DineEquity, Inc
Form 10-Q
July 31, 2012

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, 2012
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-15283

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

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

Class	Outstanding as of July 27, 2012
Common Stock, $0.01 par value	18,319,035

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, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$32,371	$60,691
Receivables, net	77,873	115,667
Inventories	12,056	12,031
Prepaid income taxes	5,721	13,922
Prepaid gift cards	29,352	36,643
Deferred income taxes	24,984	20,579
Assets held for sale	27,648	9,363
Other current assets	21,170	8,051
Total current assets	231,175	276,947
Long-term receivables	219,425	226,526
Property and equipment, net	435,582	474,154
Goodwill	697,470	697,470
Other intangible assets, net	815,577	822,361
Other assets, net	114,718	116,836
Total assets	$2,513,947	$2,614,294
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$7,420	$7,420
Accounts payable	28,532	29,013
Accrued employee compensation and benefits	19,106	26,191
Gift card liability	91,266	146,955
Accrued interest payable	12,437	12,537
Current maturities of capital lease and financing obligations	14,154	13,480
Other accrued expenses	23,431	22,048
Total current liabilities	196,346	257,644
Long-term debt, less current maturities	1,338,819	1,411,448
Financing obligations, less current maturities	151,638	162,658
Capital lease obligations, less current maturities	129,070	134,407
Deferred income taxes	372,246	383,810
Other liabilities	109,185	109,107
Total liabilities	2,297,304	2,459,074
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, Series B, at accreted value, shares:10,000,000 authorized; 35,000 issued; June 30, 2012 and December 31, 2011 - 34,900 outstanding	45,853	44,508
Common stock, $0.01 par value, shares: 40,000,000 authorized; June 30, 2012 - 24,636,137 issued, 18,326,803 outstanding; December 31, 2011 - 24,658,985 issued,18,060,206 outstanding	246	247

Additional paid-in-capital	209,737	205,663
Retained earnings	243,806	196,869
Accumulated other comprehensive loss	(155)	(294)
Treasury stock, at cost; shares: June 30, 2012 - 6,309,334; December 31, 2011 - 6,598,779	(282,844)	(291,773)
Total stockholders' equity	216,643	155,220
Total liabilities and stockholders' equity	$2,513,947	$2,614,294

See the accompanying Notes to Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Segment Revenues:				
Franchise revenues	$102,459	$98,551	$210,868	$203,103
Company restaurant sales	93,802	134,634	194,687	289,337
Rental revenues	29,171	31,624	61,176	63,840
Financing revenues	3,959	3,529	8,242	12,258
Total segment revenues	229,391	268,338	474,973	568,538
Segment Expenses:				
Franchise expenses	26,346	26,207	53,978	53,650
Company restaurant expenses	79,574	117,279	163,757	249,045
Rental expenses	24,301	24,566	48,838	49,213
Financing expenses	916	1	1,571	5,576
Total segment expenses	131,137	168,053	268,144	357,484
Gross segment profit	98,254	100,285	206,829	211,054
General and administrative expenses	37,239	38,450	76,871	76,419
Interest expense	29,650	32,867	59,871	69,173
Impairment and closure charges	122	21,816	844	26,754
Amortization of intangible assets	3,075	3,075	6,150	6,150
Loss (gain) on disposition of assets	741	1,291	(15,992)	(22,463)
Loss on extinguishment of debt	—	939	2,611	7,885
Debt modification costs	—	10	—	4,124
Income before income taxes	27,427	1,837	76,474	43,012
Provision for income taxes	(10,489)	(1,489)	(28,192)	(12,965)
Net income	16,938	348	48,282	30,047
Other comprehensive income:				
Adjustment to unrealized loss on available-for-sale investments	—	—	140	—
Foreign currency translation adjustment	(3)	(1)	(1)	20
Total comprehensive income	$16,935	$347	$48,421	$30,067
Net income available to common stockholders:				
Net income	$16,938	$348	$48,282	$30,047
Less: Accretion of Series B preferred stock	(677)	(639)	(1,345)	(1,268)
Less: Net income allocated to unvested participating restricted stock	(388)	7	(1,169)	(846)
Net income (loss) available to common stockholders	$15,873	$(284)	$45,768	$27,933
Net income (loss) available to common stockholders per share:				
Basic	$0.89	$(0.02)	$2.57	$1.56
Diluted	$0.88	$(0.02)	$2.52	$1.53
Weighted average shares outstanding:				
Basic	17,890	18,072	17,786	17,884
Diluted	18,138	18,072	18,731	18,280

