

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1996

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-8360

IHOP CORP.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

525 North Brand Boulevard, Glendale, California 91203-1903  
(Address of principal executive offices) (Zip code)

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

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

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

Class	Outstanding as of June 30, 1996
Common Stock, \$.01 par value	9,463,960

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS IHOP CORP. AND SUBSIDIARIES  
(Unaudited and in thousands, except share amounts)

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	June 30, 1996	December 31, 1995
	-----	-----
Assets		
Current assets		
Cash and cash equivalents	\$ 3,616	\$ 3,860
Receivables	23,438	21,476
Reacquired franchises and equipment held for sale, net	1,588	1,157
Inventories	1,091	792
Prepaid expenses	678	233
	-----	-----
Total current assets	30,411	27,518
	-----	-----
Long-term receivables	120,216	115,800
Property and equipment, net	96,060	87,795
Reacquired franchises and equipment held for sale, net	8,983	6,553
Excess of costs over net assets acquired, net	13,122	13,336
Other assets	995	1,055
	-----	-----
Total assets	\$269,787	\$252,057
	=====	=====
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt	\$ 4,672	\$ 4,672
Accounts payable	12,091	15,979
Accrued employee compensation and benefits	2,805	1,562
Other accrued expenses	2,696	2,349
Deferred income taxes	2,240	3,436
Capital lease obligations and other	769	719
	-----	-----
Total current liabilities	25,273	28,717
	-----	-----
Long-term debt	36,803	30,584
Deferred income taxes	22,299	21,495
Capital lease obligations and other	68,694	62,964
Shareholders' equity		
Preferred stock, \$1 par value, 10,000,000 shares authorized; shares issued and outstanding: no shares	-	-
Common stock, \$.01 par value, 40,000,000 shares authorized; shares issued and outstanding: June 30, 1996, 9,463,960 shares; December 31, 1995, 9,375,515 shares	95	94
Additional paid-in capital	48,090	46,363
Retained earnings	68,071	60,640
Contribution to ESOP	462	1,200
	-----	-----
Total shareholders' equity	116,718	108,297
	-----	-----
Total liabilities and shareholders' equity	\$269,787	\$252,057
	=====	=====

See the accompanying notes to the consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
<b>Revenues</b>				
Franchise operations				
Rent	\$ 7,190	\$ 6,867	\$14,373	\$13,676
Service fees and other	17,958	15,636	35,326	31,114
	-----	-----	-----	-----
	25,148	22,503	49,699	44,790
Company operations	12,983	10,514	24,436	19,732
Other	6,334	7,106	10,622	8,779
	-----	-----	-----	-----
Total revenues	44,465	40,123	84,757	73,301
	-----	-----	-----	-----
<b>Costs and expenses</b>				
Franchise operations				
Rent	3,923	3,718	7,919	7,492
Other direct costs	7,676	6,689	15,108	13,544
	-----	-----	-----	-----
	11,599	10,407	23,027	21,036
Company operations	12,225	10,076	22,907	18,898
Field, corporate and administrative	6,181	5,601	12,902	11,298
Depreciation and amortization	1,972	1,745	3,870	3,367
Interest	2,757	2,090	5,389	4,161
Other	2,510	3,485	4,380	4,086
Severance charges	-	-	-	800
	-----	-----	-----	-----
Total costs and expenses	37,244	33,404	72,475	63,646
	-----	-----	-----	-----
Income before income taxes	7,221	6,719	12,282	9,655
Provision for income taxes	2,852	2,650	4,851	3,810
	-----	-----	-----	-----
Net income	\$ 4,369	\$ 4,069	\$ 7,431	\$ 5,845
	=====	=====	=====	=====
<b>Net income per common and common equivalent share</b>				
	\$ .46	\$ .43	\$ .78	\$ .62
	=====	=====	=====	=====
<b>Weighted average common and common equivalent shares outstanding</b>				
	9,592	9,502	9,575	9,466
	=====	=====	=====	=====

See the accompanying notes to the consolidated financial statements.

