Dine Brands Global, Inc.
Form 10-Q
August 01, 2018
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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 June 30, 2018
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
Dine Brands Global, 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 every Interactive Data File required to be submitted 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, smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company)

Smaller reporting company o
Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act 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 July 27, 2018
Common Stock, $0.01 par value	17,698,278

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Cautionary Statement Regarding Forward-Looking Statements

Statements contained in this Quarterly Report on Form 10-Q may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements involve known and unknown risks, uncertainties and other factors, which may cause actual results to be materially different from those expressed or implied in such statements. You can identify these forward-looking statements by words such as "may," "will," "would," "should," "could," "expect," "anticipate," "believe "estimate," "intend," "plan," "goal" and other similar expressions. You should consider our forward-looking statements in ligh of the risks discussed under the heading "Risk Factors," as well as our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the United States Securities and Exchange Commission. The forward-looking statements contained in this report are made as of the date hereof and Dine Brands Global, Inc. does not intend to, nor does it assume any obligation to, update or supplement any forward-looking statements after the date of this report to reflect actual results or future events or circumstances.

Factors that could cause actual results to differ materially from the projections, forecasts, estimates and expectations discussed in this Quarterly Report on Form 10-Q include, among other things: general economic conditions; our level of indebtedness; compliance with the terms of our securitized debt; our ability to refinance our current indebtedness or obtain additional financing; our dependence on information technology; potential cyber incidents; the implementation of restaurant development plans; our dependence on our franchisees; the concentration of our Applebee's franchised restaurants in a limited number of franchisees; the financial health of our franchisees; our franchisees' and other licensees' compliance with our quality standards and trademark usage; general risks associated with the restaurant industry; potential harm to our brands' reputation; possible future impairment charges; the effects of tax reform; trading volatility and fluctuations in the price of our stock; our ability to achieve the financial guidance we provide to investors; successful implementation of our business strategy; the availability of suitable locations for new restaurants; shortages or interruptions in the supply or delivery of products from third parties or availability of utilities; the management and forecasting of appropriate inventory levels; development and implementation of innovative marketing and use of social media; changing health or dietary preference of consumers; risks associated with doing business in international markets; the results of litigation and other legal proceedings; third-party claims with respect to intellectual property assets; our ability to attract and retain management and other key employees; compliance with federal, state and local governmental regulations; risks associated with our self-insurance; natural disasters or other series incidents; our success with development initiatives outside of our core business; the adequacy of our internal controls over financial reporting and future changes in accounting standards.

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Fiscal Quarter End

The Company's fiscal quarters end on the Sunday closest to the last day of each calendar quarter. For convenience, the fiscal quarters of each year are referred to as ending on March 31, June 30, September 30 and December 31. The first fiscal quarter of 2018 began on January 1, 2018 and ended on April 1, 2018; the second fiscal quarter of 2018 ended on July 1, 2018. The first fiscal quarter of 2017 began on January 2, 2017 and ended on April 2, 2017; the second fiscal quarter of 2017 ended on July 2, 2017.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.
Dine Brands Global, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

Assets	June 30, 2018 (Unaudited)	December 31, 2017 (as adjusted)
Current assets:		
Cash and cash equivalents	$95,718	$117,010
Receivables, net	103,015	140,188
Restricted cash	39,430	31,436
Prepaid gift card costs	29,464	40,725
Prepaid income taxes	42,107	45,981
Other current assets	6,764	12,615
Total current assets	316,498	387,955
Long-term receivables, net	118,173	126,570
Other intangible assets, net	579,369	582,787
Goodwill	339,236	339,236
Property and equipment, net	197,220	199,585
Deferred rent receivable	80,358	82,971
Non-current restricted cash	14,700	14,700
Other non-current assets, net	4,752	4,135
Total assets	$1,650,306	$1,737,939
Liabilities and Stockholders' Deficit		
Current liabilities:		
Current maturities of long-term debt	$32,965	$12,965
Accounts payable	47,694	55,028
Gift card liability	108,695	164,441
Dividends payable	11,430	17,748
Current maturities of capital lease and financing obligations	12,752	14,193
Accrued employee compensation and benefits	12,136	13,547
Deferred franchise revenue, short-term	10,765	11,001
Other accrued expenses	14,484	16,001
Total current liabilities	250,921	304,924
Long-term debt, less current maturities	1,265,093	1,269,849
Capital lease obligations, less current maturities	57,624	61,895
Financing obligations, less current maturities	38,820	39,200
Deferred income taxes, net	112,073	119,996
Deferred franchise revenue, long-term	67,246	70,432
Deferred rent payable	60,853	69,112
Other non-current liabilities	20,927	18,071
Total liabilities	1,873,557	1,953,479
Commitments and contingencies		
Stockholders' deficit:		
Common stock, $0.01 par value; shares: 40,000,000 authorized; June 30,2018 - 25,005,404 issued, 17,802,953 outstanding; December 31, 2017 - 25,022,312 issued, 17,993,124 outstanding	250	250

Additional paid-in-capital	254,912	276,408
Accumulated deficit	(40,154)	(69,940)
Accumulated other comprehensive loss	(61)	(105)
Treasury stock, at cost; shares: June 30, 2018 - 7,202,451; December 31, 2017 - 7,029,188	(438,198)	(422,153)
Total stockholders' deficit	(223,251)	(215,540)
Total liabilities and stockholders' deficit	$1,650,306	$1,737,939