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, 2012	2011
Cash flows from operating activities:		
Net income	$48,282	$30,047
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	20,956	26,339
Non-cash interest expense	3,045	2,988
Loss on extinguishment of debt	2,611	7,885
Impairment and closure charges	571	26,540
Deferred income taxes	(15,969)	(2,592)
Non-cash stock-based compensation expense	6,573	5,063
Tax benefit from stock-based compensation	4,653	6,021
Excess tax benefit from share-based compensation	(2,820)	(5,687)
Gain on disposition of assets	(15,992)	(22,463)
Other	894	116
Changes in operating assets and liabilities:		
Receivables	38,598	26,337
Inventories	(325)	(1,053)
Prepaid expenses	(2,058)	4,067
Current income tax receivables and payables	7,414	22,052
Accounts payable	69	(8,042)
Accrued employee compensation and benefits	(7,084)	(10,955)
Gift card liability	(55,690)	(49,183)
Other accrued expenses	2,628	(9,292)
Cash flows provided by operating activities	36,356	48,188
Cash flows from investing activities:		
Additions to property and equipment	(10,650)	(13,510)
Proceeds from sale of property and equipment and assets held for sale	21,500	55,494
Principal receipts from notes, equipment contracts and other long-term receivables	6,577	7,055
Other	(760)	(574)
Cash flows provided by investing activities	16,667	48,465
Cash flows from financing activities:		
Borrowings under revolving credit facilities	35,000	25,000
Repayments under revolving credit facilities	(35,000)	(25,000)
Repayment of long-term debt (including premiums)	(76,037)	(153,437)
Principal payments on capital lease and financing obligations	(6,125)	(6,764)
Payment of debt modification and issuance costs	—	(12,316)
Repurchase of restricted stock	(1,344)	(4,742)
Proceeds from stock options exercised	3,120	6,240
Excess tax benefit from share-based compensation	2,820	5,687
Change in restricted cash	(3,777)	1,492
Other	—	(600)

Cash flows used in financing activities	(81,343)	(164,440)
Net change in cash and cash equivalents	(28,320)	(67,787)
Cash and cash equivalents at beginning of period	60,691	102,309
Cash and cash equivalents at end of period	$32,371	$34,522
Supplemental disclosures:		
Interest paid in cash	$65,040	$79,482
Income taxes paid in cash	$34,061	$11,071

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. The operating results for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2012.

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

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

2. Basis of Presentation

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

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

The preparation of financial statements in conformity with U.S. GAAP requires the Company’s management to make 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.

Restricted Assets

Restricted Cash

The Company receives funds from Applebee's franchisees pursuant to franchise agreements, usage of which is restricted to advertising activities. Cash balances restricted for this purpose as of June 30, 2012 and December 31, 2011 totaled $4.9 million and $1.2 million, respectively. The balances were included as other current assets in the consolidated balance sheets.

Other Restricted Assets

As of June 30, 2012 and December 31, 2011, restricted assets related to a captive insurance subsidiary totaled $3.8 million and $3.6 million, respectively, and were included in other assets in the consolidated balance sheets. The captive insurance subsidiary, which has not underwritten coverage since January 2006, was formed to provide insurance coverage to Applebee's and its franchisees. These restricted assets were primarily investments, use of which is restricted to the payment of insurance claims for incidents that occurred during the period coverage had been provided.

Table of Contents
DineEquity, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

3. Accounting Policies

Recently Adopted Accounting Standards

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

Newly Issued Accounting Standards

The Company reviewed all 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 consolidated financial statements as a result of future adoption.

4. Assets Held for Sale

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

During the six months ended June 30, 2012, the Company completed the refranchising and sale of related restaurant assets of the 17 Applebee's company-operated restaurants located in a six-state market area geographically centered around Memphis, Tennessee. In April 2012, the Company entered into an asset purchase agreement for the refranchising and sale of related restaurant assets of 39 Applebee's company-operated restaurants located in Virginia. In May 2012, the Company entered into an asset purchase agreement for the refranchising and sale of related restaurant assets of 33 Applebee's company-operated restaurants located primarily in Missouri and Indiana. Accordingly, $23.7 million, representing the net book value of the assets related to these 72 restaurants, was transferred to assets held for sale.

Assets held for sale at June 30, 2012 of $27.6 million was comprised of 72 Applebee's company-operated restaurants located primarily in Virginia, Missouri and Indiana, one parcel of land on which a refranchised Applebee's formerly company-operated restaurant is situated and three parcels of land previously intended for future restaurant development.

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

	(In millions)
Balance, December 31, 2011	$9.4
Assets transferred to held for sale	23.7

Assets sold	(5.1)
Other	(0.4)
Balance, June 30, 2012	$27.6

Table of Contents
DineEquity, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

5. Long-Term Debt

Long-term debt consisted of the following components:

	June 30, 2012	December 31, 2011
	(In millions)	
Senior Secured Credit Facility, due October 2017, at a variable interest rate of 4.25% as of June 30, 2012 and December 31, 2011	$612.0	$682.5
Senior Notes due October 2018, at a fixed rate of 9.5%	760.8	765.8
Discount	(26.6)	(29.5)
Total long-term debt	1,346.2	1,418.8
Less current maturities	(7.4)	(7.4)
Long-term debt, less current maturities	$1,338.8	$1,411.4

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

Debt Modification Costs

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

Loss on Extinguishment of Debt

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

Quarter Ended	Instrument Repaid/Retired	Face Amount Repaid/Retired	Cash Paid	Loss (1)
		(In millions)		
March 2012	Term Loans	$70.5	$70.5	$1.9
March 2012	Senior Notes	5.0	5.5	0.7
	Total 2012	75.5	76.0	2.6
March 2011	Term Loans	$110.0	$110.0	$2.7
March 2011	Senior Notes	32.3	35.3	4.3
June 2011	Senior Notes	7.5	8.2	0.9
	Total 2011	$149.8	$153.5	$7.9

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

Compliance with Covenants and Restrictions

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

7

Table of Contents
DineEquity, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

6. Financing Obligations

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

Fiscal Years	(In millions)
Remainder of 2012	$7.2 (1)
2013	17.4
2014	17.6
2015	19.0 (1)
2016	17.6
Thereafter	207.5
Total minimum lease payments	286.3
Less interest	(130.9)
Total financing obligations	155.4
Less current portion	(3.8) (2)
Long-term financing obligations	$151.6

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

During the six months ended June 30, 2012, the Company's continuing involvement with six 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 $9.2 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 and six months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions)			
Impairment and closure charges:				
Impairment	$—	$0.3	$0.3	$4.8
Lenexa lease termination	—	21.3	—	21.3
Closure charges	0.1	0.2	0.5	0.7
Total impairment and closure charges	$0.1	$21.8	$0.8	$26.8

Impairment and closure charges for the six months ended June 30, 2012 totaled $0.8 million. The impairment charge related to a parcel of land previously intended for future restaurant development. Closure charges related to several individually insignificant franchise restaurant closures.

