IHOP CORP.

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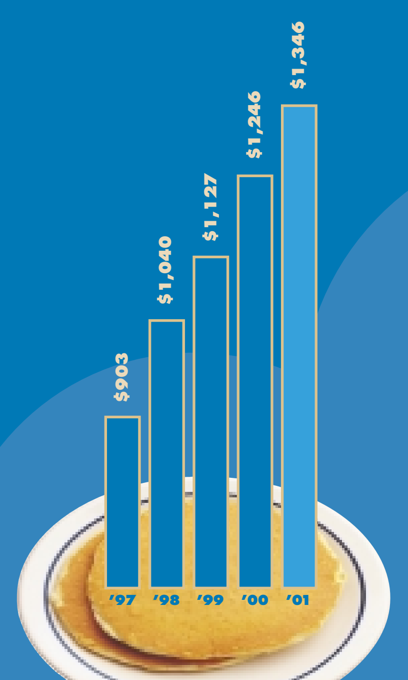
2001 Annual Report

IHOP Corp.

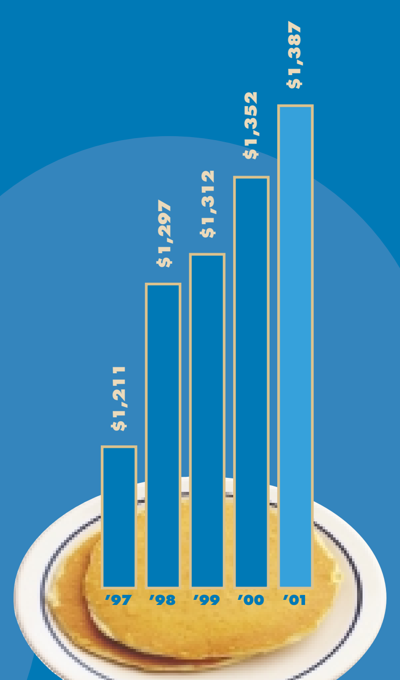
IHOP CELEBRATES A MAJOR MILESTONE

Financial and Operational Highlights

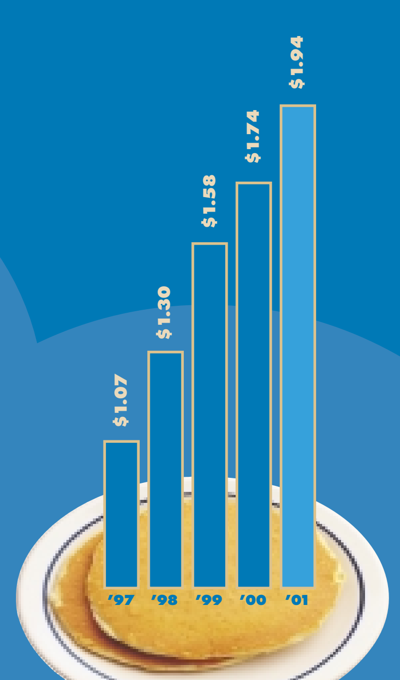
(In thousands, except per share and restaurant amounts)	Year Ended December 31, 2001	2000
Income Statement Data		
Total revenues	$ 324,436	$ 303,244
Income before income taxes	64,461	57,460
Net income	40,288	35,338
Net income per share		
Basic	$ 1.98	$ 1.77
Diluted	$ 1.94	$ 1.74
Balance Sheet Data (end of period)		
Total assets	$ 641,429	$ 562,212
Long-term debt	50,209	36,363
Shareholders' equity	312,430	259,995
Sales Data		
System-wide sales	$ 1,345,757	$ 1,246,177
Average sales per restaurant	1,387	1,352
Restaurant Data		
At year-end	1,017	968
Opened during the year	93	84
Franchised during the year	95	95
Capital Investment		
Total capital investment	$ 119,797	$ 99,378



System-Wide Sales
(In millions)



Average Sales per Restaurant
(In thousands)

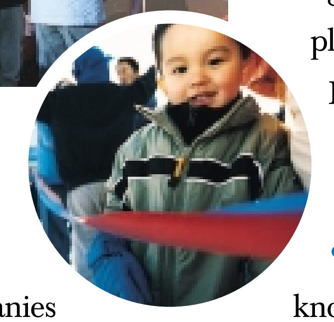


Earnings per Share

A Formula That's Stood the Test of Time

1,000 Restaurants + 43 Years + 11 Billion Pancakes = An American Icon

Ask Stanley Wong how it feels to be the owner and operator of IHOP's 1000th restaurant and he'll say, "I was lucky." Ask Kim Herzer, IHOP Corp.'s Chairman and CEO, about the grand opening in Layton, Utah in November 2001 and he'll respond, "Next."



Does that mean IHOP has been lucky to double in size from 499 outlets in 1991 to 1,000 ten years later? Does that mean the growth and development of a concept that's spanned more than 43 years and 11 billion pancakes is no big deal? • Far from it.