See the accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
Revenues:				
Franchise revenues	$151,941	$153,064	$307,254	$307,789
Rental revenues	30,324	30,124	61,165	60,589
Financing revenues	2,206	2,088	4,215	4,219
Company restaurant sales	—	3,378	—	7,518
Total revenues	184,471	188,654	372,634	380,115
Cost of revenues:				
Franchise expenses	82,944	69,522	164,816	139,689
Rental expenses	22,788	22,681	45,429	45,347
Financing expenses	149	—	299	—
Company restaurant expenses	—	3,447	—	7,790
Total cost of revenues	105,881	95,650	210,544	192,826
Gross profit	78,590	93,004	162,090	187,289
General and administrative expenses	38,759	37,366	80,670	87,671
Interest expense	15,481	15,780	30,680	31,143
Closure and impairment (credits) charges	(2,702)	2,701	(98)	2,918
Amortization of intangible assets	2,506	2,500	5,008	5,000
Gain on disposition of assets	(50)	(6,243)	(1,477)	(6,352)
Income before income tax provision	24,596	40,900	47,307	66,909
Income tax provision	(11,883)	(18,793)	(17,521)	(29,207)
Net income	12,713	22,107	29,786	37,702
Other comprehensive (loss) income, net of tax:				
Adjustment to unrealized loss on available-for-sale investments	—	—	50	—
Foreign currency translation adjustment	(3)	—	(6)	—
Total comprehensive income	$12,710	$22,107	$29,830	$37,702
Net income available to common stockholders:				
Net income	$12,713	$22,107	$29,786	$37,702
Less: Net income allocated to unvested participating restricted stock	(428)	(356)	(1,000)	(635)
Net income available to common stockholders	$12,285	$21,751	$28,786	$37,067
Net income available to common stockholders per share:				
Basic	$0.70	$1.23	$1.63	$2.09
Diluted	$0.69	$1.23	$1.61	$2.09
Weighted average shares outstanding:				
Basic	17,544	17,719	17,623	17,707
Diluted	17,803	17,725	17,827	17,721
Dividends declared per common share	$0.63	$0.97	$1.26	$1.94
Dividends paid per common share	$0.63	$0.97	$1.60	$1.94

See the accompanying Notes to Consolidated Financial Statements.

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Dine Brands Global, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2018	2017 (as adjusted)
Cash flows from operating activities:		
Net income	$ 29,786	$ 37,702
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	15,842	15,422
Closure and impairment charges	(114)	2,910
Non-cash interest expense	1,744	1,663
Deferred income taxes	(3,606)	(7,633)
Non-cash stock-based compensation expense	5,641	7,567
Gain on disposition of assets	(1,477)	(6,352)
Other	(8,438)	(4,863)
Changes in operating assets and liabilities:		
Accounts receivable, net	(10,924)	(694)
Current income tax receivables and payables	2,776	(482)
Gift card receivables and payables	(10,334)	(14,121)
Other current assets	5,851	(2,215)
Accounts payable	3,816	(8,153)
Accrued employee compensation and benefits	(1,411)	(4,743)
Other current liabilities	(3,360)	4,886
Cash flows provided by operating activities	25,792	20,894
Cash flows from investing activities:		
Additions to property and equipment	(7,339)	(6,945)

Proceeds from sale of property and equipment	655	1,100
Principal receipts from notes, equipment contracts and other long-term receivables	14,923	9,946
Additions to long-term receivables	(3,030)	—
Other	(246)	(292)
Cash flows provided by investing activities	4,963	3,809
Cash flows from financing activities:		
Borrowings under Variable Funding Notes	20,000	—
Repayment of long-term debt	(6,500)	—
Dividends paid on common stock	(28,757)	(34,879)
Repurchase of common stock	(20,003)	(10,003)
Principal payments on capital lease and financing obligations	(8,013)	(7,170)
Tax payments for restricted stock upon vesting	(1,400)	(2,320)
Proceeds from stock options exercised	620	2,635
Cash flows used in financing activities	(44,053)	(51,737)
Net change in cash, cash equivalents and restricted cash	(13,298)	(27,034)
Cash, cash equivalents and restricted cash at beginning of period	163,146	185,491
Cash, cash equivalents and restricted cash at end of period	$ 149,848	$ 158,457
Supplemental disclosures:		
Interest paid in cash	$ 33,199	$ 34,007
Income taxes paid in cash	$ 18,267	$ 37,241
Non-cash conversion of accounts receivable	$ 5,856	$ —

to notes receivable

See the accompanying Notes to Consolidated Financial Statements.

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Dine Brands Global, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. General

The accompanying unaudited consolidated financial statements of Dine Brands Global, Inc. (the "Company" or "Dine Brands Global") 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 six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2018.

The consolidated balance sheet at December 31, 2017 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, 2017.

2. Basis of Presentation

The Company's fiscal quarters end on the Sunday closest to the last day of each calendar quarter. For convenience, the fiscal quarters of each year are referred to as ending on March 31, June 30, September 30 and December 31. The first fiscal quarter of 2018 began on January 1, 2018 and ended on April 1, 2018; the second fiscal quarter of 2018 ended on July 1, 2018. The first fiscal quarter of 2017 began on January 2, 2017 and ended on April 2, 2017; the second fiscal quarter of 2017
ended on July 2, 2017.

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.