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

Table of Contents
DineEquity, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

8. Income Taxes

The effective tax rate was 36.9% for the six months ended June 30, 2012 as compared to 30.1% for the six months ended June 30, 2011. The effective tax rate in the prior year was lower due to the release of liabilities for unrecognized tax benefits related to gift card income deferral as a result of the issuance of guidance by the U.S. Internal Revenue Service.

At June 30, 2012, the Company had a liability for unrecognized tax benefits, including potential interest and penalties net of related tax benefit, totaling $7.9 million, of which approximately $1.2 million is expected to be paid within one year. For the remaining liability, due to the uncertainties related to these tax matters, the Company is unable to make a reasonably reliable estimate when cash settlement with a taxing authority will occur.

As of June 30, 2012, accrued interest and penalties were $2.6 million and $0.4 million, respectively, excluding any related income tax benefits. As of December 31, 2011, accrued interest and penalties were $3.0 million and $0.3 million, respectively, excluding any related income tax benefits. The decrease of $0.4 million of accrued interest is primarily related to the decrease of unrecognized tax benefits due to settlements with taxing authorities, partially offset by the accrual of interest during the six months ended June 30, 2012. The Company recognizes interest accrued related to unrecognized tax benefits and penalties as a component of income tax expense, which is recognized in the Consolidated Statements of Income.

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

9. Stock-Based Compensation

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011

	(In millions)			
Pre-tax compensation expense	$2.5	$3.3	$7.0	$6.4
Tax provision	(1.0)	(1.3)	(2.7)	(2.5)
Total stock-based compensation expense, net of tax	$1.5	$2.0	$4.3	$3.9

As of June 30, 2012, total unrecognized compensation cost (including estimated forfeitures) of $12.2 million related to restricted stock and restricted stock units and $10.6 million related to stock options is expected to be recognized over a weighted average period of 1.2 years for restricted stock and restricted stock units and 1.1 years for stock options.

Table of Contents
DineEquity, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

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

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

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2011	1,318,640	$32.06		
Granted	147,674	$51.63		
Exercised	(212,308)	$15.94		
Forfeited	(24,775)	$39.09		
Outstanding at June 30, 2012	1,229,231	$37.05	6.87	$13,145,000
Vested at June 30, 2012 and Expected to Vest	1,173,783	$36.48	6.76	$12,991,000
Exercisable at June 30, 2012	780,398	$31.89	5.8	$11,172,000

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

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

	Restricted Stock	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2011	486,533	$31.25	18,000	$29.32
Granted	120,123	$51.85	19,152	$52.23
Released	(154,903)	$11.03	(3,910)	$40.58
Forfeited	(36,976)	$40.90	—	—
Outstanding at June 30, 2012	414,777	$43.72	33,242	$41.19

The Company has issued 44,957 shares of cash-settled restricted stock units to members of the Board of Directors, of which 37,184 were outstanding at June 30, 2012. As these instruments can only be settled in cash, they are recorded as liabilities based on the closing price of the Company's common stock as of June 30, 2012. For the six months ended June 30, 2012 and 2011, $0.2 million and $0.8 million, respectively, were included in pretax stock-based compensation expense for the cash-settled restricted stock units.

10

Table of Contents
DineEquity, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

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, 2012, the franchise operations segment consisted of (i) 1,858 restaurants operated by Applebee's franchisees in the United States, one U.S. territory and 15 countries outside the United States; and (ii) 1,540 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, 2012, the company restaurant operations segment consisted of 160 Applebee's company-operated restaurants and 17 IHOP company-operated restaurants, all located in the United States. Company restaurant sales are retail sales at company-operated restaurants. Company restaurant expenses are operating expenses at company-operated restaurants and include food, labor, benefits, utilities, rent and other restaurant operating costs.

Rental operations revenue includes revenue from operating leases and interest income from direct financing leases. Rental operations expenses are costs of operating leases and interest expense on capital leases on franchisee-operated restaurants.
Financing operations revenue primarily consists of interest income from the financing of franchise fees and equipment leases, as well as sales of equipment associated with refranchised IHOP restaurants and a portion of franchise fees for restaurants taken back from franchisees not allocated to IHOP intellectual property. Financing expenses are primarily the cost of restaurant equipment.

