

KNAPP-TRACK™ JULY/AUGUST 2006

The estimated comparable restaurant sales change in August 2006 is -1.3% vs. August 2005 result of 1.7% for comparable restaurant sales – the 5th lowest month in 2005. The estimated comparable restaurant guest counts change for August 2006 is -3.6%, which is in comparison to an August 2005 result of -0.3% for comparable restaurant guest counts. Please note that this August estimate is based on weekly data. The final accounting number for the month of August, will depend in large part, on shifts in results for individual concepts based on the specific weeks included in their accounting month. In August 2006, 1 of 4 weeks had positive comparable restaurant sales, while 3 of 4 weeks had negative comparable restaurant sales. All 4 weeks in August had negative guest counts. The spread between the best week of the four weeks in August 2006 vs. the worst week is 2.7 percentage points; with the best week being the last week. The worst week was the second week.

The estimated comparable restaurant sales change in August 2006 of -1.3% was surpassed by the weighted average same-store retail industry performance at 3.1%, as measured by the Bear Stearns retail analysts. The pattern of the period from April 2003 through August 2006 is that Bear Stearns' retail same-store results have out-performed the casual dining sector, with exception of November 2004, January 2005, April 2005, May 2005, January 2006 and March 2006. In August 2006, Drug Stores led comparable store sales with a gain 6.3% followed by Discounters at 3.3%, Department Stores at 2.9%, Softlines category at 2.2%, and Home Furnishings at -9.1%. Jr. Apparel led Softlines of merchandise with comparable sales gain of 5.0% followed by Off-Price Apparel at 3.7% with Apparel stores last at -1.0%. Drug stores and higher demographic department stores and discounters were the best retail performers in August 2006.

The more affluent customers are emotionally but not particularly fiscally affected by gasoline, food and prescription drug price increases. Higher demographic retail stores have been comparable sales leaders; in the month of August 2006, for example, Nordstrom, a chain store with a higher income demographic sported a 7.1% gain. Costco, a high demographic discount chain had comparable sales gains of 7.0%, due in part to high gasoline sales. Target had a comparable sales increase of 2.8%. Wal-Mart (excluding Sam's Clubs) was up 2.5%. Sam's Clubs had comparable store sales of 3.4%.

Value propositions for the majority of concepts will continue to be very important as inflation in general, energy cost increases, education costs and medical and drug cost increases put substantial pressure on households earning under \$50,000.

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The basic economy is in decent shape. The Manufacturing Index, as measured by the Institute for Supply Management was 54.5 in August 2006, down -0.2 index points from 54.7 in July 2006. This is the 39th consecutive month of manufacturing growth. The average manufacturing index for all of 2005 was 55.4. An index above 50.0 indicates an expansion of manufacturing activity. The Non-Manufacturing Business Activity Index of the Institute for Supply Management rose 2.2 index points to 57.0 in August 2006 from 54.8 in July. Services have been expanding since March 2003, a consecutive increase of 41 months.

The good news is, that from August 2005 through August 2006, the number of payroll jobs has increased 1,708,000 or an increase of 1.28% in the number of jobs. The core increase in jobs helped move the economy ahead during the first half of 2006 and at current increases in employment the second half will show economic improvement but at a slower pace than the first half. Bear in mind that the fast food and quick casual restaurants are the first segments to immediately benefit from increased employment. Casual dining kicks in a little later than the lower priced more convenient offerings.

It is worth noting that while the payroll employment numbers increased by 128,000 in August, the household survey data showed an increase of 250,000 jobs and a decrease of -86,000 unemployed workers. There are sharp differences in unemployment rates by race. The unemployment rate in August for White was 4.1%, for Hispanic or Latino ethnicity 5.3% and for African Americans the rate was 8.8%. The White and Hispanic unemployment rate was unchanged from July while the unemployment rate for African Americans decreased by -0.7 percentage point.

