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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 October 7, 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 October 7, 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)

	Third Quarter Ended October 7, 2007	Third Quarter Ended October 1, 2006	Year-to-Date Ended October 7, 2007	Year-to-Date Ended October 1, 2006
<b>REVENUES:</b>				
Food sales	\$ 124,031	\$ 127,066	\$ 415,621	\$ 417,188
Franchise and other revenue	7,281	7,171	24,087	23,605
Total Revenues	<u>131,312</u>	<u>134,237</u>	<u>439,708</u>	<u>440,793</u>
<b>COSTS AND EXPENSES:</b>				
Cost of sales (excluding depreciation shown below):				
Food cost	35,379	37,252	116,387	122,943
Labor and benefits	42,700	43,651	143,069	141,834
Operating expenses	34,693	33,748	111,377	106,640
General and administrative	8,675	10,914	33,575	36,196
Transaction costs	261	3,225	1,013	5,513
Depreciation and amortization	6,051	5,449	18,941	19,764
Interest, net	7,189	6,923	23,887	28,448
Asset impairments and closed store expenses	472	93	481	414
Gain on extinguishment of debt	-	-	-	(12,581)
Other, net	(37)	489	277	388
Total Costs and Expenses	<u>135,383</u>	<u>141,744</u>	<u>449,007</u>	<u>449,559</u>
Loss before income taxes and minority interests	(4,071)	(7,507)	(9,299)	(8,766)
Provision for income taxes	(109)	(324)	(109)	(324)
Minority interests	165	23	409	192
NET LOSS	<u>\$ (4,345)</u>	<u>\$ (7,854)</u>	<u>\$ (9,817)</u>	<u>\$ (9,282)</u>

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

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

ASSETS	October 7, 2007 (Unaudited)	December 31, 2006
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 5,540	\$ 9,069
Restricted cash	9,147	11,193
Receivables, less allowances for doubtful accounts of \$1,761 and \$1,624 in 2007 and 2006, respectively	21,529	18,316
Inventories	14,809	10,996
Prepaid expenses and other current assets	6,538	4,824
Total current assets	57,563	54,398
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of \$109,482 and \$96,458 in 2007 and 2006, respectively	96,857	91,044
INVESTMENTS IN UNCONSOLIDATED PARTNERSHIPS	45	238
GOODWILL	30,038	30,038
INTANGIBLE ASSETS, net of accumulated amortization of \$16,558 and \$14,018 in 2007 and 2006, respectively	154,252	156,792
DEFERRED INCOME TAXES	806	708
OTHER ASSETS	12,622	13,627
Total Assets	\$ 352,183	\$ 346,845

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)

	October 7, 2007 (Unaudited)	December 31, 2006
<b>LIABILITIES AND STOCKHOLDER'S INVESTMENT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 28,017	\$ 22,799
Accrued expenses	43,999	58,288
Accrued income taxes	5	75
Franchise advertising contributions	6,233	5,392
Current maturities of long-term debt and capital lease obligations	1,565	1,706
Total current liabilities	79,819	88,260
CAPITAL LEASE OBLIGATIONS, less current maturities	8,907	6,249
LONG-TERM DEBT, less current maturities	303,075	286,379
DEFERRED RENT	11,213	9,768
OTHER LIABILITIES	12,272	11,785
MINORITY INTEREST IN CONSOLIDATED PARTNERSHIPS	326	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	137,923	136,131
Other comprehensive income	97	13
Accumulated deficit	(201,450)	(191,816)
Total stockholder's investment	(63,429)	(55,671)
Total Liabilities and Stockholder's Investment	\$ 352,183	\$ 346,845

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 Ended <u>October 7, 2007</u>	Year-to-Date Ended <u>October 1, 2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (9,817)	\$ (9,282)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities :		
Depreciation and amortization	18,941	19,764
Amortization of debt discount	248	248
Other non-cash income and expense items	629	6,481
Gain on extinguishment of debt	-	(12,581)
Gain on disposition of assets	(157)	(89)
Asset write-down	638	137
Minority interests	409	192
Equity in net loss of unconsolidated partnerships	90	154
Net changes in operating assets and liabilities	<u>(12,364)</u>	<u>(4,524)</u>
Total adjustments	<u>8,434</u>	<u>9,782</u>
Net cash (used in) provided by operating activities	<u>(1,383)</u>	<u>500</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash paid for property and equipment	(22,554)	(13,322)
Proceeds from sale of assets	<u>3</u>	<u>1,547</u>
Net cash used in investing activities	<u>(22,551)</u>	<u>(11,775)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments under capital lease obligations	(549)	(664)
Proceeds from long-term debt	1,950	105,341
Payments on long-term debt	(775)	(105,615)
Proceeds from revolver	62,600	6,800
Payments on revolver	(47,300)	(3,800)
Debt issuance costs	-	(2,720)
Landlord financing	2,915	-
Distributions to minority partners	(228)	(242)
Capital contribution	<u>1,792</u>	<u>12,545</u>
Net cash provided by financing activities	<u>20,405</u>	<u>11,645</u>
Net (decrease) increase in cash and cash equivalents	(3,529)	370
<b>CASH AND CASH EQUIVALENTS:</b>		
Balance, beginning of period	<u>9,069</u>	<u>3,988</u>
Balance, end of period	<u>\$ 5,540</u>	<u>\$ 4,358</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 Stock	Additional Paid-in Capital	Notes Secured By Stock	Accumulated Other Comprehensive Income	Retained Earnings (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
Capital contribution	-	1,792	-	-	-	1,792
Net loss	-	-	-	-	(9,817)	(9,817)
Currency translation adjustment	-	-	-	84	-	84
Total comprehensive loss						(9,733)
Balance at October 7, 2007	\$ 1	\$ 137,923	\$ -	\$ 97	\$ (201,450)	\$ (63,429)

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 Finance Corp. ("PFC") and Wilshire Restaurant Group, LLC ("WRG"). Perkins & Marie Callender's of Minnesota, Inc., formerly known as The Restaurant Company of Minnesota ("PMCM") and formerly a subsidiary of the Company, merged into the Company on February 1, 2007.

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 October 7, 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, second, and third quarters of 2007 ended April 22, July 15, and October 7, respectively. The fourth quarter of 2007 will end on December 30.

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 third quarter ended October 1, 2006 includes the financial results of WRG for the 91-day period from June 30, 2006 through September 28, 2006. The accompanying consolidated statement of operations for the third quarter ended October 7, 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 October 1, 2006 include the 2006 year-to-date financial results of WRG for the 273-day period from December 30, 2005 through September 28, 2006. The accompanying consolidated statements of operations and cash flows for the year-to-date period ended October 7, 2007 include the 2007 year-to-date financial results of WRG for ten four-week periods, or 280 days.

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

Comprehensive income/loss includes net income/loss and foreign currency translation adjustments. Comprehensive loss for the third quarter and year-to-date ended October 7, 2007 was \$4,314,000 and \$9,733,000, respectively, and included the effect of gains from translation adjustments of \$31,000 and \$84,000, respectively. Comprehensive loss for the third quarter ended October 1, 2006 was \$7,851,000 and included the effect of gains from translation adjustments of \$3,000. Comprehensive loss for the year-to-date ended October 1, 2006 was \$9,267,000 and included the effect of gains from translation adjustments of \$15,000.

## **(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, Contingencies and Concentrations**

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.

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.

