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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-K

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

For the fiscal year ended December 31, 2001

Commission file number 0-8360

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### IHOP CORP.

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**95-3038279**

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

**450 North Brand Boulevard, Glendale, California**

(Address of principal executive offices)

**91203-2306**

(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class

Name of each exchange on which registered

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**Common Stock, \$.01 Par Value**

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**New York Stock Exchange, Inc.**

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of January 31, 2002: \$567 million.

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

Class

Outstanding as of January 31, 2002

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Common Stock, \$.01 par value

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20,715,201

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Annual Meeting of Shareholders to be held on Tuesday, May 14, 2002, (the "2002 Proxy Statement") are incorporated by reference into Part III.

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#### PART I

##### General Development of Business

##### Item 1. Business.

IHOP Corp. and its subsidiaries ("IHOP" or the "Company") develop, operate and franchise International House of Pancakes restaurants, one of America's best-known, national, family restaurant chains. At December 31, 2001, there were 1,017 IHOP restaurants. Franchisees operated 823 of these restaurants, area licensees operated 122 restaurants, and IHOP operated 72 restaurants. Franchisees and area licensees are independent third parties who operate their restaurants under legal agreements with IHOP. IHOP restaurants are

located in 41 states and Canada.

IHOP Corp. was incorporated under the laws of the State of Delaware in 1976. In July 1991, we completed an initial public offering of common stock. There were no significant changes to our corporate structure during 2001, and no material changes to our methods of conducting business.

### **Financial Information about Industry Segments**

IHOP is engaged in the development, operation and franchising of International House of Pancakes restaurants primarily in the United States. Information about our revenues, operating profits and assets is contained in Part II, Item 6 of this Annual Report on Form 10-K.

### **Narrative Description of Business**

IHOP restaurants feature table service and moderately priced, high-quality food and beverage items in an attractive and comfortable atmosphere. Although the restaurants are best known for their award-winning pancakes, omelets and other breakfast specialties, IHOP restaurants offer a broad array of lunch, dinner and snack items as well. They are open throughout the day and evening hours, and some operate 24 hours a day.

Franchisees and area licensees operate more than 90% of IHOP restaurants. Our approach to franchising is founded on the franchisees' active involvement in the day-to-day operations of their respective restaurants. We are selective in granting franchises and we prefer to franchise to those who intend to be active in the management of their restaurant(s), rather than to passive investors or investment groups. We believe that they provide a quality of management and dedication that, in our view, is generally unmatched by salaried employees or absentee owners.

IHOP develops most new restaurants prior to franchising them. When the restaurant is franchised, we then become the franchisee's landlord. This landlord/tenant relationship provides us with enhanced profits and greater control over our franchise system. Some franchisees develop their own IHOP restaurants under our Investor and Conversion Programs for franchisees. In those instances, IHOP approves the site for development but does not contribute capital or become the franchisee's landlord. Area licensees located in Canada and Florida operate 12% of IHOP restaurants. We provide support to these area licensees, but we are not actively involved in developing new restaurants in these areas.

We seek to increase our revenues and profits by focusing on several areas of our business. These areas include: (1) development and franchising of new IHOP restaurants, (2) marketing, advertising and product development programs aimed at attracting new guests and retaining our existing customers, and (3) implementation of restaurant-level operating changes designed to improve sales and profitability.

### **Restaurant Development**

New restaurants are developed after a stringent site selection process supervised by our senior management. In 2001, we developed 76 new restaurants and our franchisees and area licensees developed an additional 17 new restaurants.

We intend to continue to add restaurants to the IHOP system primarily by developing new restaurants in major markets where we already have a core customer base. We believe that concentrating growth in existing markets allows us to achieve economies of scale in our supervisory and advertising functions. At times, we acquire existing restaurants and convert them to IHOP restaurants.

IHOP also looks to strategically develop new markets in which we have no presence or our presence is limited. This occurs primarily where these new markets are geographically near to existing markets and present significant business opportunities. At times, we have acquired several existing restaurants in new markets for conversion to IHOP restaurants. We evaluate such opportunities on a case-by-case basis.

Our development involves obtaining rights to land either through a purchase of fee property, or through ground or "build to suit" leases. A "build to suit" lease is one in which the landlord provides the capital to construct and equip the restaurant. Fee and ground lease properties are developed with our own capital. Some time after the restaurant is franchised and leased to the franchisee, the Company raises additional capital for further development, most often via sale and leaseback transactions involving the land and building on fee properties or leasehold improvements on ground leases. Timing of financing activities is dictated by cash flow requirements, not franchising activities. The mix of fee properties, ground leases and "build to suit" leases is not predictable. However, our recent experience has increasingly been to obtain rights to land via ground leases.

In 2001, we built two general types of new restaurant buildings. The larger format restaurant is approximately 4,900 square feet in size and contains 176 seats. The second building type is designed for use in smaller, high-potential markets. It is approximately 4,000 square feet in size and seats about 132 people. We also purchased and converted existing buildings into IHOP restaurants. The square footage and number of seats in a restaurant conversion vary by location. In 2001, restaurant conversions averaged 163 seats per restaurant. Our older A-Frame style restaurants, which have not been built since 1985, contain approximately 3,000 square feet and about 100 seats. Of the 76 new IHOP restaurants we developed in 2001, 17 were the larger format building, 46 were the smaller format building and 13 were restaurant conversions or leased spaces in multi-tenant buildings.

To the greatest extent possible, subject to local zoning restrictions, we continue to use our familiar signature blue color on the roof,

awnings and other exterior decor of our restaurants.

The table below sets forth our average development cost per restaurant in 2001. For leased restaurants the discounted present value of the lease and any additional sums paid to acquire the lease have been allocated to land, building and site improvements and other costs, as appropriate.

	<u>Average Per Restaurant</u>
Land	\$ 667,000
Building	800,000
Equipment	341,000
Site improvements and other costs	185,000
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Total	\$ 1,993,000

New IHOP restaurants that opened in 2000 realized average sales of approximately \$1,559,000 per restaurant in their first twelve full months of operations.

## Franchising

IHOP's approach to franchising is somewhat different from that of most of our franchising competitors in the foodservice industry. In most franchise systems, the franchisee is called upon to pay a modest initial fee to the franchisor. The franchisee then uses his/her own capital to acquire a site, build and equip the business and fund working capital needs. While we offer programs to certain experienced franchisees that allow them to fund the development of their own restaurants, typically approximately 85% of IHOP restaurants are developed directly by us.

When we develop a restaurant, we identify the site for the new restaurant, purchase the site or lease it from a third party, and build the restaurant and equip it with all required equipment. We then select the franchisee and train the franchisee and supervisory personnel who will run the restaurant. In addition, we finance approximately 80% of the franchise fee and lease the restaurant and equipment to the franchisee. After the franchisee is operating the restaurant, we provide continuing support with respect to operations, marketing and new product development.

Our involvement in the development of new restaurants allows IHOP to command a substantial franchise and development fee. In addition, we derive income from the financing of the franchise and development fee and from the leasing of property and equipment to franchisees. However, we also incur substantial obligations in the development, franchising and start-up operations of new restaurants. IHOP's involvement in site selection and development, the training and supervision of franchisees, as well as our control over restaurant property, products and services, are an integral part of our operating philosophy.

IHOP franchisees are predominantly owner/operators, not passive investors. The majority of franchisees own only one restaurant and only 20 franchisees currently own more than six restaurants. We believe that franchisees who are actively involved in the operation of their restaurants provide a quality of management and commitment to our guests that cannot be matched by salaried managers.

A substantial majority of new restaurants are franchised to current franchisees or restaurant managers who already understand IHOP's approach to the restaurant business. In the past five years, sales to existing franchisees and IHOP employees, or to their immediate families, constituted approximately 91% of franchise sales transactions.

An initial franchise fee of approximately \$200,000 to \$375,000 or more is generally required for a newly developed restaurant, depending on the site. The franchisee typically pays approximately 20% of the initial franchise fee in cash, and we finance the remaining amount over five to eight years. We also receive continuing revenues from the franchisee as follows: (1) a royalty equal to 4.5% of the restaurant's sales; (2) income from the leasing of the restaurant and related equipment; (3) revenue from the sale of certain proprietary products, primarily pancake mixes; (4) a local advertising fee equal to about 2% of the restaurant's sales, which is usually paid to a local advertising cooperative; and (5) a national advertising fee equal to 1% of the restaurant's sales. Franchise agreements for restaurants developed directly by franchisees under our Investor and Conversion Programs provide for an initial franchise fee of \$50,000, revenue from the sale of certain proprietary products, and royalties and advertising fees as described above.

We have entered into long-term area licensing agreements covering the state of Florida and the Southern-most counties of Georgia and the province of British Columbia, Canada. These agreements provide for royalties ranging from 0.5% to 2% of sales, and advertising fees of 0.25% of sales. We also derive revenue from the sale of proprietary products to these area licensees. We treat the revenues from our area licensees as franchise operations revenues for financial reporting purposes. Area licensing arrangements may be used in the future for domestic and/or international expansion.

## **Restaurant Operations and Support**

It is our goal to make every dining experience at an IHOP restaurant a satisfying one. Our franchisees and managers of company-operated restaurants strive always to exceed guests' expectations. We hold firm to the belief that a satisfied customer will both be a return customer and will tell others about our restaurants. To ensure that our guests' expectations are fulfilled, all restaurants are operated in accordance with uniform operating standards and specifications relating to the quality and preparation of menu items, selection of menu items, maintenance, repair and cleanliness of premises, and the appearance and conduct of employees.

Our Operations Department is charged with ensuring that these high standards are met at all times. We have developed our operating standards in consultation with our franchisee operators. These standards are detailed in our Manual of Standard Operating Procedures.

Each restaurant is assigned an Operations Consultant. He or she regularly visits and evaluates the restaurant to ensure that it remains in compliance with the operating guidelines and procedures. At least twice per year, the Operations Consultant conducts a comprehensive written evaluation of every aspect of the restaurant's operations. The Operations Consultant then meets with the franchisee or manager to discuss the results of the evaluation and develop a plan to address any areas needing improvement.

The IHOP menu offers a large selection of high-quality, moderately priced products designed to appeal to a broad customer base. These include a wide variety of pancakes, waffles, omelets and breakfast specialties, chicken, steak, sandwiches, salads and lunch and dinner specialties. Most IHOP restaurants offer special items for children and seniors at reduced prices. In recognition of local tastes, IHOP restaurants typically offer regional specialties that complement the IHOP core menu. Our Research and Development Department works together with franchisees and our Operations and Marketing Departments to continually develop new menu ideas. These new menu items are thoroughly evaluated in our test kitchen and in limited regional tests before being introduced throughout the system. The purpose of adding new items to our menu is to be responsive to our guests' needs and requests, and to keep the menu fresh and appealing to our customers.

Training is ongoing at all IHOP restaurants. Prospective franchisees are required to participate in an extensive training program before he or she is first sold a franchise. The training program involves classroom study and hands-on operational training in one of our regional training restaurants. Each franchisee learns to cook, wait on tables, serve as a host, wash dishes and perform each of the other tasks necessary to operate a successful restaurant. New restaurant opening teams provide on-site instruction to restaurant employees to assist in the opening of all new IHOP restaurants.

The Company offers additional training courses from time to time on subjects such as suggestive selling, improving service, managing people and diversity.

## **Marketing and Advertising**

Most IHOP franchisees and company-operated restaurants contribute about 2% of their sales to local advertising cooperatives. We also provide additional funding to these cooperatives. The advertising co-ops use these funds to purchase television advertising time and place advertisements in printed media or direct mail. In addition to television advertising, IHOP encourages local area marketing by its franchisees. These marketing programs include discounts and specials aimed at increasing customer traffic and encouraging repeat business.

## **Company-Operated Restaurants**

Company-operated restaurants are those restaurants newly developed by IHOP that have not yet been franchised and those restaurants reacquired by us through negotiation or franchisee defaults. The

type and number of company-operated restaurants varies from time to time as we develop new restaurants, reacquire franchised restaurants and franchise new and reacquired restaurants.

Restaurants that we reacquire from franchisees typically require investment in remodeling and rehabilitation before being refranchised. They may remain as company-operated restaurants for a substantial period of time. As a consequence, a significant number of company-operated restaurants are likely to incur operating losses during the initial period of their rehabilitation.

## **Remodeling and Refranchising Program**

Restaurants that we reacquire are often underperforming as a result of having been poorly operated and physically neglected. When we reacquire a restaurant, we begin a multi-step rehabilitation program for that restaurant. First these restaurants are physically rehabilitated, then we hire and train the restaurant staff. After these first steps are completed, we implement new marketing and operations programs designed to regain the business of former guests and attract new patrons. After a restaurant has been rehabilitated and its sales volume reaches acceptable levels, the restaurant is refranchised to a qualified franchisee. In the past five years IHOP reacquired a total of 85 restaurants from franchisees and subsequently closed 15 of those restaurants. In those same years, a total of 46 restaurants were refranchised.

We also require most of our franchisees, and strongly encourage all of our franchisees, to periodically remodel their restaurants.

## **Purchasing**

IHOP has entered into supply contracts and pricing agreements for various products, such as pancake mixes, pork products, coffee, soft drinks and juices to ensure the availability of quality products at competitive prices. We also have negotiated agreements with food distribution companies to limit markups charged on food and restaurant supplies purchased by individual IHOP restaurants.

## **Competition and Markets**

The restaurant business is highly competitive and is affected by, among other things, changes in eating habits and preferences, local, regional and national economic conditions, population trends and traffic patterns. The principal bases of competition in the industry are the type, quality and price of the food products served. Additionally, restaurant location, quality and speed of service, advertising, name identification and attractiveness of facilities are important.

The acquisition of sites is also highly competitive. We are often competing with other restaurant chains and retail businesses for suitable sites for the development of new restaurants.

Foodservice chains in the United States include the following segments: quick-service sandwich, chicken, pizza, family restaurant, dinner house, grill-buffet, hotel restaurant and contract/catering. Differentiated chains competing within their segments against each other and local, single-outlet operators characterize the current structure of the U.S. restaurant and institutional foodservice market.

Information published in 2001 by *The Nations Restaurant News* ranked IHOP 27<sup>th</sup> out of the top 100 foodservice chains based on estimated fiscal 2000 system-wide sales in the United States. The same publication included eleven family restaurant chains in its top 100 chains, and IHOP ranked second in this segment. During December 2001, based on a nationwide sample of IHOP company-operated and franchised restaurants, the approximate guest check average per IHOP customer was \$7.00.

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## **Trademarks and Service Marks**

We have registered our trademarks and service marks with the United States Patent and Trademark Office. These include "International House of Pancakes," "IHOP" and variations of each, as well as "Any Time's a Good Time for IHOP," "The Home of the Never Empty Coffee Pot," "Rooty Tooty Fresh 'N Fruity," and "Harvest Grain 'N Nut." We also register new trademarks and service marks from time to time. We are not aware of any infringing uses that could materially affect our business or any prior claim to these marks that would prevent us from using or licensing the use thereof for restaurants in any area of the United States. We have also registered our trademarks and service marks and variations thereof in Japan and Canada for use by our current licensees. Where feasible and appropriate, we register our trademarks and service marks in other nations for future use. Our current registered trademarks and service marks will expire, unless renewed, at various dates from 2002 to 2012. We routinely apply to renew our active trademarks prior to their expiration.

## **Seasonality**

IHOP's business, like that of most restaurant companies, is somewhat seasonal. Our restaurants generally experience greater customer traffic and sales in the summer months and during various holidays when children are out of school and family vacations are more frequent. Restaurants in some resort areas and warm weather climates tend to experience greater customer traffic and sales in the winter months.

## **Government Regulation**

IHOP is subject to various federal, state and local laws affecting our business as well as a variety of regulatory provisions relating to zoning of restaurant sites, sanitation, health and safety. As a franchisor, we are subject to state and federal laws regulating various aspects of franchise operations and sales. These laws impose registration and disclosure requirements on franchisors in the offer and sale of franchises. In certain cases, they also apply substantive standards to the relationship between franchisor and franchisee, including primarily defaults, termination, non-renewal of franchises, and the potential impact of new IHOP restaurants on sales levels at existing IHOP restaurants.

Various federal and state labor laws govern our relationships with our employees. These include such matters as minimum wage requirements, overtime and other working conditions. Environmental requirements have not had a material effect on the operations of our company-operated restaurants or the restaurants of our franchisees. Significant additional government-imposed increases in minimum wages, paid leaves of absence, mandated health benefits or increased tax reporting and tax payment requirements with respect to employees who receive gratuities could, however, be detrimental to the economic viability of franchisee-operated and company-operated IHOP restaurants.

## **Employees**

At December 31, 2001, we employed 3,921 persons, of whom 278 were full-time, non-restaurant, corporate personnel.

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## Item 2. Properties.

The table below shows the location and status of the 1,017 IHOP restaurants as of December 31, 2001:

Location	Franchise	Company-Operated	Area License	Total
<b>United States</b>				
Alabama	12	4	0	16
Arizona	23	1	0	24
Arkansas	8	0	0	8
California	190	6	0	196
Colorado	25	0	0	25
Connecticut	8	0	0	8
Delaware	1	0	0	1
Florida	0	0	121	121
Georgia	40	3	1	44
Hawaii	1	0	0	1
Idaho	3	1	0	4
Illinois	30	5	0	35
Indiana	6	2	0	8
Iowa	2	0	0	2
Kansas	9	0	0	9
Louisiana	9	0	0	9
Maine	1	0	0	1
Maryland	23	5	0	28
Massachusetts	13	0	0	13
Michigan	5	7	0	12
Mississippi	7	0	0	7
Missouri	15	2	0	17
Nebraska	4	1	0	5
Nevada	17	0	0	17
New Hampshire	2	0	0	2
New Jersey	30	3	0	33
New Mexico	5	0	0	5
New York	37	2	0	39
North Carolina	26	2	0	28
Oklahoma	15	0	0	15
Oregon	8	5	0	13
Pennsylvania	12	2	0	14
Rhode Island	2	0	0	2
South Carolina	15	2	0	17
Tennessee	18	4	0	22
Texas	126	0	0	126
Utah	10	0	0	10
Virginia	37	1	0	38
Washington	14	13	0	27
Wisconsin	2	1	0	3
Wyoming	1	0	0	1
<b>International</b>				
Canada(1)	11	0	0	11
<b>Totals</b>	<b>823</b>	<b>72</b>	<b>122</b>	<b>1,017</b>

(1) IHOP reports restaurants in Canada as franchise restaurants although the restaurants are operated under an area license agreement.

As of December 31, 2001, 8 of the 72 company-operated restaurants were located on sites owned by IHOP and 64 were located on sites leased by IHOP from third parties; of the 823 franchisee-operated restaurants, 45 were located on sites owned by IHOP, 636 were located on sites leased by IHOP from third parties and 142 were located on sites owned or leased by franchisees; and all of the restaurants operated by area licensees were located on sites owned or leased by the area licensees.

IHOP's leases with its landlords generally provide for an initial term of 15 to 25 years, with most having one or more five-year renewal

options in favor of IHOP. The leases typically provide for payment of rentals in an amount equal to the greater of a fixed amount or a specified percentage of gross sales and for payment by IHOP of taxes, insurance premiums, maintenance expenses and certain other costs. Historically, we generally have been successful at renewing those leases that expire without further renewal options. However, from time to time we choose not to renew a lease or are unsuccessful in negotiating satisfactory renewal terms. When this occurs, the restaurant is closed and possession of the premises is returned to the landlord.

We currently lease our principal corporate offices in Glendale, California under a lease having a remaining term of approximately nine years. We also lease regional offices in Lyndhurst, New Jersey; Norcross, Georgia; Lombard, Illinois; Dallas, Texas; Portland, Oregon; Fredericksburg, Virginia; and Greenwood Village, Colorado.

### Item 3. Legal Proceedings.

IHOP is subject to various claims and legal actions that arise in the ordinary course of business, many of which are covered by insurance. We believe such claims and legal actions, individually or in the aggregate, will not have a material adverse effect on the business or either the financial condition, results of operations, or cash flows of our company.

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

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

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## PART II

### Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "IHP". The Company's common stock began trading on the New York Stock Exchange on September 17, 1999. Prior to commencing trading on the New York Stock Exchange, our common stock was traded on the Nasdaq Stock Market National Market. As of January 31, 2002, there were approximately 4,554 stockholders, including the beneficial owners of shares held in "street name."

The following table sets forth the high and low prices of IHOP's common stock for each quarter of 2001 and 2000 as reported by the NYSE.

Quarter Ended	High	Low	Quarter Ended	High	Low
March 31, 2001	\$ 24.00	\$ 18.90	March 31, 2000	\$ 18.19	\$ 13.63
June 30, 2001	27.40	19.10	June 30, 2000	18.00	14.00
September 30, 2001	29.15	21.03	September 30, 2000	20.09	15.75
December 31, 2001	31.03	24.40	December 31, 2000	22.63	17.75

We have not paid any dividends on our common stock in the last five years and have no plans to do so in 2002. Any future determination to declare dividends will depend on our earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by our Board of Directors. The purchase agreements governing our 7.79% senior notes, our 7.42% senior notes, and our credit agreement with our bank limit the amount of retained earnings available for dividends and investments. At December 31, 2001, approximately \$105 million of retained earnings were potentially free of restriction as to distribution of dividends.

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### Item 6. Selected Financial Data.

#### Five-Year Financial Summary

	Year Ended December 31,				
	2001(a)	2000(a)	1999(a)	1998(a)	1997(a)
(In thousands, except per share amounts)					
<b>Income Statement Data</b>					
<b>Revenues</b>					
Franchise operations	\$ 208,630	\$ 183,361	\$ 163,486	\$ 145,955	\$ 123,842
Sales of franchises and equipment	46,996	47,065	39,545	40,347	28,864
Company operations	68,810	72,818	70,204	69,906	61,839
Total revenues	324,436	303,244	273,235	256,208	214,545

<b>Costs and expenses</b>					
Franchise operations	86,136	72,394	64,189	58,539	51,137
Cost of sales of franchises and equipment	31,086	30,944	23,958	26,628	17,814
Company operations	66,330	70,085	66,016	65,711	58,001
Field, corporate and administrative	40,621	36,481	34,531	32,381	28,409
Depreciation and amortization	14,818	13,562	12,310	11,271	10,029
Interest	21,107	21,751	19,391	17,417	14,649
Other (income) expense, net	(123)	567	604	1,456	220
<b>Total costs and expenses</b>	<b>259,975</b>	<b>245,784</b>	<b>220,999</b>	<b>213,403</b>	<b>180,259</b>
Income before income taxes	64,461	57,460	52,236	42,805	34,286
Provision for income taxes	24,173	22,122	20,111	16,694	13,372
<b>Net income</b>	<b>\$ 40,288</b>	<b>\$ 35,338</b>	<b>\$ 32,125</b>	<b>\$ 26,111</b>	<b>\$ 20,914</b>
<b>Net income per share(b)</b>					
Basic	\$ 1.98	\$ 1.77	\$ 1.61	\$ 1.33	\$ 1.09
Diluted	\$ 1.94	\$ 1.74	\$ 1.58	\$ 1.30	\$ 1.07
<b>Weighted average shares outstanding(b)</b>					
Basic	20,398	20,017	19,983	19,659	19,192
Diluted	20,762	20,263	20,358	20,033	19,486
<b>Balance Sheet Data (end of period)</b>					
Cash and cash equivalents	\$ 6,252	\$ 7,208	\$ 4,176	\$ 2,294	\$ 2,789
Property and equipment, net	238,026	193,624	177,743	161,689	142,751
Total assets	641,429	562,212	520,402	443,032	379,418
Long-term debt	50,209	36,363	41,218	49,765	54,950
Capital lease obligations	168,105	167,594	165,557	129,861	102,578
Stockholders' equity(c)	312,430	259,995	226,480	187,868	156,184

- (a) Fiscal 1998 is comprised of 53 weeks (371 days); all other years are comprised of 52 weeks (364 days).
- (b) All share and per-share amounts have been restated to reflect the stock split on May 27, 1999 (see Note 1 to the Consolidated Financial Statements).
- (c) We have not paid any dividends on our common stock in the last five years and have no plans to do so in 2002. Any future determination to declare dividends will depend on our earnings, financial condition, cash requirements, future prospects and other factors deemed relevant by our Board of Directors.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Forward-Looking Statements

The following discussion and analysis provides information we believe is relevant to an assessment and understanding of IHOP's consolidated results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and notes thereto. Certain forward-looking statements are contained in this report. They use such words as "may," "will," "expect," "believe," "plan," or other similar terminology. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results to be materially different than those expressed or implied in such statements. These factors include, but are not limited to: availability of suitable locations and terms for the sites designated for development; legislation and government regulation, including the ability to obtain satisfactory regulatory approvals; conditions beyond IHOP's control such as weather, natural disasters or acts of war or terrorism; availability and cost of materials and labor; cost and availability of capital; competition; continuing acceptance of the International House of Pancakes brand and concept by guests and franchisees; IHOP's overall marketing, operational and financial performance; economic and political conditions; adoption of new, or changes in, accounting policies and practices and other factors discussed from time to time in our Press Releases, Public Statements and/or filings with the Securities and Exchange Commission. Forward-looking information is provided by us pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 and should be evaluated in the context of these factors. In addition, we disclaim any intent or obligation to update these forward-looking



statements.

## General

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

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

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

Company operations revenues are retail sales at IHOP-operated restaurants.

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

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administrative, depreciation and amortization, and interest relate to franchise operations, sales of franchises and equipment, and company operations.

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

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

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## Results of Operations

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

	Year Ended December 31,		
	2001	2000	1999
	(Dollars in Thousands)		
<b>Restaurant Data</b>			
Effective restaurants(a)(d)			
Franchise	767	696	638
Company	72	76	74
Area license	131	150	147
Total	970	922	859
<b>System-wide</b>			
Sales(b)(d)	\$ 1,345,757	\$ 1,246,177	\$ 1,126,624
Percent increase	8.0%	10.6%	8.3%
Average sales per effective restaurant(d)	\$ 1,387	\$ 1,352	\$ 1,312

Percent increase		2.6%	3.0%	1.2%
Comparable average sales per restaurant(c)	\$	1,451	\$ 1,424	\$ 1,375
Percent increase		0.8%	0.8%	1.1%
<b>Franchise</b>				
Sales	\$	1,146,124	\$ 1,026,783	\$ 920,957
Percent increase		11.6%	11.5%	10.2%
Average sales per effective restaurant	\$	1,494	\$ 1,475	\$ 1,444
Percent increase		1.3%	2.1%	1.0%
Comparable average sales per restaurant(c)	\$	1,493	\$ 1,467	\$ 1,424
Percent increase		0.9%	1.1%	1.0%
<b>Company</b>				
Sales	\$	68,810	\$ 72,818	\$ 70,204
Percent change		(5.5%)	3.7%	0.4%
Average sales per effective restaurant	\$	956	\$ 958	\$ 949
Percent change		(0.2%)	0.9%	(2.3%)
<b>Area License</b>				
Sales	\$	130,823	\$ 146,576	\$ 135,463
Percent change		(10.7%)	8.2%	0.8%
Average sales per effective restaurant	\$	999	\$ 977	\$ 922
Percent change		2.3%	6.0%	(0.5%)

- (a) "Effective restaurants" are the number of restaurants in a given fiscal period adjusted to account for restaurants open for only a portion of the period.
- (b) "System-wide sales" are retail sales of franchisees, area licensees and company-operated restaurants, as reported to IHOP.
- (c) "Comparable average sales" reflect sales for restaurants that are operated for the entire fiscal period in which they are being compared. Because of new unit openings and store closures, the restaurants opened for an entire fiscal period being compared will be different from period to period. Comparable average sales do not include data on restaurants located in Florida and Japan.
- (d) The Company's area licensee in Japan negotiated an early termination of the area license agreement as of April 30, 2001. Excluding the units in Japan, system-wide sales increased 10.1%, 10.9% and 9.3% for 2001, 2000 and 1999, respectively; total effective restaurants grew by 8.0%, 7.6% and 7.7% for 2001, 2000 and 1999, respectively; and average system-wide sales per effective restaurant increased 2.0%, 3.0% and 1.5% for 2001, 2000 and 1999, respectively.

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

	Year Ended December 31,				
	2001	2000	1999	1998	1997
<b>Restaurant Development Activity</b>					
IHOP—beginning of year	968	903	835	787	729
New openings					
IHOP-developed	76	70	65	56	45
Investor and conversion programs	12	10	7	13	13
Area license	5	4	4	4	9
<b>Total new openings</b>	<b>93</b>	<b>84</b>	<b>76</b>	<b>73</b>	<b>67</b>
Closings					
Company and franchise	(11)	(16)	(8)	(21)	(9)
Area license	(33)	(3)	—	(4)	—
<b>IHOP—end of year</b>	<b>1,017</b>	<b>968</b>	<b>903</b>	<b>835</b>	<b>787</b>
Summary—end of year					
IHOP					
Franchise	823	747	678	624	571
Company	72	71	76	66	71

Area license	122	150	149	145	145
<b>Total IHOP</b>	<b>1,017</b>	<b>968</b>	<b>903</b>	<b>835</b>	<b>787</b>
<b>Restaurant Franchising Activity</b>					
IHOP-developed	74	70	61	60	45
Investor and conversion programs	12	10	7	13	13
Rehabilitated and refranchised	9	15	6	10	6
Total restaurants franchised	95	95	74	83	64
Reacquired by IHOP	(12)	(19)	(14)	(17)	(23)
Closed	(7)	(7)	(6)	(13)	(5)
<b>Net addition</b>	<b>76</b>	<b>69</b>	<b>54</b>	<b>53</b>	<b>36</b>

### Comparison of Year Ended December 31, 2001 to Year Ended December 31, 2000

The fiscal years ended December 31, 2001 and 2000 were comprised of 52 weeks (364 days).

#### System-Wide Retail Sales

System-wide retail sales include the sales of all IHOP restaurants as reported to IHOP by its franchisees, area licensees and company-operated restaurants. System-wide retail sales grew by \$99,580,000 or 8.0% in 2001. Growth in the number of effective restaurants and increases in average sales per effective restaurant caused the growth in system-wide sales. "Effective restaurants" are the number of restaurants in operation in a given fiscal period, adjusted to account for restaurants in operation for only a portion of the fiscal period. Effective restaurants grew by 5.2% in 2001 due to new restaurant development. Average sales per effective restaurant increased by 2.6% in 2001 over the prior year period. Newly developed restaurants generally have seating capacity and sales greater than the system-wide averages. System-wide comparable average sales per restaurant (exclusive of area license restaurants in Florida and Japan) grew 0.8% in 2001. Management continues to pursue growth in sales through new restaurant development, advertising and marketing efforts, new products, improvements in customer service and operations, and remodeling of existing restaurants.

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During the second quarter of 2001, the Company's area licensee in Japan negotiated an early termination of its area license agreement. IHOP received a fee of approximately \$250,000 for this early termination and the area licensee discontinued operations of its 32 IHOP restaurants. Excluding these units in Japan, system-wide sales increased 10.1% for the year ended December 31, 2001; effective restaurants grew by 8.0% for the year ended December 31, 2001; and average sales per effective restaurants increased 2.0% for the year ended December 31, 2001 over the same period in 2000.

#### Franchise Operations

Franchise operations revenues are the revenues received by IHOP from its franchisees and include rent, royalties, sales of proprietary products, advertising fees and interest. Franchise operations revenues grew by 13.8% in 2001. Franchise operations revenues grew primarily due to an increase in retail sales in franchise restaurants of 11.6% in 2001. Retail sales in franchised restaurants grew primarily due to a 10.2% increase in effective franchise restaurants and a 1.3% increase in average sales per effective franchise restaurant in 2001 over 2000.

Franchise operations costs and expenses include facility rent, advertising, the cost of proprietary products, and other direct costs associated with franchise operations. Franchise operations costs and expenses increased by 19.0% in 2001. Increases in franchise operations costs and expenses were greater than the growth in franchise operations revenue primarily due to higher rent expense.

Rent expense has been primarily affected by our new unit development program. New unit development will initially have a negative effect on rent margin percentages. The timing of lease transactions also has an impact on rent expense. Actual profit margin on rent transactions increased \$4.5 million to \$27.9 million in 2001, a 19.1% improvement over the \$23.4 million rent margin in 2000.

Franchise operations margin as a percent of revenues was 58.7% in 2001 compared with 60.5% in 2000. The decrease in the margin percentage was primarily due to the rent expense mentioned above.

#### Sales of Franchises and Equipment

Sales of franchises and equipment decreased by 0.1% in 2001. IHOP franchised 95 restaurants in both 2001 and 2000, however, the units franchised in 2001 had a lower average franchise sales price than those in 2000.

Cost of sales of franchises and equipment increased 0.5% in 2001. The increase was primarily due to preopening costs and site related costs that are not directly linked to the number of units franchised.

Margin on sales of franchises and equipment was 33.9% in 2001 compared with 34.3% in 2000. The decrease in margins primarily resulted from the mix of units franchised and an increase in preopening and site related costs.

### **Company Operations**

Company operations revenues are sales to customers at restaurants operated by IHOP. Company operation revenues decreased 5.5% in 2001. A decrease in the number of effective IHOP-operated restaurants coupled with a decrease in the average sales per IHOP-operated restaurant caused the revenue decrease. Effective IHOP-operated restaurants decreased by 5.3% in 2001. Average sales per effective IHOP-operated restaurant decreased by 0.2% in 2001.

Company operations costs and expenses include food, labor and benefits, utilities and occupancy costs. Company operations costs decreased 5.4% in 2001. Company operations costs were primarily affected by decreases in the number of effective restaurants.

Company operations gross profit margin as a percent of Company operations revenues was 3.6% and 3.8% of company operations revenues in 2001 and 2000, respectively.

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### **Other Costs and Expenses**

Field, corporate and administrative costs and expenses increased by 11.3% in 2001. The rise in expenses was primarily due to higher compensation and rent expenses. The primary cause of the increases in rent expense was the initiation of a new 10-year lease for the Company's corporate headquarters in late 2000 and the opening of a new regional office in the Rocky Mountain area in early 2001. Field, corporate and administrative expenses were 3.0% of system-wide sales in 2001, compared to 2.9% in 2000.

Depreciation and amortization expense in 2001 increased 9.3%. The increases were caused primarily by the addition of new restaurants to the IHOP chain from our restaurant development program.

Interest expense decreased by 3.0% in 2001. Long term debt increased by approximately \$14 million since December 31, 2000. However, the Company has benefited from lower interest rates in 2001 compared to the prior year.

### **Income Tax Provision**

The Company's effective tax rate was 37.5% for 2001 and 38.5% for 2000. The decrease in the effective tax rate for 2001 was due to the positive results of the Company's tax planning efforts.

### **Balance Sheet Accounts**

The balance of property and equipment, net at December 31, 2001, increased 22.9% primarily due to new restaurant development.

The balance of long-term receivables at December 31, 2001, increased 7.1% from the prior year primarily due to IHOP's financing activities associated with sales of franchises and equipment.

The balance of long-term debt increased by 38.1% in 2001 primarily due to the \$11,649,000 leasehold mortgage term loan the company entered into in 2001 and an increase in the balance of our revolving line of credit. These additions were partially offset by a \$8,460,000 repayment of our senior notes.

### **Comparison of Year Ended December 31, 2000 to Year Ended December 31, 1999**

The fiscal years ended December 31, 2000 and 1999 were comprised of 52 weeks (364 days).

### **System-Wide Retail Sales**

System-wide retail sales include the sales of all IHOP restaurants as reported to IHOP by its franchisees, area licensees and company-operated restaurants. System-wide retail sales grew 10.6% in 2000. Growth in the number of effective restaurants and increases in average per unit sales caused the growth in system-wide sales. "Effective restaurants" are the number of restaurants in operation in a given fiscal period, adjusted to account for restaurants in operation for only a portion of the fiscal period. Effective restaurants grew 7.3% in 2000 due to new restaurant development. Newly developed restaurants generally have seating and sales above the system-wide averages. System-wide comparable average sales per restaurant (exclusive of area license restaurants in Florida and Japan) grew 0.8% in 2000. Management continues to pursue growth in sales through new restaurant development, advertising and marketing efforts, improvements in customer service and operations, and remodeling of existing restaurants.

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### **Franchise Operations**

Franchise operations revenues are the revenues received by IHOP from its franchisees and include rent, royalties, sales of proprietary

products, advertising fees and interest. Franchise operations revenues grew 12.2% in 2000. Retail sales in franchise restaurants increased 11.5%. Effective franchise restaurants grew by 9.1% in 2000. Average sales per effective franchise restaurant grew 2.1% in 2000. The percentage increase in franchise operations revenue exceeded the percentage increase in retail sales due to a 14.3% increase in rental income, partially offset by a decline in per unit merchandise sales. In 2000, the Company stopped supplying franchise restaurants with certain replacement fixtures and equipment. This decision is part of an effort to reduce inventory, and eliminate certain general and administrative costs.

Franchise operations costs and expenses include facility rent, advertising, the cost of proprietary products, and other direct costs associated with franchise operations. Franchise operations costs and expenses increased 12.8% in 2000. Increases in franchise operations costs and expenses were generally in line with the growth in franchise operations revenue. However, the percentage increase exceeded that of revenues because of increases in rent expense and certain non-recurring costs associated with discontinuing certain merchandise sales. Increases in rent expense are impacted by the pricing, timing, and mix of lease transactions.

Franchise operations margin was 60.5% in 2000 compared with 60.7% in 1999.

### **Sales of Franchises and Equipment**

Sales of franchises and equipment increased 19.0% in 2000. An increase in the number of restaurants franchised was the primary cause of the increase in sales of franchises and equipment. IHOP franchised 95 restaurants in 2000 compared to 74 in 1999. However, IHOP rehabilitated and refranchised 15 units in 2000 compared to 6 in 1999. Refranchised units generally have lower average franchise sales prices and lower average equipment values. In 2000, the Company increased its efforts to reduce or eliminate some underproducing property and equipment.

Cost of sales of franchises and equipment increased 29.2% in 2000. The increase was generally in line with the increase in the number of restaurants franchised, although the mix of restaurants franchised also impacted the cost of sales.

Margin on sales of franchises and equipment was 34.3% in 2000 compared with 39.4% in 1999. The margin was negatively impacted by the franchising of more rehabilitated restaurants in 2000 compared with the prior year.

### **Company Operations**

Company operations revenues are sales to customers at restaurants operated by IHOP. Company operations revenues increased 3.7% in 2000. Increases in the number of effective IHOP-operated restaurants coupled with an increase in the average sales per IHOP-operated restaurant caused the revenue increase. Effective IHOP-operated restaurants increased by 2.7% in 2000. Average sales per effective IHOP-operated restaurant increased by 0.9% in 2000.

Company operations costs and expenses include food, labor and benefits, utilities and occupancy costs. Company operations costs increased 6.2% in 2000. Company operations costs were affected by increases in the number of effective restaurants and increases in certain costs, primarily labor, rent and utilities.

Company operations gross profit margin was 3.8% and 6.0% of company operations revenues in 2000 and 1999, respectively. The decline in margin for 2000 was primarily the result of higher salaries and wages as a percent of sales in 2000 as compared to 1999.

### **Other Costs and Expenses**

Field, corporate and administrative costs and expenses in 2000 increased 5.6%. The rise in expenses was primarily due to higher compensation expenses offset by lower professional service expenses. Field, corporate and administrative expenses were 2.9% and 3.1% of system-wide sales in 2000 and 1999, respectively.

Depreciation and amortization expense in 2000 increased 10.2%. The increases were caused primarily by the addition of new restaurants to the IHOP chain from our ongoing restaurant development program.

Interest expense increased 12.2% in 2000. The increases were due to interest associated with new capital leases that were partially offset by reductions in interest on our senior notes as the principal balances are paid down.

### **Balance Sheet Accounts**

The balance of property and equipment, net at December 31, 2000, increased 8.9% primarily due to new restaurant development.

The balance of long-term receivables at December 31, 2000, increased 8.0% primarily due to IHOP's financing activities associated with sales of franchises and equipment.

### **Liquidity and Capital Resources**

The Company invests in its business primarily through the development of additional restaurants and, to a lesser extent, through the remodeling of older company-operated restaurants. Also, the Company began repurchasing shares of its common stock in 2000. As of

December 31, 2001, the Company has cumulatively repurchased 389,168 shares of its common stock, of which 182,086 were contributed to the Employee Stock Ownership Plan.

In 2001, IHOP and its franchisees and area licensees developed and opened 93 IHOP restaurants. Of these, we developed and opened 76 restaurants, and franchisees and area licensees developed and opened 17 restaurants. Capital expenditures in 2001, which included our portion of the above development program, were \$119.8 million. Funds for investment primarily came from cash generated from operations (\$55.7 million), and proceeds from sale and leaseback arrangements of restaurant land and buildings (\$45.7 million). We also incurred leasehold mortgages of \$12.0 million.

In 2002, IHOP and its franchisees and area licensees plan to develop and open approximately 90 to 105 restaurants. Included in that number is the development of 80 to 90 new restaurants by us and the development of 10 to 15 restaurants by our franchisees and area licensees. Capital expenditure projections for 2002, which include our portion of the above development program, are estimated to be approximately \$130 to \$140 million. In November 2002, the seventh and final annual installment of \$4.6 million in principal is due on our 7.79% senior notes due 2002 and the third installment of \$3.9 million in principal is due on our senior notes due 2008. We expect that funds from operations, leasehold mortgage term debt, proceeds from sale and leaseback arrangements (estimated to be about \$55 to \$65 million) and our \$25 million revolving line of credit will be sufficient to cover our operating requirements, our budgeted capital expenditures and our principal repayments on our senior notes in 2002. At December 31, 2001, \$10 million was available to be borrowed under our noncollateralized bank revolving credit agreement.

### **Critical Accounting Policies**

The consolidated financial statements include accounts of the Company and all subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the

United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

#### ***Leasing***

IHOP leases equipment consisting of restaurant equipment, furniture and fixtures to our franchisees and retains title to the leased equipment. These equipment contracts are accounted for as sales-type leases upon acceptance of the equipment by the franchisee. Leases of restaurant facilities that meet the criteria are recorded as direct financing leases or are treated as operating leases.

#### ***Accounting for Long-lived Assets***

The Company reviews long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset might not be recoverable. In evaluating whether an asset has been impaired, the Company compares the anticipated undiscounted future cash flows to be generated by the asset to the asset's carrying value. If the sum of the undiscounted future cash flows is less than the carrying amount of the asset, an impairment loss is recognized.

#### ***Reacquired Franchises and Equipment Held for Sale***

Restaurants that we reacquire are often underperforming as a result of having been poorly operated and sometimes physically neglected. When we reacquire a restaurant and assume operations, we begin a multi-step rehabilitation program for that restaurant. First these restaurants are physically rehabilitated, then we hire and train the restaurant staff. After these first steps are completed, we implement new marketing and operations programs designed to regain the business of former guests and attract new patrons. After a restaurant has been rehabilitated and its sales volume reaches acceptable levels, the restaurant is refranchised to a qualified franchisee.

Reacquired franchises and equipment held for sale are accounted for on the specific identification basis. At the date of reacquisition, the franchise and equipment are recorded at the lower of (1) the sum of the franchise receivables and costs of reacquisition, or (2) the estimated net realizable value. Pending the sale of such franchise, the carrying value is amortized ratably over the remaining life of the asset or lease and the estimated net realizable value is reassessed each year.

#### ***Income Taxes***

Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities. They are measured using the enacted marginal tax rates and laws that will be in effect when the differences are expected to reverse.

### **New Accounting Pronouncements**

In June 2001, Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142,

"Goodwill and Other Intangible Assets," were issued and are effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules for accounting for goodwill and other intangible assets beginning in the first quarter of

fiscal year 2002. The Company is currently evaluating its impact on the Company's financial position or results of operations.

In June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued and is effective for fiscal years beginning after June 15, 2002. This Statement addresses the financial accounting and reporting for obligations associated with the retirement of a tangible long-lived asset and the associated asset retirement costs. It applies to the legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and, or the normal operation of a long-lived asset. The Company believes that adopting this Statement will not have a material impact on the Company's financial position or results of operations.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued and is effective for fiscal years beginning after December 15, 2001. This Statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" and APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effect of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". SFAS No. 144 established a single accounting model for long-lived assets to be disposed of by sale. This Statement provides guidance on differentiating between assets held and used, held for sale and held for disposal other than by sale (e.g., abandonment, exchanged, distributed). The Company believes that adopting this Statement will not have a material impact on the Company's financial position or results of operations.

#### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

IHOP is exposed to market risk from changes in interest rates on debt and changes in commodity prices.

IHOP's exposure to interest rate risk relates to its \$25 million revolving credit agreement and its \$12 million mortgage term loan with its banks. Borrowings under the revolving credit agreement bear interest at the bank's reference rate (prime) or, at IHOP's option, at the bank's quoted rate or at a Eurodollar rate. There was \$15 million outstanding under this agreement at December 31, 2001, and the largest amount outstanding under the agreement during 2001 was \$19.6 million. Borrowings under the mortgage term loan agreement bear interest at the London interbank offered rate ("LIBOR") plus the applicable margin. The applicable margin will be a function of the funded debt to EBITDA ratio as defined under the loan agreement. The impact on our results of operations due to a hypothetical 1% interest rate change would be immaterial.

Many of the food products purchased by IHOP and its franchisees and area licensees are affected by commodity pricing and are, therefore, subject to unpredictable price volatility. We attempt to mitigate price fluctuations by entering into forward purchase agreements on all our major products purchased such as coffee, pancake mixes, pork products, soft drinks and orange juice. None of these food product contracts or agreements are derivative instruments. Extreme changes in commodity prices and/or long-term changes could affect IHOP's franchisees, area licensees and company-operated restaurants adversely. However, any changes in commodity prices would also generally affect IHOP's competitors at about the same time as IHOP. We expect that in most cases the IHOP system would be able to pass increased commodity prices through to its consumers via increases in menu prices. From time to time, competitive circumstances could limit short-term menu price flexibility, and in those cases margins would be negatively impacted by increased commodity prices. This would be mitigated by the fact that the majority of IHOP restaurants are franchised and IHOP's revenue stream from franchisees is based on the gross sales of the restaurants. We believe that any changes in commodity pricing that cannot be adjusted for by changes in menu pricing or other strategies would not be material to IHOP's results of operations.

