DineEquity, Inc
Form 10-Q
August 03, 2011
Table of Contents

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, 2011

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	**95-3038279**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
450 North Brand Boulevard, **Glendale, California**	**91203-1903**
(Address of principal executive offices)	(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 o	Accelerated filer x
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 July 29, 2011
Common Stock, $.01 par value	18,553,779

Table of Contents

DINEEQUITY, INC. AND SUBSIDIARIES

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

DINEEQUITY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 34,522	$ 102,309
Restricted cash	91	854
Receivables, net	71,866	98,776
Inventories	10,570	10,757
Prepaid income taxes	13,118	34,094
Prepaid gift cards	24,094	27,465
Prepaid expenses	13,776	14,602
Deferred income taxes	39,255	24,301
Assets held for sale	42,678	37,944
Total current assets	249,970	351,102
Non-current restricted cash	49	778
Restricted assets related to captive insurance subsidiary	3,839	3,562
Long-term receivables	234,323	239,945
Property and equipment, net	531,805	612,175
Goodwill	697,470	697,470
Other intangible assets, net	828,167	835,879
Other assets, net	114,773	115,730
Total assets	$ 2,660,396	$ 2,856,641
Liabilities and Stockholders Equity		
Current liabilities:		
Current maturities of long-term debt	$ 7,420	$ 9,000
Accounts payable	26,668	32,724
Accrued employee compensation and benefits	21,892	32,846
Gift card liability	75,789	124,972
Accrued interest payable	13,455	17,482
Current maturities of capital lease and financing obligations	15,017	16,556
Facility closure liability	20,560	
Other accrued expenses	27,411	31,502
Total current liabilities	208,212	265,082
Long-term debt, less current maturities	1,479,489	1,631,469
Financing obligations, less current maturities	204,327	237,826
Capital lease obligations, less current maturities	139,363	144,016
Deferred income taxes	388,058	375,697
Other liabilities	114,719	118,972
Total liabilities	2,534,168	2,773,062

Commitments and contingencies				
Stockholders equity:				
Convertible preferred stock, Series B, at accreted value, 10,000,000 shares authorized; 35,000 shares issued; June 30, 2011: 34,900 shares outstanding; December 31, 2010: 35,000 shares outstanding		43,203		42,055
Common stock, $.01 par value, 40,000,000 shares authorized; June 30, 2011: 24,691,051 shares issued and 18,556,873 shares outstanding; December 31, 2010: 24,382,991 shares issued and 18,183,083 shares outstanding		247		243
Additional paid-in-capital		203,495		192,214
Retained earnings		153,029		124,250
Accumulated other comprehensive loss		(262)		(282)
Treasury stock, at cost (June 30, 2011: 6,134,178 shares; December 31, 2010: 6,199,908 shares)		(273,484)		(274,901)
Total stockholders equity		126,228		83,579
Total liabilities and stockholders equity	$	2,660,396	$	2,856,641

See the accompanying Notes to Consolidated Financial Statements.

Table of Contents

DINEEQUITY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Segment Revenues:				
Franchise revenues	$ 98,551	$ 93,327	$ 203,103	$ 188,694
Company restaurant sales	134,634	210,694	289,337	435,309
Rental revenues	31,624	32,187	63,840	66,119
Financing revenues	3,529	3,928	12,258	8,078
Total segment revenues	268,338	340,136	568,538	698,200
Segment Expenses:				
Franchise expenses	26,207	26,027	53,650	50,865
Company restaurant expenses	117,279	182,064	249,045	374,621
Rental expenses	24,566	24,645	49,213	49,709
Financing expenses	1	2	5,576	471
Total segment expenses	168,053	232,738	357,484	475,666
Gross segment profit	100,285	107,398	211,054	222,534
General and administrative expenses	38,450	37,034	76,419	77,400
Interest expense	32,867	43,668	69,173	88,716
Impairment and closure charges	21,816	1,871	26,754	2,582
Debt modification costs	10		4,124	
Amortization of intangible assets	3,075	3,076	6,150	6,153
Loss (gain) on extinguishment of debt	939	(1,055)	7,885	(4,640)
Loss (gain) on disposition of assets	1,291	431	(22,463)	178
Income before income taxes	1,837	22,373	43,012	52,145
Provision for income taxes	(1,489)	(8,332)	(12,965)	(18,433)
Net income	$ 348	$ 14,041	$ 30,047	$ 33,712
Net (loss) income available to common stockholders				
Net income	$ 348	$ 14,041	$ 30,047	$ 33,712
Less: Series A preferred stock dividends		(5,700)		(11,460)
Less: Accretion of Series B preferred stock	(639)	(603)	(1,268)	(1,198)
Less: Net loss (income) allocated to unvested participating restricted stock	7	(296)	(846)	(801)
Net (loss) income available to common stockholders	$ (284)	$ 7,442	$ 27,933	$ 20,253
Net (loss) income available to common stockholders per share				
Basic	$ (0.02)	$ 0.43	$ 1.56	$ 1.18
Diluted	$ (0.02)	$ 0.42	$ 1.53	$ 1.16
Weighted average shares outstanding				
Basic	18,072	17,226	17,884	17,119
Diluted	18,072	17,560	18,280	17,476

