our common stock of up to \$175,000,000 during 2005 and 2006, subject to market conditions. In November 2006 our Board of Directors authorized additional repurchases of our common stock of up to \$150,000,000, subject to market conditions. During 2006, we repurchased 1,760,506 shares of our common stock at an average price of \$21.88 for an aggregate cost of approximately \$38,522,000. As of December 31, 2006, we had approximately \$240,400,000 remaining under our 2005 and 2006 repurchase authorizations.

A reconciliation of our treasury shares for the past three fiscal years is provided below (shares in thousands):

	<u>Treasury Shares</u>
Balance as of December 28, 2003	25,716
Purchases of treasury stock	3,994
Stock options exercised	(1,982)
Shares issued under employee benefit plans	(275)
Nonvested shares awarded under equity incentive plans	(78)
Balance as of December 26, 2004	<u>27,375</u>
Purchases of treasury stock	8,288
Stock options exercised	(1,045)
Shares issued under employee benefit plans	(209)
Nonvested shares awarded under equity incentive plans	(104)
Balance as of December 25, 2005	<u>34,305</u>
Purchases of treasury stock	1,761
Stock options exercised	(1,268)
Shares issued under employee benefit plans	(237)
Nonvested shares awarded under equity incentive plans	(168)
Balance as of December 31, 2006	<u>34,393</u>

20. Employee Benefit Plans

Nonqualified deferred compensation plan: In 2002, we entered into a rabbi trust agreement to protect the assets of the nonqualified deferred compensation plan for certain of our associates. Each participant's account is comprised of their contribution, our matching contribution and each participant's share of earnings or losses in the plan. In accordance with Emerging Issues Task Force No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Are Held in a Rabbi Trust and Invested," the accounts of the rabbi trust are reported in our consolidated financial statements. As of December 31, 2006 and December 25, 2005, our consolidated balance sheets include the investments in other assets and the offsetting obligation is included in other non-current liabilities. The deferred compensation plan investments are considered trading securities and are reported at fair value with the realized and unrealized holding gains and losses related to these investments recorded in other income (expense) and the offsetting amount is recorded in general and administrative expenses.

Employee retirement plans: During 1992, we established a profit sharing plan and trust in accordance with Section 401(k) of the Internal Revenue Code. We make matching contributions of 50% of associate contributions not to exceed 4.0% of an associate's compensation in any year. Through 2004, we made our contributions in shares of our common stock. Beginning in 2005, we make our contributions in cash. In 2005, our contributions vested at the rate of 20% after the associate's second year of service, 60% after three years of service, 80% after four years of service and 100% after five years of service. In 2006, our vesting schedule changed to 100% vesting immediately. Contributions under these plans were \$2,614,000 in 2006, \$2,429,000 in 2005 and \$2,158,000 in 2004.

21. Quarterly Results of Operations (Unaudited)

The following presents the unaudited consolidated quarterly results of operations for 2006 and 2005. The fiscal quarter ended December 31, 2006 contained 14 weeks. All other fiscal quarters contained 13 weeks. All amounts, except per share amounts, are expressed in thousands.