#### **Item 8. Financial Statements and Supplementary Data.**

##### **Index to Consolidated Financial Statements**

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Consolidated Balance Sheets as of December 31, 2001 and 2000	22
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2001	23
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2001	24

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2001	25
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**IHOP Corp. and Subsidiaries**  
**Consolidated Balance Sheets**  
(In thousands, except share amounts)

	December 31,	
	2001	2000
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 6,252	\$ 7,208
Receivables, net	47,451	39,600
Reacquired franchises and equipment held for sale, net	3,234	3,172
Inventories	837	691
Prepaid expenses	1,386	431
	<u>59,160</u>	<u>51,102</u>
Total current assets	59,160	51,102
Long-term receivables	307,859	287,346
Property and equipment, net	238,026	193,624
Reacquired franchises and equipment held for sale, net	18,327	17,973
Excess of costs over net assets acquired, net	10,767	11,196
Other assets	7,290	971
	<u>641,429</u>	<u>562,212</u>
Total assets	\$ 641,429	\$ 562,212
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Current maturities of long-term debt	\$ 9,711	\$ 8,939
Accounts payable	16,666	20,588
Accrued employee compensation and benefits	7,621	6,776
Other accrued expenses	7,238	7,835
Deferred income taxes	1,129	3,957
Capital lease obligations	2,164	1,878
	<u>44,529</u>	<u>49,973</u>
Total current liabilities	44,529	49,973
Long-term debt	50,209	36,363
Deferred income taxes	59,084	46,585
Capital lease obligations and other	175,177	169,296
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$1 par value, 10,000,000 shares authorized; shares issued and outstanding: 2001 and 2000, none	—	—
Common stock, \$.01 par value, 40,000,000 shares authorized: 2001; 20,918,283 shares issued and 20,711,201 shares outstanding; 2000; 20,299,091 shares issued and 20,011,341 shares outstanding	209	203
Additional paid in capital	79,837	69,655
Retained earnings	233,920	193,632
Treasury stock, at cost (2001; 207,082 shares; 2000; 287,750 shares)	(3,386)	(5,170)
Contribution to ESOP	1,850	1,675



Total stockholders' equity	312,430	259,995
Total liabilities and stockholders' equity	\$ 641,429	\$ 562,212

See the accompanying notes to the consolidated financial statements.

**IHOP Corp. and Subsidiaries**  
**Consolidated Statements of Operations**  
(In thousands, except per share amounts)

	Year Ended December 31,		
	2001	2000	1999
<b>Revenues</b>			
Franchise operations			
Rent	\$ 65,780	\$ 51,135	\$ 44,722
Service fees and other	142,850	132,226	118,764
	<u>208,630</u>	<u>183,361</u>	<u>163,486</u>
Sales of franchises and equipment	46,996	47,065	39,545
Company operations	68,810	72,818	70,204
	<u>324,436</u>	<u>303,244</u>	<u>273,235</u>
<b>Costs and Expenses</b>			
Franchise operations			
Rent	37,867	27,695	23,233
Other direct costs	48,269	44,699	40,956
	<u>86,136</u>	<u>72,394</u>	<u>64,189</u>
Cost of sales of franchises and equipment	31,086	30,944	23,958
Company operations	66,330	70,085	66,016
Field, corporate and administrative	40,621	36,481	34,531
Depreciation and amortization	14,818	13,562	12,310
Interest	21,107	21,751	19,391
Other (income) expense, net	(123)	567	604
	<u>259,975</u>	<u>245,784</u>	<u>220,999</u>
Income before income taxes	64,461	57,460	52,236
Provision for income taxes	24,173	22,122	20,111
	<u>40,288</u>	<u>35,338</u>	<u>32,125</u>
<b>Net income</b>	<b>\$ 40,288</b>	<b>\$ 35,338</b>	<b>\$ 32,125</b>
<b>Net Income Per Share</b>			
Basic	\$ 1.98	\$ 1.77	\$ 1.61
Diluted	\$ 1.94	\$ 1.74	\$ 1.58
<b>Weighted Average Shares Outstanding</b>			
Basic	20,398	20,017	19,983
Diluted	20,762	20,263	20,358

## IHOP Corp. and Subsidiaries

## Consolidated Statements of Shareholders' Equity

(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Contribution to ESOP	Total
	Shares	Amount					
<b>Balance, December 31, 1998</b>	9,881,580	\$ 99	\$ 60,100	\$ 126,269	\$ —	\$ 1,400	\$ 187,868
Issuance of shares to ESOP	28,714	—	1,206	—	—	(1,206)	—
Reissuance of treasury shares to ESOP	4,620	—	348	—	—	(194)	154
Issuance of shares pursuant to stock plans	219,952	2	3,560	—	—	—	3,562
Tax benefit from stock options exercised	—	—	1,190	—	—	—	1,190
Unearned compensation—restricted stock	—	—	81	—	—	—	81
Contribution to ESOP	—	—	—	—	—	1,500	1,500
2-for-1 stock split effective May 27, 1999, in the form of a 100% stock dividend	9,982,448	100	—	(100)	—	—	—
Net income	—	—	—	32,125	—	—	32,125
<b>Balance, December 31, 1999</b>	20,117,314	201	66,485	158,294	—	1,500	226,480
Repurchase of treasury shares	—	—	—	—	(6,631)	—	(6,631)
Reissuance of treasury shares to ESOP	—	—	39	—	1,461	(1,500)	—
Issuance of shares pursuant to stock plans	181,777	2	2,576	—	—	—	2,578
Tax benefit from stock options exercised	—	—	536	—	—	—	536
Unearned compensation—restricted stock	—	—	19	—	—	—	19
Contribution to ESOP	—	—	—	—	—	1,675	1,675
Net income	—	—	—	35,338	—	—	35,338
<b>Balance, December 31, 2000</b>	20,299,091	203	69,655	193,632	(5,170)	1,675	259,995
Repurchase of treasury shares	—	—	—	—	(23)	—	(23)
Reissuance of treasury shares to ESOP	—	—	(132)	—	1,807	(1,675)	—
Issuance of shares pursuant to stock plans	619,192	6	7,123	—	—	—	7,129
Tax benefit from stock options exercised	—	—	3,191	—	—	—	3,191
Contribution to ESOP	—	—	—	—	—	1,850	1,850
Net income	—	—	—	40,288	—	—	40,288
<b>Balance, December 31, 2001</b>	20,918,283	\$ 209	\$ 79,837	\$ 233,920	\$ (3,386)	\$ 1,850	\$ 312,430

See the accompanying notes to the consolidated financial statements.

## Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31,		
	2001	2000	1999
<b>Cash flows from operating activities</b>			
Net income	\$ 40,288	\$ 35,338	\$ 32,125
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation and amortization	14,818	13,562	12,310
Deferred income taxes	9,671	6,941	6,333
Contribution to ESOP	1,850	1,675	1,500
Tax benefit from stock options exercised	3,191	536	1,190
Change in current assets and liabilities			
Accounts receivable	(7,852)	(2,200)	(4,814)
Inventories	(146)	532	(1)
Prepaid expenses	(955)	3,878	(619)
Accounts payable	(3,922)	2,572	(1,706)
Accrued employee compensation and benefits	845	(1,028)	1,787
Other accrued expenses	(597)	1,939	587
Other, net	(1,488)	4,310	2,700
	55,703	68,055	51,392
<b>Cash flows from investing activities</b>			
Additions to property and equipment	(119,797)	(99,378)	(72,290)
Additions to notes	(14,993)	(13,916)	(14,209)
Principal receipts from notes and equipment contracts receivable	14,668	12,594	10,963
Additions to reacquired franchises held for sale	(2,320)	(2,570)	(1,567)
	(122,442)	(103,270)	(77,103)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of long-term debt	26,532	12,703	3,372
Proceeds from sale and leaseback arrangements	45,652	48,274	30,159
Repayment of long-term debt	(11,915)	(17,575)	(8,349)
Principal payments on capital lease obligations	(1,592)	(1,121)	(1,386)
Treasury stock transactions	(23)	(6,631)	—
Proceeds from stock options exercised	7,129	2,597	3,797
	65,783	38,247	27,593
Net change in cash and cash equivalents	(956)	3,032	1,882
Cash and cash equivalents at beginning of period	7,208	4,176	2,294
	\$ 6,252	\$ 7,208	\$ 4,176
<b>Supplemental disclosures</b>			
Interest paid, net of capitalized amounts	\$ 21,238	\$ 21,752	\$ 19,162
Income taxes paid	15,257	15,974	12,411
Capital lease obligations incurred	2,388	4,153	32,169

See the accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

### 1. Summary of Significant Accounting Policies

#### Operations

IHOP Corp. and its subsidiaries ("IHOP" or the "Company") engage exclusively in the food-service industry, primarily in the United States, wherein we franchise and operate restaurants. IHOP grants credit to our franchisees and licensees, all of whom are in the restaurant business. In the majority of our franchised operations, we have developed restaurants on sites that we either own or control through leases. We then lease or sublease the restaurants to our franchisees. Additionally, we finance approximately 80% of the initial franchise fee, lease restaurant equipment and fixtures to our franchisees, and sell proprietary products to our franchisees and licensees and provide marketing and promotional services to our franchisees and area licensees.

#### Basis of Presentation

The consolidated financial statements include the accounts of IHOP Corp. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

#### Fiscal Periods

IHOP's fiscal year ends on the Sunday nearest to December 31 of each year. For convenience, we report all fiscal years as ending on December 31 and fiscal quarters as ending on March 31, June 30 and September 30.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires IHOP management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. They also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

IHOP at times purchases highly liquid, investment-grade securities with an original maturity of three months or less. These cash equivalents are stated at cost which approximates market value. We do not believe that we are exposed to any significant credit risk on cash and cash equivalents. At times, cash and cash equivalent balances may be in excess of FDIC insurance limits.

#### Inventories

Inventories consisting of merchandise and supplies are stated at the lower of cost (on a first-in, first-out basis) or market.

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#### Property and Equipment

Property and equipment are stated at cost and depreciated on the straight-line method over the estimated useful lives as follows:

Category	Depreciable Life
Buildings and improvements	Shorter of lease term or 40 years
Leaseholds and improvements	3—25 years
Equipment and fixtures	3—10 years
Properties under capital lease	Primary lease term

Leaseholds and improvements are amortized over a period not exceeding the primary term of the lease.

Effective January 1, 2000, IHOP changed the estimated useful life for new buildings from 25 years to 40 years to better reflect their proven economic lives. This change is applied to new buildings completed in 2000 and later, and does not change the estimated useful lives of previously constructed restaurants. Because most buildings are leased or located on leased land, the effective depreciation period is limited to the term of the underlying lease. Therefore, the effect of this change in estimated useful lives was insignificant to either depreciation expense, net income, or earnings per share for the years ended December 31, 2001 and 2000.

#### Excess of Costs Over Net Assets Acquired

The excess of costs over net assets acquired is amortized utilizing the straight-line method over forty years. Accumulated amortization at December 31, 2001 and 2000 was \$6,320,000 and \$5,891,000, respectively.

#### Leasing

IHOP leases equipment consisting of restaurant equipment, furniture and fixtures to our franchisees and retains title to the leased

equipment. These equipment contracts are accounted for as sales-type leases upon acceptance of the equipment by the franchisee. Leases of restaurant facilities that meet the criteria are recorded as direct financing leases or are treated as operating leases.

### ***Accounting for Long-lived Assets***

The Company reviews long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset might not be recoverable. In evaluating whether an asset has been impaired, the Company compares the anticipated undiscounted future cash flows to be generated by the asset to the asset's carrying value. If the sum of the undiscounted future cash flows is less than the carrying amount of the asset, an impairment loss is recognized.

### ***Franchise Revenues***

Revenues from the sales of franchises are recognized as income when IHOP has substantially performed all of its material obligations under the franchise agreement, and the franchisee has

commenced operations. Continuing service fees, which are a percentage of the net sales of franchised operations, are accrued as income when earned.

### ***Preopening Expenses***

Expenditures related to the opening of new restaurants, other than those for capital assets, are charged to expense when incurred.

### ***Advertising***

Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2001, 2000 and 1999 were \$36,617,000, \$32,678,000 and \$29,163,000, respectively.

### ***Income Taxes***

Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities. They are measured using the enacted marginal tax rates and laws that will be in effect when the differences are expected to reverse.

### ***Net Income Per Share***

Basic net income per share is computed by dividing the net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income attributable to common stockholders by the weighted average number of common and common equivalent shares outstanding during the period. Common share equivalents included in the diluted computation represent shares issuable upon assumed exercises of outstanding stock options using the treasury stock method.

### ***Comprehensive Income***

Comprehensive income includes net income and other comprehensive income components which, under GAAP, bypass the income statement and are reported in the balance sheet as a separate component of stockholders' equity. For the three years ended December 31, 2001, IHOP had no other comprehensive income components, as defined by GAAP. As a result, net income is the same as comprehensive income for the years ended December 31, 2001, 2000 and 1999.

### ***Stock Split***

On April 29, 1999, IHOP's Board of Directors approved a 2 for 1 stock split of its common stock effective May 27, 1999, in the form of a 100% stock dividend for stockholders of record at the close of business on May 13, 1999. All share and per-share amounts in the accompanying consolidated financial statements, except for the statement of stockholders' equity, have been restated to reflect the stock split.

### ***Reclassification***

Certain reclassifications have been made to prior year information to conform to the current year presentation .

### ***New Accounting Pronouncements***

In June 2001, Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets," were issued and are effective for fiscal years beginning after December 15, 2001. Under the new

rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules for accounting for goodwill and other intangible assets beginning in the first quarter of fiscal year 2002. The Company is currently evaluating its impact on the Company's financial position or results of operations.

In June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued and is effective for fiscal years beginning after June 15, 2002. This Statement addresses the financial accounting and reporting for obligations associated with the retirement of a tangible long-lived asset and the associated asset retirement costs. It applies to the legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and, or the normal operation of a long-lived asset. The Company believes that adopting this Statement will not have a material impact on the Company's financial position or results of operations.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued and is effective for fiscal years beginning after December 15, 2001. This Statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" and APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effect of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". SFAS No. 144 established a single accounting model for long-lived assets to be disposed of by sale. This Statement provides guidance on differentiating between assets held and used, held for sale and held for disposal other than by sale (e.g., abandonment, exchanged, distributed). The Company believes that adopting this Statement will not have a material impact on the Company's financial position or results of operations.

## 2. Receivables

	2001	2000
	(In thousands)	
Accounts receivable	\$ 34,005	\$ 25,964
Notes receivable	52,901	48,445
Equipment contracts receivable	134,851	114,969
Direct financing leases receivable	135,085	138,911
	356,842	328,289
Less allowance for doubtful accounts	1,532	1,343
	355,310	326,946
Less current portion	47,451	39,600
Long-term receivables	\$ 307,859	\$ 287,346

Notes receivable include franchise fee notes due in five to eight years in the amount of \$50,158,000 and \$45,230,000 at December 31, 2001 and 2000, respectively. Franchise fee notes are due in equal

weekly installments, primarily bear interest at 12.0%, and are collateralized by the franchise. The term of an equipment contract coincides with the term of the corresponding restaurant building lease. Equipment contracts are due in equal weekly installments, primarily bear interest at 11.0%, and are collateralized by the equipment. Where applicable, franchise fee notes, equipment contracts and building leases contain cross-default provisions wherein a default under one constitutes a default under all. There is not a disproportionate concentration of credit risk in any geographic area.

## 3. Property and Equipment, at Cost

	2001	2000
	(In thousands)	
Land	\$ 25,283	\$ 18,424
Buildings and improvements	42,760	32,610
Leaseholds and improvements	159,536	137,604
Equipment and fixtures	14,668	15,034
Construction in progress	14,693	12,372
Properties under capital lease	37,516	31,609
	294,456	247,653
Less accumulated depreciation and amortization	56,430	54,029

Property and equipment, net	\$ 238,026	\$ 193,624
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Accumulated depreciation and amortization includes accumulated amortization for properties under capital lease in the amount of \$5,982,000 and \$4,502,000 at December 31, 2001 and 2000, respectively.

#### 4. Reacquired Franchises and Equipment Held for Sale

Reacquired franchises and equipment held for sale are accounted for on the specific identification basis. At the date of reacquisition, the franchise and equipment are recorded at the lower of (1) the sum of the franchise receivables and costs of reacquisition, or (2) the estimated net realizable value. Pending the sale of such franchise, the carrying value is amortized ratably over the remaining life of the asset or lease and the estimated net realizable value is reassessed each year.

	2001	2000
	(In thousands)	
Franchises	\$ 12,960	\$ 11,780
Equipment	15,485	14,505
	28,445	26,285
Less amortization	6,884	5,140
	21,561	21,145
Less current portion	3,234	3,172
Long-term reacquired franchises and equipment held for sale, net	\$ 18,327	\$ 17,973

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#### 5. Debt

Debt consists of the following:

	2001	2000
	(In thousands)	
Senior notes due November 2008, payable in equal annual installments commencing November 2000, fixed interest at 7.42%	\$ 27,222	\$ 31,111
Senior notes due November 2002, payable in equal annual installments commencing November 1996, fixed interest at 7.79%	4,571	9,142
Leasehold mortgage term loan	11,609	—
Revolving line of credit	15,000	4,000
Other	1,518	1,049
Total debt	59,920	45,302
Less current maturities	9,711	8,939
Long-term debt	\$ 50,209	\$ 36,363

The senior notes due November 2002 and 2008 are noncollateralized.

The leasehold mortgage term loan due May 2013 is collateralized by certain IHOP restaurants. Borrowings under this loan agreement bear interest at the London interbank offered rate ("LIBOR") plus the applicable margin. The applicable margin will be a function of the funded debt to EBITDA ratio as defined under the loan agreement.

IHOP has a noncollateralized revolving credit agreement with a bank in the amount of \$25,000,000 with a maturity date of May 31, 2004. Borrowings under the agreement bear interest at the bank's reference rate (prime) or, at our option, at the bank's quoted rate or at a Eurodollar rate. A commitment fee of 0.375% per annum is payable on unborrowed funds available under the agreement. There was \$15 million and \$4 million outstanding under this agreement at December 31, 2001 and 2000, respectively. The largest amount outstanding under the agreement during 2001 was \$19,600,000.

The senior note agreements, the leasehold mortgage term loan and the bank revolving credit agreement contain certain restrictions and conditions, the most restrictive of which limit dividends and investments. At December 31, 2001, approximately \$105 million of retained earnings were free of restriction as to distribution as dividends.

The prime rate was 4.75% at December 31, 2001 and 9.50% at December 31, 2000.

IHOP's long-term debt maturities are as follows: 2002—\$9,711,000; 2003—\$4,977,000; 2004—\$19,972,000; 2005—\$4,800,000; 2006—\$4,744,000 and thereafter—\$15,716,000.

## 6. Leases

The Company leases the majority of its restaurants with the exception of those where a franchisee enters into a lease directly with a landlord and those associated with area license agreements. The restaurants are subleased to franchisees or operated by IHOP. These noncancelable leases and subleases consist primarily of land and buildings and improvements.

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Net investment in direct financing leases receivable is as follows:

	2001	2000
	(In thousands)	
Total minimum rents receivable	\$ 395,492	\$ 426,375
Less unearned income	260,407	287,464
Net investment in direct financing leases receivable	135,085	138,911
Less current portion	985	874
Long-term direct financing leases receivable	\$ 134,100	\$ 138,037

Contingent rental income for the years ended December 31, 2001, 2000 and 1999 was \$21,899,000, \$21,238,000, and \$19,828,000 respectively.

Minimum future lease payments on noncancelable leases at December 31, 2001, are as follows:

	Capital Leases	Operating Leases
	(In thousands)	
2002	\$ 20,621	\$ 44,597
2003	20,880	43,798
2004	21,173	43,028
2005	21,522	42,567
2006	21,551	42,046
Thereafter	307,587	656,722
Total minimum lease payments	413,334	\$ 872,758
Less interest	243,065	
Capital lease obligations	170,269	
Less current portion	2,164	
Long-term capital lease obligations	\$ 168,105	

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The minimum future lease payments shown above have not been reduced by the future minimum rents to be received on noncancelable subleases and leases of owned property at December 31, 2001, as follows:

	Direct Financing Leases	Operating Leases
	(In thousands)	



2002	\$	18,441	\$	55,857
2003		18,820		55,808
2004		19,027		56,164
2005		19,254		56,823
2006		19,331		57,413
Thereafter		300,619		1,072,811
<b>Total minimum rents receivable</b>	<b>\$</b>	<b>395,492</b>	<b>\$</b>	<b>1,354,876</b>

IHOP has noncancelable leases, expiring at various dates through 2031, that require payment of contingent rents based upon a percentage of sales of the related restaurant as well as property taxes, insurance and other charges. Subleases to franchisees of properties under such leases are generally for the full term of our lease obligation at rents that include our obligations for property taxes, insurance, contingent rents and other charges. Generally, the noncancelable leases include renewal options. Contingent rent expense for all noncancelable leases for the years ended December 31, 2001, 2000 and 1999 was \$2,902,000, \$3,317,000 and \$3,416,000, respectively. Minimum rent expense for all noncancelable operating leases for the years ended December 31, 2001, 2000 and 1999 was \$40,312,000, \$30,084,000 and \$25,130,000, respectively.

## 7. Stockholders' Equity

The Stock Incentive Plan (the "Plan") was adopted in 1991 and amended and restated in 1998 to authorize the issuance of up to 3,760,000 shares of common stock pursuant to options, restricted stock, and other long-term stock-based incentives to officers and key employees of IHOP. The 2001 Stock Incentive Plan was adopted in 2001 to authorize the issuance of up to 1,200,000 shares of common stock. Except for substitute stock options which were issued in 1991 pursuant to the cancellation of a stock appreciation rights plan, no option can be granted at an option price of less than the fair market value at the date of grant as defined by the plan. Exercisability of options is determined at, or after, the date of grant by the administrator of the Plan. Substitute stock options issued in 1991 were immediately exercisable. All other options granted under the Plan through December 31, 2001, become exercisable  $\frac{1}{3}$  after one year,  $\frac{2}{3}$  after two years and 100% after three years or immediately upon a change in control of IHOP, as defined by the Plan.

The Stock Option Plan for Non-Employee Directors (the "Directors Plan") was adopted in 1994 and amended and restated in 1999 to authorize the issuance of up to 400,000 shares of common stock pursuant to options to non-employee members of IHOP's Board of Directors. Options are to be granted at an option price equal to 100% of the fair market value of the stock on the date of grant. Options granted pursuant to the Directors Plan vest and become exercisable  $\frac{1}{3}$  after one year,  $\frac{2}{3}$  after two years and 100% after three years. Options for the purchase of shares are granted to each non-employee Director under the Directors Plan as follows: (1) 15,000 on February 23, 1995, or on the

Director's election to the Board of Directors if he or she was not a Director on such date, and (2) 5,000 annually in conjunction with IHOP's Annual Meeting of Stockholders for that year.

In 2000, IHOP initiated a plan to repurchase up to 1,000,000 shares of its common stock. This plan will reduce the dilutive effect of employee stock option exercises and contributions to IHOP's Employee Stock Ownership Plan; however, the repurchase program does not obligate IHOP to acquire any specific number of shares and it may be suspended at any time. As of December 31, 2001, 389,168 shares were repurchased by IHOP under this plan, of which 182,086 shares were contributed to the Employee Stock Ownership Plan.

Information regarding activity for stock options outstanding under IHOP's stock option plans is as follows:

Shares Under Option	Shares	Weighted Average Exercise Price
Outstanding at December 31, 1998	1,879,156	\$ 13.35
Granted	307,000	20.69
Exercised	(287,486)	12.71
Terminated	(37,331)	18.34
Outstanding at December 31, 1999	1,861,339	14.56
Granted	261,000	15.10
Exercised	(181,777)	14.18
Terminated	(33,999)	18.80
Outstanding at December 31, 2000	1,906,563	14.59
Granted	323,000	23.64
Exercised	(619,192)	11.53
Terminated	(22,001)	17.37

Outstanding at December 31, 2001	1,588,370	\$	17.58
Exercisable at December 31, 2001	1,023,026	\$	15.81

Information regarding options outstanding and exercisable at December 31, 2001 is as follows:

Range of Exercise Prices	Number Outstanding as of 12/31/2001	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable as of 12/31/2001	Weighted Average Exercise Price
\$ 8.25 - \$13.88	452,200	3.41	\$ 13.59	452,200	\$ 13.59
\$13.94 - \$17.81	523,165	6.13	\$ 15.52	361,169	\$ 15.70
\$19.22 - \$21.06	398,005	7.87	\$ 20.29	176,319	\$ 20.41
\$21.69 - \$27.33	215,000	9.29	\$ 25.99	33,338	\$ 22.67
<b>\$ 8.25 - \$27.33</b>	<b>1,588,370</b>	<b>6.22</b>	<b>\$ 17.58</b>	<b>1,023,026</b>	<b>\$ 15.81</b>

IHOP has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." We will continue to use the intrinsic value based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation cost

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has been recognized for the stock option plans. Had compensation cost for IHOP's stock option plans been determined based on the fair value at the grant date for awards in the three year period ended December 31, 2001, consistent with the provisions of SFAS No. 123, IHOP's net income and diluted net income per share would have been reduced to the pro forma amounts indicated below:

	2001	2000	1999
	(In thousands, except per share amounts)		
Net income, as reported	\$ 40,288	\$ 35,338	\$ 32,125
Net income, pro forma	39,328	34,342	31,029
Net income per share — diluted, as reported	1.94	1.74	1.58
Net income per share — diluted, pro forma	1.89	1.69	1.52
Weighted average fair value of options granted	24.18	15.22	21.42

The fair value of each option grant issued in the three year period ended December 31, 2001, is estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2001	2000	1999
Risk free interest rate	5.75%	5.875%	5.25%
Expected volatility	37.0%	37.0%	37.0%
Dividend yield	—	—	—
Weighted average expected life	5 years	3 years	3 years

## 8. Income Taxes

The provision for income taxes is as follows:

	2001	2000	1999
	(In thousands)		
Provision for income taxes:			
Current			
Federal	\$ 13,008	\$ 13,160	\$ 12,051
State and foreign	1,494	2,021	1,766
	<b>14,502</b>	<b>15,181</b>	<b>13,817</b>
Deferred			

Federal	8,224	5,623	5,455
State	1,447	1,318	839
	<u>9,671</u>	<u>6,941</u>	<u>6,294</u>
Provision for income taxes	<u>\$ 24,173</u>	<u>\$ 22,122</u>	<u>\$ 20,111</u>

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The provision for income taxes differs from the expected federal income tax rates as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and other taxes, net of federal tax benefit	2.5	3.5	3.5
Effective tax rate	<u>37.5%</u>	<u>38.5%</u>	<u>38.5%</u>

Deferred tax liabilities (assets) consist of the following:

	<u>2001</u>	<u>2000</u>
	<u>(In thousands)</u>	
Franchise and equipment sales, including differences in capitalization and revenue recognition	\$ 72,615	\$ 62,328
Property and equipment, including differences in capitalization and depreciation and amortization	10,129	10,828
Reacquired franchises and equipment held for resale, including differences in capitalization and depreciation and amortization	(9,298)	(10,050)
Direct financing leases and capital lease obligations, including differences in capitalization and application of cash receipts and disbursements	(13,922)	(12,093)
Federal tax benefit of net deferred state tax liability	(2,497)	(2,551)
Other net liabilities	3,186	2,080
Deferred tax liabilities, net	<u>\$ 60,213</u>	<u>\$ 50,542</u>

## 9. Employee Benefit Plans

In 1987, IHOP adopted a noncontributory Employee Stock Ownership Plan ("ESOP"). The ESOP is a stock bonus plan under Section 401(a) of the Internal Revenue Code. The plan covers IHOP employees who meet the minimum credited service requirements of the plan. Employees whose terms of service are covered by a collective bargaining agreement are not eligible for the ESOP unless the terms of such agreement specifically provide for participation in the ESOP.

The cost of the ESOP is borne by IHOP through contributions determined by the Board of Directors in accordance with the ESOP provisions and Internal Revenue Service regulations. The contributions to the plan for the years ended December 31, 2001, 2000 and 1999 were \$1,850,000, \$1,675,000 and \$1,500,000, respectively. The contribution for the year ended December 31, 2001, will be made in shares of IHOP Corp. common stock.

Shares of stock acquired by the ESOP are allocated to each eligible employee and held by the ESOP. Upon the employee's termination after vesting, or in certain other limited circumstances, the employee's shares are distributed to the employee according to his or her direction.

In 2001, IHOP adopted a defined contribution plan authorized under Section 401(k) of the Internal Revenue Code. The plan covers IHOP employees who meet the minimum credited service requirements of the plan. Employees whose terms of service are covered by a collective bargaining

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agreement are not eligible. Employees may contribute up to 15 percent of their pre-tax covered compensation subject to limitations of the tax codes. IHOP Corp. Common Stock is currently not an investment option for employees in the Plan. The administrative cost of the 401(k)

plan is borne by IHOP. The Company does not contribute towards the plan.

## 10. Commitments and Contingencies

IHOP is subject to various claims and legal actions that have arisen in the ordinary course of business. We believe such claims and legal actions, individually or in the aggregate, will not have a material adverse effect on the business or financial condition of our company.

## 11. Derivative and Financial Instruments

On January 1, 2001, IHOP adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in the other contracts. During 2001, IHOP purchased 25% of estimated requirements through December 2002 of natural gas contracts to limit exposure to market increases in natural gas prices for IHOP-operated restaurants. The derivative instruments do not qualify under SFAS No. 133 as either a fair value or cash flow hedge. They are valued at fair value with the resultant gain or loss recognized in current earnings. The adoption of SFAS No. 133 had no material impact on either IHOP's results of operations, financial position or cash flows.

IHOP does not hold or issue financial instruments for trading purposes. The estimated fair values of all cash and cash equivalents, notes receivable and equipment contracts receivable as of December 31, 2001 and 2000, approximated their carrying amounts in the Consolidated Balance Sheets as of those dates. The estimated fair values of notes receivable and equipment contracts receivable are based on current interest rates offered for similar loans in our present lending activities.

The estimated fair values of long-term debt are based on current rates available to IHOP for similar debt of the same remaining maturities. The carrying values of long-term debt at December 31, 2001 and 2000 were \$50,209,000 and \$36,363,000, respectively, and the fair values at those dates were \$52,957,000 and \$34,268,000, respectively.

## 12. Segment Reporting

IHOP identifies its operating segments based on the organizational units used by management to monitor performance and make operating decisions. The Franchise Operations segment includes restaurants operated by franchisees and area licensees in the United States, Canada and Japan. The Company Operations segment includes company-operated restaurants in the United States. We measure segment profit as operating income, which is defined as income before field, corporate and

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administrative expense, interest expense, and income taxes. Information on segments and a reconciliation to income before income taxes are as follows:

	Franchise Operations	Company Operations	Sales of Franchises and Equipment	Consolidating And Other Adjustments	Consolidated Total
	(In thousands)				
<b>Year Ended December 31, 2001</b>					
Revenues from external customers	\$ 204,970	\$ 68,810	\$ 46,996	\$ 3,660	\$ 324,436
Intercompany real estate charges (revenues)	6,083	901	—	(6,984)	—
Depreciation & amortization	5,703	4,157	—	4,958	14,818
Operating income (loss)	91,555	(4,447)	15,910	23,171	126,189
Field, corporate and administrative					40,621
Interest expense					21,107
Income before income taxes					64,461
Additions to long lived assets	62,382	8,188	2,320	49,227	122,117
Total assets	484,438	52,143	21,561	83,287	641,429
<b>Year Ended December 31, 2000</b>					
Revenues from external customers	\$ 183,361	\$ 72,818	\$ 47,065	\$ —	\$ 303,244
Intercompany real estate charges (revenues)	6,376	726	—	(7,102)	—
Depreciation & amortization	4,228	4,221	—	5,113	13,562
Operating income (loss)	82,953	(4,450)	16,121	21,068	115,692
Field, corporate and administrative					36,481
Interest expense					21,751
Income before income taxes					57,460
Additions to long lived assets	54,520	12,626	2,570	32,232	101,948
Total assets	423,877	49,437	21,145	67,753	562,212
<b>Year Ended December 31, 1999</b>					

Revenues from external customers	\$ 163,449	\$ 70,204	\$ 39,545	\$ 37	\$ 273,235
Intercompany real estate charges (revenues)	5,768	578	—	(6,346)	—
Depreciation & amortization	3,681	3,973	—	4,656	12,310
Operating income (loss)	75,067	(2,379)	15,587	17,883	106,158
Field, corporate and administrative					34,531
Interest expense					19,391
Income before income taxes					52,236
Additions to long lived assets	41,350	5,568	1,567	25,372	73,857
Total assets	380,680	47,848	18,944	72,930	520,402

Franchise Operations, Company Operations and Sales of Franchises and Equipment are reported on the same basis as used by IHOP's management. Franchise Operations revenues from external customers includes interest income from the financing of sales of franchises and equipment in the amounts of \$18,165,000, \$15,573,000 and \$13,465,000 for the years ended December 31, 2001, 2000 and

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1999 respectively. For management reporting purposes, we treat all restaurant lease revenues and expenses as operating lease revenues and expenses, although most of these leases are direct financing leases (revenues) or capital leases (expenses). The accounting adjustments required to bring lease revenues and expenses into conformance with GAAP are included in the Consolidated Adjustments and Other segment. These adjustments include interest income from direct financing leases of restaurant buildings in the amounts of \$18,257,000, \$18,779,000 and \$15,918,000 for the three years ended December 31, 2001, 2000 and 1999 respectively. All of IHOP's owned land and restaurant buildings are included in the total assets of the Consolidating and Other Adjustments segment and are leased to the Franchise Operations and Company Operations segments.

### 13. Selected Quarterly Financial Data (Unaudited)

	Revenues	Operating Income	Net Income	Net Income Per Share—Basic(a)	Net Income Per Share—Diluted(a)
(In thousands, except per share amounts)					
<b>2001</b>					
1st Quarter	\$ 70,106	\$ 27,043	\$ 7,474	\$ .37	\$ .37
2nd Quarter	82,825	32,251	10,168	.50	.49
3rd Quarter	81,096	32,421	11,076	.54	.53
4th Quarter	90,409	34,474	11,570	.56	.55
<b>2000</b>					
1st Quarter	\$ 68,406	\$ 25,618	\$ 7,229	\$ .36	\$ .36
2nd Quarter	70,304	28,253	8,294	.41	.41
3rd Quarter	78,667	30,609	10,079	.50	.50
4th Quarter	85,867	31,212	9,736	.49	.48

(a) The quarterly amounts may not add to the full year amount due to rounding.

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### Report of Independent Accountants

The Stockholders and Board of Directors  
IHOP Corp.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of IHOP Corp. and its subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of IHOP Corp.'s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant.**

Information appearing under the captions "Information Concerning Nominees and Members of the Board of Directors," "Executive Officers of the Company" and "Compliance with Section 16(a) of the Securities Exchange Act" contained in the 2002 Proxy Statement is incorporated herein by reference.

**Item 11. Executive Compensation.**

Information appearing under the captions "Executive Compensation—Summary of Compensation," "Executive Compensation—Stock Options and Stock Appreciation Rights" and "Executive Officers of the Company—Employment Agreements" contained in the 2002 Proxy Statement is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management.**

Information appearing under the caption "Security Ownership of Certain Beneficial Owners and Management" contained in the 2002 Proxy Statement is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions.**

Information appearing under the caption "Certain Relationships and Related Transactions" contained in the 2002 Proxy Statement is incorporated herein by reference.

**PART IV**

**Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.**

**(a)(1) Consolidated Financial Statements**

The following documents are contained in Part II, Item 8 of this Annual Report on Form 10-K:

Consolidated Balance Sheets as of December 31, 2001 and 2000.

Consolidated Statements of Operations for each of the three years in the period ended December 31, 2001.

Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2001.

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2001.

Notes to the Consolidated Financial Statements.

Report of Independent Accountants.

**(a)(2) Financial Statement Schedules**

All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

**(a)(3) Exhibits**

Exhibits not incorporated by reference are filed herewith. The remainder of the exhibits have heretofore been filed with the Securities and Exchange Commission and are incorporated herein by reference. Management contracts or compensatory plans or arrangements are marked with an asterisk.

- 3.1 Restated Certificate of Incorporation of IHOP Corp. Exhibit 3.1 to IHOP Corp.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (the "1997 Form 10-K"), is hereby incorporated by reference.
- 3.2 Bylaws of IHOP Corp. Exhibit 3.2 to the 1997 Form 10-K is hereby incorporated by reference.
- 4.1 Senior Note Purchase Agreement, dated as of November 19, 1992, among IHOP Corp., International House of Pancakes, Inc. ("IHOP, Inc.") and Mutual Life Insurance Company of New York and other purchasers. Exhibit 4.1 to the 1997 Form 10-K is hereby incorporated by reference.
- 4.2 Senior Note Purchase Agreement, dated as of November 1, 1996, among IHOP, Inc., IHOP Corp. and Jackson National Life Insurance Company and other purchasers. Exhibit 4.8 to IHOP Corp.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (the "1996 Form 10-K"), is hereby incorporated by reference.
- 4.3 First Amendment to Senior Note Purchase Agreement, dated as of November 1, 1996, among IHOP Corp., IHOP Inc., and Mutual Life Insurance Company of New York and other purchasers. Exhibit 4.2 to IHOP Corp.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (the "1996 Form 10-K"), is hereby incorporated by reference.
- 4.4 Revolving line of credit note among International House of Pancakes, Inc., a Delaware Corporation and Wells Fargo Bank, N.A. dated as of June 28, 2001 is filed herewith.
- 4.5 Loan Agreement dated as of April 27, 2001, among IHOP Properties, Inc., International House of Pancakes, Inc., IHOP Corp., and Bank of America, N.A., is filed herewith.
- \*10.1 Employment Agreement between IHOP Corp. and Rand Michael Ferris. Exhibit 10.6 to the 1996 Form 10-K is hereby incorporated by reference.
- \*10.2 Employment Agreement between IHOP Corp. and Susan Henderson-Hernandez. Exhibit 10.7 to the 1996 Form 10-K is hereby incorporated by reference.
- \*10.3 Employment Agreement between IHOP Corp. and Richard K. Herzer. Exhibit 10.8 to the 1996 Form 10-K is hereby incorporated by reference.
- \*10.4 Employment Agreement between IHOP Corp. and Anna G. Ulvan. Exhibit 10.12 to the 1996 Form 10-K is hereby incorporated by reference.
- \*10.5 Employment Agreement between IHOP Corp. and Mark D. Weisberger. Exhibit 10.13 to the 1996 Form 10-K is hereby incorporated by reference.
- \*10.6 Employment Agreement between IHOP Corp. and Richard C. Celio. Exhibit 10 to IHOP Corp.'s Form 10-Q for the quarterly period ended March 31, 1997, is hereby incorporated by reference.
- \*10.7 Employment Agreement between IHOP Corp. and John Jordan. Exhibit 10.13 to the 1997 Form 10-K is hereby incorporated by reference.

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- \*10.8 Employment Agreement between IHOP Corp. and Alan S. Unger. Exhibit 10.21 to IHOP Corp.'s Annual Report on Form 10-K for the fiscal year ended December 31, 1999, is hereby incorporated by reference.
- \*10.9 Employment Agreement between IHOP Corp. and Robin S. Elledge. Exhibit 10.1 to IHOP Corp.'s Form 10-Q for the quarterly period ended June 30, 2000, is hereby incorporated by reference.
- \*10.10 Employment Agreement between IHOP Corp. and Julia A. Stewart is filed herewith.
- \*10.11 Area Franchise Agreement, effective as of May 5, 1988, by and between IHOP, Inc. and FMS Management Systems, Inc. Exhibit 10.14 to the 1997 Form 10-K is hereby incorporated by reference.





/s/ H. FREDERICK CHRISTIE

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H. Frederick Christie

Director

/s/ FRANK EDELSTEIN

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Frank Edelstein

Director

/s/ MICHAEL S. GORDON

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Michael S. Gordon

Director

/s/ NEVEN C. HULSEY

---

Neven C. Hulsey

Director

/s/ LARRY ALAN KAY

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Larry Alan Kay

Director

/s/ CAROLINE W. NAHAS

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Caroline W. Nahas

Director

/s/ PATRICK W. ROSE

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Patrick W. Rose

Director

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## REVOLVING LINE OF CREDIT NOTE

\$25,000,000.00

Los Angeles, California  
June 28, 2001

FOR VALUE RECEIVED, the undersigned, INTERNATIONAL HOUSE OF PANCAKES, INC., a Delaware corporation (“Borrower”), promises to pay to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION (“Bank”) at its office at Los Angeles RCBO, 333 South Grand Avenue, Third Floor, Los Angeles, California 90071, or at such other place as the holder hereof may designate, in lawful money of the United States of America and in immediately available funds, the principal sum of Twenty-Five Million and No/100 Dollars (\$25,000,000.00), or so much thereof as may be advanced and be outstanding, with interest thereon, to be computed on each advance from the date of its disbursement as set forth herein.

## DEFINITIONS:

As used herein, the following terms shall have the meanings set forth after each, and any other term defined in this Note shall have the meaning set forth at the place defined:

(a) “Business Day” means any day except a Saturday, Sunday or any other day on which commercial banks in California are authorized or required by law to close.

(b) “Fixed Rate Term” means a period during which all or a portion of the outstanding principal balance of this Note bears interest determined in relation to LIBOR or the SAF Rate, with each Fixed Rate Term to commence on a Business Day and to continue:

(i) for a period of one (1), two (2) or three (3) months for a LIBOR interest selection; and

(ii) for a period of not less than one (1) Business Day nor more than twenty-eight (28) days for a SAF Rate interest selection;

provided however, that no Fixed Rate Term for a LIBOR interest option may be selected for a principal amount less than One Hundred Thousand Dollars (\$100,000.00) and no Fixed Rate Term for a SAF Rate interest option may be selected for a principal amount less than One Hundred Thousand Dollars (\$100,000.00); and provided further, that no Fixed Rate Term shall extend beyond the Line of Credit Maturity Date. If any Fixed Rate Term would end on a day which is not a Business Day, then such Fixed Rate Term shall be extended to the next succeeding Business Day.

(c) “LIBOR” means the rate per annum (rounded upward, if necessary, to the nearest whole 1/16 of 1%) and determined pursuant to the following formula:

$$\text{LIBOR} = \frac{\text{Base LIBOR}}{100\% - \text{LIBOR Reserve Percentage}}$$

(i) “Base LIBOR” means the rate per annum for United States dollar deposits quoted by Bank as the Inter-Bank Market Offered Rate, with the understanding that such rate is quoted by Bank for the purpose of calculating effective rates of interest for loans making reference thereto, on the first day of a Fixed Rate Term for delivery of funds on said date for a period of time approximately equal to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term applies. Borrower understands and agrees that Bank may base its quotation of the Inter-Bank Market Offered Rate upon such offers or other market indicators of the Inter-Bank Market as Bank in its discretion deems appropriate including, but not limited to, the rate offered for U.S. dollar deposits on the London Inter-Bank Market.

(ii) “LIBOR Reserve Percentage” means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for “Eurocurrency Liabilities” (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable Fixed Rate Term.

(d) “Line of Credit Maturity Date” shall have the meaning specified for such term in the Credit Agreement described below.

(e) “Prime Rate” means at any time the rate of interest most recently announced within Bank at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of Bank’s base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Bank may designate.

(f) “SAF Rate” means the fixed rate per annum determined solely for Borrower by Bank to be the Special Advance Facility Rate applicable to all or a portion of the outstanding principal balance of this Note, with the understanding that: (i) the SAF Rate shall be determined separately by Bank at the time of each request therefor; (ii) Bank’s agreement to make the SAF Rate available is subject to cancellation by Bank at any time at Bank’s sole discretion; and (iii) upon any such cancellation, Bank shall have no further obligation to provide any new SAF Rate for this Note.

INTEREST:

(a) Interest. The outstanding principal balance of this Note shall bear interest (computed on the basis of a 360-day year, actual days elapsed) either (i) at a fluctuating rate per annum one percent (1.000%) below the Prime Rate in effect from time to time, (ii) at a fixed rate per annum determined by Bank to be three-quarters percent (0.750%) above LIBOR in effect on the first day of the applicable Fixed Rate Term for a LIBOR interest selection, or (iii) at a fixed rate per annum determined by Bank to be ninety-five one hundredths of one percent (0.950%) above the SAF Rate in effect on the first day of any Fixed Rate Term for a SAF Rate interest selection. When interest is determined in relation to the Prime Rate, each change in the rate of interest hereunder shall become effective on the date each Prime Rate

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change is announced within Bank. With respect to each LIBOR or SAF Rate interest selection hereunder, Bank is hereby authorized to note the date, principal amount, interest rate and Fixed Rate Term applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to this Note, which notations shall be prima facie evidence of the accuracy of the information noted.

(b) Selection of Interest Rate Options. At any time any portion of this Note bears interest determined in relation to LIBOR or the SAF Rate, it may be continued by Borrower at the end of the Fixed Rate Term applicable thereto so that all or a portion thereof bears interest determined in relation to the Prime Rate or in relation to LIBOR or the SAF Rate for a new Fixed Rate Term designated by Borrower. At any time any portion of this Note bears interest determined in relation to the Prime Rate, Borrower may convert all or a portion thereof so that it bears interest determined in relation to LIBOR or the SAF Rate for a Fixed Rate Term designated by Borrower. At such time as Borrower requests an advance hereunder or wishes to select a LIBOR or SAF Rate option for all or a portion of the outstanding principal balance hereof, and at the end of each Fixed Rate Term, Borrower shall give Bank notice specifying: (i) the interest rate option selected by Borrower; (ii) the principal amount subject thereto; and (iii) for each LIBOR or SAF Rate selection, the length of the applicable Fixed Rate Term. Any such notice may be given by telephone (or such other electronic method as Bank may permit) so long as, with respect to each LIBOR or SAF Rate selection, (A) if requested by Bank, Borrower provides to Bank written confirmation thereof not later than three (3) Business Days after such notice is given, and (B) with respect to each LIBOR option requested hereunder, such notice is given to Bank prior to 2:00 p.m. on the first day of the Fixed Rate Term, or at a later time during any Business Day if Bank, at its sole option but without obligation to do so, accepts Borrower's notice and quotes a LIBOR-based rate to Borrower. If Borrower does not immediately accept a LIBOR-based rate when quoted by Bank, the quoted rate shall expire and any subsequent LIBOR request from Borrower shall be subject to a redetermination by Bank of the applicable fixed rate. If no specific designation of interest is made at the time any advance is requested hereunder or at the end of any Fixed Rate Term, Borrower shall be deemed to have made a Prime Rate interest selection for such advance or the principal amount to which such Fixed Rate Term applied.

(c) Taxes and Regulatory Costs. Borrower shall pay to Bank immediately upon demand, in addition to any other amounts due or to become due hereunder, any and all (i) withholdings, interest equalization taxes, stamp taxes or other taxes (except income and franchise taxes) imposed by any domestic or foreign governmental authority and related in any manner to LIBOR, and (ii) future, supplemental, emergency or other changes in the LIBOR Reserve Percentage, assessment rates imposed by the Federal Deposit Insurance Corporation, or similar requirements or costs imposed by any domestic or foreign governmental authority or resulting from compliance by Bank with any request or directive (whether or not having the force of law) from any central bank or other governmental authority and related in any manner to LIBOR to the extent they are not included in the calculation of LIBOR. In determining which of the foregoing are attributable to any LIBOR option available to Borrower hereunder, any reasonable allocation made by Bank among its operations shall be conclusive and binding upon Borrower.

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(d) Payment of Interest. Interest accrued on this Note shall be payable on the first day of each month, commencing August 1, 2001.

(e) Default Interest. From and after the maturity date of this Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of this Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to four percent (4%) above the rate of interest from time to time applicable to this Note.