As of October 7, 2007, three Perkins franchisees otherwise unaffiliated with the Company owned 91 of the 323 franchised restaurants. These franchisees operated 43, 27 and 21 restaurants, respectively. During the third quarter of 2007, these three Perkins franchisees paid royalties and license fees of \$481,000, \$386,000 and \$378,000, respectively. During the year-to-date period ended October 7, 2007, these three Perkins franchisees paid royalties and license fees of \$1,598,000, \$1,157,000 and \$1,218,000, respectively.

As of October 7, 2007, three Marie Callender's franchisees otherwise unaffiliated with the Company owned 14 of the 45 franchised restaurants. These franchisees operated six, four and four restaurants, respectively. During the third quarter of 2007, these three Marie Callender's franchisees paid royalties and license fees of \$126,000, \$121,000 and \$82,000, respectively. During the year-to-date period ended October 7, 2007, these three Marie Callender's franchisees paid royalties and license fees of \$488,000, \$413,000 and \$284,000, respectively.

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 third quarter of 2007 and 2006, we paid an aggregate of \$699,000 and \$690,000, respectively, and during the year-to-date period of 2007 and 2006, we paid an aggregate of \$2,185,000 and \$2,184,000, 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 October 7, 2007 and October 1, 2006 consists of the following (in thousands):

	Year-to-Date Ended October 7, 2007	Year-to-Date Ended October 1, 2006
(Increase) Decrease in:		
Receivables	\$ (3,123)	\$ (660)
Inventories	(3,788)	(597)
Prepaid expenses and other current assets	(1,710)	(569)
Other assets	1,001	(211)
Increase (Decrease) in:		
Accounts payable	5,114	1,199
Accrued expenses and other current liabilities	(9,908)	(3,187)
Other liabilities	50	(499)
	<u>\$ (12,364)</u>	<u>\$ (4,524)</u>

## (8) Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	October 7, 2007	December 31, 2006
Payroll and related benefits	\$ 14,570	\$ 18,209
Property, real estate and sales taxes	6,012	4,692
Insurance	2,189	5,086
Gift cards and gift certificates	4,574	8,233
Advertising	1,247	1,262
Interest	1,830	6,085
Management fees	4,050	2,210
Other	9,527	12,511
	<u>\$ 43,999</u>	<u>\$ 58,288</u>

## (9) Segment Reporting

We have three reportable segments: Restaurant operations, Franchise operations, and Foxtail. The restaurant operations include the operating results of Company-operated Perkins and Marie Callender's restaurants. The franchise operations include revenues and expenses directly attributable to franchised Perkins and Marie Callender's restaurants. Foxtail's operations consist of manufacturing plants: one in Corona, California and three in Cincinnati, Ohio.

Restaurant operations operate principally in the U.S. within the casual dining industry, providing similar products to similar customers. Revenues from Restaurant operations are derived principally from food and beverage sales to external customers. Our brand operations exhibit similar operating characteristics (including food and labor costs which result in similar long-term average gross margins). Revenues from franchise operations consist primarily of

royalty income earned on the revenues generated at franchisees' restaurants and initial franchise fees. The revenue and cost structure of our Franchise operations exhibit similar long-term operating characteristics. 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 revenues in the "Other" segment are primarily licensing revenues.

During the third quarter of 2007, we reassessed the operating and financial characteristics of our operating segments and determined that aggregation of certain segments, as described herein, was appropriate. Amounts reported for prior periods have been conformed to the current presentation.

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

	Third Quarter Ended October 7, 2007	Third Quarter Ended October 1, 2006	Year-to-Date Ended October 7, 2007	Year-to-Date Ended October 1, 2006
<b>Revenue</b>				
Restaurant operations	\$ 112,376	\$ 113,405	\$ 381,624	\$ 373,193
Franchise operations	6,200	6,199	20,433	20,515
Foxtail	15,290	15,817	47,491	50,506
Intersegment revenue	(3,635)	(2,155)	(13,494)	(6,510)
Other	1,081	971	3,654	3,089
Total	<u>\$ 131,312</u>	<u>\$ 134,237</u>	<u>\$ 439,708</u>	<u>\$ 440,793</u>

**Segment net income (loss)**

Restaurant operations	\$ 5,074	\$ 5,961	\$ 24,061	\$ 21,100
Franchise operations	5,579	5,705	18,525	18,814
Foxtail	901	1,904	3,441	6,466
Other	(15,899)	(21,424)	(55,844)	(55,662)
Total	<u>\$ (4,345)</u>	<u>\$ (7,854)</u>	<u>\$ (9,817)</u>	<u>\$ (9,282)</u>

	October 7, 2007	December 31, 2006
<b>Segment Assets</b>		
Restaurant operations	\$ 137,839	\$ 130,539
Franchise operations	122,136	123,778
Foxtail	47,171	41,715
Other	45,037	50,813
Total	<u>\$ 352,183</u>	<u>\$ 346,845</u>

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

	Third Quarter Ended October 7, 2007	Third Quarter Ended October 1, 2006	Year-to-Date Ended October 7, 2007	Year-to-Date Ended October 1, 2006
General and administrative expenses	\$ 7,679	\$ 9,847	\$ 29,807	\$ 32,511
Depreciation and amortization expenses	1,173	1,446	3,218	2,832
Interest expense, net	7,189	6,923	23,887	28,448
Gain on disposition of assets, net	228	5	(157)	(89)
Asset write-down	244	88	638	137
Lease termination	-	-	-	366
Transaction costs	261	3,225	1,013	5,513
Provision for income taxes	109	324	109	324
Minority interest	165	23	409	192
Licensing revenue	(1,052)	(917)	(3,374)	(2,826)
Gain on extinguishment of debt	-	-	-	(12,581)
Other	(97)	460	294	835
	<u>\$ 15,899</u>	<u>\$ 21,424</u>	<u>\$ 55,844</u>	<u>\$ 55,662</u>

#### (10) Long-Term Debt

As of October 7, 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 October 7, 2007 was 9.5%. As of October 7, 2007, our revolver permitted borrowings of up to approximately \$13,474,000 (after giving effect to \$15,300,000 in borrowings and \$11,226,000 in letters of credit outstanding) and \$98,750,000 was 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 third quarter of 2007 and 2006 was -2.7% and -4.3% respectively. 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 third quarter of 2007, the Company included, as a component of income taxes, \$63,000 of current state income tax not offset by current losses, future deductible temporary differences or net operating losses and \$11,000 and \$35,000 of tax and interest expense related to uncertain income tax positions. For the third quarter

of 2006, the Company included, as a component of income taxes, \$324,000 of tax on current income not offset by current losses, future deductible temporary differences, net operating loss or credits.

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 \$1,100,000 and \$1,500,000 within the next 12 months 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 2004. 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**

Certain of the Company’s executives and other employees have either purchased or been granted common units (“Class A Units” or “Class C Units”) of P&MC Holding LLC, which represent an ownership interest in P&MC Holding LLC.

### **Strip Subscription Agreements:**

On April 1, 2007, pursuant to strip subscription agreements, 17,673 Class A Units and 17,673 Class C Units were sold to certain of the company’s executives at \$100.00 per unit and \$0.01 per unit, respectively. These Class A Units and Class C Units are not subject to vesting.

### **Employee Subscription Agreements:**

On April 1, 2007, pursuant to employee subscription agreements, 114,720 Time Vesting Class C Units were granted at no cost to certain employees. On August 1, 2007, 1,995 additional Time Vesting Class C Units were granted at no cost to certain employees. Each Time Vesting Class C Unit is subject to vesting upon certain dates if the recipient of the grant is employed by the Company as of such date. The Time Vesting Class C Units generally vest over four years of continuous service and have no contractual term.