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, disclosures of contingent assets and liabilities, if any, at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates are made in the calculation and assessment of the following: impairment of goodwill, other intangible assets and tangible assets; income taxes; allowance for doubtful accounts and notes receivables; lease accounting estimates; contingencies; and stock-based compensation. On an ongoing basis, the Company evaluates its estimates based on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances. The Company adjusts such estimates and assumptions when facts and circumstances dictate. Actual results could differ from those estimates.

3. Accounting Standards Adopted and Newly Issued Accounting Standards Not Yet Adopted

Accounting Standards Adopted Effective January 1, 2018

On January 1, 2018, the Company adopted the guidance of Accounting Standards Codification 606 - Revenue from Contracts with Customers ("ASC 606"). The Company adopted this change in accounting principles using the full retrospective method. Accordingly, previously reported financial information has been adjusted to reflect the application of ASC 606 to all comparative periods presented. The Company utilized all of the practical expedients for adoption allowed under the full retrospective method. The Company believes utilization of the practical expedients did not have a significant impact on the consolidated financial statements of the periods presented herein.

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Dine Brands Global, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

3. Accounting Standards Adopted and Newly Issued Accounting Standards Not Yet Adopted (Continued)

Adoption of ASC 606 impacted our previously reported Consolidated Balance Sheet as follows:

	Balance at December 31, 2017, as reported	Adjustments/Reclassifications Due to ASC 606 adoption	Balance at December 31, 2017, as adjusted
	(In thousands)		
Assets:			
Receivables, net	$150,174	$ (9,986)	$140,188
Prepaid income taxes	43,654	2,327	45,981
Long-term receivables, net	131,212	(4,642)	126,570
Liabilities:			
Deferred franchise revenue (short-term)	—	11,001	11,001
Other accrued expenses	17,780	(1,779)	16,001
Deferred franchise revenue (long-term)	—	70,432	70,432
Other non-current liabilities	23,003	(4,932)	18,071
Deferred income taxes, net	138,177	(18,181)	119,996
Equity:			
Accumulated deficit	$(1,098)	$ (68,842)	$(69,940)

In conjunction with its adoption of ASC 606, the Company has separated “franchise and restaurant revenues” and “franchise and restaurant expenses,” previously combined when reported in the Statement of Comprehensive Income for the three and six months ended June 30, 2017, into separate line items for franchise revenues/expense and company restaurant sales/expense as follows:

	Three months ended June 30, 2017	Six months ended June 30, 2017
	(in thousands)	
Franchise and restaurant revenues, as combined	$122,987	$246,565
Franchise revenues	$119,609	$239,047
Company restaurant sales	3,378	7,518
	$122,987	$246,565
Franchise and restaurant expenses, as combined	$40,669	$81,676
Franchise expenses	37,222	73,886
Company restaurant expenses	3,447	$7,790
	$40,669	$81,676

Adoption of ASC 606 impacted our previously reported Consolidated Statement of Comprehensive Income for the three months ended June 30, 2017, as follows:

	Three Months ended June 30, 2017, as reported	Adjustments due to ASC 606 adoption	Three Months ended June 30, 2017, as adjusted
	(In thousands)		
Franchise revenues (as shown separately above)	$119,609	$ 33,455	$153,064
Franchise expenses (as shown separately above)	37,222	32,300	69,522
Income before income tax provision	39,745	1,155	40,900
Income tax provision	(18,465)	(328)	(18,793)
Net income	21,280	827	22,107
Net income per share:			
Basic	$1.18		$1.23
Diluted	$1.18		$1.23

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Dine Brands Global, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

3. Accounting Standards Adopted and Newly Issued Accounting Standards Not Yet Adopted (Continued)

Recognition of Applebee's advertising revenue and expense comprised $32.3 million of the revenue adjustment and all of the expense adjustment. Approximately $1.2 million of the revenue adjustment is due to the change in method of recognizing franchise and development fees. See Note 4 - Revenue Disclosures, of the Notes to Consolidated Financial Statements for a description of these changes.

Adoption of ASC 606 impacted our previously reported Consolidated Statement of Comprehensive Income for the six months ended June 30, 2017, as follows:

	Six Months ended June 30, 2017, as reported	Adjustments due to ASC 606 adoption	Six Months ended June 30, 2017, as adjusted
	(In thousands)		
Franchise revenues (as shown separately above)	$239,047	$ 68,742	$307,789
Franchise expenses (as shown separately above)	73,886	65,803	139,689
Income before income tax provision	63,970	2,939	66,909
Income tax provision	(28,327)	(880)	(29,207)
Net income	35,643	2,059	37,702
Net income per share:			
Basic	$1.98		$2.09
Diluted	$1.98		$2.09

Recognition of Applebee's advertising revenue and expense comprised $65.8 million of the revenue adjustment and all of the expense adjustment. Approximately $2.9 million of the revenue adjustment is due to the change in method of recognizing franchise and development fees. See Note 4 - Revenue Disclosures, of the Notes to Consolidated Financial Statements for a description of these changes.

The adoption of ASC 606 had no impact on the Company's cash provided by or used in operating, investing or financing activities as previously reported in its Consolidated Statements of Cash Flows.

Additional new accounting guidance became effective for the Company as of January 1, 2018 that the Company reviewed and concluded was either are not applicable to the Company's operations or had no material effect on the Company's consolidated financial statements.