	2006			
	Fiscal Quarter Ended			
	March 26, 2006	June 25, 2006	September 24, 2006	December 31, 2006
Operating revenues:				
Company restaurant sales	\$ 300,672	\$ 289,220	\$ 280,480	\$ 298,331
Franchise royalties and fees	35,935	34,306	33,340	36,274
Other franchise income	445	539	371	453
Total operating revenues	<u>337,052</u>	<u>324,065</u>	<u>314,191</u>	<u>335,058</u>
Cost of company restaurant sales:				
Food and beverage	80,291	76,579	74,856	80,611
Labor	98,186	97,424	96,353	100,196
Direct and occupancy	76,105	77,547	77,296	81,701
Pre-opening expense	750	1,157	1,115	1,326
Total cost of company restaurant sales	<u>255,332</u>	<u>252,707</u>	<u>249,620</u>	<u>263,834</u>
Cost of other franchise income	766	281	694	958
General and administrative expenses	35,606	32,320	35,601	37,297
Amortization of intangible assets	204	204	154	159
Impairment and other restaurant closure costs	1,088	32	1,296	2,078
Loss on disposition of property and equipment	575	422	680	879
Operating earnings	<u>43,481</u>	<u>38,099</u>	<u>26,146</u>	<u>29,853</u>
Other income (expense):				
Investment income	745	(285)	885	1,423
Interest expense	(2,554)	(2,985)	(2,970)	(2,912)
Other income	136	101	301	(522)
Total other expense	<u>(1,673)</u>	<u>(3,169)</u>	<u>(1,784)</u>	<u>(2,011)</u>
Earnings from continuing operations before income taxes	41,808	34,930	24,362	27,842
Income taxes	14,066	12,170	8,849	8,885
Earnings from continuing operations	<u>27,742</u>	<u>22,760</u>	<u>15,513</u>	<u>18,957</u>
Loss from discontinued operations, net of tax	(591)	(2,356)	(672)	(447)
Cumulative effect of change in accounting principle, net of tax	—	—	—	—
Net earnings	<u>\$ 27,151</u>	<u>\$ 20,404</u>	<u>\$ 14,841</u>	<u>\$ 18,510</u>
Basic net earnings per common share:				
Basic earnings from continuing operations	\$ 0.37	\$ 0.31	\$ 0.21	\$ 0.26
Loss from discontinued operations, net of tax	(0.01)	(0.03)	(0.01)	(0.01)
Cumulative effect of change in accounting principle, net of tax	—	—	—	—
Basic net earnings per common share	<u>\$ 0.37</u>	<u>\$ 0.28</u>	<u>\$ 0.20</u>	<u>\$ 0.25</u>
Diluted net earnings per common share:				
Diluted earnings from continuing operations	\$ 0.37	\$ 0.30	\$ 0.21	\$ 0.25
Loss from discontinued operations, net of tax	(0.01)	(0.03)	(0.01)	(0.01)
Cumulative effect of change in accounting principle, net of tax	—	—	—	—
Diluted net earnings per common share	<u>\$ 0.36</u>	<u>\$ 0.27</u>	<u>\$ 0.20</u>	<u>\$ 0.25</u>
Basic weighted average shares outstanding	74,147	74,112	73,902	73,883
Diluted weighted average shares outstanding	<u>75,281</u>	<u>75,083</u>	<u>74,673</u>	<u>74,859</u>

	2005			
	Fiscal Quarter Ended			
	March 26, 2005	June 25, 2005	September 24, 2005	December 31, 2005
Operating revenues:				
Company restaurant sales	\$ 264,133	\$ 266,511	\$ 265,906	\$ 260,355
Franchise royalties and fees	33,008	32,493	31,589	31,723
Other franchise income	1,065	1,424	1,064	1,643
Total operating revenues	<u>298,206</u>	<u>300,428</u>	<u>298,559</u>	<u>293,721</u>
Cost of company restaurant sales:				
Food and beverage	69,938	70,904	69,716	69,029
Labor	86,225	87,758	87,369	86,880
Direct and occupancy	64,091	68,668	72,037	72,755
Pre-opening expense	1,082	1,262	729	1,261
Total cost of company restaurant sales	<u>221,336</u>	<u>228,592</u>	<u>229,851</u>	<u>229,925</u>
Cost of other franchise income	819	1,229	790	2,054
General and administrative expenses	26,946	27,980	26,329	28,513
Amortization of intangible assets	228	226	204	220
Impairment and other restaurant closure costs	—	—	2,225	—
Loss on disposition of property and equipment	260	561	458	719
Operating earnings	<u>48,617</u>	<u>41,840</u>	<u>38,702</u>	<u>32,290</u>
Other income (expense):				
Investment income	(41)	449	568	719
Interest expense	(337)	(634)	(1,232)	(2,162)
Other income	435	584	593	150
Total other income (expense)	<u>57</u>	<u>399</u>	<u>(71)</u>	<u>(1,293)</u>
Earnings from continuing operations before income taxes	48,674	42,239	38,631	30,997
Income taxes	16,890	14,657	14,893	9,808(1)
Earnings from continuing operations	<u>31,784</u>	<u>27,582</u>	<u>23,738</u>	<u>21,189</u>
Loss from discontinued operations, net of tax	(127)	(92)	(1,603)	(444)
Cumulative effect of change in accounting principle, net of tax	—	—	—	(225)
Net earnings	<u>\$ 31,657</u>	<u>\$ 27,490</u>	<u>\$ 22,135</u>	<u>\$ 20,520</u>
Basic net earnings per common share:				
Basic earnings from continuing operations	\$ 0.39	\$ 0.35	\$ 0.30	\$ 0.28
Income/ (Loss) from discontinued operations, net of tax	—	—	(0.02)	(0.01)
Cumulative effect of change in accounting principle, net of tax	—	—	—	—
Basic net earnings per common share	<u>\$ 0.39</u>	<u>\$ 0.34</u>	<u>\$ 0.28</u>	<u>\$ 0.27</u>
Diluted net earnings per common share:				
Diluted earnings from continuing operations	\$ 0.39	\$ 0.34	\$ 0.30	\$ 0.28
Loss from discontinued operations, net of tax	—	—	(0.02)	(0.01)
Cumulative effect of change in accounting principle, net of tax	—	—	—	—
Diluted net earnings per common share	<u>\$ 0.38</u>	<u>\$ 0.34</u>	<u>\$ 0.28</u>	<u>\$ 0.27</u>
Basic weighted average shares outstanding	80,705	79,897	78,485	75,525
Diluted weighted average shares outstanding	<u>82,375</u>	<u>81,360</u>	<u>79,691</u>	<u>76,542</u>