See the accompanying Notes to Consolidated Financial Statements.

Table of Contents

DINEEQUITY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2011	**2010**
Cash flows from operating activities		
Net income	$ 30,047	$ 33,712
Adjustments to reconcile net income to cash flows provided by operating activities		
Depreciation and amortization	26,339	32,164
Non-cash interest expense	2,988	20,621
Loss (gain) on extinguishment of debt	7,885	(4,640)
Impairment and closure charges	26,540	2,196
Debt modification costs	4,124	
Deferred income taxes	(2,592)	(13,299)
Non-cash stock-based compensation expense	5,063	7,300
Tax benefit from stock-based compensation	6,021	1,249
Excess tax benefit from stock options exercised	(5,687)	(1,968)
(Gain) loss on disposition of assets	(22,463)	178
Other	(4,008)	(276)
Changes in operating assets and liabilities		
Receivables	26,337	27,693
Inventories	(1,053)	246
Prepaid expenses	4,067	1,649
Current income tax receivables and payables	22,052	10,310
Accounts payable	(8,042)	(7,196)
Accrued employee compensation and benefits	(10,955)	(7,073)
Gift card liability	(49,183)	(44,523)
Other accrued expenses	(9,292)	(8,068)
Cash flows provided by operating activities	48,188	50,275
Cash flows from investing activities		
Additions to property and equipment	(13,510)	(6,859)
Proceeds from sale of property and equipment and assets held for sale	55,494	2,583
Principal receipts from notes, equipment contracts and other long-term receivables	7,055	10,818
Other	(574)	1,121
Cash flows provided by investing activities	48,465	7,663
Cash flows from financing activities		
Proceeds from issuance of long-term debt	25,000	
Repayment of long-term debt	(178,437)	(74,359)
Principal payments on capital lease and financing obligations	(6,764)	(7,946)
Dividends paid		(11,400)
Payment of debt modification and issuance costs	(12,316)	
Repurchase of restricted stock	(4,742)	(832)
Proceeds from stock options exercised	6,240	1,953
Excess tax benefit from stock options exercised	5,687	1,968
Change in restricted cash	1,492	14,778
Other	(600)	(294)
Cash flows used in financing activities	(164,440)	(76,132)
Net change in cash and cash equivalents	(67,787)	(18,194)

Cash and cash equivalents at beginning of period		102,309		82,314
Cash and cash equivalents at end of period	$	34,522	$	64,120
Supplemental disclosures				
Interest paid	$	79,482	$	76,503
Income taxes paid	$	11,071	$	21,097

See the accompanying Notes to Consolidated Financial Statements.

Table of Contents

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. Operating results for the three-month and six-month periods ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The consolidated balance sheet at December 31, 2010 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, 2010.

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 and second fiscal quarters of 2011 ended April 3, 2011 and July 3, 2011, respectively; the first and second fiscal quarters of 2010 ended April 4, 2010 and July 4, 2010, 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 estimates and assumptions 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.