The dates and vesting percentages for the Time Vesting Class C Units are as follows:

Date	Cumulative Percentage
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, if the employee is employed as of the date of the occurrence of certain change in control events, the employee's outstanding Time Vesting Class C Units that have not vested on the date of such occurrence shall vest simultaneously with the consummation of the change in control event. Upon termination of employment, unvested Class C Units will be immediately and automatically forfeited and vested Class C Units will be subject to repurchase pursuant to the terms of P&MC Holding LLC's unitholder's agreement.

Stock-based employee compensation expense is charged to the Company based on the recognition and measurement provisions of Statement of Financial Accounting Standard ("SFAS") No. 123 (revised 2004), "Share-Based Payment" and related interpretations. Compensation expense is calculated as the straight-line amortization of the difference between the fair value at the date of grant and the exercise price of the outstanding Time Vesting Class C Units over the respective vesting periods. Compensation expense for the quarter and year-to-date periods in 2007 was not material.

Activity related to the Time Vesting Class C Units was as follows:

	<u>Unvested</u>	<u>Vested</u>
Class C Units as of December 31, 2006	—	—
Granted	116,715	—
Purchased	—	17,673
Vested	—	—
Forfeited	(2,993)	—
Class C Units as of October 7, 2007	<u>113,722</u>	<u>17,673</u>

Activity related to the Class A Units was as follows:

Class A Units outstanding as of December 31, 2006	1,104,589
Granted	17,673
Forfeited	—
Class A Units outstanding as of October 7, 2007	<u>1,122,262</u>

### **(13) Recent Accounting Pronouncements**

In September 2006, the FASB issued 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 October 7, 2007 (unaudited; in thousands):

	PMCI	Guarantors			Non-Guarantors	Eliminations	Consolidated PMCI
		WRG	Other				
Revenue							
Food sales	\$ 77,629	\$ 40,489	\$ -	\$ 5,913	\$ -	\$ 124,031	
Franchise and other revenue	5,203	2,078	-	-	-	7,281	
Total revenues	82,832	42,567	-	5,913	-	131,312	
Cost and expenses							
Cost of sales (excluding depreciation shown below):							
Food cost	21,873	11,893	-	1,613	-	35,379	
Labor and benefits	26,507	14,123	-	2,070	-	42,700	
Operating expenses	20,817	11,939	-	1,937	-	34,693	
General and administrative	7,853	822	-	-	-	8,675	
Transaction costs	157	104	-	-	-	261	
Depreciation and amortization	4,298	1,618	-	135	-	6,051	
Interest, net	6,946	243	-	-	-	7,189	
Asset impairments and closed store expenses	(21)	492	-	1	-	472	
Other, net	(37)	-	-	-	-	(37)	
Total costs and expenses	88,393	41,234	-	5,756	-	135,383	
(Loss) income before income taxes and minority interests	(5,561)	1,333	-	157	-	(4,071)	
Provision for income taxes	(109)	-	-	-	-	(109)	
Minority interests	-	-	-	165	-	165	
Equity in earnings (loss) of subsidiaries	(1,325)	-	-	-	1,325	-	
NET (LOSS) INCOME	\$ (4,345)	\$ 1,333	\$ -	\$ (8)	\$ (1,325)	\$ (4,345)	

**Consolidating Statement of Operations for the quarter ended October 1, 2006 (unaudited; in thousands):**

	PMCI	Guarantors				Non-Guarantors	Eliminations	Consolidated PMCI
		PMCM	WRG	Other				
<b>Revenue</b>								
Food sales	\$ 57,181	\$ 18,982	\$ 44,396	\$ -	\$ 6,507	\$ -	\$ 127,066	
Franchise and other revenue	3,129	3,543	2,079	-	-	(1,580)	7,171	
<b>Total revenues</b>	<b>60,310</b>	<b>22,525</b>	<b>46,475</b>	<b>-</b>	<b>6,507</b>	<b>(1,580)</b>	<b>134,237</b>	
<b>Cost and expenses</b>								
Cost of sales (excluding depreciation shown below):								
Food cost	16,877	4,199	14,351	-	1,825	-	37,252	
Labor and benefits	18,945	6,762	15,863	-	2,081	-	43,651	
Operating expenses	13,902	6,218	11,949	-	2,497	(818)	33,748	
General and administrative	8,349	762	2,565	-	-	(762)	10,914	
Transaction costs	1,330	-	1,895	-	-	-	3,225	
Depreciation and amortization	2,311	1,237	1,561	-	340	-	5,449	
Interest, net	6,651	(71)	341	-	2	-	6,923	
Asset impairments and closed store expenses	-	-	81	-	12	-	93	
Other, net	(51)	-	540	-	-	-	489	
<b>Total costs and expenses</b>	<b>68,314</b>	<b>19,107</b>	<b>49,146</b>	<b>-</b>	<b>6,757</b>	<b>(1,580)</b>	<b>141,744</b>	
(Loss) income before income taxes and minority interests	(8,004)	3,418	(2,671)	-	(250)	-	(7,507)	
Benefit from (provision for) income taxes	1,178	(1,502)	-	-	-	-	(324)	
Minority interests	-	-	12	-	11	-	23	
Equity in earnings (loss) of subsidiaries	(1,028)	-	-	-	-	1,028	-	
<b>NET INCOME (LOSS)</b>	<b>\$ (7,854)</b>	<b>\$ 1,916</b>	<b>\$ (2,683)</b>	<b>\$ -</b>	<b>\$ (261)</b>	<b>\$ 1,028</b>	<b>\$ (7,854)</b>	

**Consolidating Statement of Operations for the year-to-date period ended October 7, 2007 (unaudited; in thousands):**

	PMCI	Guarantors			Non-Guarantors	Eliminations	Consolidated PMCI
		WRG	Other				
<b>Revenue</b>							
Food sales	\$ 256,391	\$ 138,259	\$ -	\$ -	\$ 20,971	\$ -	\$ 415,621
Franchise and other revenue	16,670	7,417	-	-	-	-	24,087
<b>Total revenues</b>	<b>273,061</b>	<b>145,676</b>	<b>-</b>	<b>-</b>	<b>20,971</b>	<b>-</b>	<b>439,708</b>
<b>Cost and expenses</b>							
Cost of sales (excluding depreciation shown below):							
Food cost	70,547	40,019	-	-	5,821	-	116,387
Labor and benefits	87,125	49,032	-	-	6,912	-	143,069
Operating expenses	66,443	37,829	-	-	7,105	-	111,377
General and administrative	29,293	4,282	-	-	-	-	33,575
Transaction costs	772	241	-	-	-	-	1,013
Depreciation and amortization	13,437	4,683	-	-	821	-	18,941
Interest, net	23,061	826	-	-	-	-	23,887
Asset impairments and closed store expenses	(403)	858	-	-	26	-	481
Other, net	(73)	350	-	-	-	-	277
<b>Total costs and expenses</b>	<b>290,202</b>	<b>138,120</b>	<b>-</b>	<b>-</b>	<b>20,685</b>	<b>-</b>	<b>449,007</b>
(Loss) income before income taxes and minority interests	(17,141)	7,556	-	-	286	-	(9,299)
Provision for income taxes	(109)	-	-	-	-	-	(109)
Minority interests	-	-	-	-	409	-	409
Equity in earnings (loss) of subsidiaries	7,433	-	-	-	-	(7,433)	-
<b>NET (LOSS) INCOME</b>	<b>\$ (9,817)</b>	<b>\$ 7,556</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (123)</b>	<b>\$ (7,433)</b>	<b>\$ (9,817)</b>

