DENNYS CORP
Form 10-K
March 07, 2008

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

Form 10-K

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

For the Fiscal Year Ended December 26, 2007

Commission file number 0-18051

DENNY'S CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	13-3487402
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

203 East Main Street
Spartanburg, South Carolina 29319-9966
(Address of principal executive offices)
(Zip Code)

(864) 597-8000
(Registrant’s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
$.01 Par Value, Common Stock	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No ¨

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

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

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

The aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately $411.1 million as of June 27, 2007 the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sales price of registrant's common stock on that date of $4.43 per share and, for purposes of this computation only, the assumption that all of the registrant's directors, executive officers and beneficial owners of 10% or more of the registrant's common stock are affiliates.

As of February 29, 2008, 94,976,325 shares of the registrant's common stock, $.01 par value per share, were outstanding.

Documents incorporated by reference:
Portions of the registrant's definitive Proxy Statement for the 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

The forward-looking statements included in the "Business," "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk" sections and elsewhere herein, which reflect our best judgment based on factors currently known, involve risks and uncertainties. Words such as "expects," "anticipates," "believes," "intends," "plans," "hopes," and variations of such words and similar expressions are intended to identify such forward-looking statements. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Form 10-K or to reflect the occurrence of unanticipated events. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors including, but not limited to, the factors discussed in such sections and, in particular, those set forth in the cautionary statements contained in "Risk Factors." The forward-looking information we have provided in this Form 10-K pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 should be evaluated in the context of these factors.

PART I

Item 1. Business

Description of Business

Denny’s Corporation, or Denny’s, is one of America’s largest family-style restaurant chains. Denny’s, through its wholly owned subsidiaries, Denny’s Holdings, Inc. and Denny’s, Inc., owns and operates the Denny’s restaurant brand. At December 26, 2007, the Denny’s brand consisted of 1,546 restaurants, 1,152 (75%) of which were franchised/licensed restaurants and 394 (25%) of which were company-owned and operated. These Denny’s restaurants operated in 49 states, the District of Columbia, two U.S. territories and five foreign countries with concentrations in California (26% of total restaurants), Florida (10%) and Texas (10%).

Our restaurants generally are open 24 hours a day, 7 days a week. We provide high quality menu offerings and generous portions at reasonable prices with friendly and efficient service in a pleasant atmosphere. Denny’s expansive menu offers traditional American-style food such as breakfast items, appetizers, sandwiches, dinner entrees and desserts. Denny's restaurants are best known for their real breakfast items, such as our Grand Slam®. Sales are broadly distributed across each of the its dayparts (i.e., breakfast, lunch, dinner and late-night).

References to "Denny's," "the Company," "we," "us," and "our" in the Form 10-K are references to Denny's Corporation and it's subsidiaries.

Restaurant Operations

We believe that the superior execution of basic restaurant operations in each Denny’s restaurant, whether it is company-owned or franchised, is critical to our success. To meet and exceed our guests’ expectations, we require both our company-owned and our franchised restaurants to maintain the same strict brand standards. These standards relate to the preparation and efficient serving of quality food and the maintenance, repair and cleanliness of restaurants.

We devote significant effort to ensuring all restaurants offer quality food served by friendly, knowledgeable and attentive employees in a clean and well-maintained restaurant. We seek to ensure that our company-owned restaurants meet our high standards, through a network of region, area and restaurant level managers. Region and area managers spend the majority of their time in the restaurants. A network of regional franchise business leaders oversee our franchised restaurants to ensure compliance with brand standards, promote operational excellence, and provide general support to our franchisees.

A principal feature of Denny’s restaurant operations is the consistent focus on improving operations at the unit level. Unit managers are hands-on and versatile in their supervisory activities. Many of our restaurant management personnel began as hourly associates in the restaurants and, therefore, know how to perform restaurant functions and are able to train by example.

Denny’s maintains a training program for associates and restaurant managers. New company general managers attend guest service and leadership training in the following areas:

- guest interaction;
- kitchen management and food preparation;
- data processing and cost control techniques;
- equipment and building maintenance; and

- leadership skills.

Franchising and Development

The Denny's system is approximately three-quarters franchised and one-quarter company-operated. We expect that the future growth of the brand will come primarily from the development of franchise restaurants. Our criteria to become a Denny's franchisee include minimum liquidity and net worth requirements and appropriate operational experience. We believe that Denny's is an attractive financial proposition for current and potential franchisees and that our fee structure is competitive with other full service brands. The initial fee for a single twenty-year Denny's franchise agreement is $40,000 and the royalty payment is 4% of gross sales. Additionally, our franchisees contribute up to 4% of gross sales for advertising.

During 2007, we began a strategic initiative, referred to as the Franchise Growth Initiative ("FGI"), to increase franchise restaurant development through the sale of certain geographic clusters of company restaurants to both current and new franchisees. As a result, we sold 130 restaurant operations and certain related real estate to 30 franchisees for net proceeds of $73.2 million. Fulfilling the unit growth expectations of this program, certain franchisees that purchased company restaurants during the year signed development agreements to build an additional 67 new franchise restaurants. In addition to franchise development agreements signed under FGI, we have been negotiating development agreements outside of the FGI program under our Market Growth Incentive Plan (MGIP). During the year ended December 26, 2007, franchisees signed MGIP agreements to build an additional 53 franchise restaurants. Of the 120 units to be opened under these development agreements, eight opened during fiscal 2007. The remaining 112 units will open over an average of approximately three years.

The table below sets forth information regarding the distribution of single-store and multi-store franchisees as of December 26, 2007:

	Franchisees	Percentage of Franchisees	Restaurants	Percentage of Restaurants
One	112	41.6%	112	9.7%
Two to Five	110	40.9%	319	27.7%
Six to Ten	27	10.0%	209	18.1%
Eleven to Fifteen	5	1.9%	64	5.6%
Sixteen to Thirty	10	3.7%	226	19.6%
Thirty-one and over	5	1.9%	222	19.3%
Total	269	100.0%	1,152	100.0%

Site Selection

The success of any restaurant is influenced significantly by its location. Our development team works closely with franchisees and real estate brokers to identify sites which meet specific standards. Sites are evaluated on the basis of a variety of factors, including but not limited to:

- demographics;
- traffic patterns;
- visibility;
- building constraints;
- competition;
- environmental restrictions; and
- proximity to high-traffic consumer activities.

Competition

The restaurant industry is highly competitive. Competition among major companies that own or operate restaurant chains is especially intense. Restaurants compete on the basis of name recognition and advertising; the price, quality, variety, and perceived value of their food offerings; the quality and speed of their guest service; and the convenience and attractiveness of their facilities.

Denny's direct competition in the family-style category includes a collection of national and regional chains, as well as thousands of independent operators. Denny's also competes with quick service restaurants as they attempt to upgrade their menus with premium sandwiches, entree salads, new breakfast offerings and extended hours.

We believe that Denny's has a number of competitive strengths, including strong brand name recognition, well-located restaurants and market penetration. We benefit from economies of scale in a variety of areas, including advertising, purchasing and distribution. Additionally, we believe that Denny's has competitive strengths in the value, variety, and quality of our food products, and in the quality and training of our employees. See "Risk Factors" for certain additional factors relating to our competition in the restaurant industry.

Research and Innovation

Our investment in a dynamic research and development program extends beyond our menu. During 2007, we formed our concept innovation department and hired the Senior Vice President of Brand and Concept Innovation. In addition to responsibilities for menu development, this group is focused on new restaurant models and alternative business approaches. Our restaurant operations and information technology departments are also evaluating new restaurant processes and upgraded restaurant equipment for the purpose of improving speed of service, food quality and order accuracy.

Denny's employs a comprehensive system to ensure that the menu remains appealing to all guests. Our research and innovation group analyzes consumer trends, competitive activity and operator input to determine new offerings. We develop new offerings in our test kitchen and then introduce them in selected restaurants to determine guest response and to ensure that consistency, quality standards and profitability are maintained. If a new item proves successful at the research and development level, it is usually tested in selected markets. A successful menu item is then incorporated into the restaurant system. Low selling items are periodically removed from the menu.

Marketing & Advertising

Our marketing department manages contributions from both company-owned and franchised units providing for an integrated marketing and advertising process to promote our brand, which includes brand and communications strategy, media advertising, menu management, menu pricing strategy, public relations and specialized promotions to help differentiate Denny’s from our competitors.

Media advertising is primarily product oriented, featuring consistent, high-quality entrees presented to communicate the message that Denny's provides Real Breakfast 24/7 including great food at great values to our guests. Our advertising is conducted through national network and cable television, radio, online media, outdoor and print.

Denny’s integrated marketing and advertising approach reaches out to all consumers. Community outreach programs are designed to enhance our brand image, support our brand message and, in some cases, augment our diversity efforts.

Product Sources and Availability

Our purchasing department administers our programs for the procurement of food and non-food products. Our franchisees also purchase food and non-food products directly from the vendors under these programs. Our centralized purchasing program is designed to ensure uniform product quality as well as to minimize food, beverage and supply costs. Our size provides significant purchasing power which often enables us to obtain products at favorable prices from nationally recognized manufacturers.

While nearly all products are contracted for by our purchasing department, the majority are purchased and distributed through Meadowbrook Meat Company, or MBM, under a long-term distribution contract. MBM distributes restaurant products and supplies to Denny’s from nearly 300 vendors, representing approximately 85% of our restaurant product and supply purchases. We believe that satisfactory sources of supply are generally available for all the items regularly used by our restaurants, and we have not experienced any material shortages of food, equipment, or other products which are necessary to our restaurant operations.

Seasonality

Our business is moderately seasonal. Restaurant sales are generally greater in the second and third calendar quarters (April through September) than in the first and fourth calendar quarters (October through March). Additionally, severe weather, storms and similar conditions may impact sales volumes seasonally in some operating regions. Occupancy and other operating costs, which remain relatively constant, have a disproportionately greater negative effect on operating results during quarters with lower restaurant sales.

Trademarks and Service Marks

Through our wholly owned subsidiaries, we have certain trademarks and service marks registered with the United States Patent and Trademark Office and in international jurisdictions, including "Denny's" and "Grand Slam Breakfast". We consider our trademarks and service marks important to the identification of our restaurants and believe they are of material importance to the conduct of our business. Domestic trademark and service mark registrations are renewable at various intervals from 10 to 20 years, while international trademark and service mark registrations have various durations from 5 to 20 years. We generally intend to renew trademarks and service marks which come up for renewal. We own or have rights to all trademarks we believe are material to our restaurant operations. In addition, we have registered various domain names on the internet that incorporate certain of our trademarks and service marks, and believe these domain name registrations are an integral part of our identity. From time to time, we may resort to legal measures to defend and protect the use of our intellectual property.

Economic, Market and Other Conditions

The restaurant industry is affected by many factors, including changes in national, regional and local economic conditions affecting consumer spending, the political environment (including acts of war and terrorism), changes in customer travel patterns, changes in socio-demographic characteristics of areas where restaurants are located, changes in consumer tastes and preferences, increases in the number of restaurants, unfavorable trends affecting restaurant operations, such as rising wage rates, healthcare costs and utilities expenses, and unfavorable weather.

Government Regulations

We and our franchisees are subject to local, state and federal laws and regulations governing various aspects of the restaurant business, including, but not limited to:

- health;
- sanitation;
- land use, sign restrictions and environmental matters;
- safety;
- disabled persons’ access to facilities;
- the sale of alcoholic beverages; and
- hiring and employment practices.

The operation of our franchise system is also subject to regulations enacted by a number of states and rules promulgated by the Federal Trade Commission. We believe we are in material compliance with applicable laws and regulations, but we cannot predict the effect on operations of the enactment of additional regulations in the future.

We are also subject to federal and state laws, including the Fair Labor Standards Act, governing matters such as minimum wage, tip reporting, overtime, exempt status classification and other working conditions. At December 26, 2007, a substantial number of our employees were paid the minimum wage. Accordingly, increases in the minimum wage or decreases in the allowable tip credit (which reduces the minimum wage paid to tipped employees in certain states) increase our labor costs. This is especially true for our operations in California, where there is no tip credit. Employers must pay the higher of the federal or state minimum wage. We have attempted to offset increases in the minimum wage through pricing and various cost control efforts; however, there can be no assurance that we will be successful in these efforts in the future.

Environmental Matters

Federal, state and local environmental laws and regulations have not historically had a material impact on our operations; however, we cannot predict the effect of possible future environmental legislation or regulations on our operations.