• What it means is that Wong and Herzer, typical of their fellow long-time IHOP franchisees and employees in the corporate office, are people of action, not words. It means this is a company that does not rest on its laurels. It means this is a company that remembers and cherishes its past, but keeps its eyes focused squarely on the challenges of the future. • "At a time when many companies have slowed, we are pleased with the growth and progress of our company," said Herzer as Wong opened the doors to the company's landmark location. *"We thank our customers for their support and look forward to continued expansion of IHOP in 2002 and beyond."*

• That's not to say this milestone came and went without at least a modicum of fanfare. With snow in the air, *six sky divers dressed as the company's signature Rooty Tooty Fresh 'N Fruity breakfast meal – two eggs, one strip of bacon, one sausage, one hash brown and a dollop of blueberry compote – dropped from a mile high in the sky to a 1,000-square-foot placemat positioned in the parking lot* at 920 Main Street. The sky divers were joined on the ground by two oversized IHOP pancakes on a giant place setting that included a 30-foot plate, giant silverware and one big napkin. Layton Mayor Jerry Stevenson offered a dedication. And IHOP presented a donation to the local United Way. • Make no mistake: the folks at IHOP know how to celebrate an accomplishment that's been well-earned. • But the flash and fun of that cold and clear day in Utah pales in comparison with the steady and strong growth of this American icon since its start in 1958. *There is a bigger picture here, a bigger story that needs telling.* • Read on and we think you'll agree: IHOP has stood – and will continue to stand – the test of time.

Message From Kim Herzer

IHOP's Chairman and Chief Executive Officer

Dear Shareholders, 2001 was a tremendous year for IHOP. A year in which our system-wide sales grew to more than $1.3 billion and we reached a true milestone in the industry – our 1,000th restaurant. However, what is particularly important is that we also continued to make IHOP the best experience in family dining by being attentive to our guests' needs, offering friendly, fast service and above all, constantly looking for ways to make things better . . . and then doing them.

Record 2001 Performance

The year 2001 represented another year of record gains for IHOP. With an eight percent system-wide sales increase over 2000, we generated total revenues of $324.4 million in 2001, which included revenue from franchise operations, sales of franchises and equipment, and revenue from company operations. On the bottom line, we produced a 14 percent increase in net income and an 11.5 percent gain in diluted earnings per share, or $40.3 million and $1.94 per share. Our performance during 2001 represents our 12th straight year of net income growth. • Three key areas contributed to our record performance in 2001: new unit development, same-store sales growth, and average sales per effective restaurant increases. • We opened a total of 93 new restaurants, including 76 IHOP developed, 12 investor and 5 area licensee developed restaurants, in existing markets such as Dallas, Seattle and Denver, as well as new markets including Milwaukee and New Orleans. • Same-store sales increased 0.8 percent for the year. Same-store sales increases were driven by new products and new marketing initiatives. • Average sales per effective restaurant increased 2.6 percent primarily due to new restaurant development during the year.

Giving Back

Looking back on 2001 wouldn't be complete without a word on the tragic events of September 11. As with so many Americans, our company, our franchisees and our employees sought ways to contribute to the relief effort and help those in need. During October 2001, IHOP customers, employees and franchisees donated $53,000, which IHOP Corp. matched, for a combined donation of $106,000 to the United Way September 11 Fund. In addition to financial assistance, IHOP franchisees across the country responded to the need to assist the victims and volunteers. • In New York, a temporary IHOP was set up in the Volunteer Center for the American Red Cross. Staffed by IHOP franchisees from throughout the Northeast, they served as many as 500 volunteers and law enforcement personnel each day. • Heeding the call for blood donations, IHOP franchisees from across the country responded by donating orange juice and free meal coupons to encourage blood donations and to reward those who had given blood. • IHOP franchisees from Oklahoma donated a semi-trailer of food weighing more than 8,000 pounds to the Feed the Children organization to assist those affected by the tragedy in New York. • We are proud of our customers, employees and franchisees for their generosity.

What Made the Difference?

This year's annual report is focusing on IHOP's rich operating history and how we got to where we are today with more than 1,000 restaurants in the U.S. and Canada. Looking back, there are several events and decisions that made all the difference . . . • In the late 1950s, IHOP management made the decision to franchise the IHOP concept as a means to grow the company. However, IHOP modified the traditional franchising model. We looked upon franchising as more of a management tool, using it to find the best franchisee, rather than as simply a means to finance growth. This approach has been integral to producing the growth IHOP has enjoyed to date, and will be a major factor for the company going forward as we grow. • In the 1980s, we turned to a single concept strategy versus pursuing multiple concepts, banking on the strength and customer appeal of the International House of Pancakes restaurant. In this way, we changed the character of the company, allowing everyone to "wear the blue hat" and expend their time and energy solely on IHOP's performance. • That's not to say that things always went well. In the early '80s, the company faced difficult financial times. But our leveraged buy-out activities in 1987 and the company's subsequent IPO a few years later in 1991, allowed us to create a company with a strong financial base and the stability for future growth. • And grow we have. Over the last 43 years, we have become part of the best America has to offer. We foster an entrepreneurial spirit within a franchisee community that is now more than 350 strong. The IHOP system employs well over 50,000 people participating in an industry that is the largest private sector employer in the nation. We continue to represent a place families can come to for great food and great service at a great price. And this will always be the hallmark of IHOP's value.