**Consolidating Statement of Operations for the year-to-date period ended October 1, 2006 (unaudited; in thousands):**

	PMCI	Guarantors				Non-Guarantors	Eliminations	Consolidated
		PMCM	WRG	Other	PMCI			
<b>Revenue</b>								
Food sales	\$ 195,351	\$ 62,208	\$ 138,245	\$ -	\$ 21,384	\$ -	\$ 417,188	
Franchise and other revenue	10,424	11,476	6,704	15	-	(5,014)	23,605	
<b>Total revenues</b>	<b>205,775</b>	<b>73,684</b>	<b>144,949</b>	<b>15</b>	<b>21,384</b>	<b>(5,014)</b>	<b>440,793</b>	
<b>Cost and expenses</b>								
Cost of sales (excluding depreciation shown below):								
Food cost	58,057	14,125	44,678	-	6,083	-	122,943	
Labor and benefits	64,294	22,405	48,480	-	6,655	-	141,834	
Operating expenses	45,043	20,528	35,852	15	7,678	(2,476)	106,640	
General and administrative	26,588	2,545	9,601	-	-	(2,538)	36,196	
Transaction costs	3,071	-	2,442	-	-	-	5,513	
Depreciation and amortization	11,523	2,351	4,882	-	1,008	-	19,764	
Interest, net	19,621	(642)	9,465	-	4	-	28,448	
Asset impairments and closed store expenses	270	-	108	-	36	-	414	
Gain on extinguishment of debt	-	-	(12,581)	-	-	-	(12,581)	
Other, net	(152)	-	540	-	-	-	388	
<b>Total costs and expenses</b>	<b>228,315</b>	<b>61,312</b>	<b>143,467</b>	<b>15</b>	<b>21,464</b>	<b>(5,014)</b>	<b>449,559</b>	
(Loss) income before income taxes and minority interests	(22,540)	12,372	1,482	-	(80)	-	(8,766)	
Benefit from (provision for) income taxes	4,528	(4,852)	-	-	-	-	(324)	
Minority interests	-	-	(1)	-	193	-	192	
Equity in earnings (loss) of subsidiaries	8,730	-	-	-	-	(8,730)	-	
<b>NET (LOSS) INCOME</b>	<b>\$ (9,282)</b>	<b>\$ 7,520</b>	<b>\$ 1,483</b>	<b>\$ -</b>	<b>\$ (273)</b>	<b>\$ (8,730)</b>	<b>\$ (9,282)</b>	

**Consolidating Balance Sheet as of October 7, 2007 (unaudited; in thousands):**

	PMCI	Guarantors		Non-Guarantors	Eliminations	Consolidated
		WRG	Other			PMCI
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 4,864	\$ 2,605	\$ -	\$ (1,929)	\$ -	\$ 5,540
Restricted cash	9,147	-	-	-	-	9,147
Trade receivables, less allowance for doubtful accounts	13,384	8,103	-	42	-	21,529
Inventories	9,791	4,742	-	276	-	14,809
Prepaid expenses and other current assets	5,229	1,307	-	2	-	6,538
<b>Total current assets</b>	<b>42,415</b>	<b>16,757</b>	<b>-</b>	<b>(1,609)</b>	<b>-</b>	<b>57,563</b>
PROPERTY AND EQUIPMENT, net	62,964	31,177	-	2,716	-	96,857
INVESTMENTS IN UNCONSOLIDATED PARTNERSHIPS	-	35	-	10	-	45
GOODWILL	30,038	-	-	-	-	30,038
INTANGIBLE ASSETS, net	153,998	254	-	-	-	154,252
INVESTMENTS IN SUBSIDIARIES	(96,234)	-	-	-	96,234	-
DUE FROM SUBSIDIARIES	101,855	-	-	-	(101,855)	-
DEFERRED INCOME TAXES	806	-	-	-	-	806
OTHER ASSETS	10,618	(621)	-	2,625	-	12,622
	<b>\$ 306,460</b>	<b>\$ 47,602</b>	<b>\$ -</b>	<b>\$ 3,742</b>	<b>\$ (5,621)</b>	<b>\$ 352,183</b>
<b>CURRENT LIABILITIES:</b>						
Accounts payable	\$ 19,196	\$ 8,039	\$ -	\$ 782	\$ -	\$ 28,017
Accrued expenses	25,941	16,720	-	1,338	-	43,999
Accrued income taxes	5	-	-	-	-	5
Franchise advertising contributions	6,233	-	-	-	-	6,233
Current maturities of long term debt and capital lease obligations	1,200	365	-	-	-	1,565
<b>Total current liabilities</b>	<b>52,575</b>	<b>25,124</b>	<b>-</b>	<b>2,120</b>	<b>-</b>	<b>79,819</b>
CAPITAL LEASE OBLIGATIONS, less current maturities	2,998	5,909	-	-	-	8,907
LONG-TERM DEBT, less current maturities	303,036	39	-	-	-	303,075
DEFERRED RENT	7,266	3,732	-	215	-	11,213
OTHER LIABILITIES	4,014	8,256	-	2	-	12,272
DUE TO PARENT	-	105,164	-	(3,309)	(101,855)	-
MINORITY INTERESTS IN CONSOLIDATED PARTNERSHIPS	-	-	-	326	-	326
<b>STOCKHOLDER'S 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	137,923	-	-	-	-	137,923
Treasury stock	-	(137)	-	-	137	-
Other comprehensive income	97	-	-	-	-	97
Retained (deficit) earnings	(201,450)	(163,585)	-	(5,127)	168,712	(201,450)
	<b>(63,429)</b>	<b>(100,622)</b>	<b>-</b>	<b>4,388</b>	<b>96,234</b>	<b>(63,429)</b>
	<b>\$ 306,460</b>	<b>\$ 47,602</b>	<b>\$ -</b>	<b>\$ 3,742</b>	<b>\$ (5,621)</b>	<b>\$ 352,183</b>

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

	Guarantors				Non-Guarantors	Eliminations	Consolidated PMCI
	PMCI	PMCM	WRG	Other			
<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 allowance for doubtful accounts	12,662	43	5,576	—	35	—	18,316
Inventories	6,364	481	3,882	—	269	—	10,996
Prepaid expenses and other current assets	3,781	316	693	—	34	—	4,824
Total current assets	<u>30,148</u>	<u>8,025</u>	<u>17,309</u>	<u>—</u>	<u>(1,084)</u>	<u>—</u>	<u>54,398</u>
PROPERTY AND EQUIPMENT, net	44,762	10,885	32,755	—	2,642	—	91,044
INVESTMENTS IN UNCONSOLIDATED PARTNERSHIPS	—	—	228	—	10	—	238
GOODWILL	30,038	—	—	—	—	—	30,038
INTANGIBLE ASSETS, net	45,885	110,600	307	—	—	—	156,792
INVESTMENTS IN 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 contributions	5,392	—	—	—	—	—	5,392
Current maturities of long term debt and capital lease obligations	1,166	—	540	—	—	—	1,706
Total current liabilities	<u>45,844</u>	<u>9,857</u>	<u>29,571</u>	<u>—</u>	<u>2,988</u>	<u>—</u>	<u>88,260</u>
CAPITAL LEASE OBLIGATIONS, less current maturities	94	—	6,155	—	—	—	6,249
LONG-TERM DEBT, less 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)	—
MINORITY INTERESTS IN CONSOLIDATED PARTNERSHIPS	(475)	—	423	—	127	—	75
STOCKHOLDER'S 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 (deficit) earnings	(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 October 7, 2007 (unaudited; in thousands):**