Newly Issued Accounting Standards Not Yet Adopted

In June 2016, the FASB issued new guidance on the measurement of credit losses on financial instruments. The new guidance will replace the incurred loss methodology of recognizing credit losses on financial instruments that is currently required with a methodology that estimates the expected credit loss on financial instruments and reflects the net amount expected to be collected on the financial instrument. Application of the new guidance may result in the earlier recognition of credit losses as the new methodology will require entities to consider forward-looking information in addition to historical and current information used in assessing incurred losses. The Company will be required to adopt the new guidance on a modified retrospective basis beginning with its first fiscal quarter of 2020, with early adoption permitted in its first fiscal quarter of 2019. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements and related disclosures and whether early adoption will be elected.

In February 2016, the FASB issued new guidance with respect to the accounting for leases. The new guidance will require lessees to recognize a right-of-use asset and a lease liability for virtually all leases, other than leases with a term of 12 months or less, and to provide additional disclosures about leasing arrangements. Accounting by lessors is largely unchanged from existing accounting guidance. The Company will be required to adopt the new guidance on a modified retrospective basis beginning with its first fiscal quarter of 2019. Early adoption is permitted.

While the Company is still in the process of evaluating the impact of the new guidance on its consolidated financial statements and disclosures, the Company expects adoption of the new guidance will have a material impact on its Consolidated Balance Sheets due to recognition of the right-of-use asset and lease liability related to its operating leases. While the new guidance is also expected to impact the measurement and presentation of elements of expenses and cash flows related to leasing arrangements, the Company does not presently believe there will be a material impact on its Consolidated Statements of

3. Accounting Standards Adopted and Newly Issued Accounting Standards Not Yet Adopted (Continued)

Comprehensive Income or Consolidated Statements of Cash Flows. Recognition of a lease liability related to operating leases will not impact any covenants related to the Company's long-term debt because the debt agreements specify that covenant ratios be calculated using U.S. GAAP in effect at the time the debt agreements were entered into.

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 Company's financial statements because of future adoption.

4. Revenue Disclosures

Franchise revenue (which comprises the majority of the Company's revenues) and revenue from company-operated restaurants are recognized in accordance with ASC 606. Under ASC 606, revenue is recognized upon transfer of control of promised services or goods to customers in an amount that reflects the consideration the Company expects to receive for those services or goods. The Company's rental and financing revenues are recognized in accordance with applicable U.S. GAAP accounting standards promulgated prior to the issuance of ASC 606, which remain in effect.

Franchising Activities

The Company owns and franchises the Applebee’s and IHOP restaurant concepts. The franchise arrangement for both brands is documented in the form of a franchise agreement and, in most cases, a development agreement. The franchise arrangement between the Company as the franchisor and the franchisee as the customer requires the Company to perform various activities to support the brand that do not directly transfer goods and services to the franchisee, but instead represent a single performance obligation, which is the transfer of the franchise license. The intellectual property subject to the franchise license is symbolic intellectual property as it does not have significant standalone functionality, and substantially all of the utility is derived from its association with the Company’s past or ongoing activities. The nature of the Company’s promise in granting the franchise license is to provide the franchisee with access to the brand’s symbolic intellectual property over the term of the license. The services provided by the Company are highly interrelated with the franchise license and as such are considered to represent a single performance obligation.

The transaction price in a standard franchise arrangement for both brands primarily consists of (a) initial franchise/development fees; (b) continuing franchise fees (royalties); and (c) advertising fees. Since the Company considers the licensing of the franchising right to be a single performance obligation, no allocation of the transaction price is required. Additionally, all domestic IHOP franchise agreements require franchisees to purchase proprietary pancake and waffle dry mix from the Company.

The Company recognizes the primary components of the transaction price as follows:

- Franchise and development fees are recognized as revenue ratably on a straight-line basis over the term of the franchise agreement commencing with the restaurant opening date. As these fees are typically received in cash at or near the beginning of the franchise term, the cash received is initially recorded as a contract liability until recognized as revenue over time;

- The Company is entitled to royalties and advertising fees based on a percentage of the franchisee's gross sales as defined in the franchise agreement. Royalty and advertising revenue is recognized when the franchisee's reported sales occur. Depending on timing within a fiscal period, the recognition of revenue results in either what is considered a contract asset (unbilled receivable) or, once billed, accounts receivable, on the balance sheet.
- Revenue from the sales of proprietary pancake and waffle dry mix is recognized in the period in which distributors ship the franchisee's order; recognition of revenue results in accounts receivable on the balance sheet.

In determining the amount and timing of revenue from contracts with customers, the Company exercises significant judgment with respect to collectibility of the amount; however, the timing of recognition does not require significant judgments as it is based on either the franchise term, the month of reported sales by the franchisee or the date of product shipment, none of which require estimation.

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Dine Brands Global, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

4. Revenue Disclosures (Continued)

The Company does not incur a significant amount of contract acquisition costs in conducting its franchising activities and has not capitalized any such costs. The Company believes its franchising arrangements do not contain a significant financing component.

Prior to the adoption of ASC 606, the Company generally recognized the entire franchise and/or development fee as revenue at the restaurant opening date. The impact on the Company's previously reported financial statements of the change from that policy to the policy described above is presented in Note 3 - Accounting Standards Adopted and Newly Issued Accounting Standards Not Yet Adopted, of the Notes to Consolidated Financial Statements.

