DineEquity, Inc
Form 10-Q
October 30, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-15283

DineEquity, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	95-3038279 (I.R.S. Employer Identification No.)
450 North Brand Boulevard, Glendale, California (Address of principal executive offices)	91203-1903 (Zip Code)

(818) 240-6055
(Registrant's telephone number, including area code)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of October 26, 2012
Common Stock, $0.01 par value	18,429,500

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
DineEquity, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$71,838	$60,691
Receivables, net	75,532	115,667
Prepaid income taxes	312	13,922
Prepaid gift cards	39,879	45,412
Deferred income taxes	23,659	20,579
Assets held for sale	16,372	9,363
Other current assets	15,311	11,313
Total current assets	242,903	276,947
Long-term receivables	214,772	226,526
Property and equipment, net	345,603	474,154
Goodwill	697,470	697,470
Other intangible assets, net	809,217	822,361
Other assets, net	111,792	116,836
Total assets	$2,421,757	$2,614,294
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$7,420	$7,420
Accounts payable	31,959	29,013
Accrued employee compensation and benefits	19,701	26,191
Gift card liability	84,115	146,955
Accrued interest payable	31,452	12,537
Current maturities of capital lease and financing obligations	12,848	13,480
Other accrued expenses	25,398	22,048
Total current liabilities	212,893	257,644
Long-term debt, less current maturities	1,232,707	1,411,448
Financing obligations, less current maturities	93,774	162,658
Capital lease obligations, less current maturities	127,198	134,407
Deferred income taxes	366,529	383,810
Other liabilities	105,551	109,107
Total liabilities	2,138,652	2,459,074
Commitments and contingencies		
Stockholders' equity:		
Series B Convertible Preferred Stock, at accreted value, shares:10,000,000 authorized; 35,000 issued; September 30, 2012 and December 31, 2011 - 34,900 outstanding	46,541	44,508
Common stock, $0.01 par value, shares: 40,000,000 authorized; September 30, 2012 - 24,694,241 issued, 18,418,903 outstanding; December 31, 2011 - 24,658,985 issued,18,060,206 outstanding	247	247
Additional paid-in-capital	214,440	205,663

Retained earnings	303,691	196,869
Accumulated other comprehensive loss	(150)	(294)
Treasury stock, at cost; shares: September 30, 2012 - 6,275,338; December 31, 2011 - 6,598,779	(281,664)	(291,773)
Total stockholders’ equity	283,105	155,220
Total liabilities and stockholders’ equity	$2,421,757	$2,614,294

See the accompanying Notes to Consolidated Financial Statements.

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DineEquity, Inc. and Subsidiaries
Consolidated Statements of Income and Comprehensive Income
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Segment Revenues:				
Franchise revenues	$102,674	$97,679	$313,542	$300,782
Company restaurant sales	79,572	131,618	274,259	420,955
Rental revenues	30,920	31,163	92,096	95,003
Financing revenues	3,152	4,021	11,394	16,279
Total segment revenues	216,318	264,481	691,291	833,019
Segment Expenses:				
Franchise expenses	27,148	25,006	81,126	78,656
Company restaurant expenses	68,541	113,976	232,298	363,021
Rental expenses	24,237	24,521	73,075	73,734
Financing expenses	15	425	1,586	6,001
Total segment expenses	119,941	163,928	388,085	521,412
Gross segment profit	96,377	100,553	303,206	311,607
General and administrative expenses	48,737	38,733	125,608	115,152
Interest expense	28,896	32,170	88,767	101,343
Impairment and closure charges	420	193	1,264	26,947
Amortization of intangible assets	3,072	3,075	9,222	9,225
(Gain) loss on disposition of assets	(73,650)	1,176	(89,642)	(21,287)
Loss on extinguishment of debt	2,306	—	4,917	7,885
Debt modification costs	—	(21)	—	4,103
Income before income taxes	86,596	25,227	163,070	68,239
Provision for income taxes	(26,023)	(8,702)	(54,215)	(21,667)
Net income	60,573	16,525	108,855	46,572
Other comprehensive income:				
Adjustment to unrealized loss on available-for-sale investments	—	—	140	—
Foreign currency translation adjustment	5	(50)	4	(30)
Total comprehensive income	$60,578	$16,475	$108,999	$46,542
Net income available to common stockholders:				
Net income	$60,573	$16,525	$108,855	$46,572
Less: Accretion of Series B Convertible Preferred Stock	(688)	(647)	(2,033)	(1,915)
Less: Net income allocated to unvested participating restricted stock	(1,187)	(359)	(2,477)	(1,212)
Net income available to common stockholders	$58,698	$15,519	$104,345	$43,445
Net income available to common stockholders per share:				
Basic	$3.26	$0.86	$5.84	$2.43
Diluted	$3.14	$0.85	$5.66	$2.38
Weighted average shares outstanding:				
Basic	18,006	17,968	17,859	17,912
Diluted	18,924	18,243	18,801	18,268