Reclassifications

Certain reclassifications have been made to prior year information to conform to the current year presentation. These reclassifications had no effect on the net income or financial position previously reported. The following items previously reported as other expense (income), net for the three months and six months ended June 30, 2010 have been reclassified as follows:

	Three Months Ended	Six Months Ended
	June 30, 2010 (In thousands)	
Total other expense, as reported	$ 956	$ 1,945
Reclassified to:		
Rental expenses	$ 762	$ 1,460
Impairment and closure charges	191	386
General and administrative expenses	98	234
Interest expense	47	146
Franchise revenues	(121)	(215)
Other line items	(21)	(66)
Total reclassified	$ 956	$ 1,945

Table of Contents

3. Accounting Policies

Newly Issued Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). The amendments in ASU 2011-04 result in common fair value measurement and disclosure requirements in U.S. GAAP and international financial reporting standards (IFRS). To improve consistency in application across jurisdictions some changes in wording are necessary to ensure that U.S. GAAP and IFRS fair value measurement and disclosure requirements are described in the same way. ASU 2011-04 also provides for certain changes in current GAAP disclosure requirements. The amendments in ASU 2011-04 are to be applied prospectively, and will be effective for the Company s fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-04 is not anticipated to have a material impact on the Company s consolidated balance sheets, statements of income or statements of cash flows.

In May 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 will require 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. The amendments in this update do 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 does it affect how earnings per share is calculated or presented. Current U.S. GAAP allows reporting entities three alternatives for presenting other comprehensive income and its components in financial statements. One of those presentation options is to present the components of other comprehensive income as part of the statement of changes in stockholders equity, which is the presentation format the Company currently uses. This update eliminates that option. ASU 2011-05 is required to be applied retrospectively, and will be effective for the Company s fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-05 is not anticipated to have a material impact on the Company s consolidated balance sheets, statements of income or statements of cash flows.

The Company reviewed all other significant 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 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 balance of assets held for sale at December 31, 2010 of $37.9 million was comprised of assets of 36 Applebee s company-operated restaurants in the St. Louis market area, 30 Applebee s company-operated restaurants in the Washington, D.C. market, three parcels of land on which Applebee s franchised restaurants are situated, three parcels of land previously intended for future restaurant development and one IHOP restaurant held for refranchising.

During the six months ended June 30, 2011, 36 Applebee s company-operated restaurants in the St. Louis market area, 29 Applebee s company-operated restaurants in the Washington, D.C. market and one parcel of land on which an Applebee s franchised restaurant is situated were sold and the IHOP restaurant held for sale as of December 31, 2010 was refranchised. In May 2011, the Company entered into an agreement for the refranchising and sale of related restaurant assets of 66 Applebee s company-operated restaurants located in Massachusetts, New Hampshire, Maine, Rhode Island, Vermont and parts of New York. Accordingly, $35.4 million, representing the net book value of the assets related to these restaurants, was transferred to assets held for sale. During the six months ended June 30, 2011, assets related to an additional IHOP franchise restaurant held for refranchising were also transferred to assets held for sale. The balance of assets held for sale at June 30, 2011 of $42.7 million was comprised of 66 Applebee s company-operated restaurants located in Massachusetts, New Hampshire, Maine, Rhode Island, Vermont and parts of New York, two parcels of land on which Applebee s franchised restaurants are situated, three parcels of land previously acquired and held for future development, assets of one Applebee s company-operated restaurant in the Washington, D.C. area and one IHOP restaurant held for refranchising.

The following table summarizes the changes in the balance of assets held for sale during 2011:

		(In millions)
Balance December 31, 2010	$	37.9
Assets transferred to held for sale		36.3
Assets sold		(31.0)
Other		(0.5)
Balance June 30, 2011	$	42.7

Table of Contents

5. Long-Term Debt

Long-term debt consists of the following components:

	June 30, 2011	December 31, 2010
	(In millions)	
Senior Secured Credit Facility, due October 2017, at a variable interest rate of 4.25% and 6.0% as of June 30, 2011 and December 31, 2010, respectively	$ 734.0	$ 844.0
Senior Notes due October 2018, at a fixed rate of 9.5%	785.3	825.0
Discount	(32.4)	(28.5)
Total debt	1,486.9	1,640.5
Less current maturities	(7.4)	(9.0)
Long-term debt	$ 1,479.5	$ 1,631.5

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, 2010.

Amendment of Credit Agreement

On February 25, 2011, the Company entered into Amendment No. 1 (the Amendment) to the Credit Agreement dated as of October 8, 2010 (the Credit Agreement) under which a senior secured credit facility (Credit Facility) was established among the Company, lenders and the agents named therein. Pursuant to the Amendment, the interest rate margin applicable to LIBOR-based term loans made under the Credit Facility (Term Loans) was reduced from 4.50% to 3.00%, and the interest rate floors used to determine the LIBOR and Base Rate reference rates for Term Loans was reduced from 1.50% to 1.25% for LIBOR-based Term Loans and from 2.50% to 2.25% for Base Rate-denominated Term Loans. In addition, the Amendment increased the lender commitments under the Company s revolving credit facility (the Revolving Credit Facility) available under the Credit Facility from $50 million to $75 million. The Amendment also modified certain restrictive covenants of the Credit Agreement, including those relating to repurchases of other debt securities, permitted acquisitions and payments on equity.

