

Edgar Filing: DineEquity, Inc - Form 10-K

DineEquity, Inc  
Form 10-K  
March 01, 2012

Table of Contents

Index to Consolidated Financial Statements

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the fiscal year ended December 31, 2011

OR

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

(I.R.S. Employer

of incorporation or organization)

Identification No.)

450 North Brand Boulevard, Glendale, California

91203-2306

(Address of principal executive offices)

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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  No

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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Edgar Filing: DineEquity, Inc - Form 10-K

(Do not check if a Smaller reporting  
smaller reporting company) company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x  
State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant  
as of July 3, 2011: \$833.4 million.

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

Class	Outstanding as of February 24, 2012
Common Stock, \$.01 par value	18,095,838

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on Tuesday, May 15, 2012 (the  
"2012 Proxy Statement") are incorporated by reference into Part III.

---

Table of Contents

DINEEQUITY, INC. AND SUBSIDIARIES  
 Annual Report on Form 10-K  
 For the Fiscal Year Ended December 31, 2011  
 Table of Contents

	Page
<u>PART I.</u>	
<u>Item 1—Business</u>	<u>3</u>
<u>Item 1A—Risk Factors</u>	<u>14</u>
<u>Item 1B—Unresolved Staff Comments</u>	<u>23</u>
<u>Item 2—Properties</u>	<u>23</u>
<u>Item 3—Legal Proceedings</u>	<u>25</u>
<u>Item 4—(Removed and Reserved)</u>	<u>26</u>
<u>PART II.</u>	
<u>Item 5—Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>26</u>
<u>Item 6—Selected Financial Data</u>	<u>28</u>
<u>Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 7A—Quantitative and Qualitative Disclosures about Market Risk</u>	<u>59</u>
<u>Item 8—Financial Statements and Supplementary Data</u>	<u>61</u>
<u>Item 9—Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>108</u>
<u>Item 9A—Controls and Procedures</u>	<u>108</u>
<u>Item 9B—Other Information</u>	<u>110</u>
<u>PART III.</u>	
<u>Item 10—Directors, Executive Officers and Corporate Governance</u>	<u>110</u>
<u>Item 11—Executive Compensation</u>	<u>110</u>
<u>Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>110</u>
<u>Item 13—Certain Relationships and Related Transactions, and Director Independence</u>	<u>110</u>
<u>Item 14—Principal Accounting Fees and Services</u>	<u>110</u>
<u>PART IV.</u>	
<u>Item 15—Exhibits and Financial Statement Schedules</u>	<u>111</u>
<u>Signatures</u>	<u>114</u>

Table of Contents

PART I

Item 1. Business

Company Overview

The Company was incorporated under the laws of the State of Delaware in 1976 with the name IHOP Corp. Effective June 2, 2008, the name of the Company was changed to DineEquity, Inc. (the "Company," "we," "our" or "us"). Our common stock is listed on the New York Stock Exchange ("NYSE") and trades under the ticker symbol "DIN." Our principal executive offices are located at 450 North Brand Boulevard, Glendale, California 91203-2306 and our telephone number is (818) 240-6055. Our Internet address is [www.dineequity.com](http://www.dineequity.com).

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and other filings with the United States Securities and Exchange Commission (the "SEC") are available free of charge through our website as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. The information contained on our website is not incorporated into this annual report. Further, the SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding our filings at [www.sec.gov](http://www.sec.gov). In addition, the public may read and copy the materials we file with the SEC at the SEC's Public Reference Room at 100 F. Street, NE, Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC.

We have a 52/53 week fiscal year that ends on the Sunday nearest to December 31 of each year. For convenience, we refer to all fiscal years as ending on December 31 and all fiscal quarters as ending on March 31, June 30 and September 30 of the respective fiscal year. There were 52 weeks in our 2011 and 2010 fiscal years, which ended on January 1, 2012 and January 2, 2011, respectively. There were 53 weeks in our 2009 fiscal year, which ended on January 3, 2010. In a 52-week fiscal year, each fiscal quarter contains 13 weeks, comprised of two, four-week fiscal months followed by a five-week fiscal month. In a 53-week fiscal year, the last month of the fourth fiscal quarter contains six weeks.

Background

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, franchising and operation of IHOP restaurants. In November 2007, we completed the acquisition of Applebee's International, Inc. ("Applebee's"). We currently own, operate and franchise two restaurant concepts in the casual dining and family dining categories of the restaurant industry: Applebee's Neighborhood Grill and Bar® and IHOP®. References herein to Applebee's and IHOP restaurants are to these two restaurant concepts, and, unless the context reflects otherwise, whether operated by franchisees, area licensees or the Company. Retail sales at restaurants that are operated by franchisees and area licensees are not attributable to the Company. Unless the context reflects otherwise, franchisees and area licensees are referred to collectively as franchisees and restaurants operated by them are referred to collectively as franchise restaurants. With more than 3,500 restaurants combined in 18 countries and over 400 franchisees, DineEquity is one of the largest full-service restaurant companies in the world.

This report should be read in conjunction with the cautionary statements on page 29 under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.—Forward Looking Statements."

Financial Information about Industry Segments

We identify our segments based on the organizational units used by management to monitor performance and make operating decisions. Our segments, unchanged from prior years, are as follows: franchise operations, company restaurant operations, rental operations and financing operations. Within each segment, as applicable, we operate two distinct restaurant concepts: Applebee's and IHOP.

Franchise Operations Segment

As of December 31, 2011, the franchise operations segment consisted of 1,842 restaurants operated by Applebee's franchisees in the United States, one United States territory and 15 foreign countries and 1,535 restaurants operated by IHOP franchisees and area licensees in the United States, two United States territories and three foreign countries. Franchise operations revenue consists primarily of franchise royalty revenues, sales of proprietary products (primarily IHOP pancake and waffle dry-mixes) and the portion of the franchise fees allocated to IHOP and Applebee's

intellectual property. Additionally, franchise fees designated for IHOP's national advertising fund and local marketing and advertising cooperatives are recognized as revenue and expense of franchise operations; however, Applebee's national advertising fund transactions constitute agency activity and therefore are not recognized as franchise revenue and expense.

Franchise operations expenses include IHOP advertising expense, the cost of proprietary products, pre-opening training expenses and other franchise-related costs.

3

---

## Table of Contents

### Company Operations Segment

As of December 31, 2011, the company restaurant operations segment consisted of 177 company-operated Applebee's restaurants, 10 company-operated IHOP restaurants and five IHOP restaurants reacquired from franchisees and operated by IHOP on a temporary basis until refranchised. Three of the five reacquired restaurants were refranchised in January 2012. All company-operated restaurants are 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, beverage, labor, utilities, rent and other restaurant operating costs.

### Rental Operations Segment

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. The rental operations revenue and expenses are primarily generated by IHOP. Applebee's has an insignificant amount of rental activity that only relates to properties that are temporarily retained after refranchising company-operated restaurants until such time as the properties can be disposed of by sale.

### Financing Operations Segment

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.

Financial information for our four operating segments for the last three fiscal years is set forth in Note 22, Segment Reporting, of the Notes to the Consolidated Financial Statements included in this report. Revenue derived from all foreign countries, in the aggregate, comprises 1% of total consolidated revenue.

### Restaurant Concepts

#### Applebee's

We develop, franchise and operate restaurants in the bar and grill segment of the casual dining category of the restaurant industry under the name "Applebee's Neighborhood Grill & Bar." With 2,019 system-wide restaurants as of December 31, 2011, Applebee's Neighborhood Grill & Bar is the largest casual dining concept in the world, in terms of number of restaurants and market share(1). As of December 31, 2011, franchisees operated 1,842 of these restaurants and 177 restaurants were company-operated. The restaurants were located in 49 states, one United States territory and 15 countries outside of the United States.

Each Applebee's restaurant is designed as an attractive, friendly, neighborhood establishment featuring high quality, moderately-priced food, alcoholic and non-alcoholic beverage items, table service and a comfortable atmosphere. Applebee's restaurants appeal to a wide range of customers including young adults, senior citizens and families with children.

#### Franchising

Generally, franchise arrangements for Applebee's restaurants consist of a development agreement and separate franchise agreements for each restaurant. Development agreements grant to the franchise developer the exclusive right to develop Applebee's restaurants in a designated geographical area over a specified period of time. The term of a domestic development agreement is generally 20 years. The development agreements typically provide for an initial development schedule of one to five years as agreed upon by the Company and the franchisee. At or shortly prior to the completion of the initial development schedule or any subsequent supplemental development schedule, the Company and the franchisee generally execute supplemental development schedules providing for the development of additional Applebee's restaurants in the franchise developer's exclusive territory.

Prior to the opening of each new Applebee's restaurant, the franchisee and the Company enter into a separate franchise agreement for that restaurant. Our current standard domestic Applebee's franchise agreement provides for an initial term of 20 years and permits four renewals, in five-year increments, for up to an additional 20 years, upon payment of an additional franchise fee. Our current standard domestic Applebee's franchise arrangement calls for an initial franchisee fee of \$35,000 and a royalty fee equal to 4% of the restaurant's monthly net sales. We have agreements with a majority of our franchisees for Applebee's restaurants opened before January 1, 2000 which provide for royalty

rates of 4% and extend the initial term of the franchise agreements until 2020. The terms, royalties and advertising fees under a limited number of franchise agreements and other franchise fees under older development agreements vary from the currently offered arrangements.

---

(1) Source: Nation's Restaurant News, "Special Report: Top 100," June 27, 2011 (market share based on U.S. system-wide sales in the casual dining category).

Table of Contents

Since the completion of the Applebee's acquisition, we have been executing a strategy to transition from an Applebee's system that was 74% franchised at the time of the acquisition to a 99% franchised system, similar to IHOP's 99% franchised system. As of December 31, 2011, the Applebee's system is 91% franchised. In order to complete this strategy, we plan to franchise substantially all of the remaining company-operated Applebee's restaurants while retaining 23 restaurants in one company market in the Kansas City area. This highly franchised business model is expected to require less capital investment, improve margins, and reduce the volatility of cash flow performance over time, while also providing cash proceeds from the refranchising of the company-operated restaurants for the retirement of debt.

As of December 31, 2011, we had 71 franchise groups, including 29 international franchise groups. We have generally selected franchisees that are experienced multi-unit restaurant operators. Many franchisees have operated or concurrently operate other restaurant concepts. We have assigned development rights to the vast majority of domestic areas in all states except Hawaii and the company-operated markets.

Domestic Franchising

As of December 31, 2011, there were 1,694 domestic Applebee's franchise restaurants. During 2011, 15 domestic franchise restaurants opened, six domestic franchise restaurants closed and 132 company-operated restaurants were franchised. The number of restaurants held by an individual franchisee ranges from one to 338 restaurants. The table below sets forth information regarding the number of Applebee's restaurants owned by domestic franchisees as of December 31, 2011 as well as the total number of restaurants falling into each of the listed ownership ranges.

Number of Restaurants Held by Franchisee	Franchisees		Restaurants		
	Number	Percent of Total	Number	Percent of Total	
One to ten	8	19.0	% 53	3.1	%
Eleven to twenty-five	13	31.0	% 234	13.8	%
Twenty-six to fifty	12	28.6	% 474	28.0	%
Fifty-one to one hundred	7	16.7	% 492	29.0	%
Greater than one hundred	2	4.8	% 441	26.0	%
Total (a)	42	100.0	% 1,694	100.0	%

(a) Percentages may not add due to rounding.

International Franchising

We continue to pursue franchising of the Applebee's concept as the primary method of international expansion. To this end we seek qualified franchisees that possess the resources needed to open multiple restaurants in each territory and are familiar with the specific local business environment in which they propose to develop and operate Applebee's restaurants. We currently are focusing on international franchising primarily in Canada, Mexico, Central and South America, and the Mediterranean/Middle East.

We work closely with our international franchisees to develop and implement the Applebee's system outside the United States, recognizing commercial, cultural and dietary diversity. Differences in tastes and cultural norms and standards mean we need to be flexible and pragmatic regarding many elements of the Applebee's system, including menu, restaurant design, restaurant operations, training, marketing, purchasing and financing.