Information on segments was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In millions)			
Revenues from External Customers				
Franchise operations	$102.5	$98.6	$210.9	$203.1
Company restaurants	93.8	134.6	194.7	289.3
Rental operations	29.1	31.6	61.2	63.8
Financing operations	4.0	3.5	8.2	12.3
Total	$229.4	$268.3	$475.0	$568.5
Interest Expense				
Company restaurants	$0.1	$0.1	$0.2	$0.3
Rental operations	4.3	4.5	8.6	9.2
Corporate	29.7	32.9	59.9	69.2
Total	$34.1	$37.5	$68.7	$78.7
Depreciation and amortization				
Franchise operations	$2.5	$2.6	$4.9	$5.1
Company restaurants	2.3	4.6	4.7	9.5
Rental operations	3.4	3.5	6.9	7.1
Corporate	2.3	2.4	4.5	4.6

Total	$10.5	$13.1	$21.0	$26.3
Income (loss) before income taxes				
Franchise operations	$76.2	$72.4	$156.9	$149.4
Company restaurants	14.2	17.3	30.9	40.3
Rental operations	4.8	7.0	12.3	14.6
Financing operations	3.1	3.6	6.7	6.7
Corporate	(70.9)	(98.5)	(130.3)	(168.0)
Total	$27.4	$1.8	$76.5	$43.0

Table of Contents
DineEquity, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

11. Net Income (Loss) per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
Numerator for basic and dilutive income - per common share:				
Net income	$16,938	$348	$48,282	$30,047
Less: Accretion of Series B Preferred Stock	(677)	(639)	(1,345)	(1,268)
Less: Net income allocated to unvested participating restricted stock	(388)	7	(1,169)	(846)
Net income (loss) available to common stockholders - basic	15,873	(284)	45,768	27,933
Effect of unvested participating restricted stock in two-class calculation	5	—	58	17
Accretion of Series B Preferred Stock	—	—	1,345	—
Net income (loss) available to common stockholders - diluted	$15,878	$(284)	$47,171	$27,950
Denominator:				
Weighted average outstanding shares of common stock - basic	17,890	18,072	17,786	17,884
Dilutive effect of:				
Stock options	248	—	282	396
Series B Preferred Stock	—	—	663	—
Weighted average outstanding shares of common stock - diluted	18,138	18,072	18,731	18,280
Net income (loss) per common share:				
Basic	$0.89	$(0.02)	$2.57	$1.56
Diluted	$0.88	$(0.02)	$2.52	$1.53

For the three months ended June 30, 2012 and the six months ended June 30, 2011, the diluted income per common share was computed excluding 662,500 and 624,000 shares, respectively, of common stock equivalents from the conversion of Series B Preferred Stock that were antidilutive. For the three months ended June 30, 2011, the diluted loss per common share was computed excluding 965,000 shares of common stock equivalents that were antidilutive.

12. Fair Value Measurements

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

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

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

	June 30, 2012		December 31, 2011	
	Carrying	Fair Value	Carrying	Fair Value

	Amount (in millions)		Amount	
Long-term debt, less current maturities	$1,338.8	$1,438.4	$1,411.4	$1,486.2

12

Table of Contents

13. Commitments and Contingencies

Litigation, Claims and Disputes

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

Gerald Fast v. Applebee's

The Company is currently defending a collective action in United States District Court for the Western District of Missouri, Central Division filed on July 14, 2006 under the Fair Labor Standards Act, Gerald Fast v. Applebee's International, Inc., in which named plaintiffs claim that tipped servers and bartenders in Applebee's company-operated restaurants spend more than 20% of their time performing general preparation and maintenance duties, or “non-tipped work,” for which they should be compensated at the minimum wage. On June 19, 2007, the court granted conditional certification of a nationwide class of servers and bartenders who had worked in Applebee's company-operated restaurants since June 19, 2004. As of February 2008, there were 5,540 potential class members who had opted into the collective action. Under this action, plaintiffs currently are seeking unpaid wages and other relief of up to $17 million plus plaintiffs' attorneys' fees and expenses. The bench trial is currently scheduled to begin on September 10, 2012.

The Company believes it has meritorious defenses and intends to vigorously defend this case. Due to the inherent uncertainty in litigation, however, there can be no guarantee that the Company ultimately will be successful. Substantial losses from or costs related to this legal proceeding could have a material impact on the Company. As of June 30, 2012, the Company had not accrued a loss contingency related to this matter. Given the uncertainty of the potential outcome, the Company is also unable to estimate, for financial reporting purposes, a reasonably possible loss or a range of reasonably possible losses for this matter.

Lease Guarantees

In connection with the sale of Applebee’s restaurants or previous brands to franchisees and other parties, the Company has, in certain cases, guaranteed or had potential continuing liability for lease payments totaling $370.4 million as of June 30, 2012. This amount represents the maximum potential liability for future payments under these leases. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from 2012 through 2048. In the event of default, the indemnity and default clauses in our sale or assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of June 30, 2012.

14. Consolidating Financial Information

Certain of the Company's subsidiaries have guaranteed the Company's obligations under the Senior Secured Credit Facility. The following presents the condensed consolidating financial information separately for: (i) the parent Company, the issuer of the guaranteed obligations; (ii) the guarantor subsidiaries, on a combined basis, as specified in the Credit Agreement; (iii) the non-guarantor subsidiaries, on a combined basis; (iv) consolidating eliminations and reclassifications; and (v) DineEquity, Inc. and Subsidiaries, on a consolidated basis.