	Guarantors				Eliminations	Consolidated
	PMCI	WRG	Other	Non-Guarantors		PMCI
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net (loss) income	\$ (9,817)	\$ 7,556	\$ -	\$ (123)	\$ (7,433)	\$ (9,817)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:						
Equity in the earnings of subsidiaries	(7,433)	-	-	-	7,433	-
Depreciation and amortization	13,437	4,683	-	821	-	18,941
Amortization of debt discount	248	-	-	-	-	248
Other non-cash income and expense items	487	142	-	-	-	629
Gain on disposition of assets	(547)	390	-	-	-	(157)
Asset write-down	144	468	-	26	-	638
Minority interests	-	-	-	409	-	409
Equity in net loss of unconsolidated partnerships	-	90	-	-	-	90
Net changes in operating assets and liabilities	(2,862)	(9,078)	-	(424)	-	(12,364)
Total adjustments	3,474	(3,305)	-	832	7,433	8,434
Net cash (used in) provided by operating activities	(6,343)	4,251	-	709	-	(1,383)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Cash paid for property and equipment	(18,272)	(3,555)	-	(727)	-	(22,554)
Proceeds from sale of assets	-	3	-	-	-	3
Net cash used in investing activities	(18,272)	(3,552)	-	(727)	-	(22,551)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Principal payments under capital lease obligations	(128)	(421)	-	-	-	(549)
Proceeds from long-term debt	1,950	-	-	-	-	1,950
Payments on long-term debt	(760)	(15)	-	-	-	(775)
Proceeds from revolver	62,600	-	-	-	-	62,600
Payments on revolver	(47,300)	-	-	-	-	(47,300)
Landlord financing	2,915	-	-	-	-	2,915
Intercompany financing	5,077	(4,816)	-	(261)	-	-
Distributions to minority partners	-	-	-	(228)	-	(228)
Capital contribution	1,792	-	-	-	-	1,792
Net cash provided by (used in) financing activities	26,146	(5,252)	-	(489)	-	20,405
Net increase (decrease) in cash and cash equivalents	1,531	(4,553)	-	(507)	-	(3,529)
<b>CASH AND CASH EQUIVALENTS:</b>						
Balance, beginning of period	3,333	7,158	-	(1,422)	-	9,069
Balance, end of period	\$ 4,864	\$ 2,605	\$ -	\$ (1,929)	\$ -	\$ 5,540

**Consolidating Statement of Cash Flows for the year-to-date period ended October 1, 2006 (unaudited; in thousands):**

	PMCI	Guarantors			Non-Guarantors	Eliminations	Consolidated PMCI
		PMCM	WRG	Other			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Net (loss) income	\$ (9,282)	\$ 7,520	\$ 1,483	\$ -	\$ (273)	\$ (8,730)	\$ (9,282)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:							
Equity in the earnings of subsidiaries	(8,730)	-	-	-	-	8,730	-
Depreciation and amortization	11,523	2,351	4,882	-	1,008	-	19,764
Amortization of debt discount	248	-	-	-	-	-	248
Other non-cash income and expense items	(143)	-	6,624	-	-	-	6,481
Gain on extinguishment of debt	-	-	(12,581)	-	-	-	(12,581)
(Gain) loss on disposition of assets	(96)	-	4	-	3	-	(89)
Asset write-down	-	-	104	-	33	-	137
Minority interests	-	-	320	-	(128)	-	192
Equity in net loss of unconsolidated partnerships	-	-	154	-	-	-	154
Net changes in operating assets and liabilities	(258)	358	(4,856)	23	209	-	(4,524)
Total adjustments	2,544	2,709	(5,349)	23	1,125	8,730	9,782
Net cash (used in) provided by operating activities	(6,738)	10,229	(3,866)	23	852	-	500
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Cash paid for property and equipment	(6,282)	(1,051)	(4,894)	-	(1,095)	-	(13,322)
Proceeds from sale of assets	1,534	-	13	-	-	-	1,547
Intercompany activities	77,093	(77,093)	-	-	-	-	-
Net cash provided by (used in) investing activities	72,345	(78,144)	(4,881)	-	(1,095)	-	(11,775)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>							
Principal payments under capital lease obligations	(213)	-	(451)	-	-	-	(664)
Proceeds from long-term debt	103,800	-	1,541	-	-	-	105,341
Payments on long-term debt	(4,050)	-	(101,565)	-	-	-	(105,615)
Proceeds from revolver	6,800	-	-	-	-	-	6,800
Payments on revolver	(3,800)	-	-	-	-	-	(3,800)
Intercompany financing	(109,966)	-	109,966	-	-	-	-
Debt issuance costs	(2,720)	-	-	-	-	-	(2,720)
Distributions to minority partners	-	-	(242)	-	-	-	(242)
Capital contribution	(54,884)	67,429	-	-	-	-	12,545
Net cash (used in) provided by financing activities	(65,033)	67,429	9,249	-	-	-	11,645
Net increase (decrease) in cash and cash equivalents	574	(486)	502	23	(243)	-	370
<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	\$ 2,165	\$ 1,081	\$ 3,111	\$ -	\$ (1,999)	\$ -	\$ 4,358

## 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 October 7, 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 \$8.22 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 October 7, 2007, we operated 159 full-service restaurants and franchised 323 full-service restaurants to 108 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 \$1,930,000 over the thirteen periods ended October 7, 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 October 7, 2007 and October 1, 2006, average royalties earned per franchised restaurant were approximately \$15,700 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 October 7, 2007, the Company offered a full menu of over 50 items ranging in price from \$4.89 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 October 7, 2007, we operated 92 full-service restaurants and franchised 45 full-service restaurants to 26 franchisees in four states and Mexico. Our Company-operated restaurants' footprint extends over nine states with 62 restaurants located in California. Our existing Company-operated restaurants generated average annual revenues of \$2,211,000 over the thirteen periods ended October 7, 2007.

As of October 7, 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 owns and operates 78 Marie Callender's restaurants, one Callender's Grill, the East Side Mario's restaurant (a mid-priced Italian restaurant operating in Lakewood, California) and twelve 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 ten locations. Franchisees owned and operated 44 Marie Callender's restaurants and one Callender's Grill.

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 non-refundable, 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 October 7, 2007 and October 1, 2006, average royalties earned per franchised restaurant were approximately \$21,993 and \$24,065, respectively. The decrease is primarily due to the inclusion of the additional seven days of operations at Marie Callender's franchise restaurants in the third quarter of 2006 as compared to the third 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 (50%) 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 October 7, 2007, Perkins' Company-operated restaurants' comparable sales increased by 0.3% and Marie Callender's Company-operated restaurants' comparable sales declined by 2.5%. For the year-to-date period ended October 7, 2007, Perkins' Company-operated restaurants' comparable sales declined by 0.7% and Marie Callender's Company-operated restaurants' comparable sales declined by 0.8%. The decrease in comparable sales in the year-to-date period is due primarily to the decrease in comparable guest counts.