Prior to the adoption of ASC 606, the Company did not record advertising fees received under Applebee's franchise agreements as franchise revenue. In evaluating advertising activity under the guidance of ASC 606, the Company considers itself to be primarily responsible for fulfilling the promise to provide all of the services specified in the contract, including advertising activities, which are not considered to be distinct services in the context of providing the right to the symbolic intellectual property. Accordingly, under ASC 606, the Company records advertising fees received under Applebee's franchise agreements as franchise revenue. The Company had previously recorded advertising fees received under IHOP franchise agreements as franchise revenue. Under previously issued accounting guidance for franchisors, advertising revenue and expense were recognized in the same amount in each period. That guidance was superceded by ASC 606 such that advertising expense may now be different than the advertising revenue recognized as described above. The impact of these changes with respect to Applebee's advertising fees and advertising expenses on the Company's previously reported financial statements is presented in Note 3 - Accounting Standards Adopted and Newly Issued Accounting Standards Not Yet Adopted, of the Notes to Consolidated Financial Statements.

The adoption of ASC 606 had no impact on the Company's recording of royalties and sales of proprietary pancake and waffle dry mix.

The following table disaggregates our franchise revenue by major type for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(In thousands)			
Franchise Revenue:				
Royalties	$77,494	$77,124	$151,910	$155,998
Advertising fees	58,705	60,462	122,541	122,162
Pancake and waffle dry mix sales and other	12,780	12,209	26,558	23,445
Franchise and development fees	2,962	3,269	6,245	6,184
Total franchise revenue	$151,941	$153,064	$307,254	$307,789

Receivables from franchisees as of June 30, 2018 and December 31, 2017 were $71.7 million (net of allowance of $25.2 million)] and $66.2 million (net of allowance of $22.2 million), respectively, and were included in receivables, net in the Consolidated Balance Sheets.

Changes in the Company's contract liability for deferred franchise and development fees during the six months ended June 30, 2018 are as follows:

	Deferred Franchise Revenue (short- and long-term) (In thousands)
Balance at December 31, 2017	$ 81,433
Recognized as revenue during the six months ended June 30, 2018	(5,459)
Fees received and deferred during the six months ended June 30, 2018	2,037
Balance at June 30, 2018	$ 78,011

4. Revenue Disclosures (Continued)

The balance of deferred revenue as of June 30, 2018 is expected to be recognized as follows:

	(In thousands)
Remainder of 2018	$ 4,532
2019	10,547
2020	8,212
2021	7,636
2022	7,109
2023	6,543
Thereafter	33,432
Total	$ 78,011

Company-operated Restaurants

The Company currently does not operate any restaurants but did operate restaurants in the comparative prior period. Sales by company-operated restaurants were recognized when food and beverage items were sold and were reported net of sales taxes collected from guests that were remitted to the appropriate taxing authorities. Recognition of revenue from company-operated restaurants was not impacted by the adoption of ASC 606 using the full retrospective method.

5. Long-Term Debt

Long-term debt consisted of the following components:

	June 30, 2018	December 31, 2017
	(In millions)	
Series 2014-1 4.277% Fixed Rate Senior Secured Notes, Class A-2	$1,290.3	$1,296.8
Series 2014-1 Variable Funding Senior Notes Class A-1, at a variable interest rate of 4.525% as of June 30, 2018	20.0	—
Debt issuance costs	(12.2)	(13.9)
Long-term debt, net of debt issuance costs	1,298.1	1,282.8
Current portion of long-term debt	(33.0)	(13.0)
Long-term debt	$1,265.1	$1,269.8

For a description of the respective instruments, refer to Note 7 of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

6. Stockholders' Deficit

Dividends

During the six months ended June 30, 2018, the Company paid dividends on common stock of $28.8 million, representing a cash dividend of $0.97 per share declared in the fourth quarter of 2017 and a cash dividend of $0.63 per share declared in the first quarter of 2018. On May 14, 2018, the Company's Board of Directors declared a second quarter 2018 cash dividend of $0.63 per share of common stock. This dividend was paid on July 6, 2018 to the Company's stockholders of record at the close of business on June 20, 2018. The Company reported dividends payable of $11.4 million at June 30, 2018.

Stock Repurchase Program

In October 2015, the Company's Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to $150 million of its common stock (the “2015 Repurchase Program”) on an opportunistic basis from time to time in open market transactions and in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The 2015 Repurchase Program, as approved by the Board of Directors, does not require the repurchase of a specific number of shares and can be terminated at any time. A summary of shares repurchased under the 2015 Repurchase Program, during the three and six months ended June 30, 2018 and cumulatively, is as follows:

Dine Brands Global, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

6. Stockholders' Equity (Continued)

2015 Repurchase Program	Shares	Cost of shares (In millions)
Repurchased during the three months ended June 30, 2018	137,163	$ 10.0
Repurchased during the six months ended June 30, 2018	275,801	$ 20.0
Cumulative (life-of-program) repurchases as of June 30, 2018	1,276,458	$ 102.9
Remaining dollar value of shares that may be repurchased	n/a	$ 47.1

Treasury Stock

Repurchases of the Company's common stock are included in treasury stock at the cost of shares repurchased plus any transaction costs. Treasury stock may be re-issued when stock options are exercised, when restricted stock awards are granted and when restricted stock units settle in stock upon vesting. The cost of treasury stock re-issued is determined using the first-in, first-out (“FIFO”) method. During the six months ended June 30, 2018, the Company re-issued 102,538 shares of treasury stock at a total FIFO cost of $4.0 million.

7. Income Taxes

The Company's effective tax rate was 37.0% for the six months ended June 30, 2018 as compared to 43.7% for the six months ended June 30, 2017. The effective tax rate of 37.0% for the six months ended June 30, 2018 was lower than the rate of the prior period primarily due to the federal statutory tax rate decreasing from 35% to 21% in accordance with the Tax Cuts and Jobs Act (the “Tax Act”) enacted in December 2017, partially offset by a $5.7 million increase to the tax provision related to Internal Revenue Service (“IRS”) audits of tax years 2011 to 2013.