Executive Officers of the Registrant

The following table sets forth information with respect to each executive officer of Denny's:

Name	Age	Current Principal Occupation or Employment and Five-Year Employment History
Mark E. Chmiel	53	Senior Vice President, Brand and Concept Innovation of Denny's (April, 2007-present); Chief Marketing Strategist of Fresh Enterprises, Inc. and the Baja Fresh Division of Wendy's International, Inc. (a restaurant company) (2005-2007); Chief Marketing Officer of Prandium, Inc. (a restaurant company) (2003-2005); Director, Marketing and Senior Consultant of Catalyst, LLC (a corporate consulting company) (2001-2005).
Janis S. Emplit	52	Senior Vice President, Sales and Company Operations of Denny's (October, 2006-present); Senior Vice President for Strategic Services of Denny's (2003-October, 2006); Senior Vice President and Chief Information Officer of Denny's (1999-January 2006).
Louis M. Laguardia	59	Senior Vice President, Human Resources and Diversity of Denny's (March, 2007-present); Vice President and Acting Chief People Officer of Denny's (January 2007-March 2007); Vice President of Talent Acquisition and Diversity of Denny's (November, 2006-January, 2007); Vice President, Staffing and Diversity of Frito Lay, Inc. North America (a snack food division of PepsiCo, Inc.) (2003-2006); Senior Vice President and Global Diversity Officer of Blockbuster, Inc. (an in-home movie entertainment provider) (2002-2003).
Nelson J. Marchioli	58	Chief Executive Officer and President of Denny's (2001-present).
Rhonda J. Parish	51	Executive Vice President of Denny's (1998-present); Chief Legal Officer (October, 2006-present); Secretary of Denny's (1995-present); Chief Administrative Officer of Denny's (2005-October, 2006); Chief Human Resources Officer of Denny's (2005-October, 2006); and General Counsel of Denny's (1995-October, 2006).
Samuel M. Wilensky	50	Senior Vice President, Sales and Franchise Operations of Denny's (October, 2006-present); Acting Head of Operations of Denny's (October, 2006-present); Senior Vice President, Franchise

		Operations of Denny’s, Inc. (January, 2006-October, 2006); Division Vice President, Franchise Operations of Denny’s, Inc. (2001-2006).
F. Mark Wolfinger	52	Executive Vice President, Growth Initiatives of Denny's (October, 2006-present); Chief Financial Officer of Denny’s (2005-present); Senior Vice President of Denny's (2005-October, 2006); Executive Vice President and Chief Financial Officer of Danka Business Systems (a document imaging company) (1998-2005).

Employees

At December 26, 2007, we had approximately 21,000 employees, none of whom are subject to collective bargaining agreements. Many of our restaurant employees work part-time, and many are paid at or slightly above minimum wage levels. As is characteristic of the restaurant industry, we experience a high level of turnover among our restaurant employees. We have experienced no significant work stoppages, and we consider our relations with our employees to be satisfactory.

The staff for a typical restaurant consists of one general manager, two or three restaurant managers and approximately 50 hourly employees. All managers of company-owned restaurants receive a salary and may receive a performance bonus based on financial measures. As of December 26, 2007, we employed eight Regional Directors of Operations and 54 Area Managers. The Area Managers' duties include regular restaurant visits and inspections, which ensure the ongoing maintenance of our standards of quality, service, cleanliness, value, and courtesy.

Available Information

We make available free of charge through our website at www.dennys.com (in the Investor Relations—S.E.C. Filings section) copies of materials that we file with, or furnish to, the Securities and Exchange Commission ("SEC") including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC.

Item 1A. Risk Factors

Risks Related to Our Business

The restaurant business is highly competitive, and if we are unable to compete effectively, our business will be adversely affected.

We expect competition to continue to increase. The following are important aspects of competition:

- restaurant location;
- number and location of competing restaurants;
- food quality and value;
- quality and speed of service;
- attractiveness and repair and maintenance of facilities; and
- the effectiveness of marketing and advertising programs.

Each of our restaurants competes with a wide variety of restaurants ranging from national and regional restaurant chains to locally owned restaurants. There is also active competition for advantageous commercial real estate sites suitable for restaurants.

Our business may be adversely affected by changes in consumer tastes, economic conditions, demographic trends, bad publicity, regional weather conditions and increased supply and labor costs.

Food service businesses are often adversely affected by changes in:

- consumer tastes;
- national, regional and local economic conditions; and
- demographic trends.

The performance of our individual restaurants may be adversely affected by factors such as:

- traffic patterns;
- demographic consideration; and
- the type, number and location of competing restaurants.

Multi-unit food service chains such as ours can also be materially and adversely affected by publicity resulting from:

- poor food quality;
- illness;
- injury; and
- other health concerns or operating issues.

Dependence on frequent deliveries of fresh produce and groceries subjects food service businesses to the risk that shortages or interruptions in supply caused by adverse weather or other conditions could adversely affect the availability, quality and cost of ingredients. In addition, the food service industry in general, and our results of operations and financial condition in particular, may also be adversely affected by unfavorable trends or developments such as:

- inflation;
- increased food costs;
- increased energy costs;
- labor and employee benefits costs (including increases in minimum hourly wage and employment tax rates);
- regional weather conditions; and
- the availability of experienced management and hourly employees.

The locations where we have restaurants may cease to be attractive as demographic patterns change.

The success of our owned and franchised restaurants is significantly influenced by location. Current locations may not continue to be attractive as demographic patterns change. It is possible that the neighborhood or economic conditions where our restaurants are located could decline in the future, potentially resulting in reduced sales in those locations.

Our growth strategy, including the Franchise Growth Initiative and Market Growth Incentive Plan, depends on our ability and that of our franchisees to open new restaurants. Delays or failures in opening new restaurants could materially and adversely affect our planned growth.

The development of new restaurants may be adversely affected by risks such as:

- costs and availability of capital for the Company and/or franchisee;
- competition for restaurant sites;
- negotiation of favorable purchase or lease terms for restaurant sites;
- timely development of new restaurants;
- inability to obtain all required governmental approvals and permits;
- developed restaurants not achieving the expected revenue or cash flow; and
- general economic conditions;

A majority of Denny's restaurants are owned and operated by independent franchisees, and as a result the financial performance of franchisees can negatively impact our business.

We receive royalties and contributions to advertising from our franchisees. Our financial results are somewhat contingent upon the operational and financial success of our franchisees, including implementation of our strategic plans, as well as their ability to secure adequate financing. If sales trends or economic conditions worsen for our franchisees, their financial health may worsen and our collection rates may decline. Additionally, refusal on the part of franchisees to renew their franchise agreements may result in decreased royalties.

Although the loss of revenues from the closure of any one franchise restaurant may not be material, such revenues generate margins that may exceed those generated by other restaurants or offset fixed costs which we continue to incur.

The interests of franchisees, as owners of the majority of our restaurants, might sometimes conflict with our interests. For example, whereas franchisees are concerned with their individual business strategies and objectives, we are responsible for ensuring the success of our entire chain of restaurants and for taking a longer term view with respect to system improvements.

Numerous government regulations impact our business, and our failure to comply with them could adversely affect our business.

We and our franchisees are subject to federal, state and local laws and regulations governing, among other things:

- health;
- sanitation;
- environmental matters;
- safety;
- the sale of alcoholic beverages; and
- hiring and employment practices, including minimum wage laws.

Our restaurant operations are also subject to federal and state laws that prohibit discrimination and laws regulating the design and operation of facilities, such as the Americans with Disabilities Act of 1990. The operation of our franchisee system is also subject to regulations enacted by a number of states and rules promulgated by the Federal Trade Commission. If we or our franchisees fail to comply with these laws and regulations, we or our franchisees could be subjected to restaurant closure, fines, penalties, and litigation, which may be costly. In addition, the future enactment of additional legislation regulating the franchise relationship could adversely affect our operations, particularly our relationship with franchisees.

Negative publicity generated by incidents at a few restaurants can adversely affect the operating results of our entire chain and the Denny’s brand.

Food safety concerns, criminal activity, alleged discrimination or other operating issues stemming from one restaurant or a limited number of restaurants do not just impact that particular restaurant or a limited number of restaurants. Rather, our entire chain of restaurants may be at risk from negative publicity generated by an incident at a single restaurant. This negative publicity can adversely affect the operating results of our entire chain and the Denny’s brand.

As holding companies, Denny’s Corporation and Denny’s Holdings depend on upstream payments from their operating subsidiaries. Our ability to repay our indebtedness depends on the performance of those subsidiaries and their ability to make distributions to us.

A substantial portion of our assets are owned, and a substantial percentage of our total operating revenues are earned, by our subsidiaries. Accordingly, Denny’s Corporation and Denny’s Holdings depend upon dividends, loans and other intercompany transfers from our subsidiaries to meet their debt service and other obligations. These transfers are subject to contractual restrictions.

Our subsidiaries are separate and distinct legal entities and they have no obligation, contingent or otherwise, to make any funds available to meet our debt service and other obligations, whether by dividend, distribution, loan or other payments. If our subsidiaries do not pay dividends or other distributions, Denny’s Corporation and Denny’s Holdings may not have sufficient cash to fulfill their obligations.

If we lose the services of any of our key management personnel, our business could suffer.

Our future success significantly depends on the continued services and performance of our key management personnel. Our future performance will depend on our ability to motivate and retain these and other key officers and key team members, particularly regional and area managers and restaurant general managers. Competition for these employees is intense. The loss of the services of members of our senior management or key team members or the inability to attract additional qualified personnel as needed could materially harm our business.

If our internal controls are ineffective, we may not be able to accurately report our financial results or prevent fraud.

We maintain a documented system of internal controls which is reviewed and tested by the Company’s full time Internal Audit Department. The Internal Audit Department reports to the Audit Committee of the Board of Directors. We believe we have a well-designed system to maintain adequate internal controls on the business, however, we cannot be certain that our controls will be adequate in the future or that adequate controls will be effective in preventing errors or fraud. Any failures in the effectiveness of our internal controls could have a material adverse effect on our operating results or cause us to fail to meet reporting obligations.

Risks Related to our Indebtedness

Our indebtedness could have a material adverse effect on our financial condition and operations.

We have a significant amount of indebtedness. As of December 26, 2007, we had total indebtedness of approximately $353.0 million.

Our level of indebtedness could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness;
- require us to continue to dedicate a substantial portion of our cash flow from operations to pay interest and principal on our indebtedness, which would reduce the availability of our cash flow to fund future working capital, capital expenditures, acquisitions and other general corporate purposes;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict us from making strategic acquisitions or pursuing business opportunities;
- place us at a competitive disadvantage compared to our competitors that have relatively less indebtedness; and
- limit our ability to borrow additional funds.

We may need to access the capital markets in the future to raise the funds to repay our indebtedness. We have no assurance that we will be able to complete a refinancing or that we will be able to raise any additional financing, particularly in view of our anticipated high levels of indebtedness and the restrictions contained in the credit agreements and indenture that govern our indebtedness. If we are unable to satisfy or refinance our current debt as it comes due, we may default on our debt obligations. If we default on payments under our debt obligations, virtually all of our other debt would become immediately due and payable.

Despite our current level of indebtedness, we may still be able to incur substantially more debt, which could further exacerbate the risks associated with our substantial leverage.

Despite our current and anticipated debt levels, we may be able to incur substantial additional indebtedness in the future. Our credit agreement and the indenture governing our indebtedness limit, but do not fully prohibit, us from incurring additional indebtedness. If new debt is added to our current debt levels, the related risks that we now face could intensify.

At December 26, 2007, we had an outstanding term loan of $152.5 million and outstanding letters of credit of $37.3 million (comprised of $36.6 million under our letter of credit facility and $0.7 million under our revolving facility). There were no revolving loans outstanding at December 26, 2007. These balances result in availability of $0.4 million under our letter of credit facility and $49.3 million under the revolving facility. As of February 29, 2008, we had availability of $2.0 million under our letter of credit facility and $49.9 million under the revolving facility. There were no revolving loans outstanding at February 29, 2008. In addition, we have Denny's Holdings. Inc. 10% Senior Notes due in 2012 (the "10% Notes") with an aggregate principal amount of $175 million.

We continue to monitor our cash flow and liquidity needs. Although we believe that our existing cash balances, funds from operations and amounts available under our credit facility will be adequate to cover those needs, we may seek additional sources of funds including additional financing sources and continued selected asset sales, to maintain sufficient cash flow to fund our ongoing operating needs, pay interest and scheduled debt amortization and fund anticipated capital expenditures over the next twelve months.

Our ability to generate cash depends on many factors beyond our control, and we may not be able to generate the cash required to service or repay our indebtedness.

Our ability to make scheduled payments on our indebtedness will depend upon our subsidiaries' operating performance, which will be affected by general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our historical financial results have been, and our future financial results are expected to be, subject to substantial fluctuations. We cannot be sure that our subsidiaries will generate sufficient cash flow from operations to enable us to service or reduce our indebtedness or to fund our other liquidity needs. Our subsidiaries' ability to maintain or increase operating cash flow will depend upon:

- consumer tastes;
- the success of our marketing initiatives and other efforts by us to increase guest traffic in our restaurants; and
- prevailing economic conditions and other matters, many of which are beyond our control.

If we are unable to meet our debt service obligations or fund other liquidity needs, we may need to refinance all or a portion of our indebtedness on or before maturity or seek additional equity capital. We cannot be sure that we will be able to pay or refinance our indebtedness or obtain additional equity capital on commercially reasonable terms, or at all.

Restrictive covenants in our debt instruments restrict or prohibit our ability to engage in or enter into a variety of transactions, which could adversely affect us.

The credit agreement and the indenture governing our indebtedness contain various covenants that limit, among other things, our ability to:

- incur additional indebtedness;
- pay dividends or make distributions or certain other restricted payments;
- make certain investments;
- create dividend or other payment restrictions affecting restricted subsidiaries;
- issue or sell capital stock of restricted subsidiaries;
- guarantee indebtedness;
- enter into transactions with stockholders or affiliates;
- create liens;
- sell assets and use the proceeds thereof;
- engage in sale-leaseback transactions; and
- enter into certain mergers and consolidations.