> **"Over the last 43 years, we have become part of the best America has to offer. We foster an entrepreneurial spirit within a franchisee community that is now more than 350 strong."**

The Best Is Yet to Come

Throughout the years, we have focused on "what was next" for IHOP. What would get us to our 1,000th restaurant and what would bring us to a true leadership position in family dining? Sometimes the answers were straightforward, sometimes subtle and sometimes dramatic, but they always shared a common thread: EXECUTION. Successful execution – both at the restaurant and the corporate level – is and always will be a common denominator in IHOP's ability to adapt, evolve and grow as a company. • But, as we look back on those things that have made IHOP the American icon it is today, it is clear that our legacy also has just as much to do with the intangibles of our company. Our sense of family, entrepreneurial spirit and dedication to our brand drives the passion that our franchisees and employees hold for IHOP and the more than 200 million guests who dine in our restaurants each year. • Because this passion remains our most important competitive advantage, we knew that future IHOP leadership must also hold this same level of commitment to our company and what we stand for. In December 2001, we found such a person in Julia A. Stewart. Julia joined IHOP Corp. as President and Chief Operating Officer, and will be assuming the role of Chief Executive Officer in mid-2002. • For every successful restaurant company, there is a management team that is focused on execution and making the guest experience better. IHOP has done these things well and established a strong track record through both good and bad times. But every company needs new ideas on how it's going to grow and how it's going to get better. This is where Julia comes in. Working closely with the entire management team as well as our franchisees, Julia is committed to defining the next level of growth for IHOP. This plan will certainly focus on strengthening all aspects of our business and franchisee system, but most importantly, on making the guest experience the best that it can be. Satisfied, happy guests are loyal guests. Once you've instilled customer loyalty, you've won half the battle! • We look forward to sharing our growth strategy with you soon, and hope that you share our excitement . . . and passion . . . for IHOP as we work to take the company to the next level. The best is yet to come!

Julia A. Stewart
President and COO

Kim Herzer
Chairman and CEO

Richard "Kim" Herzer
Chairman and Chief Executive Officer
IHOP Corp.

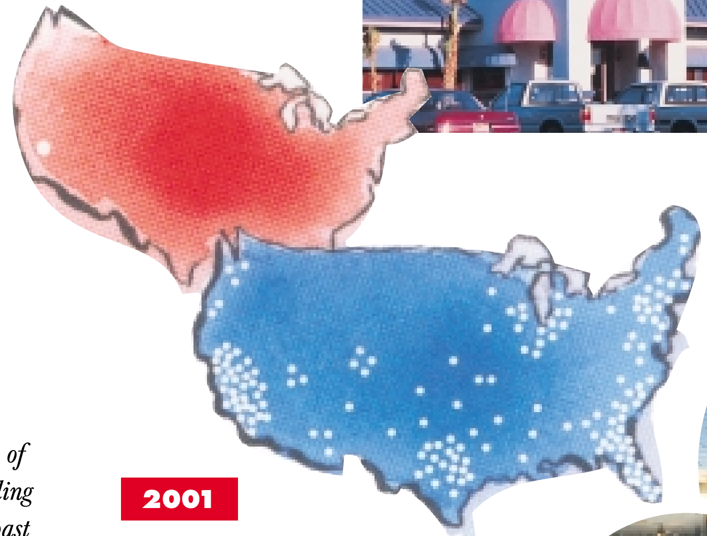
Introducing Julia A. Stewart

Former IHOP Server Comes Full Circle as President and COO

Throughout her more than 30-year career in the restaurant industry, Julia A. Stewart says she has actively sought out mentors who have helped her rise from waiting tables at an IHOP in San Diego as a teenager to the position of President and Chief Operating Officer of the company in 2001. Her next step—when she assumes the role of IHOP's Chief Executive Officer in mid-2002—will be no different. • It's just that, this time, her mentor is Kim Herzer. • "I have been extremely fortunate that, throughout my career, there have been people ahead of me—both men and women—who have provided tremendous guidance and support," says Stewart. "It's the same in this situation and one of the primary reasons I decided to take on this challenge. I look to Kim as a mentor. We share common goals and values. We are building a strong partnership. We are taking the time to be very thoughtful about how we implement this transition." • As such, the road ahead for IHOP is likely to follow the same general direction as charted by Kim Herzer since he headed a group of investors that acquired a controlling interest in the company in 1987. But it also likely that, with Stewart behind the wheel, the road will take on some exciting new twists and turns, drawing in part on her experiences as an executive at Applebee's, Taco Bell and other restaurant organizations. • Stewart is not rushing headlong into a mix of the old and the new. Rather, she has committed her first 90 days on the job to listening, observing and learning how the company works at both the corporate and franchise levels. After thoroughly assessing and evaluating the business, Stewart says she will spend the ensuing 90 days working with the management team to formulate and implement a plan that builds on existing strengths and takes IHOP to the next level. • "My goal is to set in motion a strong growth plan that further extends the company's unmatched brand and catapults IHOP to the number one position in family dining," she says. "That's number one not just in size and volume, but number one in what our guests expect from us—great food, great service and great prices." • While the specifics of the plan to achieve this ambitious goal have yet to fall into place, one thing is certain at the outset: Stewart is driven by a passion for IHOP and the values it represents. • "I have rarely met anyone who hasn't been to an IHOP," she says. "It is part of that home and heart and warmth that makes America rich with history and heritage. It is, truly, an American icon. I was proud to be a part of that when I was a teenager. And I am very proud to once again be a part of that today."