As of December 31, 2011, there were 148 international Applebee's franchise restaurants. During 2011, nine international franchise restaurants opened and nine international franchise restaurants closed. The number of restaurants held by an individual franchisee ranges from one to 22 restaurants. The table below sets forth information regarding the number of Applebee's restaurants owned by international franchisees as of December 31, 2011 as well as the total number of restaurants falling into each of the listed ownership ranges.



Table of Contents

Number of Restaurants Held by Franchisee	Franchisees		Restaurants		
	Number	Percent of Total	Number	Percent of Total	
One	6	20.7	% 6	4.1	%
Two to five	15	51.7	% 45	30.4	%
Six to ten	4	13.8	% 36	24.3	%
Eleven to twenty	3	10.3	% 39	26.4	%
Greater than twenty	1	3.4	% 22	14.9	%
Total (a)	29	100.0	% 148	100.0	%

(a) Percentages may not add due to rounding.

The success of further international expansion will depend on, among other things, local acceptance of the Applebee's concept and menu offerings and our ability to attract qualified franchisees and operating personnel. Our franchisees must comply with the regulatory requirements of the local jurisdictions.

#### Franchise Operations

We continuously monitor franchise restaurant operations, principally through our Franchise Area Directors and our Directors of Franchise Operations. Company and third-party representatives make both scheduled and unannounced inspections of restaurants to ensure that only approved products are in use and that our prescribed operations practices and procedures are being followed. We have the right to terminate a franchise agreement if a franchisee does not operate and maintain a restaurant in accordance with our requirements. We also monitor the financial health of our franchisees through business and financial reviews.

We maintain a domestic Franchise Business Council which provides input about operations, marketing, product development and other aspects of restaurants for the purpose of improving the franchise system. As of December 31, 2011, the Franchise Business Council consisted of eight franchisee representatives and three members of our senior management team. One franchisee representative, the founder of Applebee's, is a member for life. The other franchisee representatives are elected by franchisees to staggered two-year terms. The Franchise Business Council is also responsible for the appointment of members to advisory committees related to marketing, restaurant operations, information technology, product development and human resources.

#### Company-Operated Restaurants

Historically, Applebee's company-operated restaurants have been clustered in targeted markets to increase consumer awareness and convenience and enable us to take advantage of operational, distribution and advertising efficiencies. We plan to continue to execute our strategy, initiated in 2008, of transitioning to a 99% franchised system through the sale of company-operated restaurants to franchisees. The timing of completing this transition is subject to numerous variables, including qualifications of the prospective buyers, the economic climate in general and credit markets in particular, and the attainment of satisfactory valuations for each transaction.

As of December 31, 2011, Applebee's company-operated restaurants were located in the following areas:

Area	
Kansas City, MO/KS area	34
Detroit, MI area	33
Grand Rapids, MI area	32
Springfield/Columbia, MO area	12
Memphis, TN/Paducah, MO area	17
Evansville/Terre Haute, IN area	10
Norfolk/Richmond, VA area	39
	177

In 2011, we completed the refranchising and sale of related restaurant assets of 132 Applebee's company-operated restaurants, 66 of which were located in Massachusetts, New Hampshire, Maine, Rhode Island, Vermont and parts of New York state (collectively, the New England market area), 36 of which were located in the St. Louis market area and 30 of which were located in the Washington, D.C. market area. In October 2011, we entered into an agreement for

the refranchising and sale of related

6

---

Table of Contents

restaurant assets of 17 Applebee’s company-operated restaurants located in a six-state market area geographically centered around Memphis, Tennessee. This transaction closed in January 2012. Including this most recent transaction, we have refranchised 342 company-operated restaurants since the transitioning strategy was initiated in 2008.

Restaurant Development

We make the design specifications for a typical restaurant available to franchisees, and we retain the right to prohibit or modify the use of any set of plans. Each franchisee is responsible for selecting the site for each restaurant within its territory. We may assist franchisees in selecting appropriate sites, and any selection made by a franchisee is subject to our approval. We also conduct a physical inspection, review any proposed lease or purchase agreement and make available to franchisees demographic and other studies.

There are currently 83 development agreements with 37 franchise groups in place covering the entire United States (except Hawaii and company-operated markets) and 12 development agreements with 12 franchise groups calling for restaurant development in foreign countries. As noted above, we are in the process of refranchising the majority of our domestic company-operated restaurants. In conjunction with the refranchising of these company-operated restaurants, we expect to enter into development agreements with the new franchisees setting forth requirements for additional development in each market.

In 2012, we expect franchisees to open a total of between 25 to 30 new Applebee's franchise restaurants. We do not plan to open any company-operated restaurants. The following table represents commitments for 2012-2013 by franchisees under development agreements to develop Applebee's restaurants. We disclose development commitments for only a two-year period as the Applebee's development agreements generally provide for a series of two-year development commitments after the initial development period.

	Contractual Opening of Restaurants by Year	
	2012	2013
Domestic development agreements	20	37
International development agreements	15	11
Total	35	48

The actual number of openings may differ from both our expectations and development commitments due to various factors, including economic conditions, franchisee access to capital, and the impact of currency fluctuations on our international franchisees. The timing of new restaurant openings also may be affected by various factors including weather-related and other construction delays and difficulties in obtaining regulatory approvals.

Menu

Applebee's restaurants offer a diverse menu of high quality, moderately-priced food and beverage items consisting of traditional favorites and signature dishes. The restaurants feature a broad selection of entrées as well as appetizers, salads, sandwiches, specialty drinks and desserts. All Applebee's restaurants offer beer, wine, liquor and premium specialty drinks. Applebee's updates its menu offerings regularly to better serve our customers and give them new reasons to return to our restaurants. Since 2007, more than 80% of Applebee's menu now consists of either new offerings or improved offerings with high quality ingredients.

In 2009, Applebee's entered into a non-exclusive endorsement agreement with Weight Watchers International, Inc. ("Weight Watchers") to offer Weight Watchers® branded menu items to our guests. Under the agreement, Applebee's and participating franchisees pay Weight Watchers a royalty equal to 2.5% of the proceeds from the sale of Weight Watchers-endorsed items on the Applebee's menu. The agreement has been extended through at least November 2014.

Marketing and Advertising

Applebee's has historically concentrated its marketing and advertising efforts primarily on food-specific promotions, as well as on Weight Watchers and other Applebee's branded messaging. Our marketing and advertising includes national, regional and local expenditures, utilizing primarily television, radio, direct mail and print media, as well as alternative channels such as the Internet, social media, product placements and the use of third-party retailers to market our gift cards. Our "2 for \$20" promotion, first introduced nationally in 2009, continues to resonate with our guests as we continually rotate different entrée selections into the promotion.

Edgar Filing: DineEquity, Inc - Form 10-K

For the year ended December 31, 2011, approximately 4% of Applebee's company restaurant sales were allocated for marketing activities. This amount includes contributions to the national advertising fund, which develops and funds the national promotions and the development of television and radio commercials and print advertising materials. We focus the remainder of

7

---

## Table of Contents

our company-operated restaurant marketing expenditures on local marketing in areas with company-operated restaurants.

We currently require domestic franchisees of Applebee's restaurants to contribute 2.75% of their gross sales to the national advertising fund and to spend at least 1% of their gross sales on local marketing and promotional activities. Under the current Applebee's franchise agreements, we have the ability to increase the amount of the required combined contribution to the national advertising fund and the amount required to be spent on local marketing and promotional activities to a maximum of 5% of gross sales.

### Supply Chain

Maintaining high food quality, system-wide consistency and availability is the central focus of our supply chain program. We establish quality standards for products used in the restaurants, and we maintain a list of approved suppliers and distributors from which we and our franchisees must select. We periodically review the quality of the products served in our domestic restaurants in an effort to ensure compliance with these standards. Due to cultural and regulatory differences, we may have different requirements for restaurants opened outside of the United States.

### IHOP

We develop, franchise and operate restaurants in the family dining category of the restaurant industry under the names IHOP and International House of Pancakes. IHOP is the largest family dining brand in the world in terms of system-wide sales (2). As of December 31, 2011, there were a total of 1,550 IHOP restaurants of which 1,369 were subject to franchise agreements, 166 were subject to area license agreements and 15 were company-operated restaurants. Franchisees and area licensees are independent third parties who are licensed by us to operate their restaurants using our trademarks, operating systems and methods and offer a broad range of entrées, appetizers, desserts and non-alcoholic beverages specified by IHOP, including our award-winning pancakes. We own and operate ten IHOP restaurants in the Cincinnati market area primarily for testing new remodel designs, new menu items and equipment, new operational procedures systems and new marketing, brand and design elements. In addition, from time to time we may also operate, on a temporary basis until refranchised, IHOP restaurants that we reacquire for a variety of reasons from IHOP franchisees. There were five such restaurants included as company-operated restaurants as of December 31, 2011, three of which were subsequently refranchised in January, 2012. IHOP restaurants are located in all 50 states of the United States, the District of Columbia, Puerto Rico and the United States Virgin Islands and internationally in Canada, Mexico and Guatemala.

IHOP restaurants feature full table service and high quality, moderately priced food and beverage offerings in an attractive and comfortable atmosphere. Although the restaurants are best known for their award-winning pancakes, omelets and other breakfast specialties, IHOP restaurants offer a variety of lunch, dinner and snack items as well. IHOP restaurants are open throughout the day and evening hours. Approximately half of our IHOP restaurants operate 24 hours a day, seven days a week and nearly 200 additional restaurants operate 24 hours a day for some portion of the week.

### Franchising

Franchised restaurants include both company-financed and franchisee-financed development. As discussed in greater detail below, under the Company's business model as it was in effect prior to 2003 (the "Previous Business Model"), the Company developed a substantial majority of all IHOP restaurants with the intention of leasing them to franchisees. Under the strategy adopted in January 2003 (the "Current Business Model"), substantially all new IHOP restaurants are developed by franchise developers with the intention of operating them as franchised restaurants.

### Current Business Model

Under our Current Business Model, a potential franchisee first negotiates and enters into either a single-store development agreement or a multi-store development agreement with the Company and, upon completion of a prescribed approval procedure, is primarily responsible for the development and financing of one or more new IHOP franchised restaurants. In general, we do not provide any financing with respect to the franchise fee or otherwise under the Current Business Model. The franchise developer uses its own capital and financial resources along with third-party financial sources arranged for by the franchise developer to purchase or lease a restaurant site, build and equip the business and fund its working capital needs. The principal terms of the franchise agreements entered into under the Previous Business Model and the Current Business Model, including the franchise royalties and the

franchise advertising fees, are substantially the same except with respect to the terms relating to the franchise fee. Of the 1,535 IHOP restaurants subject to franchise and area license agreements as of December 31, 2011, a total of 453 operate under the Current Business Model.

---

(2) Source: Nation's Restaurant News, "Special Report: Top 100," June 27, 2011 (based on U.S. system-wide sales in the family dining category).

## Table of Contents

The revenues received by the Company from a typical franchise development arrangement under the Current Business Model include (a) (i) a location fee equal to \$15,000 upon execution of a single-store development agreement or (ii) a development fee equal to \$20,000 for each IHOP restaurant that the franchisee contracts to develop upon execution of a multi-store development agreement; (b) a franchise fee equal to (i) \$50,000 (against which the \$15,000 location fee will be credited) for a restaurant developed under a single-store development agreement or (ii) \$40,000 (against which the \$20,000 development fee will be credited) for each restaurant developed under a multi-store development agreement, in each case paid upon execution of the franchise agreement; (c) franchise royalties equal to 4.5% of weekly gross sales; (d) revenue from the sale of pancake and waffle dry-mixes; and (e) franchise advertising fees. The franchise agreements generally provide for advertising fees comprised of (i) a local advertising fee generally equal to 2.0% of weekly gross sales under the franchise agreement, which was typically used to cover the cost of local media purchases and other local advertising expenses incurred by a local advertising cooperative, and (ii) a national advertising fee equal to 1.0% of weekly gross sales under the franchise agreement. Area licensees are generally required to pay lesser amounts toward advertising. Beginning in 2005, the Company and the IHOP franchisees agreed to reallocate portions of the local advertising fees to purchase national broadcast, syndication and cable television time in order to reach our target audience more frequently and more cost effectively (see "Marketing and Advertising").