Our credit agreement contains additional restrictive covenants, including financial maintenance requirements. These covenants could have an adverse effect on our business by limiting our ability to take advantage of financing, merger, acquisition or other corporate opportunities and to fund our operations.

A breach of a covenant in our debt instruments could cause acceleration of a significant portion of our outstanding indebtedness.

A breach of a covenant or other provision in any debt instrument governing our current or future indebtedness could result in a default under that instrument and, due to cross-default and cross-acceleration provisions, could result in a default under our other debt instruments. In addition, our credit agreement requires us to maintain certain financial ratios. Our ability to comply with these covenants may be affected by events beyond our control, and we cannot be sure that we will be able to comply with these covenants. Upon the occurrence of an event of default under any of our debt instruments, the lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders could proceed against the collateral granted to them, if any, to secure the indebtedness. If the lenders under our current or future indebtedness accelerate the payment of the indebtedness, we cannot be sure that our assets would be sufficient to repay in full our outstanding indebtedness.

We may not be able to repurchase the 10% Senior Notes due 2012 upon a change of control.

Upon the occurrence of specific kinds of change of control events, we would be required to offer to repurchase all outstanding 10% Notes at 101% of their principal amount, together with any accrued and unpaid interest and liquidated damages, if any, from the issue date. We may not be able to repurchase the notes upon a change of control because we may not have sufficient funds. Further, our credit agreement restricts our ability to repurchase the notes, and also provides that certain change of control events will constitute a default under our credit agreement that permits our lenders thereunder to accelerate the maturity of related borrowings, and, if such debt is not paid, to enforce security interests in the collateral securing such debt, thereby limiting our ability to raise cash to purchase the notes. Any future credit agreements or other agreements relating to indebtedness to which we become a party may contain similar restrictions and provisions. In the event a change of control occurs at a time when we are prohibited by any other indebtedness from purchasing the notes, we could seek consent of the lenders of such indebtedness to the purchase of the notes or could attempt to refinance the borrowings that contain such prohibition. If we do not obtain such consent or repay such borrowings, we will remain prohibited from purchasing the notes. In such case, our failure to purchase tendered notes would constitute an event of default under the indenture governing the notes which would, in turn, constitute a default under our credit agreement.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Most Denny's restaurants are free-standing facilities, with property sizes averaging approximately one acre. The restaurant buildings average 4,800 square feet, allowing them to accommodate an average of 140 guests. The number and location of our restaurants as of December 26, 2007 and December 27, 2006 are presented below:

State/Country	2007 Company Owned	2007 Franchised/Licensed	2006 Company Owned	2006 Franchised/Licensed
Alabama	3	—	3	—
Alaska	—	4	—	4
Arizona	18	56	23	49
Arkansas	—	9	—	9
California	131	272	157	244
Colorado	7	19	7	19
Connecticut	—	8	—	8
District of Columbia	—	1	—	1
Delaware	2	—	3	—
Florida	25	132	57	103
Georgia	—	12	—	12
Hawaii	4	3	4	3
Idaho	—	7	—	7
Illinois	28	23	31	21
Indiana	3	30	3	30
Iowa	—	1	—	1
Kansas	—	8	—	8
Kentucky	6	6	6	6
Louisiana	2	1	2	1
Maine	—	6	—	6
Maryland	6	17	6	19
Massachusetts	—	6	—	6
Michigan	10	12	19	3
Minnesota	3	13	3	13
Mississippi	1	—	1	—
Missouri	5	30	5	31
Montana	—	4	—	4
Nebraska	—	1	—	1
Nevada	8	21	10	16
New Hampshire	—	3	—	3
New Jersey	6	5	6	5
New Mexico	—	22	2	18
New York	33	11	33	12
North Carolina	4	13	4	13
North Dakota	—	3	—	3
Ohio	14	20	21	13
Oklahoma	—	21	3	19
Oregon	—	23	—	23
Pennsylvania	30	7	30	7
Rhode Island	—	2	—	2
South Carolina	—	12	9	3
South Dakota	—	2	—	2

Tennessee	2	1	2	1
Texas	27	130	35	117
Utah	—	20	—	20
Vermont	—	2	—	2
Virginia	7	16	8	14
Washington	—	52	19	35
West Virginia	—	2	—	2
Wisconsin	9	8	9	8
Guam	—	2	—	2
Puerto Rico	—	10	—	10
Canada	—	49	—	51
Other International	—	14	—	14
Total	394	1,152	521	1,024

Of the total 1,546 company-owned and franchised units, our interest in restaurant properties consists of the following:

	Company-Owned Units	Franchised Units	Total
Own land and building	102	22	124
Lease land and own building	21	—	21
Lease both land and building	271	305	576
	394	327	721

In addition to the restaurants, we own an 18-story, 187,000 square foot office building in Spartanburg, South Carolina, which serves as our corporate headquarters. Our corporate offices currently occupy approximately 16 floors of the building, with a portion of the building leased to others.

See Note 10 to our Consolidated Financial Statements for information concerning encumbrances on substantially all of our properties.

Item 3. Legal Proceedings

There are various claims and pending legal actions against or indirectly involving us, including actions concerned with civil rights of employees and guests, other employment related matters, taxes, sales of franchise rights and businesses and other matters. Based on our examination of these matters and our experience to date, we have recorded reserves reflecting our best estimate of liability, if any, with respect to these matters. However, the ultimate disposition of these matters cannot be determined with certainty.

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

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed under the symbol "DENN" and trades on the NASDAQ Capital Market. As of February 29, 2008, 94,976,325 shares of common stock were outstanding, and there were approximately 12,445 record and beneficial holders of common stock. We have never paid dividends on our common equity securities. Furthermore, restrictions contained in the instruments governing our outstanding indebtedness prohibit us from paying dividends on our common stock in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" and Note 10 to our Consolidated Financial Statements.

The following tables list the high and low sales prices of the common stock for each quarter of fiscal years 2007 and 2006, according to NASDAQ. Our common stock began trading on the NASDAQ Capital Market on May 10, 2005.

	High	Low
2007		
First quarter	$ 5.60	$ 4.19
Second quarter	5.00	4.20
Third quarter	4.66	3.56
Fourth quarter	4.99	3.73

2006		
First quarter	$ 5.10	$ 3.65
Second quarter	5.26	3.45
Third quarter	3.99	2.49
Fourth quarter	4.86	3.30

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Stockholder Return Performance Graph

The following graph compares the cumulative total stockholders' return on the Common Stock for the five fiscal years ended December 26, 2007 (December 25, 2002 to December 26, 2007) against the cumulative total return of the Russell 2000® Index and a peer group. The graph and table assume that $100 was invested on December 25, 2002 (the last day of fiscal year 2002) in each of the Company's Common Stock, the Russell 2000® Index and the peer group and that all dividends were reinvested.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN AMONG DENNY'S CORPORATION, RUSSELL 2000® INDEX AND PEER GROUP

ASSUMES $100 INVESTED ON DECEMBER 25, 2002
ASSUMES DIVIDENDS REINVESTED
FISCAL YEAR ENDED DECEMBER 26, 2007

	Russell 2000® Index (1)	Peer Group (2)	Denny's Corporation
December 25, 2002	$ 100.00	$ 100.00	$ 100.00
December 31, 2003	$ 147.25	$ 125.70	$ 64.05
December 29, 2004	$ 174.25	$ 145.23	$ 703.05
December 28, 2005	$ 182.20	$ 172.17	$ 629.60
December 27, 2006	$ 215.62	$ 198.44	$ 735.89
December 26, 2007	$ 212.29	$ 154.95	$ 585.85

(1) The Russell 2000 Index is a broad equity market index of 2,000 companies that measures the performance of the small-cap segment of the U.S. equity universe. As of January 31, 2008, the average market capitalization of companies within the index was approximately $1.3 billion with the median market capitalization being approximately $0.5 billion.

(2) The peer group consists of 20 public companies that operate in the restaurant industry. This peer group has been revised from the prior year to account for companies that are no longer publicly-held and to include a broader range of competitive restaurants and restaurant operating models. The peer group includes the following companies: Burger King Holdings, Inc. (BKC), Bob Evans Farms, Inc. (BOBE), Buffalo Wild Wings, Inc. (BWLD), CBRL Group Inc. (CBRL), O'Charleys Inc. (CHUX), CKE Restaurants, Inc. (CKR), California Pizza Kitchen, Inc. (CPKI), Domino's Pizza Inc. (DPZ), Darden Restaurants, Inc. (DRI), Brinker International, Inc. (EAT), IHOP Corporation (IHP), Jack In The Box Inc. (JBX), Panera Bread Company (PNRA), Papa John's International, Inc. (PZZA), Red Robin Gourmet Burgers, Inc. (RRGB), Ruby Tuesday, Inc. (RT), Steak 'n Shake Company (SNS), Sonic Corp. (SONC), Texas Roadhouse, Inc. (TXRH) and Wendy's International, Inc. (WEN).

Item 6. Selected Financial Data

The following table summarizes the consolidated financial and operating data of Denny's Corporation as of and for the years ended December 26, 2007, December 27, 2006, December 28, 2005, December 29, 2004 and December 31, 2003. The consolidated statements of operations for the years ended December 26, 2007, December 27, 2006 and December 28, 2005 and the balance sheet data as of December 26, 2007 and December 27, 2006 are derived from our audited Consolidated Financial Statements included in this Form 10-K. The consolidated statements of operations for the years ended December 29, 2004 and December 31, 2003 and balance sheet data as of December 28, 2005, December 29, 2004 and December 31, 2003 are derived from our Consolidated Financial Statements not included in this Form 10-K. The selected consolidated financial and operating data set forth below should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and related notes.

	Fiscal Year Ended				
	December 26, 2007	December 27, 2006	December 28, 2005	December 29, 2004	December 31, 2003(a)
	(In millions, except ratios and per share amounts)				
Statement of Operations Data:					
Operating revenue	$ 939.4	$ 994.0	$ 978.7	$ 960.0	$ 940.9
Operating income	83.5	110.5	48.5	53.8	46.0
Income (loss) from continuing operations before cumulative effect of change in accounting principle	34.7	30.1	(7.3)	(37.7)	(33.8)
Cumulative effect of change in accounting principle, net of tax	—	0.2	—	—	—
Income (loss) from continuing operations	34.7	30.3	(7.3)	(37.7)	(33.8)
Basic net income (loss) per share:					
Basic net income (loss) before cumulative effect of change in accounting principle, net of tax	$ 0.37	$ 0.33	$ (0.08)	$ (0.58)	$ (0.83)
Cumulative effect of change in accounting principle, net of tax	—	0.00	—	—	—
Basic net income (loss) per share from	$ 0.37	$ 0.33	$ (0.08)	$ (0.58)	$ (0.83)

continuing operations										
Diluted net income (loss) per share:										
Diluted net income (loss) before cumulative effect of change in accounting principle, net of tax	$	0.35	$	0.31	$	(0.08)	$	(0.58)	$	(0.83)
Cumulative of effect of change in accounting principle, net of tax		—		0.00		—		—		—
Diluted net income (loss) per share from continuing operations	$	0.35	$	0.31	$	(0.08)	$	(0.58)	$	(0.83)
Cash dividends per common share (b)		—		—		—		—		—
Balance Sheet Data (at end of period):										
Current assets (d)	$	57.9	$	63.2	$	62.1	$	42.4	$	30.4
Working capital deficit (c)(d)		(73.6)		(72.6)		(86.3)		(93.4)		(161.2)
Net property and equipment		184.6		236.3		288.1		285.4		293.2
Total assets (d)		381.1		444.4		511.7		499.3		495.4
Long-term debt, excluding current portion		346.8		440.7		545.7		547.4		538.3

(a) The fiscal year ended December 31, 2003 includes 53 weeks of operations as compared with 52 weeks for all other years presented. We estimate that the additional, or 53rd, week added approximately $22.4 million of operating revenue in 2003.

(b) Our bank facilities have prohibited, and our previous and current public debt indentures have significantly limited, distributions and dividends on Denny's Corporation's (and its predecessors') common equity securities. See Note 10 to our Consolidated Financial Statements.

(c) A negative working capital position is not unusual for a restaurant operating company. The decrease in working capital deficit from December 31, 2003 to December 29, 2004 is related primarily to the use of cash received during the recapitalization transactions completed during the third and fourth quarters of 2004 to repay outstanding amounts related to term loans and revolving loans under our previous credit facility that had a December 20, 2004 expiration date.

(d)

Fiscal years 2003 through 2006 have been adjusted from amounts previously reported to reflect certain adjustments as discussed in "Adjustments to Equity" in Note 2 to our Consolidated Financial Statements.

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

The following discussion should be read in conjunction with "Selected Financial Data," and our Consolidated Financial Statements and the notes thereto.

Overview

Denny's revenues are derived primarily from two sources: the sale of food and beverages at our company-owned restaurants and the collection of royalties and fees from restaurants operated by our franchisees under the Denny's name.

Sales are affected by many factors including competition, economic conditions affecting consumer spending, weather and changes in guest tastes and preferences. Two primary sales drivers are changes in same-store sales and the number of restaurants. Same-store sales are comprised of the changes in guest check average and guest counts.

