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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended July 15, 2007

OR

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

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

Commission file number 333-57925

**Perkins & Marie Callender's Inc.**

(Exact name of registrant as specified in its charter)

Delaware

62-1254388

(State or other jurisdiction of incorporation or organization)

(I.R.S. employer identification no.)

6075 Poplar Avenue, Suite 800, Memphis, TN

38119

(Address of principal executive offices)

(Zip code)

(901) 766-6400

(Registrant's telephone number, including area code)

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

Indicate by  whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by  whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of common stock outstanding as of July 15, 2007: 10,820.

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PART I — FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

PERKINS & MARIE CALLENDER'S INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)  
(in thousands)

|  | Second<br>Quarter<br>Ended<br><u>July 15, 2007</u> | Second<br>Quarter<br>Ended<br><u>July 9, 2006</u> | Year-to-Date<br>Ended<br><u>July 15, 2007</u> | Year-to-Date<br>Ended<br><u>July 9, 2006</u> |
|--|--|---|---|--|
| <b>REVENUES:</b>   |  |   |   |  |
| Food sales .....   | \$ 122,702   | \$ 129,507  | \$ 291,590                                    | \$ 290,122                                   |
| Franchise and other revenue.....                                 | <u>7,408</u>                                       | <u>7,403</u>                                      | <u>16,806</u>                                 | <u>16,434</u>                                |
| Total Revenues .....   | <u>130,110</u>                                     | <u>136,910</u>                                    | <u>308,396</u>                                | <u>306,556</u>                               |
| <b>COSTS AND EXPENSES:</b>                                       |  |   |   |  |
| Cost of sales (excluding depreciation shown below):              |  |   |   |  |
| Food cost .....  | 33,685   | 37,651  | 81,008  | 85,691                                       |
| Labor and benefits .....   | 42,048   | 43,938  | 100,369                                       | 98,184                                       |
| Operating expenses.....  | 32,590   | 31,961  | 76,684  | 72,243                                       |
| General and administrative .....                                 | 10,676   | 11,713  | 24,900  | 25,282                                       |
| Transaction costs .....  | 568  | 1,736   | 752   | 2,290  |
| Depreciation and amortization .....                              | 5,769  | 8,223   | 12,890  | 14,316                                       |
| Interest, net.....   | 7,217  | 9,778   | 16,698  | 21,525                                       |
| Asset impairments and closed store expenses .....                | (146)  | 1   | 9   | 321  |
| Gain on extinguishment of debt.....                              | —  | (12,581)  | —   | (12,581)                                     |
| Other, net.....  | <u>344</u>   | <u>599</u>  | <u>314</u>                                    | <u>544</u>                                   |
| Total Costs and Expenses .....                                   | <u>132,751</u>                                     | <u>133,019</u>                                    | <u>313,624</u>                                | <u>307,815</u>                               |
| (Loss) income before income taxes and minority<br>interests..... | (2,641)  | 3,891   | (5,228)                                       | (1,259)                                      |
| Provision for income taxes .....                                 | —  | —   | —   | —  |
| Minority interests.....  | <u>82</u>  | <u>95</u>   | <u>244</u>                                    | <u>169</u>                                   |
| NET (LOSS) INCOME.....   | <u>\$ (2,723)</u>                                  | <u>\$ 3,796</u>                                   | <u>\$ (5,472)</u>                             | <u>\$ (1,428)</u>                            |

The accompanying notes are an integral part of these consolidated financial statements.

PERKINS & MARIE CALLENDER'S INC.  
CONSOLIDATED BALANCE SHEETS  
(in thousands)

|  | <u>July 15, 2007</u> | <u>December 31, 2006</u> |
|--|----------------------|--------------------------|
|  | (Unaudited)          |                          |
| <b>ASSETS</b>  |                      |                          |
| <b>CURRENT ASSETS:</b>   |                      |                          |
| Cash and cash equivalents .....  | \$ 3,402             | \$ 9,069                 |
| Restricted cash.....   | 10,440               | 11,193                   |
| Receivables, less allowances for doubtful accounts of \$1,562 and \$1,624 in<br>2007 and 2006, respectively .....                          | 19,814               | 18,316                   |
| Inventories.....   | 13,889               | 10,996                   |
| Prepaid expenses and other current assets .....  | <u>6,854</u>         | <u>4,824</u>             |
| Total current assets .....   | <u>54,399</u>        | <u>54,398</u>            |
| <br>   |                      |                          |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation and<br>amortization of \$106,151 and \$96,458 in 2007 and 2006, respectively ..... | 90,992               | 91,044                   |
| INVESTMENTS IN UNCONSOLIDATED PARTNERSHIPS .....   | 203                  | 238                      |
| GOODWILL.....  | 30,038               | 30,038                   |
| INTANGIBLE ASSETS, net of accumulated amortization of \$15,596 and<br>\$14,018 in 2007 and 2006, respectively .....                        | 155,214              | 156,792                  |
| DEFERRED INCOME TAXES .....  | 708                  | 708                      |
| OTHER ASSETS .....   | <u>12,910</u>        | <u>13,627</u>            |
| Total Assets.....  | <u>\$ 344,464</u>    | <u>\$ 346,845</u>        |

The accompanying notes are an integral part of these consolidated financial statements.

PERKINS & MARIE CALLENDER'S INC.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except par and share amounts)

|  | <u>July 15, 2007</u> | <u>December 31, 2006</u> |
|--|----------------------|--------------------------|
|  | (Unaudited)          |                          |
| <b>LIABILITIES AND STOCKHOLDER'S INVESTMENT</b>  |                      |                          |
| <b>CURRENT LIABILITIES:</b>  |                      |                          |
| Accounts payable.....  | \$ 20,639            | \$ 22,799                |
| Accrued expenses.....  | 50,447               | 58,288                   |
| Accrued income taxes.....  | 198                  | 75                       |
| Franchise advertising contributions.....   | 6,108                | 5,392                    |
| Current maturities of long-term debt and capital lease obligations.....                      | <u>1,549</u>         | <u>1,706</u>             |
| Total current liabilities.....   | <u>78,941</u>        | <u>88,260</u>            |
| CAPITAL LEASE OBLIGATIONS, less current maturities.....                                      | 6,461                | 6,249                    |
| LONG-TERM DEBT, less current maturities.....   | 296,542              | 286,379                  |
| DEFERRED RENT.....   | 10,572               | 9,768                    |
| OTHER LIABILITIES.....   | 12,736               | 11,785                   |
| MINORITY INTEREST IN CONSOLIDATED PARTNERSHIPS.....  | 119                  | 75                       |
| <b>STOCKHOLDER'S INVESTMENT:</b>   |                      |                          |
| Common stock, \$.01 par value, 100,000 shares authorized, 10,820 issued and outstanding..... | 1                    | 1                        |
| Additional paid-in capital.....  | 136,131              | 136,131                  |
| Other comprehensive income.....  | 66                   | 13                       |
| Accumulated deficit.....   | <u>(197,105)</u>     | <u>(191,816)</u>         |
| Total stockholder's investment.....  | <u>(60,907)</u>      | <u>(55,671)</u>          |
| Total Liabilities and Stockholder's Investment.....  | <u>\$ 344,464</u>    | <u>\$ 346,845</u>        |

The accompanying notes are an integral part of these consolidated financial statements.

PERKINS & MARIE CALLENDER'S INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)  
(in thousands)

|  | Year-to-Date<br>Ended<br><u>July 15, 2007</u> | Year-to-Date<br>Ended<br><u>July 9, 2006</u> |
|--|---|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |   |  |
| Net loss .....   | \$ (5,472)                                    | \$ (1,428)                                   |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities : |   |  |
| Depreciation and amortization .....  | 12,890  | 14,316                                       |
| Amortization of debt discount .....  | 173   | 173  |
| Other non-cash income and expense items .....  | 309   | 6,412  |
| Gain on extinguishment of debt .....   | —   | (12,581)                                     |
| Gain on disposition of assets .....  | (385)   | (94)   |
| Asset write-down .....   | 394   | 49   |
| Minority interests.....  | 244   | 169  |
| Equity in net loss of unconsolidated partnerships.....                                     | 35  | 109  |
| Net changes in operating assets and liabilities .....                                      | <u>(12,055)</u>                               | <u>(4,970)</u>                               |
| Total adjustments.....   | <u>1,605</u>                                  | <u>3,583</u>                                 |
| Net cash (used in) provided by operating activities .....                                  | <u>(3,867)</u>                                | <u>2,155</u>                                 |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |   |  |
| Cash paid for property and equipment .....   | (11,190)                                      | (7,939)                                      |
| Proceeds from sale of assets .....   | <u>3</u>                                      | <u>1,547</u>                                 |
| Net cash used in investing activities .....  | <u>(11,187)</u>                               | <u>(6,392)</u>                               |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |   |  |
| Principal payments under capital lease obligations .....                                   | (403)   | (439)  |
| Proceeds from long-term debt.....  | —   | 101,541                                      |
| Payments on long-term debt.....  | (510)   | (101,561)                                    |
| Proceeds from revolver.....  | 45,500  | 3,800  |
| Payments on revolver.....  | (35,000)                                      | (3,800)                                      |
| Debt issuance costs.....   | —   | (2,720)                                      |
| Distributions to minority partners.....  | (200)   | (162)  |
| Capital contribution from parent.....  | <u>—</u>                                      | <u>12,545</u>                                |
| Net cash provided by financing activities .....  | <u>9,387</u>                                  | <u>9,204</u>                                 |
| Net (decrease) increase in cash and cash equivalents .....                                 | (5,667)                                       | 4,967  |
| <b>CASH AND CASH EQUIVALENTS:</b>  |   |  |
| Balance, beginning of period.....  | <u>9,069</u>                                  | <u>3,988</u>                                 |
| Balance, end of period .....   | <u>\$ 3,402</u>                               | <u>\$ 8,955</u>                              |

The accompanying notes are an integral part of these consolidated financial statements.

PERKINS & MARIE CALLENDER'S INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S INVESTMENT  
(unaudited)  
(in thousands)

|                                       | Common<br>Stock | Additional<br>Paid-in<br>Capital | Notes<br>Secured<br>By Stock | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings<br>(Deficit) | Total              |
|---------------------------------------|-----------------|----------------------------------|------------------------------|---|-----------------------------------|--------------------|
| Balance at December 25, 2005 .....    | \$ 1            | \$ 123,907                       | \$ (1,308)                   | \$ 14   | \$ (182,444)                      | \$ (59,830)        |
| Capital contribution .....            | —               | 12,545                           | —                            | —   | —                                 | 12,545             |
| Net loss .....                        | —               | —                                | —                            | —   | (9,372)                           | (9,372)            |
| Currency translation adjustment ..... | —               | —                                | —                            | (1)   | —                                 | (1)                |
| Total comprehensive loss .....        |                 |                                  |                              |   |                                   | (9,373)            |
| Note forgiveness .....                | —               | (321)                            | 1,308                        | —   | —                                 | 987                |
| Balance at December 31, 2006 .....    | 1               | 136,131                          | —                            | 13  | (191,816)                         | (55,671)           |
| Cumulative adjustment (Note 11) ..... | —               | —                                | —                            | —   | 183                               | 183                |
| Net loss .....                        | —               | —                                | —                            | —   | (5,472)                           | (5,472)            |
| Currency translation adjustment ..... | —               | —                                | —                            | 53  | —                                 | 53                 |
| Total comprehensive loss .....        |                 |                                  |                              |   |                                   | (5,419)            |
| Balance at July 15, 2007 .....        | <u>\$ 1</u>     | <u>\$ 136,131</u>                | <u>\$ —</u>                  | <u>\$ 66</u>                                    | <u>\$ (197,105)</u>               | <u>\$ (60,907)</u> |

The accompanying notes are an integral part of these consolidated financial statements.

PERKINS & MARIE CALLENDER'S INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

**(1) Organization**

Organization —

Perkins & Marie Callender's Inc. (formerly known as The Restaurant Company ("TRC", "Perkins"), together with its consolidated subsidiaries, the "Company," or "PMCI"), is a wholly-owned subsidiary of Perkins & Marie Callender's Holding Inc. ("PMCH"), formerly known as The Restaurant Holding Corporation. The Company is the sole stockholder of Perkins & Marie Callender's Realty LLC, formerly known as TRC Realty LLC ("PMCR"), Perkins & Marie Callender's of Minnesota, Inc., formerly known as The Restaurant Company of Minnesota ("PMCM"), Perkins Finance Corp. ("PFC") and Wilshire Restaurant Group, LLC ("WRG").

The Company operates two restaurant concepts: (1) full-service family dining restaurants located primarily in the Midwest, Florida and Pennsylvania under the name Perkins Restaurant and Bakery, which were historically owned by Perkins, and (2) mid-priced, casual-dining restaurants, specializing in the sale of pie and other bakery items, located primarily in the western United States under the name Marie Callender's Restaurant and Bakery ("Marie Callender's"), which were historically owned by WRG.

Through our bakery goods manufacturing segment ("Foxtail"), we also offer cookie doughs, muffin batters, pancake mixes, pies and other food products for sale to food service distributors and to our Perkins and Marie Callender's Company-operated and franchised restaurants.

Wilshire Restaurant Group, LLC —

WRG, a Delaware limited liability company, owns 100% of the outstanding common stock of Marie Callender Pie Shops, Inc. ("MCPSI"), a California corporation. MCPSI owns and operates restaurants and has granted franchises under the name Marie Callender's and Marie Callender's Grill. MCPSI also owns 100% of the outstanding common stock of M.C. Wholesalers, Inc., a California corporation. M.C. Wholesalers, Inc. operates a commissary that produces bakery goods. MCPSI also owns 100% of the outstanding common stock of FIV Corp., a Delaware corporation. FIV Corp. owns and operates one restaurant under the name East Side Mario's.

Perkins & Marie Callender's Realty LLC —

PMCR is a 100% owned subsidiary of the Company. PMCR was originally formed for the sole purpose of operating an airplane that was used for business purposes of the Company. The airplane lease was terminated in 2006; thereafter, PMCR has no operations and does not have any revenues or assets.

Perkins Finance Corp. —

PFC is a wholly-owned subsidiary of the Company, and was created solely to act as the co-issuer of previously issued senior notes, which were redeemed in August, 2005. PFC has no operations and does not have any revenues or assets.

Perkins & Marie Callender's of Minnesota, Inc. —

On September 30, 2000, we contributed all of the restaurant, office and related assets owned by us and used in our operations in Minnesota and North Dakota and all of our trademarks and service marks to PMCM, a newly created, wholly-owned subsidiary. PMCM was formed to conduct our operations in Minnesota and North Dakota as well as manage the rights and responsibilities related to the contributed trademarks and service marks. PMCM granted us a license to use, and the right to license others to use, the trademarks and service marks used in the Perkins system. PMCM merged into the Company on February 1, 2007.

## **(2) Basis of Presentation**

On May 3, 2006, WRG and Perkins, under the common control of Castle Harlan, Inc. (“Castle Harlan”), were combined (the “Combination”). Pursuant to a stock purchase agreement (the “Stock Purchase Agreement”), the Company purchased all of the outstanding equity of WRG, and the shareholders of WRG received equity interests in Perkins & Marie Callender’s Holding LLC (“P&MC Holding LLC”) in exchange for their WRG equity. From September 21, 2005 (date of common control) through May 3, 2006, both Perkins and WRG were portfolio companies under the common control of Castle Harlan; therefore, the financial statements of both entities have been presented retroactively on a consolidated basis, in a manner similar to a pooling of interest, from September 21, 2005. This transaction is described more fully in Note 5, “Combination of Companies Under Common Control.”

The consolidated interim financial statements included in this report have been prepared by the Company without audit in accordance with U.S. generally accepted accounting principles. In the opinion of the Company’s management, all adjustments consisting only of normal recurring items necessary for a fair presentation of the results of operations are reflected in these consolidated interim financial statements. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The most significant estimates and assumptions underlying these financial statements and accompanying notes generally involve royalty revenue recognition and provisions for related uncollectible accounts, asset impairments and valuation allowances for income taxes.

The results of operations for the interim period ended July 15, 2007 are not necessarily indicative of operating results for the full year. The consolidated interim financial statements contained herein should be read in conjunction with the audited consolidated financial statements and notes contained in the Company’s 2006 Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the “SEC”) on June 27, 2007.