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

	Six Months Ended June 30 ,	
	1996	1995
	-----	-----
Cash flows from operating activities		
Net income	\$ 7,431	\$ 5,845
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	3,870	3,367
Deferred taxes	392	1,242
Contribution to ESOP	462	334
Change in current assets and liabilities		
Accounts receivable	(2,287)	(1,186)
Inventories	(299)	71
Prepaid expenses	(445)	412
Accounts payable	(3,888)	(1,755)
Accrued employee compensation and benefits	1,243	(297)
Other accrued expenses	347	527
Other, net	583	(146)
	-----	-----
Cash provided by operating activities	7,409	8,414
	-----	-----
Cash flows from investing activities		
Additions to property and equipment	(17,779)	(16,200)
Proceeds from sale and leaseback arrangements	3,791	8,271
Additions to notes, equipment contracts and direct financing leases receivable	(2,685)	(2,398)
Principal receipts from notes, equipment contracts and direct financing leases receivable	3,065	3,061
Additions to reacquired franchises held for sale	(549)	(588)
	-----	-----
Cash used by investing activities	(14,157)	(7,854)
	-----	-----
Cash flows from financing activities		
Proceeds from issuance of long-term debt	9,300	3,100
Repayment of long-term debt	(3,026)	(5,400)
Principal payments on capital lease obligations	(298)	(262)
Exercise of stock options	528	1,996
	-----	-----
Cash provided (used) by financing activities	6,504	(566)
	-----	-----
Net change in cash and cash equivalents	(244)	(6)
Cash and cash equivalents at beginning of period	3,860	2,036
	-----	-----
Cash and cash equivalents at end of period	\$ 3,616	\$ 2,030
	=====	=====

Supplemental disclosures

Interest paid, net of capitalized

amounts	\$ 5,238	\$ 4,258
Income taxes paid	4,081	1,418
Capital lease obligations incurred	5,966	8,720

See the accompanying notes to the consolidated financial statements.

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IHOP CORP. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The accompanying unaudited consolidated financial statements include all adjustments, consisting of normal, recurring accruals, which in the opinion of the management of IHOP Corp. and Subsidiaries ("IHOP" or the "Company") are necessary for a fair presentation of the financial position and the results of operations for the periods presented. The results of operations for the six months ended June 30, 1996, are not necessarily indicative of the results to be expected for the full year ending December 31, 1996.
2. In the first quarter of 1995, the Company recognized severance charges of \$800,000 associated with a realignment of responsibilities in its restaurant operations, restaurant development and purchasing functions. The effect of the charges was \$484,000, net of income tax benefit, or \$.05 per share.

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

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
	(Dollars in thousands)			
Restaurant Data				
Effective restaurants (a)				
Franchise	496	455	495	453
Company	56	49	54	47
Area license	133	126	132	125
Total	685	630	681	625
System-wide				
Sales (b)	\$193,506	\$175,914	\$382,992	\$345,417
Percent increase	10.0%	14.0%	10.9%	13.6%
Average sales per effective restaurant	\$ 282	\$ 279	\$ 562	\$ 553
Percent increase	1.1%	4.9%	1.6%	5.1%
Comparable average sales per restaurant (c)	\$ 290	\$ 281	\$ 573	\$ 552

Percent increase	0.3%	1.7%	0.4%	1.5%
Franchise				
Sales	\$150,482	\$134,227	\$297,248	\$264,243
Percent increase	12.1%	14.2%	12.5%	14.6%
Average sales per effective restaurant	\$ 303	\$ 295	\$ 601	\$ 583
Percent increase	2.7%	3.9%	3.1%	4.1%
Comparable average sales per restaurant (c)	\$ 298	\$ 291	\$ 588	\$ 571
Percent increase	0.3%	1.9%	0.4%	1.7%
Company				
Sales	\$ 12,983	\$ 10,514	\$ 24,436	\$ 19,732
Percent change	23.5%	(0.1%)	23.8%	(6.0%)
Average sales per effective restaurant	\$ 232	\$ 215	\$ 453	\$ 420
Percent change	7.9%	0.0%	7.9%	0.0%
Area License				
Sales	\$ 30,041	\$ 31,173	\$ 61,308	\$ 61,442
Percent change	(3.6%)	18.8%	(0.2%)	16.8%
Average sales per effective restaurant	\$ 226	\$ 247	\$ 464	\$ 492
Percent change	(8.5%)	10.3%	(5.7%)	8.6%

(a) "Effective restaurants" are the number of restaurants in a given fiscal period adjusted to account for restaurants open only a portion of the period.