The Franchise Growth Initiative ("FGI") is a strategic initiative to increase franchise restaurant development through the sale of certain geographic clusters of company restaurants to both current and new franchisees. As a result of the FGI, company-owned units decreased by 127 units and franchise units increased by 128 units during 2007. Included in the unit changes were the opening of five company-owned and 18 franchise restaurants. We expect that the majority of new Denny's restaurants will be developed by our franchisees. Development of company-owned restaurants will focus on flagship locations in Denny's core markets.

Our costs of company-owned restaurant sales are exposed to volatility in two main areas: product costs and payroll and benefit costs. Many of the products sold in our restaurants are affected by commodity pricing and are, therefore, subject to price volatility. This volatility is caused by factors that are fundamentally outside of our control and are often unpredictable. In general, we purchase food products based on market prices, or we "lock in" prices in purchase agreements with our vendors. In addition, some of our purchasing agreements contain features that minimize price volatility by establishing price ceilings and/or floors. While we will address commodity cost increases which are significant and considered long-term in nature by adjusting menu prices, competitive circumstances can limit such actions.

Payroll and benefit costs' volatility results primarily from changes in wage rates and increases in labor related expenses such as medical benefit costs and workers' compensation costs. A number of our employees are paid the minimum wage. Accordingly, substantial increases in the minimum wage increase our labor costs. Additionally, declines in guest counts and investments in store-level labor can cause payroll and benefit costs to increase as a percentage of sales.

Many of our costs vary based on sales and unit count. However, certain costs such as occupancy, other operating expenses and general and administrative expenses have fixed components that may not react as directly to changes in sales and unit count.

Franchise and license revenues are the revenues received by Denny's from its franchisees and include royalties (based on a percentage of sales of franchisee-operated restaurants), initial franchise fees and occupancy revenue related to restaurants leased or subleased to franchisees. The sale of restaurants to franchisees can result in an increase in occupancy revenue, regardless of whether we own or lease the underlying real estate. Where feasible, when restaurant operations are sold to franchisees, we intend to sell the underlying owned real estate to either the franchisees or other interested parties. The sale of owned real estate properties that are leased to franchisees results in a decline in occupancy revenue. Generally, we remain obligated for rent payments related to properties that are subleased to franchisees.

Our costs of franchise and license revenue include occupancy costs related to restaurants leased or subleased to franchisees and direct costs consisting primarily of payroll and benefit costs of franchise operations personnel and bad debt expense. Franchise and licensing revenues are generally billed and collected from franchisees on a weekly basis which minimizes the impact of bad debts on our costs of franchise and license revenues.

Interest expense has a significant impact on our net income (loss) as a result of our indebtedness. However, during 2007 and 2006, we continued to reduce interest expense through a series of debt repayments using the proceeds generated from the FGI transactions, sale of real estate and cash flow from operations. These repayments resulted in an overall debt reduction of more than $100 million in both 2007 and 2006. We are subject to the effects of interest rate volatility since approximately 46% of our debt has variable interest rates. To minimize the interest rate volatility, during 2007, we entered into an interest rate swap on the first $150 million of floating rate debt. As of December 26, 2007, the swap effectively increases our ratio of fixed rate debt from approximately 54% of total debt to approximately 99% of total debt.

Statements of Operations

	Fiscal Year Ended					
	December 26, 2007		December 27, 2006 (Dollars in thousands)		December 28, 2005	
Revenue:						
Company restaurant sales	$ 844,621	89.9%	$ 904,374	91.0%	$ 888,942	90.8%
Franchise and license revenue	94,747	10.1%	89,670	9.0%	89,783	9.2%
Total operating revenue	939,368	100.0%	994,044	100.0%	978,725	100.0%
Costs of company restaurant sales (a):						
Product costs	215,943	25.6%	226,404	25.0%	224,803	25.3%
Payroll and benefits	355,710	42.1%	372,292	41.2%	372,644	41.9%
Occupancy	50,977	6.0%	51,677	5.7%	51,057	5.7%
Other operating expenses	123,310	14.6%	131,404	14.5%	130,883	14.7%
Total costs of company restaurant sales	745,940	88.3%	781,777	86.4%	779,387	87.7%
Costs of franchise and license revenue (a)	28,005	29.6%	27,910	31.1%	28,758	32.0%
General and administrative expenses	67,374	7.2%	66,426	6.7%	62,911	6.4%
Depreciation and other amortization	49,347	5.3%	55,290	5.6%	56,126	5.7%
Operating gains, losses and other charges, net	(34,828)	(3.7%)	(47,882)	(4.8%)	3,090	0.3%
Total operating costs and expenses	855,838	91.1%	883,521	88.9%	930,272	95.0%
Operating income	83,530	8.9%	110,523	11.1%	48,453	5.0%
Other expenses:						
Interest expense, net	42,957	4.6%	57,720	5.8%	55,172	5.6%
Other nonoperating expense (income), net	668	0.1%	8,029	0.8%	(602)	(0.1%)
Total other expenses, net	43,625	4.6%	65,749	6.6%	54,570	5.6%
Net income (loss) before income taxes and cumulative effect of change in accounting principle	39,905	4.2%	44,774	4.5%	(6,117)	(0.6%)
Provision for income taxes	5,192	0.6%	14,668	1.5%	1,211	0.1%
Net income (loss) before cumulative effect of change in accounting principle	34,713	3.7%	30,106	3.0%	(7,328)	(0.7%)
Cumulative effect of change in accounting principle	—	—%	232	0.0%	—	—%

Net income (loss)	$ 34,713	3.7%	$ 30,338	3.1%	$ (7,328)	(0.7%)
Other Data:						
Company-owned average unit sales	$ 1,716		$ 1,693		$ 1,642	
Franchise average unit sales	$ 1,523		$ 1,481		$ 1,408	
Company-owned equivalent units (b)	492		534		541	
Franchise equivalent units (b)	1,049		1,027		1,038	
Same-store sales increase (company-owned) (c)(d)	0.3%		2.5%		3.3%	
Guest check average increase (d)	4.6%		4.4%		4.4%	
Guest count decrease (d)	(4.1%)		(1.8%)		(1.0%)	
Same-store sales increase (franchised and licensed (units) (c)(d)	1.7%		3.6%		5.2%	

(a) Costs of company restaurant sales percentages are as a percentage of company restaurant sales. Costs of franchise and license revenue percentages are as a percentage of franchise and license revenue. All other percentages are as a percentage of total operating revenue.

(b) Equivalent units are calculated as the weighted average number of units outstanding during a defined time period.

(c) Same-store sales include sales from restaurants that were open the same period in 2007, 2006 and 2005.

(d) Prior year amounts have not been restated for 2007 comparable units.

Unit Activity

	2007	2006
Company-owned restaurants, beginning of period	521	543
Units opened	5	3
Units acquired from franchisees	1	1
Units sold to franchisees	(130)	—
Units closed	(3)	(26)
End of period	394	521
Franchised and licensed restaurants, beginning of period	1,024	1,035
Units opened	18	17
Units acquired by Company	(1)	(1)
Units purchased from Company	130	—
Units closed	(19)	(27)
End of period	1,152	1,024
Total company-owned, franchised and licensed restaurants, end of period	1,546	1,545

2007 Compared with 2006

Company Restaurant Operations

During the year ended December 26, 2007, we realized a 0.3% increase in same-store sales, comprised of a 4.6% increase in guest check average and a 4.1% decrease in guest counts. Company restaurant sales decreased $59.8 million or 6.6%. Decreased sales resulted primarily from a 42 equivalent-unit decrease in company-owned restaurants, offset by the increase in same-store sales for the current year. The decrease in company-owned restaurants primarily resulted from the sale of 130 company-owned restaurants to franchisees under FGI during fiscal 2007.

Total costs of company restaurant sales as a percentage of company restaurant sales increased to 88.3% from 86.4%. Product costs increased to 25.6% from 25.0% due to modest changes in commodity costs and shifts in menu mix. Payroll and benefits increased to 42.1% from 41.2% primarily as a result of increased management staffing and wage increases, offset by a 0.1% benefit from favorable workers' compensation claims development. Occupancy costs increased to 6.0% from 5.7% due primarily to increased property tax expense. Other operating expenses were comprised of the following amounts and percentages of company restaurant sales:

	Fiscal Year Ended			
	December 26, 2007		December 27, 2006	
	(Dollars in thousands)			
Utilities	$ 40,898	4.8%	$ 44,329	4.9%
Repairs and maintenance	18,300	2.2%	18,252	2.0%
Marketing	27,469	3.3%	29,879	3.3%
Legal	3,621	0.4%	1,708	0.2%
Other	33,022	3.9%	37,236	4.1%
Other operating expenses	$ 123,310	14.6%	$ 131,404	14.5%

The decrease in utilities is primarily the result of lower natural gas costs. The increase in legal expense is due to the unfavorable development of certain legal matters during the year ended December 26, 2007.

Franchise Operations

Franchise and license revenue and costs of franchise and license revenue were comprised of the following amounts and percentages of franchise and license revenue:

	Fiscal Year Ended			
	December 26, 2007		December 27, 2006	
	(Dollars in thousands)			
Royalties	$ 63,127	66.6%	$ 60,217	67.2%
Initial and other fees	6,349	6.7%	1,086	1.2%
Occupancy revenue	25,271	26.7%	28,367	31.6%
Franchise and license revenue	94,747	100.0%	89,670	100.0%
Occupancy costs	20,225	21.4%	19,784	22.1%
Other direct costs	7,780	8.2%	8,126	9.0%
Costs of franchise and license revenue	$ 28,005	29.6%	$ 27,910	31.1%

Royalties increased by $2.9 million, or 4.8%, and initial fees increased $5.3 million primarily resulting from the sale of 130 company-owned restaurants to franchisees. The sale of restaurants to franchisees resulted in a 22 equivalent-unit increase in franchised and licensed units compared to the prior year. Additionally, franchised and licensed units realized a 1.7% increase in same-store sales. The decline in occupancy revenue of $3.1 million, or 10.9%, is comprised of a $5.4 million decrease attributable to the sale of franchisee-operated real estate properties during 2006 and 2007, offset by a $2.3 million increase in occupancy revenue primarily related to the sale of company-owned restaurants to franchisees. We continue to collect royalties from the franchisees operating restaurants at the properties sold during 2007 and 2006.

Costs of franchise and license revenue increased by $0.1 million, or 0.3%. The increase in occupancy costs of $0.4 million, or 2.2%, is comprised primarily of a $1.5 million increase resulting from the sale of 130 company-owned restaurants to franchisees, offset by a $1.0 million decrease in occupancy costs resulting from the sale of franchisee-operated real estate properties during 2006 and 2007. As a percentage of franchise and license revenue, costs of franchise and license revenue decreased to 29.6% for the year ended December 26, 2007 from 31.1% for the year ended December 27, 2006.

Other Operating Costs and Expenses

Other operating costs and expenses such as general and administrative expenses and depreciation and amortization expense relate to both company and franchise operations.

General and administrative expenses are comprised of the following:

	Fiscal Year Ended	
	December 26, 2007	December 27, 2006
	(In thousands)	
Share-based compensation	$ 4,774	$ 7,627
Other general and administrative expenses	62,600	58,799
Total general and administrative expenses	$ 67,374	$ 66,426

The increase in general and administrative expenses is primarily the result of investments in corporate staffing and incentive compensation programs related to strategic initiatives. The decrease in share-based compensation expense is primarily the result of the vesting of certain restricted stock units and stock options during 2007 and 2006.

Depreciation and amortization is comprised of the following:

	Fiscal Year Ended	
	December 26, 2007	December 27, 2006
	(In thousands)	
Depreciation of property and equipment	$ 37,994	$ 44,133
Amortization of capital lease assets	4,703	4,682
Amortization of intangible assets	6,650	6,475
Total depreciation and amortization	$ 49,347	$ 55,290

The overall decrease in depreciation and amortization expense is due primarily to the sale of real estate properties during 2007 and 2006 and the sale of 130 company-owned restaurants to franchisees during 2007.

Operating gains, losses and other charges, net represent gains or losses on the sale of assets, restructuring charges, exit costs and impairment charges and were comprised of the following:

	Fiscal Year Ended	
	December 26, 2007	December 27, 2006
	(In thousands)	
Gains on dispositions of assets and other, net	$ (42,774)	$ (56,801)
Restructuring charges and exit costs	6,870	6,225
Impairment charges	1,076	2,694
Operating gains, losses and other charges, net	$ (34,828)	$ (47,882)

Gains on sales of assets and other, net of $42.8 million for the year ended December 26, 2007 include gains on sales of restaurant operations to franchisees, real estate and other assets. During 2007, we sold 130 restaurant operations and certain related real estate to 30 franchisees for net proceeds of $73.2 million as part of FGI. During 2006, we sold 81 company-owned, franchisee-operated real estate properties and five surplus real estate properties. See Note 8 to our Consolidated Financial Statements.