BORROWING AND REPAYMENT:

(a) Borrowing and Repayment. Borrower may from time to time during the term of this Note borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions of this Note and of any document executed in connection with or governing this Note; provided however, that the total outstanding borrowings under this Note shall not at any time exceed the principal amount set forth above or such lesser amount as shall at any time be available hereunder. The unpaid principal balance of this obligation at any time shall be the total amounts advanced hereunder by the holder hereof less the amount of principal payments made hereon by or for any Borrower, which balance may be endorsed hereon from time to time by the holder. The outstanding principal balance of this Note shall be due and payable in full on the Line of Credit Maturity Date.

(b) Advances. Advances hereunder, to the total amount of the principal sum stated above, may be made by the holder at the oral or written request of Alan S. Unger, Katherine G. Mittelman, or Robert H. Dickson, any one acting alone, who are authorized to request advances and direct the disposition of any advances until written notice of the revocation of such authority is received by the holder at the office designated above, or (ii) any person, with respect to advances deposited to the credit of any deposit account of Borrower, which advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw

against such account. The holder shall have no obligation to determine whether any person requesting an advance is or has been authorized by any Borrower.

(c) Application of Payments. Each payment made on this Note shall be credited first, to any interest then due and second, to the outstanding principal balance hereof. All payments credited to principal shall be applied first, to the outstanding principal balance of this Note which bears interest determined in relation to the Prime Rate, if any, second, to the outstanding principal balance of this Note which bears interest determined in relation to LIBOR, with such payments applied to the oldest Fixed Rate Term first, and third, subject to the restrictions set forth below on voluntary prepayments of any principal amount bearing interest in relation to the SAF Rate, to the outstanding principal balance of this Note which bears interest determined in relation to the SAF Rate, with such payments applied to the oldest Fixed Rate Term first.

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PREPAYMENT:

(a) Prime Rate. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to the Prime Rate at any time, in any amount and without penalty.

(b) LIBOR. Borrower may prepay principal on any portion of this Note which bears interest determined in relation to LIBOR at any time and in the minimum amount of One Hundred Thousand Dollars (\$100,000.00); provided however, that if the outstanding principal balance of such portion of this Note is less than said amount, the minimum prepayment amount shall be the entire outstanding principal balance thereof. In consideration of Bank providing this prepayment option to Borrower, or if any such portion of this Note shall become due and payable at any time prior to the last day of the Fixed Rate Term applicable thereto by acceleration or otherwise, Borrower shall pay to Bank immediately upon demand a fee which is the sum of the discounted monthly differences for each month from the month of prepayment through the month in which such Fixed Rate Term matures, calculated as follows for each such month:

(i) Determine the amount of interest which would have accrued each month on the amount prepaid at the interest rate applicable to such amount had it remained outstanding until the last day of the Fixed Rate Term applicable thereto.

(ii) Subtract from the amount determined in (i) above the amount of interest which would have accrued for the same month on the amount prepaid for the remaining term of such Fixed Rate Term at LIBOR in effect on the date of prepayment for new loans made for such term and in a principal amount equal to the amount prepaid.

(iii) If the result obtained in (ii) for any month is greater than zero, discount that difference by LIBOR used in (ii) above.

Borrower acknowledges that prepayment of such amount may result in Bank incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Borrower, therefore, agrees to pay the above-described prepayment fee and agrees that said amount represents a reasonable estimate of the prepayment costs, expenses and/or liabilities of Bank. If Borrower fails to pay any prepayment fee when due, the amount of such prepayment fee shall thereafter bear interest until paid at a rate per annum two percent (2.000%) above the Prime Rate in effect from time to time (computed on the basis of a 360-day year, actual days elapsed). Each change in the rate of interest on any such past due prepayment fee shall become effective on the date each Prime Rate change is announced within Bank.

(c) SAF Rate. Borrower may not voluntarily prepay principal on any portion of this Note which bears interest determined in relation to the SAF Rate. Notwithstanding the foregoing, in the event that any portion of this Note which bears interest in relation to the SAF Rate shall become due and payable at any time prior to the last day of the Fixed Rate Term applicable thereto by acceleration or otherwise, Borrower shall reimburse Bank immediately

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on demand for the full amount of any loss incurred by Bank as a result of the prepayment of such portion, including any loss of income resulting from Bank's reinvestment or re-employment of the amount prepaid at a rate which is less than the SAF Rate for such portion.

EVENTS OF DEFAULT:

This Note is made pursuant to and is subject to the terms and conditions of that certain Credit Agreement between Borrower and Bank dated as of June 28, 2001, as amended from time to time (the "Credit Agreement"). Any default in the payment or performance of any obligation under this Note, or any defined event of default under the Credit Agreement, shall constitute an "Event of Default" under this Note.

MISCELLANEOUS:

(a) Remedies. Upon the occurrence of any Event of Default, the holder of this Note, at the holder's option, may declare all sums of principal and interest outstanding hereunder to be immediately due and payable without presentment, demand, notice of nonperformance, notice of protest, protest or notice of dishonor, all of which are expressly waived by Borrower, and the obligation, if any, of the holder to extend any further credit hereunder shall immediately cease and terminate. Borrower shall pay to the holder immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of the holder's in-house counsel), expended or incurred by

the holder in connection with the enforcement of the holder's rights and/or the collection of any amounts which become due to the holder under this Note, and the prosecution or defense of any action in any way related to this Note, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other person) relating to Borrower or any other person or entity.

(b) Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed this Note as of the date first written above.

INTERNATIONAL HOUSE OF PANCAKES, INC.,  
a Delaware corporation

By \_\_\_\_\_

\_\_\_\_\_  
[Printed Name and Title]

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## CREDIT AGREEMENT

THIS CREDIT AGREEMENT is entered into as of June 28, 2001, by and between INTERNATIONAL HOUSE OF PANCAKES, INC., a Delaware corporation ("Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Bank").

### RECITALS

Borrower has requested that Bank extend credit to Borrower as described below, and Bank has agreed to provide such credit to Borrower on the terms and conditions contained herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bank and Borrower hereby agree as follows:

### ARTICLE I. DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.1 DEFINED TERMS. The following terms as used herein shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Additional Permitted Subsidiary Guarantees" means those Guarantees delivered by any Guarantor (other than IHOP) which guarantee Debt of Borrower the beneficiaries of which are or become a party to, and thereby agree to undertake and perform the duties, rights and obligations of a party under, the Intercreditor Agreement.

"Advance" means an advance under the Line of Credit.

"Affiliate" means any Person (other than a Subsidiary) (a) which directly or indirectly controls, or is controlled by, or is under common control with, IHOP, (b) which beneficially owns or holds 10% or more of any class of the Voting Stock of IHOP, (c) 10% or more of the Voting Stock of which is beneficially owned or held by IHOP or a Subsidiary of IHOP or (d) any officer or director of IHOP or any of its Subsidiaries. For purposes of this definition, "control" of a Person shall mean the power, direct or indirect, (i) to vote or direct the voting of a majority of the Voting Stock of such Person, or (ii) to direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

"Agreement" means this Credit Agreement, either as originally executed or as it may from time to time be supplemented, modified, amended, restated or extended.

"Appropriate Officer" means, with respect to any corporation, such corporation's President, Vice President, Chief Executive Officer, Chief Financial Officer, Treasurer or Controller.

"Bank" is defined in the preamble.

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“Board” means the Board of Directors of any corporation or a committee of said corporation having authority to exercise, when the Board of Directors is not in session, the powers of the Board of Directors (subject to any designated limitations) in the management of the business and affairs of said corporation.

“Book Value” of an asset of any Person means the value of such asset as reported in the books and records of such Person in accordance with GAAP.

“Borrower” is defined in the preamble.

“Business Asset Acquisition” is defined in Section 6.7 hereof.

“Business Day” means any Monday, Tuesday, Wednesday, Thursday or Friday on which Bank is open for business at its address for notices as designated herein.

“Capitalized Lease” means a lease of Property which in accordance with GAAP should be capitalized on the balance sheet of any Person.

“Capitalized Lease Obligations” means the aggregate rentals due and to become due under all Capitalized Leases which any Person, as a lessee, would be required to reflect as a liability on the consolidated balance sheet of such Person in accordance with GAAP.

“Closing Date” means the date on which all conditions precedent set forth in Article 4 have been met.

“Compliance Certificate” means a certificate in the form of Exhibit A, properly completed and signed by an Appropriate Officer of IHOP and Borrower.

“Consolidated Debt” means the Debt of IHOP, Borrower and their Subsidiaries, as determined on a consolidated basis in accordance with GAAP.

“Consolidated Income Available for Fixed Charges” means the sum of (a) Consolidated Net Income, (b) consolidated income tax expense of IHOP and its Subsidiaries in accordance with GAAP and (c) Fixed Charges.

“Consolidated Net Income or Loss” means the Net Income or Loss of IHOP, Borrower and their Subsidiaries, as determined on a consolidated basis in accordance with GAAP.

“Consolidated Tangible Net Worth” means shareholders’ equity of IHOP and its Subsidiaries less intangible assets booked after December 31, 1999, less Restricted Investments in excess of 10% of shareholders’ equity of IHOP and its Subsidiaries at any date of determination, all as determined for IHOP and its Subsidiaries on a consolidated basis in accordance with GAAP.

“Debt” with respect to any Person means, without duplication, (a) all indebtedness of such Person for borrowed money, (b) the liability of such Person created by granting a Lien to which the property or assets of such Person are subject whether or not such Person has assumed or become legally liable for the payment of any obligation (provided that, if such obligation has not been assumed or become the legal liability of such Person, the amount of the liability shall be deemed to be in an amount not to exceed the Fair Market Value of the property to which the Lien relates, as determined in good faith by such Person), (c) Capitalized Lease Obligations of such Person, to the extent such obligations exceed 95% of the amount of accounts receivable by such Person as lessor under direct financing leases with franchisees so long as such direct financing leases are, at the time of determination to the best knowledge of the lessor thereunder, valid and enforceable against their lessees and are current as to payment and not otherwise in default to the extent that there is a reasonable likelihood that any such lease would be terminated by the lessor prior to its stated expiration and (d) the aggregate amount of all Guarantees given by such Person with respect to any of the foregoing.

“Default” means any Event of Default and/or any event that, with the passage of time or the giving of notice or both, would constitute an Event of Default.

“Disposition” means any sale, transfer, assignment, lease, conveyance or other disposition of any asset except for sales, transfers, assignments, leases conveyances or other dispositions solely between IHOP, Borrower and/or the other Guarantors.

“ERISA” means the Employee Retirement Income Security Act of 1974, as from time to time amended.

“Event of Default” shall have the meaning specified in Section 7.1.

“Fair Market Value” means what a willing buyer would pay to a willing seller in an arm’s-length transaction.

“Fixed Charges” means the sum of (a) Interest Expense and (b) rental expense under operating leases, all as determined for IHOP and its Subsidiaries on a consolidated basis in accordance with GAAP.

“Fixed Rate Notes” means, collectively, (a) Borrower’s 7.79% senior notes due in 2002 in the original aggregate principal amount of

\$32,000,000 issued on November 19, 1992 pursuant to the Note Purchase Agreements-1992 and (b) Borrower's 7.42% senior notes due in 2008 in the original aggregate principal amount of \$35,000,000 issued on November 1, 1996 pursuant to the Note Purchase Agreements-1996.

"GAAP" means generally accepted accounting principles in the United States in effect from time to time.

"Governmental Agency" means (a) any international, foreign, federal, state, county or municipal government, or political subdivision thereof, (b) any governmental or quasi-governmental agency, authority, board, bureau, commission, department, instrumentality or public body, or (c) any court, administrative tribunal or public utility.

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"Gross Assets" means the total assets and Properties of IHOP and its Subsidiaries less accumulated depreciation, as indicated on the audited balance sheets of IHOP and its Subsidiaries for the fiscal year end immediately prior to the date of any determination.

"Guarantee" means any guarantee or other contingent liability (other than any endorsement for collection or deposit in the ordinary course of business), direct or indirect, with respect to any obligations of another Person, through an agreement or otherwise, including, without limitation, (a) any other endorsement or discount with recourse or undertaking substantially equivalent to or having economic effect similar to a guarantee in respect of any such obligations and (b) any agreement (i) to purchase, or to advance or supply funds for the payment or purchase of, any such obligations, (ii) to purchase, sell or lease Property, products, materials or supplies, or transportation or services, in respect of enabling such other Person to pay any such obligation or to assure the owner thereof against loss regardless of the delivery or nondelivery of the Property, products, materials or supplies or transportation or services or (iii) to make any loan, advance or capital contribution to or other investment in, or to otherwise provide funds to or for, such other Person in respect of any liability for a dividend, stock liquidation payment or expense) or to assure a minimum equity, working capital or other balance sheet condition in respect of any such obligation. The amount of liability of any Person attributable to any Guarantee shall be equal to the maximum amount for which such Person could be liable under such Guarantee.

"Guarantors" means, collectively, IHOP, IHOP Properties, IHOP Realty and IHOP Restaurants, together with any and all other Persons that may now or hereafter guaranty the obligations of Borrower to Bank with respect to the Line of Credit or any part thereof.

"IHOP" means IHOP Corp., a Delaware corporation, or any successor thereto.

"IHOP Guaranties" is defined in Section 2.4.

"IHOP Properties" means IHOP Properties, Inc., a Delaware corporation which is an indirect wholly-owned Subsidiary of Borrower.

"IHOP Realty" means IHOP Realty Corp., a Delaware corporation which is a wholly-owned Subsidiary of Borrower.

"IHOP Restaurants" means IHOP Restaurants, Inc., a California corporation which is a wholly-owned Subsidiary of Borrower.

"Intercreditor Agreement" means the Intercreditor Agreement dated as of June 28, 2001 among the 1992 Noteholders (as defined therein), the 1996 Noteholders (as defined therein), Bank and additional creditors which may become a party thereto from time to time, substantially in the form attached hereto as Exhibit B, either as originally executed or as it may from time to time be supplemented, modified, amended, restated or extended.

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"Interest Expense" means interest expense, determined for IHOP and its Subsidiaries on a consolidated basis in accordance with GAAP.

"Investment" when used with reference to any investment of IHOP, Borrower or any of their Subsidiaries, means any investment so classified under GAAP (and, specifically, shall not include trade receivables which are classified as current assets under GAAP), and, whether or not so classified, includes (a) any loan or advance made by IHOP, Borrower or any of their Subsidiaries to any other Person, and (b) any ownership or similar interest in any other Person; and the amount of any Investment shall be the original principal or capital amount thereof less all cash returns of principal or equity thereof (and without adjustment by reason of the financial condition of such other Person).

"Laws" means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, regulations, ordinances, codes and administrative or judicial precedents.

"Lien" means any security interest, mortgage, pledge, lien, claim, charge, encumbrance, conditional sale or title retention agreement, lessor's interest under a Capitalized Lease or analogous instrument, in, of or on any of a Person's Property (whether held on the date hereof or hereafter acquired), or any signed or filed financing statement which names such Person as the debtor, or the execution of any security agreement or the like authorizing any other Person as the secured party thereunder to file such a financing statement; provided that neither (a) the interest of a lessee or a sublessee in its capacity as lessee or sublessee under a lease or sublease entered into by IHOP, Borrower or any of their Subsidiaries in the ordinary course of business nor (b) the rights of franchisees in their capacities as franchisees to use and possession of certain properties and rights pursuant to franchise documentation entered into by IHOP, Borrower or any of their Subsidiaries in the ordinary course of business shall be deemed

to constitute a Lien for purposes hereof.

“Line of Credit” shall have the meaning specified in Section 2.1(a).

“Line of Credit Maturity Date” means May 31, 2004, or such later date as may then be in effect pursuant to Section 2.1(d).

“Line of Credit Note” shall have the meaning specified in Section 2.1(a).

“Loan Documents” means, collectively, this Agreement, the Line of Credit Note, the IHOP Guaranties and any other certificates, documents or agreements of any type or nature heretofore or hereafter executed or delivered by Borrower and/or any other Person (or any Affiliate) to Bank in any way relating to or in furtherance of the Agreement, in each case either as originally executed or as the same may from time to time be supplemented, modified, amended, restated or extended.

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“Material Adverse Effect” means any change or changes or effect or effects that individually or in the aggregate are or are likely to be materially adverse to (a) the assets, business, operations, income, prospects or condition (financial or otherwise) of IHOP and its Subsidiaries taken as a whole or Borrower and its Subsidiaries taken as a whole, (b) the transactions contemplated by this Agreement, or (c) taken as a whole, the ability of Borrower and IHOP to fulfill their respective obligations under this Agreement and the Line of Credit Note.

“Net Income or Loss” of any Person, with respect to any period, shall mean the net income or net loss of such Person after excluding the sum of (a) any net loss or any undistributed net income of any Person other than a Subsidiary of such Person, (b) the net income or net loss of any Subsidiary of such Person earned or incurred prior to the date on which it became a Subsidiary of such Person, (c) the gain or loss (net of any tax effect) resulting from the sale of any capital assets other than in the ordinary course of business, and (d) extraordinary or nonrecurring gains or losses (net of any tax effect), all as determined for the relevant period in accordance with GAAP.

“Note Purchase Agreements” means, collectively, the Note Purchase Agreements-1992 and the Note Purchase Agreements-1996.

“Note Purchase Agreements-1992” means the several Senior Note Purchase Agreements dated as of November 19, 1992 among Borrower, IHOP and the purchasers identified in Schedule I thereto.

“Note Purchase Agreements-1996” means the several Senior Note Purchase Agreements dated as of November 1, 1996 among Borrower, IHOP and the purchasers identified in Schedule I thereto.

“Opinion of Counsel” means the favorable written legal opinion of Mark Weisberger, as internal counsel to Borrower and the Guarantors, together with copies of all factual certificates and legal opinions upon which such counsel has relied.

“Person” means any entity, whether an individual, trustee, corporation, general partnership, limited partnership, joint stock company, trust, unincorporated organization, bank, business association, firm, joint venture, government agency or authority, or otherwise.

“Permitted Lien” is defined in Section 6.2.

“Prime Rate” means the rate of interest most recently announced by Bank at its principal office in San Francisco as its “Prime Rate.” The Prime Rate is one of Bank’s base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto and is evidenced by the recording thereof after its announcements in such internal publication or publications as Bank may designate. Any change in the interest rate resulting from a change in such Prime Rate shall become effective on the Business Day on which each change in the Prime Rate is announced by Bank. The Prime Rate may not necessarily be the lowest interest rate at which Bank is willing to extend credit facilities.

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“Property” with respect to any Person, means any interest in any kind of property or asset, whether real, personal or mixed, tangible or intangible, of such Person.

“Request for Extension” means a request for an extension of the Line of Credit Maturity Date substantially in the form of Exhibit C, signed by an Appropriate Officer of IHOP and Borrower and properly completed to provide all information required to be included therein.

“Responsible Official” means (a) when used with reference to a Person other than an individual, any corporate officer of such Person, general partner of such Person, corporate officer of a corporate general partner of such Person, or corporate officer of a corporate general partner of a partnership that is a general partner of such Person, or any other responsible official thereof duly acting on behalf thereof, and (b) when used with reference to a Person who is an individual, such Person. Any document or certificate hereunder that is signed or executed by a Responsible Official of a Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of that Person.



“Restricted Investments” shall mean all Investments made by IHOP, Borrower or their Subsidiaries in or to any Person except (a) Investments in notes of franchisees and receivables of franchisees in the ordinary course of business other than notes and receivables held in settlement of franchise obligations, and in Property of IHOP or its Subsidiaries to be used in the ordinary course of business; (b) Investments in Subsidiaries; (c) Investments in obligations issued or unconditionally guaranteed by the United States of America or any agency thereof, in each case maturing within one year from the date of acquisition thereof; (d) Investments in obligations issued by any political subdivision of the United States of America or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either Standard & Poor’s Corporation or Moody’s Investors Service, Inc. or some other mutually agreeable rating system if either of these entities no longer exists; (e) commercial paper maturing no more than 270 days from the date of creation thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either Standard & Poor’s Corporation or Moody’s Investors Service, Inc. or some other mutually agreeable rating system if either of these entities no longer exists; (f) certificates of deposit, repurchase agreements or bankers’ acceptances maturing within one year from the date of acquisition thereof issued by Borrower’s cash management concentration bank (provided that such bank is rated investment grade or better by either Standard & Poor’s Corporation or Moody’s Investors Services, Inc. or some other mutually agreeable rating system if either of these entities no longer exists), Wells Fargo Bank, N.A., or other commercial banks located in the United States of America and Canada having combined capital, surplus and undivided profits of not less than \$100,000,000 and who have a rating at all times from Standard & Poor’s Corporation or Moody’s Investors Services, inc., or some other mutually agreeable rating system if either of these entities no longer exists, of “A-” or better; (g) Investments in mutual funds and money market accounts, which funds or accounts are traded on a national exchange or are managed by a commercial bank and which invests solely in Investments which satisfy the criteria set forth in the foregoing clauses (c) through (f); and (h) other Investments existing on the Closing Date.

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“Subsidiary” means, with respect to any Person, any corporation or other entity (a) organized under the laws of the United States, the District of Columbia or Canada or any state or political subdivision of any thereof, (b) all or substantially all of whose assets and business operations are located or conducted within the United States of America or Canada and (c) of which at least 51% of the outstanding Voting Stock is at the time directly or indirectly owned or controlled by such Person or by one or more of such Person’s wholly-owned Subsidiaries.

“Total Capitalization” means the sum of (i) Consolidated Debt of IHOP, Borrower and their Subsidiaries and (ii) Consolidated Tangible Net Worth.

“Voting Stock” with respect to any Person shall mean capital stock of such Person of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of members of the Board (or Persons performing similar functions) of such Person.

SECTION 1.2 USE OF DEFINED TERMS. Any defined term used in the plural shall refer to all members of the relevant class, and any defined term used in the singular shall refer to any one or more of the members of the relevant class.

SECTION 1.3 ACCOUNTING TERMS. All accounting terms used in this Agreement shall be applied on a consolidated basis for IHOP, Borrower and their Subsidiaries, unless otherwise specifically indicated herein. All accounting terms not specifically defined in this Agreement shall be construed in conformity with, and all financial data required to be submitted by this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect on the date hereof, except as otherwise specifically prescribed herein.

SECTION 1.4 EXHIBITS AND SCHEDULES. All exhibits and schedules to this Agreement, either as originally existing or as the same may from time to time be supplemented, modified or amended, are incorporated herein by this reference.

## ARTICLE II. CREDIT TERMS

### SECTION 2.1 LINE OF CREDIT.

(a) Line of Credit. Subject to the terms and conditions of this Agreement, Bank hereby agrees to make Advances to Borrower from time to time up to and including the “Maturity Date” (as such term is defined in the Line of Credit Note described below), not to exceed at any time the aggregate principal amount of Twenty-Five Million Dollars (\$25,000,000.00) (“Line of Credit”), the proceeds of which shall be used for Borrower’s working capital and other general corporate purposes. Borrower’s obligation to repay Advances under the Line of Credit shall be evidenced by a promissory note substantially in the form of Exhibit D attached hereto (“Line of Credit Note”), all terms of which are incorporated herein by this reference.

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(b) Letter of Credit Subfeature. As a subfeature under the Line of Credit, Bank agrees from time to time during the term thereof to issue or cause an affiliate to issue standby letters of credit for the account of Borrower for general corporate purposes, including without limitation to finance the acquisition and development of real estate in the ordinary course of Borrower’s business (each, a “Letter of Credit” and collectively, “Letters of Credit”); provided however, that the aggregate undrawn amount of all outstanding Letters of Credit shall not at any time exceed Five Million Dollars (\$5,000,000.00).

The form and substance of each Letter of Credit shall be subject to approval by Bank, in its sole discretion. Each Letter of Credit shall be issued for a term not to exceed eighteen (18) months, as designated by Borrower; provided however, that no Letter of Credit shall have an expiration date more than ninety (90) days beyond Line of Credit Maturity Date. The undrawn amount of all Letters of Credit shall be reserved under the Line of Credit and shall not be available for borrowings thereunder. Each Letter of Credit shall be subject to the additional terms and conditions of the Letter of Credit agreements, applications and any related documents required by Bank in connection with the issuance thereof. Each draft paid under a Letter of Credit shall be deemed an Advance under the Line of Credit and shall be repaid by Borrower in accordance with the terms and conditions of this Agreement applicable to such Advances; provided however, that if Advances under the Line of Credit are not available, for any reason, at the time any draft is paid, then Borrower shall pay to Bank within two (2) Business Days of Bank's written demand therefor the full amount of such draft, together with interest thereon from the date such draft is paid to the date such amount is fully repaid by Borrower, at the rate of interest applicable to Advances under the Line of Credit. In such event Borrower agrees that Bank, in its sole discretion, may debit any account maintained by Borrower with Bank for the amount of any such draft.

(c) Borrowing and Repayment. Borrower may from time to time during the term of the Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all of the limitations, terms and conditions contained herein or in the Line of Credit Note; provided however, that the total outstanding borrowings under the Line of Credit shall not at any time exceed the maximum principal amount available thereunder, as set forth above.

(d) Extension of Line of Credit Maturity Date. Provided that Borrower has theretofore delivered to Bank the financial statements required under Section 5.3 for the immediately preceding fiscal year and immediately preceding fiscal quarter, as applicable, Borrower may, by delivery of a written Request for Extension to Bank, request that the Line of Credit Maturity Date (as then in effect) be extended by one year (365 or 366 days, as the case may be). The Request for Extension shall not be delivered earlier than March 31, 2004 nor later than April 30, 2004 (or each March 31 and April 30 in a subsequent year if the Line of Credit Maturity Date has been extended to such year). Bank shall use its best efforts to respond either affirmatively or negatively (in its sole and absolute discretion) to such Request for Extension by written notice to Borrower within thirty (30) days after receipt thereof from Borrower. If Bank so notifies Borrower in writing that Bank consents to the extension of the

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Line of Credit Maturity Date, then the Line of Credit Maturity Date shall be deemed so extended and the term "Line of Credit Maturity Date" shall be deemed amended to mean the date which is one year subsequent to the then effective Line of Credit Maturity Date. If Bank, in its sole and absolute discretion, notifies Borrower in writing within said thirty (30) day period that it does not consent to such extension of the Line of Credit Maturity Date, or fails to respond in writing within said thirty (30) day period, the Line of Credit Maturity Date shall not be so extended.

## SECTION 2.2 INTEREST/FEES.

(a) Interest. The outstanding principal balance of the Line of Credit shall bear interest, and the amount of each draft paid under any Letter of Credit shall bear interest from the date such draft is paid to the date such amount is fully repaid by Borrower, at the rate(s) of interest set forth in the Line of Credit Note.

(b) Computation and Payment. Interest shall be computed on the basis of a 360-day year, actual days elapsed. Interest shall be payable at the times and place set forth in each promissory note or other instrument required hereby.

(c) Unused Commitment Fee. Borrower shall pay to Bank a fee equal to three-eighths of one percent (0.375%) per annum (computed on the basis of a 360-day year, actual days elapsed) on the average daily unused amount of the Line of Credit, which fee shall be calculated on a quarterly basis by Bank and shall be due and payable by Borrower in arrears each January 1, April 1, July 1 and October 1.

(d) Letter of Credit Fees. Borrower shall pay to Bank (i) fees upon the issuance of each Letter of Credit equal to one and one-quarter percent (1.250%) per annum (computed on the basis of a 360-day year, actual days elapsed) of the face amount thereof, and (ii) fees upon the payment or negotiation of each draft under any Letter of Credit and fees upon the occurrence of any other activity with respect to any Letter of Credit (including without limitation, the transfer, amendment or cancellation of any Letter of Credit) determined in accordance with Bank's standard fees and charges then in effect for such activity.

SECTION 2.3 COLLECTION OF PAYMENTS. To the extent Borrower shall not have otherwise paid any of the following on or before their due date, Borrower authorizes Bank to collect all principal, interest and fees due under the Line of Credit by charging Borrower's deposit account number 4950038554 with Bank, or any other deposit account maintained by Borrower with Bank, for the full amount thereof. Should there be insufficient funds in any such deposit account to pay all such sums when due, the full amount of such deficiency shall be immediately due and payable by Borrower. Notwithstanding the foregoing, Bank shall not charge any such deposit account for fees due hereunder or any other Loan Document (other than unused commitment fees referenced in Section 2.2(c) above) without having first provided Borrower five (5) Business Days prior written notice (or such longer notice period as may be required hereunder or under any other applicable Loan Document) that any such fees are due and payable.

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SECTION 2.4 GUARANTIES. All indebtedness of Borrower to Bank under the Line of Credit shall be guaranteed jointly and severally by each of the IHOP Guarantors as evidenced by and subject to the terms of guaranties in form and substance satisfactory to Bank (collectively, the "IHOP

Guaranties”).

ARTICLE III.  
REPRESENTATIONS AND WARRANTIES

Borrower makes the following representations and warranties to Bank, which representations and warranties shall survive the execution of this Agreement and shall continue in full force and effect until the full and final payment, and satisfaction and discharge, of all obligations of Borrower to Bank subject to this Agreement.

SECTION 3.1 LEGAL STATUS. Borrower is a corporation, duly organized and existing and in good standing under the laws of the State of Delaware, and is qualified or licensed to do business (and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which such qualification or licensing is required.

SECTION 3.2 AUTHORIZATION AND VALIDITY. This Agreement and each other Loan Document required hereby or at any time hereafter delivered to Bank in connection herewith have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Borrower or the party which executes the same, enforceable in accordance with their respective terms.

SECTION 3.3 NO VIOLATION. The execution, delivery and performance by IHOP, Borrower and their Subsidiaries of each of the Loan Documents to which they are a party do not violate any provision of any Law or regulation, or contravene any provision of the Articles of Incorporation or By-Laws of IHOP, Borrower or any such Subsidiary, or result in any breach of or default under any contract, obligation, indenture or other instrument to which IHOP, Borrower or any such Subsidiary, is a party or by which IHOP, Borrower or any such Subsidiary, may be bound.

SECTION 3.4 LITIGATION. There are no pending, or to the best of Borrower's knowledge threatened, actions, claims, investigations, suits or proceedings by or before any governmental authority, arbitrator, court or administrative agency which could have a Material Adverse Effect other than those disclosed by Borrower to Bank in writing prior to the date hereof.

SECTION 3.5 CORRECTNESS OF FINANCIAL STATEMENT. The financial statement of IHOP and its Subsidiaries dated December 31, 2000, a true copy of which has been delivered by Borrower to Bank prior to the date hereof, (a) is complete and correct and presents fairly the consolidated financial condition of IHOP and its Subsidiaries, (b) discloses (as of such date) all liabilities of IHOP and its Subsidiaries that are required to be reflected or reserved against under GAAP, whether liquidated or unliquidated, fixed or contingent, and (c) has been prepared in accordance with GAAP consistently applied.

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Since the date of such financial statement there has been no material adverse change in the financial condition of IHOP and its Subsidiaries, nor has IHOP, Borrower or any of their Subsidiaries mortgaged, pledged, granted a security interest in or otherwise encumbered any of its assets or properties except as permitted herein.

SECTION 3.6 INCOME TAX RETURNS. Borrower has no knowledge of any pending assessments or adjustments of any income tax payable with respect to any year for IHOP, Borrower or any of their Subsidiaries.

SECTION 3.7 NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which IHOP, Borrower or any of their Subsidiaries is a party or by which IHOP, Borrower or any of their Subsidiaries may be bound that requires the subordination in right of payment of any of their respective obligations subject to this Agreement to any other obligation of any of them.

SECTION 3.8 PERMITS, FRANCHISES. IHOP, Borrower and their Subsidiaries possess, and will hereafter possess, all permits, consents, approvals, franchises and licenses required and rights to all trademarks, trade names, patents, and fictitious names, if any, necessary to enable it to conduct the business in which they are now engaged in compliance with applicable law.

SECTION 3.9 ERISA. To the best of Borrower's knowledge, after due inquiry, each of IHOP, Borrower and their Subsidiaries is in compliance in all material respects with all applicable provisions of the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time; none of IHOP, Borrower or any of their Subsidiaries has violated any provision of any defined employee pension benefit plan (as defined in ERISA) maintained or contributed to by any of them (each, a "Plan"); no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated by IHOP, Borrower and their Subsidiaries; each of IHOP, Borrower and their Subsidiaries has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under GAAP.

SECTION 3.10 NO MATERIAL ADVERSE CHANGE. Since the date of the financial statements referenced in Section 3.5 above, no circumstance or event has occurred that constitutes a Material Adverse Effect.

SECTION 3.11 OTHER OBLIGATIONS. To the best of Borrower's knowledge, after due inquiry, none of IHOP, Borrower or any of their Subsidiaries is in default on any obligation of \$1,000,000 or more for borrowed money, any purchase money obligation of \$1,000,000 or more, or any other lease, commitment, contract, instrument or obligation involving an amount payable by Borrower of \$1,000,000 or more.

SECTION 3.12 ENVIRONMENTAL MATTERS. Except as disclosed by Borrower to Bank in writing prior to the date hereof, to the best of Borrower's knowledge, after due inquiry, each of IHOP, Borrower and their Subsidiaries are in compliance in all material respects with all applicable federal or state environmental, hazardous waste, health

and safety statutes, and any rules or regulations adopted pursuant thereto, which govern or affect any of their respective operations and/or properties, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, and the Federal Toxic Substances Control Act, as any of the same may be amended, modified or supplemented from time to time. To the best of Borrower's knowledge, after due inquiry, none of the operations of IHOP, Borrower and their Subsidiaries is the subject of any federal or state investigation evaluating whether any remedial action involving an expenditure exceeding \$1,000,000 (either singularly or in the aggregate) is needed to respond to a release of any toxic or hazardous waste or substance into the environment. None of IHOP, Borrower or any of their Subsidiaries has any contingent liability exceeding \$1,000,000 (either singularly or in the aggregate) in connection with any release of any toxic or hazardous waste or substance into the environment.

ARTICLE IV.  
CONDITIONS

SECTION 4.1 CONDITIONS OF INITIAL EXTENSION OF CREDIT. The obligation of Bank to extend the initial credit contemplated by this Agreement is subject to the fulfillment to Bank's satisfaction of all of the following conditions:

(a) Documentation. Bank shall have received, in form and substance satisfactory to Bank, each of the following, duly executed by all applicable parties:

(i) This Agreement.

(ii) The Line of Credit Note.

(iii) The IHOP Guaranties.

(iv) The Intercreditor Agreement.

(v) A Continuing Standby Letter of Credit Agreement, which agreement shall constitute a "Letter of Credit Agreement" for purposes of Section 2.1(b).

(vi) With respect to each of Borrower and the Guarantors, such documentation as Bank may reasonably require to establish the due organization, valid existence and good standing of Borrower and each such Guarantor in its jurisdiction of formation, its qualification to engage in business in California or, if different, the jurisdiction of its principal place of business, its authority to execute, deliver and perform the Loan Documents to which it is a party, the identity, authority and capacity of each responsible official thereof authorized to act on its behalf, including, without limitation, copies of its certificates or articles of incorporation and amendments thereto certified by the applicable Secretary of State (or equivalent government official), bylaws and amendments thereto certified by a responsible official of such party, certificates of good standing and/or qualifications to engage in business, certified copies of corporate resolutions, incumbency certificates, certificates of responsible officials and the like.

(vii) The Opinion of Counsel.

(viii) Written evidence that Borrower's prior revolving (unsecured) credit facility with Bank of America, N.A. (formerly known as Bank of America National Trust and Savings Association, successor by merger to Bank of America Illinois) have been or will be concurrently terminated.

(ix) Such other documents as Bank reasonably may require under any other Section of this Agreement.

(b) Financial Condition. There shall have been no material adverse change, as determined by Bank, in the financial condition or business of Borrower or any Guarantor.

(c) Insurance. Borrower shall have delivered to Bank evidence of insurance coverage on all Borrower's and the Guarantors' Property, in form, substance, amounts, covering risks and issued by companies satisfactory to Bank.

SECTION 4.2 CONDITIONS OF EACH EXTENSION OF CREDIT. The obligation of Bank to make each extension of credit requested by Borrower hereunder shall be subject to the fulfillment to Bank's satisfaction of each of the following conditions:

(a) Compliance. The representations and warranties contained herein and in each of the other Loan Documents shall be true on and as of the date of the signing of this Agreement and on the date of each extension of credit by Bank pursuant hereto, with the same effect as though such representations and warranties had been made on and as of each such date, and on each such date, no Default or Event of Default shall have occurred and be continuing or shall exist.

(b) Documentation. Bank shall have received all additional documents which reasonably may be required by Bank in connection with such extension of credit.

ARTICLE V.  
AFFIRMATIVE COVENANTS

Borrower covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower shall (and shall cause each of its Subsidiaries to), unless Bank otherwise consents in writing:

SECTION 5.1 PUNCTUAL PAYMENTS. Punctually pay all principal, interest, fees or other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein.

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SECTION 5.2 ACCOUNTING RECORDS. Maintain adequate books and records in accordance with GAAP consistently applied, and permit any representative of Bank, at any reasonable time upon two (2) Business Days' prior notice, to inspect, audit and examine such books and records, to make copies of the same, and to inspect the properties of Borrower, with any such inspection, audit, or examination to occur during regular business hours. Notwithstanding the foregoing, no prior notice for any such inspection, audit or examination shall be required during any time that an Event of Default shall remain in effect.

SECTION 5.3 FINANCIAL STATEMENTS. Provide to Bank all of the following, in form and detail satisfactory to Bank:

(a) as soon as available and in any event within 45 days after the end of each of the first three fiscal quarters of each fiscal year of IHOP, as of the end of any such fiscal quarter,

(i) Form 10-Q for IHOP, consolidated balance sheets of IHOP and its Subsidiaries as of the end of each such fiscal quarter and consolidated statements of earnings and cash flow of IHOP and its Subsidiaries for such fiscal quarter and for the period commencing at the end of the previous fiscal year and ending with the end of such fiscal quarter, certified by an Appropriate Officer of IHOP; and

(ii) a Compliance Certificate executed by an Appropriate Officer of IHOP and Borrower setting forth computations or other pertinent information in reasonable detail showing as at the end of such fiscal quarter (A) whether or not the financial covenants set forth in Sections 6.3 through 6.9 hereof, inclusive, have been met, accompanied by calculations setting forth the maximum amount of Debt that could have been incurred pursuant to Section 6.3 hereof, and the maximum amount of dividends or distributions that could have been declared or paid pursuant to Section 6.6 hereof, and (B) whether or not Liens on property or assets of IHOP or its Subsidiaries or securing Debt of IHOP or its Subsidiaries, as the case may be, exceed the threshold set forth in Section 6.2(i) hereof, accompanied by calculations setting forth the maximum amount of additional Debt secured by Liens that could have been incurred under Section 6.2(i) hereof;

(b) as soon as available and in any event within 90 days after the end of each fiscal year of IHOP, a Compliance Certificate as of such year end and a copy of the annual report to shareholders for such fiscal year for IHOP and its Subsidiaries, including therein consolidated balance sheets of IHOP and its Subsidiaries as of the end of such fiscal year and consolidated statements of operations and cash flow of IHOP and its Subsidiaries for such fiscal year, in each case certified (without any material qualification) in a manner reasonably acceptable to Bank by PriceWaterhouseCoopers, another of the so-called "Big 5" accounting firms or any other accounting firm reasonably acceptable to Bank, and consolidating balance sheets of IHOP and its Subsidiaries as of the end of such fiscal year and consolidating statements of operations of IHOP and its Subsidiaries as of the end of such fiscal year, certified by an Appropriate Officer of IHOP;

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(c) as soon as available and in any event within 15 days, any information filed by IHOP, Borrower or any of their Subsidiaries with the Securities and Exchange Commission with respect to IHOP, Borrower and/or any of their Subsidiaries;

(d) as soon as available, any other public information released generally by IHOP, Borrower or any of their Subsidiaries to financial or investment institutions, brokers, investment bankers or any other entity in the financial community; and

(e) as soon as possible after an Appropriate Officer of IHOP or Borrower has knowledge of the occurrence of a Default or Event of Default, IHOP or Borrower shall furnish Bank with the details thereof.

In addition to the foregoing, Borrower shall furnish Bank with copies of such other statements, reports, notices and information as Bank may from time to time reasonably request in writing.

SECTION 5.4 COMPLIANCE. Preserve and maintain all licenses, permits, governmental approvals, rights, privileges and franchises necessary for the conduct of Borrower's and each Guarantor's business; and comply with the provisions of all documents pursuant to which Borrower or any such Guarantor is organized and/or which govern Borrower's or such Guarantor's continued existence and with the requirements of all Laws, rules, regulations and orders of any Governmental Agency applicable to Borrower, any Guarantor and/or any of their respective businesses.

SECTION 5.5 INSURANCE. Maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of Borrower or any such Guarantor, including but not limited to fire, extended coverage, public liability, flood, property damage and workers' compensation, and deliver to Bank from time to time at Bank's request schedules setting forth all insurance then in effect.

SECTION 5.6 FACILITIES. Keep all properties useful or necessary to Borrower's or any such Guarantor's business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto as are necessary in the reasonable opinion of Borrower's and/or any such Guarantor's management.

SECTION 5.7 TAXES AND OTHER LIABILITIES. Pay and discharge prior to delinquency any and all indebtedness, obligations, assessments and taxes, both real or personal, including without limitation federal and state income taxes and state and local property taxes and assessments, except such (a) as Borrower or any such Guarantor may in good faith contest or as to which a bona fide dispute may arise, and (b) for which Borrower or such Guarantor has made provision, to Bank's satisfaction, for eventual payment thereof in the event Borrower or such Guarantor is obligated to make such payment.

SECTION 5.8 LITIGATION. Promptly give notice in writing to Bank of any litigation pending or threatened against Borrower or any such Guarantor with a claim that is \$1,000,000 or more in excess of the amount thereof that is fully covered by insurance.

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SECTION 5.9 NOTICE TO BANK. Promptly (but in no event more than five (5) days after the occurrence of each such event or matter) give written notice to Bank in reasonable detail of: (a) the occurrence of any Default or Event of Default; (b) any change in the name or the organizational structure of Borrower or any Guarantor; (c) the occurrence and nature of any Reportable Event or Prohibited Transaction, each as defined in ERISA, or any funding deficiency with respect to any Plan; or (d) any termination or cancellation of any insurance policy which Borrower or any Guarantor is required to maintain, or any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting Borrower's or such Guarantor's property in excess of an aggregate of \$1,000,000.

#### ARTICLE VI. NEGATIVE COVENANTS

Borrower further covenants that so long as Bank remains committed to extend credit to Borrower pursuant hereto, or any liabilities (whether direct or contingent, liquidated or unliquidated) of Borrower to Bank under any of the Loan Documents remain outstanding, and until payment in full of all obligations of Borrower subject hereto, Borrower will not (and will not permit any Subsidiary of Borrower to) without Bank's prior written consent:

SECTION 6.1 USE OF FUNDS. Use any of the proceeds of any credit extended hereunder except for the purposes stated in Section 2.1(a) hereof.

SECTION 6.2 RESTRICTIONS ON LIENS. Directly or indirectly, create, assume or suffer to exist any Lien upon any of their respective Properties or assets whether now owned or hereafter acquired, except for:

- (a) Liens for taxes, assessments or governmental charges or claims the payment of which is not at the time required by Section 5.7;
- (b) Statutory Liens of landlords, and Liens of carriers, warehousemen, mechanics, materialmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent or being diligently contested in good faith, so long as a reserve or other appropriate provision, if any, shall have been made therefor;
- (c) Liens (other than any Lien imposed by ERISA) incurred or deposits made in the ordinary course of business in connection with obligations not due or delinquent with respect to workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);
- (d) Any attachment or judgment Lien (including judgment or appeal bonds) which shall, within 30 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or which shall have been discharged within 30 days after the expiration of any such stay, or which is being diligently contested in good faith so long as a reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor;

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(e) Easements, rights-of-way, restrictions and other similar rights in land which do not, individually or in the aggregate, materially detract from the value of such Property and do not interfere with the ordinary conduct of the business of IHOP, Borrower or any of their Subsidiaries;

(f) Liens securing Debt of a Subsidiary to Borrower;

(g) Liens (other than Liens created pursuant to Capitalized Leases) (i) existing on the date hereof, securing Debt not exceeding \$1,500,000 in the aggregate in principal amount, and (ii) whether now or hereafter existing, securing Debt provided Borrower by Bank of America NA, provided that such Debt at no time shall exceed \$12,000,000 in aggregate principal outstanding;

(h) Liens pursuant to Capitalized Leases existing on the Closing Date and Liens created following the Closing Date pursuant to Capitalized Leases so long as, with respect to Liens pursuant to Capitalized Leases created following the Closing Date, the Debt represented by such Capitalized Leases is permitted pursuant to Section 6.3; and

(i) Liens including Liens arising out of purchase money financing not otherwise permitted by the foregoing clauses of this Section 6.2 securing Debt (without duplication) of IHOP, Borrower or any Subsidiary of IHOP or Borrower, provided that the sum of (i) the principal amount of such Debt plus (ii) unsecured Debt (other than Additional Permitted Subsidiary Guarantees) of Subsidiaries of IHOP (other than Borrower) and Subsidiaries of Borrower not otherwise permitted under Section 6.5(a) does not exceed at any time 15% of Consolidated Tangible Net Worth.

The Liens referred to in Section 6.2(a) through (i) are herein collectively referred to as “Permitted Liens,” and individually, as a “Permitted Lien.”

SECTION 6.3 LIMITATION ON CONSOLIDATED DEBT. Permit the ratio of (i) Consolidated Debt to (ii) Total Capitalization to exceed 0.50 to 1.00 as of the last day of any quarterly accounting period of IHOP and its Subsidiaries.

SECTION 6.4 CONSOLIDATED TANGIBLE NET WORTH. Permit Consolidated Tangible Net Worth at any time to be less than the sum of \$150,000,000 plus 50% of Consolidated Net Income on a cumulative basis from December 31, 1999, to and including any date of determination.

SECTION 6.5 LIMITATION ON DEBT OF SUBSIDIARIES. Permit any of the Subsidiaries (other than Borrower) to incur any Debt other than:

(a) Debt owed to IHOP or Borrower or to a wholly-owned Subsidiary of IHOP or Borrower in each case by a direct or indirect wholly-owned Subsidiary of the creditor thereunder; and

(b) additional Debt (other than Additional Permitted Subsidiary Guarantees), provided that the sum of the aggregate principal amount of such Debt plus the aggregate principal amount of all other Debt (without duplication) of IHOP, Borrower and any of their Subsidiaries which is secured by Permitted Liens permitted by Section 6.2(i) does not exceed 15% of Consolidated Tangible Net Worth.