### Previous Business Model

IHOP franchised restaurants established prior to 2003 under our Previous Business Model were generally developed by the Company. The Company was involved in all aspects of the development and financing of the restaurants. Under the Previous Business Model, the Company typically identified and leased or purchased the restaurant sites for new company-developed IHOP restaurants, built and equipped the restaurants and then franchised them to franchisees. In addition, IHOP typically financed as much as 80% of the franchise fee for periods ranging from five to eight years and leased the restaurant and equipment to the franchisee over a 25-year period. Of the 1,535 IHOP restaurants subject to franchise and area license agreements as of December 31, 2011, over half operate under the Previous Business Model

The revenues received from a restaurant franchised under the Previous Business Model include: (a) the franchise fee, a portion of which (typically 20%) was paid upon execution of the franchise agreement; (b) interest income from the financing arrangements for the unpaid portion of the franchise fee under the franchise notes and from the equipment notes; (c) franchise royalties typically equal to 4.5% of weekly gross sales; (d) lease or sublease rents for the restaurant property and building; (e) rent under an equipment lease; (f) revenues from the sale of pancake and waffle dry-mixes; and (g) franchise advertising fees as described above.

In a few instances we have agreed to accept reduced royalties and/or lease payments from franchisees or have provided other accommodations to franchisees for specified periods of time in order to assist them in either establishing or reinvigorating their businesses.

From time to time we will reacquire restaurants developed under the Previous Business Model from a franchisee that is struggling to fulfill its financial obligations or is otherwise in default of its agreements with the Company. In most cases we have been able to re franchise these restaurants to new franchisees fairly quickly. Where that is not the case, we typically operate the reacquired restaurant pending re franchising. These reacquired restaurants may require investments in remodeling and rehabilitation before they can be re franchised. As a consequence, our reacquired restaurants frequently incur operating losses for some period of time. Where appropriate, we may negotiate modified payment terms or agree to other accommodations with franchisees to assist them to rehabilitate these restaurants.

### Area License Agreements and International Franchise Agreements

We have entered into three long-term area license agreements covering the state of Florida and certain counties in the state of Georgia and the province of British Columbia, Canada. As of December 31, 2011, the area licensees for the state of Florida and certain counties in Georgia operated or sub-franchised a total of 153 IHOP restaurants, and the area licensees for the province of British Columbia, Canada operated or sub-franchised a total of 13 IHOP restaurants. The area license agreements provide for royalties ranging from 0.5% to 2.0% of gross sales and advertising fees equal to 0.25% of gross sales. The area license agreements provide the licensees with the right to develop new IHOP restaurants in their respective territories. We also derive revenues from the sale of proprietary products to these area licensees and in certain instances their sub-franchisees. Revenues from our area licensees are included in franchise

operations revenues for segment reporting purposes.

Franchise Operations

IHOP's Operations Department is charged with ensuring that high operational standards are met at all times by our franchisees. Operating standards have been developed in consultation with franchisees and are detailed in the "IHOP Manual of Standard Operating Procedures." Due to cultural and regulatory differences we may have different requirements for restaurants opened outside of the United States.

9

---



Table of Contents

We highly value good franchisor/franchisee relations and strive to maintain positive working relationships with our franchisees. We sponsor the IHOP Franchise Leadership Council, an elected and appointed body of IHOP franchisees formed to advise and assist IHOP management with respect to a broad range of matters relating to the operation of IHOP restaurants. The group meets with IHOP management at least three times a year to discuss operational issues, marketing matters, development and construction issues, information technology and many other topics.

**Company-Operated Restaurants**

Company-operated IHOP restaurants are essentially comprised of our IHOP-owned restaurants in the Cincinnati, Ohio market. In addition, from time to time, franchise restaurants may be returned by franchisees to us and these restaurants may be operated by us for an indefinite period until they can be refranchised. We utilize the company-operated restaurants in the Cincinnati market primarily for testing of new remodel designs, new menu items and equipment, new operational procedures and new marketing, brand and design elements.

**Restaurant Development**

The Current Business Model relies on franchisees to obtain their own financing to develop IHOP restaurants. We review and approve the franchisees' proposed sites but do not contribute capital or become the franchisees' landlord. Under the Current Business Model, substantially all new IHOP restaurants are financed and developed by franchisees or area licensees. In 2011, our franchisees and area licensees financed and developed 58 new restaurants. We do not currently intend to build additional company-operated IHOP restaurants in the Cincinnati market.

New IHOP restaurants are only developed after a stringent site selection process. All restaurant development is approved by the Franchise Review Committee comprised of senior management. We expect our franchisees to add restaurants to the IHOP system in major markets where we already have a core guest base. We believe that concentrating growth in existing markets allows us to achieve economies of scale in our supervisory and advertising functions. We also look to have our franchisees strategically add restaurants in new markets in which we currently have no presence or our presence is limited.

**Future Restaurant Development**

In 2011, IHOP entered into 13 new franchise development agreements for the development of 60 IHOP restaurants. The most significant new agreement was a multi-restaurant franchise agreement for the development of 40 new IHOP restaurants in Kuwait, the Kingdom of Saudi Arabia, Jordan, Lebanon, Qatar, the United Arab Emirates, Oman, Bahrain and Egypt.

As of December 31, 2011, we had signed commitments and options from franchisees to build 292 IHOP restaurants over the next 18 years, comprised of 7 restaurants under single-store or non-traditional development agreements, 137 restaurants under multi-store development agreements and 64 restaurants under international development agreements. The signed agreements include options to build an additional 84 restaurants over the next 16 years. In 2012, we expect to open a total of 45 to 55 new IHOP restaurants, primarily in the domestic market.

The following table represents our IHOP restaurant development commitments, including options, as of December 31, 2011:

Contractual Openings of Restaurants by Year	Number of Signed Agreements at 12/31/11	2012	2013	2014	2015	2016 and thereafter	Total
		Single-store development agreements	7	6	1	—	
Multi-store development agreements	47	39	31	24	15	28	137
Multi-store development options	7	—	—	1	4	57	62
International territory agreements	6	7	9	10	13	25	64
International territory options	4	—	2	1	2	17	22
<b>Total</b>	<b>71</b>	<b>52</b>	<b>43</b>	<b>36</b>	<b>34</b>	<b>127</b>	<b>292</b>

The actual number of openings in any period may differ from both our expectations and the number of signed commitments. Historically, the actual number of restaurants developed in a particular year has been less than the total number committed to be developed due to various factors including weather-related delays, other construction delays, difficulties in obtaining timely regulatory approvals, franchisee noncompliance with development agreements and

various economic factors.

10

---

Table of Contents

## Composition of Franchise System

As of December 31, 2011, there were 1,499 domestic IHOP franchise and area license restaurants. During 2011, our franchisees opened 45 domestic franchise restaurants and 8 domestic franchise restaurants were closed. The number of restaurants held by an individual franchisee ranges from one to 153 restaurants. The table below sets forth information regarding the number of IHOP restaurants owned by domestic franchisees as of December 31, 2011 as well as the total number of restaurants falling into each of the listed ownership ranges.

Number of Restaurants Held by Franchisee	Franchisees		Restaurants		
	Number	Percent of Total	Number	Percent of Total	
One	170	48.6	% 170	11.3	%
Two to five	119	34.0	% 337	22.5	%
Six to ten	31	8.9	% 238	15.9	%
Eleven to fifteen	14	4.0	% 177	11.8	%
Sixteen and over	16	4.6	% 577	38.5	%
Total (a)	350	100.0	% 1,499	100.0	%

(a) Percentages may not add due to rounding.

As of December 31, 2011, there were 36 international IHOP franchise and area license restaurants. During 2011, our franchisees opened seven international franchise restaurants and none were closed. The number of restaurants held by an individual franchisee ranges from one to 13 restaurants. The table below sets forth information regarding the number of IHOP restaurants owned by international franchisees as of December 31, 2011 as well as the total number of restaurants falling into each of the listed ownership ranges.

Number of Restaurants Held by Franchisee	Franchisees		Restaurants		
	Number	Percent of Total	Number	Percent of Total	
One	4	33.3	% 4	11.1	%
Two to ten	7	58.3	% 19	52.8	%
Greater than ten	1	8.3	% 13	36.1	%
Total (a)	12	100.0	% 36	100.0	%

(a) Percentages may not add due to rounding.

## Menu

The IHOP menu offers a large selection of high-quality, moderately priced products designed to appeal to a broad base of customers. These include a wide variety of pancakes, waffles, omelets and breakfast specialties, chicken, steak, sandwiches, salads and lunch and dinner specialties. Most IHOP restaurants offer special items for children and seniors at reduced prices. In recognition of local tastes, IHOP restaurants typically offer a few regional specialties that complement the IHOP core menu. Our Food and Beverage Innovation Department works together with franchisees and our Marketing Department to develop new menu and promotion ideas. These new items are thoroughly evaluated in our test kitchen and in limited regional tests with consumers, including operational tests, before being introduced throughout the system through core menu updates. The purpose of adding new items and improving existing items is to broaden the appeal of our food to our guests and continually give them new reasons to return to our restaurants. These efforts are based on consumer research, feedback and benchmarking, which help to identify opportunities to improve existing items as well as for developing new items.

By spring of 2012, IHOP will transition from a six-week, single limited-time-offer promotional menu system to a featured items menu handout that will last for a few months at a time, providing a broader base of news and excitement while simplifying in-restaurant execution.



## Table of Contents

### Marketing and Advertising

IHOP franchisees and company-operated restaurants contribute a percentage of their sales to local advertising cooperatives and a national advertising fund. The franchise agreements provide for local and national advertising fees. The local advertising cooperatives have historically used advertising fees for various local marketing programs. The national marketing fund is primarily used for buying media and national advertising and also for the production of advertising. The national marketing fund is also used to defray certain expenses associated with our marketing and advertising functions.

Since 2005, we and our franchisees have allocated a portion of the local advertising fees to national media in order to take advantage of buying efficiencies associated with national broadcast, syndication and cable media. For 2011, 2010 and 2009, the franchisees agreed to reallocate a greater portion of their local advertising fees to national media, which resulted in more television advertising on national broadcast, syndication and cable media. We also have expanded the scope of our gift card program and increased our third-party retailer base to market our gift cards.

### Purchasing Cooperative

In February 2009, Centralized Supply Chain Services, LLC ("CSCS" or the "Co-op"), an independent cooperative entity, was formed to operate as a purchasing cooperative for the operators of Applebee's and IHOP domestic restaurants who have chosen to join the Co-op. The Company has appointed CSCS as the sole authorized purchasing organization and purchasing agent for goods, equipment and distribution services for Applebee's and IHOP restaurants in the United States. The Company (as a restaurant operator) is a member of CSCS and has committed to purchase substantially all goods, equipment and distribution services for company-operated restaurants through the CSCS supply chain program. CSCS combines the purchasing volume for goods, equipment and distribution services within and across the Applebee's and IHOP concepts. Its mission is to achieve for its members the benefit of continuously available goods, equipment and distribution services in adequate quantities at the lowest possible sustainable prices. The operations of CSCS are funded by a separately stated administrative fee added to one or more products purchased by operators. As of December 31, 2011, 100% of Applebee's franchise restaurants and 96% of IHOP franchise restaurants were members of CSCS.

We believe the larger scale provided by combining the supply chain requirements of both brands provides continuing cost savings and efficiencies while helping to ensure compliance with Company quality and safety standards. IHOP pancake and waffle dry mixes are manufactured by a single supplier from multiple plants. In some instances, IHOP is required to enter into commitments to purchase food and other items on behalf of the IHOP system as a whole for the purpose of supplying limited time promotions.