Restructuring charges and exit costs were comprised of the following:

	Fiscal Year Ended December 26, 2007	December 27, 2006
	(In thousands)	
Exit costs	$ 1,665	$ 4,254
Severance and other restructuring charges	5,205	1,971
Total restructuring and exist costs	$ 6,870	$ 6,225

Severance and other restructuring charges for the year ended December 26, 2007 increased by $3.2 million, resulting primarily from $1.9 million of severance costs related to the reorganization of our field management structure, which led to the elimination of 80 to 90 out-of-restaurant operational positions. Of these eliminations, approximately 30 employees were reassigned to other positions within the Company. The $6.2 million of restructuring charges and exit costs for the year ended December 27, 2006 resulted primarily from the closing of 14 underperforming units, in addition to severance and other restructuring costs associated with the termination of approximately 41 out-of-restaurant support staff positions.

Impairment charges of $1.1 million for the year ended December 26, 2007 and $2.7 million for the year ended December 27, 2006 relate to either closed or underperforming restaurants.

Operating income was $83.5 million during 2007 compared with $110.5 million during 2006.

Interest expense, net is comprised of the following:

	Fiscal Year Ended			
	December 26, 2007		December 27, 2006	
	(In thousands)			
Interest on senior notes	$	17,452	$	17,452
Interest on credit facilities		16,296		27,889
Interest on capital lease liabilities		3,868		4,361
Letters of credit and other fees		2,280		2,999
Interest income		(1,372)		(1,822)
Total cash interest		38,524		50,879
Amortization of deferred financing costs		1,177		3,316
Interest accretion on other liabilities		3,256		3,525
Total interest expense, net	$	42,957	$	57,720

The decrease in interest expense resulted primarily from the repayment of $100.3 million and $100.5 million of debt during the years ended December 26, 2007 and December 27, 2006, respectively, as well as lower interest rates resulting from the refinancing of our credit facilities during 2006.

Other nonoperating expenses, net were $0.7 million for the year ended December 26, 2007 compared with $8.0 million for the year ended December 27, 2006. The expense for the 2006 period primarily represents an $8.5 million loss on early extinguishment of debt from the write-off of deferred financing costs associated with the debt prepayments made during the year and the refinancing of our credit facilities. See Note 10 to our Consolidated Financial Statements.

The provision for income taxes was $5.2 million compared with $14.7 million for the years ended December 26, 2007 and December 27, 2006, respectively. The provision for income taxes for the year ended December 26, 2007 also included recognition of $0.3 million of current tax benefits and a $0.6 million reduction to the valuation allowance. These items resulted from the enactment of certain federal and state laws that benefited us during 2007. We have provided valuation allowances related to any benefits from income taxes resulting from the application of a statutory tax rate to our net operating losses generated in previous periods. In establishing our valuation allowance, we had previously taken into consideration certain tax planning strategies involving the sale of appreciated properties.
The deferred tax provision of $12.1 million for the year ended December 27, 2006 related to our reevaluation of our tax planning strategies in light of the sale of appreciated properties during 2006. In addition, during 2006 and 2007, we utilized certain federal and state net operating loss carryforwards whose valuation allowance was established in connection with fresh start reporting on January 7, 1998. Accordingly, for the years ended December 26, 2007 and December 27, 2006, we recognized approximately $4.5 million and $0.7 million, respectively, of federal and state deferred tax expense with a corresponding reduction to the goodwill that was recorded in connection with fresh start reporting on January 7, 1998.

Net income was $34.7 million for the year ended December 26, 2007 compared with $30.3 million for the year ended December 27, 2006 due to the factors noted above.

2006 Compared with 2005

Company Restaurant Operations

During the year ended December 27, 2006, we realized a 2.5% increase in same-store sales, comprised of a 4.4% increase in guest check average and a 1.8% decrease in guest counts. The increase in guest check average resulted from customers trading up to higher priced dinner entrees and cold beverages. Company restaurant sales increased

$15.4 million or 1.7%. Higher sales resulted primarily from the increase in same-store sales for the current year, partially offset by a seven equivalent-unit decrease in company-owned restaurants. The decrease in company-owned restaurants resulted from store closures.

Total costs of company restaurant sales as a percentage of company restaurant sales decreased to 86.4% from 87.7%. Product costs decreased to 25.0% from 25.3% due to shifts in menu mix and the impact of a higher guest check average. Payroll and benefits decreased to 41.2% from 41.9% related primarily to improvements in workers' compensation costs. Fiscal 2006 benefited by $2.8 million of positive workers' compensation claims development, while 2005 was impacted by $3.6 million of negative workers' compensation claims development. In addition, decreased management incentive compensation was partially offset by increased group insurance costs. Occupancy costs remained essentially flat at 5.7%. Other operating expenses were comprised of the following amounts and percentages of company restaurant sales:

	Fiscal Year Ended			
	December 27, 2006		December 28, 2005	
	(Dollars in thousands)			
Utilities	$ 44,329	4.9%	$ 42,727	4.8%
Repairs and maintenance	18,252	2.0%	18,677	2.1%
Marketing	29,879	3.3%	28,437	3.2%
Legal settlement costs	1,708	0.2%	8,288	0.9%
Other	37,236	4.1%	32,754	3.7%
Other operating expenses	$ 131,404	14.5%	$ 130,883	14.7%

The increase in utilities is the result of higher natural gas and electricity costs. The $6.6 million decrease in legal settlement costs is primarily the result of amounts recognized in the prior year for legal settlement expenses related to the settlement of the DLSE of the State of California's Department of Industrial Relations' litigation and the development of certain other cases. Other expenses included a scheduled reduction in coin-operated game machines in our restaurants resulting in a $2.3 million decrease in ancillary restaurant income and a $1.3 million increase in credit card fees resulting primarily from $0.9 million recognized in the prior year related to the Visa Check / Mastermoney Anti-Trust Litigation Settlement.

Franchise Operations

Franchise and license revenue and costs of franchise and license revenue were comprised of the following amounts and percentages of franchise and license revenue:

	Fiscal Year Ended			
	December 27, 2006		December 28, 2005	
	(Dollars in thousands)			
Royalties	$ 60,217	67.2%	$ 58,142	64.8%
Initial and other fees	1,086	1.2%	851	0.9%
Occupancy revenue	28,367	31.6%	30,790	34.3%
Franchise and license revenue	89,670	100.0%	89,783	100.0%
Occupancy costs	19,784	22.1%	21,031	23.4%
Other direct costs	8,126	9.0%	7,727	8.6%
Costs of franchise and license revenue	$ 27,910	31.1%	$ 28,758	32.0%

Royalties increased $2.1 million or 3.6% resulting from a 3.6% increase in franchisee same-store sales, partially offset by the effects of an eleven equivalent-unit decrease in franchise and licensed units. The $2.4 million or 7.9% decline in occupancy revenue is attributable to the sale of 81 franchisee-operated real estate properties during 2006. Occupancy revenue related to the sold properties was approximately $5.0 million, although we continue to collect royalties from the franchisees operating restaurants at these properties.

Costs of franchise and license revenue decreased $0.8 million or 2.9%. Occupancy costs decreased $1.2 million due to changes in the portfolio of rental units. Occupancy costs related to the sold properties were approximately $0.9 million. Other direct costs increased $0.4 million resulting primarily from costs related to new store openings and an incentive award program for franchisees who achieved certain performance criteria in 2006. As a percentage of franchise and license revenue, these costs decreased to 31.1% for the year ended December 27, 2006 from 32.0% for the year ended December 28, 2005.

Other Operating Costs and Expenses

Other operating costs and expenses such as general and administrative expenses and depreciation and amortization expense relate to both company and franchise operations.

General and administrative expenses are comprised of the following:

	Fiscal Year Ended	
	December 27, 2006	December 28, 2005
	(In thousands)	
Share-based compensation	$ 7,627	$ 7,801
Other general and administrative expenses	58,799	55,110
Total general and administrative expenses	$ 66,426	$ 62,911

The increase in general and administrative expenses is primarily the result of an increase in payroll costs due to investments in corporate staffing.

Depreciation and amortization is comprised of the following:

	Fiscal Year Ended	
	December 27, 2006	December 28, 2005
	(In thousands)	
Depreciation of property and equipment	$ 44,133	$ 45,259
Amortization of capital lease assets	4,682	3,582
Amortization of intangible assets	6,475	7,285
Total depreciation and amortization	$ 55,290	$ 56,126

The overall decrease in depreciation and amortization expense is due primarily to the sale of real estate properties during 2006.

Operating gains, losses and other charges, net represent restructuring charges, exit costs, impairment charges and gains or losses on the sale of assets and were comprised of the following:

	Fiscal Year Ended	
	December 27, 2006	December 28, 2005
	(In thousands)	
Gains on dispositions of assets and other, net	$ (56,801)	$ (3,283)
Restructuring charges and exit costs	6,225	5,199
Impairment charges	2,694	1,174
Operating gains, losses and other charges, net	$ (47,882)	$ 3,090

Gains on disposition of assets and other, net increased to $56.8 million during 2006 from $3.3 million during 2005. During 2006, we sold 81 company-owned, franchisee-operated real estate properties and five surplus real estate properties. See Note 8 to our Consolidated Financial Statements.

Restructuring charges and exit costs were comprised of the following:

	Fiscal Year Ended	
	December 27, 2006	December 28, 2005
	(In thousands)	
Exit costs	$ 4,254	$ 1,898
Severance and other restructuring charges	1,971	3,301
Total restructuring and exist costs	$ 6,225	$ 5,199

The $6.2 million of restructuring charges and exit costs for the year ended December 27, 2006 resulted primarily from the closing of 14 underperforming units, including one franchise unit for which we remain obligated under the lease, in addition to severance and other restructuring costs associated with the termination of approximately 41 out-of-restaurant support staff positions. Restructuring charges and exit costs of $5.2 million for the year ended December 28, 2005 resulted primarily from severance and other restructuring costs associated with the termination of approximately 20 out-of-restaurant support staff positions, in addition to the closing of eight underperforming units, including three franchise units for which we remain obligated under leases.

Impairment charges of $2.7 million for the year ended December 27, 2006 and $1.2 million for the year ended December 28, 2005 relate to either closed or certain underperforming restaurants.

Operating income was $110.5 million during 2006 compared with $48.5 million during 2005.

Interest expense, net is comprised of the following:

	Fiscal Year Ended	
	December 27, 2006	December 28, 2005
	(In thousands)	
Interest on senior notes	$ 17,452	$ 17,449
Interest on credit facilities	27,889	25,260
Interest on capital lease liabilities	4,361	4,252
Letters of credit and other fees	2,999	2,879
Interest income	(1,822)	(1,615)
Total cash interest	50,879	48,225
Amortization of deferred financing costs	3,316	3,493
Interest accretion on other liabilities	3,525	3,454
Total interest expense, net	$ 57,720	$ 55,172

The increase in interest expense resulted primarily from the effect of higher interest rates on the variable-rate portion of our credit facilities.

Other nonoperating expenses, net were $8.0 million for the year ended December 27, 2006 compared with other nonoperating income of $0.6 million for the year ended December 28, 2005. The expense for 2006 primarily represents an $8.5 million loss on early extinguishment of debt from the write-off of deferred financing costs associated with the debt prepayments made during the year and the refinancing of our credit facilities. See Note 10 to our Consolidated Financial Statements.

The provision for income taxes was $14.7 million compared with $1.2 million for the years ended December 27, 2006 and December 28, 2005, respectively. We have provided valuation allowances related to any benefits from income taxes resulting from the application of a statutory tax rate to our net operating losses generated in previous periods. In establishing our valuation allowance, we had previously taken into consideration certain tax planning strategies involving the sale of appreciated properties. The increased deferred tax provision of $12.1 million for the year ended December 27, 2006 related to our reevaluation of our tax planning strategies in light of the sale of appreciated properties during the year. In addition, during 2006, we utilized certain state net operating loss carryforwards whose valuation allowance was established in connection with fresh start reporting on January 7, 1998. As a result, we recorded approximately $0.7 million of state deferred tax expense with a corresponding reduction to the goodwill that was recorded in connection with fresh start reporting on January 7, 1998.

As a result of adopting SFAS 123(R), we recorded a cumulative effect of change in accounting principle, net of tax of $0.2 million in the first quarter of 2006. See Note 14 to our Consolidated Financial Statements.

Net income was $30.3 million for the year ended December 27, 2006 compared with a net loss of $7.3 million for the year ended December 28, 2005 due to the factors noted above.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources are cash generated from operations, borrowing under our credit facilities (as described below) and cash proceeds from the sale of company restaurants to franchisees and the sale of real estate. Principal uses of cash are operating expenses, capital expenditures and debt repayments. The following table presents a summary of our sources and uses of cash and cash equivalents for the periods indicated:

	Fiscal Year Ended December 26, 2007	December 27, 2006
	(In thousands)	
Net cash provided by operating activities	$ 50,295	$ 40,156
Net cash provided by investing activities	47,661	62,358
Net cash used in financing activities	(102,617)	(104,524)
Net decrease in cash and cash equivalents	$ (4,661)	$ (2,010)

We believe that our estimated cash flows from operations for 2008, combined with our capacity for additional borrowings under our credit facility, will enable us to meet our anticipated cash requirements and fund capital expenditures through the end of 2008.