While it was good news that the average retail price of a gallon of gasoline had declined from the peak of \$3.069 the week of September 5th 2005 to \$2.147 the week of December 5th, a drop of \$0.922 per gallon or -30.0%; since then the price of regular gasoline is up to \$2.727 the week of September 4th, 2006. The September 4th price is down -\$0.342 per gallon or -11.14% over a year ago and up 27.01% from the low of December 5th, 2005. From August 14th to September 4th, the price of gasoline fell -27.3 cents a drop of -9.1%. During the week ending September 4th gasoline declined -11.8 cents. Our weekly data reflected the decline in gasoline prices by an improvement in comparable restaurant sales from earlier August results.

The AAA estimates that gasoline prices could decline to the neighborhood of \$2.50 a gallon by the beginning to middle of October. If this happens, it will lift comparable restaurants sales results. It is important to remember that last year, the comparable restaurant sales for the months of July at 1.8%, August at 1.7%, September at 1.6% had very little deviation in September despite Hurricane Katrina. We did have a lower number in October at 0.9%, with increases in November to 2.0% and December at 2.4%. The sales increases that we should see from lower gasoline prices are in fact due to lower gasoline prices, not weak sales comparisons, except for October, the lowest month of last year. I think the increased sales will come from the median to mid \$50,000 income groups, not the under \$35,000 who have left the casual dining market except for events. I do think that there will be gift purchases for restaurant meals for the under \$35,000 income group at mass merchants during the Christmas season.

The record setting level of \$77.30 a barrel on the crude-oil futures markets on August 7th due to the closure of part of the Prudhoe Bay oil field in Alaska operated by BP, due to corrosion in the pipeline system, has now settled to a close on the futures market on September 8th to \$66.25 a barrel, the lowest level since April 5th. Experts expect the price of oil to return to \$70 a barrel for the winter demand season.

The proportion of household expenditures for energy will be higher for lower income households in part because they have less income and because the houses they can afford are further away from work and require more gasoline to get to work. Also there are usually 2 earners in such households each of whom has to drive to work in most of the country.

The silver lining in the recent decline in comparable sales is that **FUNDAMENTAL DEMAND REMAINS STRONG** and when more disposable income becomes available to the under \$70,000 income group, they will come back to casual dining.

JULY 2006 final comparable restaurant sales were -2.7%. These results are 4.5 percentage points worse than the above trend July 2005 - the fourth worst month of 2005 - comparable restaurant sales results of 1.8%. July 2006 comparable restaurant guest counts were -5.2%. July 2005 comparable restaurant guest counts were -0.5%. Year to date comparable sales in July 2006 were 0.1% vs. 2.9% for July 2005. Year to date comparable guest counts in July 2006 were -2.7% vs. 1.1% for July 2005. All store sales through July

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2006 were 6.5% vs. 8.3% for July 2005. All store guest counts through July 2006 were 3.8% vs. 6.6% for July 2005.

The Consumer Confidence Index dropped significantly in AUGUST 2006 by -7.4 index points to 99.6. The August 2006 Index is -5.9 index points below August 2005. The Present Situation declined an even sharper -10.8 index points to 123.4 index points, which is -0.4 index points below August 2005. The Expectations Index (how people think the economy will perform in February 2007) fell by -5.1 index points to 83.8 index points. This is a decline of -9.5 index points from August 2005. Expectations in August 2005 were -30.5 index points below Present Situation. By August 2006, Present Situation exceeded Expectations by a whopping 39.6 index points. Detailed AUGUST 2006 data show that Consumer Confidence was better in 1 regions and worse in 8 regions from July 2006 levels. Four regions were above an index number of 100.0. The strongest region for Consumer Confidence in AUGUST 2006 was West South Central at 121.1 followed by Mountain at 119.5, Pacific at 115.5, South Atlantic at 108.2 index points, East South Central at 96.0, West North Central at 88.0, New England at 83.2, Middle Atlantic at 73.7 and East North Central at 68.3. The highest regional increase in an index number is 4.8 for the West South Central region. The largest regional decrease is for the West North Central region with a -21.8 index number decline. The largest negative spread between Present Situation and Expectations was -75.8 index points for the West North Central region. The highest Present situation index is 154.3 for the Mountain region. The lowest Present Situation index is 80.9 for the East North Central region. The highest Expectations index is 105.2 for the West South Central region. The lowest Expectations index is 57.6 for the West North Central region.