## **(3) Accounting Reporting Period**

Our financial reporting is based on thirteen four-week periods ending on the last Sunday in December. The first quarter each year includes four four-week periods and, typically, the second, third and fourth quarters include three four-week periods. In 2006, as is the case every six years, the fourth quarter included two four-week periods and one five-week period. The first and second quarters of 2007 ended April 22 and July 15, respectively. The third and fourth quarters of 2007 will end on October 7 and December 30, respectively.

In 2006, WRG’s quarterly results were based on thirteen-week quarters. Beginning in the first quarter of 2007, WRG adopted Perkins’ reporting calendar, which is based on thirteen four-week accounting periods. Accordingly, the accompanying consolidated statement of operations for the second quarter ended July 9, 2006 includes the financial results of WRG for the 91-day period from March 31, 2006 through June 29, 2006. The accompanying consolidated statement of operations for the second quarter ended July 15, 2007 includes the financial results of WRG for three four-week periods, or 84 days.

The accompanying consolidated statements of operations and cash flows for the year-to-date period ended July 9, 2006 include the 2006 year-to-date financial results of WRG for the 182-day period from December 30, 2005 through June 29, 2006. The accompanying consolidated statements of operations and cash flows for the year-to-date period ended July 15, 2007 include the 2007 year-to-date financial results of WRG for seven four-week periods, or 196 days.

## **(4) Comprehensive Income/Loss**

Comprehensive income/loss includes net income/loss and foreign currency translation adjustments. Comprehensive loss for the second quarter and year to date ended July 15, 2007 was \$2,684,000 and \$5,419,000, respectively, and included the effect of gains from translation adjustments of \$39,000 and \$53,000, respectively. Comprehensive income for the second quarter ended July 9, 2006 was \$3,802,000 and included the effect of gains from translation adjustments of \$6,000. Comprehensive loss for the year to date ended July 9, 2006 was \$1,416,000 and included the effect of gains from translation adjustments of \$12,000.

## **(5) Combination of Companies Under Common Control**

As discussed in Note 2, on May 3, 2006, the Combination was completed pursuant to the Stock Purchase Agreement and WRG became a direct wholly-owned subsidiary of the Company. The consideration under the Stock Purchase Agreement was paid to WRG stockholders in the form of equity interests in P&MC Holding LLC, the Company's indirect parent.

In connection with the Combination, the Company repaid the outstanding indebtedness of WRG in the amount of approximately \$101,000,000 and assumed capital lease obligations of WRG in the amount of approximately \$7,000,000. The Company obtained funds for the repayment of WRG's outstanding indebtedness from a \$140,000,000 amended and restated credit agreement, described in Note 10, "Long-Term Debt." The Company recognized a gain of \$12,581,000 on its extinguishment of certain debt and related accrued interest due to the Company's successful negotiation of concessions.

The Company has classified certain expenses directly attributable to the Combination and certain non-recurring expenses incurred as a result of the Combination as transaction costs on the consolidated statements of operations.

## **(6) Commitments and Contingencies**

We are a party to various legal proceedings in the ordinary course of business. We do not believe it is likely that these proceedings, either individually or in the aggregate, will have a material adverse effect on our consolidated financial statements.

As of July 15, 2007, three Perkins franchisees otherwise unaffiliated with the Company owned 91 of the 324 franchised restaurants. These franchisees operated 43, 27 and 21 restaurants, respectively. During the second quarter of 2007, these three Perkins franchisees paid royalties and license fees of \$448,000, \$326,000 and \$376,000, respectively. During the year-to-date period ended July 15, 2007, these three Perkins franchisees paid royalties and license fees of \$1,117,000, \$771,000 and \$840,000, respectively.

As of July 15, 2007, three Marie Callender's franchisees otherwise unaffiliated with the Company owned 14 of the 46 franchised restaurants. These franchisees operated six, four and four restaurants, respectively. During the second quarter of 2007, these three Marie Callender's franchisees paid royalties and license fees of \$148,000, \$119,000 and \$94,000, respectively. During the year-to-date period ended July 15, 2007, these three Marie Callender's franchisees paid royalties and license fees of \$363,000, \$292,000 and \$202,000, respectively.

The majority of our franchise revenues are generated from franchisees owning individually less than five percent (5%) of total franchised restaurants, and, therefore, the loss of any one of these franchisees would not have a material impact on our results of operations.

The Company has arrangements with several different parties to whom territorial rights were granted in exchange for specified payments. The Company makes specified payments to those parties based on a percentage of gross sales from certain Perkins restaurants and for new Perkins restaurants opened within those geographic regions. During the second quarter of 2007 and 2006, we paid an aggregate of \$687,000 and \$672,000, respectively, and during the year-to-date period of 2007 and 2006, we paid an aggregate of \$1,486,000 and \$1,494,000, respectively, under such arrangements. Three such agreements are currently in effect. Of these, one expires in the year 2075, one expires upon the death of the beneficiary and the remaining agreement remains in effect as long as we operate Perkins restaurants in certain states.

## (7) Supplemental Cash Flow Information

The increase or decrease in cash and cash equivalents due to changes in operating assets and liabilities for the year-to-date period ended July 15, 2007 and July 9, 2006 consists of the following (in thousands):

|  | Year-to-Date<br>Ended<br><u>July 15, 2007</u> | Year-to-Date<br>Ended<br><u>July 9, 2006</u> |
|--|---|--|
| (Increase) Decrease in:                              |   |  |
| Receivables .....                                    | \$ (1,267)                                    | \$ 1,010                                     |
| Inventories .....                                    | (2,893)                                       | (958)  |
| Prepaid expenses and other current assets .....      | (2,030)                                       | 386  |
| Other assets .....                                   | 699   | (629)  |
| Increase (Decrease) in:                              |   |  |
| Accounts payable.....                                | (2,160)                                       | (2,370)                                      |
| Accrued expenses and other current liabilities ..... | (5,010)                                       | (1,037)                                      |
| Other liabilities .....                              | 606   | (1,372)                                      |
|  | <u>\$ (12,055)</u>                            | <u>\$ (4,970)</u>                            |

## (8) Accrued Expenses

Accrued expenses consisted of the following (in thousands):

|   | <u>July 15, 2007</u> | <u>December 31, 2006</u> |
|---|----------------------|--------------------------|
| Payroll and related benefits .....          | \$ 15,810            | \$ 18,209                |
| Property, real estate and sales taxes ..... | 5,716                | 4,692                    |
| Insurance .....                             | 2,282                | 5,086                    |
| Gift cards and gift certificates.....       | 5,502                | 8,233                    |
| Advertising.....                            | 1,228                | 1,262                    |
| Interest.....                               | 7,151                | 6,085                    |
| Management fees .....                       | 2,055                | 2,210                    |
| Other.....                                  | 10,703               | 12,511                   |
|   | <u>\$ 50,447</u>     | <u>\$ 58,288</u>         |

## (9) Segment Reporting

We have five primary operating segments: Perkins restaurants, Marie Callender's restaurants, Perkins franchise, Marie Callender's franchise and Foxtail. The revenues in the "Other" segment are primarily licensing revenues. The restaurant operating segments include the operations of Company-operated restaurants. The franchise operating segments include revenues and expenses directly attributable to franchised restaurants. Foxtail's operations consist of manufacturing plants: one in Corona, California and three in Cincinnati, Ohio.

Revenues from the restaurant segments result from the sale of menu products at Perkins and Marie Callender's restaurants. Revenues from the franchise segments consist primarily of royalty income earned on the revenues generated at franchisees' restaurants and initial franchise fees. Revenues from Foxtail are generated by the sale of food products to both Company-operated and franchised Perkins and Marie Callender's restaurants, as well as to customers outside the Perkins and Marie Callender's system. Foxtail's sales to Company-operated restaurants are eliminated for reporting purposes.

The following presents revenues and other financial information by business segment (in thousands):

|                                     | Second Quarter<br>Ended<br>July 15, 2007 | Second Quarter<br>Ended<br>July 9, 2006 | Year-to-Date<br>Ended<br>July 15, 2007 | Year-to-Date<br>Ended<br>July 9, 2006 |
|-------------------------------------|--|---|--|---------------------------------------|
| <b>Revenue</b>                      |  |   |  |                                       |
| Perkins Restaurants .....           | \$ 67,592                                | \$ 66,250                               | \$ 158,673                             | \$ 156,975                            |
| Marie Callender's Restaurants ..... | 45,305                                   | 50,537                                  | 110,575                                | 102,814                               |
| Perkins Franchise.....              | 5,050                                    | 5,160                                   | 11,466                                 | 11,809                                |
| Marie Callender's Franchise.....    | 1,153                                    | 1,230                                   | 2,767                                  | 2,507                                 |
| Foxtail.....                        | 13,619                                   | 14,831                                  | 32,201                                 | 34,688                                |
| Intersegment revenue.....           | (3,812)                                  | (2,111)                                 | (9,859)                                | (4,355)                               |
| Other.....                          | 1,203                                    | 1,013                                   | 2,573                                  | 2,118                                 |
| Total.....                          | <u>\$ 130,110</u>                        | <u>\$ 136,910</u>                       | <u>\$ 308,396</u>                      | <u>\$ 306,556</u>                     |
|                                     | Second Quarter<br>Ended<br>July 15, 2007 | Second Quarter<br>Ended<br>July 9, 2006 | Year-to-Date<br>Ended<br>July 15, 2007 | Year-to-Date<br>Ended<br>July 9, 2006 |
| <b>Segment net income (loss)</b>    |  |   |  |                                       |
| Perkins Restaurants .....           | \$ 6,630                                 | \$ 4,336                                | \$ 14,368                              | \$ 11,781                             |
| Marie Callender's Restaurants ..... | 1,566                                    | 1,448                                   | 4,620                                  | 3,358                                 |
| Perkins Franchise.....              | 4,568                                    | 4,570                                   | 10,178                                 | 10,602                                |
| Marie Callender's Franchise.....    | 1,153                                    | 1,230                                   | 2,766                                  | 2,507                                 |
| Foxtail.....                        | 1,033                                    | 1,933                                   | 2,540                                  | 4,562                                 |
| Other.....                          | (17,673)                                 | (9,721)                                 | (39,944)                               | (34,238)                              |
| Total.....                          | <u>\$ (2,723)</u>                        | <u>\$ 3,796</u>                         | <u>\$ (5,472)</u>                      | <u>\$ (1,428)</u>                     |
|                                     |  |   | July 15, 2007                          | December 31,<br>2006                  |
| <b>Segment Assets</b>               |  |   |  |                                       |
| Perkins Restaurants .....           |  |   | \$ 97,875                              | \$ 94,146                             |
| Marie Callender's Restaurants ..... |  |   | 35,284                                 | 36,393                                |
| Perkins Franchise.....              |  |   | 122,684                                | 123,392                               |
| Marie Callender's Franchise.....    |  |   | 382                                    | 386                                   |
| Foxtail.....                        |  |   | 44,034                                 | 41,715                                |
| Other.....                          |  |   | 44,205                                 | 50,813                                |
| Total.....                          |  |   | <u>\$ 344,464</u>                      | <u>\$ 346,845</u>                     |

The components of the other segment loss are as follows (in thousands):

|  | Second Quarter<br>Ended<br>July 15, 2007 | Second Quarter<br>Ended<br>July 9, 2006 | Year-to-Date<br>Ended<br>July 15, 2007 | Year-to-Date<br>Ended<br>July 9, 2006 |
|--|--|---|--|---------------------------------------|
| General and administrative expenses .....    | \$ 9,554                                 | \$ 10,514                               | \$ 22,128                              | \$ 22,664                             |
| Depreciation and amortization expenses ..... | 1,143                                    | 572                                     | 2,045                                  | 1,386                                 |
| Interest expense, net.....                   | 7,217                                    | 9,778                                   | 16,698                                 | 21,525                                |
| Gain on disposition of assets, net.....      | (394)                                    | (39)                                    | (385)                                  | (94)                                  |
| Asset write-down .....                       | 248                                      | 40                                      | 394                                    | 49                                    |
| Lease termination.....                       | —  | —                                       | —                                      | 366                                   |
| Transaction costs.....                       | 568                                      | 1,736                                   | 752                                    | 2,290                                 |
| Minority interest.....                       | 82                                       | 95                                      | 244                                    | 169                                   |
| Licensing revenue.....                       | (1,093)                                  | (965)                                   | (2,322)                                | (1,909)                               |
| Gain on extinguishment of debt .....         | —  | (12,581)                                | —                                      | (12,581)                              |
| Other.....                                   | 348                                      | 571                                     | 390                                    | 373                                   |
| Total.....                                   | <u>\$ 17,673</u>                         | <u>\$ 9,721</u>                         | <u>\$ 39,944</u>                       | <u>\$ 34,238</u>                      |

#### (10) Long-Term Debt

As of July 15, 2007, our credit facilities (the "Credit Agreement") provide: (1) a five-year revolving credit facility of up to \$40,000,000, including a sub-facility for letters of credit in an amount not to exceed \$25,000,000 and a sub-facility for swingline loans in an amount not to exceed \$5,000,000 (the "Revolver"); and (2) a seven-year term loan

credit facility not to exceed \$100,000,000 (the "Term Loan"). All amounts under the Credit Agreement bear interest at floating rates based on the agent's base rate plus an applicable margin, or LIBOR rate plus an applicable margin as defined in the Credit Agreement. The interest rate on Credit Agreement borrowings at July 15, 2007 was 10.0%. As of July 15, 2007, there were borrowings of \$10,500,000 outstanding (and approximately \$11,326,000 of letters of credit outstanding) under the Revolver and \$99,000,000 outstanding under the Term Loan. The letters of credit are primarily utilized in conjunction with the Company's workers' compensation programs.

In September 2005, the Company issued \$190,000,000 of unsecured 10% Senior Notes due October 1, 2013 (the "10% Senior Notes"). The 10% Senior Notes were issued at a discount of \$2,570,700, which is accreted using the interest method over the term of the 10% Senior Notes. Interest is payable semi-annually on April 1 and October 1 of each year. All consolidated subsidiaries of the Company that are 100% owned provide joint and several, full and unconditional guarantee of the 10% Senior Notes. There are no significant restrictions on the Company's ability to obtain funds from any of the guarantor subsidiaries in the form of a dividend or a loan. Additionally, there are no significant restrictions on a guarantor subsidiary's ability to obtain funds from the Company or its direct or indirect subsidiaries.

Our debt indentures contain certain financial covenants of which we are currently in compliance.

#### **(11) Income Tax**

The effective tax provision rate for the second quarter ended July 15, 2007 and the second quarter ended July 9, 2006 was 0.0%. Our effective rate differs from statutory rates primarily due to a valuation allowance for deductible temporary differences and net operating loss and credit carryforwards generated during 2006 and expected to be generated during 2007. For the second quarter ended July 15, 2007 the Company included, as a component of income taxes, \$103,000 of interest expense related to uncertain income tax positions. The interest expense was offset by federal income tax credits generated during 2007 that are able to be carried-back and reduce federal alternative minimum tax.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation ("FIN") No. 48, Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109, ("FIN 48"). As a result of the implementation of FIN 48, the Company recognized a decrease of approximately \$183,000 in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 balance of retained earnings. As of January 1, 2007, the Company had approximately \$5,442,000 of unrecognized tax benefits, all of which, if recognized, would favorably affect the Company's effective tax rate. Included therein, the Company has \$3,086,000 of unrecognized tax benefits reducing federal and state net operating loss carry forward and federal tax credit carry forward deferred tax assets that if recognized would be subject to a valuation allowance. The Company expects that the total amount of its unrecognized tax benefits will decrease between \$600,000 and \$1,000,000 during 2007 due to various state tax examinations and expiration of statutes.

The Company's policy for recording interest and penalties associated with tax audits is to record such items as a component of income taxes. As of January 1, 2007, the Company had \$275,000 of accrued interest and penalties.

The Company's tax returns are open to federal and state tax audits until the applicable statute of limitations expire. The Company is no longer subject to U.S. federal tax examinations by tax authorities for tax years before 2003. For the majority of states where the Company has a significant presence, it is also no longer subject to tax examination by state tax authorities for tax years before 2003.

#### **(12) Employee Subscription Agreements and Strip Subscription Agreements**

Employee Subscription Agreements:

Certain of the Company's executives and other employees have been granted common units of P&MC Holding LLC, which represent an ownership interest in P&MC Holding LLC, pursuant to employee subscription agreements. Common units granted to an employee pursuant to employee subscription agreements are granted at no cost to the employee. These common units are subject to vesting. The granted common units vest upon certain dates if the employee is employed by the Company as of such date as follows:

| <u>Date</u>                                  | <u>Percentage</u> |
|--|-------------------|
| First anniversary of January 31, 2007 .....  | 25%               |
| Second anniversary of January 31, 2007 ..... | 50%               |
| Third anniversary of January 31, 2007 .....  | 75%               |
| Fourth anniversary of January 31, 2007 ..... | 100%              |

In addition, upon certain change in control events if, upon the occurrence of such an event, the employee is employed as of such date, the employee's outstanding time vesting securities that have not become vested at the date of such change in control, shall immediately vest simultaneously with the consummation of the change in control.