Net cash flows provided by investing activities were $47.7 million for the year ended December 26, 2007. These cash flows primarily represent net proceeds of $80.7 million on sales of restaurant operations to franchisees, real estate and other assets. The proceeds were partially offset by capital expenditures of $32.9 million for the year ended December 26, 2007, of which $2.0 million was financed through capital leases. Our principal capital requirements have been largely associated with the maintenance of our existing company-owned restaurants and facilities, new construction, remodeling and our strategic initiatives, as follows:

	Fiscal Year Ended December 26, 2007	December 27, 2006
	(In thousands)	
Facilities	$ 12,447	$ 12,565
New construction	8,325	4,350
Remodeling	7,057	9,591
Strategic initiatives	1,107	—
Other	1,916	5,759
Capital expenditures	$ 30,852	$ 32,265

Cash flows used in financing activities were $102.6 million for the year ended December 26, 2007, which included $90.9 million of term loan prepayments and $2.2 million of scheduled term loan payments made through a combination of asset sale proceeds, as noted above, and cash generated from operations. Our credit facility consists of a $50 million revolving credit facility (including up to $10 million for a revolving letter of credit facility), a $152.5 million term loan and an additional $40 million letter of credit facility. During the fourth quarter of 2007, the previous $40 million letter of credit facility was reduced to $37 million. At December 26, 2007, we had outstanding letters of credit of $37.3 million (comprised of $36.6 million under our letter of credit facility and $0.7 million under our revolving facility). There were no revolving loans outstanding at December 26, 2007. These balances result in availability of $0.4 million under our letter of credit facility and $49.3 million under the revolving facility.

The revolving facility matures on December 15, 2011. The term loan and the $37 million letter of credit facility mature on March 31, 2012. The term loan amortizes in equal quarterly installments at a rate equal to approximately 1% per annum with all remaining amounts due on the maturity date. The revolving facility is available for working capital, capital expenditures and other general corporate purposes. We will be required to make mandatory prepayments under certain circumstances (such as the sale of specified properties) typical for this type of credit facility and may make certain optional prepayments under the credit facility.

The credit facility is guaranteed by Denny's and its other subsidiaries and is secured by substantially all of the assets of Denny's and its subsidiaries. In addition, the credit facility is secured by first-priority mortgages on 120 company-owned real estate assets. The credit facility contains certain financial covenants (i.e., maximum total debt to EBITDA (as defined under the credit facility) ratio requirements, maximum senior secured debt to EBITDA ratio requirements, minimum fixed charge coverage ratio requirements and limitations on capital expenditures), negative covenants, conditions precedent, material adverse change provisions, events of default and other terms, conditions and provisions customarily found in credit agreements for facilities and transactions of this type. We were in compliance with the terms of the credit facility as of December 26, 2007.

As of December 26, 2007, interest on loans under the revolving facility is payable at per annum rates equal to LIBOR plus 250 basis points and will adjust over time based on our leverage ratio. Interest on the term loan and letter of credit facility is payable at per annum rates equal to LIBOR plus 200 basis points. The weighted-average interest rate under the term loan was 6.9% as of December 26, 2007.

Our future contractual obligations and commitments at December 26, 2007 consist of the following:

	Payments Due by Period				
	Total	Less than 1 Year	1-2 Years	3-4 Years	5 Years and Thereafter
			(In thousands)		
Long-term debt	$ 328,056	$ 2,085	$ 2,888	$ 323,075	$ 8
Capital lease obligations (a)	41,288	7,471	12,007	10,343	11,467
Operating lease obligations	345,412	42,180	73,436	55,466	174,330
Interest obligations (a)	131,458	28,032	55,710	47,716	—
Pension and other defined contribution plan obligations (b)	2,365	2,365	—	—	—
Purchase obligations (c)	174,491	145,400	21,157	7,934	—
Total	$ 1,023,070	$ 227,533	$ 165,198	$ 444,534	$ 185,805

(a) Interest obligations represent payments related to our long-term debt outstanding at December 26, 2007. For long-term debt with variable rates, we have used the rate applicable at December 26, 2007 to project interest over the periods presented in the table above. See Note 10 to our Consolidated Financial Statements for balances and terms of the credit facility and the 10% Notes due 2012 (the "10% Notes") at December 26, 2007. The capital lease obligation amounts above are inclusive of interest.

(b) Pension and other defined contribution plan obligations are estimates based on facts and circumstances at December 26, 2007. Amounts cannot currently be estimated for more than one year. See Note 11 to our Consolidated Financial Statements.

(c) Purchase obligations include amounts payable under purchase contracts for food and non-food products. In most cases, these agreements do not obligate us to purchase any specific volumes and include provisions that would allow us to cancel such agreements with appropriate notice. Amounts included in the table above represent our estimate of purchase obligations during the periods presented if we were to cancel these contracts with appropriate notice. We would likely take delivery of goods under such circumstances.

As discussed in Note 12 to our Consolidated Financial Statements, effective December 28, 2006, we adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). At December 26, 2007, we had a reserve for unrecognized tax benefits including potential interest and penalties totaling $0.2 million. Due to the uncertainties related to these tax matters, we are unable to make a reasonably reliable estimate when cash settlement with a taxing authority will occur.

At December 26, 2007, our working capital deficit was $73.6 million compared with $72.6 million at December 27, 2006. We are able to operate with a substantial working capital deficit because (1) restaurant operations and most food service operations are conducted primarily on a cash (and cash equivalent) basis with a low level of accounts receivable, (2) rapid turnover allows a limited investment in inventories, and (3) accounts payable for food, beverages and supplies usually become due after the receipt of cash from the related sales.

Off-Balance Sheet Arrangements

During the second quarter of fiscal 2007, we entered into an interest rate swap with a notional amount of $150 million to hedge a portion of the cash flows of our variable rate debt. We designated the interest rate swap as a cash flow hedge of our exposure to variability in future cash flows attributable to interest payments on the first $150 million of floating rate debt. Under the terms of the swap, we pay a fixed rate of 4.8925% on the $150 million notional amount and receive payments from the counterparties based on the 3-month LIBOR rate for a term ending on March 30, 2010, effectively resulting in a fixed rate of 6.8925% on the $150 million notional amount. Interest rate differentials paid or received under the swap agreement will be recognized as adjustments to interest expense.

Prior to December 26, 2007, gains and losses on the swap were recorded as a component of accumulated other comprehensive income in our Consolidated Statement of Shareholders' Deficit and Comprehensive Income (Loss) in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." At December 26, 2007, we determined that a portion of the underlying cash flows related to the swap (i.e., interest payments on the first $150 million of floating rate debt) were no longer probable of occurring over the term of the interest rate swap as a result of the probability of paying the debt down below $150 million through scheduled repayments and prepayments with cash from the sale of company restaurant operations to franchisees. As a result, we discontinued hedge accounting treatment and recorded approximately $0.4 million of losses as a component of other nonoperating expense (income), net in our Consolidated Statement of Operations for the year ended December 26, 2007. The remaining $2.4 million in derivative losses in accumulated other comprehensive income will be reclassified to other nonoperating expense over the remaining term of the interest rate swap. Through February 28, 2008, the fair value of the swap decreased by an additional $3.9 million. See Note 10 to our Consolidated Financial Statements.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to self-insurance liabilities, impairment of long-lived assets, and restructuring and exit costs. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Consolidated Financial Statements:

Self-insurance liabilities. We record liabilities for insurance claims during periods in which we have been insured under large deductible programs or have been self-insured for our medical and dental claims and workers' compensation, general/product and automobile insurance liabilities. Maximum self-insured retention, including defense costs per occurrence, ranges from $0.5 million to $1.0 million per individual claim for workers' compensation and for general/product and automobile liability. The liabilities for prior and current estimated incurred losses are discounted to their present value based on expected loss payment patterns determined by independent actuaries using our actual historical payments. These estimates include assumptions regarding claims frequency and severity as well as changes in our business environment, medical costs and the regulatory environment that could impact our overall self-insurance costs.

Total discounted insurance liabilities at December 26, 2007 and December 27, 2006 were $39.4 million reflecting a 4.5% discount rate and $41.0 million reflecting a 5% discount rate, respectively. The related undiscounted amounts at such dates were $44.0 million and $46.4 million, respectively.

Impairment of long-lived assets. We evaluate our long-lived assets for impairment at the restaurant level on a quarterly basis or whenever changes or events indicate that the carrying value may not be recoverable. We assess impairment of restaurant-level assets based on the operating cash flows of the restaurant and our plans for restaurant closings. Generally, all units with negative cash flows from operations for the most recent twelve months at each quarter end are included in our assessment. In performing our assessment, we must make assumptions regarding estimated future cash flows, including estimated proceeds from similar asset sales, and other factors to determine both the recoverability and the estimated fair value of the respective assets. If the long-lived assets of a restaurant are not recoverable based upon estimated future, undiscounted cash flows, we write the assets down to their fair value. If these estimates or their related assumptions change in the future, we may be required to record additional impairment charges.

During 2007, 2006 and 2005, we recorded impairment charges of $1.1 million, $2.7 million and $1.2 million, respectively, for underperforming restaurants, including restaurants closed. These charges are included as a component of operating gains, losses and other charges, net in our Consolidated Statements of Operations. At December 26, 2007, we had a total of three restaurants with an aggregate net book value of approximately $0.6 million, after taking into consideration impairment charges recorded, which had negative cash flows from operations for the most recent twelve months.

Restructuring and exit costs. As a result of changes in our organizational structure and in our portfolio of restaurants, we have recorded charges for restructuring and exit costs. These costs consist primarily of the costs of future obligations related to closed units and severance and other restructuring charges for terminated employees. These costs are included as a component of operating gains, losses and other charges, net in our Consolidated Statements of Operations.

Discounted liabilities for future lease costs and the fair value of related subleases of closed units are recorded when the units are closed. All other costs related to closed units are expensed as incurred. In assessing the discounted liabilities for future costs of obligations related to closed units, we make assumptions regarding amounts of future subleases. If these assumptions or their related estimates change in the future, we may be required to record additional exit costs or reduce exit costs previously recorded. Exit costs recorded for each of the periods presented include the effect of such changes in estimates.

The most significant estimate included in our accrued exit costs liabilities relates to the timing and amount of estimated subleases. At December 26, 2007, our total discounted liability for closed units was approximately $8.3 million, net of $6.0 million related to existing sublease agreements and $2.2 million related to properties for which we expect to enter into sublease agreements in the future. If any of the estimates noted above or their related assumptions change in the future, we may be required to record additional exit costs or reduce exit costs previously recorded. See

Note 8 to our Consolidated Financial Statements.

Income taxes. We record valuation allowances against our deferred tax assets, when necessary, in accordance with SFAS No. 109, "Accounting for Income Taxes." Realization of deferred tax assets is dependent on future taxable earnings and is therefore uncertain. We assess the likelihood that our deferred tax assets in each of the jurisdictions in which we operate will be recovered from future taxable income. Deferred tax assets do not include future tax benefits that we deem likely not to be realized.

Share-based compensation. As required by SFAS 123(R), stock-based compensation is estimated for equity awards at fair value at the grant date. We determine the fair value of stock options using the Black-Scholes option pricing model. Use of this option pricing model requires the input of subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (“expected term”), the estimated volatility of our common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements (“forfeitures”). Changes in the subjective assumptions can materially affect the estimate of the fair value of share-based compensation and consequently, the related amount recognized in the Consolidated Statements of Operations.

Recently Adopted Accounting Pronouncements

Effective December 28, 2006, the first day of fiscal 2007, we adopted FIN 48. This interpretation clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes." FIN 48 requires companies to determine whether it is more-likely-than-not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. This interpretation also provides guidance on derecognition, classification, accounting in interim periods, and expanded disclosure requirements. FIN 48 does not require or permit retrospective application, thus the cumulative effect of the change in accounting principle, if any, is recorded as an adjustment to opening retained earnings. See Note 12 to our Consolidated Financial Statements.

Recent Accounting Pronouncements Not Yet Adopted

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007) ("SFAS 141R"), "Business Combinations." SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in an acquiree and the goodwill acquired. SFAS 141R applies to business combinations for which the acquisition date is on or after the first fiscal period beginning on or after December 15, 2008. SFAS 141R will also require that any additional reversal of deferred tax asset valuation allowance established in connection with fresh start reporting on January 7, 1998 be recorded as a component of income tax expense rather than as currently reflected as a reduction to the goodwill established in connection with the fresh start reporting. We are required to adopt SFAS 141R in the first quarter of 2009. We are currently evaluating the impact of adopting SFAS 141R on our Consolidated Financial Statements. See Note 12 to our Consolidated Financial Statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 ("SFAS 160"), "Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51." SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in our Consolidated Financial Statements. Among other requirements, this statement requires that the consolidated net income attributable the parent and the noncontrolling interest be clearly identified and presented on the face of the consolidated income statement. SFAS 160 is effective for the first fiscal period beginning on or after December 15, 2008. We are required to adopt SFAS 160 in the first quarter of 2009. We are currently evaluating the impact of adopting SFAS 160 on our Consolidated Financial Statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ("SFAS 159"), "The Fair Value Options for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for the first fiscal period beginning after November 15, 2007. We may choose to apply SFAS 159 to eligible items, existing as of the effective date, in the first quarter of fiscal 2008. While we continue to review the provisions of SFAS 159, we have not yet identified any assets or liabilities for which we currently believe we will elect the fair value reporting option.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements. The provisions of SFAS 157 for financial assets and liabilities, as well as any other assets and liabilities that are carried at fair value on a recurring basis in financial statements, are effective for the first fiscal period beginning after November 15, 2007. The provisions for nonfinancial assets and liabilities are effective for the first fiscal period beginning after November 15, 2008. We are required to adopt SFAS 157 for financial assets and liabilities in the first quarter of fiscal 2008 and do not expect adoption to have a material impact on our Consolidated Financial Statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our Consolidated Financial Statements upon adoption.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We have exposure to interest rate risk related to certain instruments entered into for other than trading purposes. Specifically, borrowings under the term loan and revolving credit facility bear interest at variable rates based on LIBOR plus a spread of 200 basis points per annum for the term loan and letter of credit facility and 250 basis points per annum for the revolving credit facility.