(1) Fourth quarter 2005 net earnings reflect a decrease in income tax expense of \$1.1 million due to the resolution of a state income tax matter.

**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL
STATEMENTS OF IHOP CORP.**

On November 29, 2007, pursuant to the Agreement and Plan of Merger, dated as of July 15, 2007 (the "Merger Agreement"), among IHOP Corp., a Delaware corporation ("IHOP Corp."), CHLH Corp., a Delaware corporation and a wholly owned subsidiary of IHOP ("Merger Sub"), and Applebee's International, Inc., a Delaware corporation ("Applebee's"), IHOP completed its acquisition of Applebee's. Pursuant to the terms of the Merger Agreement, Merger Sub merged with and into Applebee's (the "Merger"), with Applebee's continuing as the surviving corporation and became a wholly owned subsidiary of IHOP.

Pursuant to the Merger Agreement, each share of common stock of Applebee's, par value \$0.01 per share, issued and outstanding immediately prior to the effective time of the Merger (other than treasury shares, shares held by IHOP Corp., Merger Sub or any subsidiary of Applebee's, and shares with respect to which appraisal rights are perfected in accordance with Section 262 of Delaware General Corporation Law) was converted into the right to received \$25.50 in cash, without interest.

The following unaudited pro forma condensed combined financial information of IHOP Corp. is based on the historical consolidated financial statements of IHOP Corp. and Applebee's and gives effect to the following transactions (collectively, the "Pro Forma Transactions"):

- the completion of IHOP Corp.'s acquisition of 100% of the capital stock of Applebee's pursuant to an agreement and plan of merger entered into by and among IHOP Corp., CHLH Corp. and Applebee's, and the payment of \$25.50 per share in cash for each share of common stock in Applebee's to Applebee's stockholders (the "Applebee's Acquisition");
- the issuance of \$245.0 million of fixed rate notes (the "IHOP Notes") and the drawdown of \$15.0 million of variable funding notes (the "IHOP VFNs"), in each case, by IHOP Corp. subsidiaries in a securitization transaction;
- the issuance of \$1.794 billion of fixed-rate term notes (the "Applebee's Notes") and the drawdown of \$75.0 million of variable funding notes (the "Applebee's VFNs"), in each case, by a subsidiary of Applebee's in a securitization transaction;
- the issuance of \$35.0 million of convertible preferred stock of IHOP Corp. and \$190.0 million of perpetual preferred stock of IHOP Corp. (collectively, the "IHOP Corp. Preferred Stock");
- the repayment of \$118.0 million of outstanding indebtedness of Applebee's under its existing revolving credit facility, along with \$1.2 million of other outstanding indebtedness of Applebee's;
- the termination on November 29, 2007 (the "Closing Date") of an interest rate swap transaction (the "Swap") entered into on July 16, 2007 by IHOP Corp. that was intended to hedge the interest payments on the IHOP Notes and the Applebee's Notes;
- the issuance of \$175.0 million of fixed rate term notes by a subsidiary of IHOP Corp. (the "Existing IHOP Notes") on March 16, 2007 and the use of the \$171.2 million of net proceeds therefrom, including \$114.2 million used to repay existing indebtedness of IHOP Corp.; and
- the payment of all related expenses and fees (including estimated fees and expenses that are expected to be incurred after the Closing Date and deferred fees and expenses that will be paid following the Closing Date in connection with the offer and resale of the IHOP Notes and the Applebee's Notes).