See the accompanying Notes to Consolidated Financial Statements.

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DineEquity, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	$108,855	$46,572
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	30,756	38,599
Non-cash interest expense	4,547	4,582
Loss on extinguishment of debt	4,917	7,885
Impairment and closure charges	991	26,729
Deferred income taxes	(20,361)	1,866
Non-cash stock-based compensation expense	8,799	6,913
Tax benefit from stock-based compensation	6,334	6,085
Excess tax benefit from share-based compensation	(4,757)	(5,713)
Gain on disposition of assets	(89,642)	(21,287)
Other	(1,768)	(217)
Changes in operating assets and liabilities:		
Receivables	41,422	25,360
Prepaid expenses	7,414	1,247
Current income tax receivables and payables	12,512	21,519
Accounts payable	2,080	(3,992)
Accrued employee compensation and benefits	(6,490)	(9,099)
Gift card liability	(62,841)	(56,906)
Other accrued expenses	25,298	4,928
Cash flows provided by operating activities	68,066	95,071
Cash flows from investing activities:		
Additions to property and equipment	(13,477)	(20,829)
Proceeds from sale of property and equipment and assets held for sale	137,449	60,188
Principal receipts from notes, equipment contracts and other long-term receivables	10,276	9,922
Other	964	(558)
Cash flows provided by investing activities	135,212	48,723
Cash flows from financing activities:		
Borrowings under revolving credit facilities	50,000	25,000
Repayments under revolving credit facilities	(50,000)	(25,000)
Repayment of long-term debt (including premiums)	(184,237)	(153,437)
Principal payments on capital lease and financing obligations	(8,246)	(10,296)
Purchase of DineEquity common stock	—	(21,170)
Payment of debt modification and issuance costs	—	(12,307)
Repurchase of restricted stock	(1,690)	(4,802)
Proceeds from stock options exercised	5,443	6,326
Excess tax benefit from share-based compensation	4,757	5,713
Change in restricted cash	(8,158)	(1,590)
Other	—	(600)
Cash flows used in financing activities	(192,131)	(192,163)

Net change in cash and cash equivalents	11,147	(48,369)
Cash and cash equivalents at beginning of period	60,691	102,309
Cash and cash equivalents at end of period	$71,838	$53,940
Supplemental disclosures:		
Interest paid in cash	$77,758	$95,867
Income taxes paid in cash	$58,339	$15,685

See the accompanying Notes to Consolidated Financial Statements.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. General

The accompanying unaudited consolidated financial statements of DineEquity, Inc. (the “Company”) have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The operating results for the nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2012.

The consolidated balance sheet at December 31, 2011 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

2. Basis of Presentation

The Company’s fiscal quarters end on the Sunday closest to the last day of each quarter. For convenience, the fiscal quarters are reported as ending on March 31, June 30, September 30 and December 31. The first, second and third fiscal quarters of 2012 ended on April 1, 2012, July 1, 2012 and September 30, 2012, respectively; the first, second and third fiscal quarters of 2011 ended on April 3, 2011, July 3, 2011 and October 2, 2011, respectively.