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

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

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

	Parent	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations and Reclassification	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$—	$31.9	$0.5	$—	$32.4
Receivables, net	0.9	84.9	0.1	(8.0)	77.9
Inventories	—	12.1	—	—	12.1
Prepaid expenses and other current assets	118.5	48.8	—	(111.1)	56.2
Deferred income taxes	2.3	22.4	0.3	—	25.0
Assets held for sale	—	25.8	1.8	—	27.6
Intercompany	(283.6)	278.0	5.6	—	—
Total current assets	(161.9)	503.9	8.3	(119.1)	231.2
Long-term receivables	—	219.4	—	—	219.4
Property and equipment, net	24.3	411.3	—	—	435.6
Goodwill	—	697.5	—	—	697.5
Other intangible assets, net	—	815.6	—	—	815.6
Other assets, net	20.9	93.7	—	—	114.6
Investment in subsidiaries	1,697.6	—	—	(1,697.6)	—
Total assets	$1,580.9	$2,741.4	$8.3	$(1,816.7)	$2,513.9
Liabilities and Stockholders’ Equity					
Current Liabilities					
Current maturities of long-term debt	$15.4	$—	$—	$(8.0)	$7.4
Accounts payable	2.2	26.3	—	—	28.5
Accrued employee compensation and benefits	4.6	14.5	—		19.1
Gift card liability	—	91.3	—		91.3
Income taxes payable	(23.9)	135.0	—	(111.1)	—
Other accrued expenses	15.0	34.7	0.3		50.0
Total current liabilities	13.3	301.8	0.3	(119.1)	196.3
Long-term debt	1,338.8	—	—		1,338.8
Financing obligations	—	151.6	—		151.6
Capital lease obligations	—	129.1	—		129.1
Deferred income taxes	6.5	366.0	(0.3)	—	372.2
Other liabilities	5.5	102.9	0.9		109.3
Total liabilities	1,364.1	1,051.4	0.9	(119.1)	2,297.3
Total stockholders’ equity	216.8	1,690.0	7.4	(1,697.6)	216.6
Total liabilities and stockholders’ equity	$1,580.9	$2,741.4	$8.3	$(1,816.7)	$2,513.9

[1] Supplemental statements presented in millions may not add due to rounding from Consolidated Statements presented in thousands.

14

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

Supplemental Condensed Consolidating Balance Sheet
December 31, 2011
(In millions[(1)])

	Parent	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations and Reclassification	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$9.9	$50.4	$0.4	$ —	$60.7
Receivables, net	0.6	121.0	0.1	(6.0)	115.7
Inventories	—	12.0	—	—	12.0
Prepaid expenses and other current assets	85.3	44.6	—	(71.3)	58.6
Deferred income taxes	1.5	19.0	0.1	—	20.6
Assets held for sale	—	7.3	2.1	—	9.4
Intercompany	(300.2)	294.5	5.7	—	—
Total current assets	(202.9)	548.7	8.4	(77.3)	276.9
Long-term receivables	—	226.5	—	—	226.5
Property and equipment, net	24.6	449.6	—	—	474.2
Goodwill	—	697.5	—	—	697.5
Other intangible assets, net	—	822.4	—	—	822.4
Other assets, net	23.2	93.5	0.1	—	116.8
Investment in subsidiaries	1,697.6	—	—	(1,697.6)	—
Total assets	$1,542.5	$2,838.2	$8.5	$ (1,774.9)	$2,614.3
Liabilities and Stockholders' Equity					
Current Liabilities					
Current maturities of long-term debt	$13.4	$—	$—	$ (6.0)	$7.4
Accounts payable	2.8	26.2	—	—	29.0
Accrued employee compensation and benefits	6.7	19.5	—	—	26.2
Gift card liability	—	147.0	—	—	147.0
Other accrued expenses	(61.6)	180.6	0.4	(71.3)	48.1
Total current liabilities	(38.7)	373.3	0.4	(77.3)	257.6
Long-term debt	1,411.4	—	—	—	1,411.4
Financing obligations	—	162.7	—	—	162.7
Capital lease obligations	—	134.4	—	—	134.4
Deferred income taxes	8.9	375.3	(0.4)	—	383.8
Other liabilities	5.4	102.6	1.1	—	109.1
Total liabilities	1,387.0	1,148.3	1.1	(77.3)	2,459.1
Total stockholders' equity	155.5	1,689.9	7.4	(1,697.6)	155.2
Total liabilities and stockholders' equity	$1,542.5	$2,838.2	$8.5	$ (1,774.9)	$2,614.3

[(1)] Supplemental statements presented in millions may not add due to rounding from Consolidated Statements presented in thousands.

Table of Contents
DineEquity, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

Supplemental Condensed Consolidating Statement of Operations
For the Three Months Ended June 30, 2012
(In millions[1])

	Parent	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations and Reclassification	Consolidated
Revenues					
Franchise revenues	$0.6	$101.6	$0.3	$—	$102.5
Restaurant sales	—	93.8	—	—	93.8
Rental revenues	—	29.2	—	—	29.1
Financing revenues	—	4.0	—	—	4.0
Total revenue	0.6	228.6	0.3	—	229.4
Franchise expenses	0.6	25.7	—	—	26.3
Restaurant expenses	—	79.6	—	—	79.6
Rental expenses	—	24.3	—	—	24.3
Financing expenses	—	0.9	—	—	0.9
General and administrative	6.1	30.6	0.5	—	37.2
Interest expense	27.0	2.7	—	—	29.7
Impairment and closure	—	0.1	—	—	0.1
Amortization of intangible assets	—	3.1	—	—	3.1
Loss (gain) on disposition of assets	—	1.2	(0.4)	—	0.7
Loss on extinguishment of debt	—	—	—	—	—
Intercompany dividend	(37.0)	—	—	37.0	—
Income (loss) before income taxes	3.9	60.4	0.2	(37.0)	27.4
Benefit (provision) for income taxes	12.8	(23.3)	—	—	(10.5)
Net (loss) income	$16.9	$36.9	$0.1	$(37.0)	$16.9
Total comprehensive income	$16.9	$36.9	$0.1	$(37.0)	$16.9