The Company paid $12.3 million in fees and costs related to the Amendment, of which $7.4 million in fees paid to lenders was recorded as additional discount on debt and $0.8 million of costs related to the increase in the Revolving Credit Facility was recorded as deferred financing costs. Fees paid to third parties of $4.1 million were recorded as Debt modification costs in the Consolidated Statements of Income for the six months ended June 30, 2011.

Loss (Gain) on Extinguishment of Debt

During the six months ended June 30, 2011, the Company repurchased $39.8 million of its 9.5% Senior Notes due October 2018 (the Senior Notes) for a cash payment of $43.5 million, inclusive of a premium of $3.7 million. The Company also repaid $110.0 million of Term Loans at face value. Including write-off of the discount and deferred financing costs related to the debt extinguished, the Company recognized a loss on the extinguishment of debt of $7.9 million.

During the six months ended June 30, 2010, the Company retired $68.2 million of its Class A-2-II-X Fixed Rate Senior Term Notes then outstanding for a cash payment of $61.8 million. The Company recognized a gain on the early retirement of debt of $4.6 million, including write-off of the discount and deferred financing costs related to the retired debt.

Quarter Ended	**Instrument**	**Face Amount Retired/Repaid**	**Cash Paid**	**Loss (Gain)(1)**
			(In millions)	
March 2011	Term Loans	$ 110.0	$ 110.0	$ 2.7
March 2011	Senior Notes	32.3	35.3	4.2
June 2011	Senior Notes	7.5	8.2	1.0
	Total 2011	$ 149.8	$ 153.5	$ 7.9
March 2010	Class A-2-II-X Notes	$ 48.7	$ 43.8	$ (3.5)
June 2010	Class A-2-II-X Notes	19.5	18.0	(1.1)
	Total 2010	$ 68.2	$ 61.8	$ (4.6)

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

Table of Contents

Compliance with Covenants and Restrictions

The Company was in compliance with all the covenants and restrictions related to its Credit Facility and Senior Notes as of June 30, 2011.

6. Financing Obligations

As of June 30, 2011, 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 2011	$	11.2
2012(1)		20.7
2013		23.0
2014		23.2
2015		23.3
Thereafter		278.9
Total minimum lease payments		380.3
Less interest		(170.1)
Total financing obligations		210.2
Less current portion(2)		(5.9)
Long-term financing obligations	$	204.3

(1) Due to the varying closing dates of the Company s fiscal years, 11 monthly payments will be made in fiscal 2012.

(2) Included in current maturities of capital lease and financing obligations on the consolidated balance sheet.

During the six months ended June 30, 2011, the Company s continuing involvement with 17 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 $32.7 million.

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-month and six-month periods ended June 30, 2011 and 2010:

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010		Six Months Ended June 30, 2011		Six Months Ended June 30, 2010	
	(In millions)							
Impairment and closure charges:								
Impairment	$	0.3	$	0.0	$	4.8	$	0.3
Lenexa lease termination		21.2				21.2		
Other closure charges		0.3		1.9		0.8		2.3
Total impairment and closure charges	$	21.8	$	1.9	$	26.8	$	2.6

Impairment and closure charges for the six months ended June 30, 2011 totaled $26.8 million and primarily related to termination of the Company s sublease of the commercial space currently occupied by Applebee s Restaurant Support Center in Lenexa, Kansas. The Company recognized approximately $21.2 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.

Impairment and closure charges for the six months ended June 30, 2010 totaled $2.6 million and related to closure charges of $1.7 million recognized in the second quarter of 2010 that related primarily to two company-operated IHOP Cafe restaurants, a non-traditional restaurant format, development of which was ended after initial evaluation, and the closure of a company-operated Applebee s restaurant in China recognized in the first quarter of 2010.