Together, the issuance of the IHOP Notes, the issuance of the Applebee's Notes, the issuance of the IHOP Corp. Preferred Stock and the drawdown of the IHOP VFNs and the Applebee's VFNs are referred to as the "Financing Transactions."

The unaudited pro forma condensed combined balance sheet as of September 30, 2007 gives effect to the Pro Forma Transactions as if they had occurred on September 30, 2007. The unaudited pro forma combined statements of operations for the nine months ended September 30, 2007 and for the twelve months ended December 31, 2006 give effect to the Pro Forma Transactions as if they had occurred on January 1, 2006. The unaudited pro forma condensed combined statements of operations reflect only pro forma adjustments expected to have a continuing impact on results of operations.

The unaudited pro forma condensed combined consolidated financial information was prepared using the purchase method of accounting. Accordingly, the estimated cost of the Applebee's Acquisition has been allocated to the assets acquired and liabilities assumed based upon the preliminary estimate of IHOP Corp.'s management of their respective fair values as of September 30, 2007. The final allocation will be based on a complete evaluation of the assets acquired and liabilities assumed on the actual date of the closing of the Applebee's Acquisition. Accordingly, the information presented herein may differ materially from the final purchase price allocation. Those allocations are required to be finalized within one year after the completion of the Applebee's Acquisition.

The unaudited pro forma condensed combined financial information has been prepared based on assumptions deemed appropriate by IHOP Corp. The pro forma adjustments and certain assumptions are described in the accompanying notes. The unaudited pro forma condensed combined financial information is for informational purposes only. The unaudited pro forma condensed combined financial information does not purport to reflect the results of operations or financial position that would have

occurred if the Pro Forma Transactions had been consummated on the date indicated above, nor does it purport to represent the financial position or results of operations of IHOP Corp. for any future dates or periods.

Future results may vary significantly from the information reflected in the unaudited pro forma condensed combined statements of operations set forth below due to certain factors beyond the control of IHOP Corp., Applebee's and their respective subsidiaries.

The unaudited pro forma condensed combined financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical consolidated financial statements and related notes of IHOP Corp. in its Annual Report on Form 10-K for the year ended December 31, 2006, and its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2007, June 30, 2007 and September 30, 2007.

Preliminary Purchase Price Allocation

On November 29, 2007, IHOP Corp. completed the acquisition of Applebee's for approximately \$1,948 million, net of cash. The allocation of the purchase price for acquisition requires extensive use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values. The purchase price for the Applebee's Acquisition was allocated to tangible and intangible assets acquired and liabilities assumed based on their preliminary estimated fair values at the acquisition date. Such valuation requires significant estimates and assumptions. IHOP Corp. believes the fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions. The fair value estimates for the purchase price allocation for the Applebee's acquisition are preliminary and may change if additional information becomes available.