> **"My goal is to set in motion a strong growth plan that further extends the company's unmatched brand and catapults IHOP to the number one position in family dining."**

This is the **original A-frame** *– in all its 1960s glory. Motorists passing by couldn't help but notice the big blue roof. The interior was comfortable and cozy, with some of the early restaurants offering just 2,000 square feet of space and seating for only 72 customers, encouraging short stays and quick table turns.*



1958

2001

Like points of light spreading from one coast to the other, **IHOP has grown** *from its original location in Toluca Lake, California in 1958 to over 1,000 stores in 41 states – and Canada – today.*

To accommodate more customers as well as full-sized kitchens that could turn out a wide range of entrées, IHOP moved away from the A-frame design in the 1980s and 1990s. Here, the **abbreviated blue roof** *serves as a connection to the past . . .*

. . . while this approach retains design echoes of the original restaurants' **pointed-roof** *profile.*

Our Momentum Continues to Build

Spirit of A-Frame Chalet Lives On in Larger, More Efficient Designs

Here, the **signature profile** *is retained but there is a shift from a vibrant to a softer blue roof and from persimmon red paneling to natural wood grain to appeal to the more sophisticated aesthetics of 1970s customers. Note also the early use of the IHOP name on the sign.*

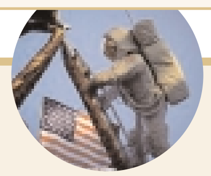
Mention the acronym IHOP to any baby boomer worthy of the demographic label and, odds are, visions of a massive blue roof will form in their head. That's exactly as founder Al Lapin intended it. His original A-frame design, built around a Swiss chalet theme and decked out in vibrant blues and dissonant persimmon, captured and held the customer's attention. The small seating capacity and bright colors also encouraged rapid table turns and high efficiency. Though the last of the iconic restaurants was built in 1983, many still exist and continue to prosper to this day, some generating sales in excess of $2.5 million per year. • Over time, IHOP's architecture—like its menu—has evolved, modernized and expanded. Larger restaurants now accommodate more customers. Full-sized kitchens, compared with the early ship-like galleys, allow for the preparation of lunch and dinner entrées beyond the many breakfast items. The colors are more subdued, encouraging diners to extend their stays beyond the early morning rush of years gone by. • And that blue roof? It's still there! IHOP's past lives on, even as it moves boldly into the future.

The **current IHOP** *restaurant design offers an attractive place for our guests to enjoy a meal at any time of the day.*

Hula Hoop rage

1958 *Founder Al Lapin opens first restaurant in Toluca Lake, California.* **1963** *Serves 100 millionth pancake • Opens first restaurant in Japan.* **1965** *Opens 100th restaurant.* **1968** *Opens 200th restaurant.* **1969** *Opens first restaurant in Canada.* **1970** *Opens 300th restaurant.*

Teens react to British musical invasion



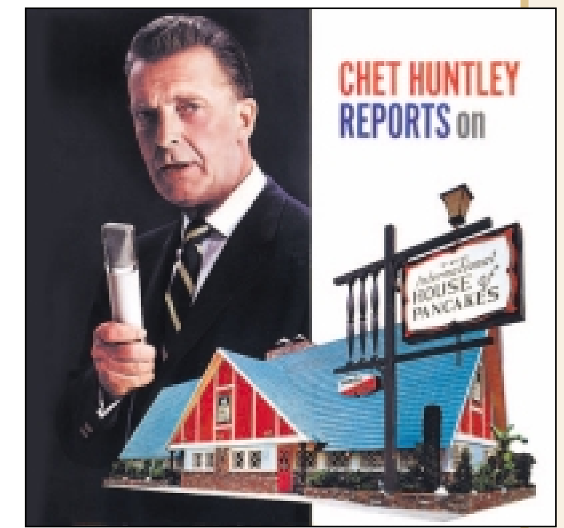
Man walks on the moon

The community spirit of IHOP is displayed each New Year's Day in the **dramatic form of a float** *in the Tournament of Roses Parade. For over ten years, the company has invited schoolchildren from around the country to submit float designs, with the winners enjoying the thrill of riding their creation down Pasadena's famed Colorado Boulevard. Photos provided by Tournament of Roses® Archives.*

The float idea was based on the **IHOP Theme** *– What Makes Me Happy?*

In the early years, food servers often **donned whimsical attire** *that played off menu specials and seasonal themes.*