Upon termination of employment, unvested common units will be immediately and automatically forfeited and vested common units will be subject to repurchase pursuant to the terms of P&MC Holding LLC's unitholder's agreement. Stock-based employee compensation expense related to this plan will be charged to the Company based on the recognition and measurement provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" and related interpretations. The compensation expense measured at the date of grant is amortized over the vesting period. If a change in control event occurs, the common units granted, which have not fully vested immediately prior to the change in control event, will become fully vested and related compensation expense will be recognized at the time of the change in control event.

**Strip Subscription Agreements:**

Certain of the Company's executives have purchased common units of P&MC Holding LLC, which represent an ownership interest in P&MC Holding LLC, pursuant to strip subscription agreements.

**(13) Recent Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, but it does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 could impact fair values assigned to assets and liabilities in any future acquisition.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of SFAS No. 115," which permits an entity to measure certain financial assets and financial liabilities at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. SFAS No. 159 is effective as of the first fiscal year beginning after November 15, 2007. At this time, we do not expect to adopt the fair value option for any assets and liabilities; however, future events and circumstances may impact that decision.

**(14) Condensed Consolidated Financial Information**

In September 2005, the Company issued the 10% Senior Notes. All of the Company's consolidated subsidiaries that are 100% owned provide a joint and several, full and unconditional guarantee of the securities. There are no significant restrictions on the Company's ability to obtain funds from any of the guarantor subsidiaries in the form of a dividend or loan. Additionally, there are no significant restrictions on the guarantor subsidiaries' ability to obtain funds from the Company or its direct or indirect subsidiaries. PMCM merged into the Company on February 1, 2007; therefore, PMCM is not presented separately as a guarantor for statements presented after that date.

The following consolidating balance sheets, statements of operations and statements of cash flows are provided for the parent company and all subsidiaries. The information has been presented as if the parent company accounted for its ownership of the guarantor subsidiaries using the equity method of accounting.

**Consolidating Statement of Operations for the quarter ended July 15, 2007 (unaudited; in thousands):**

|   | Guarantors        |                 |             | Non-Guarantors  | Eliminations      | Consolidated<br>PMCI |
|---|-------------------|-----------------|-------------|-----------------|-------------------|----------------------|
|   | PMCI              | WRG             | Other       |                 |                   |                      |
| <b>Revenue</b>  |                   |                 |             |                 |                   |                      |
| Food sales .....  | \$ 76,823         | \$ 39,798       | \$ —        | \$ 6,081        | \$ —              | \$ 122,702           |
| Franchise and other revenue ...                               | 5,051             | 2,357           | —           | —               | —                 | 7,408                |
| <b>Total revenues.....</b>                                    | <b>81,874</b>     | <b>42,155</b>   | <b>—</b>    | <b>6,081</b>    | <b>—</b>          | <b>130,110</b>       |
| <b>Cost and expenses</b>                                      |                   |                 |             |                 |                   |                      |
| <b>Cost of sales (excluding depreciation shown below):</b>    |                   |                 |             |                 |                   |                      |
| Food cost .....   | 20,872            | 11,155          | —           | 1,658           | —                 | 33,685               |
| Labor and benefits.....                                       | 25,695            | 14,285          | —           | 2,068           | —                 | 42,048               |
| Operating expenses.....                                       | 19,573            | 10,905          | —           | 2,112           | —                 | 32,590               |
| General and administrative.....                               | 9,043             | 1,633           | —           | —               | —                 | 10,676               |
| Transaction costs.....  | 568               | —               | —           | —               | —                 | 568                  |
| Depreciation and amortization....                             | 4,146             | 1,326           | —           | 297             | —                 | 5,769                |
| Interest, net .....   | 6,971             | 249             | —           | (3)             | —                 | 7,217                |
| Asset impairments and closed store expenses.....              | (394)             | 224             | —           | 24              | —                 | (146)                |
| Other, net .....  | (25)              | 369             | —           | —               | —                 | 344                  |
| <b>Total costs and expenses.....</b>                          | <b>86,449</b>     | <b>40,146</b>   | <b>—</b>    | <b>6,156</b>    | <b>—</b>          | <b>132,751</b>       |
| (Loss) income before income taxes and minority interests..... | (4,575)           | 2,009           | —           | (75)            | —                 | (2,641)              |
| Benefit from (provision for) income taxes.....                | —                 | —               | —           | —               | —                 | —                    |
| Minority interests.....                                       | —                 | —               | —           | 82              | —                 | 82                   |
| Equity in earnings (loss) of subsidiaries.....                | 1,852             | —               | —           | —               | (1,852)           | —                    |
| <b>NET (LOSS) INCOME.....</b>                                 | <b>\$ (2,723)</b> | <b>\$ 2,009</b> | <b>\$ —</b> | <b>\$ (157)</b> | <b>\$ (1,852)</b> | <b>\$ (2,723)</b>    |

**Consolidating Statement of Operations for the quarter ended July 9, 2006 (unaudited; in thousands):**

|   | PMCI            | PMCM            | <u>Guarantors</u><br>WRG | Other       | Non-Guarantors | Eliminations       | Consolidated<br>PMCI |
|---|-----------------|-----------------|--------------------------|-------------|----------------|--------------------|----------------------|
| <b>Revenue</b>  |                 |                 |                          |             |                |                    |                      |
| Food sales.....   | \$ 57,703       | \$ 18,731       | \$ 45,862                | \$ —        | \$ 7,211       | \$ —               | \$ 129,507           |
| Franchise and other<br>revenue .....                                | 3,187           | 3,654           | 2,243                    | —           | —              | (1,681)            | 7,403                |
| <b>Total revenues.....</b>  | <b>60,890</b>   | <b>22,385</b>   | <b>48,105</b>            | <b>—</b>    | <b>7,211</b>   | <b>(1,681)</b>     | <b>136,910</b>       |
| <b>Cost and expenses</b>  |                 |                 |                          |             |                |                    |                      |
| <b>Cost of sales</b>  |                 |                 |                          |             |                |                    |                      |
| (excluding depreciation shown below):                               |                 |                 |                          |             |                |                    |                      |
| Food cost .....   | 16,785          | 4,162           | 14,711                   | —           | 1,993          | —                  | 37,651               |
| Labor and benefits...   | 18,906          | 6,736           | 15,914                   | —           | 2,382          | —                  | 43,938               |
| Operating expenses..  | 12,743          | 5,926           | 11,802                   | —           | 2,409          | (919)              | 31,961               |
| <b>General and administrative.....</b>                              |                 |                 |                          |             |                |                    |                      |
|   | 8,325           | 765             | 3,385                    | —           | —              | (762)              | 11,713               |
| Transaction costs.....  | 1,187           | —               | 549                      | —           | —              | —                  | 1,736                |
| Depreciation and<br>amortization .....                              | 5,776           | 461             | 1,650                    | —           | 336            | —                  | 8,223                |
| Interest, net .....   | 6,243           | (31)            | 3,564                    | —           | 2              | —                  | 9,778                |
| Asset impairments and<br>closed store expenses..                    | (49)            | —               | 27                       | —           | 23             | —                  | 1                    |
| Gain on extinguishment of<br>debt .....                             | —               | —               | (12,581)                 | —           | —              | —                  | (12,581)             |
| Other, net .....  | (46)            | —               | 645                      | —           | —              | —                  | 599                  |
| <b>Total costs and expenses .....</b>                               | <b>69,870</b>   | <b>18,019</b>   | <b>39,666</b>            | <b>—</b>    | <b>7,145</b>   | <b>(1,681)</b>     | <b>133,019</b>       |
| (Loss) income before<br>income taxes and<br>minority interests..... | (8,980)         | 4,366           | 8,439                    | —           | 66             | —                  | 3,891                |
| <b>(Benefit from) provision for income taxes.....</b>               |                 |                 |                          |             |                |                    |                      |
|   | (1,643)         | 1,643           | —                        | —           | —              | —                  | —                    |
| Minority interests.....   | —               | —               | —                        | —           | 95             | —                  | 95                   |
| Equity in earnings<br>(loss) of subsidiaries...                     | 11,133          | —               | —                        | —           | —              | (11,133)           | —                    |
| <b>NET INCOME (LOSS) .....</b>                                      | <b>\$ 3,796</b> | <b>\$ 2,723</b> | <b>\$ 8,439</b>          | <b>\$ —</b> | <b>\$ (29)</b> | <b>\$ (11,133)</b> | <b>\$ 3,796</b>      |

**Consolidating Statement of Operations for the year-to-date period ended July 15, 2007 (unaudited; in thousands):**

|  | Guarantors |          |       | Non-Guarantors | Eliminations | Consolidated |
|--|------------|----------|-------|----------------|--------------|--------------|
|  | PMCI       | WRG      | Other |                |              | PMCI         |
| Revenue  |            |          |       |                |              |              |
| Food sales .....   | \$178,762  | \$97,770 | \$—   | \$ 15,058      | \$—          | \$291,590    |
| Franchise and other revenue .....                              | 11,467     | 5,339    | —     | —              | —            | 16,806       |
| Total revenues.....  | 190,229    | 103,109  | —     | 15,058         | —            | 308,396      |
| Cost and expenses .....  |            |          |       |                |              |              |
| Cost of sales (excluding depreciation shown below):            |            |          |       |                |              |              |
| Food cost .....  | 48,674     | 28,126   | —     | 4,208          | —            | 81,008       |
| Labor and benefits.....  | 60,618     | 34,909   | —     | 4,842          | —            | 100,369      |
| Operating expenses .....                                       | 45,626     | 25,890   | —     | 5,168          | —            | 76,684       |
| General and administrative.....                                | 21,440     | 3,460    | —     | —              | —            | 24,900       |
| Transaction costs.....   | 615        | 137      | —     | —              | —            | 752          |
| Depreciation and amortization..                                | 9,139      | 3,065    | —     | 686            | —            | 12,890       |
| Interest, net .....  | 16,115     | 583      | —     | —              | —            | 16,698       |
| Asset impairments and closed store expenses                    | (382)      | 366      | —     | 25             | —            | 9            |
| Other, net .....   | (36)       | 350      | —     | —              | —            | 314          |
| Total costs and expenses.....                                  | 201,809    | 96,886   | —     | 14,929         | —            | 313,624      |
| (Loss) income before income taxes and minority interests ..... | (11,580)   | 6,223    | —     | 129            | —            | (5,228)      |
| Benefit from (provision for) income taxes                      | —          | —        | —     | —              | —            | —            |
| Minority interests.....  | —          | —        | —     | 244            | —            | 244          |
| Equity in earnings (loss) of subsidiaries                      | 6,108      | —        | —     | —              | (6,108)      | —            |
| NET (LOSS) INCOME.....   | \$ (5,472) | \$ 6,223 | \$—   | \$ (115)       | \$ (6,108)   | \$ (5,472)   |

**Consolidating Statement of Operations for the year-to-date period ended July 9, 2006 (unaudited; in thousands):**

|   | <u>Guarantors</u> |                 |                 |             |                |                   | Eliminations      | Consolidated<br>PMCI |
|---|-------------------|-----------------|-----------------|-------------|----------------|-------------------|-------------------|----------------------|
|   | PMCI              | PMCM            | WRG             | Other       | Non-Guarantors | Other             |                   |                      |
| <b>Revenue</b>  |                   |                 |                 |             |                |                   |                   |                      |
| Food sales .....  | \$ 138,169        | \$ 43,227       | \$ 93,849       | \$ —        | \$ 14,877      | \$ —              | \$290,122         |                      |
| Franchise and other<br>revenue.....                                 | 7,296             | 8,004           | 4,625           | 15          | —              | (3,506)           | 16,434            |                      |
| <b>Total revenues.....</b>  | <b>145,465</b>    | <b>51,231</b>   | <b>98,474</b>   | <b>15</b>   | <b>14,877</b>  | <b>(3,506)</b>    | <b>306,556</b>    |                      |
| <b>Cost and expenses</b>  |                   |                 |                 |             |                |                   |                   |                      |
| <b>Cost of sales (excluding depreciation shown below):</b>          |                   |                 |                 |             |                |                   |                   |                      |
| Food cost .....   | 41,181            | 9,925           | 30,358          | —           | 4,227          | —                 | 85,691            |                      |
| Labor and benefits.....   | 45,347            | 15,645          | 32,479          | —           | 4,713          | —                 | 98,184            |                      |
| Operating expenses.....   | 31,228            | 14,294          | 23,362          | 15          | 5,073          | (1,729)           | 72,243            |                      |
| General and administrative.   | 18,239            | 1,784           | 7,036           | —           | —              | (1,777)           | 25,282            |                      |
| Transaction costs.....  | 1,741             | —               | 549             | —           | —              | —                 | 2,290             |                      |
| Depreciation and<br>amortization .....                              | 9,211             | 1,115           | 3,321           | —           | 669            | —                 | 14,316            |                      |
| Interest, net .....   | 12,881            | (482)           | 9,124           | —           | 2              | —                 | 21,525            |                      |
| Asset impairments and<br>closed store expenses.....                 | 270               | —               | 28              | —           | 23             | —                 | 321               |                      |
| Gain on extinguishment of<br>debt .....                             | —                 | —               | (12,581)        | —           | —              | —                 | (12,581)          |                      |
| Other, net .....  | (101)             | —               | 645             | —           | —              | —                 | 544               |                      |
| <b>Total costs and expenses....</b>                                 | <b>159,997</b>    | <b>42,281</b>   | <b>94,321</b>   | <b>15</b>   | <b>14,707</b>  | <b>(3,506)</b>    | <b>307,815</b>    |                      |
| (Loss) income before<br>income taxes and minority<br>interests..... | (14,532)          | 8,950           | 4,153           | —           | 170            | —                 | (1,259)           |                      |
| (Benefit from) provision for<br>income taxes.....                   | (3,346)           | 3,346           | —               | —           | —              | —                 | —                 |                      |
| Minority interests.....   | —                 | —               | —               | —           | 169            | —                 | 169               |                      |
| Equity in earnings (loss) of<br>subsidiaries.....                   | 9,758             | —               | —               | —           | —              | (9,758)           | —                 |                      |
| <b>NET (LOSS) INCOME.....</b>                                       | <b>\$ (1,428)</b> | <b>\$ 5,604</b> | <b>\$ 4,153</b> | <b>\$ —</b> | <b>\$ 1</b>    | <b>\$ (9,758)</b> | <b>\$ (1,428)</b> |                      |