The total gross unrecognized tax benefit as of June 30, 2018 and December 31, 2017 was $9.0 million and $5.9 million, respectively, excluding interest, penalties and related tax benefits. The increase in the unrecognized tax benefit of $3.1 million was related to the IRS examination of tax years 2011 to 2013. The Company estimates the unrecognized tax benefit may decrease over the upcoming 12 months by an amount up to $4.8 million related to settlements with taxing authorities and the lapse of statutes of limitations. For the remaining liability, due to the uncertainties related to these tax matters, the Company is unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority will occur.

As of June 30, 2018, accrued interest was $1.4 million and accrued penalties were less than $0.1 million, excluding any related income tax benefits. As of December 31, 2017, accrued interest was $1.1 million and accrued penalties were less than $0.1 million, excluding any related income tax benefits. The Company recognizes interest accrued related to unrecognized tax benefits and penalties as a component of its income tax provision recognized in its Consolidated Statements of Comprehensive Income.

The Company files federal income tax returns and the Company or one of its subsidiaries files income tax returns in various states 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 2011. The IRS commenced examination of the Company’s U.S. federal income tax return for the tax years 2011 to 2013 in fiscal year 2016. The examination is anticipated to conclude during fiscal year 2018. The Company believes that adequate reserves have been provided relating to all matters contained in the tax periods open to examination.

The Securities and Exchange Commission has issued guidance which provides for a measurement period of one year from the enactment date to finalize the accounting for effects of the Tax Act. Consistent with that guidance, the Company provisionally recorded an income tax benefit of $77.5 million related to the Tax Act in the fourth quarter of 2017. As of June 30, 2018, the Company has not yet completed its accounting for the tax effects of the enactment of the Tax Act. The Internal Revenue Service is expected to issue additional guidance clarifying provisions of the Act. As additional guidance is issued, one or more of the provisional amounts may change.

8. Stock-Based Compensation

The following table summarizes the components of stock-based compensation expense included in general and administrative expenses in the Consolidated Statements of Comprehensive Income:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(In millions)			
Total stock-based compensation expense:				
Equity classified awards expense	$2.3	$1.5	$5.7	$7.7
Liability classified awards expense (credit)	0.4	(1.3)	0.9	(1.1)
Total pre-tax stock-based compensation expense	2.7	0.2	6.6	6.6
Book income tax benefit	(0.7)	(0.1)	(1.7)	(2.5)
Total stock-based compensation expense, net of tax	$2.0	$0.1	$4.9	$4.1

As of June 30, 2018, total unrecognized compensation expense of $22.6 million related to restricted stock and restricted stock units and $4.7 million related to stock options are expected to be recognized over a weighted average period of 1.9 years for restricted stock and restricted stock units and 1.8 years for stock options.

Fair Value Assumptions

The Company granted 223,570 stock options during the six months ended June 30, 2018 for which the fair value was estimated using a Black-Scholes option pricing model. The following summarizes the assumptions used in the Black-Scholes model:

Risk-free interest rate	2.6 %
Weighted average historical volatility	26.1 %
Dividend yield	3.6 %
Expected years until exercise	4.6
Weighted average fair value of options granted	$11.94

The Company granted 25,330 performance-based stock options and 26,670 performance-based restricted stock units during the six months ended June 30, 2018 for which the fair value was estimated using a Monte Carlo simulation method. The following summarizes the assumptions used in estimating the fair values:

Risk-free interest rate	2.4 %
Weighted average historical volatility	33.0 %
Dividend yield	3.7 %
Expected years until exercise	3.0
Weighted average fair value of options granted	$9.79
Weighted average fair value of restricted stock units granted	$34.53

Equity Classified Awards - Stock Options

Stock option balances at June 30, 2018, and activity for the six months ended June 30, 2018 were as follows:

	Shares	Weighted	Weighted Average	Aggregate

		Average Exercise Price	Remaining Contractual Term (in Years)	Intrinsic Value (in Millions)
Outstanding at December 31, 2017	1,272,048	$ 61.44		
Granted	248,899	69.12		
Exercised	(12,460)	49.75		
Outstanding at June 30, 2018	1,508,487	62.81	7.0	$ 24.6
Vested at June 30, 2018 and Expected to Vest	1,323,639	64.44	6.6	$ 20.2
Exercisable at June 30, 2018	634,238	$ 75.29	3.9	$ 5.8

Dine Brands Global, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

8. Stock-Based Compensation (Continued)

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the closing stock price of the Company’s common stock on the last trading day of the second quarter of 2018 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 June 30, 2018. 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.

Equity Classified Awards - Restricted Stock and Restricted Stock Units

Outstanding balances as of June 30, 2018, and activity related to restricted stock and restricted stock units for the six months ended June 30, 2018 were as follows:

	Restricted Stock	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2017	275,191	$ 65.81	303,348	$ 28.39
Granted	90,078	68.89	52,711	48.13
Released	(52,342)	87.69	(15,737)	98.54
Forfeited	(12,816)	61.16	(71)	53.49
Outstanding at June 30, 2018	300,111	$ 63.13	340,251	$ 27.70

Liability Classified Awards - Cash-settled Restricted Stock Units

The Company has granted cash-settled restricted stock units to certain employees. These instruments are recorded as liabilities at fair value as of the respective period end. During the six months ended June 30, 2018, 58,747 units were issued, 59 units were vested and 1,746 units were forfeited. At June 30, 2018, there were 56,942 units outstanding. For the three and six months ended June 30, 2018, $0.2 million and $0.3 million was included as stock-based compensation expense related to cash-settled restricted stock units.