SECTION 6.6 RESTRICTED PAYMENTS; RESTRICTED INVESTMENTS. Permit IHOP, directly or indirectly, through any Subsidiary or otherwise, (a) to pay or declare any dividend on any class of its capital stock (but IHOP or any such Subsidiary may declare and pay dividends payable solely in capital stock or warrants, rights or options to acquire capital stock) or make any other distribution on account of any class of its capital stock; retire, redeem, purchase or otherwise acquire, directly or indirectly, any shares of any class of its capital stock or any warrants, rights or options to acquire any such shares (other than any such redemption, retirement, purchase or other acquisition in which the consideration paid by IHOP or such Subsidiary consists solely of shares of capital stock of IHOP); or make or provide for any mandatory sinking fund payments required in connection with any class of its capital stock (all of the foregoing being called “Restricted Payments”) or (b) make any Restricted Investment, unless after giving effect to any Restricted Payment or Restricted Investment the cumulative aggregate amount of all Restricted Payments and Restricted Investments made by IHOP and its Subsidiaries after September 30, 1992 would not exceed the sum of: (i) \$2,000,000, plus (ii) 50% of cumulative Consolidated Net Income from September 30, 1992 through the date of determination (or if IHOP and its Subsidiaries on a consolidated basis have a cumulative Consolidated Net Loss for such period, then minus 100% of such Consolidated Net Loss), plus (iii) the net proceeds from the issuance or sale of any shares of any class of equity securities of IHOP which are not mandatorily redeemable or otherwise subject to repurchase, retirement, call, put or other reacquisition prior to or on the respective maturity dates of the Fixed Rate Notes (and not subject to acceleration or redemption, repurchase, retirement, call, put or other reacquisition prior to the respective maturity dates of the Fixed Rate Notes) received after September 30, 1992; provided that at the time of any such Restricted Payment or Restricted Investment, both immediately before and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing. So long as no Default or Event of Default has occurred or would be continuing after giving effect thereto, this Section 6.6 shall not prevent (a) the payment of any dividend within 60 days after the date of its declaration if the dividend would have been permitted on the date of its declaration, or (b) the acquisition, repurchase, retirement, call, put or redemption of any shares of capital stock of IHOP out of the proceeds of the substantially concurrent sale (other than to a Subsidiary of IHOP) of shares of capital stock of IHOP, provided that any such acquisition, repurchase, retirement, call, put or redemption shall be deemed to be a Restricted Payment for the purpose of determining the ability of IHOP and its Subsidiaries to make future Restricted Payments.

SECTION 6.7 SALE OF ASSETS. Effect a Disposition of any assets unless (x) no Default or Event of Default has occurred (except in the case of subclause (a) below) and is continuing, and (y) one of the following applies:

(a) such Disposition is in the ordinary course of business, including, without limitation, sales and leases of operating restaurants in accordance with Borrower's ordinary course franchising operations and is made pursuant to the reasonable business judgment of Borrower in accordance with past practice;

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(b) in each fiscal year, IHOP, Borrower and their respective Subsidiaries may effect Dispositions of assets for Fair Market Value and which (i) have an aggregate Book Value, together with all other assets disposed of in that fiscal year (other than Dispositions permitted by clause (a), (c) or (d) of this Section 6.7, of less than 10% of Gross Assets on a consolidated basis determined as at the date of such sale; (ii) generate, together with all other assets disposed of in that fiscal year (other than Dispositions permitted by clause (a), (c) or (d) of this Section 6.7), net income, which is less than 10% of the Consolidated Net Income (in each case, determined as of the end of the immediately preceding fiscal year); and (iii) together with all assets previously disposed of since September 30, 1996 (other than Dispositions permitted by clause (a), (c) or (d) of this Section 6.7, have an aggregate Book Value of less than 25% of Gross Assets on a consolidated basis determined as at the date of such sale, provided that after giving effect to any Disposition described in this subsection (b), IHOP, Borrower or any of their Subsidiaries could incur at least \$1 of additional Debt without being in default of their obligations under Section 6.3.

(c) such Dispositions are made for Fair Market Value and the proceeds of such Disposition are used (i) within six months following such Disposition, to purchase assets ("Business Asset Acquisition") used in the operations of Borrower or (ii) to repay Debt of IHOP or its Subsidiaries which is not junior in right of payment to the Line of Credit Note; provided that if the aggregate principal amount of all outstanding Advances, Letters of Credit and unreimbursed drawings under Letters of Credit shall exceed \$4,000,000, then the proceeds of such disposition shall be used to repay the Line of Credit Note until the aggregate principal amount of all outstanding Advances, Letters of Credit and unreimbursed drawings under Letters of Credit shall have been reduced to \$4,000,000; or

(d) the assets disposed of were disposed of for Fair Market Value (taking into consideration the rental rate to be paid by Borrower in connection with the Disposition and leaseback of the assets so disposed of) and were constructed or acquired following September 30, 1992 and are immediately leased back from the purchaser thereof by IHOP or any of its Subsidiaries; provided that no assets may be sold and leased back pursuant to this clause (d) following the third anniversary of the acquisition or construction of such assets by IHOP, Borrower or any of their Subsidiaries.

**SECTION 6.8 CONSOLIDATION OR MERGER.** Enter into any transaction of merger or consolidation, whether in one transaction or a series of related or unrelated transactions and whether at the same time or over a period of time, provided that:

(a) (i) Borrower may merge with IHOP or any of IHOP's other Subsidiaries, (ii) IHOP may merge with Borrower or any of IHOP's other Subsidiaries and (iii) any Subsidiary may merge with IHOP, Borrower or any other Subsidiary, so long as, with respect to any mergers of Borrower or any Guarantor (including IHOP) in which such party is not the surviving Person, (a) the surviving Person of such transaction shall be a solvent United States or Canadian corporation, and such surviving Person shall have assumed in writing all of the obligations of Borrower, as the case may be, under this Agreement, the Line of Credit Note and/or any applicable IHOP Guaranty, as the case may be, a copy of which writing shall be provided to Bank not less than 10 Business Days prior to any such transaction and which shall be acceptable in form and substance to Bank, (b) at the time of, and immediately after giving effect to, any such consolidation or merger, no Default or Event of Default shall have occurred and be continuing, and (c) immediately after any such consolidation or merger, the surviving Person could incur an additional \$1 of Debt pursuant to Section 6.3 hereof; and

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(b) IHOP or Borrower may merge with any other Person so long as (i) the surviving Person of such transaction shall be a solvent United States or Canadian corporation, and such surviving Person shall have assumed in writing all of the obligations of Borrower under the Line of Credit Note and this Agreement or of IHOP under its IHOP Guaranty, as the case may be, a copy of which writing shall be provided to Bank not less than 10 Business Days prior to any such transaction and which shall be acceptable in form and substance to Bank, (ii) at the time of, and immediately after giving effect to, any such consolidation or merger, no Default or Event of Default shall have occurred and be continuing, and (iii) immediately after any such consolidation or merger, the surviving or continuing Person could incur an additional \$1 of Debt pursuant to Section 6.3 hereof.

**SECTION 6.9 MAINTENANCE OF FIXED CHARGE COVERAGE.** Permit, as of the last day of any quarterly accounting period, the ratio of Consolidated Income Available for Fixed Charges (excluding extraordinary losses or gains or non-recurring charges) to Fixed Charges for the period consisting of any four of the immediately preceding four quarterly accounting periods to be less than 1.50 to 100.

**SECTION 6.10 TRANSACTIONS WITH AFFILIATES.** Directly or indirectly, enter into or permit to exist any transaction (including, without limitation, the purchase, sale, lease or exchange of any Property or the rendering of any service), with any Affiliate on terms that are less favorable to IHOP, Borrower or such Subsidiary, as the case may be, than those that would be obtainable at the time in an arms'-length transaction with any Person who is not such an Affiliate; provided however, that this Section shall not prohibit the payment of compensation and benefits to directors and officers of IHOP, Borrower and their Subsidiaries in the ordinary course of business and consistent with past practices.

**SECTION 6.11 ACQUISITION OF MARGIN SECURITIES.** Own, purchase or acquire (or enter into any contract to purchase or acquire) any "margin security" as defined by any regulation of the Board of Governors of the United States Federal Reserve System as now in effect or as the same may hereafter be in effect unless, prior to any such purchase or acquisition or entering into any such contract, Bank shall have received an opinion of counsel satisfactory to Bank to the effect that such purchase or acquisition will not cause this Agreement or the Line of Credit Note to be in violation of Regulation G or



any other regulation of such Board then in effect.

SECTION 6.12 CONDUCT OF BUSINESS. Engage in any business activity if, such business activity would result in a substantial change in the general nature of the business of IHOP and its Subsidiaries, taken as a whole, from that engaged in as of December 31, 2000.

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SECTION 6.13 FURTHER UNDERTAKINGS.

- (a) incur capital expenditures (net of all proceeds relating to sale/leaseback transactions) in excess of \$80,000,000 during any fiscal year;
- (b) expend more than \$5,000,000 in any fiscal year in connection with the purchase of the capital stock of, or the acquisition of all or substantially all of the assets of, any other Person; provided however that to the extent that IHOP's capital stock is given in connection with any such acquisition, the value of such stock shall be excluded from this calculation and provided, further that expenditures incurred by Borrower in connection with the acquisition of restaurants or leasehold interests for restaurants or with the reacquisition of franchises in the ordinary course of Borrower's business shall also be excluded from this calculation;
- (c) amend the amortization schedule in effect as of the Closing Date as set forth in the Note Purchase Agreements in such a manner as to increase the amount of, or accelerate, payments of principal thereunder prior to the Line of Credit Maturity Date;
- (d) make any optional prepayment of the principal of any indebtedness outstanding under the Note Purchase Agreements prior to the Line of Credit Maturity Date unless, after giving effect thereto, the aggregate principal amount of all outstanding Advances, Letters of Credit and unreimbursed drawings under Letters of Credit does not exceed \$4,000,000; or
- (e) notwithstanding the provisions of Section 6.7 hereof, make any Disposition of any of its accounts receivable or general intangibles.

ARTICLE VII.  
EVENTS OF DEFAULT

SECTION 7.1 The occurrence of any of the following shall constitute an "Event of Default" under this Agreement:

- (a) Borrower shall fail to pay when due any principal or interest, or, within five (5) days after Bank's written notice, any fees or other amounts payable under any of the Loan Documents.
- (b) Any financial statement or certificate furnished to Bank in connection with, or any representation or warranty made by Borrower or any other party under this Agreement or any other Loan Document shall prove to be incorrect, false or misleading in any material respect when furnished or made.
- (c) Any default in the performance of or compliance with any obligation, agreement or other provision contained herein or in any other Loan Document (other than those referred to in subsections (a) and (b) above), and with respect to any such default which by its nature can be cured, such default shall continue for a period of thirty (30) days from its occurrence.

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- (d) Any default in the payment or performance of any obligation, or any defined event of default, under the terms of any contract or instrument (other than any of the Loan Documents) pursuant to which Borrower or any Guarantor has incurred any debt or other liability to Bank.
- (e) Borrower or any Guarantor (i) fails to pay the principal, or any principal installment, of any present or future debt or other liability of \$2,500,000 or more, or any guaranty of present or future debt or other liability of \$2,500,000 or more on its part to be paid, when due (or with any stated grace period), whether at the stated maturity, upon acceleration, by reason of required prepayment or otherwise or (ii) fails to perform or observe any other term, covenant or agreement on its part to be performed or observed, or suffers any event to occur, in connection with any individual item of present or future debt or other liability of \$2,500,000 or more, or of any guaranty of present or future debt or other liability of \$2,500,000 or more, if as a result of such failure or sufferance any holder or holders thereof (or an agent or trustee on its or their behalf) has a right to declare such debt or other liability due before the date on which it otherwise would become due.
- (f) The filing of a notice of judgment lien against Borrower or any Guarantor; or the recording of any abstract of judgment against Borrower or any Guarantor in any county in which Borrower or such Guarantor has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower or any Guarantor or the entry of a judgment against Borrower or any Guarantor, in any such case in any amount in excess of \$2,500,000, and which is not stayed, dismissed or satisfied within thirty (30) days from the filing, recording, service or entry thereof, as applicable.

(g) Borrower or any Guarantor shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; Borrower or any Guarantor shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower or any Guarantor and is not stayed or dismissed within ninety (90) days, or Borrower or any such Guarantor shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower or any such Guarantor shall be adjudicated a bankrupt, or an order for relief shall be entered against Borrower or any such Guarantor by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

(h) The dissolution or liquidation of Borrower or any Guarantor or Borrower or any such Guarantor or any of their directors, stockholders or members, shall take action seeking to effect the dissolution or liquidation of Borrower or such Guarantor.

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(i) IHOP shall fail to own 100% of the issued and outstanding common stock of Borrower.

SECTION 7.2 REMEDIES. Upon the occurrence of any Event of Default: (a) all indebtedness of Borrower under each of the Loan Documents, any term thereof to the contrary notwithstanding, shall at Bank's option and without notice become immediately due and payable without presentment, demand, protest or notice of dishonor, all of which are hereby expressly waived by each Borrower; (b) the obligation, if any, of Bank to extend any further credit under any of the Loan Documents shall immediately cease and terminate; and (c) Bank shall have all rights, powers and remedies available under each of the Loan Documents, or accorded by law. All rights, powers and remedies of Bank may be exercised at any time by Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

ARTICLE VIII.  
MISCELLANEOUS

SECTION 8.1 NO WAIVER. No delay, failure or discontinuance of Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, permit, consent or approval of any kind by Bank of any breach of or default under any of the Loan Documents must be in writing and shall be effective only to the extent set forth in such writing.

SECTION 8.2 NOTICES. All notices, requests and demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to each party at the following address:

BORROWER: INTERNATIONAL HOUSE OF PANCAKES, INC.  
450 N. Brand Boulevard, 7th Floor  
Glendale, California 91203-2306  
Attention: General Counsel  
Tel. No.: (818) 240-6055  
Fax No.: (818) 240-0270

BANK: WELLS FARGO BANK, NATIONAL ASSOCIATION  
Los Angeles RCBO  
333 South Grand Avenue, Third Floor  
Los Angeles, California 90071  
Attention: IHOP Account Officer  
Tel. No.: (213) 253-6832  
Fax No.: (213) 687-3501

or to such other address as any party may designate by written notice to all other parties. Each such notice, request and demand shall be deemed given or made as follows: (a) if sent

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by hand delivery, upon delivery; (b) if sent by mail, upon the earlier of the date of receipt or three (3) days after deposit in the U.S. mail, certified mail or registered, return receipt requested; (c) if sent by commercial overnight courier (such as Federal Express, United Parcel Service or DHL), on the scheduled delivery date; and (d) if sent by telecopy, upon receipt.

SECTION 8.3 COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all payments, advances, charges, costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel), expended or incurred by Bank in connection with (a) (i) the negotiation and preparation of this Agreement and the other Loan Documents, (ii) the preparation of any amendments and waivers hereto and thereto, and (iii) if and only if, a Default or Event of Default shall have occurred and be continuing, Bank's administration of this Agreement and the Loan Documents, including without limitation Bank's costs and expenses to inspect, audit and examine the books and records of Borrower and its Subsidiaries; (b) the enforcement of Bank's rights and/or the collection of any amounts which become due to Bank under any of the Loan Documents, and (c) the prosecution or defense of any action in any way related to any of the Loan Documents, including without limitation, any action for declaratory relief, whether incurred at the trial or appellate level, in an arbitration proceeding or otherwise, and including any of the foregoing incurred in connection with any bankruptcy proceeding (including without limitation, any adversary proceeding, contested matter or motion brought by Bank or any other Person) relating to any Borrower or any other Person.

SECTION 8.4 SUCCESSORS, ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the heirs, executors, administrators, legal representatives, successors and assigns of the parties; provided however, that Borrower may not assign or transfer its interest hereunder without Bank's prior written consent. Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Bank's rights and benefits under each of the Loan Documents. In connection therewith, Bank may disclose all documents and information which Bank now has or may hereafter acquire relating to any credit subject hereto, Borrower or its business, or any Guarantor or the business of such Guarantor.

SECTION 8.5 ENTIRE AGREEMENT; AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement between Borrower and Bank with respect to each credit subject hereto and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof. This Agreement may be amended or modified only in writing signed by each party hereto.

SECTION 8.6 NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other Person shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 8.7 TIME. Time is of the essence of each and every provision of this Agreement and each other of the Loan Documents.

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SECTION 8.8 SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 8.9 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same Agreement.

SECTION 8.10 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 8.11 INDEMNITY BY BORROWER. Borrower agrees to indemnify, save and hold harmless Bank and its directors, officers, agents, attorneys and employees (collectively, the "Indemnitees") from and against: (a) Any and all claims, demands, actions or causes of action that are asserted against any Indemnitee if the claim, demand, action or cause of action arises out of or relates to the relationship between Borrower and Bank under any of the Loan Documents or the transactions contemplated thereby; (b) Any and all administrative or investigative proceedings by any Governmental Agency or authority arising out of or related to any claim, demand, action or cause of action described in clause (a) above; and (c) Any and all liabilities, losses, costs or expenses (including reasonable attorneys' fees and disbursements and other professional services) that any Indemnitee suffers or incurs as a result of the assertion of any of the foregoing; provided that no Indemnitee shall be entitled to indemnification for any loss caused by its own or its employees' or agents' gross negligence or willful misconduct. Each Indemnitee is authorized to employ counsel in enforcing its rights hereunder and in defending against any claim, demand, action, cause of action or administrative or investigative proceeding covered by this Section 8.11; provided that the Indemnitees as a group may retain only one law firm to represent them with respect to any such matter unless there is, under applicable standards of professional conduct, conflict on any significant issue between the positions of any two or more Indemnitees. Any obligation or liability of Borrower to any Indemnitee under this Section 8.11 shall be and hereby is covered by the Loan Documents shall survive the expiration or termination of this Agreement and the repayment of the Line of Credit and the payment and performance of all other obligations owed to Bank.

SECTION 8.12 NONLIABILITY OF BANK. Borrower acknowledges and agrees that:

(a) By accepting or approving anything required to be observed, performed, fulfilled or given to Bank pursuant to the Loan Documents, including any certificate, financial statement, insurance policy or other document, Bank shall not be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not constitute a warranty or representation to anyone with respect thereto by Bank; and

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(b) The relationship between Borrower and Bank in connection with this Agreement and the other Loan Documents is, and shall at all times remain, solely that of a borrower and lender; Bank shall not under any circumstance be construed to be a partner or joint venturer of Borrower; Bank shall not under any circumstances be deemed to be in a relationship of confidence or trust or a fiduciary relationship with Borrower, or to owe any fiduciary duty to Borrower as a result of the transactions arising under this Agreement and the other Loan Documents; Bank does not undertake or assume any responsibility or duty to Borrower to select, review, inspect, supervise, pass judgment upon or inform Borrower of any matter in connection with its property or the operations of Borrower; Borrower shall rely entirely upon its own judgment with respect to such matters; and any review, inspection, supervision, exercise of judgment or supply of information undertaken or assumed by Bank in connection with such matters is solely for the protection of Bank and neither Borrower nor any other Person is entitled to rely thereon.

SECTION 8.13 FURTHER ASSURANCES. Borrower shall, at its expense and without expense to Bank, do, execute and deliver such further acts and documents as Bank from time to time reasonably requires for the assuring and confirming unto Bank of the rights hereby created or intended now or hereafter so to be, or for carrying out the intention or facilitating the performance of the terms of any Loan Document.

SECTION 8.14 CONFIDENTIALITY. Bank agrees (and any assignee of all or part of Bank's interests hereunder and any holder of a participation interest in the Line of Credit Note shall be required) to hold any confidential information that it may receive from Borrower pursuant to this Agreement in confidence, except for disclosure: (a) to legal counsel and accountants for IHOP, Borrower or any of their Subsidiaries or Bank; (b) to other professional advisors to IHOP, Borrower or any of their Subsidiaries or Bank; provided that the recipient has been informed in advance of the confidential nature of such information; (c) to regulatory officials having jurisdiction over Bank; (d) as required by law or legal process or in connection with any legal proceeding or litigation involving Bank and IHOP, Borrower or any of their Subsidiaries or any Affiliate thereof; and (e) to another financial institution in connection with a disposition or proposed disposition to that financial institution of all or part of Bank's interests hereunder or a participation interest in the Line of Credit Note, provided that the recipient has been informed in advance of the confidential nature of such information. For purposes of the foregoing, "confidential information" shall mean any information respecting IHOP, Borrower or their Subsidiaries reasonably considered by IHOP, Borrower or such Subsidiary, as applicable, to be confidential, other than (i) information previously filed with any Governmental Agency and available to the public, (ii) information previously published in any public medium from a source other than, directly or indirectly, Bank, and (iii) information previously disclosed by IHOP, Borrower or any Subsidiary to any Person not associated with IHOP, Borrower or such Subsidiary, as applicable, without a confidentiality agreement or obligation substantially similar to this Section 8.14. Nothing in this Section shall be construed to create or give rise to any fiduciary duty on the part of Bank to IHOP, Borrower or any of their Subsidiaries.

#### SECTION 8.15 ARBITRATION.

(a) Arbitration. The parties hereto agree, upon demand by any party, to submit to binding arbitration all claims, disputes and controversies between or among them (and their respective employees, officers, directors, attorneys, and other agents), whether in

tort, contract or otherwise arising out of or relating to in any way (i) the loan and related Loan Documents which are the subject of this Agreement and its negotiation, execution, administration, repayment, modification, extension, substitution, formation, inducement, enforcement, default or termination; or (ii) requests for additional credit.

(b) Governing Rules. Any arbitration proceeding will (i) proceed in a location in Los Angeles, California selected by the American Arbitration Association ("AAA"); (ii) be governed by the Federal Arbitration Act (Title 9 of the United States Code), notwithstanding any conflicting choice of law provision in any of the documents between the parties; and (iii) be conducted by the AAA, or such other administrator as the parties shall mutually agree upon, in accordance with the AAA's commercial dispute resolution procedures, unless the claim or counterclaim is at least \$1,000,000.00 exclusive of claimed interest, arbitration fees and costs in which case the arbitration shall be conducted in accordance with the AAA's optional procedures for large, complex commercial disputes (the commercial dispute resolution procedures or the optional procedures for large, complex commercial disputes to be referred to, as applicable, as the "Rules"). If there is any inconsistency between the terms hereof and the Rules, the terms and procedures set forth herein shall control. Any party who fails or refuses to submit to arbitration following a demand by any other party shall bear all costs and expenses incurred by such other party in compelling arbitration of any dispute. Nothing contained herein shall be deemed to be a waiver by any party that is a bank of the protections afforded to it under 12 U.S.C. §91 or any similar applicable state law.

(c) No Waiver of Provisional Remedies. The arbitration requirement does not limit the right of any party to obtain provisional or ancillary remedies before, during or after the pendency of any arbitration proceeding. This exclusion does not constitute a waiver of the right or obligation of any party to submit any dispute to arbitration or reference hereunder.

(d) Arbitrator Qualifications and Powers. Any arbitration proceeding in which the amount in controversy is \$5,000,000.00 or less will be decided by a single arbitrator selected according to the Rules, and who shall not render an award of greater than \$5,000,000.00. Any dispute in which the amount in controversy exceeds \$5,000,000.00 shall be decided by majority vote of a panel of three arbitrators; provided however, that all three arbitrators must actively participate in all hearings and deliberations. The arbitrator will be a neutral attorney licensed in the State of California or a neutral retired judge of the state or federal judiciary of California, in either case with a minimum of ten years experience in the substantive law applicable to the subject matter of the dispute to be arbitrated. The arbitrator will determine whether or not an issue is arbitratable and will give effect to the statutes of limitation in determining any claim. In any arbitration proceeding the arbitrator will decide (by documents only or with a hearing at the arbitrator's discretion) any pre-hearing motions which are similar to motions to dismiss for failure to state a claim or motions for summary adjudication. The arbitrator shall resolve all disputes in accordance with the substantive law of California and may grant any remedy or relief that a court of such state could order or grant within the scope hereof

and such ancillary relief as is necessary to make effective any award. The arbitrator shall also have the power to award recovery of all costs and fees, to impose sanctions and to take such other action as the arbitrator deems necessary to the same extent a

judge could pursuant to the Federal Rules of Civil Procedure, the California Rules of Civil Procedure or other applicable law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(e) Discovery. In any arbitration proceeding discovery will be permitted in accordance with the Rules. All discovery shall be expressly limited to matters directly relevant to the dispute being arbitrated and must be completed no later than 20 days before the hearing date and within 180 days of the filing of the dispute with the AAA. Any requests for an extension of the discovery periods, or any discovery disputes, will be subject to final determination by the arbitrator upon a showing that the request for discovery is essential for the party's presentation and that no alternative means for obtaining information is available.

(f) Class Proceedings and Consolidations. The resolution of any dispute arising pursuant to the terms of this Agreement shall be determined by a separate arbitration proceeding and such dispute shall not be consolidated with other disputes or included in any class proceeding.

(g) Payment Of Arbitration Costs And Fees. The arbitrator shall award all costs and expenses of the arbitration proceeding.

(h) Miscellaneous. To the maximum extent practicable, the AAA, the arbitrators and the parties shall take all action required to conclude any arbitration proceeding within 180 days of the filing of the dispute with the AAA. No arbitrator or other party to an arbitration proceeding may disclose the existence, content or results thereof, except for disclosures of information by a party required in the ordinary course of its business or by applicable law or regulation. If more than one agreement for arbitration by or between the parties potentially applies to a dispute, the arbitration provision most directly related to the Loan Documents or the subject matter of the dispute shall control. This arbitration provision shall survive termination, amendment or expiration of any of the Loan Documents or any relationship between the parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

INTERNATIONAL HOUSE OF  
PANCAKES, INC., a Delaware corporation

WELLS FARGO BANK,  
NATIONAL ASSOCIATION

By: \_\_\_\_\_ By: \_\_\_\_\_

Title: \_\_\_\_\_ Title: \_\_\_\_\_

## LOAN AGREEMENT

This Loan Agreement (the "Agreement") dated as of April 27, 2001, by and between BANK OF AMERICA, N.A., a national banking association ("Bank" or "Lender"), IHOP PROPERTIES, INC., a California corporation ("Borrower"), and International House of Pancakes, Inc., a Delaware corporation, IHOP Corp., a Delaware corporation ("IHOP Parent"), IHOP Realty Corp., a Delaware corporation, and IHOP Restaurants, Inc., a Delaware corporation (collectively, the "Guarantors").

In consideration of the Loan or Loans described below and the mutual covenants and agreements contained herein, and intending to be legally bound hereby, Bank, Borrower and Guarantors agree as follows:

1. DEFINITIONS AND REFERENCE TERMS. In addition to any other terms defined herein, the following terms shall have the meaning set forth with respect thereto:

**Accounting Terms.** All accounting terms not specifically defined or specified herein shall have the meanings generally attributed to such terms under generally accepted accounting principles ("GAAP"), as in effect from time to time, consistently applied, with respect to the financial statements referenced herein.

**Affiliate.** Affiliate shall mean any Person (i) which directly or indirectly controls, or is controlled by, or is under common control with, IHOP Corp.

**Borrower.** IHOP PROPERTIES, INC., a California corporation

**Borrower's Address.** 450 North Brand Boulevard, 7th Floor, Glendale, CA 91203-2306.

**Capitalized Lease.** Capitalized Lease means a lease of Property which in accordance with GAAP should be capitalized on the balance sheet of any Person.

**Capitalized Lease Obligations.** Capitalized Lease Obligations shall mean the aggregate rentals due and to become due under all Capitalized Leases which any Person, as a lessee, would be required to reflect as a liability on the consolidated balance sheet of such Person in accordance with GAAP .

**Certified.** Certified when used with respect to any financial information of any Person to be certified by any of its officers, indicates that such information is to be accompanied by a certificate to the effect that such financial information has been prepared in accordance with GAAP consistently applied, subject in the case of interim financial information to nonrecurring material year-end audit adjustments, and presents fairly the information contained therein as at the dates and for the periods covered thereby.

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**Consolidated Net Income or Loss.** Consolidated Net Income or Loss shall mean the Net Income or Loss of IHOP Parent, the Borrower and their Subsidiaries, as determined on a consolidated basis in accordance with GAAP.

**Consolidated Tangible Net Worth.** Consolidated Tangible Net Worth shall mean shareholders' equity of IHOP Parent and its Subsidiaries less intangible assets booked after the date hereof, less Restricted Investments in excess of 10% of shareholders' equity of IHOP Parent and its Subsidiaries at any date of determination, all as determined for IHOP Parent and its Subsidiaries on a consolidated basis in accordance with GAAP.

**Collateral Locations.** Those certain IHOP Restaurants located at the street addresses listed on Exhibit "A" attached hereto and made a part hereof.

**Debt.** Debt with respect to any Person means, without duplication, (i) all indebtedness of such Person for borrowed money, (ii) the liability of such Person created by granting a Lien to which the property or assets of such Person are subject whether or not such Person has assumed or become legally liable for the payment of any obligation (provided that, if such obligation has not been assumed or become the legal liability of such Person, the amount of the liability shall be deemed to be in an amount not to exceed the Fair Market Value of the property to which the Lien relates, as determined in good faith by such Person), (iii) Capitalized Lease Obligations of such Person, to the extent such obligations exceed accounts receivable by such Person as lessor under direct financing leases with franchisees so long as such direct financing leases are, at the time of determination to the best knowledge of the lessor thereunder, valid and enforceable against their lessees and are current as to payment and not otherwise in default to the extent that there is a reasonable likelihood that any such lease would be terminated by the lessor prior to its stated expiration and (iv) the aggregate amount of all Guarantees given by such Person with respect to any of the foregoing.

**Default.** Default or Event of Default (whether such terms are capitalized or not) shall have the meaning ascribed to them under the Loan Documents which are subject to any notice and cure rights set forth herein.

**Disposition.** Disposition shall mean any sale, transfer, assignment, lease, conveyance or other disposition of any asset.

**EBITDA.** EBITDA means, the following items as defined by GAAP, Earnings Before Interest, Taxes, Depreciation, and Amortization.

**Equipment.** Equipment shall mean all equipment, signage, furniture, fixtures, machinery and goods of the Borrower and/or IHOP Restaurants, Inc. ("Restaurants") located at the Collateral Locations (together with all service contracts, manufacturer's or other warranties and licenses relating thereto) and all accessories and parts now or hereafter affixed thereto, installed therein or held for use in connection therewith.

**Equipment Leases.** Those certain leases entered into by Restaurants and the Subtenants (as hereinafter defined) which are described in full on Exhibit “D” attached hereto and made a part hereof.

**Fair Market Value.** Fair Market Value means what a willing buyer would pay to a willing seller in an arm’s length transaction.

**Franchise Agreements.** Franchise Agreements shall mean any and all franchise agreements, amendments and other documents entered into by IHOP Corp. with the Subtenants relating to the operation of the IHOP Restaurants at the Collateral Locations.

**Funded Debt.** Funded Debt shall mean (i) all Debt of a Person (other than Guarantees) having a final maturity of more than one year from the date of incurrence thereof (or which is renewable or extendible at the option of the obligor for a period or periods of more than one year from the date of incurrence), including all payments in respect thereof that are required to be made within one year from the date of any determination of Funded Debt, whether or not included in current liabilities, and (ii) in the case of Guarantees, all Guarantees of obligations maturing more than one year after the date as of which the Guarantee is incurred.

**Ground Leases.** Those certain leases entered into by Borrower which are described in full on Exhibit “B” attached hereto and made a part hereof.

**Ground Lease Locations.** Those certain Collateral Locations which are subject to Ground Leases.

**Guarantee.** Guarantee means any guarantee or other contingent liability (other than any endorsement for collection or deposit in the ordinary course of business), direct or indirect, with respect to any obligations of another Person, through an agreement or otherwise, including, without limitation, (a) any other endorsement or discount with recourse or undertaking substantially equivalent to or having economic effect similar to a guarantee in respect of any such obligations and (b) any agreement (i) to purchase, or to advance or supply funds for the payment or purchase of, any such obligations, (ii) to purchase, sell or lease Property, products, materials or supplies, or transportation or services, in respect of enabling such other Person to pay any such obligation or to assure the owner thereof against loss regardless of the delivery or nondelivery of the Property, products, materials or supplies or transportation or services or (iii) to make any loan, advance or capital contribution to or other investment in, or to otherwise provide funds to or for, such other Person in respect of enabling such Person to satisfy any obligation (including any liability for a dividend, stock liquidation payment or expense) or to assure a minimum equity, working capital or other balance sheet condition in respect of any such obligation. The amount of liability of any Person attributable to any Guarantee shall be equal to the maximum amount for which such Person could be liable under such Guarantee.

**Guarantor.** Guarantor shall collectively mean International House of Pancakes, Inc., a Delaware corporation, IHOP Corp., a Delaware corporation, IHOP Realty Corp., a Delaware corporation, and IHOP Restaurants, Inc., a Delaware corporation.

**Hazardous Materials.** Hazardous Materials include all materials defined as hazardous materials or substances under any local, state or federal environmental laws, rules or regulations, and petroleum, petroleum products, oil and asbestos.

**IHOP Parties.** IHOP Parties means collectively, IHOP PROPERTIES, INC., a California corporation, International House of Pancakes, Inc., a Delaware corporation, IHOP Corp., a Delaware corporation, IHOP Realty Corp., a Delaware corporation, and IHOP Restaurants, Inc., a Delaware corporation.

**Interest Rate Agreement.** Interest Rate Agreement means any agreement between Borrower and Bank or any affiliate of Bank, now existing or hereafter entered into, which provides for an interest rate or commodity swap, cap, floor, collar, forward foreign exchange transaction, currency swap, cross-currency rate swap, currency option, or any combination of, or option with respect to, these or similar transactions, for the purpose of hedging Borrower’s exposure to fluctuations in interest rates, currency calculations or commodity prices.

**Lien.** Lien means any security interest, mortgage, pledge, lien, claim, charge, encumbrance, conditional sale or title retention agreement, lessor’s interest under a Capitalized Lease or analogous instrument, in, of or on any of a Person’s Property (whether held on the date hereof or hereafter acquired), or any signed or filed financing statement which names such Person as the debtor, or the execution of any security agreement or the like authorizing any other Person as the secured party thereunder to file such a financing statement.

**Loan.** Any loan described in Section 2 hereof and any subsequent loan which states that it is subject to this Loan Agreement.

**Loan Documents.** Loan Documents means this Loan Agreement and any and all promissory notes executed by Borrower in favor of Bank and all other documents, instruments, guarantees, certificates and agreements executed and/or delivered by Borrower, any guarantor or third party in connection with any Loan.

**Material Adverse Effect.** Material Adverse Effect means, with respect to Borrower or any of the Guarantors: any change or changes or effect or effects that individually or in the aggregate are or are likely to be materially adverse to: (i) the assets, business, operations, income, prospects or condition (financial or otherwise), (ii) the transactions contemplated by this Agreement; or (iii) taken as a whole, the ability to fulfill their respective obligations under this Agreement or any of the other Loan Documents.

**Multi-State Security Instrument.** Multi-State Security Instrument means that certain Multi-State Security Instrument executed by Borrower in favor of Lender of even date herewith which is being recorded in the public records of each of the counties where the Collateral Locations are located.

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**Obligations.** Obligations shall mean any and all indebtedness, liabilities and obligations of Borrower to Bank, including without limiting the generality of the foregoing, any indebtedness, liability or obligation of Borrower to Bank under any loan made to Borrower by Bank prior to the date hereof and any and all extensions or renewals thereof in whole or in part; any indebtedness, liability or obligations of Borrower to Bank arising hereunder or as a result hereof, whether evidenced by the Note, Interest Rate Agreement or otherwise, and any and all extensions or renewals thereof in whole or in part; and any and all future or additional indebtedness, liabilities or obligations of Borrower to Bank whatsoever and in any event, whether existing as of the date hereof or hereafter arising.

**Operating Rent Expense.** Operating Rent Expense shall mean rent expense excluding: (i) inter-company rent, and (ii) rents re-classified as Capital Lease Obligations.

**Person.** Person means and includes an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof

**Related Borrower.** Related Borrower shall mean any of the following corporations: International House of Pancakes, Inc., a Delaware corporation, IHOP Corp., a Delaware corporation, IHOP Realty Corp., a Delaware corporation, and IHOP Restaurants, Inc., a Delaware corporation.

**Related Loans.** Related Loans shall mean any and all loans heretofore or hereafter made by Bank to Related Borrower, including but not limited to the obligations of International House of Pancakes, Inc. under the \$25 Million Letter Agreement.

**Restricted Investments.** Restricted Investments shall mean all Investments made by the IHOP Parties or their Subsidiaries in or to any Person except (i) Investments in notes of franchisees and receivables of franchisees in the ordinary course of business other than notes and receivables held in settlement of franchise obligations, and in Property of IHOP Parent or its Subsidiaries to be used in the ordinary course of business, (ii) Investments in Subsidiaries, (iii) Investments in obligations issued or unconditionally guaranteed by the U.S. or any agency thereof, in each case maturing within one year from the date of acquisition thereof; (iv) Investments in obligations issued by any political subdivision of the U.S. or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either Standard & Poor's Corporation or Moody's Investors Service, Inc. or some other mutually agreeable rating system if either of these entities no longer exists; (v) commercial paper maturing no more than 270 days from the date of creation thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either Standard & Poor's Corporation or Moody's Investors Service, Inc. or some other mutually agreeable rating system if either of these entities no longer exists; (vi) certificates of deposit, repurchase agreements or bankers'

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acceptances maturing within one year from the date of acquisition thereof issued by commercial banks which are rated "A2" or better by either Standard & Poor's Corporation or Moody's Investors Services, Inc. (or by some other mutually agreeable rating system if either of these entities no longer exists) located in the U.S. and Canada and have combined capital, surplus and undivided profits of not less than \$100,000,000; (vii) Investments in mutual funds and money market accounts, which funds or accounts are traded on a national exchange or are managed by a commercial bank and which invests solely in Investments which satisfy the criteria set forth in the foregoing clauses (iii) through (vi); and (viii) other Investments existing on the date hereof which have been disclosed in writing to Bank.

**Subleases.** Those certain subleases entered into by Borrower and the subtenants ("Subtenants") which are described in full on Exhibit "C" attached hereto and made a part hereof. The Subtenants are also the franchisee and operator of the IHOP Restaurants located at the Collateral Locations as designated on Exhibit "C".

**Subsidiary.** Subsidiary shall mean, with respect to any Person, any corporation or other entity (a) organized under the laws of the United States, the District of Columbia or Canada or any state or political subdivision of any thereof, (b) all or substantially all of whose assets and business operations are located or conducted within the United States or Canada and (c) of which at least a majority of the outstanding voting stock is at the time directly or indirectly owned or controlled by such Person or by one or more of such Person's wholly-owned Subsidiaries.

**Subtenant Leases.** Subtenant Leases shall collectively mean the Subleases and the Equipment Leases.

**\$25 Million Letter Agreement.** \$25 Million Letter Agreement means that certain Letter Agreement among International House of Pancakes, Inc., IHOP Corp., and Continental Bank, N.A. dated June 30, 1993, as amended by that certain First Amendment to Letter Agreement dated December 31, 1994 among International House of Pancakes, Inc., IHOP Corp. and Bank of America Illinois, and further amended by that certain Second Amendment to Letter Agreement dated March 11, 1996 among International House of Pancakes, Inc., IHOP Corp. and Bank of America Illinois, and further amended by that certain Third Amendment to Letter Agreement dated September 3, 1996 among International House of Pancakes, Inc., IHOP Corp. and Bank of America Illinois, and further amended by that certain Fourth Amendment to Letter Agreement dated November 1, 1996 among International House of Pancakes, Inc., IHOP Corp. and Bank of America Illinois, and further amended by that certain Letter dated June 25, 1997 from Yvonne C. Dennis of Bank of America to IHOP Corp., and further amended by that certain Fifth Amendment to Letter Agreement dated June 30, 1998 among International House of Pancakes, Inc., IHOP Corp. and



Bank of America National Trust and Savings Association, and further amended by that certain Sixth Amendment to Letter Agreement dated June 30, 1999 among International House of Pancakes, Inc., IHOP Corp. and Bank of America National Trust and Savings Association, and as further amended by that certain Seventh Amendment to Letter Agreement dated December 15, 2000, among International House of Pancakes, Inc., IHOP Corp. and Bank of America, N.A.

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2. LOANS. Bank hereby agrees to make a loan to Borrower in the principal face amount of \$12,018,206.00. The obligation to repay the loans is evidenced by a promissory note or notes dated of even date herewith (the promissory note or notes together with any and all renewals, extensions or rearrangements thereof being hereafter collectively referred to as the "Note") having a maturity date, repayment terms and interest rate as set forth in the Note.

3. SECURITY INTEREST IN COLLATERAL. As security for the payment of the Note and all Obligations whatsoever of Borrower to Bank, Borrower hereby grants to Bank a continuing, general first lien upon and security interest and title in and to the following (hereafter known as the "Collateral"):

- (a) all Equipment of Borrower relating to the Collateral Locations;
- (b) Borrower's interest in real property, improvements and fixtures located at the Collateral Locations and Borrower's leasehold estate created by the Ground Leases and Borrower shall execute a Multi-State Security Instrument conveying such interest to Bank;
- (c) Borrower's interest in the Subleases and the right to payments from the Subtenants and Borrower shall execute a Assignment of Lessor's Interest in Leases relating to such Subleases; and
- (d) all Collateral hereafter pledged by Borrower;

AND Guarantors hereby grant to Bank a continuing, general first lien upon and security interest and title in and to all Collateral hereafter specifically pledged by such Guarantors to Bank in connection with the Loan;

AND Restaurants hereby grants to Bank a continuing, general first lien upon and security interest and title in and to:

- (e) all Equipment of Restaurants relating to the Collateral Locations; and
- (f) Restaurants' interest in the Equipment Leases and the right to payments from the Subtenants and Restaurants shall execute a Assignment of Lessor's Interest in Leases relating to such Equipment Leases.

Borrower and Restaurants agree to do all things as may reasonably be required by Bank to perfect and protect the lien of Bank in such Collateral.

The Loan shall be cross-defaulted with any and all loans now or hereafter made by Bank to Borrower or Related Borrower. For clarification purposes, by execution of this Agreement, Bank expressly acknowledges that the Loan described herein is not cross-collateralized with the \$25 Million Letter Agreement, but rather only cross-defaulted with the \$25 Million Letter Agreement and all other loans to Borrower and Related Borrower.

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4. REPRESENTATIONS AND WARRANTIES. Borrower and the Guarantors hereby represent and warrant to Bank as follows:

A. Good Standing. Borrower is a corporation, duly organized, validly existing and in good standing under the laws of California and has the power and authority to own its property and to carry on its business in each jurisdiction in which Borrower does business. Each of the Guarantors is a corporation, duly organized, validly existing and in good standing under the laws of Delaware and has the power and authority to own its property and to carry on its business in each jurisdiction in which Guarantor does business.

B. Authority and Compliance of Borrower. Borrower has full power and authority to execute and deliver the Loan Documents and to incur and perform the obligations provided for therein, all of which have been duly authorized by all proper and necessary action of the appropriate governing body of Borrower. No consent or approval of any public authority or other third party is required as a condition to the validity of any Loan Document, and Borrower is in compliance with all laws and regulatory requirements to which it is subject.

C. Authority and Compliance of Guarantor. Each of the Guarantors has full power and authority to execute and deliver the Limited Guaranty and this Agreement and to incur and perform the obligations provided for therein, all of which have been duly authorized by all proper and necessary action of the appropriate governing body of the respective Guarantor. No consent or approval of any public authority or other third party is required as a condition to the validity of any Loan Document executed by any of the Guarantors, and Guarantors are in compliance with all laws and regulatory requirements to which it is subject.

D. Binding Agreement. This Agreement and the other Loan Documents executed by Borrower and Guarantors constitute valid and legally binding obligations of Borrower and Guarantors, enforceable in accordance with their terms.

E. Litigation. There is no proceeding involving Borrower or any of the Guarantors pending or, to their knowledge, threatened before any court or governmental authority, agency or arbitration authority which would have a Material Adverse Effect on Borrower or any of the Guarantors.

F. No Conflicting Agreements. There is no charter, bylaw, stock provision or other document pertaining to the organization, power or authority of Borrower or any of the Guarantors and no provision of any existing agreement, mortgage, indenture or contract binding on Borrower or affecting its property, which would conflict with or in any way prevent the execution, delivery or carrying out of the terms of this Agreement and the other Loan Documents.

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G. Ownership of Assets. Borrower has good title to the Collateral free and clear of liens, except those granted to Bank and as disclosed to Bank in writing prior to the date of this Agreement. Borrower and/or Restaurants, own all of the Equipment located at the Collateral Locations which is leased to the Subtenants and such Equipment is free and clear of all liens.

H. Taxes. All real and personal taxes and assessments payable by Borrower or any of the Guarantors have been paid before they become delinquent or are being contested in good faith by appropriate proceedings and the Borrower and each of the Guarantors have filed all tax returns which it is required to file.

I. Financial Statements. The financial statements of IHOP Corp (which includes Borrower and Guarantors) on a consolidated basis heretofore delivered to Bank have been prepared in accordance with GAAP (except as noted therein) applied on a consistent basis throughout the period involved and fairly present IHOP Corp.'s, the Borrower's and other Guarantors' financial condition as of the date or dates thereof, and there has been no change in IHOP Corp.'s, the Borrower's and other Guarantors' financial condition or operations since September 30, 2000 which would have a Material Adverse Effect. All factual information furnished by Borrower to Bank in connection with this Agreement and the other Loan Documents is and will be accurate and complete on the date as of which such information is delivered to Bank and is not and will not be incomplete by the omission of any material fact necessary to make such information not misleading.

J. Place of Business. Borrower's and each of the Guarantors' principal place of business is located at 450 North Brand Boulevard, 7th Floor, Glendale, CA 91203-2306.

K. Environmental. The conduct of Borrower's business operations and, based solely on environmental reports obtained for each of the Collateral Locations prior to executing the Ground Lease for each such location, the condition of the Collateral Locations, do not violate any federal, local or state law, rule, regulation or rule of common law or any judicial interpretation thereof relating primarily to the environment or Hazardous Materials.

L. Maintenance. Borrower and Restaurants shall maintain all of its Equipment located at the Collateral Locations in good condition and repair and shall make (for Collateral Locations which are not subject to Subleases) and require all Subtenants (for Collateral Locations which are subject to Subleases) to make all necessary replacements thereof, and preserve and maintain all material licenses, trademarks, privileges, permits, franchises, certificates and the like necessary for the operation of its business at the Collateral Locations.

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M. Continuation of Representations and Warranties. All representations and warranties made under this Agreement shall be deemed to be made at and as of the date hereof and at and as of the date of any advance under any Loan.

N. Conduct of Business. Except as otherwise set forth herein, Borrower shall preserve and maintain its corporate existence, rights, franchises, and privileges in the jurisdiction of its incorporation, and qualify and remain qualified as a foreign corporation in each jurisdiction in which such qualification is necessary or desirable in view of its business and operations or the ownership of its IHOP Restaurants at the Collateral Locations.

O. Absence of Defaults. Neither Borrower nor any of the Guarantors are in default under its articles of incorporation or its bylaws and no event has occurred, which has not been remedied, cured or waived:

- (i) which constitutes a Default or an Event of Default (as herein defined); or
- (ii) which constitutes, or which with the passage of time, the giving of notice, a determination of materiality, the satisfaction of any condition, or any combination of the foregoing, would constitute, a default or event of default ("Default Condition")

by the Borrower or any of the Guarantors under any agreement or judgment, decree or order to which the Borrower or any of the Guarantors is a party or by which the Borrower or any of the Guarantors or any of their properties may be bound where such default would, individually or in the aggregate, have a Material Adverse Effect on the Borrower. Further, no Default, Event of Default or Default Condition exists in connection with the \$25 Million Letter Agreement.