### Industry Overview and Competition

The Applebee's and IHOP restaurant chains are among the numerous restaurant chains and independent restaurants competing in the \$600 billion restaurant industry in the United States. The restaurant industry is generally categorized into segments by price point ranges, the types of food and beverages offered and the types of service available to consumers. These segments include, among others, fast food or quick service restaurants ("QSR"), family dining, casual dining and fine dining. Each of these segments can be broken down further into the type of food served by the restaurant. For example, the QSR category includes sandwich chains, hamburger chains and other chains.

Applebee's competes in the casual dining segment against national and multi-state operators such as Chili's, T.G.I. Friday's and Ruby Tuesday's, among others. In addition, there are many independent restaurants across the country in the casual dining segment. Casual dining restaurants offer full table service and typically have bars or serve liquor, wine and beer. Applebee's is the largest casual dining brand in the world, in terms of number of restaurants and market share.

IHOP competes in the family dining segment against national and multi-state operators such as Denny's, Cracker Barrel Old Country Store and Bob Evans Restaurants. IHOP also faces a growing level of competition from fast food chains that serve breakfast. In addition, there are many independent restaurants and diners across the country in the family dining segment. Family dining restaurants offer full table service, typically do not have bars or serve liquor, and usually offer breakfast in addition to lunch and dinner items. IHOP is the largest family dining brand in the world in terms of system-wide sales.

The restaurant business is highly competitive and is affected by, among other things, economic conditions, price levels, on-going changes in eating habits and food preferences, population trends and traffic patterns. The principal bases of competition in the industry are the type, quality and price of the food products served. Additionally, restaurant location, quality and speed of service, advertising, name identification and attractiveness of facilities are important.

The market for high quality restaurant sites is also highly competitive. We and our franchisees often compete with other restaurant chains and retail businesses for suitable sites for the development of new restaurants.

We also compete against other franchising organizations both within and outside the restaurant industry for new franchise developers.

## Table of Contents

### Trademarks and Service Marks

We and our affiliates have registered certain trademarks and service marks with the United States Patent and Trademark Office and various international jurisdictions, including “DineEquity®” and “Great Franchisees. Great Brands.®” We own trademarks and service marks used in the Applebee's system, including “Applebee's®” and “Applebee's Neighborhood Grill & Bar®,” and variations of each, as well as “Brewtus®,” “Carside To Go®,” “There's No Place Like The Neighborhood®,” and “Pick 'N Pair®.” In addition, through our affiliate, we own trademarks and service marks used in the IHOP system, including “IHOP®” and “International House of Pancakes®,” and variations of each, as well as “Never Empty Coffee Pot®,” “Rooty Tooty Fresh 'N Fruity®,” “Rooty Jr.®,” “Harvest Grain 'N Nut®,” “Come Hungry. Leave Happy.®,” “IHOP at Home®,” “IHOP Cafe®,” and “IHOP Express®.”

We consider our trademarks and service marks important to the identification of our company and our restaurants and believe they are of material importance to the conduct of our business. We generally intend to renew trademarks and service marks which come up for renewal. We own or have rights to all trademarks we believe are material to our restaurant operations. In addition, we have registered various domain names on the Internet that incorporate certain of our trademarks and service marks, and believe these domain name registrations are an integral part of our identity. From time to time, we may take appropriate legal action to defend and protect the use of our intellectual property.

### Seasonal Operations

We do not consider our operations to be seasonal to any material degree.

### Government Regulation

We are subject to Federal Trade Commission (“FTC”) regulation and a number of state laws which regulate the offer and sale of franchises. We also are subject to a number of state laws which regulate substantive aspects of the franchisor-franchisee relationship. The FTC's Trade Regulation Rule on Franchising, as amended (the “FTC Rule”), requires us to furnish to prospective franchisees a Franchise Disclosure Document containing information prescribed by the FTC Rule.

State laws that regulate the offer and sale of franchises and the franchisor-franchisee relationship presently exist in a number of states. State laws that regulate the offer and sale of franchises require registration of the franchise offering with the state authorities. Those states that regulate the franchise relationship generally require that the franchisor deal with its franchisees in good faith, prohibit interference with the right of free association among franchisees, limit the imposition of unreasonable standards of performance on a franchisee and regulate discrimination against franchisees with respect to charges, royalty fees or other fees. Although such laws may restrict a franchisor in the termination and/or non-renewal of a franchise agreement by, for example, requiring “good cause” to exist as a basis for the termination and/or non-renewal, advance notice to the franchisee of the termination or non-renewal, an opportunity to cure a default and a repurchase of inventory or other compensation upon termination, these provisions have not historically had a significant effect on our franchise operations.

Each restaurant is subject to licensing and regulation by a number of governmental authorities, which may include liquor license authorities (primarily in the case of Applebee's restaurants), health, sanitation, safety, fire, building and other agencies in the state or municipality in which the restaurant is located. Difficulties in obtaining, or failure to obtain, the required licenses or approvals could delay or prevent the development of a new restaurant in a particular area or cause the temporary closure of existing restaurants. We are also subject to new laws and regulations, which vary from jurisdiction to jurisdiction, relating to nutritional content and menu labeling. Compliance with these laws and regulations may lead to increased costs and operational complexity and may increase our exposure to governmental investigations or litigation.

We are subject to federal and state environmental regulations, but these have not had a material effect on our operations. More stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay or prevent the development of new restaurants in particular areas.

Various federal and state labor laws govern our and our franchisees' relationships with our respective employees. These include such matters as minimum wage requirements, overtime and other working conditions. Significant additional government-imposed increases in minimum wages, paid leaves of absence, mandated health benefits or increased tax reporting and tax payment requirements with respect to employees who receive gratuities could be

detrimental to the economic viability of our restaurants.

In March 2010, President Obama signed the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010. The legislation is far-reaching and is intended to expand access to health insurance coverage over time by adjusting the eligibility thresholds for most state Medicaid programs and providing certain other individuals and small businesses with tax credits to subsidize a portion of the cost of health insurance coverage. The legislation includes a requirement that most individuals obtain health insurance coverage beginning in 2014 and also a requirement that certain large



## Table of Contents

employers offer coverage to their employees or pay a financial penalty. We are evaluating the impact the new law will have on our business. Although we cannot predict with certainty the financial and operational impacts the new law will have on us, we expect that our expenses will increase over the long term as a result of this legislation, and any such increases could adversely affect our business, cash flows, financial condition and results of operations.

In recent years, there has been an increased legislative, regulatory and consumer focus at the federal, state and municipal levels on the food industry including nutrition and advertising practices. Restaurants operating in the quick-service and fast-casual segments have been a particular focus. The State of California, New York City and a growing number of other jurisdictions around the United States have adopted regulations requiring that chain restaurants include calorie information on their menus or make other nutritional information available. The recently-enacted United States health care reform law included nation-wide menu labeling and nutrition disclosure requirements as well. Initiatives in the area of nutrition disclosure or advertising, such as requirements to provide information about the nutritional content of our food, may result in increased costs of compliance with the requirements and may also change customer buying habits in a way that adversely impacts our sales.

### Environmental Matters

We are not aware of any federal, state or local environmental laws or regulations that are likely to materially impact our revenues, cash flow or competitive position, or result in any material capital expenditure. However, we cannot predict the effect of possible future environmental legislation or regulations.

### Employees

At December 31, 2011, we employed approximately 10,900 employees, of whom approximately 640 were full-time, non-restaurant, corporate personnel. Our employees are not presently represented by any collective bargaining agreements and we have never experienced a work stoppage. We believe our relations with employees are good.

## Item 1A. Risk Factors.

### General

This Item 1A includes forward-looking statements. You should refer to our discussion of the qualifications and limitations on forward-looking statements included in Item 7.

The occurrence of any of the events discussed in the following risk factors may adversely affect, possibly in a material manner, our business, financial condition and results of operations, which may adversely affect the value of our shares of common stock or preferred stock.

Our business is affected by general economic conditions that are largely out of our control. Our business is dependent to a significant extent on national, regional and local economic conditions, and, to a lesser extent, on global economic conditions, particularly those conditions affecting the demographics of the guests that frequently patronize Applebee's or IHOP restaurants. If our customers' disposable income available for discretionary spending is reduced (because of circumstances such as job losses, credit constraints and higher housing, taxes, energy, interest or other costs) or if the perceived wealth of customers decreases (because of circumstances such as lower residential real estate values, increased foreclosure rates, increased tax rates or other economic disruptions), our business could experience lower sales and customer traffic as potential customers choose lower-cost alternatives (such as quick-service restaurants or fast casual dining) or choose alternatives to dining out. Any resulting decreases in customer traffic or average value per transaction will negatively impact the financial performance of Applebee's or IHOP company-operated restaurants, as reduced gross sales result in downward pressure on margins and profitability. These factors could also reduce gross sales at franchise restaurants, resulting in lower royalty payments from franchisees, and could reduce the profitability of franchise restaurants, potentially impacting the ability of franchisees to make royalty payments when they are due and develop new restaurants as called for in their respective development agreements.

Our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under our debt. We have a significant amount of indebtedness which could have important consequences to our financial health. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our debt;
- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;

require us to dedicate a substantial portion of our cash flow from operations to debt service, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes; limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

Table of Contents

place us at a competitive disadvantage compared to our competitors that are not as highly leveraged; limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds; and result in an event of default if we fail to satisfy our obligations under our debt or fail to comply with the financial and other restrictive covenants contained in our debt documents, which event of default could result in all of our debt becoming immediately due and payable and could permit certain of our lenders to foreclose on our assets securing such debt.

In addition, we may incur substantial additional indebtedness in the future. If new debt is added to our current debt levels, the related risks that we now face could intensify.

To service our indebtedness, we will require a significant amount of cash, which depends on many factors beyond our control. There is no assurance that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our senior secured credit facility in amounts sufficient to enable us to fund our liquidity needs, including with respect to our other indebtedness. As we are required to satisfy amortization requirements under our senior secured credit facility or as other debt matures, we may also need to raise funds to refinance all or a portion of our debt when it becomes due. Further, there is no assurance that we will be able to refinance any of our debt on attractive terms, commercially reasonable terms or at all. Our future operating performance and our ability to service, extend or refinance our debt will be subject to future economic conditions and to financial, business and other factors.

Declines in our financial performance could result in additional impairment charges in future periods. United States generally accepted accounting principles ("U.S. GAAP") require annual (or more frequently if events or changes in circumstances warrant) impairment tests of goodwill, intangible assets and other long-lived assets. Generally speaking, if the carrying value of the asset is in excess of the estimated fair value of the asset, the carrying value will be adjusted to fair value through an impairment charge. Fair values of goodwill and intangible assets are primarily estimated using discounted cash flows based on five-year forecasts of financial results that incorporate assumptions as to same-restaurant sales trends, future development plans and brand-enhancing initiatives, among other things. Fair values of long-lived tangible assets are primarily estimated using discounted cash flows over the estimated useful lives of the assets. Significant underachievement of forecasted results could reduce the estimated fair value of these assets below the carrying value, requiring non-cash impairment charges to reduce the carrying value of the asset. As of December 31, 2011, our total stockholders' equity was \$155.2 million. A significant impairment write-down of goodwill, intangible assets or long-lived assets in the future could result in a deficit balance in stockholders' equity. While such a deficit balance would not create an incident of default in any of our contractual agreements, the negative perception of such a deficit could have an adverse effect on our stock price and could impair our ability to obtain new financing, or refinance existing indebtedness on commercially reasonable terms or at all.

Our actual operating and financial results in any given period may differ from guidance we provide to the public, including our most recent public guidance. From time to time, in press releases, SEC filings, public conference calls and other contexts, we have provided guidance to the public regarding current business conditions and our expectations for our future financial results. We expect that we will provide guidance periodically in the future. Our guidance is based upon a number of assumptions, expectations and estimates that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In providing our guidance, we also make various assumptions with respect to our future business decisions, some of which will change. Our actual financial results, therefore, may vary from our guidance due to our inability to meet the assumptions upon which our guidance is based and the impact on our business of the various risks and uncertainties described in these risk factors and in our public filings with the SEC. Variances between our actual results and our guidance may be material. To the extent that our actual financial results do not meet or exceed our guidance, the trading prices of our securities may be materially adversely affected.