## 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 October 7, 2007 and December 31, 2006, we had total self-insurance accruals reflected in our consolidated balance sheets of approximately \$7,633,000 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. Periodically or upon occurrence of a triggering event, we 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 October 7, 2007, we had approximately \$184,290,000 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 \$1,100,000 and \$1,500,000 within the next 12 months 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 2004. 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 third quarter ended October 1, 2006 includes the financial results of WRG for the 91-day period from June 30, 2006 through September 28, 2006. The accompanying consolidated statement of operations for the third quarter ended October 7, 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 October 1, 2006 include the 2006 year-to-date financial results of WRG for the 273-day period from December 30, 2005 through September 28, 2006. The accompanying consolidated statements of operations and cash flows for the year-to-date period ended October 7, 2007 include the 2007 year-to-date financial results of WRG for ten four-week periods, or 280 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:

	Percentage of Total Revenues	
	Third Quarter	Year-to-Date
	Ended	Ended
	October 7, 2007	October 7, 2007
Restaurant operations	85.6%	86.8%
Franchise operations	4.7%	4.7%
Foxtail	8.9%	7.7%
Other	0.8%	0.8%
Total	100.0%	100.0%

The following table reflects certain data for the Company's quarter ended October 7, 2007 compared to the quarter ended October 1, 2006. The consolidated information is derived from the accompanying consolidated statements of operations. Data from the Company's segments – Restaurant operations, Franchise operations, 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 \$3,635,000 and \$2,155,000 in the third quarter of 2007 and 2006, respectively.

	Consolidated Results		Restaurant Operations		Franchise Operations	
	Third Quarter Ended		Third Quarter Ended		Third Quarter Ended	
	October 7, 2007	October 1, 2006	October 7, 2007	October 1, 2006	October 7, 2007	October 1, 2006
Food sales	\$ 127,666	\$ 129,221	\$ 112,376	\$ 113,405	\$ -	\$ -
Franchise and other revenue	7,281	7,171	-	-	6,200	6,199
Intersegment revenue	(3,635)	(2,155)	-	-	-	-
Total Revenues	131,312	134,237	112,376	113,405	6,200	6,199
Food cost	28.5%	29.3%	26.5%	26.7%	0.0%	0.0%
Labor and benefits	34.4%	34.4%	36.3%	36.9%	0.0%	0.0%
Operating expenses	26.4%	25.1%	28.8%	28.1%	10.0%	8.0%
Segment Profit (Loss)	\$ (4,345)	\$ (7,854)	\$ 5,074	\$ 5,961	\$ 5,579	\$ 5,705

	Foxtail		Other (a)	
	Third Quarter Ended		Third Quarter Ended	
	October 7, 2007	October 1, 2006	October 7, 2007	October 1, 2006
Food sales	\$ 15,290	\$ 15,817	\$ -	\$ -
Franchise and other revenue	-	-	1,081	971
Intersegment revenue	(3,635)	(2,155)	-	-
Total Revenues	11,655	13,662	1,081	971
Food cost	60.8%	57.9%	0.0%	0.0%
Labor and benefits	12.9%	11.1%	-3.0%	9.1%
Operating expenses	11.5%	9.1%	0.0%	-7.2%
Segment Profit (Loss)	\$ 901	\$ 1,904	\$ (15,899)	\$ (21,424)

(a) Licensing revenue of \$1,052,000 and \$917,000 for the third 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 October 7, 2007 compared to the year-to-date period ended October 1, 2006. The consolidated information is derived from the accompanying consolidated statements of operations. Data from the Company's segments – Restaurant operations, Franchise operations, 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 \$13,494,000 and \$6,510,000 for the year-to-date periods of 2007 and 2006, respectively.

	Consolidated Results		Restaurant Operations		Franchise Operations	
	Year-to-date Ended		Year-to-date Ended		Year-to-date Ended	
	October 7, 2007	October 1, 2006	October 7, 2007	October 1, 2006	October 7, 2007	October 1, 2006
Food sales	\$ 429,115	\$ 423,698	\$ 381,624	\$ 373,193	\$ -	\$ -
Franchise and other revenue	24,087	23,605	-	-	20,433	20,515
Intersegment revenue	(13,494)	(6,510)	-	-	-	-
<b>Total Revenues</b>	<b>439,708</b>	<b>440,793</b>	<b>381,624</b>	<b>373,193</b>	<b>20,433</b>	<b>20,515</b>
Food cost	28.0%	29.5%	26.8%	27.0%	0.0%	0.0%
Labor and benefits	34.4%	34.0%	35.7%	36.4%	0.0%	0.0%
Operating expenses	25.3%	24.2%	27.4%	26.9%	9.3%	8.3%
<b>Segment Profit (Loss)</b>	<b>\$ (9,817)</b>	<b>\$ (9,282)</b>	<b>\$ 24,061</b>	<b>\$ 21,100</b>	<b>\$ 18,525</b>	<b>\$ 18,814</b>

  

	Foxtail		Other (a)	
	Year-to-date Ended		Year-to-date Ended	
	October 7, 2007	October 1, 2006	October 7, 2007	October 1, 2006
Food sales	\$ 47,491	\$ 50,506	\$ -	\$ -
Franchise and other revenue	-	-	3,654	3,089
Intersegment revenue	(13,494)	(6,510)	-	-
<b>Total Revenues</b>	<b>33,997</b>	<b>43,996</b>	<b>3,654</b>	<b>3,089</b>
Food cost	58.0%	56.7%	0.0%	0.0%
Labor and benefits	13.7%	11.4%	8.1%	9.4%
Operating expenses	10.6%	9.8%	0.0%	0.0%
<b>Segment Profit (Loss)</b>	<b>\$ 3,441</b>	<b>\$ 6,466</b>	<b>\$ (55,844)</b>	<b>\$ (55,662)</b>

(a) Licensing revenue of \$3,374,000 and \$2,826,000 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 October 7, 2007 Compared to the Quarter Ended October 1, 2006

### *Restaurant Operations Overview*

The operating results of the restaurant segment 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 increased 0.3% and Marie Callender's restaurants' comparable sales decreased 2.5% in the third quarter of 2007 as compared to the third quarter of 2006. The decrease in Marie Callender's comparable sales resulted primarily from a decrease in comparable guest counts.

Marie Callender's restaurant sales decreased \$2,995,000 primarily due to the inclusion of seven additional days of revenues in the third quarter of 2006 for an estimated impact of \$3,700,000.

Restaurant segment income decreased \$887,000 in the third quarter of 2007 compared to a year ago, primarily due to an increase in depreciation. The lower depreciation in the restaurant segment in the third quarter of 2006 was due to a reclassification between segments of approximately \$810,000 of depreciation, related to the step-up in the basis of depreciable assets.

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

#### *Foxtail 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 aggregated into one reportable segment. Foxtail's net sales decreased \$2,007,000 from the prior year's third quarter. \$1,575,000 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 third quarter of 2007, whereas sales and cost of sales from Foxtail's Corona plant to Marie Callender's Company-operated restaurants in the third 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 \$242,000 in the third quarter to one contractual customer and the loss of a line of business and related sales of \$402,000 to one major non-contractual customer. Segment income of \$901,000 in the third quarter of 2007 decreased \$1,003,000 as compared to the third quarter of 2006 primarily as a result of this decline in sales and increases, as a percentage of sales, in food cost, labor and benefits and operating expenses.

#### *Franchise Operations Overview*

The results of the franchise operations 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 were flat in the third quarter of 2007 compared to the prior year's third quarter. During the third quarter of 2007, increases in franchise fees and renewal fees were offset by a decline in royalty revenue.