5. AFFIRMATIVE COVENANTS. Until full payment and performance of all obligations of Borrower under the Loan Documents, Borrower and Guarantors will, unless Bank consents otherwise in writing (and without limiting any requirement of any other Loan Document):

A. Financial Condition. Maintain Borrower's financial condition as follows, determined in accordance with GAAP applied on a consistent basis throughout the period involved except to the extent modified by the following definitions, and calculated on a rolling four (4) quarter basis:

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- i. **Maintain Fixed Charge Coverage Ratio:** The Borrower and Guarantors, on a consolidated basis, will not permit the ratio of net income after tax plus non-cash charges (such as depreciation and amortization) plus Operating Rent Expense plus total interest expense less distributions, cash dividends, and advances divided by scheduled payments of long term debt and capitalized leases (due in the next twelve months) plus total interest expense plus Operating Rent Expense to be less than 1.35. This Ratio shall be calculated using the form attached as Exhibit F.
- ii. **Maintain Funded Debt to EBITDA Ratio:** The Borrower and Guarantors, on a consolidated basis, will not permit the ratio of total Funded Debt divided by EBITDA to be greater than 3.00. This Ratio shall be calculated using the form attached as Exhibit F.

B. Financial Statements and Other Information. Maintain a system of accounting in accordance with GAAP applied on a consistent basis throughout the period involved, permit Bank's officers or authorized representatives to visit and inspect Borrower's books of account and other records after giving reasonable notice to Borrower at such reasonable times during normal business hours and as often as Bank may desire, and after a Default or an Event of Default which shall be continuing, pay the reasonable fees and disbursements of any accountants or other agents of Bank selected by Bank for the foregoing purposes. Unless written notice of another location is given to Bank, Borrower's books and records will be located at Borrower's principal place of business set forth above.

In addition, Borrower will comply with the following "Financial Covenants" and agrees to:

1. Borrower and Guarantors will furnish to Bank in duplicate:

- (A) as soon as available and in any event within 45 days after the end of each of the first three quarterly accounting periods in each fiscal year of Borrower and Guarantors ("quarterly accounting period"),

(1) either (a) copies of IHOP Parent's Quarterly Report on Form 10-Q for the quarterly accounting period then ended, as filed with the SEC or (b) if IHOP Parent is not subject to Section 13 or 15(d) of the Exchange Act, copies of the consolidated balance sheet of Borrower or Guarantors as of the end of the quarterly accounting period and of the related consolidated statements of operations, shareholders' equity and cash flows for such accounting period, all in reasonable detail and stating in comparative form the consolidated figures as of the end of and for the corresponding date and period in the previous fiscal year, all Certified by a President, Vice President, Chief Executive Officer, Chief Financial Officer, Treasurer or Controller ("Appropriate Officer") of IHOP Parent; and

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(2) a written statement in the form of Exhibit E hereto executed by Appropriate Officers of IHOP Parent and Borrower setting forth computations or other pertinent information in reasonable detail showing as at the end of such quarterly accounting period whether or not the financial covenants set forth herein have been met which statement shall be accompanied by actual calculations set forth in the form of Exhibit F ("Quarterly Compliance Statement");

- (B) as soon as available and in any event within 90 days after the end of each fiscal year of IHOP Parent,

(1) either (a) copies of IHOP Parent Annual Report on Form 10-K and Annual Report to Shareholders, in each case, for the year then ended and as filed with the SEC together with copies of the consolidating balance sheets of Borrower and Guarantors as of the end of such fiscal year and the related consolidating statements of operations, or (b) if IHOP Parent is not subject to Section 13 or 15(d) of the Exchange Act, copies of the consolidated and consolidating balance sheets of Borrower and Guarantors as of the end of such fiscal year, and of the related consolidated and consolidating statements of operations and the related consolidated statements of shareholders' equity and cash flows, together with the notes to such consolidated statements, which consolidated statements state in comparative form the respective consolidated figures as of the end of and for the previous fiscal year, and in the case of such consolidated financial statements referred to in subclauses (a) or (b), accompanied by a report thereon of PricewaterhouseCoopers or other independent public accountants of recognized national standing selected by IHOP Parent (the "Accountants"), which report shall be unqualified as to going concern and scope of audit and shall state that such consolidated financial statements present fairly the consolidated financial position of Borrower and Guarantors as at the end of such fiscal year and the consolidated results of operations and cash flow for such fiscal year in conformity with GAAP, and that the examination by the Accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards.

Together with each delivery of financial statements or Annual Reports required by this subparagraph (1), the Accountants shall deliver to Bank their report stating that, in making the audit necessary to the certification of such financial statements, they have obtained no knowledge of any Default or Event of Default or, if any such Default or Event of Default has occurred, specifying the nature and period of existence thereof, and

- (2) a Quarterly Compliance Statement.
- (C) concurrently with the financial statements or reports furnished pursuant to Subsections A and B immediately above, a certificate of respective Appropriate Officer of the Borrower and Guarantors in the form of Exhibit E, stating that, based upon such examination or investigation and review of this Agreement as in the opinion of the signer is necessary to enable the signer to express an informed opinion with respect thereto, no Default or Event of Default by Borrower or Guarantors in the fulfillment of any of the terms, covenants, provisions or conditions of this Agreement exists or has existed during such period or, if such a Default or Event of Default shall exist or have existed, the nature and period of existence thereof and what action the Borrower or any of the Guarantors, as the case may be, has taken, is taking or proposes to take with respect thereto;
- (D) promptly after the same are available and in any event within 15 days thereof, copies of all such proxy statements, financial statements, notices and reports as Borrower or Guarantors shall send or make available generally to any of their security holders, and copies of all regular and periodic reports and of all registration statements which Borrower or Guarantors may file with the SEC or with any securities exchange;
- (E) promptly (and in any event within 5 days) after becoming aware of (1) the existence of any Default or Event of Default, a certificate of Appropriate Officers of Borrower and/or Guarantors specifying the nature and period of existence thereof and what action the Borrower and/or Guarantors is taking or proposes to take with respect thereto; or (2) any Debt of Borrower or Guarantors being declared due and payable before its expressed maturity, or any holder of such Debt having the right to declare such

Debt due and payable before its expressed maturity, because of the occurrence of any default (or any event which, with notice and/or the lapse of time shall constitute any such default) under such Debt or the agreement pursuant to which such Debt was issued, a certificate of an Appropriate Officer describing the nature and status of such Default or Event of Default and what action Borrower or any of the Guarantors is taking or proposes to take with respect thereto; *provided, however*, that any Default or Event of Default which is deemed to have arisen upon Borrower's or Guarantors' failure to promptly notify the Bank of another Default or Event of Default in accordance with this Section shall be deemed to be waived so long as (i) such underlying Default or Event of Default as to which notice is required to be given (the "Underlying Default") has been completely cured; (ii) the Underlying Default, if it had not been completely cured, would not have had a Material Adverse Effect and (iii) notice of the Underlying Default is delivered within 30 days of its occurrence;

- (F) promptly and in any event within 10 days after Borrower or Guarantors knows or, in the case of a Pension Plan has reason to know, that a Reportable Event with respect to any Pension Plan has occurred, that any Pension Plan or Multiemployer Plan is or may be terminated, reorganized, partitioned or declared insolvent under Title IV of ERISA, or that Borrower or any of the Guarantors or ERISA Affiliates will or may incur any material liability to or on account of a Pension Plan or Multiemployer Plan under Title IV of ERISA or any other material liability under ERISA has been asserted against Borrower or any of the Guarantors or ERISA Affiliates, a certificate of an Appropriate Officer of IHOP Parent setting forth information as to such occurrence and what action, if any, Borrower or any of the Guarantors or ERISA Affiliate is required or proposes to take with respect thereto, together with any notices concerning such occurrences which are (a) required to be filed by Borrower or any of the Guarantors or ERISA Affiliate or the plan administrator of any such Pension Plan controlled by Borrower or any of the Guarantors or ERISA Affiliate with the Internal Revenue Service or the PBGC, or (b) received by Borrower or any of the Guarantors or ERISA Affiliate from any plan administrator of a Pension Plan not under their control or from a Multiemployer Plan;

- (G) promptly after the Borrower or any of the Guarantors becomes aware of any Material Adverse Effect with respect to which notice is not otherwise required to be given pursuant to this Section, a certificate of an Appropriate Officer setting forth the details of such Material Adverse Effect and stating what action Borrower or any of the Guarantors has taken or proposes to take with respect thereto;
- (H) promptly (and in any event within 15 days) after the Borrower or any of the Guarantors knows of (a) the institution of, or threat of, any action, suit, proceeding, governmental investigation or arbitration against or affecting Borrower or any of the Guarantors

or any Property of any of them, or (b) any material development in any such action, suit, proceeding, governmental investigation or arbitration, which, in either case, is likely to have a Material Adverse Effect, a certificate of an Appropriate Officer describing the nature and status of such matter in reasonable detail;

- (I) in the event that Borrower is no longer a consolidated Subsidiary of IHOP Parent, financial statements of the IHOP Parties at such times and in such form (together with such certifications) as are required to be delivered pursuant to Sections (A), (B) and (C) above;
- (J) not later than 90 days following the end of each fiscal year of IHOP Parent, a copy of the consolidated budget of Borrower and the Guarantors prepared by IHOP Parent for the next succeeding fiscal year, and
- (K) any other information, including financial statements and computations, relating to the performance of obligations arising under this Agreement and/or the affairs of Borrower and Guarantors that the Bank may from time to time reasonably request and which is capable of being obtained, produced or generated by Borrower or any of the Guarantors or of which any of them has knowledge, including, without limitation, a brief statement describing any significant events relating to Borrower or any of the Guarantors for any fiscal period.

B. \$25 Million Letter Agreement. Borrower and Guarantors to the extent applicable to each of them agree to comply with all covenants set forth in the \$25 Million Letter Agreement while the debt set forth in such \$25 Million Letter Agreement remains outstanding.

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C. Insurance. Maintain (for the Collateral Locations which are not subleased to Subtenants) and/or cause Subtenants to maintain (for the Collateral Locations which are subject to Subleases) insurance for each of the Collateral Locations as required in the respective Ground Leases. Satisfactory evidence of such insurance will be supplied to Bank prior to funding under the Loan(s) and 10 days prior to each policy renewal.

D. Existence and Compliance. Maintain its existence, good standing and qualification to do business, where required and comply with all laws, regulations and governmental requirements including, without limitation, laws relating to environmental matters, OSHA, ERISA and Pension Guaranty Board, applicable to it or to any of its property, business operations and transactions.

E. Taxes and Other Obligations. Pay all of its taxes, assessments and other obligations, including, but not limited to taxes, costs or other expenses arising out of this transaction, before they become delinquent or are being contested in good faith by appropriate proceedings in a diligent manner.

F. Maintenance. Maintain all of its Equipment located at the Collateral Locations in good condition and repair and shall make (for Collateral Locations not subject to Subleases) and require all subtenants (for Collateral Locations which are subject to Subleases) to make all necessary replacements thereof, and preserve and maintain all licenses, trademarks, privileges, permits, franchises, certificates and the like necessary for the operation of its business.

6. NEGATIVE COVENANTS. Until full payment and performance of all obligations of Borrower under the Loan Documents, Borrower and Guarantors will not, without the prior written consent of Bank (and without limiting any requirement of any other Loan Documents):

6.1. Restrictions on Liens. Borrower hereby covenants that Borrower will not permit any Liens with respect to the Collateral except for those listed in the marked Title Commitments delivered of even date herewith by Stewart Title Guaranty Company in favor of Bank or liens created pursuant to the Ground Leases or Subtenant Leases. Further, the IHOP Parties covenant that they will not, nor will they permit any Subsidiary to, directly or indirectly, create, assume or suffer to exist any Lien upon any of their respective property or asset, whether real, personal or mixed, tangible or intangible or assets whether now owned or hereafter acquired ("Property" or "Properties"), except for:

- (A) Liens for taxes, assessments or governmental charges or claims the payment of which is not at the time required by this Agreement;

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(B) Statutory Liens of landlords, and Liens of carriers, warehousemen, mechanics, materialmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent or being diligently contested in good faith, so long as a reserve or other appropriate provision, if any, shall have been made therefor;

(C) Liens (other than any Lien imposed by ERISA) incurred or deposits made in the ordinary course of business in connection with obligations not due or delinquent with respect to workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(D) Any attachment or judgment Lien (including judgment or appeal bonds) which shall, within 30 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or which shall have been discharged within 30 days after the expiration of any such stay, or which is

being diligently contested in good faith so long as a reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor;

(E) Easements, rights-of-way, restrictions and other similar rights in land which do not, individually or in the aggregate, materially detract from the value of such Property and do not interfere with the ordinary conduct of the business of IHOP Parent, the Borrower or any of their Subsidiaries;

(F) Liens securing Debt of a Subsidiary to the Borrower or IHOP Parent;

(G) Liens (other than Liens created pursuant to Capitalized Leases) existing on the date hereof securing Debt not exceeding \$1,500,000 in the aggregate in principal amount;

(H) Liens pursuant to Capitalized Leases existing on the date hereof and Liens created hereafter pursuant to Capitalized Leases so long as, with respect to Liens pursuant to Capitalized Leases created following the date hereof, the Funded Debt represented by such Capitalized Leases is permitted pursuant to Section 5 (A)(ii) above; and

(I) Liens including Liens arising out of purchase money financing securing Debt (without duplication) of IHOP Parent, the Borrower or any Subsidiary of IHOP Parent or the Borrower, *provided* that the sum of (i) the principal amount of such Debt plus (ii) unsecured Debt of Subsidiaries of IHOP Parent (other than the Borrower) and Subsidiaries of the Borrower not otherwise permitted under this Section does not exceed at any time 15% of Consolidated Tangible Net Worth.

The Liens referred to in Section 6.1 are herein collectively referred to as "*Permitted Liens*," *individually*, a "*Permitted Lien*."

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6.2. Limitation on Funded Debt. IHOP Parent, the Borrower and Guarantors shall not, and shall not permit any Subsidiary to, incur Funded Debt other than:

(A) the Note, the Guarantee of the Guarantors and all Funded Debt of IHOP Parent, the Borrower and their Subsidiaries existing as of the date hereof, which have been disclosed in writing to Bank;

(B) any replacement, refinancing or extension of any Funded Debt, *provided* that the aggregate principal amount of such Funded Debt (or, if such Funded Debt is issued with an original issue discount, the original issue price of such Funded Debt) does not exceed the then outstanding principal amount of the Funded Debt so replaced, refinanced or extended (or, if the Funded Debt being replaced, refinanced or extended was issued with an original issue discount, the original issue price plus the amortized portion of the original issue discount to the date that such Funded Debt is replaced, refinanced or extended); and

(C) additional Funded Debt of the IHOP Parties, *provided* that after giving effect to such incurrence (including payment of interest and principal following such incurrence) and to the application of any proceeds thereof the IHOP Parties are still in compliance with the financial ratios set forth in Section 5 (A) (i) and (ii) above, measured in each case on a pro forma basis as of the most recently ended fiscal quarter as if such incurrence had occurred on the last day of such fiscal quarter.

6.3. Limitation on Debt of Subsidiaries. The IHOP Parties shall not permit any of their Subsidiaries to incur any Debt other than:

(A) Debt owed to IHOP Parent or the Borrower or to a wholly-owned Subsidiary of IHOP Parent or the Borrower in each case by a direct or indirect wholly-owned Subsidiary of the creditor thereunder; and

(B) additional Debt, *provided* that the sum of the aggregate principal amount of such Debt plus the aggregate principal amount of all other Debt (without duplication) of IHOP Parent, the Borrower and any of their Subsidiaries which is secured by Liens not permitted by Sections 6.1 does not exceed 15% of Consolidated Tangible Net Worth.

6.4. Sale of Assets. Except in connection with a Release Parcel (as defined in the Multi-State Security Instrument executed of even date herewith), Borrower shall not permit a Disposition of the Collateral. Except in connection with a Release Parcel (as defined in the Multi-State Security Instrument executed of even date herewith), Restaurants shall not permit a Disposition of the Equipment pledged by Restaurants. The IHOP Parties shall not, and shall not permit any of their Subsidiaries to, effect a Disposition of any assets (other than the Collateral) unless (i) no Default or Event of Default has occurred and is continuing, and (ii) one of the following applies:

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(a) such Disposition is in the ordinary course of business, including, without limitation, (i) sales and leases of operating restaurants and (ii) financings in connection with asset securitization programs, each in accordance with the Borrower's ordinary course franchising or financing operations and made pursuant to the reasonable business judgment of the Borrower in accordance with past practice;

(b) in each fiscal year, IHOP Parent, the Borrower and their respective Subsidiaries may effect Dispositions (other than Qualifying

Dispositions of Excepted Properties as such terms are defined and permitted under the \$25 Million Letter Agreement) of assets for Fair Market Value and which (A) have an aggregate Book Value, together with all other assets disposed of in that fiscal year (other than Dispositions permitted by clause (a), (c) or (d) of this Section), of less than 10% of Gross Assets on a consolidated basis determined as at the date of such sale; (B) generate, together with all other assets disposed of in that fiscal year (other than Dispositions permitted by clause (a), (c) or (d) of this Section), net income, which is less than 10% of the Consolidated Net Income (in each case, determined as of the end of the immediately preceding fiscal year); and (C) together with all assets previously disposed of since September 30, 2000 (other than Dispositions permitted by clause (a), (c) or (d) of this Section), have an aggregate Book Value of less than 25% of Gross Assets on a consolidated basis determined as at the date of such sale;

(c) such Dispositions are made for Fair Market Value and the proceeds of such Disposition are used (i) within six months following such Disposition, to purchase assets ("Business Asset Acquisition") used in the operations of the Borrower or (ii) to repay Debt of IHOP Parent or its Subsidiaries which is not junior in right of payment to the Note; or

(d) the assets disposed of were disposed of for Fair Market Value (taking into consideration the rental rate to be paid by the Borrower in connection with the Disposition and leaseback of the assets so disposed of) and were constructed or acquired following September 30, 2000 and are immediately leased back from the purchaser thereof by IHOP Parent or any of its Subsidiaries; *provided* that no assets may be sold and leased back pursuant to this clause (d) following the third anniversary of the acquisition or construction of such assets by IHOP Parent, the Borrower or any of their Subsidiaries.

6.5. Consolidation or Merger. IHOP Parent and the Borrower covenant that neither of them will, nor will they permit any of their respective Subsidiaries to, enter into any transaction of merger or consolidation, whether in one transaction or a series of related or unrelated transactions and whether at the same time or over a period of time, *provided* that:

6.5.1 (i) the Borrower may merge with IHOP Parent or any of IHOP Parent's other Subsidiaries, (ii) IHOP Parent may merge with the Borrower or any of IHOP Parent's other Subsidiaries and (iii) any Subsidiary may merge with IHOP Parent, the Borrower or any other Subsidiary, **so long as**, with respect to any mergers of IHOP

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Parent, the Borrower or any Guarantor in which such party is not the surviving Person, (a) the surviving Person of such transaction shall be a solvent U.S. or Canadian corporation, and such surviving Person shall have assumed in writing all of the obligations of the Borrower, IHOP Parent or Guarantors, as the case may be, under this Agreement, the Note and the Guarantees, as the case may be, and all documents necessary to reflect such merger with respect to the Collateral shall be executed and recorded as necessary in the public records of the counties and states as required for each of the Collateral Locations, and (b) at the time of, and immediately after giving effect to, any such consolidation or merger, no Default or Event of Default shall have occurred and be continuing, and

6.5.2 Borrower, IHOP Parent or any of IHOP Parent's other Subsidiaries may merge with any other Person so long as (i) the surviving Person of such transaction shall be a solvent U.S. or Canadian corporation, and such surviving Person shall have assumed in writing all of the obligations of the Borrower, IHOP Parent or Guarantors, as the case may be, under this Agreement, the Note and the Guarantees, as the case may be, and all documents necessary to reflect such merger with respect to the Collateral shall be executed and recorded as necessary in the public records of the counties and states as required for each of the Collateral Locations, and (b) at the time of, and immediately after giving effect to, any such consolidation or merger, no Default or Event of Default shall have occurred and be continuing.

6.6. Transactions with Affiliates. Each of IHOP Parties covenants that it will not, and will not permit any of its Subsidiaries to, directly or indirectly, enter into or permit to exist any transaction (including, without limitation, the purchase, sale, lease or exchange of any Property or the rendering of any service), with any Affiliate, unless (i) after giving affect to such transaction, the IHOP Parties will remain in compliance with the financial ratios set forth in Section 5 (A)(i) and (ii) above, and (ii) the transactions is not on terms that are less favorable to IHOP Parent, the Borrower or such Subsidiary, as the case may be, than those that would be obtainable at the time in an arm's length transaction with any Person who is not such an Affiliate; *provided, however*, that this Section shall not prohibit the payment of compensation and benefits to directors and officers of IHOP Parent, the Borrower and their Subsidiaries in the ordinary course of business and consistent with past practices.

6.7. Acquisition of Margin Securities. Each of the IHOP Parties covenants that it will not, and will not permit any of its Subsidiaries to, own, purchase or acquire (or enter into any contract to purchase or acquire) any "margin stock" as defined by any regulation of the Board of Governors of the United States Federal Reserve System as now in effect or as the same may hereafter be in effect unless, prior to any such purchase or acquisition or entering into any such contract, Bank shall have received an opinion of counsel satisfactory to Bank to the effect that such purchase or acquisition will not cause this Agreement or the Note to be in violation of Regulation G or any other regulation of such Board then in effect.

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6.8. Conduct of Business. Each of the IHOP Parties covenants that it will not, and will not permit any of its Subsidiaries to, engage in any business activity if, such business activity would result in a substantial change in the general nature of the business of IHOP Parent and its Subsidiaries, taken as a whole, from the business activities currently conducted by the IHOP Parties.

6.9. Ownership of Borrower. The IHOP Parties agree that so long as any of the Obligations set forth herein remain outstanding, International House of Pancakes, Inc. will continue to own of record and beneficially all of the issued and outstanding capital stock of Borrower and IHOP Parent will continue to

own of record and beneficially all of the issued and outstanding capital stock of International House of Pancakes, Inc.

7. DEFAULT. Borrower shall be in default under this Agreement and under each of the other Loan Documents if it shall default in the payment of any amounts due and owing under the Loan or should it fail to timely and properly observe, keep or perform any term, covenant, agreement or condition in this Loan Agreement, any other Loan Document or in any other loan agreement, promissory note, security agreement, deed of trust, deed to secure debt, mortgage, assignment or other contract securing or evidencing payment of any indebtedness of Borrower to Bank or any affiliate or subsidiary of Bank of America Corporation. An event of default under any of documents given in connection with any Related Loans, including the \$25 Million Letter Agreement, shall also be an Event of Default hereunder. Borrower and Guarantors also acknowledge that a default under the \$25 Million Letter Agreement shall also be a default hereunder.

8. REMEDIES UPON DEFAULT. If an Default or Event of Default shall occur, Bank shall have all rights, powers and remedies available under each of the Loan Documents and the \$25 Million Letter Agreement as well as all rights and remedies available at law or in equity. Upon the occurrence of any Default Condition or Event of Default, Bank's obligation to disburse any undisbursed portion of the Loan shall immediately cease. Upon the occurrence or existence of any Event of Default, or at any time thereafter, without prejudice to the rights of Bank to enforce its claims against Borrower for damages for failure by Borrower to fulfill any of its obligations hereunder, subject only to prior receipt by Bank of payment in full of all Obligations then outstanding in a form acceptable to Bank, Bank shall have all of the rights and remedies described hereunder, and it may exercise any one, more, or all of such remedies, in its sole discretion, without thereby waiving any of the others.

8.1 Notice and Right to Cure. In the event of any Default or Event of Default of Borrower or any of the IHOP Parties (except as otherwise stated below), Lender shall not accelerate the Obligations, make any payments for which Borrower is primarily liable or foreclose upon or attach any Collateral of Borrower or Restaurants unless Lender first gives written notice of such Default or Event of Default to Borrower pursuant to the notice provision set forth in Section 9 below and such Default or Event of Default is not fully cured by Borrower or any of the other IHOP Parties within the following periods:

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(a) ten (10) days after such notice is deemed given in the event of any failure to make a monetary payment to any person;

(b) thirty (30) days after such notice is deemed given in the event of non-monetary defaults not subject to other provisions of this paragraph, provided (i) within ten (10) days after given the notice of default Borrower and/or any of the IHOP Parties commences its cure and submits to Lender in writing its plan to cure, and (ii) said cure is continuously pursued by Borrower and/or any of the IHOP Parties with due diligence. If said Default or Event of Default is not reasonably capable of being cured within thirty (30) days, Borrower and/or any of the IHOP Parties (as applicable) shall have such additional time as is reasonably necessary to complete the cure, but in no event for more than ninety (90) days after the notice of default is deemed given, all provided (x) said default is in Lender's reasonable judgment curable within said period, (y) Borrower and/or one of the other IHOP Parties provides Lender with written, detailed progress reports at least every thirty (30) days until its cure is complete, and (z) Borrower continuously and diligently pursues said cure; or

(c) sixty (60) days after the filing of any involuntary petition in bankruptcy against or for the appointment of a receiver for Borrower or any of the IHOP Parties (except for petitions for receivership filed by Lender), with the dismissal of such petitions by the court within such period being deemed to cure such default.

Notwithstanding the above provisions, the cure period provided for in this paragraph shall not apply in the following circumstances:

I. if Borrower transfers or encumbers all or any portion of its interest in the Collateral without the required consent of Lender unless permitted as a Release Parcel under the Multi-State Security Instrument or if Restaurants transfers or encumbers all or any portion of its interest in the Equipment pledged by Restaurants to Bank without the required consent of Lender unless permitted as a Release Parcel under the Multi-State Security Instrument; or

II. in any circumstance when a delay in effecting a cure is, in the reasonable judgment of Lender, likely to result in any security being damaged, becoming uninsured or rendered unavailable to Lender or the value thereof being materially and adversely affected; or

III. any monetary Default which is repeated for four (4) consecutive months;

IV. any failure to proceed with the construction or repair of improvements to the Collateral Locations as required by the Multi-State Security Instrument; or

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V. any filing of a voluntary petition in bankruptcy by Borrower or Guarantors, or for the appointment of a receiver or trustee of all or a portion of Borrower's or any of the Guarantors' Property; or

VI. any assignment for the benefit of creditors, fraudulent conveyance, or other plan or action instituted by Borrower, in any attempt to avoid the satisfaction of any lawful indebtedness; or any waste committed to the Collateral Locations, or any demolition or removal of any improvements on the Collateral Locations which is not provided for under the Multi-State Security Instrument and which is without Lender's consent (other than the exercise by any proper authority of the right of eminent domain); or



VII. any nonmonetary default which Lender reasonably determines is not capable of being cured within the requisite period.

The provisions of this paragraph shall apply to defaults under all Loan Documents executed in connection with the Loan, and unless expressly stated to the contrary in such documents any cure period referred to therein shall be deemed to incorporate said provisions. If any Loan Documents are inconsistent with this paragraph the latter shall be controlling. Where additional notice or cure periods are provided in this or any other Loan Documents or are required by any other contract or by law, said periods and those contained in this paragraph shall run concurrently. Nothing in this paragraph shall be construed as extending the term of the Loan or the date upon which a Default occurs, and no decision to forego any remedy for any given Default shall be deemed a waiver on the part of Lender of any right relating to any other Default. This paragraph shall be strictly construed, and shall not impair the exercise of any remedy not referred to above immediately upon Default, including, without limitation, the seeking of any mandatory or prohibitive injunction or restraining order.

9. NOTICES. All notices, requests or demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to the other party at the following address:

Borrower:	IHOP PROPERTIES, INC. 450 North Brand Boulevard 7th Floor Glendale, CA 91203-2306 Attn: Legal Department
Bank:	BANK OF AMERICA, N.A. Commercial Loan Service Center Bank of America Office Park P.O. Box 45247 Jacksonville, Florida 32256-0771

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or to such other address as any party may designate by written notice to the other party. Each such notice, request and demand shall be deemed given or made as follows:

- A. Deposited in the United States mail, registered or certified, return receipt requested, postage prepaid;
- B. delivered by an overnight private mail service which provides delivery confirmation such as without limitation Federal Express, Airborne or UPS; or
- C. Personally delivered at such address. All communication delivered as set forth herein shall be deemed received by the addressee on the delivery date or the delivery refusal date shown on the return receipt of the delivery confirmation.

10. COSTS, EXPENSES AND ATTORNEYS' FEES. Borrower shall pay to Bank immediately upon demand the full amount of all costs and expenses, including reasonable attorneys' fees (to include outside counsel fees and all allocated costs of Bank's in-house counsel if permitted by applicable law), incurred by Bank in connection with (a) negotiation and preparation of this Agreement and each of the Loan Documents, and (b) all other costs and attorneys' fees incurred by Bank for which Borrower is obligated to reimburse Bank in accordance with the terms of the Loan Documents.

11. MISCELLANEOUS. Borrower and Bank further covenant and agree as follows, without limiting any requirement of any other Loan Document:

A. Cumulative Rights and No Waiver. Each and every right granted to Bank under any Loan Document, or allowed it by law or equity shall be cumulative of each other and may be exercised in addition to any and all other rights of Bank, and no delay in exercising any right shall operate as a waiver thereof, nor shall any single or partial exercise by Bank of any right preclude any other or future exercise thereof or the exercise of any other right. Borrower expressly waives any presentment, demand, protest or other notice of any kind, including but not limited to notice of intent to accelerate and notice of acceleration. No notice to or demand on Borrower in any case shall, of itself, entitle Borrower to any other or future notice or demand in similar or other circumstances.

B. Applicable Law. This Loan Agreement and the rights and obligations of the parties hereunder shall be governed by and interpreted in accordance with the laws of Georgia and applicable United States federal law.

C. Amendment. No modification, consent, amendment or waiver of any provision of this Loan Agreement, nor consent to any departure by Borrower therefrom, shall be effective unless the same shall be in writing and signed by an

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officer of Bank, and then shall be effective only in the specified instance and for the purpose for which given. This Loan Agreement is binding upon Borrower, its successors and assigns, and inures to the benefit of Bank, its successors and assigns; however, no assignment or other transfer of Borrower's rights or obligations hereunder shall be made or be effective without Bank's prior written consent, nor shall it relieve Borrower of any obligations hereunder. There is no third party beneficiary of this Loan Agreement.

D. Documents. All documents, certificates and other items required under this Loan Agreement to be executed and/or delivered to Bank shall be in form and content satisfactory to Bank and its counsel.

E. Partial Invalidity. The unenforceability or invalidity of any provision of this Loan Agreement shall not affect the enforceability or validity of any other provision herein and the invalidity or unenforceability of any provision of any Loan document to any person or circumstance shall not affect the enforceability or validity of such provision as it may apply to other persons or circumstances.

F. Survivability. All covenants, agreements, representations and warranties made herein or in the other Loan Documents shall survive the making of the Loan and shall continue in full force and effect so long as the Loan is outstanding or the obligation of the Bank to make any advances under the Loan shall not have expired.

12. ARBITRATION. (a) This paragraph concerns the resolution of any controversies or claims between the Borrower and the Bank, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this Agreement (including any renewals, extensions or modifications); or (ii) any document related to this Agreement; (collectively a "Claim").

(b) At the request of the Borrower or the Bank, any Claim shall be resolved by arbitration in accordance with the Federal Arbitration Act (Title 9, U. S. Code) (the "Act"). The Act will apply even though this Agreement provides that it is governed by the law of a specified state.

(c) Arbitration proceedings will be determined in accordance with the Act, the rules and procedures for the arbitration of financial services disputes of J.A.M.S./Endispute or any successor thereof ("J.A.M.S."), and the terms of this paragraph. In the event of any inconsistency, the terms of this paragraph shall control.

(d) The arbitration shall be administered by J.A.M.S. and conducted in any U.S. state where real or tangible personal property collateral for this credit is located. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars (\$5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within 90 days of the demand for

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arbitration and close within 90 days of commencement and the award of the arbitrator(s) shall be issued within 30 days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional 60 days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and enforced.

(e) The arbitrator(s) will have the authority to decide whether any Claim is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis. For purposes of the application of the statute of limitations, the service on J.A.M.S. under applicable J.A.M.S. rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this Agreement.

(f) This paragraph does not limit the right of the Borrowers or the Bank to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or nonjudicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.

13. NOTICE OF FINAL AGREEMENT. BY SIGNING THIS DOCUMENT EACH PARTY REPRESENTS AND AGREES THAT (A) THE WRITTEN LOAN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES, (B) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (C) THE WRITTEN LOAN AGREEMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENT OR UNDERSTANDINGS OF THE PARTIES.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed under seal by their duly authorized representatives as of the date first above written.

**BORROWER:**

IHOP PROPERTIES, INC.

By: /s/ Richard K. Herzer  
Name: Richard. K. Herzer

Title: President

(CORPORATE SEAL)

**GUARANTOR:**

IHOP CORP.

By: /s/ Richard K. Herzer

Name: Richard K. Herzer

Title: President

(CORPORATE SEAL)

**GUARANTOR:**

INTERNATIONAL HOUSE OF PANCAKES, INC.

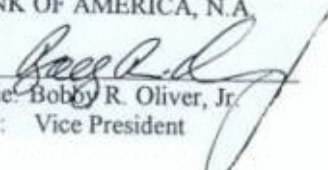
BY: /s/ Richard K. Herzer

Name: Richard K. Herzer

Title: President

(CORPORATE SEAL)

**BANK/LENDER:**

BANK OF AMERICA, N.A.  
 By:   
 Name: Bobby R. Oliver, Jr.  
 Title: Vice President

LIST OF EXHIBITS

- Exhibit A - List of Collateral Locations
- Exhibit B - Description of Ground Leases
- Exhibit C - Description of Subleases
- Exhibit D - Description of Equipment Leases
- Exhibit E - Compliance Certificate
- Exhibit F - Calculations for Compliance Certificate

- Exhibit A - List of Collateral Locations

Store ID	Street Address	City	State	Zip
0582	2990 Donnell Drive	Forestville	MD	20747-3256
0583	9680 Baltimore Avenue	College Park	MD	20740-1324
0943	2575 Highland Avenue	Highland	CA	92346-2003
1723	7951 NE Vancouver Plaza Drive	Vancouver	WA	98662-6625

1724	32010 Dyer Street	Union City	CA	94587-1700
1726	3525 Bradshaw Road	Sacramento	CA	95827-3304
1824	7733 W Long Drive	Littleton	CO	80123-1245
4452	6125 Peachtree Parkway	Norcross	GA	30092-3304
4460	35 Riverbend Drive SW	Rome	GA	30161-6065
4767	95 Main Street	Tewksbury	MA	01846-1708
5320	3505 N Rock Road	Wichita	KS	67226-1320
5321	15410 W 119th Street	Olathe	KS	66062-5606
5322	2187 S Telegraph Road	Bloomfield Hills	MI	48302-0250

Exhibit B - Description of Ground Leases

<u>UNIT NO.</u>	<u>DESCRIPTION OF LEASE</u>	<u>Memorandum or Short Form</u>
0582	Ground Lease between dated February 8, 1999, between IHOP Properties, Inc., as Tenant and Penn Mar Associates, LLC, as Landlord.	Short Form Lease dated February 8, 1999, between IHOP Properties, Inc., as Tenant and Penn Mar Associates, LLC, as Landlord.
0583	Ground Lease dated March 26, 1997 between IHOP Properties, Inc., as Tenant and Mirza Hussain Ali Baig and Amina J. Baig, as Landlord, as amended by that certain Addendum to Ground Lease dated March 16, 1999, between IHOP Properties, Inc., as Tenant and Mirza Hussain Ali Baig and Amina J. Baig, as Landlord.	Short Form of Ground Lease dated September 28, 1998, between IHOP Properties, Inc., as Tenant and Mirza Hussain Ali Baig and Amina J. Baig, as Landlord.
0943	Ground Lease dated May 1, 1998, between IHOP Properties, Inc., as Tenant and Delbert M. Shofner and Carol S. Shofner, Trustees of the Shofner Family Trust U/D/T dated March 24, 1997; James C. Seley and Charlene R. Seley, Trustees under the Seley Family Trust U/D/T dated February 16, 1977; and James C. Seley and Charlene R. Seley, Trustees of the Seley Children's Trust U/D/T dated September 8, 1987, as Landlord, as amended by that certain First Amendment to Ground Lease between IHOP Properties, Inc., as Tenant and Delbert M. Shofner and Carol S. Shofner, Trustees of the Shofner Family Trust U/D/T dated March 24, 1997; James C. Seley and Charlene R. Seley, Trustees under the Seley Family Trust U/D/T dated February 16, 1977; and James C. Seley and Charlene R. Seley, Trustees of the Seley Children's Trust U/D/T dated September 8, 1987, as Landlord and further amended by that certain Second Amendment to Ground Lease between IHOP Properties, Inc., as Tenant and Delbert M. Shofner and Carol S. Shofner, Trustees of the Shofner Family Trust U/D/T dated March 24, 1997; James C. Seley and Charlene R. Seley, Trustees under the Seley Family Trust U/D/T dated February 16, 1977; and James C. Seley and Charlene R. Seley, Trustees of the Seley Children's Trust U/D/T dated September 8, 1987, as Landlord.	Short Form Lease dated May 18, 1998, between IHOP Properties, Inc., as Tenant and Delbert M. Shofner and Carol S. Shofner, Trustees of the Shofner Family Trust U/D/T dated March 24, 1997; James C. Seley and Charlene R. Seley, Trustees under the Seley Family Trust U/D/T dated February 16, 1977; and James C. Seley and Charlene R. Seley, Trustees of the Seley Children's Trust U/D/T dated September 8, 1987, as Landlord, recorded on July 6, 1998, at Instrument No. 98-259891 of the official records of San Bernardino County, California.

1723	Ground Lease dated June 24, 1998 between The Cafaro Northwest Partnership, an Ohio general partnership, as Landlord and IHOP Properties, Inc., as Tenant, as amended by that certain First Amendment to Ground Lease dated December 1, 1998 between The Cafaro Northwest Partnership, an Ohio general partnership, as Landlord and IHOP Properties, Inc., as Tenant, and further amended by that certain Second Amendment to Ground Lease dated March 17, 1999 between The Cafaro Northwest Partnership, an Ohio general partnership, as Landlord and IHOP Properties, Inc., as Tenant, as further amended by that certain Third Amendment to Ground Lease dated May 17, 1999 between The Cafaro Northwest Partnership, an Ohio general partnership, as Landlord and IHOP Properties, Inc., as Tenant, and further amended by that certain Fourth Amendment to Ground Lease dated October 18, 1999 between The Cafaro Northwest Partnership, an	Short Form of Ground Lease dated June 24, 1998, between The Cafaro Northwest Partnership, an Ohio general partnership, as Landlord and IHOP Properties, Inc., as Tenant, recorded on May 21, 1999, at Recording Number 3108864.
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Ohio general partnership, as Landlord and IHOP Properties, Inc., as Tenant.

1724	Ground Lease dated April 28, 1999 between Dyer Triangle, LLC, as Landlord and IHOP Properties, Inc., as Tenant, as amended by that certain Addendum to Ground Lease dated October 11, 1999 between Dyer Triangle, LLC, as Landlord and IHOP Properties, Inc., as Tenant.	Short Form Ground Lease dated April 28, 1999, between Dyer Triangle, LLC, as Landlord and IHOP Properties, Inc., as Tenant, recorded May 17, 1999, at Document Number 99-187826.
1726	Ground Lease dated June 21, 1999 between First Rancho Plaza, L.P., as Landlord and IHOP Properties, Inc., as Tenant, as amended by First Amendment to Lease dated December 2, 1999 between First Rancho Plaza, L.P., as Landlord and IHOP Properties, Inc., as Tenant and evidenced of public record by that certain Short Form of Ground Lease dated June 21, 1999 between First Rancho Plaza, L.P., as Landlord and IHOP Properties, Inc., as Tenant, recorded June 24, 1999, in Book 990624, Page 602, official records of Sacramento County, California.	Short Form of Ground Lease dated June 21, 1999 between First Rancho Plaza, L.P., as Landlord and IHOP Properties, Inc., as Tenant, recorded June 24, 1999, in Book 990624, Page 602, official records of Sacramento County, California.
1824	Ground Lease dated June 12, 1998 between The Section 14 Development Co., as Landlord and IHOP Properties, Inc., as Tenant, as amended by that certain First Amendment to Ground Lease dated September 28, 1998 between The Section 14 Development Co., as Landlord and IHOP Properties, Inc., as Tenant, and further amended by that certain Second Amendment Ground Lease dated March 16, 1999 between The Section 14 Development Co., as Landlord and IHOP Properties, Inc., as Tenant.	Short Form Ground Lease dated June 30, 1998 between The Section 14 Development Co., as Landlord and IHOP Properties, Inc., as Tenant, recorded at Reception no. FO693231 in Jefferson County, Colorado.
4452	Ground Lease dated September 3, 1998, between IRT Property Company, as Landlord and IHOP Properties, Inc., as Tenant as amended by that certain Addendum to Ground Lease dated February 18, 2000, between IRT Property Company, as Landlord and IHOP Properties, Inc., as Tenant.	Short Form of Ground Lease dated September 3, 1998, between IRT Property Company, as Landlord and IHOP Properties, Inc., as Tenant
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4460	Ground Sublease dated April 23, 1999 between IHOP Properties, Inc., as Tenant and Larry C. Martin as Landlord, as amended by that certain First Amendment to Ground Sublease dated December 6, 1999 between IHOP Properties, Inc., as Tenant and Larry C. Martin as Landlord.	Short Form of Ground Sublease dated April 23, 1999 between IHOP Properties, Inc., as Tenant and Larry C. Martin as Landlord, recorded at Book 1536, Page 651, public records of Floyd County, Georgia.
4767	Ground Lease dated August 19, 1998, between Motel 6 Multipurpose, Inc., as Landlord and IHOP Properties, Inc., as Tenant as amended by that certain Addendum to Ground Lease dated April 16, 1999, between Motel 6 Multipurpose, Inc., as Landlord and IHOP Properties, Inc., as Tenant and further amended by that certain First Amendment to Ground Lease dated September 27, 2000 between Motel 6 Multipurpose, Inc., as Landlord and IHOP Properties, Inc., as Tenant.	Short Form of Ground Lease dated August 25, 1998 between Motel 6 Multipurpose, Inc., as Landlord and IHOP Properties, Inc., as Tenant, recorded at Book 9587, Page 2, public records of Middlesex County (Northern District) Registry of Deeds, Massachusetts.
5320	Ground Lease dated February 19, 1999 between IHOP Properties, Inc., as Tenant and Northbrooke Development Company, Inc., as Landlord, as amended by that certain Addendum to Ground Lease dated July 9, 1999, between IHOP Properties, Inc., as Tenant and Northbrooke Development Company, Inc., as Landlord.	Short Form of Lease dated February 19, 1999, between IHOP Properties, Inc., as Tenant and Northbrooke Development Company, Inc., as Landlord, recorded at Film 1893, Page 2545, public records of Sedwick County, Kansas.
5321	Ground Lease between IHOP Properties, Inc., as Tenant and Glo-Rae Investment Co. and D & S Investors, L.L.C., as Landlord dated October 30, 1998 as amended by that certain Addendum to Ground Lease between IHOP Properties, Inc., as Tenant and Glo-Rae Investment Co. and D & S Investors, L.L.C., as Landlord dated December 28, 1999.	Short Form of Lease dated October 30, 1998 between IHOP Properties, Inc., as Tenant and Glo-Rae Investment Co. and D & S Investors, L.L.C., as Landlord, recorded at Book 6067, Page 937, public records of Johnson County, Kansas.
5322	Ground Lease between RD Bloomfield Limited Partnership, as Landlord and IHOP Properties, Inc., as Tenant dated January 15, 1999, as amended by First Amendment to Ground Lease between RD Bloomfield Limited Partnership, as Landlord and IHOP Properties, Inc., as Tenant dated February 25, 1999, and further amended by that certain Addendum to Ground Lease between RD Bloomfield Limited Partnership, as Landlord and IHOP Properties, Inc., as Tenant dated October 1, 1999.	Short Form Lease dated January 22, 1999 between RD Bloomfield Limited Partnership and IHOP Properties, Inc., recorded at Liber 20328, Page 597, Oakland County, Michigan records.

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Exhibit C - Description of Subleases

<u>UNIT NO.</u>	<u>Description of Sublease</u>
0582	Sublease dated March 30, 2000 by and between Robert Sharp as Subtenant and IHOP Properties, Inc., as Sublandlord.
0583	Sublease dated March 25, 1999, by and between Hospitality Management of College Park, Inc., as Subtenant and IHOP Properties, Inc., as Sublandlord.
0943	Sublease dated November 2, 2000, by and between Nazimuddin Hashim, as Subtenant and IHOP Properties, Inc., as Sublandlord.
1723	Sublease dated September 9, 1999, by and between Steven L. Graham as Subtenant and IHOP Properties, Inc., as Sublandlord.
1724	Sublease dated August 25, 1999, by and between Alice A. Knudsen, as Subtenant and IHOP Properties, Inc., as Sublandlord.
1726	Sublease dated September 29, 1999, by and between Mohammad Tariq Munir, as Subtenant and IHOP Properties, Inc., as Sublandlord.
1824	Sublease dated February 12, 1999, by and between 1824, INC., as Subtenant and IHOP Properties, Inc., as Sublandlord.
4452	Sublease dated June 25, 1999, by and between Elaine M. Ambrose-Ghoniem, as Subtenant and IHOP Properties, Inc., as Sublandlord.
4460	Sublease dated September 30, 1999, by and between ISSAM HAMIDEH, as Subtenant and IHOP Properties, Inc., as Sublandlord.
4767	Sublease dated July 1, 1999, by and between Roderick Macpherson, Jr., as Subtenant and IHOP Properties, Inc., as Sublandlord, as amended by that certain First Amendment to Sublease dated October 16, 2000.
5320	Sublease dated July 24, 1995, between Bassam S. Salameh, as Subtenant and IHOP Properties, Inc., as Sublandlord.
5321	Sublease dated August 5, 1999, by and between Houssni Al Abed, as Subtenant and IHOP Properties, Inc., as Sublandlord.
5322	N/A

Exhibit D - Description of Equipment Leases

<u>UNIT NO.</u>	<u>Description of Equipment Lease</u>
0582	Equipment Lease dated March 30, 2000 between IHOP Restaurants, Inc., as Lessor and Robert Sharp, as Lessee
0583	Equipment Lease dated March 25, 1999 between IHOP Restaurants, Inc., as Lessor and Hospitality Management of College Park, Inc., as Lessee; as amended by that certain Amendment to Equipment Lease dated June 24, 1999
0943	Equipment Lease dated November 2, 2000 between IHOP Restaurants, Inc., as Lessor and Nazimuddin Hashim as Lessee
1723	Equipment Lease dated September 9, 1999 between IHOP Restaurants, Inc., as Lessor and Steven L. Graham, as Lessee
1724	Equipment Lease dated August 25, 1999, between IHOP Restaurants, Inc., as Lessor and Alice A. Knudson, as Lessee
1726	Equipment Lease dated September 26, 1999 between IHOP Restaurants, Inc., as Lessor and Mohammad Tariq Munir, as Lessee
1824	Equipment Lease dated February 12, 1999 between IHOP Restaurants, Inc., as Lessor and 1824, Inc., as Lessee

4452	Equipment Lease dated June 25, 1999 between IHOP Restaurants, Inc., as Lessor and Elaine M. Ambrose-Ghoniem as Lessee
4460	Equipment Lease dated September 30, 1999 between IHOP Restaurants, Inc., as Lessor and Issam Hamideh, as Lessee
4767	Equipment Lease dated July 1, 1999 between IHOP Restaurants, Inc., as Lessor and Roderick MacPherson, Jr. as Lessee
5320	Equipment Lease dated July 24, 1999 between IHOP Restaurants, Inc., as Lessor and Bassam S. Salameh, as Lessee
5321	Equipment Lease dated August 5, 1999 between IHOP Restaurants, Inc., as Lessor and Houssni Al Abed, as Lessee
5322	N/A

Exhibit E Compliance Certificate

**COMPLIANCE CERTIFICATE**

This Compliance Certificate is delivered pursuant to the Loan Agreement dated as of February \_\_\_\_, 2001 (together with all amendments and modifications, if any, from time to time made thereto, the "Loan Agreement") between BANK OF AMERICA, N.A., a national banking association ("Bank" or "Lender"), IHOP PROPERTIES, INC., a California corporation ("Borrower"), and International House of Pancakes, Inc., a Delaware corporation, IHOP Corp., a Delaware corporation ("IHOP Parent"), IHOP Realty Corp., a Delaware corporation, and IHOP Restaurants, Inc., a Delaware corporation (collectively, the "Guarantors").