The restaurant industry is highly competitive, and that competition could lower our revenues, margins and market share. The performance of individual restaurants may be adversely affected by factors such as traffic patterns, demographics and the type, number and location of competing restaurants. The restaurant industry is highly competitive with respect to price, service, location, personnel and the type and quality of food. Each Applebee's and

IHOP restaurant competes directly and indirectly with a large number of national and regional restaurant chains, as well as independent businesses. The trend toward convergence in grocery, deli, and restaurant services, as well as the continued expansion of restaurants into the breakfast daypart, may increase the number and variety of Applebee's and IHOP restaurants' competitors. In addition to the prevailing baseline level of competition, major market players in non-competing industries may choose to enter the food services market. Such increased competition could have a material adverse effect on the financial condition and results of operations of Applebee's or IHOP restaurants in affected markets. Applebee's and IHOP restaurants also compete with other restaurant chains for qualified management and staff, and we compete with other restaurant chains for available locations for new restaurants. Applebee's and IHOP restaurants also face competition from the introduction of new products and menu items by competitors, as well as substantial price discounting, and are likely to face such competition in the future. The future success of new products, initiatives and overall strategies is highly

Table of Contents

difficult to predict and will be influenced by competitive product offerings, pricing and promotions offered by competitors. Our ability to differentiate the Applebee's and IHOP brands from their competitors, which is in part limited by the advertising monies available to us and by consumer perception, cannot be assured. These factors could reduce the gross sales or profitability at Applebee's or IHOP restaurants, which would reduce the revenues generated by company-owned restaurants and the franchise payments received from franchisees.

Our business strategy may not achieve the anticipated results. We expect to continue to apply a business strategy that includes, among other things, (i) the transition to a 99% franchised Applebee's system; (ii) specific changes in the manner in which our Applebee's and IHOP businesses are managed and serviced, such as the February 2009 establishment of a purchasing cooperative, and the procurement of products and services from such purchasing cooperative; (iii) the possible introduction of new restaurant concepts; and (iv) the establishment of a shared service model across the brands for various functions, including legal, human resources and finance. However, the Applebee's business is different in many respects from the IHOP business. In particular, the Applebee's restaurants are part of the casual dining segment of the restaurant industry whereas the IHOP restaurants are part of the family dining segment, and the Applebee's business is larger, distributed differently across the United States and appeals to a somewhat different segment of the consumer market. Therefore, there can be no assurance that the business strategy we apply to the Applebee's business will be suitable or will achieve similar results to the application of such business strategy to the IHOP system. In particular, the refranchising of Applebee's company-operated restaurants may not improve the performance of such restaurants and may not reduce the capital expenditures or debt levels to the extent we anticipate or result in the other intended benefits of the strategy. The actual benefit from the refranchising of the Applebee's company-operated restaurants is uncertain and may be less than anticipated.

As of December 31, 2011, we have refranchised 325 of the Applebee's company-operated restaurants acquired on November 29, 2007. There can be no assurance that we will be able to complete the refranchising of a substantial majority of the remaining 177 company-operated restaurants on terms that we and our creditors would consider desirable or within the anticipated time frame. In October 2011, we entered into an agreement for the refranchising and sale of related restaurant assets of 17 Applebee's company-operated restaurants located in a six-state market area geographically centered around Memphis, Tennessee. The transaction closed in January 2012. Following these transactions, Applebee's system is 91% franchised. The anticipated proceeds from the refranchising of the company-operated restaurants are based on current market values, recent comparable transaction valuations, and a number of other assumptions. The refranchising of Applebee's company-operated restaurants may not be completed for several years. If market rents, comparable transaction valuations or other assumptions prove to be incorrect, the actual proceeds from the refranchising of the company-operated restaurants may be different than anticipated. In addition, adverse economic, market or other conditions existing in the states in which company-operated restaurants are located may adversely affect our ability to execute the refranchising transactions or to achieve the anticipated returns from such transactions. Market conditions may have changed at the time the refranchising transactions occur. Finally, the operational improvement initiatives or purchasing initiatives may not be successful or achieve the desired results. In particular, there can be no assurance that the existing franchisees or prospective new franchisees will respond favorably to such initiatives.

Our performance is subject to risks associated with the restaurant industry. The sales and profitability of our restaurants and, in turn, payments from our franchisees may be negatively impacted by a number of factors, some of which are outside of our control. The most significant are:

- declines in comparable restaurant sales growth rates due to: (i) failing to meet customers' expectations for food quality and taste or to innovate new menu items to retain the existing customer base and attract new customers;
- (ii) competitive intrusions in our markets; (iii) opening new restaurants that cannibalize the sales of existing restaurants; (iv) failure of national or local marketing to be effective; (v) weakening national, regional and local economic conditions; and (vi) natural disasters or adverse weather conditions.
- negative trends in operating expenses such as: (i) increases in food costs including rising commodity costs;
- (ii) increases in labor costs including increases mandated by minimum wage and other employment laws, immigration reform, the potential impact of union organizing efforts, increases due to tight labor market conditions and rising health care and workers compensation costs; and (iii) increases in other operating costs including advertising, utilities,

lease-related expenses and credit card processing fees;

• the inability to open new restaurants that achieve and sustain acceptable sales volumes;

• the inability to increase menu pricing to offset increased operating expenses;

• failure to effectively manage further penetration into mature markets;

• negative trends in the availability of credit and in expenses such as interest rates and the cost of construction materials that will affect our ability or our franchisees' ability to maintain and refurbish existing restaurants;

• the inability to manage a large number of restaurants due to unanticipated changes in executive management, and

Table of Contents

availability of qualified restaurant management, staff and other personnel;  
the inability to operate effectively in new and/or highly competitive geographic regions or local markets in which we or our franchisees have limited operating experience; and  
the inability to manage a large number of restaurants in diverse geographic areas with a standardized operational and marketing approach.

We may experience shortages or interruptions in the supply or delivery of food. Our franchised and company-operated restaurants are dependent on frequent deliveries of fresh produce, groceries and other food and beverage products. This subjects us to the risk of shortages or interruptions in food and beverage supplies which may result from a variety of causes including, but not limited to, shortages due to adverse weather, labor unrest, political unrest, terrorism, outbreaks of food-borne illness, disruption of operation of production facilities or other unforeseen circumstances. Such shortages could adversely affect our revenue and profits. The inability to secure adequate and reliable supplies or distribution of food and beverage products could limit our ability to make changes to our core menus or offer promotional "limited time only" menu items, which may limit our ability to implement our business strategies. Our restaurants bear risks associated with the timeliness of deliveries by suppliers and distributors as well as the solvency, reputation, labor relationships, freight rates, prices of raw materials and health and safety standards of each supplier and distributor. While the supply of pancake and waffle dry mixes is generally available, we currently obtain our pancake and dry mixes from a single manufacturer. Other significant risks associated with our suppliers and distributors include improper handling of food and beverage products and/or the adulteration or contamination of such food and beverage products. Disruptions in our relationships with suppliers and distributors may reduce the profits generated by company-operated restaurants or the payments we receive from franchisees.

Changing health or dietary preferences may cause consumers to avoid Applebee's and IHOP's products in favor of alternative foods. The food service industry as a whole rests on consumer preferences and demographic trends at the local, regional, national and international levels, and the impact on consumer eating habits of new information regarding diet, nutrition and health. Our franchise development and system-wide sales depend on the sustained demand for our products, which may be affected by factors we do not control. Changes in nutritional guidelines issued by the United States Department of Agriculture, issuance of similar guidelines or statistical information by federal, state or local municipalities, or academic studies, among other things, may impact consumer choice and cause consumers to select foods other than those that are offered by Applebee's or IHOP restaurants. We may not be able to adequately adapt Applebee's or IHOP restaurants' menu offerings to keep pace with developments in consumer preferences, which may result in reductions to the revenues generated by our company-operated restaurants and the franchise payments we receive from franchisees.

We are dependent upon our franchisees. We have significantly increased the percentage of restaurants owned and operated by our franchisees. While our franchise agreements are designed to maintain brand consistency, this increase in the franchised-operated restaurants reduces our direct day-to-day control over these restaurants and may expose us to risks not otherwise encountered if we maintained ownership and control of the restaurants. These risks include franchisee defaults in their obligations to us arising from financial or other difficulties encountered by them, such as payments to us or maintenance and improvement obligations; limitations on enforcement of franchise obligations due to bankruptcy or insolvency proceedings; unwillingness of franchisees to support our marketing programs and strategic initiatives; inability to participate in business strategy changes due to financial constraints; inability to meet rent obligations on leases on which we retain contingent liability; failure to operate restaurants in accordance with required standards; failure to report sales information accurately; efforts by one or more large franchisees to cause poor franchise relations; and failure to comply with food quality and preparation requirements subjecting us to potential losses even when we are not legally liable for a franchisee's actions or failure to act. Although we believe that our current relationships with our franchisees are generally good, there can be no assurance that we will maintain strong franchise relationships. Our dependence on franchisees could adversely affect us, our reputation and our brands, and could adversely affect our business, financial condition and results of operations.

We face a variety of risks associated with doing business with franchisees, business partners and vendors in foreign markets. Our expansion into international markets could create risks to our brands and reputation. We believe that we have selected high-caliber international operating partners and franchisees with significant experience in restaurant

operations. However, the ultimate success and quality of any franchise restaurant rests with the franchisee. If the franchisee does not successfully operate its restaurants in a manner consistent with our standards, or customers have negative experiences due to issues with food quality or operational execution, our brand values could suffer, which could have an adverse effect on our business.

There also is no assurance that international operations will be profitable or that international growth will continue. Our international operations are subject to all of the same risks associated with our domestic operations, as well as a number of additional risks. These include, among other things, international economic and political conditions, foreign currency fluctuations, and differing cultures and consumer preferences.

We also are subject to governmental regulations throughout the world that impact the way we do business with our international



Table of Contents

franchisees and vendors. These include antitrust and tax requirements, anti-boycott regulations, import/export/customs regulations and other international trade regulations, the USA Patriot Act and the Foreign Corrupt Practices Act. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could harm our business, results of operations and financial condition.

Factors outside our control may harm our brands' reputations. The success of our restaurant business is largely dependent upon brand recognition and the strength of our franchise systems. The continued success of our company-operated restaurants and our franchisees will be directly dependent upon the maintenance of a favorable public view of the Applebee's and IHOP brands. Negative publicity (e.g., crime, scandal, litigation, on-site accidents and injuries or other harm to customers) at a single Applebee's or IHOP location can have a substantial negative impact on the operations of all restaurants within the Applebee's or IHOP system. Multi-unit food service businesses such as ours can be materially and adversely affected by widespread negative publicity of any type, but particularly regarding food quality, food-borne illness, food tampering, obesity, injury or other health concerns with respect to certain foods, whether or not accurate or valid. The risk of food-borne illness or food tampering cannot be completely eliminated. Any outbreak of food-borne illness or other food-related incidents attributed to Applebee's or IHOP restaurants or within the food service industry or any widespread negative publicity regarding the Applebee's or IHOP brands or the restaurant industry in general could harm our reputation. Although the Company maintains liability insurance, and each franchisee is required to maintain liability insurance pursuant to its franchise agreements, a liability claim could injure the reputation of all Applebee's or IHOP restaurants, whether or not it is ultimately successful.

We may be subject to legal proceedings that could be time consuming, result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources. We are involved in lawsuits, claims and proceedings incident to the ordinary course of our business. Litigation is inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources. There have been a growing number of lawsuits in recent years. There has also been a rise in employment-related lawsuits. From time to time, we have been subject to these types of lawsuits. The cost of defending claims against us or the ultimate resolution of such claims may harm our business and operating results. In addition, the increasingly regulated business environment may result in a greater number of enforcement actions and private litigation. This could subject us to increased exposure to stockholder lawsuits.