Supplemental Condensed Consolidating Statement of Operations
For the Three Months Ended June 30, 2011
(In millions[1])

	Parent	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations and Reclassification	Consolidated
Revenues					
Franchise revenues	$0.6	$97.7	$0.2	$—	$98.6
Restaurant sales	—	134.3	0.4	—	134.6
Rental revenues	—	31.6	—	—	31.6
Financing revenues	—	3.5	—	—	3.5
Total revenue	0.6	267.1	0.6	—	268.3
Franchise expenses	0.5	25.7	—	—	26.2
Restaurant expenses	—	117.1	0.2	—	117.3

Rental expenses	—	24.6	—	—	24.6
Financing expenses	—	—	—	—	—
General and administrative	6.1	31.7	0.6	—	38.4
Interest expense	28.7	4.2	—	—	32.9
Impairment and closure	—	21.8	—	—	21.8
Amortization of intangible assets	—	3.1	—	—	3.1
Loss on disposition of assets	—	1.2	0.1	—	1.3
Loss on extinguishment of debt	0.9	—	—	—	0.9
Debt modification costs	—	—	—	—	—
Other (income) expense	30.4	43.8	(0.5)	(73.7)	—
Income (loss) before income taxes	(66.0)	(6.1)	0.2	73.7	1.8
Benefit (provision) for income taxes	13.8	(15.1)	(0.1)	—	(1.5)
Net (loss) income	$(52.2)	$(21.2)	$0.2	$73.7	$0.3
Total comprehensive income	$(52.2)	$(21.2)	$0.2	$73.7	$0.3

(1) Supplemental statements presented in millions may not add due to rounding from Consolidated Statements presented in thousands.

Table of Contents
DineEquity, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

Supplemental Condensed Consolidating Statement of Operations
For the Six Months Ended June 30, 2012
(In millions[1])

	Parent	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations and Reclassification	Consolidated
Revenues					
Franchise revenues	$1.3	$209.1	$0.5	$—	$210.9
Restaurant sales	—	194.7	—	—	194.7
Rental revenues	—	61.2	—	—	61.2
Financing revenues	—	8.2	—	—	8.3
Total revenue	1.3	473.2	0.5	—	475.0
Franchise expenses	1.2	52.8	—	—	54.0
Restaurant expenses	—	163.8	—	—	163.8
Rental expenses	—	48.8	—	—	48.9
Financing expenses	—	1.6	—	—	1.6
General and administrative	13.1	62.7	1.0	—	76.9
Interest expense	54.4	5.5	—	—	59.9
Impairment and closure	—	0.4	0.4	—	0.8
Amortization of intangible assets	—	6.2	—	—	6.2
Gain on disposition of assets	—	(15.2)	(0.8)	—	(16.0)
Loss on extinguishment of debt	2.6	—	—	—	2.6
Intercompany dividend	(91.1)	—	—	91.1	—
Income (loss) before income taxes	21.1	146.6	(0.1)	(91.1)	76.5
Benefit (provision) for income taxes	27.2	(55.3)	—	—	(28.2)
Net (loss) income	$48.3	$91.3	$(0.1)	$(91.1)	$48.3
Total comprehensive income	$48.2	$91.4	$(0.1)	$(91.1)	$48.4

Supplemental Condensed Consolidating Statement of Operations
For the Six Months Ended June 30, 2011
(In millions[1])

	Parent	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations and Reclassification	Consolidated
Revenues					
Franchise revenues	$1.3	$201.3	$0.5	$—	$203.1
Restaurant sales	—	288.5	0.8	—	289.3
Rental revenues	—	63.8	—	—	63.8
Financing revenues	—	12.3	—	—	12.3
Total revenue	1.3	565.9	1.3	—	568.5
Franchise expenses	1.0	52.7	—	—	53.7
Restaurant expenses	—	248.6	0.4	—	249.0

Rental expenses	—	49.2	—	—	49.2
Financing expenses	—	5.6	—	—	5.6
General and administrative	13.6	61.6	1.2	—	76.4
Interest expense	61.0	8.1	—	—	69.2
Impairment and closure	—	26.7	0.1	—	26.8
Amortization of intangible assets	—	6.2		—	6.2
Gain on disposition of assets	—	(22.5)	—	—	(22.5)
Loss on extinguishment of debt	7.9	—		—	7.9
Debt modification costs	4.1	—	—	—	4.1
Other (income) expense	14.3	20.5	(0.9)	(33.9)	—
Income (loss) before income taxes	(100.6)	109.2	0.5	33.9	43.0
Benefit (provision) for income taxes	33.4	(46.2)	(0.2)	—	(13.0)
Net (loss) income	$(67.2)	$63.0	$0.3	$33.9	$30.0
Total comprehensive income	$(67.2)	$63.1	$0.3	$33.9	$30.0

(1) Supplemental statements presented in millions may not add due to rounding from Consolidated Statements presented in thousands.