Table of Contents

7. Impairment and Closure Charges, continued

The following table summarizes changes in the closure liability for the Applebee s Restaurant Support Center in Lenexa, Kansas:

		(In millions)
Balance December 31, 2010	$	
Closure cost accrual		21.2
Payments		(0.6)
Balance June 30, 2011	$	20.6

8. Income Taxes

The effective tax rate was 81.1% and 30.1% for the three-month and six-month periods ended June 30, 2011, respectively. The effective tax rate of 81.1% is higher than the federal statutory rate of 35% for the three-month period ended June 30, 2011 primarily due to an increase in unrecognized tax benefits and certain adjustments related to state deferred taxes. For the six-month period, the effective tax rate is lower than the federal statutory rate of 35% due to tax credits and the release of liabilities for unrecognized tax benefits. The tax credits are primarily FICA tip and other compensation-related tax credits associated with Applebee s company-owned restaurant operations.

At June 30, 2011, the Company had a liability for unrecognized tax benefits, including potential interest and penalties net of related tax benefit, totaling $11.7 million, of which approximately $2.7 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 settlements with taxing authorities will occur.

As of June 30, 2011, accrued interest and penalties were $4.5 million and $0.7 million, respectively, excluding any related income tax benefits. As of December 31, 2010, accrued interest and penalties were $8.9 million and $0.5 million, respectively, excluding any related income tax benefits. The decrease of $4.4 million of accrued interest is primarily related to the release of liabilities for unrecognized tax benefits surrounding gift card income deferral as a result of the issuance of new guidance by the U.S. Internal Revenue Service, partially offset by the accrual of interest on the remaining liability for unrecognized tax benefits during the six months ended June 30, 2011. 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 or one of its subsidiaries files federal income tax returns and income tax returns in various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to federal, state or non-U.S. tax examinations by tax authorities for years before 2006 for federal returns and other jurisdictions. Applebee s is currently under audit by the U.S. Internal Revenue Service for the period ended November 29, 2007. The Company is currently under audit by the U.S. Internal Revenue Service for the period ended December 31, 2007.

9. Stock-Based Compensation

From time to time, the Company has granted nonqualified stock options, restricted stock awards, 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 awards, 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 for incentive stock awards.

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 awards 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.

Table of Contents

9. Stock-Based Compensation, continued

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 June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In millions)			
Pre-tax compensation expense	$ 3.3	$ 3.3	$ 6.4	$ 8.2
Tax provision	(1.3)	(1.3)	(2.5)	(3.3)
Total stock-based compensation expense, net of tax	$ 2.0	$ 2.0	$ 3.9	$ 4.9

As of June 30, 2011, $7.9 million and $9.0 million (including estimated forfeitures) of total unrecognized compensation cost related to restricted stock and stock options, respectively, is expected to be recognized over a weighted average period of 1.66 years for restricted stock and 1.57 years for stock options.

The estimated fair values of the options granted during 2011 were calculated using a Black-Scholes option pricing model. The following summarizes the assumptions used in the Black-Scholes model:

Risk-free interest rate	2.11%
Weighted average historical volatility	82.5%
Dividend yield	
Expected years until exercise	4.85
Forfeitures	11.0%
Weighted average fair value of options granted	$ 37.03

Option balances as of June 30, 2011 and activity related to the Company s stock options during the six-month period then ended were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	1,523,710	$ 24.90		
Granted	170,949	$ 56.58		
Exercised	(376,083)	$ 16.59		
Forfeited	(10,355)	$ 16.85		
Outstanding at June 30, 2011	1,308,221	$ 31.49	7.28	$ 29,553,000
Vested at June 30, 2011 and Expected to Vest	1,121,962	$ 32.44	7.09	$ 24,252,000
Exercisable at June 30, 2011	565,602	$ 35.36	5.59	$ 10,374,000

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 2011 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, 2011. The amount of 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 six months ended June 30, 2011 is presented below:

	Restricted Stock	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2010	666,244	$ 28.62	18,000	$ 29.32
Granted	112,124	$ 56.45		
Released	(244,465)	$ 42.77		
Forfeited	(32,019)	$ 25.98		
Outstanding at June 30, 2011	501,884	$ 28.12	18,000	$ 29.32