Liability Classified Awards - Long-Term Incentive Awards

The Company has granted cash long-term incentive awards (“LTIP awards”) to certain employees. Annual LTIP awards vest over a three-year period and are determined using a multiplier from 0% to 200% of the target award based on the total stockholder return of Dine Brands Global common stock compared to the total stockholder returns of a peer group of companies. Although LTIP awards are only paid in cash, since the multiplier is based on the price of the Company's common stock, the awards are considered stock-based compensation in accordance with U.S. GAAP and are classified as liabilities. For the three months ended June 30, 2018 and 2017, an expense of $0.2 million and a credit of $1.3 million, respectively was included in total stock-based compensation expense related to LTIP awards. For the six months ended June 30, 2018 and 2017, an expense of $0.6 million and a credit of $1.1 million, respectively, were included in total stock-based compensation expense related to LTIP awards. At June 30, 2018 and December 31, 2017, liabilities of $0.7 million and $0.2 million, respectively, related to LTIP awards were included as part of accrued employee compensation and benefits in the Consolidated Balance Sheets.

9. Segments

The Company identifies its reporting segments based on the organizational units used by management to monitor performance and make operating decisions. The Company currently has four operating segments: Applebee's franchise operations, IHOP franchise operations, rental operations and financing operations. During one or more of the comparative periods presented herein, the Company operated a small number of IHOP restaurants and those operations were considered to be a fifth operating segment. Including these historically company-operated restaurants, the Company has four reportable segments: franchise operations, (an aggregation of Applebee's and IHOP franchise operations), rental operations, financing operations and company-operated restaurant operations. The Company considers these to be its reportable segments, regardless of whether any segment exceeds 10% of consolidated revenues, income before income tax provision or total assets.

As of June 30, 2018, the franchise operations segment consisted of (i) 1,883 restaurants operated by Applebee’s franchisees in the United States, two U.S. territories and 13 countries outside the United States and (ii) 1,805 restaurants operated by IHOP franchisees and area licensees in the United States, three U.S. territories and 12 countries outside the United States. Franchise operations revenue consists primarily of franchise royalty revenues, franchise advertising revenue, sales of proprietary products

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Dine Brand Global, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

9. Segments (Continued)

to franchisees (primarily pancake and waffle dry mixes for the IHOP restaurants), and franchise fees. Franchise operations expenses include advertising expenses, the cost of IHOP proprietary products, bad debt expense, franchisor contributions to marketing funds, pre-opening training expenses and other franchise-related 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 from capital leases on franchisee-operated restaurants.

Financing operations revenue primarily consists of interest income from the financing of franchise fees and equipment leases and sales of equipment associated with refranchised IHOP restaurants. Financing expenses are primarily the cost of restaurant equipment associated with refranchised IHOP restaurants.

Company restaurant sales were retail sales at company-operated restaurants. Company restaurant expenses were operating expenses at company-operated restaurants and include food, labor, utilities, rent and other restaurant operating costs. In June 2017, the Company refranchised nine of ten IHOP company-operated restaurants in the Cincinnati, Ohio market area; the one restaurant not refranchised was closed. As a result, the Company no longer operates any restaurants on a permanent basis. The Company has not presented these restaurants as discontinued operations as defined by U.S. GAAP because the refranchising of nine restaurants out of a total of approximately 3,700 restaurants did not represent a strategic shift that had a major effect on the Company's operations.

From time to time, the Company may operate restaurants reacquired from franchisees on a temporary basis until those restaurants are refranchised. There were no restaurants under temporary company operation at June 30, 2018.

Information on segments is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
	(In millions)			
Revenues from external customers:				
Franchise operations	$151.9	$ 153.1	$307.2	$ 307.8
Rental operations	30.4	30.1	61.2	60.6
Company restaurants	—	3.4	—	7.5
Financing operations	2.2	2.1	4.2	4.2
Total	$184.5	$ 188.7	$372.6	$ 380.1
Interest expense:				
Rental operations	$2.3	$ 2.6	$4.8	$ 5.4
Company restaurants	—	0.1	—	0.2
Corporate	15.5	15.8	30.7	31.1
Total	$17.8	$ 18.5	$35.5	$ 36.7
Depreciation and amortization:				
Franchise operations	$2.7	$ 2.7	$5.3	$ 5.4
Rental operations	2.9	3.0	5.8	6.0

Company restaurants	—	—	—	0.1
Corporate	2.3	2.0	4.7	3.9
Total	$7.9	$ 7.7	$15.8	$ 15.4
Gross profit, by segment:				
Franchise operations	$69.0	$ 83.6	$142.4	$ 168.1
Rental operations	7.6	7.5	15.8	15.3
Company restaurants	—	(0.1)	—	(0.3)
Financing operations	2.0	2.0	3.9	4.2
Total gross profit	78.6	93.0	162.1	187.3
Corporate and unallocated expenses, net	(54.0)	(52.1)	(114.8)	(120.4)
Income before income tax provision	$24.6	$ 40.9	$47.3	$ 66.9

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Dine Brands Global, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