**Consolidating Balance Sheet as of July 15, 2007 (unaudited; in thousands):**

|   | <u>Guarantors</u> |                  |            |                 | Eliminations      | Consolidated<br>PMCI |
|---|-------------------|------------------|------------|-----------------|-------------------|----------------------|
|   | PMCI              | WRG              | Other      | Non-Guarantors  |                   |                      |
| <b>CURRENT ASSETS:</b>  |                   |                  |            |                 |                   |                      |
| Cash and cash equivalents.....  | \$ 3,135          | \$ 2,566         | \$—        | \$ (2,299)      | \$—               | \$ 3,402             |
| Restricted cash.....  | 10,440            | —                | —          | —               | —                 | 10,440               |
| Trade receivables, less allowance<br>for doubtful accounts.....               | 13,310            | 6,462            | —          | 42              | —                 | 19,814               |
| Inventories.....  | 9,231             | 4,414            | —          | 244             | —                 | 13,889               |
| Prepaid expenses and other current<br>assets.....                             | 5,772             | 1,083            | —          | (1)             | —                 | 6,854                |
| Total current assets.....   | 41,888            | 14,525           | —          | (2,014)         | —                 | 54,399               |
| PROPERTY AND EQUIPMENT,<br>net.....   | 56,328            | 32,125           | —          | 2,539           | —                 | 90,992               |
| INVESTMENTS IN<br>CONSOLIDATED<br>PARTNERSHIPS.....                           | —                 | 193              | —          | 10              | —                 | 203                  |
| GOODWILL.....   | 30,038            | —                | —          | —               | —                 | 30,038               |
| INTANGIBLE ASSETS, net.....   | 154,944           | 270              | —          | —               | —                 | 155,214              |
| INVESTMENTS IN<br>SUBSIDIARIES.....   | (97,559)          | —                | —          | —               | 97,559            | —                    |
| DUE FROM SUBSIDIARIES.....  | 106,193           | —                | —          | —               | (106,193)         | —                    |
| DEFERRED INCOME TAXES.....  | 708               | —                | —          | —               | —                 | 708                  |
| OTHER ASSETS.....   | 10,894            | (718)            | —          | 2,734           | —                 | 12,910               |
|   | <u>\$ 303,434</u> | <u>\$ 46,395</u> | <u>\$—</u> | <u>\$ 3,269</u> | <u>\$ (8,634)</u> | <u>\$ 344,464</u>    |
| <b>LIABILITIES AND<br/>STOCKHOLDER'S<br/>INVESTMENT</b>                       |                   |                  |            |                 |                   |                      |
| <b>CURRENT LIABILITIES:</b>   |                   |                  |            |                 |                   |                      |
| Accounts payable.....   | \$ 14,890         | \$ 5,117         | \$—        | \$ 632          | \$—               | \$ 20,639            |
| Accrued expenses.....   | 34,252            | 14,704           | —          | 1,491           | —                 | 50,447               |
| Accrued income taxes.....   | 198               | —                | —          | —               | —                 | 198                  |
| Franchise advertising<br>contributions.....                                   | 6,108             | —                | —          | —               | —                 | 6,108                |
| Current maturities of long term<br>debt and capital lease<br>obligations..... | 1,150             | 399              | —          | —               | —                 | 1,549                |
|   | <u>56,598</u>     | <u>20,220</u>    | <u>—</u>   | <u>2,123</u>    | <u>—</u>          | <u>78,941</u>        |
| CAPITAL LEASE<br>OBLIGATIONS, less current<br>maturities.....                 | 483               | 5,978            | —          | —               | —                 | 6,461                |
| LONG-TERM DEBT, less current<br>maturities.....                               | 296,498           | 44               | —          | —               | —                 | 296,542              |
| DEFERRED INCOME TAXES.....  | —                 | —                | —          | —               | —                 | —                    |
| DEFERRED RENT.....  | 6,533             | 3,829            | —          | 210             | —                 | 10,572               |
| OTHER LIABILITIES.....  | 4,229             | 8,503            | —          | 4               | —                 | 12,736               |
| DUE TO PARENT.....  | —                 | 109,673          | —          | (3,480)         | (106,193)         | —                    |
| MINORITY INTERESTS IN<br>CONSOLIDATED<br>PARTNERSHIPS.....                    | —                 | —                | —          | 119             | —                 | 119                  |
| <b>STOCKHOLDER'S<br/>INVESTMENT :</b>   |                   |                  |            |                 |                   |                      |
| Common Stock.....   | 1                 | —                | —          | —               | —                 | 1                    |
| Preferred Stock.....  | —                 | 63,277           | —          | —               | (63,277)          | —                    |
| Capital in excess of par.....   | —                 | (177)            | —          | 9,515           | (9,338)           | —                    |
| Additional paid-in capital.....   | 136,131           | —                | —          | —               | —                 | 136,131              |
| Treasury stock.....   | —                 | (137)            | —          | —               | 137               | —                    |
| Other comprehensive income.....   | 66                | —                | —          | —               | —                 | 66                   |
| Retained earnings (deficit).....  | (197,105)         | (164,815)        | —          | (5,222)         | 170,037           | (197,105)            |
|   | <u>(60,907)</u>   | <u>(101,852)</u> | <u>—</u>   | <u>4,293</u>    | <u>97,559</u>     | <u>(60,907)</u>      |
|   | <u>\$ 303,434</u> | <u>\$ 46,395</u> | <u>\$—</u> | <u>\$ 3,269</u> | <u>\$ (8,634)</u> | <u>\$ 344,464</u>    |

**Consolidating balance sheet as of December 31, 2006 (in thousands):**

|   | <u>Guarantors</u> |                   |                  |             |                 | Eliminations        | Consolidated<br>PMCI |
|---|-------------------|-------------------|------------------|-------------|-----------------|---------------------|----------------------|
|   | PMCI              | PMCM              | WRG              | Other       | Non-Guarantors  |                     |                      |
| <b>CURRENT ASSETS:</b>  |                   |                   |                  |             |                 |                     |                      |
| Cash and cash equivalents.....  | \$ 3,132          | \$ 201            | \$ 7,158         | \$—         | \$ (1,422)      | \$—                 | \$9,069              |
| Restricted cash.....  | 4,209             | 6,984             | —                | —           | —               | —                   | 11,193               |
| Trade receivables, less<br>allowance for doubtful<br>accounts.....            | 12,662            | 43                | 5,576            | —           | 35              | —                   | 18,316               |
| Inventories.....  | 6,364             | 481               | 3,882            | —           | 269             | —                   | 10,996               |
| Prepaid expenses and other<br>current assets.....                             | 3,781             | 316               | 693              | —           | 34              | —                   | 4,824                |
| Total current assets.....   | 30,148            | 8,025             | 17,309           | —           | (1,084)         | —                   | 54,398               |
| <b>PROPERTY AND</b>   |                   |                   |                  |             |                 |                     |                      |
| EQUIPMENT, net .....  | 44,762            | 10,885            | 32,755           | —           | 2,642           | —                   | 91,044               |
| <b>INVESTMENTS IN</b>   |                   |                   |                  |             |                 |                     |                      |
| CONSOLIDATED  |                   |                   |                  |             |                 |                     |                      |
| PARTNERSHIPS.....   | —                 | —                 | 228              | —           | 10              | —                   | 238                  |
| GOODWILL.....   | 30,038            | —                 | —                | —           | —               | —                   | 30,038               |
| INTANGIBLE ASSETS, net .....  | 45,885            | 110,600           | 307              | —           | —               | —                   | 156,792              |
| <b>INVESTMENTS IN</b>   |                   |                   |                  |             |                 |                     |                      |
| SUBSIDIARIES.....   | 31,105            | —                 | —                | —           | —               | (31,105)            | —                    |
| DUE FROM PMCI.....  | —                 | 14,494            | —                | —           | —               | (14,494)            | —                    |
| DUE FROM SUBSIDIARIES....   | 105,884           | —                 | —                | —           | —               | (105,884)           | —                    |
| DEFERRED INCOME TAXES..   | 708               | —                 | —                | —           | —               | —                   | 708                  |
| OTHER ASSETS.....   | 11,560            | —                 | (1,008)          | —           | 3,075           | —                   | 13,627               |
|   | <u>\$ 300,090</u> | <u>\$ 144,004</u> | <u>\$ 49,591</u> | <u>\$—</u>  | <u>\$ 4,643</u> | <u>\$ (151,483)</u> | <u>\$ 346,845</u>    |
| <b>CURRENT LIABILITIES:</b>   |                   |                   |                  |             |                 |                     |                      |
| Accounts payable.....   | \$ 10,756         | \$ 2,310          | \$ 8,324         | \$—         | \$ 1,409        | \$—                 | \$ 22,799            |
| Accrued expenses.....   | 28,455            | 7,547             | 20,707           | —           | 1,579           | —                   | 58,288               |
| Accrued income taxes.....   | 75                | —                 | —                | —           | —               | —                   | 75                   |
| Franchise advertising<br>contributions.....                                   | 5,392             | —                 | —                | —           | —               | —                   | 5,392                |
| Current maturities of long term<br>debt and capital lease<br>obligations..... | 1,166             | —                 | 540              | —           | —               | —                   | 1,706                |
|   | <u>45,844</u>     | <u>9,857</u>      | <u>29,571</u>    | <u>—</u>    | <u>2,988</u>    | <u>—</u>            | <u>88,260</u>        |
| <b>CAPITAL LEASE</b>  |                   |                   |                  |             |                 |                     |                      |
| OBLIGATIONS, less current<br>maturities.....                                  | 94                | —                 | 6,155            | —           | —               | —                   | 6,249                |
| LONG-TERM DEBT, less<br>current maturities.....                               | 286,325           | —                 | 54               | —           | —               | —                   | 286,379              |
| DEFERRED RENT .....   | 5,384             | —                 | 4,164            | —           | 220             | —                   | 9,768                |
| OTHER LIABILITIES.....  | 4,095             | —                 | 7,690            | —           | —               | —                   | 11,785               |
| DUE TO PMCM / PMCR.....   | 14,494            | —                 | —                | —           | —               | (14,494)            | —                    |
| DUE TO PARENT .....   | —                 | —                 | 108,974          | 10          | (3,100)         | (105,884)           | —                    |
| <b>MINORITY INTERESTS IN</b>  |                   |                   |                  |             |                 |                     |                      |
| CONSOLIDATED  |                   |                   |                  |             |                 |                     |                      |
| PARTNERSHIPS.....   | (475)             | —                 | 423              | —           | 127             | —                   | 75                   |
| <b>STOCKHOLDER'S</b>  |                   |                   |                  |             |                 |                     |                      |
| INVESTMENT:   |                   |                   |                  |             |                 |                     |                      |
| Common Stock.....   | 1                 | 1                 | —                | —           | —               | (1)                 | 1                    |
| Preferred Stock.....  | —                 | —                 | 63,277           | —           | —               | (63,277)            | —                    |
| Capital in excess of par .....  | —                 | —                 | (177)            | —           | 9,515           | (9,338)             | —                    |
| Additional paid-in capital.....   | 136,131           | 121,300           | —                | —           | —               | (121,300)           | 136,131              |
| Treasury stock.....   | —                 | —                 | (137)            | —           | —               | 137                 | —                    |
| Other comprehensive income.....   | 13                | —                 | —                | —           | —               | —                   | 13                   |
| Retained earnings (deficit).....  | (191,816)         | 12,846            | (170,403)        | (10)        | (5,107)         | 162,674             | (191,816)            |
|   | <u>(55,671)</u>   | <u>134,147</u>    | <u>(107,440)</u> | <u>(10)</u> | <u>4,408</u>    | <u>(31,105)</u>     | <u>(55,671)</u>      |
|   | <u>\$ 300,090</u> | <u>\$ 144,004</u> | <u>\$ 49,591</u> | <u>\$—</u>  | <u>\$ 4,643</u> | <u>\$ (151,483)</u> | <u>\$ 346,845</u>    |

**Consolidating Statement of Cash Flows for the year-to-date period ended July 15, 2007 (unaudited; in thousands):**

|   | Guarantors |          |       |                |              | Eliminations | Consolidated<br>PMCI |
|---|------------|----------|-------|----------------|--------------|--------------|----------------------|
|   | PMCI       | WRG      | Other | Non-Guarantors | Eliminations |              |                      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |            |          |       |                |              |              |                      |
| Net (loss) income.....  | \$ (5,472) | \$ 6,223 | \$ —  | \$ (115)       | \$ (6,108)   | \$ (5,472)   |                      |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |            |          |       |                |              |              |                      |
| Equity in the earnings of subsidiaries .....  | (6,108)    | —        | —     | —              | 6,108        | —            |                      |
| Depreciation and amortization.....  | 9,139      | 3,065    | —     | 686            | —            | 12,890       |                      |
| Amortization of discount.....   | 173        | —        | —     | —              | —            | 173          |                      |
| Other non-cash income and expense items.....  | 293        | 16       | —     | —              | —            | 309          |                      |
| Gain on disposition of assets.....  | (382)      | (3)      | —     | —              | —            | (385)        |                      |
| Asset write-down.....   | —          | 371      | —     | 23             | —            | 394          |                      |
| Change in partnership's minority interests.....   | —          | 75       | —     | 169            | —            | 244          |                      |
| Equity in net loss of unconsolidated partnerships.....                                      | —          | 35       | —     | —              | —            | 35           |                      |
| Net changes in operating assets and liabilities.....  | (679)      | (10,899) | —     | (477)          | —            | (12,055)     |                      |
| Total adjustments.....  | 2,436      | (7,340)  | —     | 401            | 6,108        | 1,605        |                      |
| Net cash (used in) provided by operating activities .....                                   | (3,036)    | (1,117)  | —     | 286            | —            | (3,867)      |                      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |            |          |       |                |              |              |                      |
| Cash paid for property and equipment .....  | (7,816)    | (2,768)  | —     | (606)          | —            | (11,190)     |                      |
| Proceeds from sale of assets.....   | —          | 3        | —     | —              | —            | 3            |                      |
| Net cash investing activities.....  | (7,816)    | (2,765)  | —     | (606)          | —            | (11,187)     |                      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |            |          |       |                |              |              |                      |
| Principal payments under capital lease obligations.....                                     | (85)       | (318)    | —     | —              | —            | (403)        |                      |
| Payments on long-term debt.....   | (500)      | (10)     | —     | —              | —            | (510)        |                      |
| Proceeds from revolver.....   | 45,500     | —        | —     | —              | —            | 45,500       |                      |
| Payments on revolver .....  | (35,000)   | —        | —     | —              | —            | (35,000)     |                      |
| Intercompany financing.....   | 739        | (359)    | —     | (380)          | —            | —            |                      |
| Distributions to minority partners.....   | —          | (23)     | —     | (177)          | —            | (200)        |                      |
| Net cash provided by (used in) financing activities .....                                   | 10,654     | (710)    | —     | (557)          | —            | 9,387        |                      |
| Net decrease in cash and cash equivalents....   | (198)      | (4,592)  | —     | (877)          | —            | (5,667)      |                      |
| <b>CASH AND CASH EQUIVALENTS:.....</b>  |            |          |       |                |              |              |                      |
| Balance, beginning of period.....   | 3,333      | 7,158    | —     | (1,422)        | —            | 9,069        |                      |
| Balance, end of period.....   | \$ 3,135   | \$ 2,566 | \$ —  | \$ (2,299)     | \$ —         | \$ 3,402     |                      |

**Consolidating Statement of Cash Flows for the year-to-date period ended July 9, 2006 (unaudited; in thousands):**

|   | PMCI       | PMCM     | Guarantors<br>WRG | Other | Non-<br>Guarantors | Eliminations | Consolidated<br>PMCI |
|---|------------|----------|-------------------|-------|--------------------|--------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |            |          |                   |       |                    |              |                      |
| Net (loss) income.....  | \$ (1,428) | \$ 5,604 | \$ 4,153          | \$ —  | \$ 1               | \$ (9,758)   | \$ (1,428)           |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |            |          |                   |       |                    |              |                      |
| Equity in the earnings of subsidiaries ..   | (9,758)    | —        | —                 | —     | —                  | 9,758        | —                    |
| Depreciation and amortization.....  | 9,211      | 1,115    | 3,321             | —     | 669                | —            | 14,316               |
| Amortization of discount.....   | 173        | —        | —                 | —     | —                  | —            | 173                  |
| Other non-cash income and expense items.....  | (239)      | —        | 6,651             | —     | —                  | —            | 6,412                |
| Gain on extinguishment of debt .....  | —          | —        | (12,581)          | —     | —                  | —            | (12,581)             |
| (Gain) loss on disposition of assets....  | (96)       | —        | 2                 | —     | —                  | —            | (94)                 |
| Asset write-down.....   | —          | —        | 49                | —     | —                  | —            | 49                   |
| Change in partnership's minority interests.....   | —          | —        | —                 | —     | 169                | —            | 169                  |
| Equity in net loss of unconsolidated partnerships.....                                      | —          | —        | 109               | —     | —                  | —            | 109                  |
| Net changes in operating assets and liabilities.....  | (2,110)    | (560)    | (2,421)           | 23    | 98                 | —            | (4,970)              |
| Total adjustments.....  | (2,819)    | 555      | (4,870)           | 23    | 936                | 9,758        | 3,583                |
| Net cash (used in) provided by operating activities .....                                   | (4,247)    | 6,159    | (717)             | 23    | 937                | —            | 2,155                |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |            |          |                   |       |                    |              |                      |
| Cash paid for property and equipment  | (3,370)    | (1,051)  | (2,901)           | —     | (617)              | —            | (7,939)              |
| Proceeds from sale of assets.....   | 1,534      | —        | 13                | —     | —                  | —            | 1,547                |
| Intercompany activities.....  | 6,478      | (6,478)  | —                 | —     | —                  | —            | —                    |
| Net cash provided by (used in) investing activities .....                                   | 4,642      | (7,529)  | (2,888)           | —     | (617)              | —            | (6,392)              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |            |          |                   |       |                    |              |                      |
| Principal payments under capital lease obligations.....                                     | (149)      | —        | (290)             | —     | —                  | —            | (439)                |
| Proceeds from long-term debt.....   | 100,000    | —        | 1,541             | —     | —                  | —            | 101,541              |
| Payments on long-term debt.....   | —          | —        | (101,561)         | —     | —                  | —            | (101,561)            |
| Proceeds from revolver.....   | 3,800      | —        | —                 | —     | —                  | —            | 3,800                |
| Payments on revolver .....  | (3,800)    | —        | —                 | —     | —                  | —            | (3,800)              |
| Intercompany financing.....   | (103,577)  | —        | 103,896           | —     | (319)              | —            | —                    |
| Debt issuance costs.....  | (2,720)    | —        | —                 | —     | —                  | —            | (2,720)              |
| Distributions to minority partners.....   | —          | —        | —                 | —     | (162)              | —            | (162)                |
| Capital contribution from parent .....  | 12,545     | —        | —                 | —     | —                  | —            | 12,545               |
| Net cash provided by (used in) financing activities .....                                   | 6,099      | —        | 3,586             | —     | (481)              | —            | 9,204                |
| Net increase (decrease) in cash and cash equivalents.....                                   | 6,494      | (1,370)  | (19)              | 23    | (161)              | —            | 4,967                |
| <b>CASH AND CASH EQUIVALENTS:</b>   |            |          |                   |       |                    |              |                      |
| Balance, beginning of period.....   | 1,591      | 1,567    | 2,609             | (23)  | (1,756)            | —            | 3,988                |
| Balance, end of period.....   | \$ 8,085   | \$ 197   | \$ 2,590          | \$ —  | \$ (1,917)         | \$ —         | \$ 8,955             |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### GENERAL

The following discussion and analysis should be read in conjunction with and is qualified in its entirety by reference to the consolidated financial statements and accompanying notes of Perkins & Marie Callender's Inc. included elsewhere in this Form 10-Q. Except for historical information, the discussions in this section contain forward-looking statements that involve risks and uncertainties. Future results could differ materially from those discussed below. See discussion under the caption "Information Concerning Forward-Looking Statements."