Since the end of the third quarter of 2006, franchisees have opened nine Perkins restaurants, closed nine Perkins restaurants and sold two Perkins restaurants to the Company. One franchised Marie Callender's restaurant was acquired by the Company.

#### *Revenues*

Total revenues decreased \$2,925,000 in the third quarter of 2007 compared to the third quarter of 2006. The decrease was primarily due to a \$2,995,000 decline in sales at Marie Callender's Company-operated restaurants due primarily to the inclusion of seven additional days of revenues in the third quarter of 2006.

Restaurant segment sales of \$112,376,000 and \$113,405,000 in the third quarter of 2007 and 2006, respectively, accounted for 85.6% and 84.5% of total revenues, respectively. The sales decrease resulted from a \$2,995,000 decline in sales at Marie Callender's restaurants due primarily to the inclusion of seven additional days of revenues in the third quarter of 2006, partially offset by sales from new Perkins restaurants.

Franchise segment revenues accounted for 4.7% and 4.6% of total revenues in the third quarter of 2007 and 2006, respectively. Total franchise revenues increased as a percentage of total revenues due to the decline in total revenues in the third quarter of 2007.

Foxtail revenues decreased \$2,007,000 in the third 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 third quarter of 2007 of \$1,575,000, whereas sales and cost of sales from Foxtail's Corona plant to Marie Callender's Company-operated restaurants in the third 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 \$242,000 in the third quarter to one contractual customer and the loss of a line of business and related sales of \$402,000 to one major non-contractual customer.

## Costs and Expenses

### *Food Cost*

Consolidated food cost was 28.5% and 29.3% of food sales in the third 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 third 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 third quarter of 2006. Approximately 0.9% of the 0.8% food cost percentage 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.

Restaurant segment food cost was 26.5% and 26.7% of food sales in the third quarter of 2007 and 2006, respectively. In the Foxtail segment, food cost was 60.8% and 57.9% of food sales in the third quarter of 2007 and 2006, respectively. This increase of 2.9 percentage points is primarily due to production inefficiencies resulting in part from lower sales, and higher commodity costs.

### *Labor and Benefits Expenses*

Consolidated labor and benefits expenses were flat at 34.4% of net food sales in the third quarter of 2007 and 2006. The labor and benefits ratio in the Foxtail segment increased 1.8 percentage points in the third quarter of 2007, and the labor and benefits ratio in the restaurant segment decreased 0.6 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 restaurant segment was primarily due to workers' compensation costs which decreased by \$1,114,000 (or 1.0 percentage point of the 0.6 percentage point decrease).

### *Operating Expenses*

Approximately 93.2% and 94.5% of total operating expenses in the third quarter of 2007 and 2006, respectively, were incurred in the restaurant segment. 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 26.4% and 25.1% in the third quarter of 2007 and 2006, respectively. In the restaurant segment, operating expenses, as a percentage of restaurant sales, increased 0.7 percentage points due primarily to an increase in pre-opening expenses of \$445,000 or 0.4 percentage points. Operating expenses in the Foxtail segment, as a percentage of segment food sales, increased 2.4 percentage points primarily due to lost leverage as sales declined \$528,000 in the quarter.

Total operating expenses of \$34,693,000 in the third quarter of 2007 increased by \$945,000 as compared to the third quarter of 2006. The increase was primarily due to the above noted pre-opening expenses.

### *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 6.6% and 8.1% of total revenues in the third quarter of 2007 and 2006, respectively. The decrease is primarily due to a \$1,200,000 (or 0.9%) reduction in corporate incentive compensation and continuing synergies achieved as a result of the Combination.

#### *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 \$261,000 and \$3,225,000 in the third quarter of 2007 and 2006, respectively.

#### *Depreciation and Amortization*

Depreciation and amortization expense was \$6,051,000 and \$5,449,000 in the third quarter of 2007 and 2006, respectively. This increase is primarily due to an increase in the amortization of intangible assets and an increase in the depreciation of asset additions related to the new Company-operated Perkins restaurants.

#### *Interest, net*

Interest, net was \$7,189,000 or 5.5% of total revenues in the third quarter of 2007 compared to \$6,923,000 or 5.2% of total revenues in the third quarter of 2006. This increase of 0.3 percentage points was due to an increase in the average debt outstanding in the third quarter of 2007 as compared to the third quarter of 2006.

#### *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 third quarter of 2007 and 2006, we recorded adjustments of \$472,000 and \$93,000, respectively.

#### *Taxes*

The effective tax provision rate for the third quarter of 2007 and 2006 was -2.7% and -4.3% respectively. Our effective rate differs from the statutory rate primarily due to a valuation allowance for deductible temporary differences and net operating losses and credit carry-forwards generated during 2006 and expected to be generated during 2007. For the third quarter of 2007, the Company included, as a component of income taxes, \$63,000 of current state tax not offset by current losses, future deductible temporary differences or net operating loss and \$11,000 and \$35,000 of tax and interest expense related to uncertain income tax positions. For the third quarter of 2006, the Company included, as a component of income taxes, \$324,000 of tax on current income not offset by current losses, future deductible temporary differences, net operating loss or credits.

### **Year-to-Date Ended October 7, 2007 Compared to the Year-to-Date Ended October 1, 2006**

#### *Restaurant Operations Overview*

The operating results of the restaurant segment 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 0.7% and Marie Callender’s restaurants’ comparable sales decreased 0.8% as compared to the year-to-date period in 2006. The decrease in comparable sales resulted primarily from a decrease in comparable guest counts.

Marie Callender’s restaurant sales increased \$4,767,000 primarily due to the inclusion of seven additional days of revenues in the year-to-date period of 2007, for an estimated impact of \$3,900,000.

Restaurant segment income increased \$2,961,000 in the year-to-date period ended October 7, 2007 compared to a year ago, primarily due to workers' compensation costs which decreased by \$2,440,000 (or 0.7 percentage points) and due to the inclusion of an additional seven 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 third quarter of 2006, the Company has opened three new Perkins restaurants, acquired two Perkins restaurants from franchisees and closed one underperforming Perkins restaurant. The Company has also acquired one Marie Callender's restaurant from a franchisee and closed two underperforming Marie Callender's restaurants.

#### *Foxtail 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 in Corona and Cincinnati are aggregated into one reportable segment. Foxtail's net sales decreased \$9,999,000 from the prior year. \$6,467,000 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 \$2,268,000 in the year-to-date period of 2007 to one contractual customer and the loss of a line of business and related sales of \$2,906,000 to one major non-contractual customer. Segment income of \$3,441,000 in the year-to-date period ended October 7, 2007 decreased \$3,025,000 as compared to the year-to-date period ended October 1, 2006 primarily as a result of this decline in sales and increases, as a percentage of sales, in labor and benefits and operating expenses.

#### *Franchise Operations Overview*

The operating results of the franchise segment 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 \$82,000 in the year-to-date period of 2007 compared to the prior year, primarily due to a decrease 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 franchise restaurants in operation.

Since the end of the third quarter of 2006, franchisees have opened nine Perkins restaurants, closed nine Perkins restaurants and sold two Perkins restaurants to the Company. One franchised Marie Callender's restaurant was acquired by the Company.

#### *Revenues*

Total revenues decreased \$1,085,000 in the year-to-date period of 2007 compared to the year-to-date period of 2006. Revenues decreased \$6,467,000 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 impact of the elimination entry was partially offset by the additional seven days of operations in 2007 due to the change in reporting period for Marie Callender's.