Unless otherwise defined, terms used herein (including the attachments hereto) have the meanings provided in the Loan Agreement.

The undersigned, being the duly elected, qualified and acting Appropriate Officer, on behalf of the IHOP Parties and solely in his or her capacity as an officer of the Borrower, hereby certifies and warrants that:

1. He or she is holds the following offices for the IHOP Parties:

	of IHOP PROPERTIES, INC.
	of International House of Pancakes, Inc.
	of IHOP Corp.
	of IHOP Realty Corp.
	of IHOP Restaurants, Inc.

and that, as such, he or she is authorized to execute this certificate on behalf of the Borrower.

2. As of \_\_\_\_\_, \_\_\_\_\_:

(a) The Borrower and Gaurantors were not in default of any of the provisions of the Loan Agreement or any of the Loan Documents during the period as to which this Compliance Certificate relates;

(b) The Borrower's and Guarantors' **Fixed Charge Coverage Ratio**, on a consolidated basis, was \_\_ to 1.0 as computed on Attachment 1 hereto (using the form provided as Exhibit F to the Loan Agreement);

(c) The Borrower's and Guarantors' **Funded Debt to EBITDA Ratio**, on a consolidated basis, was \_\_ to 1.0 as computed on Attachment 1 hereto (using the form provided as Exhibit F to the Loan Agreement);

IN WITNESS WHEREOF, the undersigned has executed and delivered this certificate, this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_.

By: \_\_\_\_\_  
 Print Name: \_\_\_\_\_  
 Title: \_\_\_\_\_

**BANK OF AMERICA FINANCIAL COVENANTS:**

**1. Consolidated Income Available for Fixed Charges:**

Net Income after tax  
Plus non-cash charges (such as depreciation and amortization)  
Plus total Interest Expense  
Plus Operating Rent Expense  
Less distributions, dividends, and advances

**2. Fixed Charges:**

Scheduled Principal Payments LT Debt in the next 12 months  
Plus Scheduled Payments Capitalized Leases  
Plus Interest Expense  
Plus Operating Rent Expense

**FIXED CHARGE COVERAGE ( $\geq 1.35x$ )**

**3. EBITDA:**

Net Income  
Income Taxes  
Depreciation & Amortization  
Interest Expense

**4. Funded Debt:**

Current Maturities of Long-Term Debt  
Current Portion of Capital Lease Obligations  
Long-Term Debt  
Capital Lease Obligations

**FUNDED DEBT / EBITDA ( $\leq 3.00x$ )**



EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into as of the 3rd day of December, 2001 (the "Effective Date"), between IHOP CORP., a Delaware corporation (the "Company"), and Julia Stewart (the "Employee").

Whereas, the Board of Directors of the Company (the "Board") has approved and authorized the entry into this Agreement with the Employee; and

Whereas, the parties desire to enter into this Agreement setting forth the terms and conditions for the employment relationship of the Employee with the Company.

Now, Therefore, in consideration of the promises and mutual covenants and agreements herein contained and intending to be legally bound hereby, the Company and the Employee hereby agree as follows:

1. **Employment.** The Employee is employed as President and Chief Operating Officer of the Company from the Effective Date through June 3, 2002 and thereafter as President and Chief Executive Officer through the Term of this Agreement (as defined in Section 2 hereof). In this capacity, the Employee shall have such duties and responsibilities as may be designated to her by the Board from time to time and as are not inconsistent with the Employee's position with the Company, including the performance of duties with respect to any subsidiaries of the Company, as may be designated by the Board. During the Employee's period of employment hereunder, the Employee shall be based in the principal offices of the Company in Southern California, and shall not be required to relocate outside of Southern California to perform services hereunder, except for travel as reasonably required in the performance of her duties hereunder.

2. **Term.** The "initial term" of this Agreement shall be for the period commencing on the Effective Date and ending on the second anniversary of the Effective Date; provided, however, that on the second anniversary of the Effective Date, and on each subsequent anniversary date thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than 90 days prior to such applicable anniversary date, the Company or the Employee shall give notice not to extend this Agreement; and provided further, however, that, if a Change in Control (as defined in Section 11(g)) occurs prior to the expiration of the Term of this Agreement, this Agreement shall remain in full force and effect and shall not expire prior to the last day of the 24th month following the date of such Change in Control. The "Term of this Agreement" or "Term" shall mean, for purposes of this Agreement, both the "initial term" (as hereinbefore described) and any additional term (created by extension, as described above), and the Term of this Agreement shall not be affected by the Employee's termination of employment.

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3. **Salary.** Subject to the further provisions of this Agreement, the Company shall pay the Employee during the period beginning with the Effective Date and ending on June 2, 2002 a salary at an annual rate equal to \$425,000, and thereafter salary at an annual rate of \$450,000, with such salary to be increased at such times, if any, and in such amounts as determined by the Board, which increases shall be consistent with the historical business practices of the Company and the salary adjustments for other senior executives of the Company. Such salary shall be payable by the Company to the Employee not less frequently than monthly and shall not be decreased at any time during the Term of this Agreement. Participation in deferred compensation, discretionary bonus, retirement, and other employee benefit plans and in fringe benefits shall not reduce the salary payable to the Employee under this Section.

4. **Participation in Bonus, Retirement and Employee Benefit Plans.** The Employee shall be entitled to participate equitably with other senior executives in any plan of the Company relating to bonuses, stock options, stock purchases, pension, thrift, profit sharing, life insurance, medical coverage, education, or other retirement or employee benefits that the Company has adopted or may adopt for the benefit of its senior executives. For purposes of the Company's Executive Incentive Plan, Employee's target bonus will be 60% of her base salary.

5. **Hiring Incentives.**

(i) Upon the Effective Date, or as soon as practicable thereafter, Employee shall receive an option to purchase a total of 150,000 shares of IHOP Corp. common stock. Such stock option shall be subject to the terms of the IHOP Corp. 2001 Stock Incentive Plan, as amended, and a Stock Option Agreement setting forth, among other things, the option exercise vesting schedule and option exercise price. The option exercise price shall be equal to the "fair market value" (as such term is used in the 2001 Stock Incentive Plan) of IHOP Corp. common stock on the Effective Date. The calculation of fair market value shall be performed in the manner most favorable to Employee. The options will have a term of 10 years and will become one-third vested after one year, two-thirds vested after two years and fully vested after three years. In the event the Company terminates your employment for any reason other than Cause prior to such options having become fully vested, such options shall automatically become fully vested as of the Date of Termination.

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(ii) The Company will make a personal loan to Employee of \$600,000. The loan will be interest-free and shall be funded within 3 days of request by Employee. The loan amount will be forgiven in increments of \$100,000 annually, commencing on December 31, 2002. In the event the Company terminates your employment for any reason other than for Cause before the loan has been completely forgiven, the loan will be forgiven and deemed paid in full

effective as your last date of employment. In the event the Company terminates your employment for Cause or if at any time the Employee's employment shall be terminated by her for any reason (other than in a Voluntary Termination), then Employee agrees to repay the remaining balance to IHOP Corp. within 60 days thereafter. In the event of a "Change in Control" as such term is used in the employment agreement referred to below, the loan shall automatically be forgiven.

(iii) IHOP Corp. will provide to you an interest free "bridge loan" of up to \$600,000 to be used as a portion of the down payment on a new home, which shall be secured by a mortgage on Employee's Kansas house. The bridge loan shall be funded within 3 days of request by Employee. Employee agrees to repay the bridge loan in full immediately upon the closing of the sale of her house in Kansas. Prior to the funding of the bridge loan, Employee shall furnish IHOP with evidence that she possesses at least \$600,000 in equity in the Kansas house.

(iv) Other Relocation Assistance shall be furnished to Employee as outlined on Exhibit "A" attached hereto.

6. Fringe Benefits; Automobile. The Employee shall be entitled to receive all other fringe benefits which are now or may be provided to the Company's senior executives. In addition, the Company shall provide the Employee during the Term of this Agreement with a car allowance of \$1,000 per month, plus reimbursement of all automobile expenses such as gasoline, maintenance, insurance and vehicle registration, in accordance with the Company's general policy on providing cars to senior executives. Notwithstanding the foregoing, the benefits provided under this Section 6 shall cease upon the Employee's Date of Termination (as defined in Section 11(d)).

7. Vacations. The Employee shall be entitled to an annual paid vacation as determined in accordance with the Company's general policy for senior executives.

8. Business Expenses. During such time as the Employee is rendering services hereunder, the Employee shall be entitled to incur and be reimbursed for all reasonable business expenses and be provided allowances as are furnished to the Company's most senior executives under the Company's then current policies.

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The Company agrees that it will reimburse the Employee for all such expenses upon the presentation by the Employee, from time to time, of an itemized account of such expenditures, setting forth the date, the purposes for which incurred, and the amounts thereof, together with such receipts showing payments in conformity with the Company's established policies. Reimbursement shall be made within a reasonable period after the Employee's submission of an itemized account.

9. Insurance and Indemnity. The Employee shall be added as an additional named insured under all appropriate insurance policies now in force or hereafter obtained covering any officers or directors of the Company. The Company shall indemnify and hold the Employee harmless from any cost, expense or liability arising out of or relating to any acts or decisions made by the Employee on behalf of or in the course of performing services for the Company to the same extent the Company indemnifies and holds harmless other senior executive officers and directors of the Company and in accordance with the Company's established policies.

10. Professional Services Allowance. The Employee shall be entitled to reimbursement by the Company for expenses incurred by her for personal legal, accounting, investment, estate planning services or other similar services as outlined in the Company's Professional Services Allowance policy, in an amount to be determined by the Board, but in no event greater than \$10,000 annually (or a pro rata portion of such amount for any period of employment less than a full year); provided, however, that no reimbursement shall be made for any such expenses incurred by the Employee after such Employee's Date of Termination.

11. Termination.

(a) Disability. If, as a result of the Employee's incapacity due to physical or mental illness, she shall have been absent from the full-time performance of her duties with the Company for 90 consecutive days or 180 days within any 12-month period, her employment may be terminated by the Company for "Disability."

(b) Cause. Subject to the notice provisions set forth below, the Company may terminate the Employee's employment for "Cause" at any time. "Cause" shall mean termination upon: (1) the willful failure by the Employee to substantially perform her duties with the Company (other than any such failure resulting from her incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to her by the Board, which demand specifically identifies the manner in which the Board believes that she has not substantially performed her duties; (2) the Employee's willful misconduct

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that is demonstrably and materially injurious to the Company, monetarily or otherwise; or (3) the Employee's commission of such acts of dishonesty, fraud, misrepresentation or other acts of moral turpitude as would prevent the effective performance of her duties. For purposes of this subsection (b), no act, or failure to act, on the Employee's part shall be deemed "willful" unless done, or omitted to be done, by her not in good faith and without the reasonable belief that her action or omission was in the best interest of the Company. Notwithstanding the foregoing, the Employee shall not be deemed to have been terminated

for Cause unless and until there shall have been delivered to her a copy of a resolution duly adopted by the affirmative vote of a majority of the non-employee members of the Board at a meeting of such members (after reasonable notice to her and an opportunity for her, together with her counsel, to be heard before such members of the Board), finding that she has engaged in the conduct set forth above in this subsection (b) and specifying the particulars thereof in detail.

(c) Notice of Termination. Any termination of the Employee's employment by the Company or by the Employee shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 15. "Notice of Termination" shall mean a notice that indicates the specific termination provision in this Agreement relied upon and sets forth in reasonable detail the facts and circumstances claimed to provide a basis for the termination of the Employee's employment under the provision so indicated.

(d) Date of Termination. "Date of Termination" shall mean: (1) if the Employee's employment is terminated by her death, the date of her death; (2) if the Employee's employment is terminated for Disability, 30 days after Notice of Termination is given; and (3) if the Employee's employment is terminated for any other reason, the date specified in the Notice of Termination.

(e) Dispute Concerning Termination. If within the later of (i) fifteen (15) days after Notice of Termination is given, or (ii) fifteen (15) days prior to the Date of Termination (as determined without regard to this Section 11(e), the party receiving such Notice of Termination notifies the other party that a dispute exists concerning a termination by the Employee for Good Reason (as defined in Section 11(h)) following a Change in Control (as defined in Section 11(g)), the Date of Termination shall be the earlier of the expiration date of the Agreement, or the date on which the dispute is finally resolved, either by mutual written agreement of the parties or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided, however, that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence.

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(f) Compensation During Dispute. If a purported termination by the Employee for Good Reason occurs following a Change in Control and during the Term of this Agreement, and such termination is disputed in accordance with Section 11(e) hereof, the Company shall continue to pay the Employee the full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, salary) and continue the Employee as a participant in all compensation, benefit and insurance plans in which the Employee was participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with Section 11(e) hereof or, if earlier, the expiration date of the Agreement. Amounts paid under this Section 11(f) are in addition to all other amounts due under this Agreement (other than those due under Section 12(b) hereof) and shall not be offset against or reduce any other amounts payable under this Agreement.

(g) Change in Control. A "Change in Control" shall be deemed to have occurred if the conditions set forth in any one of the following paragraphs shall have been satisfied:

(i) any "person" (as such term is used in Sections 14(d) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (other than the Company; any trustee or other fiduciary holding securities under an employee benefit plan of the Company; or any Company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of the stock of the Company) is or becomes after the Effective Date the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities; or

(ii) during any period of two consecutive years (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in subparagraph (i), (iii) or (iv) of this Section 11(g)) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least 2/3 of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

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(iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least 75% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires more than 50% of the combined voting power of the Company's then outstanding securities; or

(iv) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

(h) Good Reason. At any time following a Change in Control, the Employee may terminate her employment hereunder for "Good Reason." "Good Reason" shall mean the occurrence (without the Employee's express written consent) of any material breach of this Agreement, including, without limitation, any one of the following acts by the Company, or failures by the Company to act, unless, in the case of any act or failure to act described in

subsections (i), (iv), (v), (vi) or (vii) below, such act or failure to act is corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

- (i) the assignment to the Employee of any duties inconsistent with the Employee's status as a senior executive of the Company or a substantially adverse alteration in the nature or status of the Employee's responsibilities from those in effect immediately prior to the Change in Control;
- (ii) a reduction by the Company in the Employee's annual base salary as in effect on the date hereof or as the same may be increased from time to time;
- (iii) the relocation of the Company's principal offices to a location outside Southern California (or, if different, the metropolitan area in which such offices are located immediately prior to the Change in Control) or the Company's requiring the Employee to be based anywhere other than the Company's principal executive offices, except for required travel on the Company's business to an extent substantially consistent with the Employee's present business travel obligations;

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- (iv) the failure by the Company to pay to the Employee any portion of the Employee's current compensation, or to pay to the Employee any portion of an installment of deferred compensation under any deferred compensation program of the Company, within seven days of the date such compensation is due;
- (v) the failure by the Company to continue in effect any compensation plan in which the Employee participates immediately prior to the Change in Control which is material to the Employee's total compensation, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Employee's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Employee's participation relative to other participants, as existed immediately prior to the Change in Control;
- (vi) the failure by the Company to continue to provide the Employee with benefits substantially similar to those enjoyed by the Employee under any of the Company's pension, life insurance, medical, health and accident, or disability plans in which the Employee was participating immediately prior to the Change in Control; or the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive the Employee of any material fringe benefit enjoyed by the Employee immediately prior to the Change in Control;
- (vii) any purported termination of the Employee's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of this Agreement; for purposes of this Agreement, no such purported termination shall be effective; or
- (viii) any failure by the Company to comply with and satisfy Section 13(b) of this Agreement.

The Employee's right to terminate the Employee's employment for Good Reason shall not be affected by the Employee's incapacity due to physical or mental illness. The Employee's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

- (i) Voluntary Termination. The Employee may terminate her employment hereunder ("Voluntary Termination") upon a material breach of this Agreement by the Company, unless the Company shall fully correct such breach within 30 days of the Employee's Notice of Termination given in respect thereof.

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12. Compensation Upon Termination or During Disability. The Employee shall be entitled to the following benefits during a period of disability, or upon termination of her employment, as the case may be, provided that such period or termination occurs during the Term of this Agreement:

- (a) During any period that the Employee fails to perform her full-time duties with the Company as a result of incapacity due to physical or mental illness, she shall continue to receive her base salary at the rate in effect at the commencement of any such period, together with all compensation payable to her under the Company's disability plan or program or other similar plan during such period, until her employment is terminated pursuant to Section 11 hereof. Thereafter, or in the event the Employee's employment shall be terminated by reason of her death, her benefits shall be determined under the Company's retirement, insurance and other compensation programs then in effect in accordance with the terms of such programs.
- (b) If at any time the Employee's employment shall be terminated: (i) by the Company for Cause or Disability or (ii) by her for any reason (other than in a Voluntary Termination or for Good Reason following the occurrence of a Change in Control), the Company shall pay the Employee her full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which she is entitled through the Date of Termination under any compensation plan of the Company at the time such payments are due, and the Company shall have no further obligations to her under this Agreement.
- (c) If the Employee's employment should be terminated: (1) by reason of her death, (2) by the Company other than for Cause or Disability,

(3) by the Company giving notice to Employee of its election not to extend this Agreement pursuant to paragraph 2 hereof, or (4) by the Employee in a Voluntary Termination, she shall be entitled to the benefits provided below:

(i) the Company shall pay to the Employee or the appropriate payee (as determined in accordance with Section 13(c)) (A) her full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given; plus (B)(x) in the case of death or a Voluntary Termination all salary and bonus payments that would have been payable to the Employee pursuant to this Agreement for the remaining Term of this Agreement, or (y) in all other cases, all salary and bonus payments that would have been payable to the Employee had the Employee continued to be employed for a period of 12 months, assuming for the purpose of such payments that her salary for such remaining period is equal to her salary at the Date of Termination and that her annual bonus for such

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remaining Term is equal to the average of the annual bonuses paid to her by the Company with respect to the three fiscal years ended immediately prior to the fiscal year in which the Date of termination occurs; plus (C) all other amounts to which she is entitled under any compensation plan of the Company, in cash in a lump sum no later than the 15th day following the Date of Termination;

(ii) for a 12-month period after the Date of Termination, the Company shall arrange to provide the Employee with life, disability, accident and health insurance benefits substantially similar to those which the Employee and her covered family members are receiving immediately prior to the Notice of Termination (without giving effect to any reduction in such benefits subsequent to a Change in Control); provided, however, that such continued benefits shall be reduced to the extent comparable benefits are actually received by or made available to the Employee without cost during the 12-month period following the Employee's termination of employment (and the Employee agrees that she shall promptly report any such benefits actually received to the Company); and

(iii) the Company shall continue in effect for the benefit of the Employee all insurance or other provisions for indemnification and defense of officers or directors of the Company which are in effect on the date the Notice of Termination is sent to the Employee with respect to all of her acts and omissions while an officer or director as fully and completely as if such termination had not occurred, and until the final expiration or running of all periods of limitation against actions which may be applicable to such acts or omissions.

(iv) the stock options referred to in shall automatically become fully-vested and exercisable.

(d) If the Employee's employment should be terminated by the Employee for Good Reason following a Change in Control, she shall be entitled to the benefits provided below:

(i) the Company shall pay to the Employee or the appropriate payee (as determined in accordance with Section 13(c)) (A) her full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given; plus (B)(x) in the case of death or a Voluntary Termination all salary and bonus payments that would have been payable to the Employee pursuant to this Agreement for the remaining Term of this Agreement, or (y) in all other cases, all salary and bonus payments that would have been payable to the Employee had the Employee continued to be employed for a period of 24 months, assuming for the purpose of such payments that her salary for such remaining period is equal to her salary at the Date of Termination and that her annual bonus for such remaining Term is equal to the average of the annual bonuses paid to her by the

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Company with respect to the three fiscal years ended immediately prior to the fiscal year in which the Date of termination occurs; plus (C) all other amounts to which she is entitled under any compensation plan of the Company, in cash in a lump sum no later than the 15th day following the Date of Termination;

(ii) for a 24-month period after the Date of Termination, the Company shall arrange to provide the Employee with life, disability, accident and health insurance benefits substantially similar to those which the Employee and her covered family members are receiving immediately prior to the Notice of Termination (without giving effect to any reduction in such benefits subsequent to a Change in Control); provided, however, that such continued benefits shall be reduced to the extent comparable benefits are actually received by or made available to the Employee without cost during the 24-month period following the Employee's termination of employment (and the Employee agrees that she shall promptly report any such benefits actually received to the Company); and

(iii) the Company shall continue in effect for the benefit of the Employee all insurance or other provisions for indemnification and defense of officers or directors of the Company which are in effect on the date the Notice of Termination is sent to the Employee with respect to all of her acts and omissions while an officer or director as fully and completely as if such termination had not occurred, and until the final expiration or running of all periods of limitation against actions which may be applicable to such acts or omissions.

(e) Notwithstanding any other provisions of this Agreement, in the event that any payment or benefit received or to be received by the Employee in connection with the termination of the Employee's employment (whether such benefit is pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, and all such payments and benefits being hereinafter called "Total Payments") would not be deductible (in whole or part), by the Company as a result of the application of Section 280G of the Internal Revenue Code of 1986, as amended ("Code"), then, to the extent necessary to make the nondeductible portion of the Total Payments deductible, (i) the cash payments under this Agreement shall first be reduced (if necessary, to zero), and (ii) all other non-cash payments under this Agreement shall next be reduced (if necessary, to zero).

(f) If it is established as described in the preceding subsection (d) that the aggregate benefits paid to or for the Employee's benefit are in an amount that would result in any portion of such "parachute payments" not being deductible by reason of Section 280G of the Code, then the Employee shall have an obligation to pay the Company upon demand an amount equal to the sum of: (i) the excess of the aggregate "parachute payments" paid to or for the

the aggregate "parachute payments" that could have been paid to or for the Employee's benefit without any portion of such "parachute payments" not being deductible by reason of Section 280G of the Code; and (ii) interest on the amount set forth in clause (i) of this sentence at the rate provided in Section 1274(b)(2)(B) of the Code from the date of the Employee's receipt of such excess until the date of such payment.

(g) The Employee shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise.

(h) If the employment of the Employee is terminated by the Company without Cause or the Employee's employment is terminated by the Employee under conditions entitling her to payment hereunder and the Company fails to make timely payment of the amounts then owed to the Employee under this Agreement, the Employee shall be entitled to interest on such amounts at the rate of 1% above the prime rate (defined as the base rate on corporate loans at large U.S. money center commercial banks as published by the Wall Street Journal), compounded monthly, for the period from the date such amounts were otherwise due until payment is made to the Employee (which interest shall be in addition to all rights which the Employee is otherwise entitled to under this Agreement).

13. Assignment.

(a) This Agreement is personal to each of the parties hereto. No party may assign or delegate any rights or obligations hereunder without first obtaining the written consent of the other party hereto, except that this Agreement shall be binding upon and inure to the benefit of any successor corporation to the Company.

(b) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes this Agreement by operation of law, or otherwise.

(c) This Agreement shall inure to the benefit of and be enforceable by the Employee and her personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the

Employee should die while any amount would still be payable to her hereunder had she continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to her devisee, legatee or other designee or, if there is no such designee, to her estate.

14. (a) Confidential Information. During the Term of this Agreement and thereafter, the Employee shall not, except as may be required to perform her duties hereunder or as required by applicable law, disclose to others for use, whether directly or indirectly, any Confidential Information regarding the Company. "Confidential Information" shall mean information about the Company, its subsidiaries and affiliates, and their respective clients and customers that is not available to the general public and that was learned by the Employee in the course of her employment by the Company, including (without limitation) any data, formulae, information, proprietary knowledge, trade secrets and client and customer lists and all papers, resumes, records and the documents containing such Confidential Information. The Employee acknowledges that such Confidential Information is specialized, unique in nature and of great value to the Company, and that such information gives the Company a competitive advantage. Upon the termination of her employment, the Employee will promptly deliver to the Company all documents (and all copies thereof) containing any Confidential Information.

(b) Non-competition. The Employee agrees that during the Term of this Agreement, and for a period of one year thereafter, she will not, directly or indirectly, without the prior written consent of the Company, provide consultative service with or without pay, own, manage, operate, join, control, participate in, or be connected as a stockholder, partner, or otherwise with any business, individual, partner, firm, corporation, or other entity which is then in competition with the Company or any present affiliate of the Company; provided, however, that the "beneficial ownership" by the Employee, either individually or as a member of a "group," as such terms are used in Rule 13d of the General Rules and Regulations under the Exchange Act, of not more than 1% of the voting stock of any publicly held corporation shall not be a violation of this Agreement. It is further expressly agreed that the Company will or would suffer irreparable injury if the Employee were to compete with the Company or any subsidiary or affiliate of the Company in violation of this Agreement and that the Company would by reason of such competition be entitled to seek injunctive relief in a court of appropriate jurisdiction, and the Employee further consents and stipulates to the entry of such injunctive relief upon sufficient proof of violation of this provision, in such a court, prohibiting the Employee from competing with the Company or any subsidiary or affiliate of the Company in violation of this Agreement.

(c) Right to Company Materials. The Employee agrees that all styles, designs, recipes, lists, materials, books, files, reports, correspondence,

records, and other documents (“Company Material”) used, prepared, or made available to the Employee, shall be and shall remain the property of the Company. Upon the termination of her employment or the expiration of this Agreement, all Company Materials shall be returned immediately to the Company, and Employee shall not make or retain any copies thereof.

(d) Antisolicitation. The Employee promises and agrees that during the Term of this Agreement, and for a period of one year thereafter, she will not influence or attempt to influence customers, franchisees, landlords, or suppliers of the Company or any of its present or future subsidiaries or affiliates, either directly or indirectly, to divert their business to any individual, partnership, firm, corporation or other entity then in competition with the business of the Company, or any subsidiary or affiliate of the Company.

15. Notice. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below, or to such other addresses as either party may have furnished to the other in writing in accordance herewith, except that notice of a change of address shall be effective only upon actual receipt:

Company: IHOP Corp.  
450 North Brand Blvd.  
Glendale, California 91203-1903  
to the attention of the Board;  
with a copy to: the Secretary of the Company

Employee: Julia Stewart  
c/o IHOP Corp.  
450 North Brand Boulevard  
Glendale California 91203.

16. Amendments or Additions. No amendments or additions to this Agreement shall be binding unless in writing and signed by both parties hereto.

17. Section Headings. The section headings used in this Agreement are included solely for convenience and shall not affect, or be used in connection with, the interpretation of this Agreement.

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18. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

19. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but both of which together will constitute one and the same instrument.

20. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three arbitrators in Los Angeles, California, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator’s award in any court having jurisdiction; provided, however, that the Employee shall be entitled to seek specific performance of her right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

21. Attorneys’ Fees. The Company shall pay to the Employee all out-of-pocket expenses, including attorneys’ fees, incurred by the Employee in connection with any claim, legal action or proceeding involving this Agreement in which the Employee prevails in whole or in part, whether brought by the Employee or by or on behalf of the Company or by another party. The Company shall pay prejudgment interest on any money judgment obtained by the Employee calculated at 3% above the prime rate (defined as the base rate on corporate loans at large U.S. money center commercial banks as published by the Wall Street Journal), from the date that payment(s) to the Employee should have been made under this Agreement.

22. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Employee and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement and this agreement shall supersede any prior understanding or agreement either written or oral, with respect to the subject matter hereto. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California without regard to its conflicts of law principles. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections.

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Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Company under Section 12 and Section 20 and the obligations of the Employee under Section 14 and Section 20 shall survive the expiration of the Term of this Agreement.

IN WITNESS WHEREOF, each of the parties hereto has executed this Agreement on the date first indicated above.

**EMPLOYEE:**

\_\_\_\_\_  
Julia Stewart

**IHOP Corp.**

By: \_\_\_\_\_  
Richard K. Herzer  
Chief Executive Officer

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**Julia Stewart**  
**Relocation Assistance**

- House Hunting Trips — IHOP will reimburse you for reasonable expenses incurred by you and your spouse for a maximum of two (2) five-day advance trips for house hunting in the Southern California area.
- IHOP will house you at the Glendale Hilton (or a comparable Hotel) for the days you are here in the area until you have moved permanently. If temporary housing for you and your family becomes necessary, IHOP will provide reasonable temporary housing until you find a permanent residence in the area.
- IHOP will reimburse reasonable interim living expenses for you and your family at the new location while awaiting permanent housing, for a period of time not to exceed sixty (60) days.
- Return Visits Home — IHOP will pay for you to go home every weekend from wherever you may be each Friday (e.g. somewhere in the country visiting franchisees, company restaurants, training or at the Glendale headquarters offices).
- Sale of Residence at Old Location — IHOP will reimburse reasonable (non-recurring) expenses for the sale, such as real estate commissions, legal fees, title fees, mortgage penalties, transfer tax payments and other miscellaneous closing costs, not to exceed 8% of the sale price.
- Purchase of Residence in Southern California — IHOP will reimburse reasonable (non-recurring) expenses for the purchase, such as appraisal costs, escrow, title, recording documents and other miscellaneous closing costs, not to exceed 1.5% of the purchase price.
- Mortgage reimbursement — IHOP will reimburse you for the lesser of the two mortgage (PITI) payments (i.e. either your Kansas mortgage or your Southern California mortgage) you incur until the Kansas property sells.
- Additional Home Sale Assistance — If your home does not sell in Kansas City within twelve months after your employment date, IHOP will offer to purchase your home through a relocation vendor at an appraised price. This price will be established through an evaluation by two licensed real estate appraisers selected by you from a list furnished by our relocation vendor. This price shall be established after a review of your property and a comparison of like properties in the area. If the two appraisals are within 5% of one another, IHOP will offer to purchase the home at the average of the two appraisals. If the difference is greater than 5%, you will select a third appraiser from the list and the offer will be based upon the average of the two highest appraisals. If you elect not to accept the offer then IHOP's obligation to reimburse one of your mortgage payments shall cease at that time.
- Household Goods — IHOP will pay reasonable charges for packing, unpacking and transportation costs for one (1) pick-up at origin and one (1) delivery at destination, plus insurance costs and normal appliance servicing. Included in the charges will be

Exhibit "A"

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- moving four vehicles which require a separate transportation van and premium charges associated with moving antiques and crating fine valuables (not to exceed \$10,000).
  - Travel Expenses — IHOP will reimburse your reasonable expenses transporting you and your family to the new location. Reimbursement will be based on the most direct route.
  - Miscellaneous Expense Allowance — At the time of your move to Southern California, IHOP will provide up to \$10,000 to compensate for incidental expenses incurred in relocating (e.g., Nanny search, temporary child care, cable, fax, phone installation, utilities, etc.).
  - IHOP will gross up all reimbursed relocation expenses to cover tax consequences.
  - In the event you voluntarily terminate your employment with IHOP prior to two years following relocation, you agree to repay IHOP for all of your reimbursed relocation expenses.





INTERNATIONAL HOUSE OF PANCAKES

EMPLOYEE STOCK OWNERSHIP PLAN

As Amended and Restated Effective as of January 1, 2001

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INTERNATIONAL HOUSE OF PANCAKES

EMPLOYEE STOCK OWNERSHIP PLAN

As Amended and Restated Effective as of January 1, 2001

Section 1. Nature of the Plan

The purpose of this Plan is to enable participating Employees to share in the growth and prosperity of IHOP Corp. ("IHOP"), to provide Participants with an opportunity to accumulate capital for their future economic security and to enable Participants to acquire stock ownership interests in IHOP. Therefore, the Plan is designed to invest primarily in IHOP Stock.

The Plan, originally adopted effective as of May 7, 1987, and amended and restated in connection with the initial public offering of IHOP Stock, effective as of July 12, 1991, is hereby amended and restated effective as of January 1, 2001. The Plan is a stock bonus plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and an employee stock ownership plan under Section 4975(e)(7) of the Code.

In order to satisfy applicable requirements of the Code, as amended by the Small Business Job Protection Act of 1996, the last sentence in Section 3(c) is amended effective as of December 12, 1994, the definition of "Compensation," "Employee" and "Highly Compensated Employee" are amended effective as of the first day of the 1997 Plan Year. In order to satisfy applicable requirements of the Code, as amended by the Taxpayer Relief Act of 1997, the last sentence of Section 12(a) is amended effective as of the first day of the 1998 Plan Year. All Trust Assets held under the Plan will be administered, distributed, forfeited and otherwise governed by the provisions of this Plan and the related Trust Agreement. The Plan is

administered by an Administrative Committee for the exclusive benefit of Participants (and their Beneficiaries).

Section 2. Definitions

In this Plan, whenever the context so indicates, the singular or plural number and the masculine, feminine or neuter gender shall be deemed to include the other, the terms "he," "his" and "him" shall refer to a Participant, and the capitalized terms shall have the following meanings:

Account	One of two accounts maintained to record the interest of a Participant. See Section 6.
Allocation Date	For Plan Years beginning before January 1, 2001, the Sunday closest to December 31 <sup>st</sup> of each year (the last day of each Plan Year). For Plan Years beginning on or after January 1, 2001, December 31 <sup>st</sup> (the last day of the Plan Year).
Affiliate	Any corporation which is a member of a controlled group of corporations (within the meaning of Section 414(b) of the Code) or a group of trades or businesses (whether or not incorporated) that are under common control (within the meaning of Section 414(c) of the Code) of which IHOP Corp. is also a member.
Approved Absence	A leave of absence (without pay) granted to an Employee by IHOP under its established leave policy, including unpaid leave under the Family and Medical Leave Act of 1993. See Section 3(c).
Beneficiary	The person (or persons) entitled to receive any benefit under the Plan in the event of a Participant's death. See Section 14(b).

Board of Directors                      The Board of Directors of IHOP Corp.

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Break in Service	A period of time commencing with the date on which an Employee's Service terminates and ending on the date he resumes Service. See Section 11(b).
Capital Accumulation	A Participant's vested, nonforfeitable interest in his Accounts under the Plan. Each Participant's Capital Accumulation shall be determined in accordance with the provisions of Section 10 and distributed as provided in Sections 12, 13 and 14.
Code	The Internal Revenue Code of 1986, as amended.
Committee	The Administrative Committee appointed by the Board of Directors to administer the Plan. See Section 17.
Compensation	The compensation of a Participant received from IHOP during the calendar year ending on or about the end of the Plan Year, as reported on the Participant's Wage and Tax Statement (Form W-2), including amounts paid in cash as salary, wages, bonuses, overtime pay, tips and taxable fringe benefits as well as the amount of any elective deferrals made on a Participant's behalf by IHOP to the 401(k) Plan for the Plan Year and any amounts withheld by IHOP pursuant to a "cafeteria plan" under Section 125 of the Code, but excluding any amount in excess of \$200,000 (\$170,000 for Plan Years ending on or before December 31, 2001) as adjusted after 2002 for increases in the cost of living pursuant to Section 401(a)(17) of the Code.
Credited Service	The elapsed period of an Employee's Service. See Section 11(a).
Disability	The incapability of an Employee to perform his duties as an Employee as a result of a medically determinable physical or mental impairment that may be expected to result in death or to be of long, continued duration, determined by the Committee based upon the opinion of a physician approved by the Committee. The decision of the Committee made in good faith shall be final.

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Discretionary Contributions	Employer Contributions made in amounts determined by the Board of Directors. See Section 4(a) and (b).
Employee	Any individual who is treated as a common-law employee by IHOP; provided, however, that an independent contractor (or other individual) who is reclassified as a common law employee on a retroactive basis shall not be treated as having been an Employee for purposes of the Plan for any period prior to the date that he is so reclassified. A "leased employee" is not an Employee for purposes of the Plan. For this purpose, a "leased employee," as described in Section 414(n)(2) of the Code, is any individual who is not treated as a common-law employee of IHOP or an Affiliate and who provides services to IHOP or an Affiliate if (A) such services are provided pursuant to an agreement between IHOP or an Affiliate and a leasing organization, (B) such individual has performed services for IHOP or an Affiliate on a substantially full-time basis for a period of at least one year, and (C) such services are performed under the primary direction or control of IHOP or an Affiliate.
Employer Contributions	Payments made to the Trust by IHOP. See Section 4.
ERISA	The Employee Retirement Income Security Act of 1974, as amended.
401(k) Plan	A plan (if any) maintained by IHOP which is a profit sharing plan under Section 401(a) of the Code that includes a "cash or deferred arrangement" under Section 401(k) of the Code.

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Fair Market Value	The fair market value of IHOP Stock, determined by the Committee by reference to prevailing market prices on the National Association of Securities Dealers Automated Quotation System, National Market System; provided, that, if IHOP Stock is traded on a national securities exchange which is registered under Section 6 of the Securities Exchange Act of 1934, fair market value shall be determined by reference to prevailing market prices on such exchange.
Forfeiture	The nonvested portion of a Participant's Accounts which does not become part of his Capital Accumulation and which is forfeited under Section 10(b).
Highly Compensated Employee	An Employee who (1) was a "5% owner" (as defined in Section 416(i)(1)(B)(i) of the Code) at any time during the Plan Year or the preceding Plan Year, or (2) received Compensation in excess of \$85,000 in the preceding Plan Year and, if so elected by IHOP Corp., was in the top-paid 20% group of Employees for such preceding Plan Year; provided, however, that if such "top-paid group" election is made by IHOP Corp. for any Plan Year, the "top-paid group" election must also be applied to all employee benefit plans maintained by IHOP or an Affiliate. The \$85,000 amount shall be adjusted after 2001 for increases in the cost of living pursuant to Section 414(q)(1) of the Code.
Hour of Service	Each hour of Service for which an Employee is credited under the Plan, as described in Section 3(d).
IHOP	IHOP Corp., a Delaware corporation, International House of Pancakes, Inc., a Delaware corporation, and any other Affiliate which is designated by the Board of Directors and which adopts the Plan for the benefit of its Employees.

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IHOP Stock	Shares of Common Stock, par value \$.01 per share, issued by IHOP Corp.
IHOP Stock Account	The Account which reflects each Participant's interest in IHOP Stock held under the Plan. See Section 6.
Other Investments Account	The Account which reflects each Participant's interest under the Plan attributable to Trust Assets other than IHOP Stock. See Section 6.
Participant	Any Employee or former Employee who has met the applicable eligibility requirements of Section 3(a) and who has not yet received a complete distribution of his Capital Accumulation.
Plan	The International House of Pancakes Employee Stock Ownership Plan, which includes this Plan and the related Trust Agreement.
Plan Year	Before January 1, 2001, the 52— or 53-week period ending on each Allocation Date (and coinciding with each fiscal year of IHOP Corp.), which period shall also be the "limitation year" for purposes of Section 415 of the Code. On and after January 1, 2001, the calendar year.
Retirement	Termination of Service after attaining age 65.
Safe Harbor Contributions	Employer Contributions made to the Plan in accordance with Section 401(k)(12)(C) of the Code to satisfy the nondiscrimination requirements applicable to the 401(k) Plan. See Section 4(b).
Service	Employment with IHOP or an Affiliate; provided, however, that periods of employment with an employer during which the employer was not an Affiliate shall not be included as Service. Service shall also include an individual's employment with IHOP or an Affiliate as required under Section 414(n)(4)(B) of the Code.

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Statutory Compensation	The total remuneration paid to an Employee by IHOP during the Plan Year for personal services rendered, including the amount of any elective deferrals made on his behalf by IHOP to the 401(k) Plan for the Plan Year and any amounts withheld by IHOP pursuant to a "cafeteria plan" under Section 125 of the Code, but excluding employer contributions to a plan of deferred compensation, amounts
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	realized in connection with stock options and amounts which receive special tax benefits.
Trust	The International House of Pancakes Employee Stock Ownership Trust, maintained pursuant to the Trust Agreement entered into between IHOP Corp. and the Trustee.
Trust Agreement	The Agreement between IHOP Corp. and the Trustee specifying the duties of the Trustee.
Trust Assets	The IHOP Stock (and other assets) held in the Trust for the benefit of Participants. See Section 5.
Trustee	The Trustee (and any successor Trustee) appointed by the Board of Directors to hold the Trust Assets.

Section 3. Eligibility and Participation

(a) Each Employee who was a Participant on January 1, 2001, shall continue as a Participant in the Plan. Each other Employee shall become a Participant on the first Entry Date coinciding with or next following the date on which he has completed one year of Service (in which he is credited with at least 1000 Hours of Service). For purposes of this Section 3(a), Entry Date shall mean the first day of each Plan Year and the date six months after the first day of each Plan Year. For this purpose, the eligibility computation period for determining the one year of Service shall initially be the period of 12 consecutive months beginning with the

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Employee's initial Hour of Service and thereafter shall be the period of 12 consecutive months beginning on each anniversary of his completion of his initial Hour of Service.

In the event that the terms of Service of any Employee are covered by a collective bargaining agreement, the Employee shall not be eligible to participate in the Plan unless the terms of such agreement specifically provide for participation in this Plan.

Notwithstanding the foregoing, for the purpose of sharing in the allocation of Safe Harbor Contributions only, an Employee shall become a Participant in the Plan as of the date he first becomes eligible to make elective deferrals under the 401(k) Plan.

(b) A Participant is entitled to share in the allocations of Discretionary Contributions and Forfeitures under Section 6(a) for each Plan Year in which he is credited with more than 500 Hours of Service (regardless of whether he is an Employee on the Allocation Date). A Participant is also entitled to share in the allocations of Discretionary Contributions and Forfeitures for the Plan Year of his Retirement, Disability or death. Effective January 1, 2001, a Participant is entitled to share in the allocations of Safe Harbor Contributions under Section 6(b) for each Plan Year in which he is eligible to make elective deferrals under the 401(k) Plan (without regard to whether he actually elects to make such elective deferrals).

(c) A former Participant who is reemployed by IHOP shall become a Participant as of the date of his reemployment if he is then an eligible Employee. A former Employee who is reemployed by IHOP and has previously satisfied the eligibility requirements of Section 3(a) shall become a Participant as of the date of his reemployment. An Employee who is on an Approved Absence shall not become a Participant until the end of his Approved Absence, but a Participant who is on an Approved Absence shall continue as a Participant during the period of his Approved Absence. Notwithstanding any provision of this Plan to the contrary,

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contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code.

(d) Hours of Service - For purposes of determining the Hours of Service to be credited to an Employee under the Plan, the following rules shall be applied:

- (1) Hours of Service shall include each hour of Service for which an Employee is paid (or entitled to payment) for the performance of duties; each hour of Service for which an Employee is paid (or entitled to payment) for a period during which no duties are performed due to vacation, holiday, illness, incapacity (including Disability), layoff, jury duty, military duty or paid leave of absence; and each additional hour of Service for which back pay is either awarded or agreed to (irrespective of mitigation of damages); provided, however, that not more than 501 Hours of Service shall be credited for a single continuous period during which an Employee does not perform any duties.
- (2) The crediting of Hours of Service shall be determined in accordance with the rules set forth in paragraphs (b) and (c) of Section 2530.200b-2 of the regulations prescribed by the Department of Labor, which rules shall be consistently applied with respect to all Employees within the same job classification.
- (3) Hours of Service shall not be credited to an Employee for a period during which no duties are performed if payment is made or due under a plan maintained solely for the purpose of complying with applicable worker's compensation, unemployment

compensation or disability insurance laws, and Hours of Service shall not be credited on account of any payment made or due an Employee solely in reimbursement of medical or medically-related expenses.

#### Section 4. Employer Contributions

(a) Discretionary Contributions - Discretionary Contributions shall be paid to the Trustee for each Plan Year in such amounts (or under such formula) as may be determined by the Board of Directors.

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(b) Safe Harbor Contributions — Safe Harbor Contributions shall be paid to the Trustee for each Plan Year beginning after December 31, 2000, in which IHOP wishes to satisfy the nondiscrimination requirements applicable to the 401(k) Plan by using the alternative method described in Section 401(k)(12)(A) and (C) of the Code; provided, however, that Safe Harbor Contributions may be made only if IHOP has provided a notice to each 401(k) Plan participant which satisfies the requirements of Section 401(k)(12)(D) of the Code. The amount of such Safe Harbor Contributions shall be equal to 3% of the Compensation of all Participants entitled to share in the allocation of Safe Harbor Contributions under Section 3(b) for that Plan Year.

(c) Payment of Employer Contributions - Employer Contributions for each Plan Year shall be paid to the Trustee not later than the due date (including extensions) for filing IHOP's Federal income tax return for the Plan Year. Employer Contributions may be paid in cash and/or in shares of IHOP Stock, as determined by the Board of Directors. The amount of any Employer Contributions that are paid in shares of IHOP Stock shall be valued based upon Fair Market Value as of the date the shares are issued to the Trust.

(d) Additional Provisions - Employer Contributions shall not be made for any Plan Year in amounts which can be allocated to no Participant's Accounts by reason of the allocation limitation described in Section 7 or in amounts which are not deductible under Section 404(a) of the Code. Any Employer Contributions which are not deductible under Section 404(a) of the Code may be returned to IHOP by the Trustee (upon the direction of IHOP) within one year after the deduction is disallowed or after it is determined that the deduction is not available. In the event that Employer Contributions are paid to the Trust by reason of a mistake of fact, such

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Employer Contributions may be returned to IHOP by the Trustee (upon the direction of IHOP) within one year after the payment to the Trust.

(e) Participant Contributions - No Participant shall be required or permitted to make contributions to the Trust.