### OUR COMPANY

References to the "Company," "us" or "we" refer to Perkins & Marie Callender's Inc. and its consolidated subsidiaries.

The Company operates two restaurant concepts: (1) full-service family dining restaurants located primarily in the Midwest, Florida and Pennsylvania under the name Perkins Restaurant and Bakery, which were historically owned by Perkins and (2) mid-priced, casual-dining restaurants, specializing in the sale of pies and other bakery items, located primarily in the western United States under the name Marie Callender's Restaurant and Bakery, which were historically owned by WRG.

#### Perkins Restaurant and Bakery

Perkins, founded in 1958, has continued to adapt its menu, product offerings and building décor to meet changing consumer preferences. The Perkins' concept is designed to serve a variety of demographically and geographically diverse customers for a wide range of dining occasions that are appropriate for the entire family. As of July 15, 2007, the Company offered a full menu of over 90 assorted breakfast, lunch, dinner, snack and dessert items ranging in price from \$3.29 to \$12.99, with an average guest check of \$8.18 for our Company-operated restaurants. Perkins' signature menu items include our omelettes, secret-recipe real buttermilk pancakes, Mammoth Muffins, Tremendous Twelve platter, salads, melt sandwiches and Butterball turkey entrees. Breakfast items, which are available throughout the day, account for approximately half of the entrees sold in our restaurants.

Perkins is a leading operator and franchisor of full-service family dining restaurants. As of July 15, 2007, we operated 155 full-service restaurants and franchised 324 full-service restaurants to 110 franchisees in 34 states and in 5 Canadian provinces. The footprint of our Company-operated restaurants extends over 13 states, with a significant number of restaurants in Minnesota and Florida. Our Company-operated restaurants generated average annual revenues of \$1,929,000 over the thirteen periods ended July 15, 2007.

Perkins' franchised restaurants operate pursuant to license agreements generally having an initial term of 20 years and pursuant to which a royalty fee (4% of gross sales) and an advertising contribution (3% of gross sales) are paid. Franchisees pay a non-refundable one-time license fee of \$40,000 for each of their first two restaurants. Franchisees opening their third and subsequent restaurants pay a one-time license fee of between \$25,000 and \$50,000 depending on the level of assistance provided by us in opening the restaurant. Typically, franchisees may terminate license agreements upon a minimum of twelve months prior notice and upon payment of specified liquidated damages. Franchisees do not typically have express renewal rights.

For the quarter ended July 15, 2007 and July 9, 2006, average royalties earned per franchised restaurant were approximately \$15,400 and \$15,500, respectively. The following number of Perkins' license agreements have expiration dates in the years indicated: 2007 — six; 2008 — ten; 2009 — twelve; 2010 — eighteen; 2011 — thirteen. Upon the expiration of license agreements, franchisees typically apply for and receive new license agreements. Franchisees pay a license agreement renewal fee of \$5,000 to \$7,500 depending on the length of the renewal term.

## Marie Callender's Restaurant and Bakery

Marie Callender's, founded in 1948, has one of the longest operating histories within the full-service dining sector. Marie Callender's is known for serving quality food in a warm, pleasant atmosphere, and for its premium pies that are baked fresh daily. As of July 15, 2007, the Company offered a full menu of over 50 items ranging in price from \$5.99 to \$16.99. Marie Callender's signature menu items include pot pies, quiches, full salad bar and Sunday brunch. Day part mix is split evenly between lunch and dinner.

Marie Callender's are mid-priced, casual dining restaurants specializing in the sale of pies, operating primarily in the western United States. As of July 15, 2007, we operated 91 full-service restaurants and franchised 46 full-service restaurants to 27 franchisees in four states and Mexico. Our Company-operated restaurants' footprint extends over nine states with 61 restaurants located in California. Our existing Company-operated restaurants generated average annual revenues of \$2,251,000 over the thirteen periods ended July 15, 2007.

As of July 15, 2007, of the 137 Marie Callender's restaurants in operation: 134 restaurants were operated under the Marie Callender's name, one under the Marie Callender's Grill name, one under the Callender's Grill name and one under the East Side Mario's name. The Company owned and operated 78 Marie Callender's restaurants, one Callender's Grill, the East Side Mario's restaurant and eleven Marie Callender's restaurants under partnership agreements. The Company has less than a 50% ownership in two of the partnership restaurants and a 57% to 95% ownership in the remaining nine locations. Franchisees owned and operated 45 Marie Callender's restaurants and one Callender's Grill.

The East Side Mario's restaurant is a mid-priced Italian restaurant operating in Lakewood, California.

Marie Callender's franchised restaurants operate pursuant to franchise agreements generally having an initial term of 15 years, and pursuant to which a royalty fee (normally 5% of gross sales) is paid. Franchisees pay a nonrefundable, one-time initial franchise fee of \$25,000. Franchisees also pay a training fee of \$35,000 prior to opening a restaurant. Franchisees typically have the right to renew the franchise agreement for two terms of five years each. For the quarter ended July 15, 2007 and July 9, 2006, average royalties earned per franchised restaurant were approximately \$25,070 and \$26,733, respectively. The decrease is primarily due to the inclusion of the additional seven days of operations at Marie Callender's franchise restaurants in the second quarter of 2006 as compared to the second quarter of 2007 (see "Financial Statement Presentation" below). The following number of Marie Callender's franchise agreements have expiration dates in the years indicated: 2007 — one; 2008 — four; 2009 — none; 2010 — two and 2011 — two. Upon the expiration of franchise agreements, franchisees typically apply for and receive new franchise agreements and pay a franchise agreement renewal fee of \$2,500.

## Manufacturing

Foxtail manufactures pies, pancake mixes, cookie doughs, muffin batters and other bakery products for both our in-store bakeries and third-party customers. One manufacturing facility in Corona, California produces pies and other bakery products to supply the Marie Callender's restaurants and three facilities in Cincinnati, Ohio produce pies, pancake mixes, cookie doughs, muffin batters and other bakery products to supply the Perkins restaurants. In recent years, less than ten percent (10%) of the sales from the Corona, California plant have been to third party customers, whereas in excess of fifty percent of the sales from the Cincinnati, Ohio plants have been to third party customers.

## OVERVIEW

### Combination of Companies under Common Control

On November 12, 1999, Castle Harlan Partners III, L.P. ("CHP III"), a New York-based private equity fund managed by Castle Harlan, acquired WRG, a privately held company, through the purchase of a majority interest in the equity interests of WRG.

On September 21, 2005, Perkins & Marie Callender's Holding Corp. ("P&MC Holding Corp."), an affiliate of Castle Harlan Partners IV, L.P. ("CHP IV"), a New York-based private equity fund also managed by Castle Harlan, purchased all of the outstanding capital stock of the parent company of Perkins (the "Acquisition"). CHP III and CHP IV are under the common control of Castle Harlan.

On May 3, 2006, pursuant to the Stock Purchase Agreement, WRG became a direct wholly-owned subsidiary of the Company. Pursuant to the Stock Purchase Agreement, P&MC Holding LLC purchased all the outstanding stock of WRG, and the shareholders of WRG received equity interests in P&MC Holding LLC, the Company's indirect parent. From September 21, 2005 through May 3, 2006, both Perkins and WRG were portfolio companies, under common control of Castle Harlan; therefore, the financial statements of both entities have been presented retroactively on a consolidated basis, in a manner similar to a pooling of interests, from September 21, 2005, the first date at which both companies were under common control. This transaction is described in Note 5, "Combination of Companies under Common Control."

In connection with the Combination, the Company entered into an amended and restated credit agreement (the "Credit Agreement") with Wachovia Bank, National Association, as administrative agent, swingline lender and issuing lender, Wachovia Capital Markets, LLC as sole lead arranger and sole book manager, BNP Paribas as syndication agent, Wells Fargo, Foothill, Inc. as documentation agent, and each other lender from time to time party thereto. Pursuant to the Credit Agreement, the lenders made available the following: (1) a five-year revolving credit facility of up to \$40,000,000, including a sub-facility for letters of credit in an amount not to exceed \$25,000,000 and a sub-facility for swingline loans in an amount not to exceed \$5,000,000; and (2) a seven-year term loan credit facility not to exceed \$100,000,000. The Company's obligations under the Credit Agreement are guaranteed by PMCH and each of the Company's wholly-owned subsidiaries. The obligations under the Credit Agreement are collateralized by a first priority lien on substantially all of the assets of the Company and its wholly-owned subsidiaries. Certain future subsidiaries of the Company will be required to guarantee the obligations of the Company and grant a lien on substantially all of their assets.

A draw under the Credit Agreement was made on May 3, 2006 in the amount of \$103,800,000, which was used to repay existing indebtedness of WRG and its subsidiaries of approximately \$101,000,000 and to pay certain fees and expenses in connection with the consummation of this Combination and the amendment and restatement of the Credit Agreement. The Company recognized a gain of \$12,581,000 on its extinguishment of certain debt and related accrued interest due to the Company's successful negotiation of concessions.

## **KEY FACTORS AFFECTING OUR RESULTS**

The key factors that affect our operating results are our comparable restaurant sales, which are driven by our comparable customer counts and our guest check average, and our ability to manage operating expenses, such as food cost, labor and benefits. Comparable restaurant sales and comparable customer counts are measures of the percentage increase or decrease of the sales and customer counts, respectively, of restaurants open at least one full fiscal year prior to the start of the comparative year. We do not use new restaurants in our calculation of comparable restaurant sales until they are open for at least one full fiscal year in order to allow a new restaurant's operations time to stabilize and provide more meaningful results.

Like much of the restaurant industry, we view comparable restaurant sales as a key performance metric, at the individual restaurant level, within regions and throughout our Company. With our information systems, we monitor comparable restaurant sales on a daily, weekly and monthly basis on a restaurant-by-restaurant basis. The primary drivers of comparable restaurant sales performance are changes in the average guest check and changes in the number of customers, or customer count. Average guest check is primarily affected by menu price changes and changes in the mix of items purchased by our customers. We also monitor entree count, which we believe is indicative of overall customer traffic patterns. To increase restaurant sales, we focus marketing and promotional efforts on increasing customer visits and sales of particular products. Restaurant sales performance is also affected by other factors, such as food quality, the level and consistency of service within our restaurants and franchised restaurants, the attractiveness and physical condition of our restaurants and franchised restaurants, as well as local and national competitive and economic factors.

For the quarter ended July 15, 2007, Perkins' Company-operated restaurants' comparable sales declined by 0.9% and Marie Callender's Company-operated restaurants' comparable sales declined by 0.3%. For the year-to-date period ended July 15, 2007, Perkins' Company-operated restaurants' comparable sales declined by 1.2% and Marie Callender's Company-operated restaurants' comparable sales declined by 0.1%.

## SUMMARY OF CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to adopt accounting policies and make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process for reviewing the application of our accounting policies and for evaluating the appropriateness of the estimates that are required to prepare the financial statements of our Company. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information.

### Revenue Recognition

Revenue at our restaurants is recognized as customers pay for products at the time of sale. The revenue reporting process is covered by our system of internal controls and generally does not require significant management judgments and estimates. However, estimates are inherent in the calculation of franchisee royalty revenue. We calculate an estimate of royalty income each period and adjust royalty income when actual amounts are reported by franchisees. A \$1,000,000 change in estimated franchise sales would impact royalty revenue by \$40,000 to \$50,000. Historically, these adjustments have not been material.

### Concentration of Credit Risk

Financial instruments, which potentially expose us to concentrations of credit risk, consist principally of franchisee and Foxtail accounts receivable. We perform ongoing credit evaluations of our franchisees and Foxtail customers and generally require no collateral to secure accounts receivable. The credit review is based on both financial and non-financial factors. Based on this review, we provide for estimated losses for accounts receivable that are not likely to be collected. Although we maintain good relationships with our franchisees, if average sales or the financial health of significant franchisees were to deteriorate, we might have to increase our reserves against collection of franchise revenues.

Additional financial instruments that potentially subject us to a concentration of credit risk are cash and cash equivalents. At times, cash balances may be in excess of FDIC insurance limits. The Company has not experienced any losses with respect to bank balances in excess of government provided insurance.

### Insurance Reserves

We are self-insured up to certain limits for costs associated with workers' compensation claims, property claims and benefits paid under employee health care programs. At July 15, 2007 and December 31, 2006, we had total self-insurance accruals reflected in our consolidated balance sheets of approximately \$8,308,000 and \$8,759,000, respectively. The measurement of these costs required the consideration of historical loss experience and judgments about the present and expected levels of cost per claim. We account for the workers' compensation costs primarily through actuarial methods, which develop estimates of the discounted liability for claims incurred, including those claims incurred but not reported. These methods provide estimates of future ultimate claim costs based on claims incurred as of the balance sheet dates. We account for benefits paid under employee health care programs using historical lag information as the basis for estimating expenses incurred as of the balance sheet dates. We believe the use of actuarial methods to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals. However, the use of any estimation technique in this area is inherently sensitive given the magnitude of claims involved and the length of time until the ultimate cost is known. We believe that our recorded obligations for these expenses are consistently measured on an appropriate basis. Nevertheless, changes in health care costs, accident frequency and severity and other factors can materially affect the estimate for these liabilities.

### Long-Lived Assets

The restaurant industry is capital intensive. We capitalize the cost of improvements that extend the useful life of an asset. Repairs and maintenance costs that do not extend the useful life of an asset are expensed as incurred.

The depreciation of our capital assets over their estimated useful lives (or in the case of leasehold improvements, the lesser of their estimated useful lives or lease term), and the determination of any salvage values, require management to make judgments about future events. Because we utilize many of our capital assets over relatively long periods, we periodically evaluate whether adjustments to our estimated lives or salvage values are necessary. The accuracy of these estimates affects the amount of depreciation expense recognized in a period and, ultimately, the gain or loss on the disposal of the asset. Historically, gains and losses on the disposition of assets have not been significant. However, such amounts may differ materially in the future based on restaurant performance, technological obsolescence, regulatory requirements and other factors beyond our control.

Due to the fact that we have invested a significant amount in the construction or acquisition of new restaurants, we have risks that these assets will not provide an acceptable return on our investment and an impairment of these assets may occur. The accounting test for whether an asset held for use is impaired involves first comparing the carrying value of the asset with its estimated future undiscounted cash flows. If these cash flows do not exceed the carrying value, the asset must be adjusted to its current fair value. We periodically perform this test on each of our restaurants to evaluate whether impairment exists. Factors influencing our judgment include the age of the restaurant (new restaurants have significant start-up costs, which impede a reliable measure of cash flow), estimation of future restaurant performance and estimation of restaurant fair value. Due to the fact that we can specifically evaluate impairment on a restaurant-by-restaurant basis, we have historically been able to identify impaired restaurants and record the appropriate adjustment.