(b) "System-wide sales" are retail sales of franchisees, area licensees and Company-operated restaurants, as reported to the Company.

(c) "Comparable average sales" reflects sales for restaurants that are operated for the entire fiscal period in which they are being compared. Comparable average sales do not include data on restaurants located in Florida and Japan.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
RESTAURANT DEVELOPMENT ACTIVITY (a)				
IHOP - beginning of period	685	627	678	620
New openings				
IHOP-developed	6	8	12	9
Investor program	7	3	9	9
Area license	1	2	2	4
Total new openings	14	13	23	22
Closings				
Company and franchise	(2)	(1)	(4)	(3)
Area license	-	-	-	-
IHOP - end of period	697	639	697	639
Summary - end of period				
Franchise	507	464	507	464
Company	57	48	57	48
Area license	133	127	133	127
Total IHOP	697	639	697	639

	====	====	====	====
RESTAURANT FRANCHISING ACTIVITY (a)				
-----				
IHOP-developed	7	10	11	10
Investor program	7	3	9	9
Rehabilitated and refranchised	-	-	-	-
	----	----	----	----
Total restaurants franchised	14	13	20	19
Reacquired by Company	(3)	(3)	(7)	(5)
Closed	(2)	-	(2)	(1)
	----	----	----	----
Net addition	9	10	11	13
	====	====	====	====
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(a) The Company reports restaurants in Canada as franchise restaurants although nine of the ten restaurants are operated under an area license agreement.

IHOP's quarterly results are subject to seasonal fluctuations. Revenues from sales of franchises are affected by the timing of new restaurant openings and the restaurants in the Company's "inventory" of restaurants available from time to time for franchising; the impact of such factors is usually not evenly distributed throughout the year. As a consequence, the results of operations for the six months ended June 30, 1996, are not necessarily indicative of the results to be expected for the full year ending December 31, 1996.

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System-wide retail sales for the second quarter and first six months of 1996 increased 10.0% and 10.9%, respectively, over system-wide retail sales for the comparable 1995 periods. This was due to increases in the number of effective restaurants of 8.7% and 9.0% and increases in average per unit revenues of 1.1% and 1.6% over the respective prior year periods. The above increases were mitigated by unfavorable exchange fluctuations in the Japanese yen. If the Japanese sales were excluded from the comparison, system-wide sales would have increased by 12.5% in the second quarter and 12.8% in the first six months of 1996. System-wide comparable average sales per restaurant (exclusive of area license restaurants in Florida and Japan) for the second quarter and first six months of 1996 increased 0.3% and 0.4%, respectively, over those in the comparable 1995 periods. Management continues to pursue sales increases through the Company's restaurant development program, improved marketing efforts, improvements in customer service and operations, and the Company's remodeling program.

Franchise operations revenues for the second quarter and first six months of 1996 increased 11.8% and 11.0%, respectively, over revenues for the comparable 1995 periods. This was primarily due to increases in the number of effective franchised units of 9.0% and 9.3% coupled with increases in average per unit revenues of 2.7% and 3.1% for the quarter and the first six months, respectively, over the prior year periods. Franchise operations costs and expenses for the second quarter and first six months of 1996 increased 11.5% and 9.5%, respectively, over costs and expenses for the comparable 1995 periods. As a result of franchise revenues increasing in excess of franchise expenses, the margin from franchise operations improved to 53.9% and 53.7% in the second quarter and first six months of 1996, respectively, versus 53.7% and 53.0% in the comparable 1995 periods. The margin improved primarily because of increasing interest income associated with IHOP's financing of sales of franchises and equipment to its franchisees.