Restaurant segment sales of \$381,624,000 and \$373,193,000 in the year-to-date period of 2007 and 2006, respectively, accounted for 86.8% and 84.7% of total revenues, respectively. This increase is primarily due to the additional seven days of operations at Marie Callender's resulting in an estimated \$3,900,000 in sales in the year-to-date period of 2007 and the increased number of Perkins restaurants.

Franchise segment revenues accounted for 4.7% of total revenues in the year-to-date period of 2007 and 2006. Royalty revenues at Perkins declined \$231,000 as franchisees' comparable restaurant sales decreased by approximately 0.5%. These decreases were partially offset by increases in the Marie Callender's franchise segment due to the additional seven days of revenues in the year-to-date period of 2007.

Foxtail revenues decreased \$9,999,000 in the year-to-date period of 2007 versus the year-to-date period of 2006. \$6,467,000 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 \$2,268,000 in the year-to-date period of 2007 to one contractual customer and the loss of a line of business and related sales of \$2,906,000 to one major non-contractual customer.

## Costs and Expenses

### *Food Cost*

Consolidated food cost was 28.0% 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 1.5 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. The impact of these favorable factors was partially offset by higher commodity costs.

Restaurant segment food cost was 26.8% and 27.0% of food sales in the year-to-date period of 2007 and 2006, respectively. In the Foxtail segment, food cost was 58.0% and 56.7% 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 34.0% 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 2.3 percentage points in the year-to-date period of 2007, and the labor and benefits ratio in the restaurant segment decreased 0.7 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, as well as lower labor productivity resulting from reduced sales. The improvement in the restaurant segment was primarily due to workers' compensation costs which decreased by \$2,440,000. 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 93.8% and 94.0% of total operating expenses in the year-to-date period of 2007 and 2006, respectively, were incurred in the restaurant segment. 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 25.3% and 24.2% in the year-to-date period of 2007 and 2006, respectively. In the restaurant segment, operating expenses, as a percentage of restaurant sales, increased 0.5 percentage points due primarily to an increase in rent expense of \$1,038,000 or 0.3 percentage points and an increase in pre-opening expenses of \$690,000 or 0.2 percentage points. Operating expenses in the Foxtail segment, as a percentage of segment food sales, increased 0.8 percentage points or \$89,000.

Total operating expenses of \$111,377,000 in the year-to-date period of 2007 increased by \$4,737,000 over the year-to-date period of 2006. In addition to the increased rent and pre-opening expenses, operating expenses increased due to the additional seven 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 7.6% and 8.2% of total revenues in the year-to-date period of 2007 and 2006, respectively. The decrease is primarily due to a \$1,721,000 reduction in corporate incentive compensation and continuing synergies achieved as a result of the Combination, offset in part by a \$1,378,000 increase in management fees.

#### *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 \$1,013,000 and \$5,513,000 in the year-to-date period of 2007 and 2006, respectively.

#### *Depreciation and Amortization*

Depreciation and amortization expense was \$18,941,000 and \$19,764,000 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 \$23,887,000 or 5.4% of total revenues in the year-to-date period of 2007 compared to \$28,448,000 or 6.5% 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. Higher interest expense in 2006 was also attributable to the interest rates on WRG's indebtedness which 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 \$481,000 and \$414,000, 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 October 7, 2007 and October 1, 2006 was -1.2% and -3.7% respectively. Our effective rate differs from the statutory rate primarily due to a valuation allowance for deductible temporary differences and net operating losses 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, \$98,000 federal tax benefit for 2007 credits carried against 2006 tax expense, \$58,000 of current

state tax not offset by current losses, future deductible temporary differences or net operating loss and \$11,000 and \$138,000 of tax and interest expense related to uncertain income tax positions. For the year-to-date period of 2006, the Company included, as a component of income taxes, \$324,000 of tax on current income not offset by current losses, future deductible temporary differences, net operating loss or credits.

## **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 conjunction 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 October 7, 2007, our Revolver permitted borrowings of up to approximately \$13,474,000 (after giving effect to \$15,300,000 in borrowings and \$11,226,000 in letters of credit outstanding.) The letters of credit are primarily utilized in conjunction with our workers' compensation programs. As of October 7, 2007, we had approximately \$313,547,000 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 October 7, 2007, we had a negative working capital balance of \$22.3 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 October 7, 2007 and October 1, 2006 (in thousands):

	Year-to-Date Ended <u>October 7, 2007</u>	Year-to-Date Ended <u>October 1, 2006</u>
Cash flows (used in) provided by operating activities .....	\$ (1,383)	\$ 500
Cash flows used in investing activities .....	(22,551)	(11,775)
Cash flows provided by financing activities .....	20,405	11,645

### *Operating activities*

Cash used in operating activities totaled \$1,383,000 for the year-to-date period ended October 7, 2007 compared to cash provided by operating activities of \$500,000 for the year-to-date period ended October 1, 2006. The change in cash used in or provided by operating activities is primarily due to an increase in inventories and receivables and a decrease in accrued expenses, offset slightly by an increase in accounts payable.

### *Investing activities*

Cash flows used in investing activities for the year-to-date period ended October 7, 2007 were \$22,551,000 compared to cash used in investing activities of \$11,775,000 for the year-to-date period ended October 1, 2006. During the year-to-date period of 2007, the primary cash outflow from investing activities was \$22,554,000 of capital expenditures. During the year-to-date period of 2006, the primary cash outflow from investing activities was \$13,322,000 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 Ended <u>October 7, 2007</u>	Year-to-Date Ended <u>October 1, 2006</u>
New restaurants .....	\$ 10,237	\$ 1,606
Restaurant improvements .....	6,422	5,757
Restaurant remodeling and reimaging .....	3,133	4,655
Manufacturing plant improvements.....	1,329	392
Other .....	<u>1,433</u>	<u>912</u>
Total Capital Expenditures .....	<u>\$ 22,554</u>	<u>\$ 13,322</u>

Our capital budget for 2007 is \$23,600,000 (excluding capital lease asset additions of approximately \$8,000,000) and includes plans to open eight new Company-operated Perkins restaurants. For the year-to-date period ended October 7, 2007, we opened three Company-operated Perkins restaurants; two additional Company-operated Perkins restaurants have opened as of November 16, 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 October 7, 2007 were \$20,405,000 compared to cash flows provided by financing activities of \$11,645,000 for the year-to-date period ended October 1, 2006. During the year-to-date period of 2007, the primary cash flows included net proceeds of \$15,300,000 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 company.

## **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 \$15,300,000 under the Revolver during the year-to-date period ended October 7, 2007. Borrowings under the Revolver are not due until the Credit Agreement terminates on May 3, 2011. Additionally, upon adoption of FIN 48, we have unrecognized tax benefits that, based on uncertainties associated with the items, we are unable to make reasonably reliable estimates of the period of potential cash settlements, if any, with taxing authorities. (See Note 11 to our consolidated financial statements.)

## **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 October 7, 2007, our Revolver permitted borrowings of up to approximately \$13,474,000 (after giving effect to \$15,300,000 in borrowings and \$11,226,000 in letters of credit outstanding). For the twelve months ended October 7, 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 October 7, 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 October 7, 2007.

There were no changes in our internal control over financial reporting during the quarter ended October 7, 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: November 16, 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: November 16, 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: November 16, 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 October 7, 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: November 16, 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 October 7, 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: November 16, 2007

BY: /s/ James W. Stryker  
James W. Stryker  
Chief Financial Officer