#### Leases

The future commitments for operating leases are not reflected as a liability on our balance sheet because the leases do not meet the accounting definition of capital leases. The determination of whether a lease is accounted for as a capital lease or an operating lease requires management to make estimates primarily about the fair value of the asset, its estimated economic useful life and the incremental borrowing rate. We believe that we have a well-defined and controlled process for making this evaluation.

#### Goodwill and Intangibles

As of July 15, 2007, we had approximately \$185,252,000 of goodwill and intangible assets on our balance sheet primarily resulting from the Acquisition. Accounting standards require that we review goodwill and non-amortizing intangible assets for impairment on at least an annual basis. The annual evaluation of intangible asset impairment, performed as of year end, requires the use of estimates about the future cash flows of each of our reporting units to determine their estimated fair values. Changes in forecasted operations and changes in discount rates can materially affect these estimates. However, once an impairment of intangible assets has been recorded, it cannot be reversed.

#### Deferred Income Taxes

We record income tax liabilities utilizing known obligations and estimates of potential obligations. A deferred tax asset or liability is recognized whenever there are future tax effects from existing temporary differences and operating loss and tax credit carryforwards. We record a valuation allowance to reduce deferred tax assets to the balance that is more likely than not to be realized. In evaluating the need for a valuation allowance, we must make judgments and estimates on future taxable income, feasible tax planning strategies and existing facts and circumstances. When we determine that deferred tax assets could be realized in greater or lesser amounts than recorded, the asset balance and income statement reflect the change in the period such determination is made. We believe that the valuation allowance recorded is adequate for the circumstances. However, changes in facts and circumstances that affect our judgments or estimates in determining the proper deferred tax assets or liabilities could materially affect the recorded amounts.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109”, (“FIN 48”). As a result of the implementation of FIN 48, the Company recognized a decrease of approximately \$183,000 in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 balance of retained earnings. As of January 1, 2007, the Company had approximately \$5,442,000 of unrecognized tax benefits, all of which, if recognized, would favorably affect the Company’s effective tax rate. Included therein, the Company has

\$3,086,000 of unrecognized tax benefits reducing federal and state net operating loss carry forward and federal tax credit carry forward deferred tax assets that if recognized would be subject to a valuation allowance. The Company expects that the total amount of its unrecognized tax benefits will decrease between \$600,000 and \$1,000,000 during the year due to various state tax examinations and expiration of statutes.

The Company's policy for recording interest and penalties associated with tax audits is to record such items as a component of income taxes. As of January 1, 2007, the Company had \$275,000 of accrued interest and penalties.

The Company's tax returns are open to federal and state tax audits until the applicable statute of limitations expire. The Company is no longer subject to U.S. federal tax examinations by tax authorities for tax years before 2003. For the majority of states where the Company has a significant presence, it is also no longer subject to tax examination by state tax authorities for tax years before 2003.

## RESULTS OF OPERATIONS

### Financial Statement Presentation

In 2006, WRG's quarterly results were based on thirteen-week quarters. Beginning in the first quarter of 2007, WRG adopted Perkins' reporting calendar, which is based on thirteen four-week accounting periods. Accordingly, the accompanying consolidated statement of operations for the quarter ended July 9, 2006 includes the financial results of WRG for the 91-day period from March 31, 2006 through June 29, 2006. The accompanying consolidated statement of operations for the second quarter ended July 15, 2007 includes the financial results of WRG for three four-week periods, or 84 days.

The accompanying consolidated statements of operations and cash flows for the year-to-date period ended July 9, 2006 include the 2006 year-to-date financial results of WRG for the 182-day period from December 30, 2005 through June 29, 2006. The accompanying consolidated statements of operations and cash flows for the year-to-date period ended July 15, 2007 include the 2007 year-to-date financial results of WRG for seven four-week periods, or 196 days.

### Seasonality

Sales fluctuate seasonally and as mentioned previously, the quarters do not all have the same time duration. Specifically, the first quarter has an extra four weeks compared to the other quarters of the fiscal year. Historically, our average weekly sales are highest in the fourth quarter (approximately October through December) as a result primarily of holiday pie sales at both Perkins and Marie Callender's restaurants and Thanksgiving feast sales at Marie Callender's restaurants. Therefore, the quarterly results are not necessarily indicative of results that may be achieved for the full fiscal year. Factors influencing relative sales variability, in addition to the holiday impact noted above, include the frequency and popularity of advertising and promotions, the relative sales levels of new and closed locations, other holidays and weather.

### Overview

Our revenues are derived primarily from restaurant operations, franchise royalties and the sale of bakery products produced by Foxtail. Sales from Foxtail to Company-operated restaurants are eliminated in the accompanying statements of operations. Segment revenues as a percentage of total revenues were as follows:

|                                     | <u>Percentage of Total Revenues</u>             |   |
|-------------------------------------|---|---|
|                                     | Second Quarter<br>Ended<br><u>July 15, 2007</u> | Year-to-Date<br>Ended<br><u>July 15, 2007</u> |
| Perkins restaurants .....           | 51.9%   | 51.5%   |
| Marie Callender's restaurants ..... | 34.8%   | 35.9%   |
| Perkins franchisees .....           | 3.9%  | 3.7%  |
| Marie Callender's franchisees ..... | 0.9%  | 0.9%  |
| Foxtail .....                       | 7.5%  | 7.2%  |
| Other.....                          | <u>1.0%</u>                                     | <u>0.8%</u>                                   |
| Total.....                          | <u>100.0%</u>                                   | <u>100.0%</u>                                 |

The following table reflects certain data for the Company's quarter ended July 15, 2007 compared to the quarter ended July 9, 2006. The consolidated information is derived from the accompanying consolidated statements of operations. Data from the Company's segments – Perkins restaurants, Marie Callender's restaurants, Perkins franchise, Marie Callender's franchise, Foxtail and Other is included for comparison. The ratios presented reflect the underlying dollar values expressed as a percentage of the applicable revenue amount. The food cost ratio in the consolidated results reflects the elimination of intersegment food cost of \$3,812,000 and \$2,111,000 in the second quarter of 2007 and 2006, respectively.

|                                  | Consolidated Results |              | Perkins Restaurants  |              | Marie Callender's Restaurants |              | Perkins Franchise    |              |
|----------------------------------|----------------------|--------------|----------------------|--------------|-------------------------------|--------------|----------------------|--------------|
|                                  | Second Quarter Ended |              | Second Quarter Ended |              | Second Quarter Ended          |              | Second Quarter Ended |              |
|                                  | July 15, 2007        | July 9, 2006 | July 15, 2007        | July 9, 2006 | July 15, 2007                 | July 9, 2006 | July 15, 2007        | July 9, 2006 |
| Food sales.....                  | \$126,514            | \$131,618    | \$ 67,592            | \$66,249     | \$ 45,304                     | \$50,537     | \$ —                 | \$ —         |
| Franchise and other revenue..... | 7,408                | 7,403        | —                    | —            | —                             | —            | 5,051                | 5,160        |
| Intersegment revenue.....        | (3,812)              | (2,111)      | —                    | —            | —                             | —            | —                    | —            |
| Total Revenues.....              | 130,110              | 136,910      | 67,592               | 66,249       | 45,304                        | 50,537       | 5,051                | 5,160        |
| Food cost.....                   | 27.5%                | 29.1%        | 24.4%                | 24.5%        | 29.4%                         | 30.0%        | —                    | —            |
| Labor and benefits.....          | 34.3%                | 33.9%        | 35.6%                | 36.5%        | 35.3%                         | 35.6%        | —                    | —            |
| Operating expenses .....         | 25.0%                | 23.3%        | 26.5%                | 24.4%        | 28.1%                         | 27.4%        | 9.5%                 | 11.4%        |
| Segment (Loss) Profit .          | \$ (2,723)           | \$ 3,796     | \$ 6,630             | \$4,336      | \$ 1,566                      | \$1,448      | \$ 4,568             | \$ 4,570     |

  

|                                  | Marie Callender's Franchise |              | Foxtail              |              | Other (a)            |              |
|----------------------------------|-----------------------------|--------------|----------------------|--------------|----------------------|--------------|
|                                  | Second Quarter Ended        |              | Second Quarter Ended |              | Second Quarter Ended |              |
|                                  | July 15, 2007               | July 9, 2006 | July 15, 2007        | July 9, 2006 | July 15, 2007        | July 9, 2006 |
| Food sales.....                  | \$ —                        | \$ —         | \$ 13,618            | \$ 14,832    | \$ —                 | \$ —         |
| Franchise and other revenue..... | 1,153                       | 1,230        | —                    | —            | 1,204                | 1,013        |
| Intersegment revenue.....        | —                           | —            | (3,812)              | (2,111)      | —                    | —            |
| Total Revenues .....             | 1,153                       | 1,230        | 9,806                | 12,721       | 1,204                | 1,013        |
| Food cost.....                   | —                           | —            | 56.5%                | 56.7%        | —                    | —            |
| Labor and benefits..             | —                           | —            | 14.0%                | 11.2%        | 9.7%                 | 8.7%         |
| Operating expenses .....         | —                           | —            | 11.0%                | 9.6%         | —                    | —            |
| Segment Profit (Loss) .....      | \$ 1,153                    | \$ 1,230     | \$ 1,033             | \$ 1,933     | \$ (17,673)          | \$ (9,721)   |

(a) Licensing revenue of \$1,093,000 and \$965,000 for the second quarter of 2007 and 2006, respectively, is included in the Other segment revenues. The Other segment loss includes corporate general and administrative expenses, interest expense and other non-operational expenses. For details of the Other segment loss, see Note 9, "Segment Reporting" in the Notes to Consolidated Financial Statements.

The following table reflects certain data for the Company's year-to-date period ended July 15, 2007 compared to the year-to-date period ended July 9, 2006. The consolidated information is derived from the accompanying consolidated statements of operations. Data from the Company's segments – Perkins restaurants, Marie Callender's restaurants, Perkins franchise, Marie Callender's franchise, Foxtail and Other is included for comparison. The ratios presented reflect the underlying dollar values expressed as a percentage of the applicable revenue amount. The food cost ratio in the consolidated results reflects the elimination of intersegment food cost of \$9,859,000 and \$4,355,000 for the year-to-date period of 2007 and 2006, respectively.

|                                | Consolidated Results |              | Perkins Restaurants |              | Marie Callender's Restaurants |              | Perkins Franchise  |              |
|--------------------------------|----------------------|--------------|---------------------|--------------|-------------------------------|--------------|--------------------|--------------|
|                                | Year-to-date Ended   |              | Year-to-date Ended  |              | Year-to-date Ended            |              | Year-to-date Ended |              |
|                                | July 15, 2007        | July 9, 2006 | July 15, 2007       | July 9, 2006 | July 15, 2007                 | July 9, 2006 | July 15, 2007      | July 9, 2006 |
| Food sales.....                | \$ 301,449           | \$ 294,477   | \$ 158,673          | \$ 156,975   | \$ 110,575                    | \$ 102,813   | \$ —               | \$ —         |
| Franchise and other revenue .. | 16,806               | 16,434       | —                   | —            | —                             | —            | 11,467             | 11,809       |
| Intersegment revenue .....     | (9,859)              | (4,355)      | —                   | —            | —                             | —            | —                  | —            |
| Total Revenues .               | 308,396              | 306,556      | 158,673             | 156,975      | 110,575                       | 102,813      | 11,467             | 11,809       |
| Food cost.....                 | 27.8%                | 29.5%        | 25.0%               | 25.2%        | 29.8%                         | 30.2%        | —                  | —            |
| Labor and benefits.....        | 34.4%                | 33.8%        | 35.7%               | 36.6%        | 35.1%                         | 35.5%        | —                  | —            |
| Operating expenses.....        | 24.9%                | 23.6%        | 26.4%               | 25.5%        | 27.3%                         | 26.9%        | 11.2%              | 10.2%        |
| Segment Profit (Loss).....     | \$ (5,472)           | \$ (1,428)   | \$ 14,368           | \$ 11,781    | \$ 4,620                      | \$ 3,358     | \$ 10,178          | \$ 10,602    |

|                                | Marie Callender's Franchise |              | Foxtail            |              | Other (a)          |              |
|--------------------------------|-----------------------------|--------------|--------------------|--------------|--------------------|--------------|
|                                | Year-to-date Ended          |              | Year-to-date Ended |              | Year-to-date Ended |              |
|                                | July 15, 2007               | July 9, 2006 | July 15, 2007      | July 9, 2006 | July 15, 2007      | July 9, 2006 |
| Food sales.....                | \$ —                        | \$ —         | \$ 32,201          | \$ 34,689    | \$ —               | \$ —         |
| Franchise and other revenue .. | 2,766                       | 2,507        | —                  | —            | 2,573              | 2,118        |
| Intersegment revenue .....     | —                           | —            | (9,859)            | (4,355)      | —                  | —            |
| Total Revenues .               | 2,766                       | 2,507        | 22,342             | 30,334       | 2,573              | 2,118        |
| Food cost.....                 | —                           | —            | 56.7%              | 56.2%        | —                  | —            |
| Labor and benefits.....        | —                           | —            | 14.1%              | 11.6%        | 12.7%              | 9.5%         |
| Operating expenses.....        | —                           | —            | 10.2%              | 10.0%        | —                  | —            |
| Segment Profit (Loss).....     | \$ 2,766                    | \$ 2,507     | \$ 2,540           | \$ 4,562     | \$ (39,944)        | \$ (34,238)  |

(a) Licensing revenue of \$2,322,000 and \$1,909,000 for the year-to-date period of 2007 and 2006, respectively, is included in the Other segment revenues. The Other segment loss includes corporate general and administrative expenses, interest expense and other non-operational expenses. For details of the Other segment loss, see Note 9, "Segment Reporting" in the Notes to Consolidated Financial Statements.

### Quarter Ended July 15, 2007 Compared to the Quarter Ended July 9, 2006

#### Restaurant Segments Overview

The operating results of the restaurant segments are impacted mainly by the following industry-wide factors: competition, comparable store sales and guest counts, restaurant openings and closings, labor and employee benefit expenses, commodity prices, energy prices, governmental legislation, general economy and weather.

Perkins restaurants' comparable sales decreased 0.9% and Marie Callender's restaurants' comparable sales decreased 0.3% in the second quarter of 2007 as compared to the second quarter of 2006. The decrease in Perkins restaurants comparable sales resulted primarily from a decrease in comparable customer counts.

Marie Callender's restaurant sales decreased \$5,233,000 primarily due to the inclusion of seven additional days of revenues in the second quarter of 2006 for an estimated impact of \$3,439,000.

Combined restaurant segment income increased \$2,412,000 in the second quarter of 2007 compared to a year ago, primarily due to a decrease in depreciation in the Perkins restaurant segment. In the second quarter of 2006, depreciation expense was higher due to the step-up in the basis of Perkins' depreciable assets, related to the Acquisition, and the related \$2,265,000 adjustment to depreciation.

Since the end of the second quarter of 2006, the Company has opened three new Perkins restaurants, acquired three Perkins restaurants from franchisees and closed one underperforming Perkins restaurant. The Company has also opened one Marie Callender's restaurant and closed two underperforming Marie Callender's restaurants.

#### *Foxtail Segment Overview*

The operating results of Foxtail are impacted mainly by the following factors: external customer base, labor and employee benefit expenses, commodity prices, energy prices, governmental legislation, Perkins and Marie Callender's restaurant openings and closings, food safety requirements and the general economy.

Foxtail operations historically managed by WRG ("Corona") and Foxtail operations historically managed by Perkins ("Cincinnati") are combined into one segment for reporting purposes. Foxtail's net sales decreased \$2,915,000 from the prior year's second quarter. \$1,736,000 of the decrease is due to the elimination of sales and cost of sales from Foxtail's Corona plant to Marie Callender's Company-operated restaurants in the second quarter of 2007, whereas sales and cost of sales from Foxtail's Corona plant to Marie Callender's Company-operated restaurants in the second quarter of 2006 were not eliminated. (The Corona plant intercompany sales to the Marie Callender's Company-operated restaurants have been eliminated beginning in the fourth quarter of 2006.) The effect of this change had no effect on Foxtail's segment income or the Company's net loss. The decrease was also due to a decrease in sales of \$411,000 in the second quarter to one contractual customer and the loss of a line of business and related sales of \$1,117,000 to one major non-contractual customer. Segment income of \$1,033,000 in the second quarter of 2007 decreased \$900,000 as compared to the second quarter of 2006 primarily as a result of this decline in sales and a \$250,000 increase in labor and benefits.