We and our franchisees are subject to a variety of litigation. We and our franchisees are subject to complaints or litigation from guests alleging illness, injury or other food quality, food safety, health or operational concerns. We and our franchisees are also subject to "dram shop" laws in some states pursuant to which we and our franchisees may be subject to liability in connection with personal injuries or property damages incurred in connection with wrongfully serving alcoholic beverages to an intoxicated person. We may also initiate legal proceedings against franchisees for breach of the terms of their franchise agreements, including underreporting of sales. Such claims may reduce the profits generated by company-operated restaurants and the ability of franchisees to make payments to us. These claims may also reduce the ability of franchisees to enter into new franchise agreements with us. Although our franchise agreements require our franchisees to defend and indemnify us, we may be named as a defendant and sustain liability in legal proceedings against franchisees under the doctrines of vicarious liability, agency, negligence or otherwise. Ownership of real property exposes us to potential environmental liabilities. The ownership of real property exposes us to potential environmental liabilities from United States federal, state and local governmental authorities and private lawsuits by individuals or businesses. The potential environmental liabilities in connection with the ownership of real estate are highly uncertain. We currently do not have actual knowledge of any environmental liabilities that would have a material adverse effect on the Company. From time to time, we have experienced some non-material environmental liabilities resulting from environmental issues at our properties. While we are unaware of any material environmental liabilities, it is possible that material environmental liabilities relating to our properties may arise in the future.

Matters involving employees at certain company-operated restaurants expose us to potential liability. We are subject to United States federal, state and local employment laws that expose us to potential liability if we are determined to

have violated such employment laws. Failure to comply with federal and state labor laws pertaining to minimum wage, overtime pay, meal and rest breaks, unemployment tax rates, workers' compensation rates, citizenship or residency requirements, child labor requirements, sales taxes and other employment-related matters may have a material adverse effect on our business or operations. In addition, employee claims based on, among other things, discrimination, harassment or wrongful termination may divert financial and management resources and adversely affect operations. The losses that may be incurred as a result of any violation of such employment laws are difficult to quantify.

Our failure or the failure of our franchisees to comply with federal, state and local governmental regulations may subject us to losses and harm our brands. We are subject to the Fair Labor Standards Act (which governs such matters as minimum wages, overtime and other working conditions), along with the Americans with Disabilities Act, the Immigration Reform and Control Act of 1986, various family leave mandates and a variety of other laws enacted, or rules and regulations promulgated by federal, state and local governmental authorities that govern these and other employment matters, including tip credits, working

Table of Contents

conditions, safety standards and immigration status. We expect increases in payroll expenses as a result of federal and state mandated increases in the minimum wage, and although such increases are not expected to be material, we cannot assure you that there will not be material increases in the future. Enactment and enforcement of various federal, state and local laws, rules and regulations on immigration and labor organizations may adversely impact the availability and costs of labor for our restaurants in a particular area or across the United States. Other labor shortages or increased team member turnover could also increase labor costs. In addition, our vendors may be affected by higher minimum wage standards or availability of labor, which may increase the price of goods and services they supply to us. We continue to review the health care reform law enacted by Congress in March of 2010 and regulations issued related to the law to evaluate the potential impact of this new law on our business, and to accommodate various parts of the law as they take effect. There are no assurances that a combination of cost management and price increases can accommodate all of the costs associated with compliance.

We are subject to extensive federal, state and local governmental regulations, including those relating to the preparation and sale of food and alcoholic beverages and those relating to building and zoning requirements. Each of our and our franchisees' restaurants is also subject to licensing and regulation by alcoholic beverage control, health, sanitation, safety and fire agencies in the state, county and/or municipality where the restaurant is located. We generally have not encountered any material difficulties or failures in obtaining and maintaining the required licenses and approvals that could impact the continuing operations of an existing restaurant, or delay or prevent the opening of a new restaurant. Although we do not, at this time, anticipate any occurring in the future, we cannot assure you that we or our franchisees will not experience material difficulties or failures that could impact the continuing operations of an existing restaurant, or delay the opening of restaurants in the future.

In addition, we are subject to laws and regulations, which vary from jurisdiction to jurisdiction, relating to nutritional content and menu labeling. Compliance with these laws and regulations may lead to increased costs and operational complexity and may increase our exposure to governmental investigations or litigation. In connection with the continued operation or remodeling of certain restaurants, we or our franchisees may be required to expend funds to meet federal, state and local and foreign regulations. The inability to obtain or maintain such licenses or publicity resulting from actual or alleged violations of such laws could have an adverse effect on our results of operations. Finally, we are subject to federal regulation and certain state laws which govern the offer and sale of franchises. Many state franchise laws contain provisions that supersede the terms of franchise agreements, including provisions concerning the termination or non-renewal of a franchise. Some state franchise laws require that certain materials be registered before franchises can be offered or sold in that state. The failure to obtain or retain licenses or approvals to sell franchises could adversely affect us and the franchisees. Changes in, and the cost of compliance with, government regulations could have a material effect on operations.

Restaurant development plans under development agreements may not be implemented effectively. We rely on franchisees to develop Applebee's and IHOP restaurants. Restaurant development involves substantial risks, including the following:

- the availability of suitable locations and terms for potential development sites;
- the ability of franchisees to fulfill their commitments to build new restaurants in the numbers and the time frames specified in their development agreements;
- the availability of financing, at acceptable rates and terms, to both franchisees and third-party landlords, for restaurant development;
- delays in obtaining construction permits and in completion of construction;
- developed properties not achieving desired revenue or cash flow levels once opened;
- competition for suitable development sites;
- changes in governmental rules, regulations, and interpretations (including interpretations of the requirements of the ADA); and
- general economic and business conditions.

We cannot assure that the development and construction of facilities will be completed, or that any such development will be completed in a timely manner. We cannot assure that present or future development will perform in accordance with our expectations.

The opening and success of Applebee's and IHOP restaurants depend on various factors, including the demand for Applebee's and IHOP restaurants and the selection of appropriate franchisee candidates, the availability of suitable sites, the negotiation of acceptable lease or purchase terms for new locations, costs of construction, permit issuance and regulatory compliance, the ability to meet construction schedules, the availability of financing and other capabilities of franchisees. There is no assurance that franchisees planning the opening of restaurants will have the business abilities or sufficient access to financial resources necessary

Table of Contents

to open the restaurants required by their agreements. It cannot be assured that franchisees will successfully participate in our strategic initiatives or operate their restaurants in a manner consistent with our concepts and standards. Concentration of Applebee's franchised restaurants in a limited number of franchisees subjects us to greater credit risk. As of December 31, 2011, Applebee's franchisees operated 1,694 Applebee's restaurants in the United States, comprising 91% of the total Applebee's restaurants in the United States. Of those restaurants, the nine largest Applebee's franchisees owned 933 restaurants, representing 55% of all franchised Applebee's restaurants in the United States. The concentration of franchised restaurants in a limited number of franchisees subjects us to a potentially higher level of credit risk in respect of such franchisees because their financial obligations to us are greater as compared to those franchisees with fewer restaurants. The risk associated with these franchisees is also greater where franchisees are the sole or dominant franchisee for a particular region of the United States, as is the case for most domestic Applebee's franchised territories. In particular, if any of these franchisees experiences financial or other difficulties, the franchisee may default on its obligations under multiple franchise agreements including payments to us and the maintenance and improvement of its restaurants. If any of these franchisees are subject to bankruptcy or insolvency proceedings, a bankruptcy court may prevent the termination of the related franchise agreements and development agreements. Any franchisee that is experiencing financial difficulties may also be unable to participate in implementing changes to our business strategy. Any franchisee that owns and operates a significant number of Applebee's restaurants and fails to comply with its other obligations under the franchise agreement, such as those relating to the quality and preparation of food and maintenance of restaurants, could cause significant harm to the Applebee's brand and subject us to claims by consumers even if we are not legally liable for the franchisee's actions or failure to act. The refranchising of most of the company-operated Applebee's restaurants that is part of our strategy may increase the degree of concentration of franchised Applebee's restaurants because the existing franchisees are the likely candidates to acquire company-operated restaurants. The concentration of the franchised Applebee's restaurants in a limited number of franchisees also may reduce our negotiating power with respect to the terms of sale of the company-operated Applebee's restaurants. Development rights for Applebee's restaurants are also concentrated among a limited number of existing franchisees. If any of these existing franchisees experience financial difficulties, future development of Applebee's restaurants may be materially adversely affected.

We are subject to credit risk from our IHOP franchisees operating under our Previous Business Model, and a default by these franchisees may negatively affect our cash flows. Of the 1,535 IHOP restaurants subject to franchise and area license agreements as of December 31, 2011, over half operate under the Previous Business Model. The Company was involved in all aspects of the development and financing of the IHOP restaurants established prior to 2003. Under the Previous Business Model, the Company typically identified and leased or purchased the restaurant sites, built and equipped the restaurants and then franchised them to franchisees. In addition, IHOP typically financed as much as 80% of the franchise fee for periods ranging from five to eight years and leased the restaurant and equipment to the franchisee over a 25-year period. Therefore, in addition to franchise fees and royalties, the revenues received from an IHOP franchisee operating under the Previous Business Model include, among other things, lease or sublease rents for the restaurant property building, rent under an equipment lease and interest income from the financing arrangements for the unpaid portion of the franchise fee under the franchise notes. If any of these IHOP franchisees were to default on their payment obligations to us, we may be unable to collect the amounts owed under our notes and equipment contract receivables as well as outstanding franchise royalties. The higher amounts owed to us by each of these IHOP franchisees subject us to greater credit risk and defaults by IHOP franchisees operating under our Previous Business Model may negatively affect our cash flows.

Termination or non-renewal of franchise agreements may disrupt restaurant performance. Each franchise agreement is subject to termination by us in the event of default by the franchisee after applicable cure periods. Upon the expiration of the initial term of a franchise agreement, the franchisee generally has an option to renew the franchise agreement for an additional term. There is no assurance that franchisees will meet the criteria for renewal or will desire or be able to renew their franchise agreements. If not renewed, a franchise agreement, and payments required thereunder, will terminate. We may be unable to find a new franchisee to replace such lost revenues. Furthermore, while we will be entitled to terminate franchise agreements following a default that is not cured within the applicable grace period, if any, such termination may disrupt the performance of the restaurants affected.

Franchisees may breach the terms of their franchise agreements in a manner that adversely affects our brands. Franchisees are required to conform to specified product quality standards and other requirements pursuant to their franchise agreements in order to protect our brands and to optimize restaurant performance. However, franchisees may receive through the supply chain or produce sub-standard food or beverage products, which may adversely impact the reputation of our brands. Franchisees may also breach the standards set forth in their respective franchise agreements.

Franchisees are subject to potential losses that are not covered by insurance that may negatively impact their ability to make payments to us and perform other obligations under franchise agreements. Franchisees may have insufficient insurance coverage to cover all of the potential risks associated with the ownership and operation of their restaurants. A franchisee may have insufficient funds to cover unanticipated increases in insurance premiums or losses that are not covered by insurance. Certain extraordinary hazards may not be covered and insurance may not be available (or may be available only at prohibitively expensive

Table of Contents

rates) with respect to many other risks. Moreover, there is no assurance that any loss incurred will not exceed the limits on the policies obtained, or that payments on such policies will be received on a timely basis, or even if obtained on a timely basis, that such payments will prevent losses to such franchisee or enable timely franchise payments. Accordingly, in cases in which a franchisee experiences increased insurance premiums or must pay claims out-of-pocket, the franchisee may not have the funds necessary to make franchise payments.

Franchisees generally are not "limited purpose entities," making them subject to business, credit, financial and other risks. Franchisees may be natural persons or legal entities. Franchisees are often not "limited-purpose entities," making them subject to business, credit, financial and other risks which may be unrelated to the operations of Applebee's or IHOP restaurants. These unrelated risks could materially and adversely affect a franchisee and its ability to make its franchise payments in full or on a timely basis. Any such decrease in franchise payments may have a material adverse effect on us. See the Risk Factor titled "An insolvency or bankruptcy proceeding involving a franchisee could prevent the collection of payments or the exercise of rights under the related franchise agreement," below.