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries that are consolidated in accordance with U.S. GAAP. All intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. GAAP requires the Company’s management to make assumptions and estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to provisions for doubtful accounts, legal contingencies, income taxes, long-lived assets, goodwill and intangible assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Restricted Assets

Restricted Cash
The Company receives funds from Applebee's franchisees pursuant to franchise agreements, usage of which is restricted to advertising activities. Cash balances restricted for this purpose as of September 30, 2012 and December 31, 2011 totaled $9.3 million and $1.2 million, respectively. The balances were included as other current assets in the consolidated balance sheets.
Other Restricted Assets

As of September 30, 2012 and December 31, 2011, restricted assets related to a captive insurance subsidiary totaled $2.0 million and $3.6 million, respectively, and were included in other assets in the consolidated balance sheets. The captive insurance subsidiary, which has not underwritten coverage since January 2006, was formed to provide insurance coverage to Applebee's and its franchisees. These restricted assets are primarily investments, use of which is restricted to the payment of insurance claims for incidents that occurred during the period coverage had been provided.

DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Reclassifications

Amounts previously reported as inventories at December 31, 2011 have been restated to conform to current classifications. Inventories at company restaurants are now included in "other current assets" and inventories of unactivated gift cards are now included in "prepaid gift cards."

	As Originally Reported	As Currently Reported
	(In thousands)	
Inventories	$ 12,031	$ —
Prepaid gift cards	$ 36,643	$ 45,412
Other current assets	$ 8,051	$ 11,313

3. Accounting Policies

Recently Adopted Accounting Standards

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-05, Comprehensive Income — Presentation of Comprehensive Income (“ASU 2011-05”). ASU 2011-05 requires the presentation of the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 did not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, nor did it affect how earnings per share is calculated or presented. The Company adopted ASU 2011-05 retrospectively in the first quarter of 2012 and adoption did not have a material impact on the Company’s consolidated financial statements.

Newly Issued Accounting Standards

In July 2012, the FASB issued ASU No. 2012-02, Intangibles — Testing Indefinite Lived Intangibles for Impairment (“ASU 2012-02”). ASU 2012-02 allows an entity the option to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. An entity electing to perform a qualitative assessment is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on the qualitative assessment, that it is more likely than not that the asset is impaired. The guidance is effective for impairment tests for fiscal years beginning after September 15, 2012, however, earlier adoption is allowed. As the guidance does not change the underlying principle that the carrying amount of an indefinite-lived intangible asset should not exceed its fair value, the adoption of ASU 2012-02 is not anticipated to have a material impact on the Company's consolidated financial statements.

The Company reviewed all other newly issued accounting pronouncements and concluded that they either are not applicable to the Company’s operations or that no material effect is expected on the consolidated financial statements as a result of future adoption.

4. Assets Held for Sale

The Company classifies assets as held for sale and ceases the depreciation and amortization of the assets when there is a plan for disposal of the assets and those assets meet the held for sale criteria, as defined in applicable U.S. GAAP. The assets held for sale are carried at the lower of cost or fair value less cost of disposal. The balance of assets held for sale at December 31, 2011 of $9.4 million consisted of 17 Applebee's company-operated restaurants located in a six-state market area geographically centered around Memphis, Tennessee, one parcel of land on which a refranchised Applebee's restaurant is situated and three parcels of land previously intended for future restaurant development.

In April 2012, the Company entered into an asset purchase agreement for the refranchising and sale of related restaurant assets of 39 Applebee's company-operated restaurants located in Virginia. In May 2012, the Company entered into an asset purchase agreement for the refranchising and sale of related restaurant assets of 33 Applebee's company-operated restaurants located primarily in Missouri and Indiana. In July 2012, the Company entered into an asset purchase agreement for the refranchising and sale of related restaurant assets of 65 Applebee's company-operated restaurants located in Michigan. Accordingly, $54.7 million, representing the net book value of the assets related to these 137 restaurants, was transferred to assets held for sale.