#### *Franchise Segments Overview*

The operating results of the franchise segments are mainly impacted by the same factors as those impacting the Company's restaurant segments, excluding the operating cost factors since franchise segment income is earned primarily through royalty income.

Franchise revenues decreased \$186,000 in the second quarter of 2007 compared to the prior year's second quarter. The decrease was primarily due to a decline in royalty income at Perkins resulting primarily from a decrease of approximately 0.3% in comparable franchise restaurant sales in the second quarter of 2007 as compared to the second quarter of 2006 and a decrease in the number of Perkins' franchise restaurants in operation.

Since the end of the second quarter of 2006, franchisees have opened eight Perkins restaurants, closed nine Perkins restaurants and sold three Perkins restaurants to the Company. Franchisees have not opened or closed any Marie Callender's restaurants.

#### *Revenues*

Total revenues decreased \$6,800,000 in the second quarter of 2007 compared to the second quarter of 2006. The decrease was primarily due to a \$5,233,000 decline in sales at Marie Callender's Company-operated restaurants due primarily to the inclusion of seven additional days of revenues in the second quarter of 2006.

Perkins restaurant sales of \$67,592,000 and \$66,249,000 in the second quarter of 2007 and 2006, respectively, accounted for 51.9% and 48.4% of total revenues, respectively. Perkins 0.9% decrease in comparable restaurant sales were offset by sales from the increased number of operating locations: 155 Perkins restaurants were in operation at the end of the second quarter of 2007 compared to 151 Perkins restaurants in operation at the end of the second quarter of 2006. Perkins restaurant sales increased as a percentage of total revenues due primarily to the inclusion of the seven additional days of revenues from Marie Callender's in the second quarter of 2006.

Marie Callender's restaurant sales of \$45,304,000 and \$50,537,000 in the second quarter of 2007 and 2006, respectively, accounted for 34.8% and 36.9% of total revenues, respectively. Marie Callender's restaurant sales decreased \$5,233,000 due primarily to the inclusion of seven additional days of revenues in the second quarter of 2006.

Perkins franchise revenues accounted for 3.9% and 3.8% of total revenues in the second quarter of 2007 and 2006, respectively and Marie Callender's franchise revenues accounted for 0.9% of total revenues in both periods. The franchise revenues at Perkins decreased \$109,000, but increased as a percentage of total revenues due primarily to the inclusion of the seven additional days of revenues from Marie Callender's in the second quarter of 2006.

Foxtail revenues decreased \$2,915,000 in the second quarter of 2007 versus the same quarter of 2006. The decrease is due primarily to the elimination of sales and cost of sales from Foxtail's Corona plant to Marie Callender's Company-operated restaurants in the second quarter of 2007 of \$1,736,000, whereas sales and cost of sales from Foxtail's Corona plant to Marie Callender's Company-operated restaurants in the second quarter of 2006 were not eliminated. The effect of this change had no effect on Foxtail's segment income or the Company's net loss. The decrease was also due to a decrease in sales of \$411,000 in the second quarter to one contractual customer and the loss of a line of business and related sales of \$1,117,000 to one major non-contractual customer.

## Costs and Expenses

### *Food Cost*

Consolidated food cost was 27.5% and 29.1% of food sales in the second quarter of 2007 and 2006, respectively. Intercompany sales and food cost from the Corona plant to Marie Callender's Company-operated restaurants were eliminated in the second quarter of 2007; whereas, intercompany sales and food cost from the Corona plant to Marie Callender's Company-operated restaurants were not eliminated in the second quarter of 2006. Approximately 1.1% of the 1.6% decrease is related to this change in the elimination of sales and food cost. The elimination entry has no effect on Foxtail's segment income or the Company's net loss. The improvement is also due to the improved purchasing power of the combined Perkins and Marie Callender's brands following the Combination in May of 2006, and the impact of increased menu prices at Perkins restaurants and Marie Callender's restaurants. The impact of these favorable factors was partially offset by higher commodity costs.

In Perkins restaurant segment, food cost was 24.4% and 24.5% of food sales in the second quarter of 2007 and 2006, respectively, and in Marie Callender's restaurant segment, food cost was 29.4% and 30.0% of food sales, respectively. Marie Callender's food cost percentage is traditionally higher than Perkins, primarily as a result of a greater proportion of sales at Marie Callender's restaurants that are derived from lunch and dinner items, which typically carry higher food costs than breakfast items. In the Foxtail segment, food cost was 56.5% and 56.7% of food sales in the second quarter of 2007 and 2006, respectively.

### *Labor and Benefits Expenses*

Consolidated labor and benefits expenses were 34.3% and 33.9% of net food sales in the second quarter of 2007 and 2006, respectively. The labor and benefits ratio in the Foxtail segment increased 2.8 percentage points in the second quarter of 2007. The labor and benefits ratio in the Perkins restaurant segment decreased 0.9 percentage points, and the labor and benefits ratio in Marie Callender's restaurant segment decreased 0.3 percentage points. The increase in the Foxtail segment is due primarily to an increase in the average wage rate in the Cincinnati plants due to competitive pressures in the marketplace. The improvement in the Perkins restaurant segment was primarily due to workers' compensation costs which decreased by \$666,000 (or 1.0 percentage point of the 0.9 percentage point decrease). The improvement was partially offset by an increase in the average wage rate due to increases in the minimum wage rate in certain states.

### *Operating Expenses*

Approximately 93.9% of total operating expenses in the second quarter of 2007 and 2006 were incurred in the Perkins and Marie Callender's restaurant segments. The most significant components of operating expenses were rent, utilities, advertising, restaurant supplies, repair and maintenance and property taxes. Total operating expenses, as a percentage of total sales, were 25.0% and 23.3% in the second quarter of 2007 and 2006, respectively, as Perkins restaurant segment operating expenses were 26.5% and 24.4% of segment food sales, respectively and Marie Callender's restaurant segment operating expenses were 28.1% and 27.4% of segment food sales,

respectively. The percentage increase in the Perkins restaurant segment is due primarily to second quarter credits in 2006 for a \$540,000 insurance settlement and a \$208,000 legal settlement, accounting for 1.1 percentage points of the 2.1 percentage point increase at Perkins.

Total operating expenses of \$32,590,000 in the second quarter of 2007 increased by \$629,000 as compared to the second quarter of 2006. The increase was primarily due to the above noted insurance and legal settlements.

#### *General and Administrative Expenses*

The most significant components of general and administrative (“G&A”) expenses were corporate labor and benefits, occupancy costs and outside services. G&A expenses were 8.2% and 8.6% of total revenues in the second quarter of 2007 and 2006, respectively. The decrease is primarily due to an \$883,000 (or 0.7%) reduction in incentive costs for home office employees.

#### *Transaction Costs*

The Company has classified certain expenses directly attributable to the Combination and certain non-recurring expenses incurred as a result of the Combination as transaction costs on the consolidated statements of operations. Transaction costs were \$568,000 and \$1,736,000 in the second quarter of 2007 and 2006, respectively.

#### *Depreciation and Amortization*

Depreciation and amortization expense was \$5,770,000 and \$8,223,000 in the second quarter of 2007 and 2006, respectively. In the second quarter of 2006, depreciation expense was higher due to the step-up in the basis of Perkins’ depreciable assets, related to the Acquisition, and the related \$2,265,000 adjustment to depreciation.

#### *Interest, net*

Interest, net was \$7,217,000 or 5.5% of total revenues in the second quarter of 2007 compared to \$9,778,000 or 7.1% of total revenues in the second quarter of 2006. During the second quarter of 2006, we repaid WRG’s indebtedness with proceeds of the Term Loan obtained in connection with the May 2006 Combination and wrote-off \$1,028,000 of deferred financing costs related to WRG’s indebtedness. Interest rates on WRG’s indebtedness were significantly higher than the interest rates on the Term Loan.

#### *Asset Impairments and Closed Store Expenses*

Asset impairments and closed store expenses consist primarily of the write-down to fair value for impaired stores and adjustments to the reserve for closed stores. During the second quarter of 2007 and 2006, we recorded adjustments of \$146,000 and \$1,000, respectively.

#### *Gain on Extinguishment of Debt*

In connection with the Combination, the Company repaid the outstanding indebtedness of WRG in the amount of approximately \$101,000,000. The Company obtained funds for the repayment of WRG’s outstanding indebtedness from the Credit Agreement. The Company recognized a gain of \$12,581,000 on its extinguishment of certain debt and related accrued interest due to the Company’s successful negotiation of concessions.

#### *Taxes*

The effective tax provision rate for the second quarter of 2007 and 2006 was 0.0%. Our effective rate differs from the statutory rate primarily due to a valuation allowance for deductible temporary differences and net operating loss and credit carry-forwards generated during 2006 and expected to be generated during 2007. For the second quarter of 2007, the Company included, as a component of income taxes, \$103,000 of interest expense related to uncertain income tax positions. The interest expense was offset by federal income tax credits generated during 2007 that are able to be carried-back and reduce federal alternative minimum tax.

## **Year-to-date Period Ended July 15, 2007 Compared to the Year-to-date Period Ended July 9, 2006**

### *Restaurant Segments Overview*

The operating results of the restaurant segments are impacted mainly by the following industry-wide factors: competition, comparable store sales and guest counts, restaurant openings and closings, labor and employee benefit expenses, commodity prices, energy prices, governmental legislation, general economy and weather.

Perkins restaurants' comparable sales decreased 1.2% and Marie Callender's restaurants' comparable sales decreased 0.1% as compared to the year-to-date period in 2006. The decrease in Perkins restaurants comparable sales resulted primarily from a decrease in comparable customer counts.

Marie Callender's restaurant sales increased \$7,762,000 primarily due to the inclusion of fourteen additional days of revenues in the year-to-date period of 2007 for an estimated impact of \$7,454,000. Combined restaurant segment income increased \$3,825,000 in the year-to-date period ended July 15, 2007 compared to a year ago, primarily due to a decrease in depreciation in the Perkins restaurant segment. In the second quarter of 2006, depreciation expense was higher due to the step-up in the basis of Perkins' depreciable assets, related to the Acquisition, and the related \$2,265,000 adjustment to depreciation. The increase is also due to the inclusion of an additional fourteen days of operations at Marie Callender's restaurants in the year-to-date period of 2007 as compared to the year-to-date period of 2006.

Since the end of the second quarter of 2006, the Company has opened three new Perkins restaurants, acquired three Perkins restaurants from franchisees and closed one underperforming Perkins restaurant. The Company has also opened one Marie Callender's restaurant and closed two underperforming Marie Callender's restaurants.

### *Foxtail Segment Overview*

The operating results of Foxtail are impacted mainly by the following factors: external customer base, labor and employee benefit expenses, commodity prices, energy prices, governmental legislation, Perkins and Marie Callender's restaurant openings and closings, food safety requirements and the general economy.

Foxtail operations, Corona and Cincinnati, are combined into one segment for reporting purposes. Foxtail's net sales decreased \$7,992,000 from the prior year. \$4,892,000 of the decrease is due to the elimination of sales and cost of sales from Foxtail's Corona plant to Marie Callender's Company-operated restaurants in the year-to-date period of 2007, whereas sales and cost of sales from Foxtail's Corona plant to Marie Callender's Company-operated restaurants in the year-to-date period of 2006 were not eliminated. The Corona plant intercompany sales to the Marie Callender's Company-operated restaurants have been eliminated beginning in the fourth quarter of 2006. The effect of this change had no effect on Foxtail's segment income or the Company's net loss. The decrease was also due to a decrease in sales of \$2,027,000 in the first half of 2007 to one contractual customer and the loss of a line of business and related sales of \$2,503,000 to one major non-contractual customer. Segment income of \$2,540,000 in the year-to-date period ended July 15, 2007 decreased \$2,022,000 as compared to the year-to-date period ended July 9, 2006 primarily as a result of this decline in sales.

### *Franchise Segments Overview*

The operating results of the franchise segments are mainly impacted by the same factors as those impacting the Company's restaurant segments, excluding the operating cost factors since franchise segment income is earned primarily through royalty income.

Franchise revenues decreased \$83,000 in the year-to-date period of 2007 compared to the prior year. A decrease in franchise revenues of \$342,000 in Perkins franchise segment was partially offset by an increase in franchise revenues of \$259,000 in Marie Callender's franchise segment. The decrease in the Perkins franchise segment resulted primarily from a decrease of approximately 0.8% in comparable franchise restaurant sales in the year-to-date period of 2007 as compared to the year-to-date period of 2006 and a decrease in the number of Perkins' franchise restaurants in operation.

Since the end of the second quarter of 2006, franchisees have opened eight Perkins restaurants, closed nine Perkins restaurants and sold three Perkins restaurants to the Company. Franchisees have not opened or closed any Marie Callender's restaurants.

## Revenues

Total revenues increased \$1,840,000 in the year-to-date period of 2007 compared to the year-to-date period of 2006. The increase was primarily due to the additional fourteen days of operations and an estimated \$7,454,000 in sales at Marie Callender's in 2007 due to the change in reporting period for Marie Callender's.

Perkins restaurant sales of \$158,673,000 and \$156,975,000 in the year-to-date period of 2007 and 2006, respectively, accounted for 51.5% and 51.2% of total revenues, respectively. Perkins restaurant sales increased \$1,698,000 due primarily to the increased number of operating locations: 155 Perkins restaurants were in operation at the end of the second quarter of 2007 compared to 151 Perkins restaurants in operation at the end of the second quarter of 2006.

Marie Callender's restaurant sales of \$110,575,000 and \$102,813,000 in the year-to-date period of 2007 and 2006, respectively, accounted for 35.9% and 33.5% of total revenues in the year-to-date period of 2007 and 2006, respectively. The increase in Marie Callender's restaurant sales and sales as a percentage of total revenues was primarily due to the additional fourteen days of operations, an estimated \$6,800,000 in sales, at Marie Callender's in the year-to-date period of 2007.

Perkins franchise revenues accounted for 3.7% and 3.9% of total revenues in the year-to-date period of 2007 and 2006, respectively, and Marie Callender's franchise revenues accounted for 0.9% and 0.8% of total revenues, respectively. The franchise revenues at Perkins declined \$342,000 as franchisees' comparable restaurant sales decreased by approximately 0.8%.

Foxtail revenues decreased \$7,992,000 in the year-to-date period of 2007 versus the year-to-date period of 2006. \$4,892,000 of the decrease is due to the elimination of sales and cost of sales from Foxtail's Corona plant to Marie Callender's Company-operated restaurants in the year-to-date period of 2007 whereas sales and cost of sales from Foxtail's Corona plant to Marie Callender's Company-operated restaurants in the year-to-date period of 2006 were not eliminated. The effect of this change had no effect on Foxtail's segment income or the Company's net loss. The decrease was also due to a decrease in sales of \$2,027,000 in the first half of 2007 to one contractual customer and the loss of a line of business and related sales of \$2,503,000 to one major non-contractual customer.

## Costs and Expenses

### *Food Cost*

Consolidated food cost was 27.8% and 29.5% of food sales in the year-to-date period of 2007 and 2006, respectively. Intercompany sales and food cost from the Corona plant to Marie Callender's Company-operated restaurants have been eliminated in the year-to-date period of 2007; intercompany sales and food cost from the Corona plant to Marie Callender's Company-operated restaurants were not eliminated in the year-to-date period of 2006. Approximately 1.0 percentage point of the 1.7 percentage point decrease is related to this change in the elimination of sales and food cost. The elimination entry has no effect on Foxtail's segment income or the Company's net loss. The improvement is also due to the improved purchasing power of the combined Perkins and Marie Callender's brands following the Combination in May of 2006, the impact of increased menu prices at Perkins restaurants and Marie Callender's restaurants, and the continuing impact of a kitchen audit program introduced at Marie Callender's restaurants during 2006.

In Perkins restaurant segment, food cost was 25.0% and 25.2% of food sales in the year-to-date period of 2007 and 2006, respectively, and in Marie Callender's restaurant segment, food cost was 29.8% and 30.2% of food sales, respectively. Marie Callender's food cost percentage is traditionally higher than Perkins, primarily as a result of a greater proportion of sales at Marie Callender's restaurants that are derived from lunch and dinner items, which typically carry higher food costs than breakfast items. In the Foxtail segment, food cost was 56.7% and 56.2% of food sales in the year-to-date period of 2007 and 2006, respectively.