Employees and franchisees alike are **proud to be associated** *with IHOP, as evidenced by these personalized license plates.*



The corporate headquarters once turned to Chet Huntley – one-half of the highly respected Huntley-Brinkley television news duo of the 1960s – to **spread the IHOP gospel** *to aspiring franchisees.*

Securing Our Place in the Cultural Landscape

Temporary IHOP at Ground Zero Typifies Community Commitment

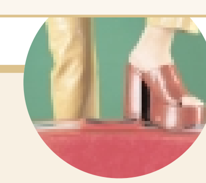
Community building *is as essential to IHOP as pancakes and syrup. Here, a local franchisee teamed up with the Boy Scouts and the Marine Corps to gather Christmas toys for children in need.*

The people of IHOP know how to have a good time. But they also know how to respond when times are bad. • So when tragedy of overwhelming proportion struck New York City on September 11, franchisees from throughout the Northeast didn't hesitate to set up a temporary IHOP location and serve meals on a daily basis to volunteers and law enforcement personnel near ground zero. Others within the organization also pitched in with cash (matched by IHOP Corp.), orange juice and free meal coupons to encourage blood donations, and food, such as an Oklahoma franchisee's semi-trailer load weighing more than 8,000 pounds to the Feed the Children organization. • This outpouring of support is merely the most recent chapter in a decades-long tradition of giving back to the communities in which IHOP does business. For instance, the company sponsors a "Dream Up Our Float" contest tied into IHOP's participation in the Tournament of Roses Parade that attracts tens of thousands of entries from elementary school children around the country. Another example: the Richard K. Herzer Scholarship for the Study of Entrepreneurial Business encourages the next generation to follow in the footsteps of successful franchisees.

Right after **September 11**, *franchisees from throughout the Northeast teamed to set up a temporary IHOP location and serve meals to volunteers and law enforcement personnel at ground zero.*

Watergate

1971 *Serves 1 billionth pancake.* **1973** *Adopts IHOP acronym in marketing program for first time.* **1974** *Opens 400th restaurant.* **1975** *Serves 2 billionth pancake.* **1979** *Serves 3 billionth pancake.* **1980** *Establishes restaurants in 40 states.*



Disco

Discovering the Flip Side to Pancakes

Breakfast Staple Sets the Table for Expanded Lunch and Dinner Menu

In a year's worth of breakfasts, IHOP serves more than 500 million pancakes drenched in a million gallons of syrup, accompanied by 20 million pounds of bacon, sausage and ham, 92 million eggs, 300 million cups of coffee and 2.5 million gallons of orange juice. While these numbers are impressive, it's quality—not quantity—that sets IHOP apart from its competitors. As others cut costs and corners to compete solely on the basis of price, IHOP remains true to its long-standing commitment to serve only the freshest and highest quality ingredients, convinced that its customers will recognize and appreciate the difference. The company's steady growth through the years confirms it made the right choice. • While retaining its leadership position in breakfast, IHOP continues its efforts to strengthen its lunch and dinner offerings. It might come as a surprise to learn that IHOP serves more than 4.8 million T-bone steaks and 6 million pounds of french fries annually. • No matter what the entrée and no matter when it is being served, IHOP's traditional core values remain unchanged: food, family, familiarity and—perhaps most importantly—fun.

From the beginning, customers came to IHOP not just for the food but also for the flair. **Our unique approach** *to dining – a combination of food, family, familiarity and fun – continues to appeal from generation to generation.*

In keeping with tradition, IHOP's **Lunch and Dinner Menu** *is built around such American family favorites as the double BLT and the monster burger.*

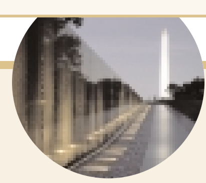
At IHOP, we are always working on **delicious new** *ideas for breakfast, lunch and dinner.*

Talk about your liquid assets: IHOP serves more than **300 million cups** *of coffee annually.*

In addition to more than **500 million pancakes** *each year, IHOP customers consume about 92 million eggs, 20 million pounds of bacon, sausage and ham and 4.8 million T-bone steaks.*

Could his eyes be bigger than his stomach? IHOP offers **16 variations** *on its world-renowned buttermilk pancakes.*

1980 *Opens 500th restaurant.* **1982** *Serves 4.0 billionth pancake.* **1983** *Builds last of architectural icon A-frame restaurants.* **1985** *Serves 5 billionth pancake.* **1991** *Moves headquarters to Glendale, California. • Completes IPO and begins trading publicly on NASDAQ under symbol "IHOP."*



Vietnam Memorial opens

Fall of the Berlin Wall

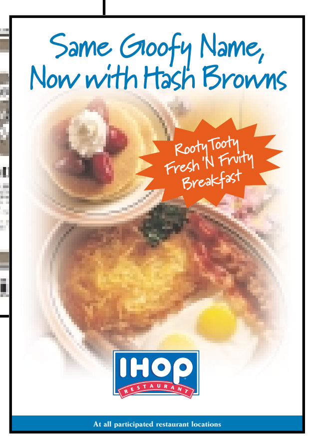
Over the years IHOP has tried to convey a happy and fun image for its restaurants. In the early years, it was a kangaroo named **IHOP**. *Later,* **Cliff Bemis**, *the company's advertising spokesperson, helped to popularize the Rooty Tooty Fresh 'N Fruity breakfast in memorable commercials.*