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DineEquity, Inc. and Subsidiaries
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Assets sold of $45.2 million during the nine months ended September 30, 2012, consisted of: the 17 Applebee's company-operated restaurants located in a six-state market area geographically centered around Memphis, Tennessee, the 33 Applebee's company-operated restaurants located primarily in Missouri and Indiana, the 65 Applebee's company-operated restaurants located in Michigan and two parcels of land previously intended for future restaurant development. Additionally, the one parcel of land on which a refranchised Applebee's restaurant is situated was transferred out of assets held for sale as the Company no longer intends to sell that asset.

Assets held for sale at September 30, 2012 of $16.4 million consisted of 39 Applebee's company-operated restaurants located primarily in Virginia (see Note 15) and one parcel of land previously intended for future restaurant development.

The following table summarizes changes in assets held for sale during the nine months ended September 30, 2012:

	(In millions)
Balance, December 31, 2011	$9.4
Assets transferred to held for sale	54.7
Assets sold	(45.2)
Other	(2.5)
Balance, September 30, 2012	$16.4

5. Long-Term Debt

Long-term debt consisted of the following components:

	September 30, 2012	December 31, 2011
	(In millions)	
Senior Secured Credit Facility, due October 2017, at a variable interest rate of 4.25% as of September 30, 2012 and December 31, 2011	$503.8	$682.5
Senior Notes due October 2018, at a fixed rate of 9.5%	760.8	765.8
Discount	(24.5)	(29.5)
Total long-term debt	1,240.1	1,418.8
Less current maturities	(7.4)	(7.4)
Long-term debt, less current maturities	$1,232.7	$1,411.4

For a description of the respective instruments, refer to Note 8 of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

Debt Modification Costs

On February 25, 2011, the Company entered into Amendment No. 1 (the "Amendment") to the Credit Agreement dated as of October 8, 2010. For a description of the Amendment, refer to Note 8 of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. Fees of $4.1 million paid to third parties in connection with the Amendment were included as “Debt modification costs” in the Consolidated Statement of Income for the nine months ended September 30, 2011.

DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Loss on Extinguishment of Debt

During the nine months ended September 30, 2012 and 2011, the Company recognized the following losses on the extinguishment of debt:

Quarter Ended	Instrument Repaid/Retired	Face Amount Repaid/Retired	Cash Paid	Loss [1]
		(In millions)		
March 2012	Term Loans	$ 70.5	$ 70.5	$ 1.9
March 2012	Senior Notes	5.0	5.5	0.7
September 2012	Term Loans	108.2	108.2	2.3
	Total 2012	183.7	184.2	4.9
March 2011	Term Loans	$ 110.0	$ 110.0	$ 2.7
March 2011	Senior Notes	32.3	35.3	4.3
June 2011	Senior Notes	7.5	8.2	0.9
	Total 2011	$ 149.8	$ 153.5	$ 7.9

[1] Including write-off of the discount and deferred financing costs related to the debt retired.

Compliance with Covenants and Restrictions

The Company was in compliance with all the covenants and restrictions related to its Senior Secured Credit Facility and Senior Notes as of September 30, 2012.

6. Financing Obligations

As of September 30, 2012, future minimum lease payments under financing obligations during the initial terms of the leases related to sale-leaseback transactions are as follows:

Fiscal Years	(In millions)	
Remainder of 2012	$ 2.7	(1)
2013	10.8	
2014	10.9	
2015	11.9	(1)
2016	11.0	
Thereafter	133.2	
Total minimum lease payments	180.5	
Less: interest	(84.4	)
Total financing obligations	96.1	

Less: current portion	(2.3)[2]
Long-term financing obligations	$93.8

(1) Due to the varying closing dates of the Company's fiscal years, 11 monthly payments will be made in fiscal 2012 and 13 monthly payments will be made in fiscal 2015.
(2) Included in "current maturities of capital lease and financing obligations" on the consolidated balance sheet.