During the second quarter of fiscal 2007, we entered into an interest rate swap with a notional amount of $150 million to hedge a portion of the cash flows of our variable rate debt. We have designated the interest rate swap as a cash flow hedge of our exposure to variability in future cash flows attributable to interest payments on the first $150 million of floating rate debt. Under the terms of the swap, we pay a fixed rate of 4.8925% on the $150 million notional amount and receive payments from the counterparties based on the 3-month LIBOR rate for a term ending on March 30, 2010, effectively resulting in a fixed rate of 6.8925% on the $150 million notional amount. As of December 26, 2007, the swap effectively increases our ratio of fixed rate debt from approximately 54% of total debt to approximately 99% of total debt.

Based on the levels of borrowings under the credit facility at December 26, 2007, if interest rates changed by 100 basis points our annual cash flow and income before income taxes would change by approximately $0.1 million. This computation is determined by considering the impact of hypothetical interest rates on the variable rate portion of the credit facility at December 26, 2007. However, the nature and amount of our borrowings under the credit facility may vary as a result of future business requirements, market conditions and other factors.

Our other outstanding long-term debt bears fixed rates of interest. The estimated fair value of our fixed rate long-term debt (excluding capital lease obligations and revolving credit facility advances) was approximately $168.5 million compared with a book value of $175.5 million at December 26, 2007. This computation is based on market quotations for the same or similar debt issues or the estimated borrowing rates available to us. Specifically, the difference between the estimated fair value of long-term debt compared with its historical cost reported in our Consolidated Balance Sheets at December 26, 2007 relates primarily to market quotations for our 10% Notes. See Note 10 to our Consolidated Financial Statements.

We also have exposure to interest rate risk related to our pension plan, other defined benefit plans and self-insurance liabilities. A 25 basis point increase or decrease in discount rate would decrease or increase our projected benefit obligation related to our pension plan and other defined benefit plans by $1.7 million and $0.1 million, respectively, and impact our net periodic benefit cost related to our pension plan by $0.1 million. The impact of a 25 basis point increase or decrease in discount rate on periodic benefit costs related to our other defined benefit plans would be less than $0.1 million. A 25 basis point increase or decrease in discount rate related to our self-insurance liabilities would result in a decrease or increase of $0.2 million, respectively.

Commodity Price Risk

We purchase certain food products such as beef, poultry, pork, eggs and coffee, and utilities such as gas and electricity, which are affected by commodity pricing and are, therefore, subject to price volatility caused by weather, production problems, delivery difficulties and other factors that are outside our control and which are generally unpredictable. Changes in commodity prices affect us and our competitors generally and often simultaneously. In general, we purchase food products and utilities based upon market prices established with vendors. Although many of the items purchased are subject to changes in commodity prices, the majority of our purchasing arrangements are structured to contain features that minimize price volatility by establishing fixed pricing and/or price ceilings and floors. We use these types of purchase arrangements to control costs as an alternative to using financial instruments to hedge commodity prices. We have determined that our purchasing agreements do not qualify as derivative financial instruments or contain embedded derivative instruments. In many cases, we believe we will be able to address commodity cost increases which are significant and appear to be long-term in nature by adjusting our menu pricing or changing our product delivery strategy. However, competitive circumstances could limit such actions and, in those circumstances, increases in commodity prices could lower our margins. Because of the often short-term nature of commodity pricing aberrations and our ability to change menu pricing or product delivery strategies in response to commodity price increases, we believe that the impact of commodity price risk is not significant.

We have established a policy to identify, control and manage market risks which may arise from changes in interest rates, commodity prices and other relevant rates and prices. We do not use derivative instruments for trading purposes.

Item 8. Financial Statements and Supplementary Data

See Index to Financial Statements which appears on page F-1 herein.

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

None.

Item 9A. Controls and Procedures

A. Disclosure Controls and Procedures. As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) our management conducted an evaluation (under the supervision and with the participation of our President and Chief Executive Officer, Nelson J. Marchioli, and our Executive Vice President, Growth Initiatives and Chief Financial Officer, F. Mark Wolfinger) as of the end of the period covered by this Annual Report on Form 10-K, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on that evaluation, Messrs. Marchioli and Wolfinger each concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

B. Management’s Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of December 26, 2007. Management's assessment was based on criteria set forth in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon this assessment, management concluded that, as of December 26, 2007, our internal control over financial reporting was effective, based upon those criteria.

The Company's independent registered public accounting firm, KPMG LLP, has issued an attestation report on our internal control over financial reporting, which follows this report.

C. Changes in Internal Control Over Financial Reporting. There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) of the Exchange Act that occurred during our last fiscal quarter (our fourth fiscal quarter) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting

Report of Independent Registered Public Accounting Firm

The Board of Directors
Denny's Corporation

We have audited Denny’s Corporation’s (the Company) internal control over financial reporting as of December 26, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting (Item 9A.B.). Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Denny’s Corporation maintained, in all material respects, effective internal control over financial reporting as of December 26, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Denny’s Corporation and subsidiaries as of December 26, 2007 and December 27, 2006, and the related consolidated statements of operations, shareholders’ deficit and comprehensive income (loss), and cash flows for each of the fiscal years in the three-year period ended December 26, 2007, and our report dated March 7, 2008 expressed an unqualified opinion on those consolidated financial statements.

Greenville, South Carolina
March 7, 2008

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item with respect to our executive officers and directors, compliance by our directors, executive officers and certain beneficial owners of our common stock with Section 16(a) of the Securities Exchange Act of 1934, the committees of our Board of Directors, our Audit Committee Financial Expert and our Code of Ethics is furnished by incorporation by reference to information under the captions entitled “Election of Directors”, and “Section 16(a) Beneficial Ownership Reporting Compliance” in the proxy statement (to be filed hereafter) in connection with Denny’s Corporation 2007 Annual Meeting of the Shareholders and possibly elsewhere in the proxy statement (or will be filed by amendment to this report). The information required by this item related to our executive officers appears in Item 1 of Part I of this report under the caption “Executive Officers of the Registrant.”

Item 11. Executive Compensation

The information required by this item is furnished by incorporation by reference to information under the captions entitled “Executive Compensation” and "Election of Directors" in the proxy statement and possibly elsewhere in the proxy statement (or will be filed by amendment to this report).

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is furnished by incorporation by reference to information under the caption “General—Equity Security Ownership” in the proxy statement and possibly elsewhere in the proxy statement (or will be filed by amendment to this report).

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is furnished by incorporation by reference to information under the captions “Related Party Transactions” and "Election of Directors" in the proxy statement and possibly elsewhere in the proxy statement (or will be filed by amendment to this report).

Item 14. Principal Accounting Fees and Services

The information required by this item is furnished by incorporation by reference to information under the caption entitled “Selection of Independent Registered Public Accounting Firm - 2007 Audit Information” and “Audit Committee’s Pre-approved Policies and Procedures” in the proxy statement and possibly elsewhere in the proxy statement (or will be filed by amendment to this report).

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements: See the Index to Financial Statements which appears on page F-1 hereof.

(a)(2) Financial Statement Schedules: No schedules are filed herewith because of the absence of conditions under which they are required or because the information called for is in
our Consolidated Financial Statements or notes thereto appearing elsewhere herein.

(a)(3) Exhibits: Certain of the exhibits to this Report, indicated by an asterisk, are hereby incorporated by reference from other documents on file with the Commission with which they
are electronically filed, to be a part hereof as of their respective dates.

Exhibit No.	Description
*3.1	Restated Certificate of Incorporation of Denny's Corporation dated March 3, 2003 as amended by Certificate of Amendment to Restated Certificate of Incorporation to Increase Authorized Capitalization dated August 25, 2004 (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 29, 2004)
*3.2	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock dated August 27, 2004 (incorporated by reference to Exhibit 3.3 to Current Report on Form 8-K of Denny's Corporation filed with the Commission on August 27, 2004)
*3.3	By-Laws of Denny's Corporation, as effective as of September 6, 2007 (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K of Denny's Corporation filed with the Commission on September 12, 2007)
*4.1	10% Senior Notes due 2012 Indenture dated as of October 5, 2004 between Denny's Holdings, Inc., as Issuer, Denny's Corporation, as Guarantor, and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.3 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 29, 2004)
*4.2	Form of 10% Senior Note due 2012 and annexed Guarantee (included in Exhibit 4.1 hereto)
*4.3	Amended and Restated Rights Agreement, dated as of January 5, 2005, between Denny's Corporation and Continental Stock Transfer and Trust Company, as Rights Agent (incorporated by reference to Exhibit 1 to the Form 8-A/A of Denny's Corporation, filed with the Commission January 12, 2005 relating to preferred stock purchase rights)
+*10.1	Advantica Restaurant Group Director Stock Option Plan, as amended through January 24, 2001 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation (then known as Advantica) filed with the Commission on May 14, 2001)
+*10.2	Advantica Stock Option Plan as amended through November 28, 2001 (incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K of Denny's Corporation (then known as Advantica) for the year ended December 26, 2001)

Exhibit No.	Description
+*10.3	Form of Agreement, dated February 9, 2000, providing certain retention incentives and severance benefits for company management (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation (then known as Advantica) for the quarter ended March 29, 2000)
*10.4	Stipulation and Agreement of Settlement, dated February 19, 2002, by and among FRD Acquisition Co., the Creditors Committee, Advantica, Denny's, Inc. FRI-M Corporation, Coco's Restaurants, Inc. and Carrows Restaurants, Inc., and as filed with the Bankruptcy Court on February 19, 2002 (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of Denny's Corporation (then known as Advantica), filed with the Commission on February 20, 2002)
*10.5	First Amended Plan of Reorganization of FRD Acquisition, Co., confirmed by order of the United States Bankruptcy Court for the District of Delaware on June 20, 2002 (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K of Denny's Corporation (then known as Advantica) dated July 25, 2002)
+*10.6	Denny's, Inc. Omnibus Incentive Compensation Plan for Executives (incorporated by reference to Exhibit 99 to the Registration Statement on Form S-8 of Denny's Corporation (No. 333-103220) filed with the Commission on February 14, 2003)
*10.7	Credit Agreement dated as of September 21, 2004, Among Denny's, Inc., Denny's Realty, Inc., as Borrowers, Denny's Corporation, Denny's Holdings, Inc., DFO, Inc., as Guarantors, the Lenders named herein, Bank of America, N.A., as Administrative Agent, and UBS LLC, as Syndication Agent, and Banc of America Securities LLC and UBS Securities LLC, as Joint Lead Arrangers and Joint Bookrunners (First Lien) (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 29, 2004)
*10.8	Credit Agreement dated as of September 21, 2004, Among Denny's, Inc., Denny's Realty, Inc., as Borrowers, Denny's Corporation, Denny's Holdings, Inc., DFO, Inc., as Guarantors, the Lenders named herein, Bank of America, N.A., as Administrative Agent, and UBS LLC, as Syndication Agent, and Banc of America Securities LLC and UBS Securities LLC, as Joint Lead Arrangers and Joint Bookrunners (Second Lien) (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 29, 2004)
*10.9	Guarantee and Collateral Agreement dated as of September 21, 2004, among Denny's, Inc., Denny's Realty, Inc., Denny's Corporation, Denny's Holdings, Inc., DFO, Inc., each other Subsidiary Loan Party and Bank of America, N.A., as Collateral Agent (First Lien) (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 29, 2004)
*10.10	Guarantee and Collateral Agreement dated as of September 21, 2004, among Denny's, Inc., Denny's Realty, Inc., Denny's Corporation, Denny's Holdings, Inc., DFO, Inc., each other Subsidiary Loan Party and Bank of America, N.A., as Collateral Agent (Second Lien) (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 29, 2004)
*10.11	

First Lien Amendment No. 1 effective as of July 17, 2006, to the Credit Agreement dated as of September 21, 2004 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended June 28, 2006)

*10.12 Second Lien Amendment No. 1 effective as of July 17, 2006 to the Credit Agreement dated as of September 21, 2004 (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended June 28, 2006)

+*10.13 Description of amendments to the Denny’s, Inc. Omnibus Incentive Compensation Plan for Executives, the Advantica Stock Option Plan and the Advantica Restaurant Group Director Stock Option Plan (incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q of Denny’s Corporation for the quarter ended September 29, 2004)

+*10.14 Denny’s Corporation 2004 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.16 to the Annual Report on Form 10-K of Denny’s Corporation for the year ended December 29, 2004)