Telling Our Story, Sharing Our Passion

Food, Family and Fun Are the Ties That Bind Us With Our Customers

IHOP has never been one to toot its own horn. Unless, of course, you're talking about the Rooty Tooty Fresh 'N Fruity breakfast. Then the company will resort to any means necessary—even asking its spokesman at the time to don a Groucho Marx-like nose and glasses—to tell the world that IHOP isn't simply about food. It's also about fun. • The Rooty Tooty menu item, which continues to be among the company's most popular to this day, speaks volumes about what makes IHOP unique and special. On the one hand, the company's approach to advertising and marketing promotes continuity. Pancakes decorated as happy faces that parents once devoured when they were young can now be shared with their children and, in many cases, their grandchildren. Perhaps that's why, for many families, breakfast at IHOP on a Saturday or Sunday morning is a tradition that's worth waiting in line for. IHOP recognizes that its message and its menu must also grow and evolve with looks and tastes that appeal to each new generation of customers. Television ads that, for example, show a grandson teaching his grandfather how to ride a scooter and then reliving the experience over a meal at an IHOP leverage the brand's heritage while at the same time moving it forward. • More and more, customers both young and old are discovering that "Any Time's a Good Time for IHOP."

1975



2001

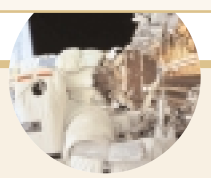
From the bouncing **IHOP** *kangaroo to* **our signature items**, *in-store promotions support our media spots.*

This early television ad struck a comic chord to call attention to the **addition of fish dinner entrées** *to the restaurant's core breakfast franchise.*

One of the company's proven marketing strategies is to mine the menu for items that can be promoted at the point of sale. One runaway success: the **Funny Face**, *which adds a sweet taste to the traditional bacon-eggs-and-pancake breakfast.*

The famous **circular menu** *is remembered fondly by early IHOP patrons. Today, our menus are more sophisticated, with tantalizing photographs that whet the appetite.*

1992 *Included on* Forbes *magazine "200 Best Small Companies" list.* **1993** *Exceeds $1.0 million average sale per restaurant.* **1994** *Opens 600th restaurant.* **1996** *Opens 700th restaurant.* **1998** *Exceeds $1.0 billion in system-wide sales. • Opens 800th restaurant. • Included on* Forbes *magazine "200 Best Small Companies" list.*



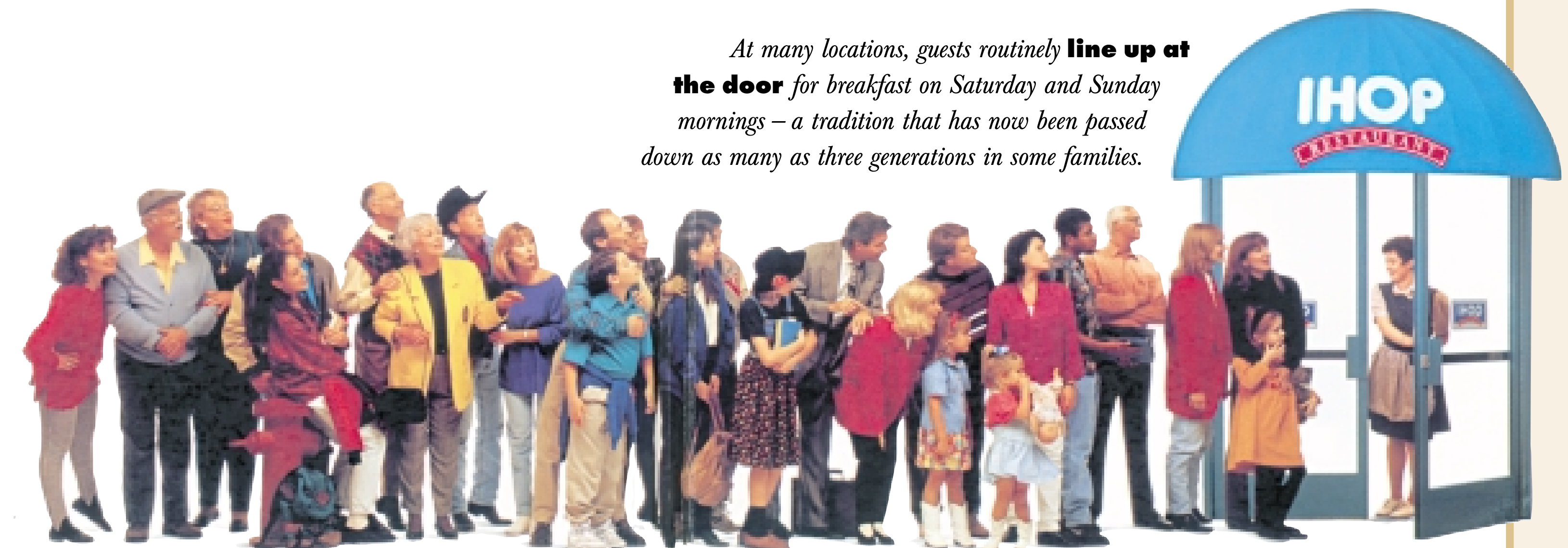
Hubble telescope

First Olympic Snowboarding

Julia A. Stewart, *an IHOP server as a teenager, returned to her roots as the company's President and Chief Operating Officer in 2001.*