An insolvency or bankruptcy proceeding involving a franchisee could prevent the collection of payments or the exercise of rights under the related franchise agreement. An insolvency proceeding involving a franchisee could prevent us from collecting payments or exercising any of our other rights under the related franchise agreement. In particular, the protection of the statutory automatic stay that arises under Section 362 of the United States Bankruptcy Code upon the commencement of a bankruptcy proceeding by or against a franchisee would prohibit us from terminating a franchise agreement previously entered into with a franchisee. Furthermore, a franchisee that is subject to bankruptcy proceedings may reject the franchise agreement in which case we would be limited to a general unsecured claim against the franchisee's bankruptcy estate on account of breach-of-contract damages arising from the rejection. Payments previously made to us by a franchisee that is subject to a bankruptcy proceeding also may be recoverable on behalf of the franchisee as a preferential transfer under the United States Bankruptcy Code.

The number and quality of franchisees is subject to change over time, which may negatively affect our business. Our Applebee's business is highly concentrated in a limited number of franchisees. We cannot guarantee the retention of any, including the top performing, franchisees in the future, or that we will maintain the ability to attract, retain, and motivate sufficient numbers of franchisees of the same caliber. The quality of existing franchisee operations may be diminished by factors beyond our control, including franchisees' failure or inability to hire or retain qualified managers and other personnel. Training of managers and other personnel may be inadequate. These and other such negative factors could reduce the franchisee's restaurant revenues, impact payments under the franchise agreements and could have a material adverse effect on us. In the case of Applebee's, these negative factors would be magnified by the limited number of existing franchisees.

The inability of franchisees to fund capital expenditures may adversely impact future growth. Our business strategy includes the periodic updating of Applebee's and IHOP restaurant locations through new remodel programs and other operational changes. The success of that business strategy will depend to a significant extent on the ability of the franchisees to fund the necessary capital expenditures to aid the repositioning and re-energizing of the brand. Labor and material costs expended will vary by geographical location and are subject to general price increases. To the extent the franchisees are not able to fund the necessary capital expenditures, our business strategy may take longer to implement and may not be as successful as we expect.

Third-party claims with respect to intellectual property assets, if decided against us, may result in competing uses or require adoption of new, non-infringing intellectual property, which may in turn adversely affect sales and revenues. There can be no assurance that third parties will not assert infringement or misappropriation claims against us, or assert claims that our rights in our trademarks, service marks and other intellectual property assets are invalid or unenforceable. Any such claims could have a material adverse effect on us or our franchisees if such claims were to be decided against us. If our rights in any intellectual property were invalidated or deemed unenforceable, it could permit competing uses of intellectual property which, in turn, could lead to a decline in restaurant revenues and sales of other branded products and services (if any). If the intellectual property became subject to third-party infringement, misappropriation or other claims, and such claims were decided against us, we may be forced to pay damages, be required to develop or adopt non-infringing intellectual property or be obligated to acquire a license to

the intellectual property that is the subject of the asserted claim. There could be significant expenses associated with the defense of any infringement, misappropriation, or other third-party claims.

If franchisees and other licensees do not observe the required quality and trademark usage standards, our brands may suffer reputational damage, which could in turn adversely affect our business. We license our intellectual property to our franchisees, product suppliers, manufacturers, distributors, advertisers and other third parties. The franchise agreements and other license agreements require that each franchisee or other licensee use the intellectual property in accordance with established or approved quality control guidelines. However, there can be no assurance that the franchisees or other licensees will use the intellectual property assets in accordance with such guidelines. Franchisee and licensee noncompliance with the terms and conditions of the governing franchise agreement or other license agreement may reduce the overall goodwill associated with our brands. Franchisees and other licensees may refer to our intellectual property improperly in communications, resulting in the weakening of the distinctiveness of our intellectual property. There can be no assurance that the franchisees or other licensees will



## Table of Contents

not take actions that could have a material adverse effect on the Applebee's or IHOP intellectual property.

In addition, even if the licensee product suppliers, manufacturers, distributors, or advertisers observe and maintain the quality and integrity of the intellectual property assets in accordance with the relevant license agreement, any product manufactured by such suppliers may be subject to regulatory sanctions and other actions by third parties which can, in turn, negatively impact the perceived quality of our restaurants and the overall goodwill of our brands, regardless of the nature and type of product involved. Any such actions could reduce restaurant revenues and corresponding franchise payments to us.

We are heavily dependent on information technology and any material failure of that technology could impair our ability to efficiently operate our business. We rely heavily on information systems across our operations, including, for example, point-of-sale processing in our restaurants, management of our supply chain, collection of cash, payment of obligations and various other processes and procedures. Our ability to efficiently manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, problems with maintenance, upgrading or transitioning to replacement systems, fraudulent manipulation of sales reporting from our restaurants, or a breach in security of these systems could be harmful and cause delays in customer service and reduce efficiency in our operations. Significant capital investments might be required to remediate any problems.

Failure to protect the integrity and security of individually identifiable data of customers, vendors or employees may subject us to loss and harm our brands. We might receive and maintain, for varying lengths of time, certain personal or business information about customers, vendors and employees. The use of this information by us is regulated by foreign, federal and state laws, as well as by certain third-party agreements. If our security and information systems are compromised or if our employees or franchisees fail to comply with these laws and regulations, and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation and could result in costs to defend or settle litigation, to pay judgments awarded from litigation, or pay penalties resulting from violation of federal and state laws and payment card industry regulations. As privacy and information security laws and regulations change, we may incur additional costs to ensure that we remain in compliance with said laws and regulations.

Our inability or failure to execute on a comprehensive business continuity plan following a major natural disaster such as an earthquake, tornado or man-made disaster, including terrorism, at our corporate facilities could materially adversely impact our business. Our corporate systems and processes and corporate support for our restaurant operations are handled primarily at our two restaurant support centers. We have disaster recovery procedures and business continuity plans in place to address most events of a crisis nature, including earthquakes, tornadoes and other natural disasters, and back up and off-site locations for recovery of electronic and other forms of data and information. However, if we are unable to fully implement our disaster recovery plans, we may experience delays in recovery of data, inability to perform vital corporate functions, tardiness in required reporting and compliance, failures to adequately support field operations and other breakdowns in normal communication and operating procedures that could have a material adverse effect on our financial condition, results of operation and exposure to administrative and other legal claims.

Our business depends on our ability to attract and retain talented employees. Our business is based on successfully attracting and retaining talented employees. The market for highly skilled workers and leaders in our industry is extremely competitive. If we are less successful in our recruiting efforts, or if we are unable to retain key employees, our ability to develop and deliver successful products and services may be adversely affected. Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution.

Retail brand development initiatives could negatively impact our IHOP brand. Our business expansion into retail product licensing could create new risks to our IHOP brand and reputation. During 2011, IHOP launched a line of premium frozen breakfast entrées and pancake syrups in retail outlets. We believe that this new retail product offering

is a growth opportunity that allows our brand to reach additional customers more often. If customers have negative perceptions or experiences with retail products, our brand value could suffer which could have an adverse effect on our business.

Failure of our internal controls over financial reporting and future changes in accounting standards may cause adverse unexpected operating results, affect our reported results of operations or otherwise harm our business and financial results. Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. A significant financial reporting

Table of Contents

failure or material weakness in internal control over financial reporting could cause a loss of investor confidence and decline in the market price of our common stock.

A change in accounting standards can have a significant effect on our reported results and may affect our reporting of transactions before the change is effective. New pronouncements and varying interpretations of pronouncements have occurred and may occur in the future. Changes to existing accounting rules or the questioning of current accounting practices may adversely affect our reported financial results. Additionally, our assumptions, estimates and judgments related to complex accounting matters could significantly affect our financial results. Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations are highly complex and involve many subjective assumptions, estimates and judgments by us. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by us could significantly change our reported or expected financial performance.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The table below shows the location and status of Applebee's and IHOP restaurants as of De

Table of Contents

December 31, 2011:

	Applebee's			IHOP			
	Franchise	Company- Operated	Total	Franchise	Company- Operated	Area License	Total
United States							
Alabama	30	—	30	19	—	—	19
Alaska	2	—	2	4	—	—	4
Arizona	33	—	33	39	—	—	39
Arkansas	9	2	11	15	—	—	15
California	114	—	114	230	—	—	230
Colorado	27	—	27	29	1	—	30
Connecticut	8	—	8	7	—	—	7
Delaware	12	—	12	7	—	—	7
District of Columbia	—	—	—	2	—	—	2
Florida	110	—	110	—	—	149	*149
Georgia	69	—	69	74	—	4	78
Hawaii	—	—	—	6	—	—	6
Idaho	12	—	12	9	—	—	9
Illinois	61	4	65	53	—	—	53
Indiana	59	7	66	22	—	—	22
Iowa	27	—	27	8	1	—	9
Kansas	19	15	34	18	1	—	19
Kentucky	32	5	37	5	1	—	6
Louisiana	18	—	18	27	—	—	27
Maine	11	—	11	1	—	—	1
Maryland	26	—	26	33	—	—	33
Massachusetts	29	—	29	18	—	—	18
Michigan	21	65	86	20	—	—	20
Minnesota	59	—	59	12	—	—	12
Mississippi	15	3	18	10	—	—	10
Missouri	28	33	61	28	—	—	28
Montana	8	—	8	5	—	—	5
Nebraska	19	—	19	5	—	—	5
	Applebee's			IHOP			
	Franchise	Company- Operated	Total	Franchise	Company- Operated	Area License	Total
Nevada	14	—	14	23	—	—	23
New Hampshire	14	—	14	4	—	—	4
New Jersey	56	—	56	40	—	—	40
New Mexico	18	—	18	17	—	—	17
New York	110	—	110	51	—	—	51
North Carolina	56	2	58	45	—	—	45
North Dakota	11	—	11	2	—	—	2
Ohio	95	—	95	22	9	—	31
Oklahoma	21	—	21	27	—	—	27
Oregon	21	—	21	7	—	—	7
Pennsylvania	76	—	76	19	—	—	19
Rhode Island	8	—	8	3	—	—	3
South Carolina	40	—	40	27	—	—	27

Edgar Filing: DineEquity, Inc - Form 10-K

South Dakota	6	—	6	5	—	—	5
Tennessee	34	4	38	34	—	—	34
Texas	95	—	95	186	—	—	186
Utah	16	—	16	19	—	—	19
Vermont	3	—	3	1	—	—	1
Virginia	36	37	73	59	—	—	59
Washington	40	—	40	30	—	—	30
West Virginia	17	—	17	6	—	—	6
Wisconsin	44	—	44	10	2	—	12
Wyoming	5	—	5	3	—	—	3
Total Domestic	1,694	177	1,871	1,346	15	153	1,514
International							
Brazil	12	—	12	—	—	—	—
Canada	25	—	25	5	—	13	*18
Chile	3	—	3	—	—	—	—
Costa Rica	1	—	1	—	—	—	—
Greece	2	—	2	—	—	—	—
Guatemala	3	—	3	2	—	—	2
Honduras	7	—	7	—	—	—	—
Jordan	1	—	1	—	—	—	—
Kuwait	5	—	5	—	—	—	—
Lebanon	2	—	2	—	—	—	—
Mexico	64	—	64	13	—	—	13
Puerto Rico	2	—	2	2	—	—	2
Qatar	5	—	5	—	—	—	—
Saudi Arabia	12	—	12	—	—	—	—
Singapore	1	—	1	—	—	—	—
St. Croix, Virgin Islands	—	—	—	1	—	—	1
United Arab Emirates	3	—	3	—	—	—	—
Total International	148	—	148	23	—	13	36
Totals	1,842	177	2,019	1,369	15	166	1,550

Table of Contents

\* of these restaurants 70 in Florida and nine in Canada have been sub-licensed by the area licensee

As of December 31, 2011, we operated 177 Applebee's restaurants and 15 IHOP restaurants for a total of 192 company-operated restaurants. Of these restaurants, we leased the building for 19 sites, owned the building and leased the land for 74 sites, owned the land and building for four sites and leased the land and building for 95 sites. Of the 1,369 IHOP restaurants operated by franchisees, 61 were located on sites owned by us, 684 were located on sites leased by us from third parties and 624 were located on sites owned or leased by franchisees. All of the IHOP restaurants operated by area licensees and all of the franchisee-operated Applebee's restaurants were located on sites owned or leased by the area licensees or the franchisees.