During the nine months ended September 30, 2012, the Company's continuing involvement with 41 properties subject to financing obligations was ended by assignment of the lease obligations to a qualified franchisee. As a result, the Company's financing obligations were reduced by $67.9 million.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

7. Impairment and Closure Charges

The Company assesses tangible long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The following table summarizes the components of impairment and closure charges for the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Impairment and closure charges:				
Impairment	$—	$0.1	$0.4	$4.9
Lenexa lease termination	—	—	—	21.3
Closure charges	0.4	0.1	0.9	0.7
Total impairment and closure charges	$0.4	$0.2	$1.3	$26.9

Impairment and closure charges for the nine months ended September 30, 2012 totaled $1.3 million. The impairment charge related to a parcel of land previously intended for future restaurant development. The closure charges primarily related to several individually insignificant closures of franchise restaurants.

Impairment and closure charges for the nine months ended September 30, 2011 totaled $26.9 million and primarily related to termination of the Company's sublease of the commercial space previously occupied by the Applebee's Restaurant Support Center in Lenexa, Kansas. The Company recognized $21.3 million for the termination fee and other closing costs in the second quarter of 2011. The Company recognized a $4.5 million impairment charge in the quarter ended March 31, 2011 related to furniture, fixtures and leasehold improvements at the facility whose book value was not realizable as the result of the termination of the sublease. The closure charges related to several individually insignificant closures of franchise restaurants.

8. Income Taxes

The effective tax rate was 33.2% for the nine months ended September 30, 2012 as compared to 31.8% for the nine months ended September 30, 2011. In 2012, the effective tax rate was impacted by a discrete $6.3 million state benefit in the third quarter related to a reduction in state deferred taxes as a result of the refranchising and sale of Applebee's company-operated restaurants. In 2011, the effective tax rate was lower due to a $3.2 million reduction in income tax expense for the release of liabilities for unrecognized tax benefits related to gift card income deferral as a result of the issuance of guidance by the U.S. Internal Revenue Service.

At September 30, 2012, the Company had a liability for unrecognized tax benefits, including potential interest and penalties net of related tax benefit, totaling $7.0 million, of which approximately $0.9 million is expected to be paid within one year. For the remaining liability, due to the uncertainties related to these tax matters, the Company is unable to make a reasonably reliable estimate when cash settlement with a taxing authority will occur.

As of September 30, 2012, accrued interest and penalties were $1.9 million and $0.4 million, respectively, excluding any related income tax benefits. As of December 31, 2011, accrued interest and penalties were $3.0 million and $0.3 million, respectively, excluding any related income tax benefits. The decrease of $1.1 million of accrued interest is primarily related to the decrease of unrecognized tax benefits due to settlements with taxing authorities, partially offset by the accrual of interest during the nine months ended September 30, 2012. The Company recognizes interest accrued related to unrecognized tax benefits and penalties as a component of income tax expense, which is recognized in the Consolidated Statements of Income.

The Company and its subsidiaries file federal income tax returns as well as income tax returns in various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to federal, state or non-United States tax examinations by tax authorities for years before 2008. The Internal Revenue Service commenced examination of the Company's U.S. federal income tax return for the tax years 2008 to 2010 in the first quarter of 2012. The examination is anticipated to be completed by the first quarter of 2013.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

9. Stock-Based Compensation

From time to time, the Company has granted nonqualified stock options, restricted stock, cash-settled and stock-settled restricted stock units and performance units to officers, other employees and non-employee directors of the Company. Currently, the Company is authorized to grant nonqualified stock options, stock appreciation rights, restricted stock, cash-settled and stock-settled restricted stock units and performance units to officers, other employees and nonemployee directors under the DineEquity, Inc. 2011 Stock Incentive Plan (the “2011 Plan”). The 2011 Plan was approved by stockholders on May 17, 2011 and permits the issuance of up to 1,500,000 shares of the Company’s common stock. The 2011 Plan will expire in May 2021.

The nonqualified stock options generally vest over a three-year period and have a term of ten years from the effective issuance date. Option exercise prices equal the closing price of the Company’s common stock on the New York Stock Exchange on the date of grant. Restricted stock and restricted stock units are issued at no cost to the holder and vest over terms determined by the Compensation Committee of the Company’s Board of Directors, generally three years.