Company-operated restaurant revenues for the second quarter and first six months of 1996 increased 23.5% and 23.8%, respectively, over revenues for the comparable 1995 periods. This was primarily due to increases in the number of effective Company-operated restaurants of 14.3% and 14.9%, respectively, and

the revenues per effective Company-operated restaurant of 7.9% in both the second quarter and first six months of 1996 over the comparable 1995 periods. Company-operated restaurant costs and expenses for the second quarter and first six months of 1996 increased 21.3% and 21.2%, respectively, over costs and expenses for the comparable 1995 periods. Margin from Company-operated restaurants was 5.8% in the second quarter and 6.3% for the first six months of 1996 versus a margin of 4.2% for both the quarter and the first six months of 1995. The changes in margin were primarily due to decreases in food costs, salaries, wages and rent expense as a percentage of revenues.

Other revenues for the second quarter of 1996 decreased 10.9% from other revenues for the second quarter of 1995. Other revenues for the first six months of 1996 increased 21.0% from those in the comparable 1995 period. The primary reason for the decrease in the quarter was a decrease in the sales of franchises and equipment to \$4,330,000 in the second quarter of 1996 from \$5,587,000 in the comparable 1995 period. The increase in the six months was due to the sales of franchises and equipment increasing to \$6,578,000 in the first six months of 1996 from \$5,841,000 in the comparable 1995 period and increases in interest income from direct financing leases. The Company franchised 14 and 20 restaurants in the second quarter and first six months of 1996, respectively, compared with 13 and 19 restaurants in the comparable 1995 periods. Revenues from sales of franchises and equipment and their associated costs of sales are

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affected by the mix and number of restaurants franchised, as follows: (i) restaurants newly developed by IHOP normally franchise for \$200,000 to \$350,000, have little if any associated franchise cost of sales and have equipment in excess of \$300,000 that is sold usually at about breakeven; (ii) restaurants developed by franchisees normally franchise for \$50,000, have minor associated franchise cost of sales and do not include an equipment sale; and (iii) previously reacquired franchises normally relicense for \$100,000 to \$300,000, include an equipment sale and may have substantial costs of sales associated with both the franchise and the equipment. As noted earlier, sales of franchises and equipment are also affected by the timing of new restaurant openings and the restaurants in the Company's "inventory" of restaurants available from time to time for franchising.

Other costs and expenses for the second quarter decreased by 28% from the comparable 1995 period. Other costs and expenses for the first six months of 1996 increased 7.2% from the comparable 1995 period. The decrease was primarily due to lower franchise and equipment cost of sales in the second quarter of 1996 of \$2,066,000 versus \$2,891,000 in the second quarter of 1995. The increase in the six months was primarily due to higher franchise and equipment cost of sales of \$3,296,000 in the first six months of 1996 versus \$2,891,000 in the comparable 1995 period.

Field, corporate and administrative expenses for the second quarter and first six months of 1996 increased 10.4% and 14.2%, respectively, over the comparable 1995 periods. In general, field, corporate and administrative expenses have been increasing moderately as a result of normal increases in salaries and wages, inflation and increases in headcount due to the increased workloads as the company grows. Field, corporate and administrative expenses were 3.2% and 3.4% of system-wide sales in the second quarter and first six months of 1996, respectively, compared with 3.2% and 3.3%, respectively, in the comparable 1995 periods.

Depreciation and amortization expense increased 13.0% and 14.9% in the second quarter and first six months of 1996, respectively, over the comparable 1995 periods primarily due to depreciation and amortization associated with the addition of new, larger restaurants.

Interest expense increased 31.9% and 29.5% in the second quarter and first six months of 1996, respectively, over the comparable 1995 periods due primarily to interest associated with increased capital lease obligations.



Severance charges of \$800,000, or \$484,000 net of income tax benefit, or \$.05 per share, were recognized in the first quarter of 1995. The charges were associated with a realignment of responsibilities in the Company's restaurant operations, restaurant development and purchasing functions. (See Note 2 to the Consolidated Financial Statements.)

Provision for income taxes was 39.5% of income before income taxes in the second quarter and first six months of 1996 and in the comparable 1995 periods.