#### Section 5. Investment of Trust Assets

(a) In General - Trust Assets will be invested by the Trustee primarily (or exclusively) in IHOP Stock in accordance with directions from the Committee. Employer Contributions (and other Trust Assets) may be used to acquire shares of IHOP Stock from any IHOP stockholder (through open-market purchases or privately-negotiated transactions) or from IHOP. All purchases of IHOP Stock by the Trustee shall be made only as directed by the Committee and only at prices which do not exceed Fair Market Value as of the date of the purchase. The Committee may direct the Trustee to invest and hold up to 100% of the Trust Assets in IHOP Stock. The Trustee may also invest Trust Assets in such other prudent investments as the Committee deems to be desirable for the Trust, or Trust Assets may be held temporarily in cash.

(b) Sales of IHOP Stock - With the written approval of the Board of Directors, the Committee may direct the Trustee to sell shares of IHOP Stock to any person (including IHOP); provided that any such sale must be made at a price not less than Fair Market Value as of the date of the sale; provided, further that any such sale shall comply with all applicable Federal and state securities laws. Any decision by the Committee to direct the Trustee to sell (or otherwise dispose of) IHOP Stock under this Section 5(b) or under Section 15(c) must comply with the fiduciary duties applicable under Section 404(a)(1) of ERISA and with the primary benefit rule

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of Section 408(b)(3)(A) of ERISA and Section 4975(d)(3)(A) of the Code, if applicable. Any sale of IHOP Stock pursuant to a tender or exchange offer shall be subject to the provisions of Section 8(b).

#### Section 6. Allocations to Participants' Accounts

An IHOP Stock Account and an Other Investments Account shall be maintained to reflect the interest of each Participant.

IHOP Stock Account - The IHOP Stock Account maintained for each Participant will be credited annually with his allocable share of IHOP Stock (including fractional shares) purchased and paid for by the Trust or contributed in kind to the Trust as an Employer Contribution, with any Forfeitures from

IHOP Stock Accounts, with any stock dividends on IHOP Stock allocated to his IHOP Stock Account and with any cash dividends reinvested in IHOP Stock pursuant to his election under Section 13(a).

Other Investments Account - The Other Investments Account maintained for each Participant will be credited annually with his allocable share of Employer Contributions that are not in the form of IHOP Stock, with any Forfeitures from Other Investments Accounts, with any cash dividends on IHOP Stock allocated to his IHOP Stock Account (other than dividends currently available for distribution) and any net income (or loss) of the Trust. Such Account will be debited for the Participant's share of any cash payments made by the Trustee for the acquisition of IHOP Stock.

Safe Harbor Sub-Accounts - A sub-account of each Participant's IHOP Stock Account and Other Investments Account shall be maintained to reflect his interest (if any) attributable to Safe Harbor Contributions.

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The allocations to Participants' Accounts for each Plan Year will be made as follows:

(a) Discretionary Contributions and Forfeitures - Discretionary Contributions under Section 4(a) and Forfeitures under Section 10(b) for each Plan Year will be allocated as of the Allocation Date among the Accounts of Participants so entitled under Section 3(b) in the ratio that the Compensation of each such Participant bears to the total Compensation of all such Participants, subject to the allocation limitation described in Section 7.

(b) Safe Harbor Contributions - Safe Harbor Contributions under Section 4(b) for each Plan Year will be allocated as of the Allocation Date among the Accounts of Participants so entitled under Section 3(b) in an amount equal to 3% of Compensation for each such Participant.

(c) Net Income (or Loss) of the Trust - The net income (or loss) of the Trust for each Plan Year will be determined as of the Allocation Date. Prior to the allocation of Employer Contributions and Forfeitures for the Plan Year, each Participant's share of any net income (or loss) will be allocated to his Other Investments Account in the ratio that the total balance of both his Accounts on the preceding Allocation Date (reduced by any distribution of Capital Accumulation from such Account during the Plan Year) bears to the sum of such Account balances for all Participants as of that date. The net income (or loss) of the Trust includes the increase (or decrease) in the fair market value of Trust Assets (other than IHOP Stock), interest income, dividends and other income and gains (or losses) attributable to Trust Assets (other than any dividends on allocated IHOP Stock) since the preceding Allocation Date, reduced by any expenses charged to the Trust Assets for that Plan Year.

(d) Dividends on IHOP Stock - Any cash dividends received on shares of IHOP Stock allocated to Participants' IHOP Stock Accounts will be allocated to the respective Other

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Investments Accounts of such Participants. Any cash dividends received on unallocated shares of IHOP Stock shall be included in the computation of the net income (or loss) of the Trust. Any stock dividends received on IHOP Stock shall be credited to the Accounts to which such IHOP Stock was allocated. Any cash dividends which are currently available for distribution to Participants (or their Beneficiaries) under Section 13(a) shall not be credited to their Other Investments Accounts.

(e) Accounting for Allocations - The Committee shall establish accounting procedures for the purpose of making the allocations to Participants' Accounts provided for in this Section 6. The Committee shall maintain adequate records of the aggregate cost basis of IHOP Stock allocated to each Participant's IHOP Stock Account. From time to time, the Committee may modify the accounting procedures for the purposes of achieving equitable and nondiscriminatory allocations among the Accounts of Participants in accordance with the general concepts of the Plan, the provisions of this Section 6 and the requirements of the Code and ERISA.

#### Section 7. Allocation Limitation

The Annual Additions for each Plan Year with respect to any Participant may not exceed the lesser of:

- (1) 100% of his Statutory Compensation; or
- (2) \$40,000, as adjusted for increases in the cost of living pursuant to Section 415(d)(1)(C) of the Code.

For the Plan Years before 2002, "25%" shall be substituted for "100%" and "\$30,000" shall be substituted for "\$40,000" in the preceding sentence.

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For this purpose, "Annual Additions" shall be the total of the Employer Contributions and Forfeitures (including any income attributable to Forfeitures) allocated to the Accounts of a Participant for the Plan Year, plus any employer contributions (including elective contributions) and forfeitures (if any) made on his behalf under the 401(k) Plan for the Plan Year. In determining such Annual Additions, Forfeitures of IHOP Stock shall be included at the Fair Market Value as of the Allocation Date and Employer Contributions in the form of Company Stock shall be included at the Fair Market Value as of the date such shares are issued to the Trust.

If the aggregate amount that would be allocated to the Accounts of a Participant in the absence of these limitations would exceed the amount set forth in these limitations, the amount of any elective contributions made on his behalf under the 401(k) Plan shall be returned to him (together with any income attributable thereto) prior to reducing the allocations to his Accounts under this Plan. Any Forfeitures which can be allocated to no Participant's Accounts by reason of this limitation shall be credited to a "Forfeiture Suspense Account" and allocated as Forfeitures under Section 6(a) for the next succeeding Plan Year (prior to the allocation of Employer Contributions for such succeeding Plan Year).

#### Section 8. Voting IHOP Stock; Tender Offers

(a) Voting Rights - All IHOP Stock in the Trust shall be voted by the Trustee only as directed in accordance with the provisions of this Section 8(a). Each Participant (or Beneficiary) will be entitled to instruct the Trustee as to the manner in which shares of IHOP Stock then allocated to his IHOP Stock Account are to be voted. Each Participant (or Beneficiary) shall be provided with the proxy statement and other materials provided to

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stockholders of IHOP Corp. in connection with each stockholder meeting, together with a form upon which confidential voting instructions may be given to the Trustee. The Trustee shall not disclose the voting instructions of any individual Participant (or Beneficiary) to IHOP Corp. or the Committee. Any allocated shares of IHOP Stock with respect to which voting instructions are not received from Participants (or Beneficiaries) and any shares of IHOP Stock which are not then allocated to Participants' Accounts shall be voted by the Trustee in the same proportions as the shares with respect to which instructions are received from Participants (or Beneficiaries).

(b) Tender Offer - In the event that there should be a tender or exchange offer for IHOP Stock, the response to such an offer with respect to shares held in the Trust shall be determined as provided in this Section 8(b). Each Participant (or Beneficiary) will be entitled to instruct the Trustee as to the manner in which to respond to any such offer with respect to shares of IHOP Stock then allocated to his IHOP Stock Account, as well as a proportionate number of any shares of IHOP Stock which are not then allocated to Participants' IHOP Stock Accounts. Each Participant (or Beneficiary) shall be provided with the tender or exchange offer materials provided to stockholders of IHOP Corp. in connection with the tender or exchange offer, together with a form upon which confidential instructions relating to the tender or exchange offer may be given to the Trustee. The Trustee shall not disclose the instructions of any individual Participant (or Beneficiary) to IHOP Corp. or the Committee. Any shares of IHOP Stock with respect to which Participants (or Beneficiaries) do not provide instructions will not be tendered.

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#### Section 9. Disclosure to Participants

(a) Summary Plan Description - Each Participant shall be furnished with the summary plan description of the Plan required by Sections 102(a)(1) and 104(b)(1) of ERISA. Such summary plan description shall be updated from time to time as required under ERISA and U.S. Department of Labor regulations thereunder.

(b) Summary Annual Report - Within two months after the due date for the filing of the annual return/report (Form 5500) for the Plan with the U.S. Department of Labor's Pension and Welfare Benefits Administration, each Participant shall be furnished with the summary annual report of the Plan required by Section 104(b)(3) of ERISA, in the form prescribed in regulations of the U.S. Department of Labor.

(c) Annual Statement - Following each Allocation Date, each Participant shall be furnished with a statement reflecting the following information:

- (1) The balances (if any) in his Accounts as of the beginning of the Plan Year.
- (2) The amount of Employer Contributions and Forfeitures allocated to his Accounts for that Plan Year.
- (3) The adjustments to his Accounts to reflect his share of dividends (if any) on IHOP Stock and any net income (or loss) of the Trust for that Plan Year.
- (4) The new balances in his Accounts, including the number of shares of IHOP Stock allocated to his IHOP Stock Account and the Fair Market Value as of that Allocation Date.
- (5) His number of years of Credited Service and his vested percentage in his Account balances (under Sections 10 and 11) as of that Allocation Date.

(d) Additional Disclosure - IHOP Corp. shall make available for examination by any Participant copies of the Plan, the Trust Agreement and the latest annual return/report of the

Plan filed (on Form 5500) with the U.S. Department of Labor. Upon written request of any Participant, IHOP Corp. shall furnish copies of such documents and may make a reasonable charge to cover the cost of furnishing such copies, as provided in regulations of the U.S. Department of Labor.

Section 10. Vesting and Forfeitures

(a) Vesting-

(1) A Participant's interest in his Accounts shall become 100% vested and nonforfeitable without regard to his Credited Service if he (1) is employed by IHOP or an Affiliate on or after attaining age 65, (2) terminates Service by reason of Disability, or (3) dies while employed by IHOP or an Affiliate; provided, however, that a Participant's interest in his Account attributable to Safe Harbor Contributions shall be 100% vested and nonforfeitable at all times.

(2) Except as otherwise provided in Section 10(a)(1) and 13(a), a Participant's interest in his Accounts shall become vested and nonforfeitable in accordance with the following schedule:

<u>Credited Service Under Section 11</u>	<u>Nonforfeitable Percentage</u>
Less than Two Years	0%
Two Years	25%
Three Years	50%
Four Years	75%
Five Years or More	100%

(b) Forfeitures - If a Participant is not fully vested in the final balances in his Accounts, the nonvested portion of his Account balances will become a Forfeiture as of the date on which he incurs a one-year Break in Service. All Forfeitures will be reallocated to the Accounts of remaining Participants, as provided in Section 6(a), as of the Allocation Date coinciding with or next following the date the Forfeitures occurred.

(c) Restoration of Forfeited Amounts - If a Participant is reemployed prior to the occurrence of a five-consecutive-year Break in Service, the portion of his Accounts (attributable to the prior period of Service) that was forfeited shall be restored as if there had been no Forfeiture. Such restoration shall be made out of Forfeitures occurring in the Plan Year of reemployment (prior to allocation under Section 6(a)). To the extent such Forfeitures are not sufficient, IHOP Corp. shall make a special contribution to the Participant's restored Accounts. Any amount so restored to a Participant shall not constitute an Annual Addition under Section 7.

(d) Vesting Upon Reemployment - If a Participant who is not 100% vested receives a distribution of his Capital Accumulation prior to the occurrence of a five-consecutive-year Break in Service and he is re-employed prior to the occurrence of such a Break in Service, the portion of his Accounts which was not vested (including any restored Accounts) shall be maintained separately until he becomes 100% vested. His vested and nonforfeitable percentage in such separate Accounts upon his subsequent termination of Service shall be equal to:

$$\frac{X-Y}{100\%-Y}$$

For purposes of applying this formula, X is the vested percentage at the time of the subsequent termination, and Y is the vested percentage at the time of the prior termination.

## Section 11. Credited Service and Break in Service

(a) General Rule - An Employee's Credited Service shall include each period of his Service, computed (in full years and days) from the date he is first credited with an Hour of Service until the date on which his Service terminates. An Employee's Credited Service shall be determined by aggregating all the periods required to be taken into account under this Section 11. A Break in Service that does not exceed one year and the first year of an Approved Absence shall be included in an Employee's Credited Service.

(b) Break in Service - A one-year Break in Service shall occur one year after the date of an Employee's termination of Service. A five-year Break in Service shall occur five years after the date of an Employee's termination of Service. A Break in Service shall end in the event of an Employee's reemployment. For purposes of determining the period of an Employee's Break in Service, the date of termination of Service for an Employee who is absent by reason of a maternity/paternity absence, as described in Section 411(a)(6)(E)(i) of the Code, or an unpaid leave covered by the Family and Medical Leave Act of 1993, shall be the second anniversary of such termination. The period between the first and second anniversaries of the first day of such absence shall be neither a year of Credited Service or a Break in Service. An Approved Absence shall not be a Break in Service.

For the purposes of this Section 11(b), a "maternity/paternity absence" means an Employee's absence by reason of (A) the (i) pregnancy of an Employee, (ii) birth of a child of an Employee or (iii) placement of a child with an Employee in connection with the adoption of

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such child by such Employee, or (B) for purposes of caring for a child described in clause (A) for a period beginning immediately following such birth or placement.

(c) Reemployment - If a former Employee is reemployed after a one-year Break in Service, new Accounts will be established to reflect his interest in the Plan attributable to Service after the Break in Service and the following special rules shall apply in determining his Credited Service:

- (1) After he completes one Plan Year of Credited Service following reemployment, his Credited Service with respect to his new Accounts shall include his Credited Service accumulated prior to the Break in Service. However, in the case of a Participant who is reemployed after a five-consecutive-year Break in Service and who has not attained a vested interest under the Plan, Service prior to the Break in Service shall not be included in determining his Credited Service.
- (2) If he is reemployed after the occurrence of a five-consecutive-year Break in Service, Credited Service after such Break in Service shall not increase his vested interest in his Accounts attributable to Service prior to the Break in Service.

## Section 12. When Capital Accumulation Will Be Distributed

(a) Except as otherwise provided in Sections 12(c) and 13, a Participant's Capital Accumulation will be distributed following his termination of Service. The Committee shall establish a written distribution policy (which may be modified from time to time) and shall be applied to Participants in a nondiscriminatory manner. If the value of a Participant's Capital Accumulation (at the time a distribution would otherwise commence under this Section 12) exceeds \$5,000, no portion of his Capital Accumulation may be distributed to him without his written consent before he attains age 65.

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(b) In the event of a Participant's Retirement, Disability or death, distribution of his Capital Accumulation shall be made in a lump sum prior to the Allocation Date of the Plan Year following the Plan Year in which his Retirement, Disability or death occurs. If a Participant's Service terminates for any other reason, distribution of his Capital Accumulation shall be made in a lump sum prior to the Allocation Date of the sixth Plan Year following the Plan Year in which his Service terminates (unless he is reemployed by IHOP).

(c) Distribution of his Capital Accumulation shall commence not later than 60 days after the Allocation Date coinciding with or next following the latest of (1) the date of his 65<sup>th</sup> birthday, (2) the 10<sup>th</sup> anniversary of the date he became a Participant, or (3) the date he terminates Service. The distribution of the Capital Accumulation of any Participant who attains age 70½ in a calendar year and either (1) has terminated Service or (2) is a "5% owner" (as defined in Section 416(i)(1)(B)(i) of the Code) must commence not later than April 1<sup>st</sup> of the next calendar year and must be made in accordance with the regulations under Section 401(a)(9) of the Code, including Section 1.401(a)(9)-2; provided, however, that distributions shall be offered to any other Participant who attains age 70½ before January 1, 2001, to the extent required by Sections 401(a)(9) and 411(d)(6) of the Code and the regulations issued thereunder. If the amount of a Participant's Capital Accumulation cannot be determined (by the Committee) by the date on which a distribution is to commence, or if the Participant cannot be located, distribution of his Capital Accumulation shall commence within 60 days after the date on which his Capital Accumulation can be determined or after the date on which the Committee locates the Participant.

(d) If any part of a Participant's Capital Accumulation is retained in the Trust after his Service ends, his Accounts will continue to be treated as described in Section 6. However,

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except as otherwise provided in Section 3(b), such Accounts shall not be credited with any additional Employer Contributions and Forfeitures. The Committee may determine (based upon a nondiscriminatory policy) that the Capital Accumulations of former Employees will be diversified and invested in Trust Assets other than IHOP Stock.

### Section 13. In-Service Distributions

(a) Cash Dividends - If so determined by the Board of Directors, any cash dividends payable on IHOP Stock allocated to the IHOP Stock Accounts of Participants may be paid currently (or within 90 days after the end of the Plan Year in which the dividends are paid to the Trust) in cash by the Trustee to such Participants (or their Beneficiaries) on a nondiscriminatory basis, or IHOP Corp. may pay such dividends directly to the Participants (or Beneficiaries).

If so determined and to the extent specified by the Board of Directors, a Participant may be offered the opportunity to elect to have cash dividends payable on Company Stock allocated to their Company Stock Accounts paid directly to the Participant in accordance with the provisions of the preceding paragraph or to have such cash dividends reinvested in Company Stock and accumulated in sub-accounts of his Company Stock Accounts ("Reinvested Dividend Accounts"). A Participant's interest in his Reinvested Dividend Account shall be 100% vested and non-forfeitable at all times. Any elections by Participants shall be made at the time and in the manner determined by the Committee. If the reinvestment of dividends requires registration and/or qualification of the securities under applicable Federal or state securities laws, then the Company, at its own expense, will take, or cause to be taken, any and all actions necessary or appropriate to effect such registration and/or qualification.

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Any elections and/or distributions of cash dividends may be limited to Participants who are still Employees, may be limited to dividends on shares of IHOP Stock which are then vested or may be applicable to cash dividends on all shares allocated to Participants' IHOP Stock Accounts.

(b) Diversification - A Participant who has attained age 55 and completed at least ten Years of Participation in the Plan shall be notified of his right to elect to "diversify" a portion of the balance in his IHOP Stock Account, as provided in Section 401(a)(28)(B) of the Code. An election to "diversify" must be made on the prescribed form and filed with the Committee within the 90-day period immediately following the Allocation Date of a Plan Year in the Election Period. For purposes of this Section 13(b), "Years of Participation" includes only those Plan Years in which the Participant is entitled to receive an allocation of any Employer Contributions or Forfeitures under Section 3(b), and the "Election Period" means the period of six consecutive Plan Years beginning with the Plan Year in which the Participant first becomes eligible to make an election.

For each of the first five Plan Years in the Election Period, the Participant may elect to "diversify" up to 25% of the number of shares of IHOP Stock then allocated to his IHOP Stock Account (including for this purpose any shares of IHOP Stock distributed or withdrawn during the Election Period), less all shares with respect to which an election under this Section 13(b) was previously made. In the case of the sixth Plan Year in the Election Period, the Participant may elect to "diversify" up to 50% of the number of shares of IHOP Stock then allocated to his IHOP Stock Account (including for this purpose any shares of IHOP Stock distributed or withdrawn during the Election Period), less all shares with respect to which an election under this Section 13(b) was previously made. No election shall be permitted if the balance in a

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Participant's IHOP Stock Account as of the Allocation Date of the first Plan Year in the Election Period has a Fair Market Value of \$500 or less, unless and until the balance in his IHOP Stock Account as of a subsequent Allocation Date in the Election Period exceeds \$500.

The Committee shall determine whether "diversification" will be effected by transferring cash (representing that portion of a Participant's Account with respect to which a "diversification" election is made) to the 401(k) Plan for the Participant's benefit (so long as at least three investment funds (other than IHOP Stock) are made available for investment by Participants under the 401(k) Plan) or by distributing to the Participant in IHOP Stock or in cash (as determined by the Committee) the portion of their Account with respect to which a "diversification" election is made. Any transfer to the 401(k) Plan under this Section 13(b) shall occur no earlier than 30 days after Forms 5310-A with respect to such transfer have been filed with the Internal Revenue Service (if required), but not later than the time when a distribution under this Section 13(b) would have been required. Any distribution under this Section 13(b) shall be made within 90 days after the 90-day period in which the election may be made and shall be subject to the provisions of Sections 12(c), (d) and (e). Any distribution made in the form of IHOP Stock shall be subject to the provisions of Section 12(b).

Any withdrawal under this Section 14(b) from a Participant's Account shall be made only from the portion of a Participant's Account that is not attributable to Safe Harbor Contributions. In the event that a Participant elects to withdraw an amount that would exceed such portion, the excess amount attributable to Safe Harbor Contributions will be transferred to the 401(k) Plan on his behalf (so long as at least three investment funds (other than IHOP Stock) are made available under the 401(k) Plan).

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#### Section 14. How Capital Accumulation Will Be Distributed

(a) The Trustee will make distributions from the Trust only as directed by the Committee. Distribution of a Participant's Capital Accumulation will be made in whole shares of IHOP Stock, cash or a combination of both, as determined by the Committee; provided, however, that the Committee shall notify the Participant of his right to demand distribution of his Capital Accumulation entirely in whole shares of IHOP Stock (with only the value of any fractional share paid in cash). Shares of IHOP Stock distributed by the Trustee shall be readily tradable on an established securities market.

(b) Distribution of a Participant's Capital Accumulation will be made to the Participant if he is living, and if not, to his Beneficiary. In the event of a Participant's death, his Beneficiary shall be his surviving spouse, or if none, his estate. A Participant (with the written consent of his spouse, if any, acknowledging the effect of the consent and witnessed by a notary public) may designate a different Beneficiary or Beneficiaries from time to time by filing a written designation with the Committee. A Participant may also designate a contingent Beneficiary by filing a written designation with the Committee. A deceased Participant's entire Capital Accumulation shall be distributed to his Beneficiary on or before December 31<sup>st</sup> of the calendar year that includes the fifth anniversary of his death.

(c) IHOP Corp. shall furnish the recipient of a distribution with the tax consequences explanation required by Section 402(f) of the Code and shall comply with the withholding requirements of Section 3405 of the Code and of any applicable state law with respect to distributions from the Trust (other than any dividend distributions under Section 13(a)). If the Committee so elects for a Plan Year, distributions to Participants may commence less than 30 days after the notice required under Section 1.411(a)-11(c) of the regulations under the Code is

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given ; provided, however, that no such distribution to a Participant shall be made unless (1) the Participant is informed that he has a right to a period of at least 30 days after receiving the notice to consider whether or not to consent to a distribution (or a particular distribution option), and (2) the Participant affirmatively elects to receive a distribution after receiving the notice.

(d) Shares of IHOP Stock held or distributed by the Trustee may include such legend restrictions on transferability as IHOP Corp. may reasonably require in order to assure compliance with applicable Federal and state securities laws. No shares of IHOP Stock held or distributed by the Trustee may be subject to a put, call or other option, or buy-sell or similar arrangement. The provisions of this Section 14(d) shall continue to be applicable to IHOP Stock held by the Trustee even if the Plan ceases to be an employee stock ownership plan under Section 4975(e)(7) of the Code.

(e) If a distribution of a Participant's Capital Accumulation is not: (i) one of a series of annual installments over a period of ten years (or more); (ii) the minimum amount required to be distributed pursuant to the second sentence of Section 12(c); or (iii) a hardship withdrawal (an "eligible rollover distribution"), the Committee shall notify the Participant (or any spouse or former spouse who is his alternate payee under a "qualified domestic relations order" (as defined in Section 414(p) of the Code or the surviving spouse of the Participant) of his right to elect to have the "eligible rollover distribution" paid directly to an "eligible retirement plan" (within the meaning of Section 401(a)(31) of the Code) that is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, a qualified trust described in Section 401(a) of the Code or a qualified annuity plan described in Section 403(a) of the Code (and for transfers after December 31, 2001, a transfer to an annuity described in Section 403(b) of the Code or to an eligible deferred

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compensation plan described in Section 457(b) of the Code) that accepts "eligible rollover distributions." Any election under this Section 14(e) shall be made and effected in accordance with such rules and procedures as may be established from time to time by the Committee in order to comply with Section 401(a)(31) of the Code.

#### Section 15. Leveraging Provisions

(a) The Plan is designed to be available as a technique of corporate finance to IHOP Corp. Accordingly, it may be used to receive loans (or other extensions of credit) to finance the acquisition of IHOP Stock ("Acquisition Loan"), with payments on such loans to be paid by Employer Contributions to the Trust and cash dividends received on Financed Shares. The provisions of this Section 15 shall become applicable if the Plan incurs an Acquisition Loan.

(b) Acquisition Loans - With the written approval of the Board of Directors, the Committee may direct the Trustee to incur Acquisition Loans from time to time to finance the acquisition of IHOP Stock ("Financed Shares") or to repay a prior Acquisition Loan. An installment obligation incurred in connection with the purchase of IHOP Stock shall be treated as an Acquisition Loan, and all indebtedness incurred to acquire IHOP Stock in a single transaction shall be treated as one Acquisition Loan for purposes of the Plan. An Acquisition Loan shall be for a specific term, shall bear a reasonable rate of interest and shall not be payable on demand except in the event of default.

An Acquisition Loan may be secured by a pledge of the Financed Shares so acquired (or acquired with the proceeds of a prior Acquisition Loan which is being refinanced). No other Trust Assets may be pledged as collateral for an Acquisition Loan, and no person shall have recourse against Trust Assets except for Financed Shares remaining pledged. Any pledge of

Financed Shares must provide for the release of the shares so pledged as payments on the Acquisition Loan are made by the Trustee and such Financed Shares are allocated to Participants' IHOP Stock Accounts under Section 15(d). If the lender is a party in interest (as defined in ERISA), any pledge of Financed Shares must provide the transfer of Trust Assets on default only upon and to the extent of the failure of the Trust to meet the payment schedule of the Acquisition Loan.

(c) Acquisition Loan Payments - Payments of principal and/or interest on any Acquisition Loan shall be made by the Trustee (as directed by the Committee) only from Employer Contributions paid in cash to enable the Trust to make payments on such Acquisition Loan, from earnings attributable to such Employer Contributions and from any cash dividends received by the Trust on the Financed Shares (whether allocated or unallocated) purchased with the proceeds of such Acquisition Loan; and the payments made with respect to an Acquisition Loan for a Plan Year must not exceed the sum of such Employer Contributions, earnings and dividends for that Plan Year (and prior Plan Years), less the amount of such payments for prior Plan Years. If IHOP Corp. is the lender with respect to an Acquisition Loan, Employer Contributions may be paid in the form of cancellation of indebtedness under the Acquisition Loan (with written notice to the Trustee and Committee). If IHOP Corp. is not the lender with respect to an Acquisition Loan, IHOP Corp. may elect (with written notice to the Trustee and Committee) to make payments on the Acquisition Loan directly to the lender and to treat such payments as Employer Contributions.

Notwithstanding the other provisions of this Section 15(c), the Committee may direct the Trustee to apply any cash proceeds resulting from the sale (or other disposition) of unallocated Financed Shares (in the Loan Suspense Account described in Section 15(d)) to repay the

Acquisition Loan (incurred to finance the purchase such Financed Shares) in connection with a merger, or sale of all (or substantially all) the assets of IHOP Corp. or sale of all (or substantially all) the stock of IHOP Corp. or in the event of the termination of the Plan or if the Plan ceases to be an employee stock ownership plan under Section 4975(e)(7) of the Code.

(d) Allocation of Financed Shares - Any Financed Shares acquired by the Trust shall initially be credited to a "Loan Suspense Account" and will be allocated to the IHOP Stock Accounts of Participants only as payments on the Acquisition Loan are made by the Trustee. The number of Financed Shares to be released from the Loan Suspense Account for allocation to Participants' IHOP Stock Accounts for each Plan Year shall be determined by the Committee (as of each Allocation Date) as follows:

(1) Principal/Interest Method - The number of Financed Shares held in the Loan Suspense Account immediately before the release for the current Plan Year shall be multiplied by a fraction. The numerator of the fraction shall be the amount of principal and/or interest paid on the Acquisition Loan for that Plan Year. The denominator of the fraction shall be the sum of the numerator plus the total payments of principal and interest on that Acquisition Loan projected to be paid for all future Plan Years. For this purpose, the interest to be paid in future years is to be computed by using the interest rate in effect as of the current Allocation Date.

(2) Principal Only Method - The Committee may elect (as to each Acquisition Loan) or the provisions of the Acquisition Loan may provide for the release of Financed Shares from the Loan Suspense Account based solely on the ratio that the payments of principal for each Plan Year bear to the total principal amount of the Acquisition Loan. This method may be used only to the extent that: (A) the Acquisition Loan provides for annual

payments of principal and interest at a cumulative rate that is not less rapid at any time than level annual payments of such amounts for ten years; (B) interest included in any payment on the Acquisition Loan is disregarded only to the extent that it would be determined to be interest under standard loan amortization tables; and (C) the entire duration of the Acquisition Loan repayment period does not exceed ten years, even in the event of a renewal, extension or refinancing of the Acquisition Loan.

In each Plan Year in which Trust Assets are applied to make payments on an Acquisition Loan, the Financed Shares released from the Loan Suspense Account in accordance with the provisions of this Section 15(d) shall be allocated among the IHOP Stock Accounts of Participants in the manner determined by the Committee based upon the source of funds (Discretionary Contributions, Safe Harbor Contributions, earnings attributable to such Employer Contributions and cash dividends on Financed Shares allocated to Participants' IHOP Stock Accounts or cash dividends on Financed Shares not yet allocated to Participants' Accounts) used to make the payments on the Acquisition Loan. If cash dividends on Financed Shares allocated to a Participant's IHOP Stock Account are used to make payments on an Acquisition Loan, Financed Shares (whose Fair Market Value is at least equal to the amount of such dividends) released from the Loan Suspense Account shall be allocated to that Participant's IHOP Stock Account.

(e) Net Income (or Loss) and Dividends - The determination of the net income (or loss) of the Trust shall not take into account any interest paid by the Trust under an Acquisition Loan. Any cash dividends received on any Financed Shares credited to the Loan Suspense Account shall be included in the computation of the net income (or loss) of the Trust. Any stock dividends received on IHOP Stock in the Loan Suspense Account shall be credited to the

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Loan Suspense Account. The Committee shall keep separate records of Financed Shares and of Employer Contributions (and any earnings thereon) made for the purpose of enabling the Trust to repay any Acquisition Loan.

(f) Allocation Limitation - Any Employer Contributions which are used by the Trust (not later than the due date, including extensions, for filing IHOP Corp.'s Federal income tax return for that Plan Year) to pay interest on an Acquisition Loan, and any Financed Shares which are allocated as Forfeitures, shall not be included as Annual Additions under Section 7; provided, however, that the provisions of this Section 15(f) shall be applicable for any Plan Year only if not more than one-third of the Employer Contributions applied to pay principal and/or interest on an Acquisition Loan are allocated to Participants who are Highly Compensated Employees; and the Committee shall reallocate such Employer Contributions to the extent it deems to be appropriate to satisfy this special rule.

The Annual Additions under Section 7 with respect to Financed Shares released from the Loan Suspense Account (by reason of Employer Contributions used for payments on an Acquisition Loan) and allocated to Participants' IHOP Stock Accounts shall be the lesser of (A) the amount of such Employer Contributions (as determined after application of the preceding paragraph); or (B) the Fair Market Value of IHOP Stock as of the Allocation Date (as determined after application of the preceding paragraph). Annual Additions shall not include any allocation attributable to any proceeds from the sale of Financed Shares by the Trust or to appreciation (realized or unrealized) in the Fair Market Value of IHOP Stock.

(g) Forfeitures - Financed Shares shall be forfeited under Section 10(b) only after other shares of IHOP Stock have been forfeited.

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(h) Distributions - For purposes of Section 12(b) and except as otherwise provided in Section 12(c), if a Participant's Capital Accumulation includes Financed Shares, the Committee may elect to defer the distribution of that portion of his Capital Accumulation attributable to such Financed Shares until the Plan Year following the Plan Year in which the Acquisition Loan (incurred to acquire such Financed Shares) has been fully repaid.

#### Section 16. No Assignment of Benefits

A Participant's Capital Accumulation may not be anticipated, assigned (either at law or in equity), alienated or subject to attachment, garnishment, levy, execution or other legal or equitable process, except in accordance with (i) a "qualified domestic relations order" (as defined in Section 414(p) of the Code); (ii) a federal tax levy or collection by the IRS on a judgment resulting from an unpaid tax assessment; or (iii) a judgment or settlement described in Section 401(a)(13)(C) of the Code. Distributions made to an alternate payee in accordance with a qualified domestic relations order may commence prior to the date on which the Participant attains his "earliest retirement age" (as defined in Section 414(p)(4)(B) of the Code).

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#### Section 17. Administration

(a) Administrative Committee - The Plan will be administered by an Administrative Committee composed of one or more individuals appointed by the Board of Directors to serve at its pleasure and without compensation. The members of the Committee shall be the named fiduciaries with authority to control and manage the operation and administration of the Plan. Members of the Committee need not be Employees or Participants. Any Committee member may resign by giving notice, in writing, to the Board of Directors.

(b) Committee Action - Committee action will be by vote of a majority of the members at a meeting or by written unanimous consent without a meeting. A Committee member who is a Participant shall not vote on any question relating specifically to himself.

The Committee shall choose from its members a Chairman and a Secretary. The Chairman or the Secretary of the Committee shall be authorized to execute any certificate or other written direction on behalf of the Committee. The Secretary shall keep a record of the Committee's proceedings and of all dates, records and documents pertaining to the administration of the Plan.

(c) Powers and Duties of the Committee - The Committee shall have all powers necessary to enable it to administer the Plan and the Trust Agreement in accordance with their provisions, including without limitation the following:

- (1) resolving all questions relating to the eligibility of Employees to become Participants;
- (2) determining the appropriate allocations to Participants' Accounts pursuant to Sections 6 and 15;
- (3) determining the amount of benefits payable to a Participant (or Beneficiary), and the time and manner in which such benefits are to be paid;

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- (4) authorizing and directing all disbursements of Trust Assets by the Trustee;
- (5) establishing procedures in accordance with Section 414(p) of the Code to determine the qualified status of domestic relations orders and to administer distributions under such qualified orders;
- (6) engaging any administrative, legal, accounting, clerical or other services that it may deem appropriate;
- (7) construing and interpreting the Plan and the Trust Agreement and adopting rules for administration of the Plan that are consistent with the terms of the Plan documents and of ERISA and the Code;
- (8) compiling and maintaining all records it determines to be necessary, appropriate or convenient in connection with the administration of the Plan;
- (9) reviewing the performance of the Trustee with respect to the Trustee's administrative duties, responsibilities and obligations under the Plan and Trust Agreement; and
- (10) executing agreements and other documents on behalf of the Plan and Trust.

The Committee shall be responsible for directing the Trustee as to the investment of Trust Assets. The Committee may delegate to the Trustee the responsibility for investing Trust Assets other than IHOP Stock. The Committee shall establish a funding policy and method for directing the Trustee to acquire IHOP Stock (and for otherwise investing the Trust Assets) in a manner that is consistent with the objectives of the Plan and the requirements of ERISA.

The Committee shall perform its duties under the Plan and the Trust Agreement solely in the interests of the Participants (and their Beneficiaries). Any discretion granted to the Committee under any of the provisions of the Plan or the Trust Agreement shall be exercised only in accordance with rules and policies established by the Committee which shall be applicable on a nondiscriminatory basis. The Committee shall have sole and exclusive

discretionary authority to construe and interpret the terms of the Plan and Trust. All decisions and interpretations of the Committee under this Section 17 shall be conclusive and binding upon all persons with an interest in the Plan and shall be given the greatest deference permitted by law.

(d) Expenses - All reasonable expenses of administering the Plan and Trust shall be charged to and paid out of the Trust Assets. IHOP may, however, pay all or any portion of such expenses directly, and payment of expenses by IHOP shall not be deemed to be Employer Contributions.

(e) Information to be Submitted to the Committee - To enable the Committee to perform its functions, IHOP shall supply full and timely information to the Committee on all matters as the Committee may require, and shall maintain such other records as the Committee may determine are necessary or appropriate in order to determine the benefits due or which may become due to Participants (or Beneficiaries) under the Plan.

(f) Delegation of Fiduciary Responsibility - The Committee from time to time may allocate to one or more of its members and/or may delegate to any other persons or organizations any of its rights, powers, duties and responsibilities with respect to the operation and administration of the Plan that are permitted to be so delegated under ERISA; provided, however, that responsibility for investment of the Trust Assets may not be allocated or delegated other than as provided in Section 17(c). Any such allocation or delegation shall be made in writing, shall be reviewed periodically by the Committee and shall be terminable upon such notice as the Committee in its discretion deems reasonable and proper under the circumstances.

(g) Bonding, Insurance and Indemnity - To the extent required under Section 412 of ERISA, IHOP Corp. shall secure fidelity bonding for the fiduciaries of the Plan.

IHOP Corp. (in its discretion) or the Trustee (as directed by the Committee) may obtain a policy or policies of insurance for the Committee (and other fiduciaries of the Plan) to cover liability or loss occurring by reason of the act or omission of a fiduciary. If such insurance is purchased with Trust Assets, the policy must permit recourse by the insurer against the fiduciary in the case of a breach of a fiduciary obligation by such fiduciary.

IHOP hereby agrees to indemnify each member of the Committee (to the extent permitted by law) against any personal liability or expense resulting from his service on the Committee, except such liability or expense as may result from his own willful misconduct.

(h) Notices, Statements and Reports - IHOP Corp. shall be the "Plan Administrator" (as defined in Section 3(16)(A) of ERISA and Section 414(g) of the Code) for purposes of the reporting and disclosure requirements of ERISA and the Code. The Committee shall assist IHOP Corp., as requested, in complying with such reporting and disclosure requirements. The Committee shall be the designated agent of the Plan for the service of legal process.



A Participant (or Beneficiary) who does not receive a distribution of benefits to which he believes he is entitled may present a claim to the Committee. The claim for benefits must be in writing and addressed to the Committee or to IHOP Corp. If the claim for benefits is denied, the Committee shall notify the Participant (or Beneficiary) in writing within 90 days after the Committee initially received the benefit claim. Any notice of a denial of benefits shall advise the Participant (or Beneficiary) of the basis for the denial, any additional material or information

necessary for the Participant (or Beneficiary) to perfect his claim and the steps which the Participant (or Beneficiary) must take to have his claim for benefits reviewed.

Each Participant (or Beneficiary) whose claim for benefits has been denied may file a written request for a review of his claim by the Committee. The request for review must be filed by the Participant (or Beneficiary) within 60 days after he receives the written notice denying his claim. The decision of the Committee will be made within 60 days after receipt of a request for review and shall be communicated in writing to the claimant. Such written notice shall set forth the basis for the Committee's decision. If there are special circumstances (such as the need to hold a hearing) which require an extension of time for completing the review, the Committee's decision shall be rendered not later than 120 days after receipt of a request for review. All decisions and interpretations of the Committee under this Section 18 shall be conclusive and binding upon all persons with an interest in the Plan and shall be given the greatest deference permitted by law.

#### Section 19. Limitation on Participants' Rights

A Participant's Capital Accumulation will be based solely upon his vested interest in his Accounts and will be paid only from the Trust Assets. IHOP, the Committee and the Trustee shall have no duty or liability to furnish the Trust with any funds, securities or other assets, except as expressly provided in the Plan.

The adoption and maintenance of the Plan shall not be deemed to constitute a contract of employment or otherwise between IHOP and any Employee, or to be a consideration for, or an inducement or condition of, any employment. Nothing contained in this Plan shall be deemed

to give an Employee the right to be retained in the Service of IHOP or to interfere with the right of IHOP to discharge, with or without cause, any Employee at any time.

#### Section 20. Future of the Plan

IHOP Corp. reserves the right to amend or terminate the Plan (in whole or in part) and the Trust Agreement at any time, by action of the Board of Directors. Neither amendment nor termination of the Plan shall retroactively reduce the vested rights of Participants or permit any part of the Trust Assets to be diverted to or used for any purpose other than for the exclusive benefit of the Participants (and their Beneficiaries).

IHOP Corp. specifically reserves the right to amend the Plan and the Trust Agreement retroactively in order to satisfy any applicable requirements of the Code and ERISA.

If the Plan is terminated (or partially terminated), participation of Participants affected by the termination will end. If Employer Contributions are not replaced by contributions to a comparable plan which satisfies the requirements of Section 401(a) of the Code, the Accounts of only those Participants who are Employees on the effective date of the termination will become nonforfeitable as of that date. A complete discontinuance of Employer Contributions shall be deemed to be a termination of the Plan for this purpose. The Capital Accumulations of those Participants whose Service terminated prior to the effective date of Plan termination will continue to be determined pursuant to Section 10(a); and, to the extent that such Participants are not vested, the balances in their Accounts will become Forfeitures to be reallocated as of the effective date of Plan termination.

After termination of the Plan, the Trust will be maintained until the Capital Accumulations of all Participants have been distributed. Capital Accumulations may be

distributed following termination of the Plan or distributions may be deferred as provided in Section 12, as IHOP Corp. shall determine. In the event that IHOP Stock is sold (or otherwise disposed of) in connection with the termination of the Plan or the amendment of the Plan to become a qualified employee plan that is not a stock bonus plan, all Capital Accumulations will be distributed in cash.

In the event of the merger or consolidation of this Plan with another plan, or the transfer of Trust Assets (or liabilities) to another plan, the Account balances of each Participant immediately after such merger, consolidation or transfer must be at least as great as immediately before such merger, consolidation or transfer (as if the Plan had then terminated).

#### Section 21. "Top-Heavy" Contingency Provisions

(a) The provisions of this Section 21 are included in the Plan pursuant to Section 401(a)(10)(B)(ii) of the Code and shall become applicable only if the Plan becomes a "top-heavy plan" under Section 416(g) of the Code for any Plan Year.

(b) The determination as to whether the Plan becomes “top-heavy” for any Plan Year shall be made as of the Allocation Date of the immediately preceding Plan Year by considering the Plan together with the 401(k) Plan. The Plan (and the 401(k) Plan) shall be “top-heavy” only if the total Account balances under the Plan and the 401(k) Plan for “key employees” as of the determination date exceeds 60% of the total Account balances for all Participants. For such purpose, Account balances shall be computed and adjusted pursuant to Section 416(g) of the Code. “Key employees” shall be certain Participants (who are officers or stockholders of IHOP) and Beneficiaries described in Section 416(i)(1) or (5) of the Code.

(c) For any Plan Year in which the Plan is “top-heavy,” each Participant who is an Employee on the Allocation Date (and who is not a “key employee”) shall receive a minimum allocation of Employer Contributions and Forfeitures which is equal to the lesser of:

- (1) 3% of his Statutory Compensation; or
- (2) the same percentage of his Statutory Compensation as the allocation to the “key employee” for whom the percentage is the highest for that Plan Year. For this purpose, the allocation to the “key employee” shall include an “elective contributions” made on his behalf for the Plan Year to the 401(k) Plan.

Section 22. Governing Law

The provisions of this Plan and the Trust Agreement shall be construed, administered and enforced in accordance with the laws of the State of Delaware, to the extent such laws are not superseded by ERISA.

Section 23. Execution

To record the amendment and restatement of the Plan, IHOP has caused this document to be executed on this 15th day of August, 2001.

IHOP CORP.

INTERNATIONAL HOUSE OF  
PANCAKES, INC.

By \_\_\_\_\_

By \_\_\_\_\_

**Flexible Standardized 401(k) Profit Sharing Plan  
ADOPTION AGREEMENT**

**SECTION 1. EMPLOYER INFORMATION**

Name of Employer IHOP Corp.

Address 450 N. Brand Blvd., 7th Floor

City Glendale State CA Zip 91203-2306

Telephone 818-240-6055 Employer's Federal Tax Identification Number 95-3038279

Type of Business (Check only one)  Sole Proprietorship  Partnership  C Corporation  S Corporation

Other (Specify) \_\_\_\_\_

Check here if Related Employers may participate in this Plan and attach a Related Employer Participation Agreement for each Related Employer who will participate in this Plan.

Business Code \_\_\_\_\_

Name of Plan International House of Pancakes 401(k) Plan

Name of Trust (if different from Plan Name) \_\_\_\_\_

Plan Sequence Number 002 (Enter 001 if this is the first qualified plan the Employer has ever maintained; enter 002 if it is the second, etc.)

Trust Identification Number (if applicable) \_\_\_\_\_ Account Number (Optional) \_\_\_\_\_

**SECTION 2. EFFECTIVE DATES**  
**Complete Parts A and B**

**Part A. General Effective Dates** (Check and Complete Option 1 or 2):

**Option 1:**  This is the initial adoption of a profit sharing plan by the Employer.  
The Effective Date of this Plan is 10-01-2001.  
**NOTE:** The effective date is usually the first day of the Plan Year in which this Adoption Agreement is signed.

**Option 2:**  This is an amendment and restatement of an existing profit sharing plan (a Prior Plan).  
The Prior Plan was initially effective on \_\_\_\_\_ :  
The Effective Date of this amendment and restatement is \_\_\_\_\_ :  
**NOTE:** The effective date is usually the first day of the Plan Year in which this Adoption Agreement is signed.

**Part B. Commencement of Elective Deferrals:**  
Elective Deferrals may commence on 10-01-2001.  
**NOTE:** This date may be no earlier than the date this Adoption Agreement is signed because Elective Deferrals cannot be made retroactively.

**SECTION 3. RELEVANT TIME PERIODS**  
**Complete Parts A through C**

**Part A. Employer's Fiscal Year:**  
The Employer's fiscal year ends (Specify month and date) 12-31

**Part B. Plan Year Means:**

**Option 1:**  The 12-consecutive month period which coincides with the Employer's fiscal year.

**Option 2:**  The calendar year.

**Option 3:**  Other 12-consecutive month period (Specify) \_\_\_\_\_

**NOTE:** If no option is selected, Option 1 will be deemed to be selected.

If the initial Plan Year is less than 12 months (a short Plan Year) specify such Plan Year's beginning and ending dates  
10/01/2001-12/31/2001

**Part C Limitation Year Means:**

- Option 1:**  The Plan Year.  
**Option 2:**  The calendar year.  
**Option 3:**  Other 12-consecutive month period (*Specify*) \_\_\_\_\_

**NOTE:** If no option is selected, Option 1 will be deemed to be selected.

**SECTION 4. ELIGIBILITY REQUIREMENTS**  
*Complete Parts A through F*

**Part A. Years of Eligibility Service Requirement:**

1. **Elective Deferrals.**

An Employee will be eligible to become a Contributing Participant in the Plan (and thus be eligible to make Elective Deferrals) and receive Matching Contributions (including Qualified Matching Contributions, if applicable) after completing 1 (*enter 0, 1 or any fraction less than 1*) Years of Eligibility Service.