17

Table of Contents
DineEquity, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements (Continued)

Supplemental Condensed Consolidating Statement of Cash Flows
For the Six Months Ended June 30, 2012
(In millions[1])

	Parent	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations and Reclassification	Consolidated
Cash flows provided by (used in) operating activities	$(64.9)	$101.1	$0.2	—	$36.4
Investing cash flows					
Additions to property and equipment	(3.0)	(7.7)	—		(10.7)
Principal receipts from long-term receivables	—	6.6	—	—	6.6
Proceeds from sale of assets	—	21.5	—	—	21.5
Other	—	(0.8)	—	—	(0.8)
Cash flows provided by (used in) investing activities	(3.0)	19.6	—	—	16.6
Financing cash flows					
Revolving credit borrowings	35.0	—	—	—	35.0
Revolving credit repayments	(35.0)	—	—	—	(35.0)
Payment of debt	(76.0)	(6.1)	—	—	(82.2)
Payment of debt issuance costs	—	—	—	—	—
Purchase of common stock	—	—	—	—	—
Restricted cash	—	(3.8)	—	—	(3.8)
Other	3.9	0.7	—	—	4.6
Intercompany transfers	130.1	(130.0)	(0.1)	—	—
Cash flows provided by (used in) financing activities	58.0	(139.2)	(0.1)	—	(81.3)
Net change	(9.9)	(18.5)	0.1	—	(28.3)
Beginning cash and equivalents	9.9	50.4	0.4	—	60.7
Ending cash and equivalents	$—	$31.9	$0.5	—	$32.4

Supplemental Condensed Consolidating Statement of Cash Flows
For the Six Months Ended June 30, 2011
(In millions[1])

	Parent	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations and Reclassification	Consolidated
Cash flows provided by (used in) operating activities	$(79.7)	$127.4	$0.5	—	$48.2
Investing cash flows					
Additions to property and equipment	(4.0)	(9.5)	—	—	(13.5)
Principal receipts from long-term receivables	—	7.1	—	—	7.1

Proceeds from sale of assets	—	55.5	—	—	55.5
Other	—	(0.6)	—	—	(0.6)
Cash flows provided by (used in) investing activities	(4.0)	52.5	—	—	48.5
Financing cash flows					
Revolving credit borrowings	25.0	—	—	—	25.0
Revolving credit repayments	(25.0)				(25.0)
Payment of debt	(153.4)	(6.8)	—	—	(160.2)
Payment of debt issuance costs	(12.3)	—	—	—	(12.3)
Restricted cash	—	1.5	—	—	1.5
Other	6.2	0.3	—	—	6.5
Intercompany transfers	226.6	(225.0)	(1.6)	—	—
Cash flows provided by (used in) financing activities	67.1	(230.0)	(1.6)	—	(164.5)
Net change	(16.6)	(50.1)	(1.1)	—	(67.8)
Beginning cash and equivalents	23.4	77.3	1.6	—	102.3
Ending cash and equivalents	$6.8	$27.2	$0.5	—	$34.5

(1) Supplemental statements presented in millions may not add due to rounding from Consolidated Statements presented in thousands.

Table of Contents

15. Subsequent Events

On July 20, 2012, the Company entered into an asset purchase agreement for the refranchising and sale of related restaurant assets of 65 Applebee's company-operated restaurants located in Michigan. This transaction is expected to close by the end of fiscal 2012. A gain will be recognized upon the close of the transaction.

Table of Contents

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," "expect," "anticipate," "believe," "estimate," "intend," "plan" and other similar expressions. You should consider our forward-looking statements in light of the risks discussed under the heading "Risk Factors" in our most recent Annual Report on Form 10-K, 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 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 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 Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Except where the context indicates otherwise, the words "we," "us," "our" and the "Company" refer to DineEquity, Inc., together with its subsidiaries that are consolidated in accordance with United States generally accepted accounting principles ("U.S. GAAP").

The Company was incorporated under the laws of the State of Delaware in 1976. The first International House of Pancakes® ("IHOP") restaurant opened in 1958 in Toluca Lake, California. Since that time, the Company or its predecessors have engaged in the development, operation, franchising and licensing of IHOP restaurants. In November 2007, we acquired Applebee's International, Inc. ("Applebee's"), which became a wholly-owned subsidiary of the Company. Through various IHOP and Applebee's subsidiaries, we own, operate and franchise two restaurant concepts in the casual dining and family dining categories of the food service industry: Applebee's Neighborhood Grill and Bar® and IHOP®. DineEquity, Inc. is the parent of the IHOP and Applebee's subsidiaries. References herein to Applebee's and IHOP restaurants are to these two restaurant concepts, whether operated by franchisees, area licensees or the Company. References herein to "system sales" include retail sales at restaurants that are owned by franchisees and area licensees and are not attributable to the Company, as well as retail sales at company-operated restaurants.

Domestically, IHOP restaurants are located in all 50 states and the District of Columbia while Applebee's restaurants are located in every state except Hawaii. Internationally, IHOP restaurants are located in two United States territories and three foreign countries; Applebee's restaurants are located in one United States territory and 15 foreign countries. With over 3,500 franchised and company-operated restaurants combined, we are one of the largest full-service restaurant companies in the world.

Franchise Business Model

As of June 30, 2012, our system-wide restaurant portfolio was 95.0% franchised and consisted of the following:

	June 30, 2012		
	Applebee's	IHOP	Total
Domestic:			
Franchise/area license restaurants	1,710	1,503	3,213
Company-operated restaurants	160	17	177
International:			
Franchise/area license restaurants	148	37	185
Total	2,018	1,557	3,575
Percentage franchised	92.1 %	98.9 %	95.0 %

20

Table of Contents

Since the completion of the Applebee’s acquisition, we have been pursuing a strategy to transition Applebee's from a system that was 74% franchised at the time of the acquisition to a 99% franchised Applebee's system, similar to IHOP’s 99% franchised system. We believe a highly franchised business model requires less capital investment, generates higher gross profit margins and reduces the volatility of free cash flow performance over time, as compared to a model based on operating a significant number of company restaurants.