Consumer Confidence fell in all 5 income groups in August from July. The under \$15,000 group fell -6.6 points, the \$15,000-\$24,999 group declined a sharp -12.4 points, the \$25,000-\$34,999 group declined -6.7 points, the \$35,000-\$49,999 group fell the most at -12.5 points and the \$50,000 and over group fell the least at -1.7 points. Consumer Confidence rose in 1 income group over the past 12 months. The \$25,000-\$34,999 group rose 1.2 index points to 91.6 index points. Consumer Confidence fell in 4 income groups over the past 12 months. The under \$15,000 group fell -4.0 index points to 71.0, the \$15,000-\$24,999 group declined -10.6 index points to 77.1, the \$35,000-\$49,999 group fell -15.6 index points to 95.1 index points and the \$50,00 and over group fell -3.5 index points to 120.2. Note that Consumer Confidence

increases with income, with the confidence index of the \$50,000 and over group, 69.3% higher than the under \$15,000 income group.

The unemployment rate in AUGUST 2006 was 4.7%, a decrease of -0.1 percentage points from July 2006. The unemployment rate has been between 4.6% and 5.5% in each month since July 2004. The total number of people working in non-farm jobs was 135,500,000. There was an increase in August 2006 of a modest 128,000 non-farm jobs from June 2006. This is the thirty-fifth month -starting in September 2003 - employment has risen. The initial jobs increase in July of 113,000 jobs was revised up by 8,000 jobs to 121,000 jobs. Prior total employment in the 21st century peaked in February 2001 at 132,546,000 jobs. Total non-farm employment fell -156,000 from February 2001 through December 2004. By August 2006, there was an increase of 2,949,000 jobs from February 2001. We are up 5,703,000 jobs from the recent jobs bottom of August 2003.

In August 2006, 1,328,000 persons had been unemployed for 27 weeks or more, 18.4% of the unemployment total. This persistence in long-term unemployment is a negative pressure on consumer confidence.

Manufacturing jobs stopped their secular decline in March 2004, ending the consecutive month total of job loss at 42 months. Manufacturing job losses since July 2000 total -3,100,000 jobs. The peak manufacturing employment recently was in March 1998 with a total of 17,637,000. The decline in manufacturing jobs from the peak is -3,412,000 jobs. In 2005, manufacturing jobs declined by -72,000 jobs. In 2004, manufacturing jobs decreased by -2,000 jobs. In 2003, manufacturing jobs declined by -615,000. For the year 2002, manufacturing jobs declined by -802,000. In 2001, manufacturing jobs declined by -1,468,000. In August 2006, manufacturing jobs decreased by -11,000 jobs from July. In the past 12 months manufacturing employment has increased by 12,000 jobs. In August 2006, construction industry employment was up 17,000 jobs from July and up 215,000 or 2.94% from August 2005. Employment in the service-providing sector - which includes among other sectors, retail trade, services and government - increased by 118,000 jobs. Retail trade job count was down -14,000 jobs from July. Food and beverage stores employment increased by 1,100 jobs. Food services and drinking places employment increased 15,600 jobs in August. In the past 12 months, food services and drinking places employment increased 216,700 jobs or 2.37%. General Merchandise store employment decreased -9,600 jobs in August. Hotels and other lodging places employment decreased -200 jobs in August. In

the past 12 months, hotels and other lodging places employment decreased by -14,400 jobs or -0.79%. Professional and technical services' employment gained 12,400 jobs in August and 246,100 jobs or 3.49% in the past year. Help supply agency employment increased by 3,400 jobs in August. In the past 12 months, help supply agency employment rose by 70,400 jobs or 2.77%. Finance, insurance and real estate increased by 10,200 jobs. Amusements, gambling and recreation services decreased by -5,200 jobs. Health services rose 34,800 jobs from July and 286,100 jobs for the past 12 months or 2.31%. Transportation and warehousing jobs decreased by -7,100 jobs. Government jobs increased by 16,900 jobs. Federal employment was down -3,800 jobs from July. State government jobs increased by 4,600 jobs. Local government employment increased by 16,100 jobs.