+*10.15 Form of stock option agreement to be used under the Denny’s Corporation 2004 Omnibus Incentive Plan (incorporated by reference to Exhibit 99.2 to the Registration Statement on Form S-8 of Denny’s Corporation (File No. 333-120093) filed with the Commission on October 29, 2004)

+*10.16 Form of deferred stock unit award certificate to be used under the Denny’s Corporation 2004 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.27 to the Annual Report on Form 10-K of Denny’s Corporation for the year ended December 29, 2004)

+*10.17 Employment Agreement dated May 11, 2005 between Denny’s Corporation and Nelson J. Marchioli (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of Denny’s Corporation filed with the Commission on May 13, 2005)

+*10.18 Amendment dated November 10, 2006 to the Employment Agreement dated May 11, 2005 between Denny’s Corporation, Denny’s Inc. and Nelson J. Marchioli (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Denny's Corporation filed with the Commission on November 13, 2006)

+*10.19 Employment Offer Letter dated August 16, 2005 between Denny’s Corporation and F. Mark Wolfinger (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny’s Corporation for the quarter ended September 28, 2005)

+*10.20 Written description of the 2006 Corporate Incentive Program (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 29, 2006)

+*10.21 Written description of the 2006 Long Term Growth Incentive Program (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 29, 2006)

*10.22 Master Purchase Agreement and Escrow Instructions (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of Denny's Corporation filed with the Commission on September 28, 2006)

*10.23

Amended and Restated Credit Agreement dated as of December 15, 2006, among Denny’s Inc. and Denny’s Realty, LLC, as Borrowers, Denny’s Corporation, Denny’s Holdings, Inc., and DFO, LLC, as Guarantors, the Lenders named therein, Bank of America, N.A., as Administrative Agent and Collateral Agent, and Banc of America Securities LLC as Sole Lead Arranger and Sole Bookrunner (incorporated by reference to Exhibit 10.25 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 27, 2006)

*10.24 Amended and Restated Guarantee and Collateral Agreement dated as of December 15, 2006, among Denny’s Inc., Denny’s Realty, LLC, Denny’s Corporation, Denny’s Holdings, Inc., DFO, LLC, each other Subsidiary Loan Party referenced therein and Bank of America, N.A., as Collateral Agent (incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 27, 2006)

Exhibit No.	Description
+*10.25	Employment Offer Letter dated May 3, 2002 between Denny’s Corporation and Margaret L. Jenkins and Addendum thereto dated June 11, 2003 between Denny's Corporation and Margaret L. Jenkins (incorporated by reference to Exhibit 10.27 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 27, 2006)
+*10.26	Written Description of Denny’s 2007 Corporate Incentive Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny’s Corporation for the quarter ended March 28, 2007)
+*10.27	Written Description of 2007 Long-Term Growth Incentive Program (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny’s Corporation for the quarter ended March 28, 2007)
*10.28	Amendment No. 1 dated as of March 8, 2007 to the Amended and Restated Credit Agreement dated as of December 15, 2006 (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of Denny’s Corporation filed with the Commission on March 14, 2007)
+*10.29	Award certificate evidencing restricted stock unit award to F. Mark Wolfinger, effective July 9, 2007 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Denny’s Corporation filed with the Commission on July 12, 2007)
+*10.30	Separation Agreement dated August 8, 2007 between Denny's Inc. and Margaret L. Jenkins (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny’s Corporation for the quarter ended September 26, 2007)
+*10.31	Written Description of Denny's Paradigm Shift Incentive Program (incorporated by reference to the Current Report on Form 8-K of Denny's Corporation filed with the Commission on December 4, 2007)
+*10.32	Written Description of Denny's 2008 Corporate Incentive Program (incorporated by reference to the Current Report on Form 8-K of Denny's Corporation filed with the Commission on January 11, 2008)
+*10.33	Written Description of Denny's Corporation Executive Severance Pay Plan (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of Denny's Corporation filed with the Commission on February 4, 2008)
21.1	Subsidiaries of Denny’s
23.1	Consent of KPMG LLP
31.1	Certification of Nelson J. Marchioli, President and Chief Executive Officer of Denny’s Corporation, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of F. Mark Wolfinger, Executive Vice President, Growth Initiatives and Chief Financial Officer of Denny’s Corporation, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Statement of Nelson J. Marchioli, President and Chief Executive Officer of Denny's Corporation, and F. Mark Wolfinger, Executive Vice President, Growth Initiatives and Chief Financial Officer of Denny's Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\+ Management contracts or compensatory plans or arrangements.

PLEASE NOTE: It is inappropriate for investors to assume the accuracy of any covenants, representations or warranties that may be contained in agreements or other documents filed as exhibits to this Form 10-K. Any such covenants, representations or warranties: may have been qualified or superseded by disclosures contained in separate schedules not filed with this Form 10-K, may reflect the parties' negotiated risk allocation in the particular transaction, may be qualified by materiality standards that differ from those applicable for securities law purposes, and may not be true as of the date of this Form 10-K or any other date.

DENNY'S CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors
Denny's Corporation

We have audited the accompanying consolidated balance sheets of Denny’s Corporation and subsidiaries as of December 26, 2007 and December 27, 2006, and the related consolidated statements of operations, shareholders’ deficit and comprehensive income (loss), and cash flows for each of the fiscal years in the three-year period ended December 26, 2007. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Denny’s Corporation and subsidiaries as of December 26, 2007 and December 27, 2006, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended December 26, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2, the Company changed its method of accounting for share-based payment in fiscal 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 26, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 7, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Greenville, South Carolina
March 7, 2008

Denny's Corporation and Subsidiaries
Consolidated Statements of Operations

	Fiscal Year Ended December 26, 2007	December 27, 2006	December 28, 2005
	(In thousands, except per share amounts)		
Revenue:			
Company restaurant sales	$ 844,621	$ 904,374	$ 888,942
Franchise and license revenue	94,747	89,670	89,783
Total operating revenue	939,368	994,044	978,725
Costs of company restaurant sales:			
Product costs	215,943	226,404	224,803
Payroll and benefits	355,710	372,292	372,644
Occupancy	50,977	51,677	51,057
Other operating expenses	123,310	131,404	130,883
Total costs of company restaurant sales	745,940	781,777	779,387
Costs of franchise and license revenue	28,005	27,910	28,758
General and administrative expenses	67,374	66,426	62,911
Depreciation and amortization	49,347	55,290	56,126
Operating gains, losses and other charges, net	(34,828)	(47,882)	3,090
Total operating costs and expenses	855,838	883,521	930,272
Operating income	83,530	110,523	48,453
Other expenses:			
Interest expense, net	42,957	57,720	55,172
Other nonoperating expense (income), net	668	8,029	(602)
Total other expenses, net	43,625	65,749	54,570
Net income (loss) before income taxes and cumulative effect of change in accounting principle	39,905	44,774	(6,117)
Provision for income taxes	5,192	14,668	1,211
Net income (loss) before cumulative effect of change in accounting principle	34,713	30,106	(7,328)
Cumulative effect of change in accounting principle, net of tax	—	232	—
Net income (loss)	$ 34,713	$ 30,338	$ (7,328)
Basic net income (loss) per share:			
Basic net income (loss) before cumulative effect of change in accounting principle, net of tax	$ 0.37	$ 0.33	$ (0.08)
Cumulative effect of change in accounting principle, net of tax	—	0.00	—
Basic net income (loss) per share	$ 0.37	$ 0.33	$ (0.08)
Diluted net income (loss) per share:			
Diluted net income (loss) before cumulative effect of change in accounting principle, net of tax	$ 0.35	$ 0.31	$ (0.08)
	—	0.00	—

Cumulative effect of change in accounting principle, net of tax						
Diluted net income (loss) per share	$	0.35	$	0.31	$	(0.08)
Weighted average shares outstanding:						
Basic		93,855		92,250		91,018
Diluted		98,844		97,364		91,018

See notes to consolidated financial statements.

Denny’s Corporation and Subsidiaries
Consolidated Balance Sheets

	December 26, 2007	December 27, 2006
	(In thousands)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 21,565	$ 26,226
Receivables, less allowance for doubtful accounts of: 2007 - $75; 2006 - $79	13,585	15,005
Inventories	6,485	8,199
Assets held for sale	6,712	4,735
Prepaid and other	9,526	9,072
Total Current Assets	57,873	63,237
Property, net	184,610	236,264
Other Assets:		
Goodwill	46,185	50,064
Intangible assets, net	62,657	66,882
Deferred financing costs, net	5,078	6,311
Other	24,699	21,595
Total Assets	$ 381,102	$ 444,353
Liabilities		
Current Liabilities:		
Current maturities of notes and debentures	$ 2,085	$ 5,532
Current maturities of capital lease obligations	4,051	6,979
Accounts payable	43,262	42,148
Other	82,069	81,143
Total Current Liabilities	131,467	135,802
Long-Term Liabilities:		
Notes and debentures, less current maturities	325,971	415,801
Capital lease obligations, less current maturities	20,845	24,948
Liability for insurance claims, less current portion	27,148	28,784
Deferred income taxes	11,963	12,126
Other noncurrent liabilities and deferred credits	42,578	50,469
Total Long-Term Liabilities	428,505	532,128
Total Liabilities	559,972	667,930
Commitments and contingencies		
Shareholders' Deficit		
Common stock $0.01 par value; shares authorized - 135,000; issued and outstanding: 2007 – 94,626; 2006 - 93,186	946	932
Paid-in capital	533,612	527,911
Deficit	(700,284)	(734,997)
Accumulated other comprehensive loss, net of tax	(13,144)	(17,423)

Total Shareholders' Deficit		(178,870)		(223,577)
Total Liabilities and Shareholders' Deficit	$	381,102	$	444,353

See notes to consolidated financial statements.

Denny's Corporation and Subsidiaries
Consolidated Statements of Shareholders' Deficit and Comprehensive Income (Loss)

	Common Stock				Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Paid-in Capital	(Deficit)	(Loss), Net	Deficit
			(In thousands)			
Balance, December 29, 2004	89,987	$ 900	$ 510,686	$ (758,448)	$ (19,713)	$ (266,575)
Balance Sheet Adjustment (Note 2)	—	—	—	441	—	441
Balance, December 29, 2004, as adjusted	89,987	900	510,686	(758,007)	(19,713)	(266,134)
Comprehensive (loss):						
Net (loss)	—	—	—	(7,328)	—	(7,328)
Unrealized gain on hedged transaction, net of tax	—	—	—	—	1,256	1,256
Additional minimum pension liability, net of tax	—	—	—	—	(1,086)	(1,086)
Comprehensive (loss)	—	—	—	(7,328)	170	(7,158)
Share-based compensation on equity classified awards	—	—	3,529	—	—	3,529
Issuance of common stock for share-based compensation	382	4	1,678	—	—	1,682
Exercise of common stock options	1,382	14	1,961	—	—	1,975
Balance, December 28, 2005	91,751	918	517,854	(765,335)	(19,543)	(266,106)
Comprehensive income:						
Net income	—	—	—	30,338	—	30,338
Recognition of unrealized gain on hedged transactions, net of tax	—	—	—	—	(1,256)	(1,256)
Additional minimum pension liability, net of tax	—	—	—	—	3,376	3,376
Comprehensive income	—	—	—	30,338	2,120	32,458
Share-based compensation on equity classified awards	—	—	5,316	—	—	5,316
Reclassification of share-based compensation in connection with adoption of SFAS 123(R) (Note 14)	—	—	2,534	—	—	2,534
Issuance of common stock for share-based compensation	296	3	206	—	—	209
Exercise of common stock options	1,139	11	2,001	—	—	2,012

Balance, December 27, 2006	93,186		932		527,911		(734,997)		(17,423)		(223,577)
Comprehensive income:											
Net income	—		—		—		34,713		—		34,713
Recognition of unrealized loss on hedged transactions, net of tax	—		—		—		—		(2,753)		(2,753)
Reclassification of unrealized loss on hedged transactions resulting from the loss of hedge accounting (Note 10)	—		—		—		—		400		400
Additional minimum pension liability, net of tax	—		—		—		—		6,632		6,632
Comprehensive income	—		—		—		34,713		4,279		38,992
Share-based compensation on equity classified awards	—		—		3,367		—		—		3,367
Issuance of common stock for share-based compensation	247		2		220		—		—		222
Exercise of common stock options	1,193		12		2,114		—		—		2,126
Balance, December 26, 2007	94,626	$	946	$	533,612	$	(700,284)	$	(13,144)	$	(178,870)

See notes to consolidated financial statements.

Denny's Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Fiscal Year Ended December 26, 2007	December 27, 2006 (In thousands)	December 28, 2005
Cash Flows from Operating Activities:			
Net income (loss)	$ 34,713	$ 30,338	$ (7,328)
Adjustments to reconcile net income (loss) to cash flows provided by operating activities:			
Cumulative effect of change in accounting principle, net of tax	—	(232)	—
Depreciation and amortization	49,347	55,290	56,126
Operating gains, losses and other charges, net	(34,828)	(47,882)	3,090
Amortization of deferred financing costs	1,177	3,316	3,493
Loss on early extinguishment of debt	545	8,508	—
Deferred income tax expense	4,305		