During the six months ended June 30, 2012, we completed the refranchising and sale of related restaurant assets of 17 Applebee's company-operated restaurants in a six-state market area geographically centered around Memphis, Tennessee. In April 2012, we entered into an asset purchase agreement for the refranchising and sale of related restaurant assets of 39 Applebee's company-operated restaurants located in Virginia. In May 2012, we entered into an asset purchase agreement for the refranchising and sale of related restaurant assets of 33 Applebee's company-operated restaurants located primarily in Missouri and Indiana. In July, 2012, we entered into an asset purchase agreement for the refranchising and sale of related restaurant assets of 65 Applebee's company-operated restaurants located in Michigan. All of these transactions are expected to close by the end of fiscal 2012. Upon consummation of these transactions, we will have refranchised all Applebee's company-operated restaurants, except for 23 restaurants in the Kansas City area that will be retained as a Company market; upon consummation of these transactions, 99% of DineEquity's restaurants will be franchised.

Key Performance Indicators

In evaluating and assessing the performance of our business units, we consider our key operating performance indicators to be: (i) percentage change in domestic system-wide same-restaurant sales for Applebee's and IHOP; (ii) net franchise restaurant development and restaurants refranchised for Applebee's and IHOP; and (iii) Applebee's company-operated restaurant operating margin. An overview of these metrics for the six months ended June 30, 2012 is as follows:

	Applebee's	IHOP
Percentage change in system-wide domestic same-restaurant sales	1.0%	(0.9)%
Net Franchise restaurant development	(1)	7
Restaurants refranchised	17	4
Restaurant operating margin	17.3%	n/a

n/a - not applicable given relatively small number and test-market nature of IHOP company restaurants

We consider cash from operations and free cash flow (cash provided by operating activities, plus receipts from notes, equipment contracts and other long-term receivables, less additions to property and equipment) to be key indicators of consolidated performance. Cash from operations and free cash flow for the six months ended June 30, 2012 were $36.4 million and $32.3 million, respectively.

Additional information on each of these metrics is presented under the captions "Restaurant Data," "Restaurant Development Activity," "Company Restaurant Operations" and "Liquidity and Capital Resources" that follow.

Table of Contents

Restaurant Data

The following table sets forth, for the three and six months ended June 30, 2012 and 2011, the number of effective restaurants in the Applebee's and IHOP systems and information regarding the percentage change in sales at those restaurants compared to the same periods in the prior year. "Effective restaurants" are the number of restaurants in a given period, adjusted to account for restaurants open for only a portion of the period. Information is presented for all effective restaurants in the Applebee's and IHOP systems, which includes restaurants owned by the Company, as well as those owned by franchisees and area licensees. Sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company. However, we believe that presentation of this information is useful in analyzing our revenues because franchisees and area licensees pay us royalties and advertising fees that are generally based on a percentage of their sales, as well as rental payments under leases that are usually based on a percentage of their sales. Management also uses this information to make decisions about future plans for the development of additional restaurants as well as evaluation of current operations.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2012 (unaudited)		2011		2012		2011	
Applebee's Restaurant Data								
Effective restaurants(a)								
Franchise	1,859		1,767		1,857		1,753	
Company	160		244		161		257	
Total	2,019		2,011		2,018		2,010	
System-wide(b)								
Sales percentage change(c)	1.2	%	3.8	%	1.4	%	4.1	%
Domestic same-restaurant sales percentage change(d)	0.7	%	3.1	%	1.0	%	3.5	%
Franchise(b)(f)								
Sales percentage change(c)	5.5	%	13.5	%	6.4	%	13.3	%
Domestic same-restaurant sales percentage change(d)	0.5	%	3.5	%	0.8	%	3.9	%
Average weekly domestic unit sales (in thousands)	$46.9		$46.8		$48.5		$48.5	
Company (f)								
Sales percentage change(c)	(31.8	)%	(36.9	)%	(34.2	)%	(34.1	)%
Same-restaurant sales percentage change(d)	3.1	%	0.7	%	3.5	%	0.7	%
Average weekly domestic unit sales (in thousands)	$42.7		$41.1		$43.9		$41.8	

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012 (unaudited)	2011	2012	2011
IHOP Restaurant Data				
Effective restaurants(a)				
Franchise	1,377	1,339	1,375	1,334
Area license	164	163	164	164
Company	14	10	13	10
Total	1,555	1,512	1,552	1,508
System-wide(b)				

Sales percentage change(c)	1.9 %	1.1 %	2.4 %	1.2 %
Domestic same-restaurant sales percentage change(d)	(1.4)%	(2.9)%	(0.9)%	(2.8)%
Franchise(b)				
Sales percentage change(c)	1.7 %	0.9 %	2.2 %	1.2 %
Domestic same-restaurant sales percentage change(d)	(1.3)%	(2.8)%	(0.8)%	(2.8)%
Average weekly domestic unit sales (in thousands)	$ 33.8	$ 34.2	$ 34.4	$ 34.7
Company (e)	n/a	n/a	n/a	n/a
Area License(b)				
Sales percentage change(c)	3.2 %	3.0 %		