Table of Contents

9. Stock-Based Compensation, continued

The Company has issued 44,957 shares of cash-settled restricted stock units to members of the Board of Directors, of which 41,957 are outstanding at June 30, 2011. As these instruments only can be settled in cash, they are recorded as liabilities based on the closing price of the Company s common stock as of June 30, 2011. For the six months ended June 30, 2011 and 2010, $0.8 million and $0.7 million, respectively, were included as pre-tax 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 June 30, 2011, the franchise operations segment consisted of (i) 1,768 restaurants operated by Applebee s franchisees in the United States, one U.S. territory and 15 countries outside the United States; and (ii) 1,511 restaurants operated by IHOP franchisees and area licensees in the United States, two U.S. territories and three 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 June 30, 2011, the company restaurant operations segment consisted of 244 company-operated Applebee s restaurants and 11 company-operated IHOP restaurants, all 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 consists of the portion of franchise fees not allocated to intellectual property, sales of equipment and interest income from the financing of franchise fees and equipment leases. Financing expenses are primarily the costs of restaurant equipment.

Information on segments is as follows:

	For the Three Months Ended June 30,	For the Six Months Ended June 30,

	2011	2010	2011	2010
		(In millions)		
Revenues from External Customers				
Franchise operations	$ 98.6	$ 93.3	$ 203.1	$ 188.7
Company restaurants	134.6	210.7	289.3	435.3
Rental operations	31.6	32.2	63.8	66.1
Financing operations	3.5	3.9	12.3	8.1
Total	$ 268.3	$ 340.1	$ 568.5	$ 698.2
Interest Expense				
Company restaurants	$ 0.1	$ 0.2	$ 0.3	$ 0.4
Rental operations	4.6	4.8	9.2	9.6
Corporate	32.9	43.7	69.2	88.7
Total	$ 37.6	$ 48.7	$ 78.7	$ 98.7
Depreciation and amortization				
Franchise operations	$ 2.6	$ 2.5	$ 5.1	$ 5.0
Company restaurants	4.6	7.5	9.5	15.0
Rental operations	3.5	2.7	7.1	5.5
Corporate	2.4	3.3	4.6	6.7
Total	$ 13.1	$ 16.0	$ 26.3	$ 32.2
Income (loss) before income taxes				
Franchise operations	$ 72.4	$ 67.4	$ 149.4	$ 137.8
Company restaurants	17.3	28.6	40.3	60.7
Rental operations	7.0	7.5	14.6	16.4
Financing operations	3.6	3.9	6.7	7.6
Corporate	(98.5)	(85.0)	(168.0)	(170.4)
Total	$ 1.8	$ 22.4	$ 43.0	$ 52.1

Table of Contents

11. Other Comprehensive Income

The components of comprehensive income, net of taxes, are as follows:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In millions)			
Net income	$ 0.3	$ 14.0	$ 30.0	$ 33.7
Other comprehensive income, net of tax:				
Interest rate swap		2.3		4.5
Total comprehensive income	$ 0.3	$ 16.3	$ 30.0	$ 38.2

The amount of income tax benefit allocated to the interest rate swap was $1.5 million and $3.0 million for the three months and six months ended June 30, 2010, respectively. The loss related to an interest rate swap designated as a cash flow hedge that was being reclassified into earnings as interest expense over the expected life of the related debt, which was estimated to be approximately five years. The entire amount of loss remaining at the time of retirement of the related designated debt was reclassified into earnings in October 2010.

The accumulated comprehensive loss of $0.3 million (net of tax) as of June 30, 2011 and December 31, 2010 is comprised of a temporary decline in available-for-sale securities.

12. Net (Loss) Income per Share

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In thousands, except per share data)			
Numerator for basic and dilutive income per common share:				
Net income	$ 348	$ 14,041	$ 30,047	$ 33,712
Less: Series A Preferred Stock dividends		(5,700)		(11,460)
Less: Accretion of Series B Preferred Stock	(639)	(603)	(1,268)	(1,198)
Less: Net (loss) income allocated to unvested participating restricted stock	7	(296)	(846)	(801)
Net (loss) income available to common stockholders basic	(284)	7,442	27,933	20,253
Effect of unvested participating restricted stock in two-class calculation		5	17	16
	$ (284)	$ 7,447	$ 27,950	$ 20,269

Net (loss) income available to common stockholders diluted				
Denominator:				
Weighted average outstanding shares of common stock	18,072	17,226	17,884	17,119
Dilutive effect of:				
Stock options		334	396	357
Common stock and common stock equivalents	18,072	17,560	18,280	17,476
Net (loss) income per common share:				