Seasonally adjusted hourly earnings were up \$0.02 in August 2006 to \$16.79. Seasonally adjusted hourly earnings rose 3.90% from August 2005. Seasonally adjusted average weekly earnings were down -\$1.00 in August 2006 to \$567.50. Seasonally adjusted average weekly earnings rose 4.21% from August 2005. Total private non-farm weekly hours worked in August 2006 at 33.8 hours are down -0.1 hours from July 2006. Manufacturing average weekly hours worked in August at 41.3 hours are down -0.1 hours from July. Factory overtime at 4.5 hours is unchanged from July.

In **JULY**, 1 of 11 **KNAPP-TRACK™** regions had positive comparable restaurant sales gains. Ten regions had negative comparable restaurant sales results. Two regions had better comparable sales results in July than in June. Nine regions had worse comparable sales results in July than in June. The spread between the high and low regions for comparable restaurant sales in July 2006 was 7.0 percentage points vs. the 12.9 percentage points of January 2005, the 6.7 points of February, the 12.0 points of March, the 8.7 points of April, the 8.3 points of May, the 11.1 points of June, the 8.8 percentage points of July, the 8.1 points of August, the 13.8 points of September, the 6.7 percentage points of October, the 5.8 percentage points of November, the 5.4 points of December 2005, the 6.4 percentage points of January, the 5.3 points of February, the 6.8 points of March, the 6.5 points of April, the 6.7 points of May and the 3.5 points of June 2006. The best performing region was Pacific Northwest followed by Texas, California, East & part West South Central and Mountain. These five regions had better or equal comparable restaurant sales results than the national average of -2.7% in **JULY**. The worst performing region was East North Central followed by West North Central, South Atlantic, New England, Middle Atlantic and Florida. YTD, the highest region for

comparable sales results was Pacific Northwest and the lowest region was New England. The median-concept comparable restaurant sales change was -0.7%. Uno Chicago Grill had the highest comparable restaurant sales for restaurant concepts with sales over \$300 million.

With regard to the 53 ADI TV markets in **KNAPP-TRACK™**, the spread between the high and low comparable restaurant sales changes in **JULY** was 22.6 percentage points. The high TV market was New Orleans, Louisiana at 12.9% and the low TV market was Louisville, Kentucky at -9.7%. The median TV market comparable sales result was West Palm Beach, Florida with a decline of -3.1%. YTD through July, the top three ADI TV markets were New Orleans, Louisiana at 16.1% followed by Honolulu, Hawaii at 3.8% and Miami, Florida at 3.7%. The median ADI TV market YTD was Philadelphia, Pennsylvania at -0.3%. The bottom performing three ADI TV markets were Louisville, Kentucky at -4.6% followed by Norfolk, Virginia at -4.2% and Detroit, Michigan at -4.1%.

With regard to comparable restaurants in JULY, the spread between comparable restaurant sales and guest counts was -2.3 percentage points. The national average for comparable restaurant guest counts in **JULY** was -5.2%. The best performing region was Pacific Northwest. The worst performing region was East North Central. One region had positive comparable guest counts. Ten of 11 regions had negative guest counts. The spread between the best and worst performing region was -7.4 percentage points.

All restaurant sales in JULY were up 3.7%. Ten of 11 regions were positive. One region was negative. The spread between all restaurants and comparable restaurants sales was -6.4 percentage points.

All restaurant guest counts in JULY were up 1.4%. Eight regions were positive. Three regions had negative guest counts. The spread between all restaurants and comparable restaurants guest count gains was -6.6 percentage points.

Year to date comparable restaurant sales in JULY were up 0.1%. Year to date comparable restaurant guest counts were down -2.7%.

Year to date all restaurant sales in JULY were up 6.5%. Year to date all restaurant guest counts were up 3.8%.

Comparable restaurant sales gains in 2006 were: 1Q 2.5%; 2Q -1.3%

Comparable restaurant guest count changes in 2006 were: 1Q -0.3%; 2Q -4.2%

All restaurant sales gains in 2006 were: 1Q 9.2%; 2Q 4.8%

All restaurant guest count changes in 2006 were: 1Q 6.4%; 2Q 1.9%