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#### Liquidity and Capital Resources

The Company invests available funds into its business through the development of additional restaurants and the remodeling of older Company-operated restaurants.

In 1996, IHOP and its franchisees and area licensees plan to develop and open approximately 75 to 80 restaurants. Included in that number are the development of 50 to 55 new restaurants by the Company and 25 by IHOP franchisees and area licensees. Capital expenditures budgeted for 1996, which include IHOP's portion of the above development program, are approximately \$60 million. In November 1996, the first annual installment of \$4.6 million in principal becomes due on the Company's senior notes due 2002. The Company expects that funds from operations, sale and leaseback arrangements (estimated to be about \$26 million) and its revolving line of credit will be sufficient to cover its operating requirements and its projected capital expenditures in 1996. At June 30, 1996, \$11 million was available to be borrowed under the Company's unsecured bank revolving credit agreement.

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#### Part II. OTHER INFORMATION

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

The annual meeting of shareholders (the "Meeting") was held on May 16, 1996. Shareholders voted in person or by proxy for the following purposes.

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

Nominee	Votes For	Votes Withheld
Michael S. Gordon	7,716,894	17,478
Larry Alan Kay	7,717,894	16,478
Dennis M. Leifheit	7,718,894	15,478

There were no abstentions or broker non-votes. Directors whose terms of office continued after the Meeting included the above three directors and H. Frederick Christie, Frank Edelstein, Neven C. Hulsey, Richard K. Herzer, Caroline W. Nahas and Patrick W. Rose.

- (b) Shareholders voted to approve and ratify the appointment of Coopers & Lybrand L.L.P. as the Company's independent accountants for the year ending December 31, 1996. 7,711,907 shares were voted for this proposal, 15,244 were voted against, there were 7,221 abstentions and no broker non-votes.

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

- (a) Exhibits.

Exhibits not incorporated by reference are filed herewith. The remainder of the exhibits have heretofore been filed with the Commission and are incorporated herein by reference.

- 3.1 Certificate of Incorporation of IHOP Corp. Exhibit 3.1 to IHOP Corp.'s Form 10-K for the fiscal year ended December 31, 1991, Commission file number 0-8360, (the "1991 Form 10-K") is hereby incorporated by reference.
  - 3.2 Bylaws of IHOP Corp. Exhibit 3.2 to IHOP Corp.'s Registration Statement on Form S-1 No. 33-40431 is hereby incorporated by reference.
  - 11 Statement Regarding Computation of Per Share Earnings.
  - 27 Financial Data Schedule
- (b) No reports on Form 8-K were filed during the quarter ended June 30, 1996.

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SIGNATURES

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

IHOP CORP.

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(Registrant)

July 25, 1996  
-----  
(Date)

BY: /s/ Richard K. Herzer  
-----  
Richard K. Herzer  
Chairman of the Board,  
President and Chief Executive  
Officer (Principal Executive  
Officer)

July 25, 1996  
-----  
(Date)

BY: /s/ Frederick G. Silny  
-----  
Frederick G. Silny  
Vice President-Finance and  
Treasurer (Principal Financial  
Officer)

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## EXHIBIT 11

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
NET INCOME PER COMMON SHARE - PRIMARY				
Weighted average shares outstanding	9,447	9,330	9,421	9,279
Net effect of dilutive stock options based on the treasury stock method using average market price	145	172	149	187
Total	9,592	9,502	9,570	9,466
Net income available to common shareholders	\$4,369	\$4,069	\$7,431	5,845
Net income per share - primary	\$ .46	\$ .43	\$ .78	\$ .62
NET INCOME PER COMMON SHARE - FULLY DILUTED				
Weighted average shares outstanding	9,447	9,330	9,421	9,279
Net effect of dilutive stock options based on the treasury stock method using the period-end market price, if higher than the average market price	145	176	154	189
Total	9,592	9,506	9,575	9,468
Net income available to common shareholders	\$4,369	\$4,069	\$7,431	\$4,069
Net income per share - fully diluted	\$ .46	\$ .43	\$ .78	\$ .62
	=====	=====	=====	=====

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF IHOP CORP. AND SUBSIDIARIES AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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