The following table summarizes the components of the Company’s stock-based compensation expense included in general and administrative expenses in the consolidated financial statements:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Pre-tax compensation expense	$4.2	$1.6	$11.2	$8.0
Tax provision	(1.6)	(0.6)	(4.3)	(3.2)
Total stock-based compensation expense, net of tax	$2.6	$1.0	$6.9	$4.8

As of September 30, 2012, total unrecognized compensation cost (including estimated forfeitures) of $9.3 million related to restricted stock and restricted stock units and $8.2 million related to stock options is expected to be recognized over a weighted average period of 1.9 years for restricted stock and restricted stock units and 1.9 years for stock options.

The estimated fair values of the options granted during the nine months ended September 30, 2012 were calculated using a Black-Scholes option pricing model. The following summarizes the assumptions used in the Black-Scholes model:

Risk-free interest rate	0.86 %
Weighted average historical volatility	83.6 %
Dividend yield	—
Expected years until exercise	4.66
Forfeitures	11.0 %
Weighted average fair value of options granted	$33.11

Option balances as of September 30, 2012 and activity related to the Company's stock options during the nine months then ended were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2011	1,318,640	$32.06		
Granted	147,674	$51.63		
Exercised	(352,266)	$16.20		
Forfeited	(50,778)	$44.49		
Outstanding at September 30, 2012	1,063,270	$39.44	6.47	$17,740,000
Vested at September 30, 2012 and Expected to Vest	1,022,929	$39.07	6.38	$17,447,000
Exercisable at September 30, 2012	690,212	$35.49	5.37	$14,220,000

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the closing stock price of the Company's common stock on the last trading day of the third quarter of 2012 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2012. The aggregate intrinsic value will change based on the fair market value of the Company's common stock and the number of in-the-money options.

A summary of restricted stock activity for the nine months ended September 30, 2012 is presented below:

	Restricted Stock	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2011	486,533	$31.25	18,000	$29.32
Granted	126,006	$51.75	19,152	$52.23
Released	(176,521)	$13.55	(3,910)	$40.58
Forfeited	(84,325)	$44.09	—	—
Outstanding at September 30, 2012	351,693	$44.28	33,242	$41.19

The Company has issued 44,957 shares of cash-settled restricted stock units to members of the Board of Directors, of which 37,184 were outstanding at September 30, 2012. As these instruments can only be settled in cash, they are recorded as liabilities based on the closing price of the Company's common stock as of September 30, 2012. For the nine months ended September 30, 2012 and 2011, $0.6 million and $0.3 million, respectively, were included in pretax stock-based compensation expense for the cash-settled restricted stock units.

10. Segments

The Company's revenues and expenses are recorded in four segments: franchise operations, company restaurant operations, rental operations and financing operations.

As of September 30, 2012, the franchise operations segment consisted of (i) 1,954 restaurants operated by Applebee's franchisees in the United States, one U.S. territory and 15 countries outside the United States; and (ii) 1,548 restaurants operated by IHOP franchisees and area licensees in the United States, two U.S. territories and four countries outside the United States. Franchise operations revenue consists primarily of franchise royalty revenues, sales of proprietary products, certain franchise advertising fees and the portion of the franchise fees allocated to intellectual property. Franchise operations expenses include advertising expense, the cost of proprietary products, pre-opening training expenses and costs related to intellectual property provided to certain franchisees.

As of September 30, 2012, the company restaurant operations segment consisted of 62 Applebee's company-operated restaurants and 17 IHOP company-operated restaurants, all located in the United States. Company restaurant sales are retail sales at company-operated restaurants. Company restaurant expenses are operating expenses at company-operated restaurants and include food, labor, benefits, utilities, rent and other restaurant operating costs.

Rental operations revenue includes revenue from operating leases and interest income from direct financing leases. Rental operations expenses are costs of operating leases and interest expense on capital leases on franchisee-operated restaurants.