The following table summarizes the estimated fair values of net assets acquired (in thousands):

Short term-investment	\$ 299
Receivables	39,754
Assets held for sale	9,239
Inventories	10,912
Prepaid income taxes	4,736
Prepaid expenses	2,819
Current assets related to discontinued operations	4,935
Property and equipment	890,622
Trade name	790,000
Franchise agreements	200,000
Goodwill	332,930
Other intangible assets	22,830
Restricted assets related to captive insurance subsidiary	10,755
Other assets	36,881
Non-current assets related to discontinued operations	2,558
Accounts payable	(49,720)
Other accrued expenses	(96,348)
Capital lease obligations	(3,782)
Loss reserves related to captive insurance subsidiary	(4,940)
Current liabilities related to discontinued operations	(1,162)
Debt	(119,225)
Deferred income taxes	(81,011)
Other liabilities	(49,025)
Non-current liabilities related to discontinued operations	(6,367)
Net cash paid for acquisition	<u>\$ 1,947,690</u>

IHOP Corp.

Unaudited Pro Forma Condensed Combined Balance Sheet
As of September 30, 2007
(In thousands)

	IHOP Corp. (Historical)	Applebee's (Historical)	Pro Forma Adjustments	Pro Forma Combined
Assets				
Current assets				
Cash and cash equivalents	\$ 33,838	\$ 18,912	\$ 41,829(1)	\$ 94,579
Short-term investments, at market value	—	299	—	299
Receivables, net	42,761	39,754	11,014(2)	93,529
Assets held for sale	137	5,273	3,966(4)	9,376
Inventories	322	10,912	—	11,234
Prepaid income taxes	—	4,736	367(3)	5,103
Prepaid expenses	8,686	7,544	(4,725)(4)	11,505
Deferred income taxes	6,209	11,648	—	17,857
Current assets related to discontinued operations	—	4,935	—	4,935
Total current assets	91,953	104,013	52,451	248,417
Long-term receivables	291,282	—	—	291,282
Property and equipment, net	296,522	631,243	259,379(4)	1,187,144
Trade name	—	—	790,000(4)	790,000
Franchise agreements	—	—	200,000(4)	200,000
Goodwill	10,767	138,950	193,980(4)	343,697
Other intangibles assets	—	—	22,830(4)	22,830
Restricted assets related to captive insurance subsidiary	—	10,755	—	10,755
Other intangible assets, net	—	6,028	(6,028)(4)	—
Deferred rent	69,392	—	—	69,392
Deferred income taxes	13,279	—	(13,279)(1)(4)	—
Other assets	27,938	36,881	93,656(5)	158,475
Non-current assets related to discontinued operations	—	2,558	—	2,558
Total assets	\$ 801,133	\$ 930,428	\$ 1,592,989	\$ 3,324,550
Liabilities and Stockholders' Equity				
Current liabilities				
Current maturities of long-term debt	\$ —	\$ 77	\$ (77)(6)	\$ —
Accounts payable	14,109	49,720	—	63,829
Derivative financial instrument	70,306	—	(70,306)(7)	—
Other accrued expenses	23,059	96,348	(5,536)(8)	113,871
Capital lease obligations	5,500	233	—	5,733
Loss reserve related to captive insurance subsidiary	—	4,940	—	4,940
Current liabilities related to discontinued operations	—	1,162	—	1,162
Total current liabilities	112,974	152,480	(75,919)	189,535
Long-term debt, less current maturities	175,000	119,148	2,009,852(9)	2,304,000
Deferred income taxes	61,474	25,134	44,353(2)	130,961
Capital lease obligations	166,253	3,549	—	169,802
Other liabilities	77,554	70,185	(21,160)(4)	126,579
Non-current liabilities related to discontinued operations	—	6,367	—	6,367
Commitments and contingencies	—	—	—	—
Total stockholders' equity	207,878	553,565	(364,137)(10)	397,306
Total liabilities and stockholders' equity	\$ 801,133	\$ 930,428	\$ 1,592,989	\$ 3,324,550

The accompanying notes are an integral part of the unaudited pro forma condensed combined balance sheet.