Kim Herzer is not one to waste words: "IHOP is a restaurant company, not a franchise company." Each restaurant, whether there are a thousand of them or just one, depends on people on the front lines who are aware of and react to the needs of the customers. Otherwise, Herzer says, "you don't have a business." • IHOP clearly has a business. And, just as clearly, the success of this business can be attributed to its franchisees—the skills, experience and commitment they bring to their restaurants day

At many locations, guests routinely **line up at the door** *for breakfast on Saturday and Sunday mornings – a tradition that has now been passed down as many as three generations in some families.*



Doing What Works One Restaurant at a Time

Our Unique Business Approach Keeps Us Moving Forward

IHOP first **exceeded $1.0 billion** *in system-wide sales in 1998. The company has earned a profit every quarter since it became publicly traded in 1991.*

after day, year after year. That is why IHOP, unlike its competitors, seeks out hands-on owners and operators to drive its growth, one restaurant at a time. Franchising is a management tool, not simply a means to finance growth. • This core philosophy guided the company in 1958, when it opened its first restaurant, and continues to guide it in 2001, with the opening of its 1000th restaurant. The hiring of Julia A. Stewart and her eventual succession of Herzer as CEO will chart a new course for IHOP in 2002 and beyond. • It takes longer this way. It means being more selective. But the results are steady and sure. In these times of changing markets and shifting fortunes, ours is a business that's as familiar, comforting and reassuring as an IHOP breakfast on a Sunday morning.

IHOP celebrates the opening of its 1000th restaurant *in Layton, Utah on November 27, 2001. This milestone marked a doubling of the chain's size over the last 10 years.*

1999 *Serves 10 billionth pancake. • Begins trading on NYSE under symbol "IHP." • Opens 900th restaurant.*

2001 *Opens 1000th restaurant. • Hires Julia A. Stewart as President, Chief Operating Officer and Director.*

IHOP opens 1000th restaurant

Five-Year Financial Summary

(In thousands, except per share amounts)	2001(a)	2000(a)	1999(a)	1998(a)	1997(a)
	Year Ended December 31,				
Income Statement Data					
Revenues					
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
Costs and expenses					
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
Total costs and expenses	259,975	245,784	220,999	213,403	180,259
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
Net income	$ 40,288	$ 35,338	$ 32,125	$26,111	$ 20,914
Net income per share (b)					
Basic	$ 1.98	$ 1.77	$ 1.61	$ 1.33	$ 1.09
Diluted	$ 1.94	$ 1.74	$ 1.58	$ 1.30	$ 1.07
Weighted average shares outstanding (b)					
Basic	20,398	20,017	19,983	19,659	19,192
Diluted	20,762	20,263	20,358	20,033	19,486
Balance Sheet Data (end of period)					
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.

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 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.

Results of Operations

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

(Dollars in thousands)	Year Ended December 31, 2001	2000	1999
Restaurant Data			
Effective restaurants (a) (d)			
Franchise	767	696	638
Company	72	76	74
Area license	131	150	147
Total	970	922	859
System-wide			
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%
Franchise			
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%
Company			
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%)
Area License			
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
Restaurant Development Activity					
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
Total new openings	93	84	76	73	67
Closings					
Company and franchise	(11)	(16)	(8)	(21)	(9)
Area license	(33)	(3)	–	(4)	–
IHOP – end of year	1,017	968	903	835	787
Summary – end of year					
IHOP					
Franchise	823	747	678	624	571
Company	72	71	76	66	71
Area license	122	150	149	145	145
Total IHOP	1,017	968	903	835	787
Restaurant Franchising Activity					
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)
Net addition	76	69	54	53	36

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. • 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.

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.

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 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.

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.

Consolidated Balance Sheets

(In thousands, except share amounts)	December 31, 2001	2000
Assets		
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
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
Total assets	$641,429	$562,212
Liabilities and Stockholders' Equity		
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
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.