Financing operations revenue primarily consists of interest income from the financing of franchise fees and equipment leases, as well as sales of equipment associated with refranchised IHOP restaurants and a portion of franchise fees for restaurants taken back from franchisees not allocated to IHOP intellectual property. Financing expenses are primarily the cost of restaurant equipment.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Information on segments was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions)			
Revenues from External Customers				
Franchise operations	$102.7	$97.7	$313.5	$300.8
Company restaurants	79.6	131.6	274.3	421.0
Rental operations	30.9	31.2	92.1	95.0
Financing operations	3.2	4.0	11.4	16.3
Total	$216.3	$264.5	$691.3	$833.0
Interest Expense				
Company restaurants	$0.1	$0.1	$0.3	$0.4
Rental operations	4.2	4.4	12.8	13.6
Corporate	28.9	32.2	88.8	101.3
Total	$33.2	$36.7	$101.9	$115.3
Depreciation and amortization				
Franchise operations	$2.5	$2.3	$7.4	$7.4
Company restaurants	1.6	4.0	6.4	13.5
Rental operations	3.4	3.5	10.3	10.5
Corporate	2.3	2.5	6.7	7.2
Total	$9.8	$12.3	$30.8	$38.6
Income (loss) before income taxes				
Franchise operations	$75.5	$72.7	$232.4	$222.1
Company restaurants	11.0	17.6	42.0	57.9
Rental operations	6.7	6.7	19.0	21.3
Financing operations	3.2	3.6	9.8	10.3
Corporate	(9.8)	(75.4)	(140.1)	(243.4)
Total	$86.6	$25.2	$163.1	$68.2

DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

11. Net Income per Share

The computation of the Company's basic and diluted net income per share was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
Numerator for basic and dilutive income per common share:				
Net income	$60,573	$16,525	$108,855	$46,572
Less: Accretion of Series B Convertible Preferred Stock	(688)	(647)	(2,033)	(1,915)
Less: Net income allocated to unvested participating restricted stock	(1,187)	(359)	(2,477)	(1,212)
Net income available to common stockholders - basic	58,698	15,519	104,345	43,445
Effect of unvested participating restricted stock in two-class calculation	57	5	121	22
Accretion of Series B Convertible Preferred Stock	688	—	2,033	—
Net income available to common stockholders - diluted	$59,443	$15,524	$106,499	$43,467
Denominator:				
Weighted average outstanding shares of common stock - basic	18,006	17,968	17,859	17,912
Dilutive effect of:				
Stock options	246	275	270	356
Series B Convertible Preferred Stock	672	—	672	—
Weighted average outstanding shares of common stock - diluted	18,924	18,243	18,801	18,268
Net income per common share:				
Basic	$3.26	$0.86	$5.84	$2.43
Diluted	$3.14	$0.85	$5.66	$2.38

For the three months and nine months ended September 30, 2011, the diluted income per common share was computed excluding 633,600 shares of common stock equivalents from the conversion of Series B Convertible Preferred Stock that were antidilutive.

12. Fair Value Measurements

The Company does not have a material amount of financial instruments, non-financial assets or non-financial liabilities that are required under U.S. GAAP to be measured on a recurring basis at fair value. The Company has not elected to use fair value measurement, as provided under U.S. GAAP, for any assets or liabilities for which fair value measurement is not presently required.

The Company believes the fair values of cash equivalents, accounts receivable, accounts payable and the current portion of long-term debt approximate the carrying amounts due to their short duration.

The fair values of non-current financial liabilities at September 30, 2012 and December 31, 2011, determined based on Level 2 inputs, were as follows:

	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Long-term debt, less current maturities	$1,232.7	$1,359.1	$1,411.4	$1,486.2

DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

13. Commitments and Contingencies

Litigation, Claims and Disputes

The Company is subject to various lawsuits, administrative proceedings, audits, and claims arising in the ordinary course of business. Some of these lawsuits purport to be class actions and/or seek substantial damages. The Company is required to record an accrual for litigation loss contingencies that are both probable and reasonably estimable. Legal fees and expenses associated with the defense of all of the Company's litigation are expensed as such fees and expenses are incurred. Management regularly assesses the Company's insurance deductibles, analyzes litigation information with the Company's attorneys and evaluates its loss experience in connection with pending legal proceedings. While the Company does not presently believe that any of the legal proceedings to which the Company is currently a party will ultimately have a material adverse impact on the Company, there can be no assurance that the Company will prevail in all the proceedings the Company is party to, or that the Company will not incur material losses from them.