2. **Employer Profit Sharing Contributions.**

An employee will be eligible to become a Participant in the Plan for purposes of receiving an allocation of any Employer Profit Sharing Contribution made pursuant to Section 10 of the Adoption Agreement after completing 1 (*enter 0, 1, 2 or any fraction less than 2*) Years of Eligibility Service.

**NOTE:** *If more than 1 year is selected for Item 2, the immediate 100% vesting schedule of Section 12 will automatically apply for contributions described in such item. If either item is left blank, the Years of Eligibility Service required for such item will be deemed to be 0. If a fraction is selected, an Employee will not be required to complete any specified number of Hours of Service to receive credit for a fractional year. If a single Entry Date is selected in Section 4, Part F for an item, the Years of Eligibility Service required for such item cannot exceed 1.5 (.5 for Elective Deferrals).*

**Part B. Age Requirement:**

1. **Elective Deferrals.**

An Employee will be eligible to become a Contributing Participant (and thus be eligible to make Elective Deferrals) and receive Matching Contributions (including Qualified Matching Contributions, if applicable) after attaining age \_\_\_\_\_ (*no more than 21*).

2. **Employer Profit Sharing Contributions.**

An Employee will be eligible to become a Participant in the Plan for purposes of receiving an allocation of any Employer Profit Sharing Contribution made pursuant to Section 10 of the Adoption Agreement after attaining age \_\_\_\_\_ (*no more than 21*).

**NOTE:** *If either of the above items in this Section 4, Part B is left blank, it will be deemed there is no age requirement for such item. If a single Entry Date is selected in Section 4, Part F for an item, no age requirement can exceed 20.5 for such item.*

**Part C. Employees Employed As Of Effective Date:**

Will all Employees employed as of the Effective Date of this Plan who have not otherwise met the requirements of Part A or Part B above be considered to have met those requirements as of the Effective Date?  Yes  No

**NOTE:** *If a box is not checked for any item in this Section 4, Part C, "No" will be deemed to be selected.*

**Part D. Exclusion of Certain Classes of Employees:**

All Employees will be eligible to become Participants in the Plan except:

- a.  Those Employees included in a unit of Employees covered by a collective bargaining agreement between the Employer and Employee representatives, if retirement benefits were the subject of good faith bargaining and if two percent or less of the Employees who are covered pursuant to that agreement are professionals as defined in Section 1.410(b)-9 of the regulations. For this purpose, the term "employee representatives" does not include any organization more than half of whose members are Employees who are owners, officers, or executives of the Employer.
- b.  Those Employees who are non-resident aliens (within the meaning of Section 7701(b)(1)(B) of the Code) and who received no earned income (within the meaning of Section 911(d)(2) of the Code) from the Employer which constitutes income from sources within the United States (within the meaning of Section 861(a)(3) of the Code).

**Part E. Hours Required For Eligibility Purposes:**

1. 1000 Hours of Service (*no more than 1,000*) shall be required to constitute a Year of Eligibility Service.
2. 500 Hours of Service (*no more than 500 but less than the number specified in Section 4, Part E, Item 1. above*) must be exceeded to avoid a Break in Eligibility Service.
3. For purposes of determining Years of Eligibility Service, Employees shall be given credit for Hours of Service with the following predecessor employer(s): (*Complete if applicable*)
- \_\_\_\_\_
- \_\_\_\_\_

**Part F. Entry Dates:**

The Entry Dates for participation shall be (*Choose one*):

- Option 1:**  The first day of the Plan Year and the first day of the seventh month of the Plan Year.
- Option 2:**  Other (*Specify*) January 1, April 1, July 1, October 1

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected. Option 2 can be selected for an item only if the eligibility requirements and Entry Dates are coordinated such that each Employee will become a Participant in the Plan no later than the earlier of: (1) the first day of the Plan Year beginning after the date the Employee satisfies the age and service requirements of Section 410(a) of the Code; or (2) 6 months after the date the Employee satisfies such requirements.*

**SECTION 5. METHOD OF DETERMINING SERVICE**  
*Complete Part A or B*

**Part A. Hours of Service Equivalencies:**

Service will be determined on the basis of the method selected below. Only one method may be selected. The method selected will be applied to all Employees covered under the Plan. (*Choose one*):

- Option 1:**  On the basis of actual hours for which an Employee is paid or entitled to payment.
- Option 2:**  On the basis of days worked. An Employee will be credited with 10 Hours of Service if under Section 1.24 of the Plan such Employee would be credited with at least 1 Hour of Service during the day.
- Option 3:**  On the basis of weeks worked. An Employee will be credited with 45 Hours of Service if under Section 1.24 of the Plan such Employee would be credited with at least 1 Hour of Service during the week.
- Option 4:**  On the basis of months worked. An Employee will be credited with 190 Hours of Service if under Section 1.24 of the Plan such Employee would be credited with at least 1 Hour of Service during the month.

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected. This Section 5, Part A will not apply if the Elapsed Time Method of Section 5, Part B is selected.*

**Part B. Elapsed Time Method:**

In lieu of tracking Hours of Service of Employees, will the elapsed time method described in Section 2.07 of the Plan be used? (*Choose one*)

- Option 1:**  No.
- Option 2:**  Yes.

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected.*

**SECTION 6. ELECTIVE DEFERRALS**

**Part A. Authorization of Elective Deferrals:**

Will Elective Deferrals be permitted under this Plan? (*Choose one*)

- Option 1:**  Yes.
- Option 2:**  No.

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected. Complete the remainder of Section 6 only if Option 1 is selected.*

**Part B. Limits on Elective Deferrals:**

If Elective Deferrals are permitted under the Plan, a Contributing Participant may elect under a salary reduction agreement to have his or her Compensation reduced by an amount as described below (*Choose one*):

- Option 1:**  An amount equal to a percentage of the Contributing Participant's Compensation from 1% to 15% in increments of 1%.
- Option 2:**  An amount of the Contributing Participant's Compensation not less than \_\_\_\_\_ and not more than \_\_\_\_\_.

The amount of such reduction shall be contributed to the Plan by the Employer on behalf of the Contributing Participant. For any taxable year, a Contributing Participant's Elective Deferrals shall not exceed the limit contained in Section 402(g) of the Code in effect at the beginning of such taxable year.

**Part C. Elective Deferrals Based on Bonuses:**

Instead of or in addition to making Elective Deferrals through payroll deduction, may a Contributing Participant elect to contribute to the Plan, as an Elective Deferral, part or all of a bonus rather than receive such bonus in cash? (*Choose one*)

- Option 1:**  Yes.
- Option 2:**  No.

NOTE: If no option is selected, Option 2 will be deemed to be selected.

**Part D. Return As A Contributing Participant After Ceasing Elective Deferrals:**

A Participant who ceases Elective Deferrals by revoking a salary reduction agreement may return as a Contributing Participant as of such times established by the Plan Administrator in a uniform and nondiscriminatory manner.

**Part E. Changing Elective Deferral Amounts:**

A Contributing Participant may modify a salary reduction agreement to prospectively increase or decrease the amount of his or her Elective Deferrals as of such times established by the Plan Administrator in a uniform and nondiscriminatory manner.

**Part F. Claiming Excess Elective Deferrals:**

Participants who claim Excess Elective Deferrals for the preceding calendar year must submit their claims in writing to the Plan Administrator by (Choose one):

Option 1:  March 1.

Option 2:  Other (Specify a date not later than April 15) \_\_\_\_\_

NOTE: If no option is selected, Option 1 will be deemed to be selected.

**SECTION 7. MATCHING CONTRIBUTIONS**

**Part A. Authorization of Matching Contributions:**

Will the Employer make Matching Contributions to the Plan on behalf of Qualifying Contributing Participants? (Choose one)

Option 1:  Yes, but only with respect to a Contributing Participant's Elective Deferrals.

Option 2:  Yes, but only with respect to a Participant's Nondeductible Employee Contributions.

Option 3:  Yes, with respect to both Elective Deferrals and Nondeductible Employee Contributions

Option 4:  No.

NOTE: If no option is selected, Option 4 will be deemed to be selected. Complete the remainder of Section 7 only if Option 1, 2 or 3 is selected.

**Part B. Matching Contribution Formula:**

If the Employer will make Matching Contributions, then the amount of such Matching Contributions made on behalf of a Qualifying Contributing Participant each Plan Year shall be (Choose one):

Option 1:  An amount equal to \_\_\_\_% of such Contributing Participant's Elective Deferral (and/or Nondeductible Employee Contribution, if applicable).

Option 2:  An amount equal to the sum of \_\_\_\_% of the portion of such Contributing Participant's Elective Deferral (and/or Nondeductible Employee Contribution, if applicable) which does not exceed \_\_\_\_% of the Contributing Participant's Compensation plus \_\_\_\_% of the portion of such Contributing Participant's Elective Deferral (and/or Nondeductible Employee Contribution, if applicable) which exceeds \_\_\_\_% of the Contributing Participant's Compensation.

Option 3:  Such amount, if any, equal to that percentage of each Contributing Participant's Elective Deferral (and/or Nondeductible Employee Contribution, if applicable) which the Employer, in its sole discretion, determines from year to year.

Option 4:  Other Formula. (Specify) \_\_\_\_\_  
\_\_\_\_\_

NOTE: If Option 4 is selected, the formula specified can only allow Matching Contributions to be made with respect to a Contributing Participant's Elective Deferrals (and/or Nondeductible Employee Contribution, if applicable).

**Part C. Limit on Matching Contributions.**

Notwithstanding the Matching Contribution formula specified above, no Matching Contribution will be made with respect to a Contributing Participant's Elective Deferrals (and/or Nondeductible Employee Contributions, if applicable) in excess of \_\_\_\_\_ or \_\_\_\_% of such Contributing Participant's Compensation.

**Part D. Qualifying Contributing Participants:**

A Contributing Participant who satisfies the eligibility requirements described in Section 4 will be a Qualifying Contributing Participant and thus

entitled to share in Matching Contributions for any Plan Year only if the Participant is a Contributing Participant and satisfies the following additional conditions (*Check one or more Options*):

- Option 1:**  No Additional Conditions.
- Option 2:**  Hours of Service Requirement. The Contributing Participant completes at least \_\_\_\_ (*not more than 500*) Hours of Service during the Plan Year. However, this condition will be waived for the following reasons (*Check at least one*):
- The Contributing Participant's Death.
  - The Contributing Participant's Termination of Employment after having incurred a Disability.
  - The Contributing Participant's Termination of Employment after having reached Normal Retirement Age.
  - This condition will not be waived.

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected.*

## SECTION 8. QUALIFIED NONELECTIVE CONTRIBUTIONS

**Part A. Authorization of Qualified Nonelective Contributions:**

Will the Employer make Qualified Nonelective Contributions to the Plan? (*Choose One*)

- Option 1:**  Yes.
- Option 2:**  No.

If the Employer elects to make Qualified Nonelective Contributions, then the amount, if any, of such contribution to the Plan for each Plan Year shall be an amount determined by the Employer.

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected. Complete the remainder of Section 8 only if Option 1 is selected.*

**Part B. Participants Entitled to Qualified Nonelective Contributions:**

Allocation of Qualified Nonelective Contributions shall be made to the Individual Accounts of (*Choose one*):

- Option 1:**  Only Participants who are not Highly Compensated Employees.
- Option 2:**  All Participants.

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected.*

**Part C. Allocation of Qualified Nonelective Contributions:**

Allocation of Qualified Nonelective Contributions to Participants entitled thereto shall be made (*Choose one*):

- Option 1:**  In the ratio which each Participant's Compensation for the Plan Year bears to the total Compensation of all Participants for such Plan Year.
- Option 2:**  In the ratio which each Participant's Compensation not in excess of \_\_\_\_\_ for the Plan Year bears to the total Compensation of all Participants not in excess of \_\_\_\_\_ for such Plan Year.

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected.*

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## SECTION 9. QUALIFIED MATCHING CONTRIBUTIONS

**Part A. Authorization of Qualified Matching Contributions:**

Will the Employer make Qualified Matching Contributions to the Plan on behalf of Qualifying Contributing Participants? (*Choose One*)

- Option 1:**  Yes, but only with respect to a Contributing Participant's Elective Deferrals.
- Option 2:**  Yes, but only with respect to a Participant's Nondeductible Employee Contributions.
- Option 3:**  Yes, with respect to both Elective Deferrals and Nondeductible Employee Contributions.
- Option 4:**  No.

**NOTE:** *If no option is selected, Option 3 will be deemed to be selected. Complete the remainder of Section 9 only if Option 1, 2 or 3 is selected.*

**Part B. Qualified Matching Contribution Formula:**

If the Employer will make Qualified Matching Contributions, then the amount of such Qualified Matching Contributions made on behalf of a Qualifying Contributing Participant each Plan Year shall be *(Choose one)*:

- Option 1:**  An amount equal to \_\_\_\_% of such Contributing Participant's Elective Deferral (and/or Nondeductible Employee Contribution, if applicable).
- Option 2:**  An amount equal to the sum of \_\_\_\_% of the portion of such Contributing Participant's Elective Deferral (and/or Nondeductible Employee Contribution, if applicable) which does not exceed \_\_\_\_% of the Contributing Participant's Compensation plus \_\_\_\_% of the portion of such Contributing Participant's Elective Deferral (and/or Nondeductible Employee Contribution, if applicable) which exceeds \_\_\_\_% of the Contributing Participant's Compensation.
- Option 3:**  Such amount, if any, as determined by the Employer in its sole discretion, equal to that percentage of the Elective Deferrals (and/or Nondeductible Employee Contribution, if applicable) of each Contributing Participant entitled thereto which would be sufficient to cause the Plan to satisfy the Actual Contribution Percentage tests (described in Section 11.402 of the Plan) for the Plan Year.
- Option 4:**  Other Formula. *(Specify)* \_\_\_\_\_  
\_\_\_\_\_

**NOTE:** *If no option is selected, Option 3 will be deemed to be selected.*

**Part C. Participants Entitled to Qualified Matching Contributions:**

Qualified Matching Contributions, if made to the Plan, will be made on behalf of *(Choose one)*:

- Option 1:**  Only Contributing Participants who make Elective Deferrals who are not Highly Compensated Employees.
- Option 2:**  All Contributing Participants who make Elective Deferrals.

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected.*

**Part D. Limit On Qualified Matching Contributions:**

Notwithstanding the Qualified Matching Contribution formula specified above, the Employer will not match a Contributing Participant's Elective Deferrals (and/or Nondeductible Employee Contribution, if applicable) in excess of \_\_\_\_\_ or \_\_\_\_% of such Contributing Participant's Compensation.

<b>SECTION 10. EMPLOYER PROFIT SHARING CONTRIBUTIONS</b> <i>Complete Parts A, B and C</i>
--

**Part A. Contribution Formula:**

For each Plan Year the Employer will contribute an Amount to be determined from year to year.

**Part B. Allocation Formula *(Choose one)*:**

- Option 1:**  Pro Rata Formula. Employer Profit Sharing Contributions shall be allocated to the Individual Accounts of Qualifying Participants in the ratio that each Qualifying Participant's Compensation for the Plan Year bears to the total Compensation of all Qualifying Participants for the Plan Year.
- Option 2:**  Integrated Formula. Employer Profit Sharing Contributions shall be allocated as follows *(Start with Step 3 if this Plan is not a Top-Heavy Plan)*:
- Step 1. Employer Profit Sharing Contributions shall first be allocated pro rata to Qualifying Participants in the manner described in Section 10, Part B, Option 1. The percent so allocated shall not exceed 3% of each Qualifying Participant's Compensation.
- Step 2. Any Employer Profit Sharing Contributions remaining after the allocation in Step 1 shall be allocated to each Qualifying Participant's Individual Account in the ratio that each Qualifying Participant's Compensation for the Plan Year in excess of the integration level bears to all Qualifying Participants' Compensation in excess of the integration level, but not in excess of 3%.
- Step 3. Any Employer Profit Sharing Contributions remaining after the allocation in Step 2 shall be allocated to each Qualifying Participant's Individual Account in the ratio that the sum of each Qualifying Participant's total Compensation and Compensation in excess of the integration level bears to the sum of all Qualifying Participants' total Compensation and



Compensation in excess of the integration level, but not in excess of the profit sharing maximum disparity rate as described in Section 3.01(B)(3) of the Plan.

Step 4. Any Employer Profit Sharing Contributions remaining after the allocation in Step 3 shall be allocated pro rata to Qualifying Participants in the manner described in Section 10, Part B, Option 1.

The integration level shall be *(Choose one)*:

Suboption (a):  The Taxable Wage Base.

Suboption (b):  \_\_\_\_\_ *(a dollar amount less than the Taxable Wage Base)*.

Suboption (c):  \_\_\_\_\_% *(not more than 100%)* of the Taxable Wage Base.

**NOTE:** *If no option is selected, Suboption (a) will be deemed to be selected.*

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected.*

**Part C. Qualifying Participants:**

A Participant will be a Qualifying Participant and thus entitled to share in the Employer Profit Sharing Contribution for any Plan Year only if the Participant is a Participant on at least one day of such Plan Year and satisfies the following additional conditions *(Check one or more Options)*:

**Option 1:**  No Additional Conditions.

**Option 2:**  Hours of Service Requirement. The Participant completes at least 500 *(not more than 500)* Hours of Service during the Plan Year. However, this condition will be waived for the following reasons *(Check at least one)*:

The Participant's Death.

The Participant's Termination of Employment after having incurred a Disability.

The Participant's Termination of Employment after having reached Normal Retirement Age.

This condition will not be waived.

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected.*

<b>SECTION 11. COMPENSATION</b> <b><i>Complete Parts A through D</i></b>
---

**Part A. Basic Definition:**

Compensation will mean all of each Participant's *(Choose one)*:

**Option 1:**  W-2 wages.

**Option 2:**  Section 3401(a) wages.

**Option 3:**  415 safe-harbor compensation.

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected.*

**Part B. Measuring Period for Compensation:**

Compensation shall be determined over the following applicable period *(Choose one)*:

**Option 1:**  The Plan Year.

**Option 2:**  The calendar year ending with or within the Plan Year.

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected.*

**Part C. Inclusion of Elective Deferrals:**

Does Compensation include Employer Contributions made pursuant to a salary reduction agreement which are not includible in the gross income of the Employee under Sections 125, 402(e)(3), 402(h)(1)(B), and 403(b) of the Code?

Yes  No

NOTE: If neither box is checked, "Yes" will be deemed to be selected.

**Part D. Pre-Entry Date Compensation:**

For the Plan Year in which an Employee enters the Plan, the Employee's Compensation which shall be taken into account for purposes of the Plan shall be (Choose one):

Option 1:  The Employee's Compensation only from the time the Employee became a Participant in the Plan.

Option 2:  The Employee's Compensation for the whole of such Plan Year.

NOTE: If no option is selected, Option 1 will be deemed to be selected.

**SECTION 12. VESTING AND FORFEITURES**  
*Complete Parts A through G*

**Part A. Vesting Schedule For Employer Profit Sharing Contributions.** A Participant shall become Vested in his or her Individual Account derived from Profit Sharing Contributions made pursuant to Section 10 of the Adoption Agreement as follows (Choose one):

YEARS OF VESTING SERVICE	VESTED PERCENTAGE					(Complete if Chosen)
	Option 1 <input type="checkbox"/>	Option 2 <input type="checkbox"/>	Option 3 <input checked="" type="checkbox"/>	Option 4 <input type="checkbox"/>	Option 5 <input type="checkbox"/>	
1	0%	0%	100%	0%	_____%	
2	0%	20%	100%	0%	_____%	
3	0%	40%	100%	20%	_____%	(not less than 20%)
4	0%	60%	100%	40%	_____%	(not less than 40%)
5	100%	80%	100%	60%	_____%	(not less than 60%)
6	100%	100%	100%	80%	_____%	(not less than 80%)
7	100%	100%	100%	100%	_____%	(not less than 100%)

NOTE: If no option is selected, Option 3 will be deemed to be selected.

**Part B. Vesting Schedule For Matching Contributions.** A Participant shall become Vested in his or her Individual Account derived from Matching Contributions made pursuant to Section 7 of the Adoption Agreement as follows (Choose one):

YEARS OF VESTING SERVICE	VESTED PERCENTAGE					(Complete if Chosen)
	Option 1 <input type="checkbox"/>	Option 2 <input type="checkbox"/>	Option 3 <input checked="" type="checkbox"/>	Option 4 <input type="checkbox"/>	Option 5 <input type="checkbox"/>	
1	0%	0%	100%	0%	_____%	
2	0%	20%	100%	0%	_____%	
3	0%	40%	100%	20%	_____%	(not less than 20%)
4	0%	60%	100%	40%	_____%	(not less than 40%)
5	100%	80%	100%	60%	_____%	(not less than 60%)
6	100%	100%	100%	80%	_____%	(not less than 80%)
7	100%	100%	100%	100%	_____%	(not less than 100%)

NOTE: If no option is selected, Option 3 will be deemed to be selected.

**Part C. Hours Required For Vesting Purposes:**

- \_\_\_\_\_ Hours of Service (no more than 1,000) shall be required to constitute a Year of Vesting Service.
- \_\_\_\_\_ Hours of Service (no more than 500 but less than the number specified in Section 12, Part C, Item 1. above) must be exceeded to avoid a Break in Vesting Service.
- For purposes of determining Years of Vesting Service, Employees shall be given credit for Hours of Service with the following predecessor employer(s): (Complete if applicable)

**Part D. Exclusion of Certain Years of Vesting Service:**

All of an Employee's Years of Vesting Service with the Employer are counted to determine the vesting percentage in the Participant's Individual Account except (Check any that apply):

- Years of Vesting Service before the Employee reaches age 18.
- Years of Vesting Service before the Employer maintained this Plan or a predecessor plan.

**Part E. Allocation of Forfeitures of Employer Profit Sharing Contributions:**

Forfeitures of Employer Profit Sharing Contributions shall be (Choose one):

Option 1:  Allocated to the Individual Accounts of the Participants specified below in the manner as described in Section 10, Part B (for Employer Profit Sharing Contributions).

The Participants entitled to receive allocations of such Forfeitures shall be *(Choose one)*:

Suboption (a):  Only Qualifying Participants.

Suboption (b):  All Participants.

**Option 2:**  Applied to reduce Employer Profit Sharing Contributions *(Choose one)*:

Suboption (a):  For the Plan Year for which the Forfeiture arises.

Suboption (b):  For any Plan Year subsequent to the Plan Year for which the Forfeiture arises.

**Option 3:**  Applied first to the payment of the Plan's administrative expenses and any excess applied to reduce Employer Profit Sharing Contributions *(Choose one)*:

Suboption (a):  For the Plan Year for which the Forfeiture arises.

Suboption (b):  For any Plan Year subsequent to the Plan Year for which the Forfeiture arises.

**NOTE:** *If no option is selected, Option 1 and Suboption (a) will be deemed to be selected.*

**Part F. Allocation of Forfeitures of Matching Contributions:**

Forfeitures of Matching Contributions shall be *(Choose one)*:

**Option 1:**  Allocated, after all other Forfeitures under the Plan, to each Participant's Individual Account in the ratio which each Participant's Compensation for the Plan Year bears to the total Compensation of all Participants for such Plan Year.

The Participants entitled to receive allocations of such Forfeitures shall be *(Choose one)*:

Suboption (a):  Only Qualifying Contributing Participants.

Suboption (b):  Only Qualifying Participants.

Suboption (c):  All Participants.

**Option 2:**  Applied to reduce Matching Contributions *(Choose one)*:

Suboption (a):  For the Plan Year for which the Forfeiture arises.

Suboption (b):  For any Plan Year subsequent to the Plan Year for which the Forfeiture arises.

**Option 3:**  Applied first to the payment of the Plan's administrative expenses and any excess applied to reduce Matching Contributions *(Choose one)*:

Suboption (a):  For the Plan Year for which the Forfeiture arises.

Suboption (b):  For any Plan Year subsequent to the Plan Year for which the Forfeiture arises.

**NOTE:** *If no option is selected, Option 1 and Suboption (a) will be deemed to be selected.*

**Part G. Allocation of Forfeitures of Excess Aggregate Contributions:**

Forfeitures of Excess Aggregate Contributions shall be *(Choose one)*:

**Option 1:**  Allocated, after all other Forfeitures under the Plan, to each Contributing Participant's Matching Contribution account in the ratio which each Contributing Participant's Compensation for the Plan Year bears to the total Compensation of all Contributing Participants for such Plan Year. Such Forfeitures will not be allocated to the account of any Highly Compensated Employee.

**Option 2:**  Applied to reduce Matching Contributions *(Choose one)*:

Suboption (a):  For the Plan Year for which the Forfeiture arises.

- Suboption (b):  For any Plan Year subsequent to the Plan Year for which the Forfeiture arises.
- Option 3:**  Applied first to the payment of the Plan's administrative expenses and any excess applied to reduce Matching Contributions (*Choose one*):
- Suboption (a):  For the Plan Year for which the Forfeiture arises.
- Suboption (b):  For any Plan Year subsequent to the Plan Year for which the Forfeiture arises.

**NOTE:** If no option is selected, Option 2 and Suboption (a) will be deemed to be selected.

**SECTION 13. NORMAL RETIREMENT AGE AND EARLY RETIREMENT AGE**

**Part A. The Normal Retirement Age under the Plan shall be (check and complete one option):**

- Option 1:**  Age 65.
- Option 2:**  Age \_\_\_\_\_ (*not to exceed 65*)
- Option 3:**  The later of age \_\_\_\_\_ (*not to exceed 65*) or the \_\_\_\_\_ (*not to exceed 5th*) anniversary of the first day of the first Plan Year in which the Participant commenced participation in the Plan.

**NOTE:** If no option is selected, Option 1 will be deemed to be selected.

**Part B. Early Retirement Age (Choose one option):**

- Option 1:**  An Early Retirement Age is not applicable under the Plan.
- Option 2:**  Age 55 (*not less than 55 nor more than 65*).
- Option 3:**  A Participant satisfies the Plan's Early Retirement Age conditions by attaining age \_\_\_\_\_ (*not less than 55*) and completing \_\_\_\_\_ Years of Vesting Service.

**NOTE:** If no option is selected, Option 1 will be deemed to be selected.

**SECTION 14. DISTRIBUTIONS**

**Distributable Events. Answer each of the following items.**

- |    |  |                                     |     |                                     |    |
|----|--|-------------------------------------|-----|-------------------------------------|----|
| A. | Termination of Employment Before Normal Retirement Age. May a Participant who has not reached Normal Retirement Age request a distribution from the Plan upon Termination of Employment? | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/>            | No |
| B. | Disability. May a Participant who has incurred a Disability request a distribution from the Plan?  | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/>            | No |
| C. | Attainment of Normal Retirement Age. May a Participant who has attained Normal Retirement Age but has not incurred a Termination of Employment request a distribution from the Plan?     | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/>            | No |
| D. | Attainment of Age 59 1/2. Will Participants who have attained age 59 1/2 be permitted to withdraw Elective Deferrals while still employed by the Employer?                               | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/>            | No |
| E. | Hardship Withdrawals of Elective Deferrals. Will Participants be permitted to withdraw Elective Deferrals on account of hardship pursuant to Section 11.503 of the Plan?                 | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/>            | No |
| F. | In-Service Withdrawals. Will Participants be permitted to request a distribution during service pursuant to Section 6.01(A)(3) of the Plan?  | <input type="checkbox"/>            | Yes | <input checked="" type="checkbox"/> | No |
| G. | Hardship Withdrawals. Will Participants be permitted to make hardship withdrawals pursuant to Section 6.01(A)(4) of the Plan?  | <input checked="" type="checkbox"/> | Yes | <input type="checkbox"/>            | No |
| H. | Withdrawals of Rollover or Transfer Contributions. Will Employees be permitted to withdraw their Rollover or Transfer Contributions at any time?   | <input type="checkbox"/>            | Yes | <input checked="" type="checkbox"/> | No |

**NOTE:** If a box is not checked for an item, "Yes" will be deemed to be selected for that item. Section 411(d)(6) of the Code prohibits the elimination of protected benefits. In general, protected benefits include the forms and timing of payout options. If the Plan is being adopted to amend and replace a Prior Plan that permitted a distribution option described above, you must answer "Yes" to that item.

**SECTION 15. JOINT AND SURVIVOR ANNUITY**

**Part A. Retirement Equity Act Safe Harbor:**

Will the safe harbor provisions of Section 6.05(F) of the Plan apply? *(Choose only one option)*

Option 1:  Yes.

Option 2:  No.

**NOTE:** You must select "No" if you are adopting this Plan as an amendment and restatement of a Prior Plan that was subject to the joint and survivor annuity requirements.

**Part B. Survivor Annuity Percentage:** *(Complete only if your answer in Section 15, Part A is "No.")*

The survivor annuity portion of the Joint and Survivor Annuity shall be a percentage equal to \_\_\_\_\_% *(at least 50% but no more than 100%)* of the amount paid to the Participant prior to his or her death.

**SECTION 16. OTHER OPTIONS**

*Answer "Yes" or "No" to each of the following questions by checking the appropriate box.*

*If a box is not checked for a question, the answer will be deemed to be "No."*

- |    |  |                                     |   |                                     |    |
|----|--|-------------------------------------|---|-------------------------------------|----|
| A. | Loans: Will loans to Participants pursuant to Section 6.08 of the Plan be permitted?   | <input checked="" type="checkbox"/> | Yes   | <input type="checkbox"/>            | No |
| B. | Insurance: Will the Plan allow for the investment in insurance policies pursuant to Section 5.13 of the Plan?  | <input type="checkbox"/>            | Yes   | <input checked="" type="checkbox"/> | No |
| C. | Employer Securities: Will the Plan allow for the investment in qualifying Employer securities or qualifying Employer real property?  | <input type="checkbox"/>            | Yes   | <input checked="" type="checkbox"/> | No |
| D. | Rollover Contributions: Will Employees be permitted to make rollover contributions to the Plan pursuant to Section 3.03 of the Plan?   | <input checked="" type="checkbox"/> | Yes   | <input type="checkbox"/>            | No |
|    |  | <input type="checkbox"/>            | Yes, but only after becoming a Participant. |                                     |    |
| E. | Transfer Contributions: Will Employees be permitted to make transfer contributions to the Plan pursuant to Section 3.04 of the Plan?   | <input type="checkbox"/>            | Yes   | <input checked="" type="checkbox"/> | No |
|    |  | <input type="checkbox"/>            | Yes, but only after becoming a Participant. |                                     |    |
| F. | Nondeductible Employee Contributions: Will Employees be permitted to make Nondeductible Employee Contributions pursuant to Section 11.305 of the Plan?<br>Check here if such contributions will be mandatory. <input type="checkbox"/> | <input type="checkbox"/>            | Yes   | <input checked="" type="checkbox"/> | No |
| G. | Will Participants be permitted to direct the investment of their Plan assets pursuant to Section 5.14 of the Plan?   | <input checked="" type="checkbox"/> | Yes   | <input type="checkbox"/>            | No |

**SECTION 17. LIMITATION ON ALLOCATIONS**

***More Than One Plan***

If you maintain or ever maintained another qualified plan (other than a paired standardized money purchase pension plan using the same Basic Plan Document as this Plan) in which any Participant in this Plan is (or was) a Participant or could become a Participant, you must complete this section. You must also complete this section if you maintain a welfare benefit fund, as defined in Section 419(e) of the Code, or an individual medical account, as defined in Section 415(1)(2) of the Code, under which amounts are treated as annual additions with respect to any Participant in this Plan.

**Part A. Individually Designed Defined Contribution Plan:**

If the Participant is covered under another qualified defined contribution plan maintained by the Employer, other than a master or prototype plan:

- The provisions of Section 3.05(B)(1) through 3.05(B)(6) of the Plan will apply as if the other plan were a master or prototype plan.
- Other method. *(Provide the method under which the plans will limit total annual additions to the maximum permissible amount, and will properly reduce any excess amounts, in a manner that precludes Employer discretion.)*

**The provisions of Section 3.05(B), (C) and (E) of the Plan will apply, provided that any excess amounts will be corrected first by returning to a Participant his/her elective deferrals (with Income attributable thereto) and then by reducing the Participant's allocations under the International House of Pancakes ESOP Plan.**

**Part B. Defined Benefit Plan:**

If the Participant is or has ever been a participant in a defined benefit plan maintained by the Employer, the Employer will provide below the language which will satisfy the 1.0 limitation of Section 415(e) of the Code.

1.  If the projected annual addition to this Plan to the account of a Participant for any limitation year would cause the 1.0 limitation of Section 415(e) of the Code to be exceeded, the annual benefit of the defined benefit plan for such limitation year shall be reduced so that the 1.0 limitation shall be satisfied.

If it is not possible to reduce the annual benefit of the defined benefit plan and the projected annual addition to this Plan to the account of a Participant for a limitation year would cause the 1.0 limitation to be exceeded, the Employer shall reduce the Employer Contribution which is to be allocated to this Plan on behalf of such Participant so that the 1.0 limitation will be satisfied. (The provisions of Section 415(e) of the Code are incorporated herein by reference under the authority of Section 1106(h) of the Tax Reform Act of 1986.)

2.  Other method. *(Provide language describing another method. Such language must preclude Employer discretion.)*

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**SECTION 18. TOP-HEAVY MINIMUM**  
*Complete Parts A and B*

**Part A. Minimum Allocation or Benefit:**

For any Plan Year with respect to which this Plan is a Top-Heavy Plan, any minimum allocation required pursuant to Section 3.01(E) of the Plan shall be made *(Choose one)*:

- Option 1:**  To this Plan.
- Option 2:**  To the following other plan maintained by the Employer *(Specify name and plan number of plan)*

\_\_\_\_\_  
 \_\_\_\_\_

- Option 3:**  In accordance with the method described on an attachment to this Adoption Agreement. *(Attach language describing the method that will be used to satisfy Section 416 of the Code. Such method must preclude Employer discretion.)*

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected.*

**Part B. Top-Heavy Vesting Schedule:**

Pursuant to Section 6.01(C) of the Plan, the vesting schedule that will apply when this Plan is a Top-Heavy Plan (unless the Plan's regular vesting schedule provides for more rapid vesting) shall be *(Choose one)*:

- Option 1:**  6 Year Graded.
- Option 2:**  3 Year Cliff.

**NOTE:** *If no option is selected, Option 1 will be deemed to be selected.*

**SECTION 19. PROTOTYPE SPONSOR**

Name of Prototype Sponsor Travelers Insurance Company

Address One Tower Square, Hartford, CT 06183

Telephone Number 888-822-4710

**Permissible Investments**

The assets of the Plan shall be invested only in those investments described below *(To be completed by the Prototype Sponsor)*:

**Assorted mutual funds; brokerage accounts; and related investments.**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**SECTION 20. TRUSTEE OR CUSTODIAN**

**Option A:**                Financial Organization as Trustee or Custodian

Check One:                Custodian                              Trustee without full trust powers, or                              Trustee with full trust powers

Financial Organization                      See attached addendum

Signature                      \_\_\_\_\_

Type Name                      \_\_\_\_\_

**Collective or Commingled Funds**

List any collective or commingled funds maintained by the financial organization Trustee in which assets of the Plan may be invested *(Complete if applicable)*. Collective trust funds of Salomon Smith Barney and/or the Travelers.

**Option B:**                Individual Trustee(s)

Signature                      \_\_\_\_\_                      Signature                      \_\_\_\_\_

Type Name                      \_\_\_\_\_                      Type Name                      \_\_\_\_\_

Signature                      \_\_\_\_\_                      Signature                      \_\_\_\_\_

Type Name                      \_\_\_\_\_                      Type Name                      \_\_\_\_\_

**SECTION 21. RELIANCE**

An Employer who has ever maintained or who later adopts any plan (including a welfare benefit fund, as defined in Section 419(e) of the Code, which provides post-retirement medical benefits allocated to separate accounts for key employees, as defined in Section 419(d)(3) of the Code, or an individual medical account, as defined in Section 415(1)(2) of the Code) in addition to this Plan (other than a paired standardized money purchase pension plan using the same Basic Plan Document as this Plan) may not rely on the opinion letter issued by the National Office of the Internal Revenue Service as evidence that this Plan is qualified under Section 401 of the Internal Revenue Code. If the Employer who adopts or maintains multiple plans wishes to obtain reliance that his or her plan(s) are qualified, application for a determination letter should be made to the appropriate Key District Director of Internal Revenue.

The Employer may not rely on the opinion letter issued by the National Office of the Internal Revenue Service as evidence that this Plan is qualified under Section 401 of the Code unless the terms of the Plan, as herein adopted or amended, that pertain to the requirements of Sections 401(a)(4), 401(a)(17), 401(1), 401(a)(5), 410(b) and 414(s) of the Code, as amended by the Tax Reform Act of 1986, or later laws, (a) are made effective retroactively to the first day of the first Plan Year beginning after December 31, 1988 (or such later date on which these requirements first become effective with respect to this Plan); or (b) are made effective no later than the first day on which the Employer is no longer entitled, under regulations, to rely on a reasonable, good faith interpretation of these requirements, and the prior provisions of the Plan constitute such an interpretation.

This Adoption Agreement may be used only in conjunction with Basic Plan Document No. 04.

**SECTION 22. EMPLOYER SIGNATURE**

*Important: Please read before signing*

I am an authorized representative of the Employer named above and I statement following:

1.            I acknowledge that I have relied upon my own advisors regarding the completion of this Adoption Agreement and the legal tax implications of adopting this Plan
2.            I understand that my failure to properly complete this Adoption Agreement may result in disqualification of the Plan.





**IHOP CORP**  
**Executive Incentive Plan**  
**2001**

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**Effective Date**

The Executive Incentive Plan is effective January 1, 2001 and supersedes all previously implemented plans.

**Modification of the Plan**

IHOP Corp. and its subsidiaries reserve the right to modify, terminate, or make exceptions to the Executive Incentive Plan ("Plan") at any time without prior notice. The Plan will be reviewed on an annual basis allowing for updates or revisions to be considered. The Plan and this Plan Document do not constitute or imply an employment contract, and participants accrue no interest, right, or any benefit in the Plan, except as specifically set forth in this document.

**Eligibility**

The Plan includes the President, Vice Presidents, and all director level reports to the Vice Presidents or President, including legal counsels of IHOP Corp. and its subsidiaries; except those otherwise covered by another plan. Any director level employee not qualifying under the previous conditions may become eligible with the written approval of the President. Participants must be actively employed with IHOP Corp. and its subsidiaries through the end of the applicable year of the incentive plan. The Company's Plan Year is based on IHOP's fiscal year. The last day worked is the last day that an employee is considered active. In the case of termination, vacation or other payments can not be used to extend the last day worked.

***NOTE: All information determining an employee's position and location will be retrieved from the HRIS system. Therefore, it is imperative that information regarding changes in employee status, position, and location is received by the Personnel Records Department in a timely manner.***

**New Hires/Re-Hires**

New hires and rehires will have a prorated incentive based on the number of whole months worked in a fiscal year. Incentive eligibility begins with the first complete calendar month worked in an eligible position. If the participant begins work on the first calendar or workday of the month, credited will be for a full month worked.

**Promotions / Demotions/Position Change**

Any employee moved from a non-eligible position to an eligible position during the fiscal year will have an incentive based on the number of whole months worked in the fiscal year. If the participant is promoted on the first calendar or workday of the month, credit will be for a full month worked. The effective date of the promotion will be used to determine the number of whole months worked. Eligibility begins with the first full month in the eligible position.

When an employee is moved from one eligible position to another, the incentive will be based on the prior position until the first whole month in the new position begins. Once the first full month in the new position begins the incentive will then be based on that new position.

When an employee is moved from an eligible position to a non-eligible position the incentive will be based on the prior eligible position until the first whole

month in the new position begins. Once the first full month in the new position begins the participant is no longer eligible for this Plan.

**Short-Term or Long-Term Disability, Workers’ Compensation, and other Leaves of Absence**

Any participant on leave of absence or otherwise not actively working during the fiscal year will have an incentive prorated excluding the period on leave. The date the leave is effective and the date ending leave will be used to calculate the number of whole months worked in the fiscal year. This incentive will only be paid upon the employee’s return to active duty.

**Termination Due to Death or Retirement**

Any incentive earned will be prorated for the fiscal year based upon actual number of whole months worked and paid simultaneously with the normal distribution of incentives.

**Plan Description**

The Executive Incentive Plan is an annual incentive based on the profitability growth of IHOP Corp. and the achievement of specific individual business objectives of the participants.

**Determining Incentive**

The incentive award is a percentage of base salary which is dependent on the position of the participant (see “Bonus Allocation Table”). The Target Payout % multiplied by the participants base salary on the last day of the fiscal year is the Target Incentive in dollars. Any eligible participant that is not an Officer will have an incentive based on the Directors Target Payout as a percentage of Base Salary. The incentive weighting for the CEO, Executive Vice President, and Vice Presidents is solely based on Company Performance. The incentive weighting for Directors is **40%** Individual Business Objectives and **60%** Company Performance. The incentive weighting for Division Vice Presidents is **50%** Company Performance, and **50%** Division Performance.

**BONUS ALLOCATION TABLE**

	CEO	EXECUTIVE VICE PRESIDENT	VICE PRESIDENTS	DIRECTORS
<b>TARGET PAYOUT AS A% OF BASE SALARY</b>	<b>60%</b>	<b>50%</b>	<b>35%</b>	<b>20%</b>

**Incentive Payout Calculation**

The incentive payout is based solely on performance, therefore no limiting factors will be used in calculating the incentive. The Level of Performance is always based on the last whole percentage actually achieved.

*Examples of incentive calculations in various scenarios are attached to the Plan Document.*

**Company Performance**

The Company Performance is based on a comparison of the actual profit before taxes, bonus, and extraordinary items to the budgeted figure for the Plan Year. To determine the Profit Achievement for the organization, divide the actual profit before taxes, bonus, and extra ordinary items by the budgeted profit before taxes, bonus, and extraordinary items. Refer to the “Company/Division Payout Table” to determine the bonus achieved for the Company portion of the incentive. The bonus achieved is multiplied by the percentage weighting for the respective position (see “Determining Incentive” above) and then multiplied by the individual’s base salary to determine the company portion of the payout.

**Company/Division Payout Table**

Actual Profit Achieved	% of Bonus Achieved
Less than 95.0%	0%
95.0 — 95.9%	50.0%
96.0 — 96.9%	60.0%
97.0 — 97.9%	70.0%
98.0 — 98.9%	80.0%
99.0 — 99.9%	90.0%
100.0 —100.9%	100.0%
101.0 —101.9%	105.0%
102.0 —102.9%	110.0%
103.0 —103.9%	115.0%
104.0 —104.9%	120.0%
105.0 —105.9%	125.0%
106.0 —106.9%	130.0%
107.0 —107.9%	135.0%
108.0 —108.9%	140.0%

**Individual Business Objectives**

Annually, each Director who participates in the plan sets individual business objectives in conjunction with his or her immediate supervisor in December of each year. During this process challenging, measurable objectives that significantly impact the Company business objectives are to be mutually determined. After the fiscal year, a percentage of Achievement is then established by the immediate supervisor and approved by the CEO. This percentage of Achievement is multiplied by the percentage weighting for the respective position (see "Determining Incentive") and then multiplied by the individual's base salary to determine the individual portion of the payout.

In addition to the calculated individual portion of the incentive, an award may be granted at the discretion of the President to individuals exceeding expected levels of performance.

**Payment Distribution**

Incentive payouts will be distributed within 90 days following the close of the fiscal year for which the incentive was earned. Payouts will be paid in a separate check from the regular payroll check, and are subject to normal withholding deductions.

**Plan Administration**

The Executive Incentive Plan is administered by the IHOP Human Resources Department. This Plan Document and its provisions regulate all plan guidelines and participant eligibility. Any exception must be submitted in writing to the Human Resources Department and must be approved by the President.

**INCENTIVE CALCULATION SCENARIOS****Example #1: Low Individual Achiever & Low Company**

Assume a Director has a Base Salary of \$100,000.

**Individual Component**

The Individual Performance (IBOs) was reviewed and found 1 out of 4 goals were achieved. The Individual Component is thus 25%.

**Company Component**

Profit Before Taxes, Bonus, and Extraordinary Items for the year is 98% of the Target Amount. Therefore, the Bonus Achieved is 80% for the Company Component (see "Company/Division Payout Table" on page 4 of the Plan).

**Step # 1 — Target Payout**

Base Salary	*	Target Payout %	=	Target Payout
\$100,000	*	(20%)	=	\$20,000

Step # 2 - Individual Payout

Individual Component	*	Weighted as 40% of Target Payout	=	Individual Payout
25%	*	(40% * \$20,000)	=	\$2,000

Step # 3 - Company Payout

Company Component	*	Weighted as 60% of Target Payout	=	Company Target
80%	*	(60% * \$20,000)	=	\$9,600

Step # 4 - Incentive Payout

Individual Payout	+	Company Payout	=	Incentive Payout
\$2,000	+	\$9,600	=	\$11,600

**Example #2: High Individual Achiever & High Company**

Assume a Director has a Base Salary of \$100,000.

**Individual Component**

The Individual Performance (IBOs) was reviewed and found 3 out of 3 goals were achieved. The Individual Component is thus 100%.

**Company Component**

Profit Before Taxes, Bonus, and Extraordinary Items for the year is 104% of the Target Amount. Therefore, the Bonus Achieved is 120% for the Company Component (see “Company/Division Payout Table” on page 4 of the Plan).

Step # 1 — Target Payout

Base Salary	*	Target Payout %	=	Target Payout
\$100,000	*	(20%)	=	\$20,000

Step # 2 - Individual Payout

Individual Component	*	Weighted as 40% of Target Payout	=	Individual Payout
100%	*	(40% * \$20,000)	=	\$8,000

Step # 3 - Company Payout

Company Component	*	Weighted as 60% of Target Payout	=	Company Target
120%	*	(60% * \$20,000)	=	\$14,400

Step # 4 - Incentive Payout

Individual Payout	+	Company Payout	=	Incentive Payout
\$8,000	+	\$14,400	=	\$22,400

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

	Year Ended December 31,		
	2001	2000	1999
<b>INCOME PER SHARE—BASIC</b>			
Weighted average common shares outstanding	20,398	20,017	19,983
Net income available to common shareholders	\$ 40,288	\$ 35,338	\$ 32,125
Net income per share—basic	\$ 1.98	\$ 1.77	\$ 1.61
<b>NET INCOME PER SHARE—DILUTED</b>			
Weighted average common shares outstanding	20,398	20,017	19,983
Net effect of dilutive stock options based on the treasury stock method using the average market price	364	246	375
Total	20,762	20,263	20,358
Net income available to common shareholders	\$ 40,288	\$ 35,338	\$ 32,125
Net income per share—diluted	\$ 1.94	\$ 1.74	\$ 1.58

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**EXHIBIT 23.0**

**CONSENT OF INDEPENDENT ACCOUNTANTS**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-46361 and 333-71768) of IHOP Corp. of our report dated February 15, 2002 relating to the consolidated financial statements, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Los Angeles, California

March 11, 2002

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QuickLinks

[CONSENT OF INDEPENDENT ACCOUNTANTS](#)