Notes to Unaudited Pro Forma Condensed Combined Balance Sheet
(In thousands)

(1) Reflects the following:

Receipt of gross proceeds from the issuance of the IHOP Notes	\$ 245,000
Receipt of gross proceeds from the issuance of the Applebee's Notes	1,794,000
Receipt of gross proceeds from the drawdown on the Applebee's VFNs	75,000
Receipt of gross proceeds from the drawdown on the IHOP VFNs	15,000
Receipt of gross proceeds from the issuance of the IHOP Corp. Preferred Stock	225,000
Repayment of Applebee's International existing debt (together with accrued and unpaid interest)	(119,714)
Payment of transaction and financing costs related to the Financing Transactions and the Applebee's Acquisition	(120,318)
Unwinding of IHOP Corp.'s interest rate swap transaction (see notes (7) and (10) below)	(124,046)
Purchase of outstanding common stock and stock equivalents of Applebee's	(1,948,093)
Total Adjustment	<u>\$ 41,829</u>

(2) Reflects the tax effect resulting from the Applebee's Acquisition pro forma adjustments.

(3) Reflects the tax effect resulting from the elimination of Applebee's unamortized deferred financing fees related to existing debt being repaid.

(4) Reflects the preliminary purchase price allocation related to the Applebee's Acquisition including the assumption of Applebee's International existing debt.

(5) Reflects the deferral of \$94,562 of financing costs related to the Financing Transactions and the Applebee's Acquisition offset by the elimination of \$906 of deferred financing costs related to existing debt of Applebee's that is being repaid. Total deferred financing costs include estimated fees and expenses that are expected to be incurred after the Closing Date and deferred fees and expenses that will be paid following the Closing Date in connection with the offer and resale of the IHOP Notes and the Applebee's Notes.

(6) Reflects the repayment of the current portion of existing Applebee's debt.

(7) Reflects the unwinding of IHOP Corp.'s interest rate swap transaction. On July 16, 2007, IHOP Corp. entered into an interest rate swap transaction (the "Swap"). The Swap was intended to hedge interest payments on the IHOP Notes and the Applebee's Notes. As of November 29, 2007, the fair value of the Swap was \$(124,046).

(8) Reflects the payment of accrued transaction costs related to the Financing Transactions and accrued interest related to Applebee's International existing debt.

(9) Reflects the issuances of the IHOP Notes and the Applebee's Notes, the drawdown of \$75,000 of Applebee's VFNs, the drawdown of \$15,000 of IHOP VFNs and the repayment of \$119,148 of Applebee's existing indebtedness.

(10) Reflects the following:

Receipt of net proceeds from the issuance of the IHOP Corp. Preferred Stock	\$ 222,800
Elimination of Applebee's historical stockholders' equity	(553,565)
Elimination of Applebee's unamortized deferred financing costs related to Applebee's indebtedness repaid, net of tax effect	(539)
Adjustment to other comprehensive loss, net of tax, related to the effective portion of the Swap (a)	(16,545)
Effect to retained earnings of the ineffective portion of the Swap settlement	(16,288)
	<u>\$ (364,137)</u>

(a) On July 16, 2007, IHOP Corp. entered into the Swap, which was intended to hedge the interest payments on the IHOP Notes and the Applebee's Notes. As of September 30, 2007, the fair value of the Swap was \$(70,306), and IHOP Corp. recognized \$21,409 of other comprehensive loss, net of tax, with respect to the fair value of the effective portion of the Swap. As of November 29, 2007, the fair value of the Swap was \$(124,046), and this adjustment reflects the recognition of additional other comprehensive loss with respect to the fair value of the effective portion of the Swap, for a total of \$38,213 of other comprehensive loss, net of tax. The pre-tax other comprehensive loss will be amortized over the expected lives of the IHOP Notes and the Applebee's Notes.

IHOP Corp.
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Nine Months Ended September 30, 2007
(In thousands)