Gerald Fast v. Applebee's

As previously disclosed, the Company has been defending a collective action in the United States District Court for the Western District of Missouri, Central Division that commenced in July 2006. In this case, the plaintiffs claimed that tipped servers and bartenders in Applebee's company-operated restaurants spent more than 20% of their time performing general preparation and maintenance duties, or “non-tipped work,” for which they should be compensated at the minimum wage. Under this action, plaintiffs sought unpaid wages and other relief of up to $17 million plus plaintiffs' attorneys' fees and expenses. The Company has vigorously challenged both the merits of the lawsuit and the allegation that the case should be certified as a collective action. However, in light of the cost and uncertainty involved in this lawsuit, the parties executed a settlement agreement on September 25, 2012. Under the proposed settlement, which is awaiting approval by the court, the Company agreed to pay $9.0 million. The settlement of the lawsuit is not an admission by the Company of any wrongdoing.

Lease Guarantees

In connection with the sale of Applebee’s restaurants or previous brands to franchisees and other parties, the Company has, in certain cases, guaranteed or had potential continuing liability for lease payments totaling $432.0 million as of September 30, 2012. This amount represents the maximum potential liability for future payments under these leases. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from 2012 through 2048. In the event of default, the indemnity and default clauses in our sale or assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of September 30, 2012.

14. Consolidating Financial Information

Certain of the Company's subsidiaries have guaranteed the Company's obligations under the Senior Secured Credit Facility. The following presents the condensed consolidating financial information separately for: (i) the parent

Company, the issuer of the guaranteed obligations; (ii) the guarantor subsidiaries, on a combined basis, as specified in the Credit Agreement; (iii) the non-guarantor subsidiaries, on a combined basis; (iv) consolidating eliminations and reclassifications; and (v) DineEquity, Inc. and Subsidiaries, on a consolidated basis.

Each guarantor subsidiary is 100% owned by the Company at the date of each balance sheet presented. The notes are fully and unconditionally guaranteed on a joint and several basis by each guarantor subsidiary. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements.

DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Supplemental Condensed Consolidating Balance Sheet
September 30, 2012
(In millions[(1)])

	Parent	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations and Reclassification	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$45.0	$26.2	$0.6	$—	$71.8
Receivables, net	1.1	82.1	0.4	(8.0)	75.5
Prepaid expenses and other current assets	140.2	55.9	—	(140.6)	55.5
Deferred income taxes	(2.6)	25.4	0.9	—	23.7
Assets held for sale	—	15.4	0.9	—	16.4
Intercompany	(376.8)	371.2	5.6	—	—
Total current assets	(193.2)	576.2	8.5	(148.6)	242.9
Long-term receivables	—	214.8	—	—	214.8
Property and equipment, net	24.7	321.0	—	—	345.6
Goodwill	—	697.5	—	—	697.5
Other intangible assets, net	—	809.2	—	—	809.2
Other assets, net	19.3	92.5	—	—	111.8
Investment in subsidiaries	1,697.6	—	—	(1,697.6)	—
Total assets	$1,548.4	$2,711.1	$8.5	$(1,846.2)	$2,421.8
Liabilities and Stockholders' Equity					
Current Liabilities					
Current maturities of long-term debt	$15.4	$—	$—	$(8.0)	$7.4
Accounts payable	1.8	30.2	—		32.0
Accrued employee compensation and benefits	7.1	12.6	—		19.7
Gift card liability	—	84.1	—		84.1
Income taxes payable	(46.4)	187.0	—	(140.6)	—
Other accrued expenses	42.4	26.8	0.5		69.7
Total current liabilities	20.3	340.7	0.5	(148.6)	212.9
Long-term debt	1,232.7				