Consolidated Statements of Operations

(In thousands, except per share amounts)	Year Ended December 31, 2001	2000	1999
Revenues			
Franchise operations			
Rent	$ 65,780	$ 51,135	$ 44,722
Service fees and other	142,850	132,226	118,764
	208,630	183,361	163,486
Sales of franchises and equipment	46,996	47,065	39,545
Company operations	68,810	72,818	70,204
Total revenues	324,436	303,244	273,235
Costs and Expenses			
Franchise operations			
Rent	37,867	27,695	23,233
Other direct costs	48,269	44,699	40,956
	86,136	72,394	64,189
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
Total costs and expenses	259,975	245,784	220,999
Income before income taxes	64,461	57,460	52,236
Provision for income taxes	24,173	22,122	20,111
Net income	$ 40,288	$ 35,338	$ 32,125
Net Income Per Share			
Basic	$ 1.98	$ 1.77	$ 1.61
Diluted	$ 1.94	$ 1.74	$ 1.58
Weighted Average Shares Outstanding			
Basic	20,398	20,017	19,983
Diluted	20,762	20,263	20,358

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(In thousands, except share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Contribution to ESOP	Total
Balance, December 31, 1998	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
Balance, December 31, 1999	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
Balance, December 31, 2000	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
Balance, December 31, 2001	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
Cash flows from operating activities			
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
Cash provided by operating activities	55,703	68,055	51,392
Cash flows from investing activities			
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)
Cash used in investing activities	(122,442)	(103,270)	(77,103)
Cash flows from financing activities			
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
Cash provided by financing activities	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
Cash and cash equivalents at end of period	$ 6,252	$ 7,208	$ 4,176
Supplemental disclosures			
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.

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

(In thousands)	2001	2000
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

(In thousands)	2001	2000
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

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.

(In thousands)	2001	2000
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

5 Debt

Debt consists of the following:

(In thousands)	2001	2000
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. • Net investment in direct financing leases receivable is as follows:

(In thousands)	2001	2000
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:

(In thousands)	Capital Leases	Operating Leases
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	

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:

(In thousands)	Direct Financing Leases	Operating Leases
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
Total minimum rents receivable	$395,492	$1,354,876

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 1/3 after one year, 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 1/3 after one year, 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
$8.25 - $27.33	1,588,370	6.22	$17.58	1,023,026	$15.81

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 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:

(In thousands, except per share amounts)	2001	2000	1999
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:

(In thousands)	2001	2000	1999
Provision for income taxes:			
Current			
Federal	$13,008	$13,160	$12,051
State and foreign	1,494	2,021	1,766
	14,502	15,181	13,817
Deferred			
Federal	8,224	5,623	5,455
State	1,447	1,318	839
	9,671	6,941	6,294
Provision for income taxes	$24,173	$22,122	$20,111

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

	2001	2000	1999
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	37.5%	38.5%	38.5%

Deferred tax liabilities (assets) consist of the following:

(In thousands)	2001	2000
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	$60,213	$50,542

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

(In thousands)	Franchise Operations	Company Operations	Sales of Franchises and Equipment	Consolidating Adjustments And Other	Consolidated Total
Year Ended December 31, 2001					
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
Year Ended December 31, 2000					
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
Year Ended December 31, 1999					
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 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)

(In thousands, except per share amounts)	Revenues	Operating Income	Net Income	Net Income Per Share—Basic(a)	Net Income Per Share—Diluted(a)
2001					
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
2000					
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.

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.

PricewaterhouseCoopers LLP

Los Angeles, California
February 15, 2002

Corporate Profile

Board of Directors

Richard K. Herzer	Chairman of the Board and Chief Executive Officer, IHOP Corp.
H. Frederick Christie	Independent Consultant; Former President and Chief Executive Officer, The Mission Group
Frank Edelstein	Independent Consultant; Former Vice President, Kelso & Company, Inc.
Michael S. Gordon	Co-Chairman, StoneCreek Capital, Inc.
Neven C. Hulsey	Retired; Former Chairman of the Board, Earle M. Jorgensen Company
Larry Alan Kay	Consultant and Private Investor; Former Executive Vice President, Administration, Secretary and General Counsel, IHOP Corp.
Caroline W. Nahas	Managing Director, Southern California, Korn/Ferry International
Patrick W. Rose	Private Investor; Former Chairman of the Board, President and Chief Executive Officer, Van Camp Seafoods, Inc.
Julia A. Stewart	President and Chief Operating Officer, IHOP Corp.

Officers

Richard K. Herzer	Chairman of the Board and Chief Executive Officer
Julia A. Stewart	President, Chief Operating Officer and Director
Richard C. Celio	Vice President, Development
Robin L. Elledge	Vice President, Human Resources
Rand M. Ferris	Vice President, Operations, West
Susan Henderson-Hernandez	Vice President, Marketing
John G. Jordan	Vice President, Operations, East
Anna G. Ulvan	Vice President, Franchise
Alan S. Unger	Vice President, Finance, Treasurer and Chief Financial Officer
Mark D. Weisberger	Vice President, Legal, Secretary and General Counsel

Corporate Office

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818/240-6055
www.ihop.com

Stock Transfer Agent

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P.O. Box 3315
South Hackensack, NJ 07660
800/356-2017
www.mellon-investor.com

Independent Accountants

PricewaterhouseCoopers LLP
Los Angeles, California

Form 10-K

A stockholder may receive, without charge, a copy of our report filed with the Securities and Exchange Commission on Form 10-K by written request addressed to the Secretary at our corporate office.

Stock Information

Our common stock is traded on the New York Stock Exchange under the symbol "IHP." 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