	IHOP Corp. (Historical)	Applebee's (Historical)	Pro Forma Adjustments	Pro Forma Combined
Revenues				
Franchise revenues	\$ 142,766	\$ 108,860	\$ —	\$ 251,626
Rental income	99,310	—	—	99,310
Company restaurant sales	13,155	883,128	—	896,283
Financing revenues	15,735	—	—	15,735
Total revenues	270,966	991,988	—	1,262,954
Costs and Expenses				
Franchise expenses	65,068	1,100	—	66,168
Rental expenses	73,853	—	—	73,853
Company restaurant expenses	14,984	785,252	5,994(3)	806,230
Financing expenses				
Finance operations	942	—	—	942
Interest expense related to the Swap	35,618	—	(24,553)(1)	11,065
Interest expense	7,067	6,670	134,483(2)	148,220
General and administrative expenses	48,066	100,928	451(3)	149,445
Other expense, net	3,800	(2,595)	8,090(3)	9,295
Impairment and closure charges	—	5,830	—	5,830
Early debt extinguishment costs	2,223	—	—	2,223
Loss on disposition of property & equipment	—	1,279	—	1,279
Total costs and expenses	251,621	898,464	124,465	1,274,550
Income (loss) from continuing operations before income taxes	19,345	93,524	(124,465)	(11,596)
Provision (benefit) for income taxes	5,518	30,452	(40,458)(4)	(4,488)
Income (loss) from continuing operations	\$ 13,827	\$ 63,072	\$ (84,007)	\$ (7,108)
Less: Preferred stock dividends	—			(14,250)
Income (loss) available to common stockholders	\$ 13,827			\$ (21,358)
Income (loss) Per Share				
Basic	\$ 0.80			\$ (1.23)
Diluted	\$ 0.80		(5)	\$ (1.23)
Weighted Average Shares Outstanding				
Basic	17,310			17,310
Diluted	17,351		(5)	17,310

The accompanying notes are an integral part of the unaudited pro forma condensed combined statement of operations.

Notes to Unaudited Pro Forma Combined Statement of Operations
For the Nine Months Ended September 30, 2007
(In thousands, except per share amount)

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- (1) On July 16, 2007, IHOP Corp. entered into an interest rate swap transaction (the "Swap") with Lehman Brothers Special Financing Inc., guaranteed by Lehman Brothers Holdings, Inc. The Swap was intended to hedge the interest payments on the IHOP Notes and the Applebee's Notes. As of November 29, 2007, the fair value of the Swap was \$(124,046). Using the Hypothetical Derivative Method, IHOP Corp. determined that the fair value of the effective portion of the Swap resulted in pre-tax other comprehensive loss of \$61,915 which will be amortized over the estimated lives of the IHOP Notes and the Applebee's Notes. The adjustment reflects the amortization of such other comprehensive loss. No adjustment with respect to the ineffective portion of the Swap is being recorded because the expense with respect to that portion is deemed to be non-recurring. Also reflects the elimination of mark-to-market expense related to the Swap.
 - (2) Reflects \$143,064 of interest expense (including amortization) related to the issuance of the IHOP Notes, the issuance of the Applebee's Notes, the drawdown of \$75,000 of Applebee's VFNs, the drawdown of \$15,000 of IHOP VFNs and the issuance of the Existing IHOP Notes by a subsidiary of IHOP Corp. on March 16, 2007 offset by the elimination of \$7,029 of interest expense related to Applebee's outstanding debt being repaid and \$1,552 of interest expense related to IHOP Corp. indebtedness that was repaid on March 16, 2007 with a portion of the net proceeds of the Existing IHOP Notes. A total of \$107,212 of debt issuance costs for the IHOP Notes, the Applebee's Notes, the IHOP VFNs and the Applebee's VFNs was amortized based on the expected repayment dates of the relevant securities.
 - (3) Reflects the additional estimated depreciation and amortization expense related to the pro forma stepped-up basis of tangible and intangible assets acquired in the Applebee's Acquisition. \$8,090 represents estimated amortization of intangible assets primarily related to franchise agreements. \$5,994 and \$451 represent estimated depreciation of tangible assets primarily related to property and equipment.
 - (4) Reflects the tax effect resulting from the pro forma adjustments based on an assumed effective annual tax rate of 38.7%.
 - (5) Pro forma basic loss per share is computed using the pro forma weighted average number of common shares outstanding during the period. Pro forma diluted loss per share is computed using only the pro forma weighted average number of common shares outstanding during the period, as the 570 shares from the Convertible Preferred Stock would have been antidilutive.