### *Labor and Benefits Expenses*

Consolidated labor and benefits expenses were 34.4% and 33.8% of net food sales in the year-to-date period of 2007 and 2006, respectively. The labor and benefits ratio in the Foxtail segment increased 2.5 percentage points in the year-to-date period of 2007. The labor and benefits ratio in the Perkins restaurant segment decreased 0.9%, while the labor and benefits ratio in Marie Callender's restaurant segment decreased 0.4%. The increase in the Foxtail segment is due primarily to an increase in the average wage rate in the Cincinnati plants due to competitive pressures in the marketplace. The improvement in the Perkins restaurant segment was primarily due to workers' compensation costs which decreased by \$1,204,000 and medical costs which decreased by \$328,000. The improvement was partially offset by an increase in the average wage rate due to increases in the minimum wage rate in certain states.

### *Operating Expenses*

Approximately 94.1% and 93.7% of total operating expenses in the year-to-date period of 2007 and 2006, respectively, were incurred in the Perkins and Marie Callender's restaurant segments. The most significant components of operating expenses were rent, utilities, advertising, restaurant supplies, repair and maintenance and property taxes. Total operating expenses, as a percentage of total sales, were 24.9% and 23.6% in the year-to-date period of 2007 and 2006, respectively, as Perkins restaurant segment operating expenses were 26.4% and 25.5% of segment food sales, respectively and Marie Callender's restaurant segment operating expenses were 27.3% and 26.9% of segment food sales, respectively. The percentage increase in the Perkins restaurant segment is due primarily to second quarter credits in 2006 for a \$540,000 insurance settlement and a \$208,000 legal settlement, accounting for 0.5 percentage points of the 0.9 percentage point increase at Perkins.

Total operating expenses of \$76,684,000 in the year-to-date period of 2007 increased by \$4,441,000 over the year-to-date period of 2006. The increase was primarily due to the additional fourteen days of operations at Marie Callender's in the year-to-date period of 2007.

### *General and Administrative Expenses*

The most significant components of general and administrative ("G&A") expenses were corporate labor and benefits, occupancy costs and outside services. G&A expenses were 8.1% and 8.2% of total revenues in the year-to-date period of 2007 and 2006, respectively. The decrease is primarily due to an \$840,000 reduction in incentive costs for home office employees.

### *Transaction Costs*

The Company has classified certain expenses directly attributable to the Combination and certain non-recurring expenses incurred as a result of the Combination as transaction costs on the consolidated statements of operations. Transaction costs were \$752,000 and \$2,290,000 in the year-to-date period of 2007 and 2006, respectively.

### *Depreciation and Amortization*

Depreciation and amortization expense was \$12,891,000 and \$14,316,000 in the year-to-date period of 2007 and 2006, respectively. In the year-to-date period of 2006, depreciation expense was higher due to the step-up in the basis of Perkins' depreciable assets, related to the Acquisition, and the related adjustment to depreciation.

### *Interest, net*

Interest, net was \$16,698,000 or 5.4% of total revenues in the year-to-date period of 2007 compared to \$21,525,000 or 7.0% of total revenues in the year-to-date period of 2006. During the second quarter of 2006, we repaid WRG's indebtedness with proceeds of the Term Loan obtained in connection with the May 2006 Combination and wrote-off \$1,028,000 of deferred financing costs related to WRG's indebtedness. Interest rates on WRG's indebtedness were significantly higher than the interest rates on the Term Loan.

### *Asset Impairments and Closed Store Expenses*

Asset impairments and closed store expenses consist primarily of the write-down to fair value for impaired stores and adjustments to the reserve for closed stores. During the year-to-date period of 2007 and 2006, we recorded adjustments of \$9,000 and \$321,000, respectively.

### *Gain on Extinguishment of Debt*

In connection with the Combination, the Company repaid the outstanding indebtedness of WRG in the amount of approximately \$101,000,000. The Company obtained funds for the repayment of WRG's outstanding indebtedness from the Credit Agreement. The Company recognized a gain of \$12,581,000 on its extinguishment of certain debt and related accrued interest due to the Company's successful negotiation of concessions.

### *Taxes*

The effective tax provision rate for the year-to-date period ended July 15, 2007 and July 9, 2006 was 0.0%. Our effective rate differs from the statutory rate primarily due to a valuation allowance for deductible temporary differences and net operating loss and credit carry-forwards generated during 2006 and expected to be generated during 2007. For the year-to-date period of 2007, the Company included, as a component of income taxes, \$103,000 of interest expense related to uncertain income tax positions. The interest expense was offset by federal income tax credits generated during 2007 that are able to be carried-back and reduce federal alternative minimum tax.

## **CAPITAL RESOURCES AND LIQUIDITY**

Our principal liquidity requirements are to service our debt and meet our working capital and capital expenditure needs. In conjunction with the Acquisition, the Company issued \$190,000,000 of unsecured 10% Senior Notes due October 1, 2013. In connection with the Combination, the Company entered into an amended and restated credit agreement. Pursuant to the Credit Agreement, the lenders made available the following: (1) a five-year revolving credit facility of up to \$40,000,000, including a sub-facility for letters of credit in an amount not to exceed \$25,000,000 and a sub-facility for swingline loans in an amount not to exceed \$5,000,000; and (2) a seven-year term loan credit facility not to exceed \$100,000,000.

All amounts under the Credit Agreement bear interest at floating rates based on the agent's base rate plus an applicable margin or LIBOR rate plus an applicable margin as defined in the Credit Agreement. All indebtedness under the Credit Agreement is collateralized by a first priority lien on substantially all of the assets of the Company and its wholly-owned subsidiaries. As of July 15, 2007, there were borrowings of \$10,500,000 and approximately \$11,326,000 of letters of credit outstanding under the Revolver. The letters of credit are primarily utilized in conjunction with our workers' compensation programs. As of July 15, 2007, we had approximately \$304,552,000 of debt outstanding consisting of debt from the 10% Senior Notes, the Term Loan, the Revolver and capital lease obligations.

Subject to our performance, which, if adversely affected, could adversely affect the availability of funds, we expect to be able to meet our liquidity requirements for the next twelve months through cash provided by operations and through borrowings available under our Credit Agreement.

With respect to the Credit Agreement, restrictions are placed on the Company's ability and the ability of our subsidiaries to (i) incur additional indebtedness; (ii) create liens on our assets; (iii) make loans, advances, investments or acquisitions; (iv) engage in mergers; (v) dispose of our assets; (vi) pay certain restricted payments and dividends; (vii) exchange and issue capital stock; (viii) engage in certain transactions with affiliates; (ix) amend certain material agreements; and (x) enter into agreements that restrict our ability or the ability of our subsidiaries to grant liens or make distributions.

Our debt indentures contain certain financial covenants of which we are currently in compliance.

## Working Capital and Cash Flows

At July 15, 2007, we had a negative working capital balance of \$24.5 million. Like many other restaurant companies, the Company is able to, and may more often than not, operate with negative working capital. We are able to operate with a substantial working capital deficit because (1) restaurant revenues are received primarily on a cash and near-cash basis with a low level of accounts receivable, (2) rapid turnover results in a limited investment in inventories, and (3) accounts payable for food and beverages usually become due after the receipt of cash from the related sales.

The following table sets forth summary cash flow data for the year-to-date period ended July 15, 2007 and July 9, 2006 (in thousands):

|   | Year-to-Date<br>Ended<br><u>July 15, 2007</u> | Year-to-Date<br>Ended<br><u>July 9, 2006</u> |
|---|---|--|
| Cash flows (used in) provided by operating activities ..... | \$ (3,867)                                    | \$ 2,155                                     |
| Cash flows used in investing activities .....               | (11,187)                                      | (6,392)                                      |
| Cash flows provided by financing activities .....           | 9,387   | 9,204  |

### *Operating activities*

Cash used in operating activities totaled \$3,867,000 for the year-to-date period ended July 15, 2007 compared to cash provided by operating activities of \$2,155,000 for the year-to-date period ended July 9, 2006. The change in cash used in or provided by operating activities is primarily due to an increase in inventories and prepaid expenses and a decrease in accounts payable and accrued expenses.

### *Investing activities*

Cash flows used in investing activities for the year-to-date period ended July 15, 2007 were \$11,187,000 compared to cash used in investing activities of \$6,392,000 for the year-to-date period ended July 9, 2006. During the year-to-date period of 2007, the primary cash outflow from investing activities was \$11,190,000 of capital expenditures. During the year-to-date period of 2006, the primary cash outflow from investing activities was \$7,939,000 of capital expenditures, which was partially offset by proceeds from sale of assets of \$1,547,000.

Capital expenditures consisted primarily of restaurant improvements, restaurant remodels, and equipment packages for new restaurants. The following table summarizes capital expenditures for each year-to-date period presented (in thousands):

|  | Year-to-Date<br>Ended<br><u>July 15, 2007</u> | Year-to-Date<br>Ended<br><u>July 9, 2006</u> |
|--|---|--|
| New restaurants .....                    | \$ 2,826                                      | \$ 742                                       |
| Restaurant improvements .....            | 4,544   | 3,493  |
| Restaurant remodeling and reimaging..... | 1,884   | 3,324  |
| Manufacturing plant improvements.....    | 804   | 327  |
| Other.....                               | <u>1,132</u>                                  | <u>53</u>                                    |
| Total Capital Expenditures .....         | <u>\$ 11,190</u>                              | <u>\$ 7,939</u>                              |

Our capital budget for 2007 is \$23,600,000 and includes plans to open eight new Company-operated Perkins restaurants. For the year-to-date period ended July 15, 2007, we opened one Company-operated Perkins restaurant; two additional Company-operated Perkins restaurants have opened as of August 24, 2007. The source of funding for these expenditures is expected to be cash provided by operations and the Revolver. Capital spending could vary significantly from planned amounts as certain of these expenditures are discretionary in nature.

### *Financing activities*

Cash flows provided by financing activities for the year-to-date period ended July 15, 2007 were \$9,387,000 compared to cash flows provided by financing activities of \$9,204,000 for the year-to-date period ended July 9, 2006. During the year-to-date period of 2007, the primary cash flows included net proceeds of \$10,500,000 from the Revolver. During the year-to-date period of 2006, the primary cash flows included a \$12,545,000 capital contribution from our parent offset partially by the payment of \$2,720,000 of debt issuance costs.

### **CASH CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS**

#### Cash Contractual Obligations

Our cash contractual obligations presented in the Company's 2006 Annual Report on Form 10-K have not changed significantly except for our borrowings of \$10,500,000 under the Revolver during the year-to-date period ended July 15, 2007. Borrowings under the Revolver are not due until the Credit Agreement terminates on May 3, 2011.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, but it does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 could impact fair values assigned to assets and liabilities in any future acquisition.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of SFAS No. 115," which permits an entity to measure certain financial assets and financial liabilities at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. SFAS No. 159 is effective as of the first fiscal year beginning after November 15, 2007. At this time, we do not expect to adopt the fair value option for any assets and liabilities; however, future events and circumstances may impact that decision.

### **IMPACT OF INFLATION**

We do not believe that our operations are affected by inflation to a greater extent than are the operations of others within the restaurant industry. In the past, we have generally been able to offset the effects of inflation through selective menu price increases.

### **INFORMATION CONCERNING FORWARD LOOKING STATEMENTS**

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements, written, oral or otherwise made, may be identified by the use of forward-looking terminology such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "potential," "predict," "should" or "will," or the negative thereof or other variations thereon or comparable terminology.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors affecting these forward-looking statements include, among others, the following:

- general economic conditions and demographic patterns;
- our substantial indebtedness;

- competitive pressures and trends in the restaurant industry;
- prevailing prices and availability of food, supplies and labor;
- relationships with franchisees and financial health of franchisees;
- our ability to integrate acquisitions;
- our development and expansion plans; and
- statements covering our business strategy.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this Form 10-Q are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to changes in interest rates, foreign currency exchange rates and certain commodity prices.

Interest Rate Risk. Our primary market risk is interest rate exposure with respect to our floating rate debt. Our Credit Agreement may require us to employ a hedging strategy through derivative financial instruments to reduce the impact of adverse changes in interest rates. We do not plan to hold or issue derivative instruments for trading purposes. In the future, we may enter into other interest rate swaps to manage the risk of our exposure to market rate fluctuations. As of July 15, 2007, our Revolver permitted borrowings of up to approximately \$18,174,000 (after giving effect to \$10,500,000 in borrowings and \$11,326,000 in letters of credit outstanding). For the twelve months ended July 15, 2007, after giving effect to the Revolver, which carries a variable interest rate, a 100 basis point change in interest rate (assuming \$40,000,000 was outstanding under this Revolver) would have impacted us by \$400,000.

Foreign Currency Exchange Rate Risk. We conduct foreign operations in Canada. As a result, we are subject to risk from changes in foreign exchange rates. These changes result in cumulative translation adjustments, which are included in accumulated and other comprehensive income (loss). We do not consider the potential loss resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates, as of July 15, 2007, to be material.

Commodity Price Risk. Many of the food products and other operating essentials purchased by us are affected by commodity pricing and are, therefore, subject to price volatility caused by weather, production problems, delivery difficulties and other factors that are beyond our control. Our supplies and raw materials are available from several sources and we are not dependent upon any single source for these items. If any existing suppliers fail, or are unable to deliver in quantities required by us, we believe that there are sufficient other quality suppliers in the marketplace such that our sources of supply can be replaced as necessary. At times we enter into purchase contracts of one year or less or purchase bulk quantities for future use of certain items in order to control commodity-pricing risks. Certain significant items that could be subject to price fluctuations are beef, pork, coffee, eggs, dairy products, wheat products and corn products. We believe that we will be able to pass through increased commodity costs by adjusting menu pricing in most cases. However, we believe that any changes in commodity pricing that cannot be offset by changes in menu pricing or other product delivery strategies would not be material.

#### ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation of the effectiveness of our disclosure controls and procedures (as defined under the Securities and Exchange Commission rules) was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company filed under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on the results of our review, the determination was made that there were no control deficiencies that represented material weaknesses in our disclosure controls and procedures. As a result of this determination, the Company's management, including the Company's CEO and the CFO, concluded that our disclosure controls and procedures were effective as of July 15, 2007.

There were no changes in our internal control over financial reporting during the quarter ended July 15, 2007 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1. Legal Proceedings

As reported in the Company's Form 10-K for the fiscal year ended December 31, 2006, we are party to various legal proceedings in the ordinary course of business. There have been no material developments with regard to these proceedings, either individually or in the aggregate, that are likely to have a material adverse effect on the Company's financial position or results of operations.

### ITEM 1A. Risk Factors

There have been no material changes with regard to the risk factors previously disclosed under the caption "Risk Factors" in Item 1a of the Company's Form 10-K for the fiscal year ended December 31, 2006.

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### ITEM 3. Defaults Upon Senior Securities

None.

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

Not applicable.

### ITEM 5. Other Information

None.

### ITEM 6. Exhibits

- 31.1 Chief Executive Officer Certification Pursuant to Sarbanes -Oxley Act of 2002, Section 302.
- 31.2 Chief Financial Officer Certification Pursuant to Sarbanes -Oxley Act of 2002, Section 302.
- 32.1 Chief Executive Officer Certification Pursuant to Sarbanes -Oxley Act of 2002, Section 906.
- 32.2 Chief Financial Officer Certification Pursuant to Sarbanes -Oxley Act of 2002, Section 906.

Signature

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

DATE: August 29, 2007

PERKINS & MARIE CALLENDER'S INC.

BY: /s/ James W. Stryker

James W. Stryker

Chief Financial Officer

## **Exhibit 31.1**

### **CERTIFICATIONS**

I, Joseph F. Trungale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Perkins & Marie Callender's Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 29, 2007

BY: /s/ Joseph F. Trungale  
Joseph F. Trungale  
President and Chief Executive Officer

## **Exhibit 31.2**

### **CERTIFICATIONS**

I, James W. Stryker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Perkins & Marie Callender's Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 29, 2007

BY: /s/ James W. Stryker

James W. Stryker  
Chief Financial Officer

**Exhibit 32.1**

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES -OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Perkins & Marie Callender's Inc. (the "Company") for the quarter ended July 15, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph F. Trungale, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 29, 2007

BY: /s/ Joseph F. Trungale  
Joseph F. Trungale  
President and Chief Executive Officer

**Exhibit 32.2**

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES -OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Perkins & Marie Callender's Inc. (the "Company") for the quarter ended July 15, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James W. Stryker, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 29, 2007

BY: /s/ James W. Stryker

James W. Stryker  
Chief Financial Officer