10. Net Income per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
	(In thousands, except per share data)			
Numerator for basic and diluted income per common share:				
Net income	$12,713	$22,107	$29,786	$37,702
Less: Net income allocated to unvested participating restricted stock	(428)	(356)	(1,000)	(635)
Net income available to common stockholders - basic	12,285	21,751	28,786	37,067
Effect of unvested participating restricted stock in two-class calculation	—	—	3	—
Net income available to common stockholders - diluted	$12,285	$21,751	$28,789	$37,067
Denominator:				
Weighted average outstanding shares of common stock - basic	17,544	17,719	17,623	17,707
Dilutive effect of stock options	259	6	204	14
Weighted average outstanding shares of common stock - diluted	17,803	17,725	17,827	17,721
Net income per common share:				
Basic	$0.70	$1.23	$1.63	$2.09
Diluted	$0.69	$1.23	$1.61	$2.09

11. Fair Value Measurements

The Company does not have a material amount of financial assets or liabilities that are required under U.S. GAAP to be measured on a recurring basis at fair value. The Company is not a party to any derivative financial instruments. The Company does not have a material amount of non-financial assets or non-financial liabilities that are required under U.S. GAAP to be measured at fair value on a recurring basis. The Company has not elected to use the fair value measurement option, as permitted 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 and accounts payable approximate their carrying amounts due to their short duration.

The fair values of the Company's Series 2014-1 Class A-2 Notes (the “Class A-2 Notes”) at June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Long-term debt, current and long-term	$1,290.3	$ 1,278.6	$1,282.8	$ 1,265.5

The fair values were determined based on Level 2 inputs, including information gathered from brokers who trade in the Company’s Class A-2 Notes and information on notes that are similar to those of the Company.

12. 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 under U.S. GAAP 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 coverage, analyzes litigation information with the Company's attorneys and evaluates the Company's loss experience in connection with pending legal proceedings. While the Company does not presently believe that any of the legal proceedings to which it 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.

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 has potential continuing liability for lease payments totaling $296.1 million as of June 30, 2018. 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 2018 through 2048. Excluding unexercised option periods, the Company's potential liability for future payments under these leases is $48.5 million. In the event of default, the indemnity and default clauses in the sale or assignment agreements govern the Company's ability to pursue and recover damages incurred.

13. Restricted Cash

Current restricted cash of $39.4 million at June 30, 2018 primarily consisted of $30.7 million of funds required to be held in trust in connection with the Company's securitized debt and $8.6 million of funds from Applebee's franchisees pursuant to franchise agreements, usage of which was restricted to advertising activities. Current restricted cash of $31.4 million at December 31, 2017 primarily consisted of $29.3 million of funds required to be held in trust in connection with the Company's securitized debt and $2.1 million of funds from Applebee's franchisees pursuant to franchise agreements, usage of which was restricted to advertising activities. Non-current restricted cash of $14.7 million at June 30, 2018 and December 31, 2017 represents interest reserves required to be set aside for the duration of the Company's securitized debt.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statement Regarding Forward-Looking Statements

Statements contained in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors, which may cause actual results to be materially different from those expressed or implied in such statements. You can identify these forward-looking statements by words such as “may,” “will,” “should,” “could,” “expect,” “anticipate,” “believe,” “estimate,” “intend,” “plan,” “goal” and other similar expressions. You should consider our forward-looking statements in light of the risks discussed under the heading “Risk Factors,” as well as our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the United States Securities and Exchange Commission. The forward-looking statements contained in this report are made as of the date hereof and the Company assumes no obligation to update or supplement any forward-looking statements.

You should read the following Management's Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this report.

Overview

The following discussion and analysis provides information which we believe is relevant to an assessment and understanding of our consolidated results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and the notes thereto included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and the MD&A contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Except where the context indicates otherwise, the words “we,” “us,” “our,” “Dine Brands Global” and the “Company” refer to Dine Brands Global, Inc. (formerly DineEquity, Inc.), together with its subsidiaries that are consolidated in accordance with United States generally accepted accounting principles (“U.S. GAAP”).

Through various subsidiaries, we own and franchise the Applebee's Neighborhood Grill & Bar® (“Applebee's”) concept in the bar and grill segment within the casual dining category of the restaurant industry and the International House of Pancakes® (“IHOP”) concept in the family dining category of the restaurant industry. References herein to Applebee's® and IHOP® restaurants are to these two restaurant concepts, whether operated by franchisees or area licensees and their sub-licensees (collectively, “area licensees”). With nearly 3,700 restaurants combined, all of which are franchised, we believe we are one of the largest full-service restaurant companies in the world.

We identify our reporting segments based on the organizational units used by management to monitor performance and make operating decisions. We currently have four operating segments: Applebee's franchise operations, IHOP franchise operations, rental operations and financing operations. During one or more of the comparative periods presented herein we operated a small number of IHOP restaurants and those operations were considered to be a fifth operating segment. Including these company-operated restaurants, we have four reportable segments: franchise operations, (an aggregation of Applebee's and IHOP franchise operations), rental operations, financing operations and company-operated restaurant operations. We consider these to be our reportable segments, regardless of whether any segment exceeds 10% of consolidated revenues, income before income tax provision or total assets.

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Key Financial Results

	Three months ended June 30,		Favorable (Unfavorable) Variance	Six months ended June 30,		Favorable (Unfavorable) Variance
	2018	2017 (as adjusted)		2018	2017 (as adjusted)	
	(In millions, except per share data)					
Gross profit	$78.6	$ 93.0	$ (14.4)	$162.1	$ 187.3	$ (25.2