IHOP Corp.
Unaudited Pro Forma Condensed Combined Statement of Income
For the Year Ended December 31, 2006
(In thousands)

	IHOP Corp. (Historical)	Applebee's (Historical)	Pro Forma Adjustments	Pro Forma Combined
Revenues				
Franchise revenues	\$ 179,331	\$ 141,663	\$ —	\$ 320,994
Rental income	132,101	—	—	132,101
Company restaurant sales	13,585	1,168,703	—	1,182,288
Financing revenues	24,543	—	—	24,543
Total revenues	349,560	1,310,366	—	1,659,926
Costs and Expenses				
Franchise expenses	83,079	2,699	—	85,778
Rental expenses	97,904	—	—	97,904
Company restaurant expenses	15,601	1,021,493	7,991(3)	1,045,085
Financing expenses				
Finance operations	4,172	—	—	4,172
Interest expense related to the Swap	—	—	15,008(1)	15,008
Interest expense	7,709	11,421	175,852(2)	194,982
General and administrative expenses	63,543	141,545	602(3)	205,690
Other expense, net	4,659	(2,784)	10,787(3)	12,662
Impairment and closure charges	43	4,494	—	4,537
Loss on disposition of property & equipment	—	2,556	—	2,556
Total costs and expenses	276,710	1,181,424	210,240	1,668,374
Income (loss) from continuing operations before income taxes	72,850	128,942	(210,240)	(8,448)
Provision (benefit) for income taxes	28,297	43,970	(75,536)(4)	(3,269)
Income (loss) from continuing operations	\$ 44,553	\$ 84,972	\$ (134,704)	\$ (5,179)
Less: Preferred stock dividends	—			(19,000)
Income (loss) available to common stockholders	\$ 13,827			\$ (24,179)
Income (loss) from Continuing Operations Per Share				
Basic	\$ 2.46			\$ (1.34)
Diluted	\$ 2.43		(5)	\$ (1.34)
Weighted Average Shares Outstanding				
Basic	18,085			18,085
Diluted	18,298		(5)	18,085

The accompanying notes are an integral part of the unaudited pro forma condensed combined statement of income.

Notes to Unaudited Pro Forma Condensed Combined Statement of Income
For the Year Ended December 31, 2006
(In thousands, except per share amount)

- (1) On July 16, 2007, IHOP Corp. entered into the Swap, which was intended to hedge the interest payments on the IHOP Notes and the Applebee's Notes. As of November 29, 2007, the fair value of the Swap was \$(124,046). Using the Hypothetical Derivative Method, IHOP Corp. determined that the fair value of the effective portion of the Swap resulted in pre-tax other comprehensive loss of \$61,915 which will be amortized over the estimated lives of the IHOP Notes and the Applebee's Notes. The adjustment reflects the amortization of such other comprehensive loss. No adjustment with respect to the ineffective portion of the Swap is being recorded because the expense with respect to that portion is deemed to be non-recurring.
- (2) Reflects \$195,376 of interest expense (including amortization) related to the issuance of the IHOP Notes, the issuance of the Applebee's Notes, the drawdown of \$75,000 of Applebee's VFNs, the drawdown of \$15,000 of IHOP VFNs and the issuance of the Existing IHOP Notes by a subsidiary of IHOP Corp. on March 16, 2007 offset by the elimination of \$11,816 of interest expense related to Applebee's outstanding debt being repaid and \$7,709 of interest expense related to IHOP Corp. indebtedness that was repaid on March 16, 2007 with a portion of the net proceeds of the Existing IHOP Notes. A total of \$107,212 of debt issuance costs for the IHOP Notes, the Applebee's Notes, the IHOP VFNs and the Applebee's VFNs was amortized based on the expected repayment dates of the relevant securities.
- (3) Reflects the estimated additional depreciation and amortization expense related to the pro forma stepped-up basis of tangible and intangible assets acquired in the Applebee's Acquisition. \$10,787 represents estimated amortization of intangible assets primarily related to franchise agreements. \$7,991 and \$602 represent estimated depreciation of tangible assets primarily related to property and equipment.
- (4) Reflects the tax effect resulting from the pro forma adjustments based on an assumed effective annual tax rate of 38.7%.
- (5) Pro forma basic loss per share is computed using the pro forma weighted average number of common shares outstanding during the period. Pro forma diluted loss per share is computed using only the pro forma weighted average number of common shares outstanding during the period, as the 750 shares from the Convertible Preferred Stock would have been antidilutive.