Leases of IHOP restaurants generally provide for an initial term of 20 to 25 years, with most having one or more five-year renewal options. Leases of Applebee's restaurants generally have an initial term of 10 to 20 years, with renewal terms of five to 20 years. In addition, a substantial portion of the leases for both IHOP and Applebee's restaurants include provisions calling for the periodic escalation of rents during the initial term and/or during renewal terms. The leases typically provide for payment of rents in an amount equal to the greater of a fixed amount or a specified percentage of gross sales and for payment of taxes, insurance premiums, maintenance expenses and certain other costs. Historically, it has been our practice to seek to extend, through negotiation, those leases that expire without renewal options. However, from time to time, we choose not to renew a lease or are unsuccessful in negotiating satisfactory renewal terms. When this occurs, the restaurant is closed and possession of the premises is returned to the landlord.

Under our Applebee's franchise agreements, we have certain rights to gain control of a restaurant site in the event of default under the franchise agreement. Because most IHOP franchised restaurants developed by us under our Previous Business Model are subleased to the franchisees, IHOP has the ability to regain possession of the subleased restaurant if the franchisee defaults in the payment of rent or other terms of the sublease.

We currently occupy our principal corporate offices and IHOP restaurant support center in Glendale, California, under a lease expiring in June 2020. The Applebee's restaurant support center is located in Kansas City, Missouri under a lease expiring in October 2021.

Item 3. Legal Proceedings.

We are subject to various lawsuits, claims and governmental inspections or audits arising in the ordinary course of business. Some of these lawsuits purport to be class actions and/or seek substantial damages. In the opinion of management, these matters are adequately covered by insurance or, if not so covered, are without merit or are of such a nature or involve amounts that, if adversely determined, would not have a material adverse impact on our business or consolidated financial statements.

Gerald Fast v. Applebee's

We are 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 workers in company restaurants perform excessive amounts of non-tipped work for which they should be compensated at the minimum wage. The court has conditionally certified a nationwide class of servers and bartenders who have worked in company-operated Applebee's restaurants since June 19, 2004. Unlike a class action, a collective action requires potential class members to "opt in" rather than "opt out." On February 12, 2008, 5,540 opt-in forms were filed with the court.

In cases of this type, conditional certification of the plaintiff class is granted under a lenient standard. On January 15, 2009, we filed a motion seeking to have the class de-certified and the plaintiffs filed a motion for summary judgment, both of which were denied by the court.

The parties stipulated to a bench trial which was set to begin on September 8, 2009 in Jefferson City, Missouri. Just prior to trial, however, the court vacated the trial setting in order to submit key legal issues to the Eighth Circuit Court of Appeals for review on interlocutory appeal. On April 21, 2011, the Eighth Circuit affirmed the trial court's denial of

our motion for summary judgment. On July 6, 2011, the Eighth Circuit denied our petition for rehearing.

On October 4, 2011, we filed a petition for certiorari asking the United States Supreme Court to review the decision of the Eighth Circuit. On January 17, 2012, the Supreme Court declined to review the case. The bench trial is currently scheduled to begin on September 10, 2012.

We believe we have meritorious defenses and intend to vigorously defend this case. An estimate of the possible loss, if any, or the range of the loss cannot be made and, therefore, we have not accrued a loss contingency related to this matter.

25

---

Table of Contents

## Item 4. Mine and Safety Disclosure

Not Applicable.

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

## Market Information

Our common stock is traded on the NYSE under the symbol "DIN". The following table sets forth the high and low sales prices of our common stock on the NYSE for each quarter of 2011 and 2010. We did not pay dividends on our common stock in 2011 and 2010.

Quarter	Fiscal Year 2011		Fiscal Year 2010	
	High	Low	High	Low
First	\$60.11	\$49.46	\$41.15	\$22.13
Second	\$56.78	\$46.26	\$48.38	\$26.24
Third	\$56.37	\$35.47	\$45.90	\$24.92
Fourth	\$49.64	\$35.20	\$57.80	\$42.25

## Holders

The number of shareholders of record and beneficial owners of the Company's common stock as of February 3, 2012 was estimated to be 5,700.

## Dividends

Under our current debt agreements, we are restricted from paying dividends on common stock until certain financial ratios are achieved. Those ratios have not been achieved as of December 31, 2011. At such time as those financial ratios are achieved, dividend payments on common stock may be resumed at the discretion of the Board of Directors after consideration of the Company's earnings, financial condition, cash requirements, future prospects and other factors.

## Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2011, regarding shares outstanding and available for issuance under our existing equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,318,640	\$32.06	1,370,442
Equity compensation plans not approved by security holders	—	—	—
Total	1,318,640	\$32.06	1,370,442

The number of securities remaining available for future issuance includes represents shares under our 2011 Stock Incentive Plan. Please refer to Note 18, Stock-Based Incentive Plans, in the Notes to the Consolidated Financial Statements for a description of the Plan.





Table of Contents

## Issuer Purchases of Equity Securities

In August, 2011, our Board of Directors authorized the repurchase up to \$45.0 million of DineEquity common stock. Repurchases are subject to prevailing market prices and may take place in open market transactions and in privately negotiated transactions, based on business, market, applicable legal requirements and other considerations. The program does not require the repurchase of a specific number of shares and may be terminated at any time. As of December 31, 2011, we have repurchased 534,101 shares under this program at an average price of \$39.64 per share. We have remaining authorization to repurchase an additional \$23.8 million of DineEquity common stock under this program.

During 2011, a total of 91,798 shares of restricted stock were surrendered to the Company at an average price of \$55.34 per share to satisfy tax withholding obligations in connection with the vesting of restricted stock awards issued to employees under our stock compensation plans. Of that total, 6,346 shares were surrendered during the fourth quarter at an average price of \$43.89 per share.

## Stock Performance Graph

The graph below shows a comparison of the cumulative total shareholder return on our common stock with the cumulative total return on the Standard & Poor's 500 Composite Index and the Value-Line Restaurants Index ("Restaurant Index") over the five-year period ended December 31, 2011. The graph and table assume \$100 invested at the close of trading on the last day of trading in 2006 in our common stock and in each of the market indices, with reinvestment of all dividends. Stockholder returns over the indicated periods should not be considered indicative of future stock prices or stockholder returns.

## Comparison of Five-Year Cumulative Total Shareholder Return

DineEquity, Inc., Standard & Poor's 500 And Value Line Restaurant Index  
(Performance Results Through December 31, 2011)

	2006	2007	2008	2009	2010	2011
DineEquity, Inc.	\$100.00	\$70.58	\$23.41	\$49.18	\$99.98	\$85.46
Standard & Poor's 500	100.00	105.49	66.46	84.04	96.70	98.74
Restaurant Index	100.00	108.49	101.20	129.63	180.40	237.93

Table of Contents

## Item 6. Selected Financial Data.

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report on Form 10-K. The consolidated statement of operations and the consolidated balance sheet data for the years ended and as of December 31, 2011, 2010, 2009, 2008 and 2007 are derived from our audited consolidated financial statements.

	Fiscal Year Ended December 31,				
	2011	2010	2009	2008	2007(a)
	(In millions, except per share amounts)				
Segment Revenues					
Franchise revenues	\$398.5	\$377.1	\$373.0	\$353.3	\$205.8
Company restaurant sales	531.0	815.6	890.0	1,103.2	125.9
Rental income	126.0	124.5	133.9	131.4	132.4
Financing revenues	19.7	16.4	17.9	25.7	20.5
Total revenues	1,075.2	1,333.6	1,414.8	1,613.6	484.6
Segment Expenses					
Franchise expenses	105.0	103.5	102.2	96.2	88.1
Company restaurant expenses	458.4	699.3	766.5	978.2	117.4
Rental expenses	98.2	99.0	100.2	98.1	98.4
Financing expenses	6.0	2.0	0.4	7.3	1.3
Total segment expenses	667.6	903.8	969.3	1,179.8	305.2
Gross segment profit	407.6	429.8	445.5	433.8	179.4
General and administrative expenses	155.8	160.3	157.7	182.3	81.6
Interest expense	132.7	171.5	186.3	203.2	28.7
Impairment and closure charges	29.9	4.3	105.6	240.6	4.4
Amortization of intangible assets	12.3	12.3	12.3	12.1	1.1
Loss (gain) on extinguishment of debt and temporary equity	11.2	107.0	(45.7)	(15.2)	2.2
Other (income) expense, net	(39.3)	(13.5)	(7.3)	(1.0)	2.0
Loss on derivative financial instrument	—	—	—	—	62.1
Income (loss) before income taxes	105.0	(12.1)	36.6	(188.2)	(2.7)
(Provision) benefit for income taxes	(29.8)	9.3	(5.2)	33.7	2.2
Net income (loss)	\$75.2	\$(2.8)	\$31.4	\$(154.5)	(0.5)
Net income (loss)	\$75.2	\$(2.8)	\$31.4	\$(154.5)	\$(0.5)
Less: Series A preferred stock dividends	—	(25.9)	(19.5)	(19.0)	(1.5)
Less: Accretion of Series B preferred stock	(2.6)	(2.5)	(2.3)	(2.1)	(0.2)
Less: Net (income) loss allocated to unvested participating restricted stock	(1.9)	1.2	(0.4)	6.4	—
Net income (loss) available to common stockholders	\$70.7	\$(30.0)	\$9.2	\$(169.2)	\$(2.2)
Net income (loss) available to common stockholders per share:					
Basic	\$3.96	\$(1.74)	\$0.55	\$(10.09)	\$(0.13)
Diluted	\$3.89	\$(1.74)	\$0.55	\$(10.09)	\$(0.13)
Weighted average shares outstanding:					
Basic	17.8	17.2	16.9	16.8	17.2
Diluted	18.2	17.2	16.9	16.8	17.2
Dividends declared per common share(b)	—	—	\$—	\$1.00	\$1.00
Dividends paid per common share(b)	—	—	\$—	\$1.00	\$1.00
Balance Sheet Data (end of year)					

Edgar Filing: DineEquity, Inc - Form 10-K

Cash and cash equivalents	\$60.7	\$102.3	\$82.3	\$114.4	\$26.8
Restricted cash—short-term	1.2	0.9	72.7	83.4	128.1
Restricted cash—long-term	—	0.8	48.2	53.4	58.0
Property and equipment, net	474.2	612.2	771.4	824.5	1,139.6
Total assets	2,614.3	2,856.6	3,100.9	3,361.2	3,831.2
Long-term debt, less current maturities	1,411.4	1,631.5	1,637.2	1,853.4	2,263.9
Financing obligations, less current maturities	162.7	237.8	309.4	318.7	—
Capital lease obligations, less current maturities	134.4	144.0	152.8	161.3	168.2
Stockholders' equity	155.2	83.6	69.9	42.8	209.4

---

(a) We acquired Applebee's International, Inc. on November 29, 2007. The results of operations of Applebee's International, Inc. have been included in our consolidated operating results since the date of the acquisition.

(b) Effective December 11, 2008, the Company suspended payments of dividends to common stockholders.

Table of Contents

## Item 7. 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," 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.

## Business Overview

## The Company

The Company was incorporated under the laws of the State of Delaware in 1976 with the name IHOP Corp. Effective June 2, 2008, the name of the Company was changed to DineEquity, Inc. (the "Company," "we" or "our"). The first International House of Pancakes® ("IHOP") restaurant opened in 1958 in Toluca Lake, California. Shortly thereafter, we began developing and franchising additional restaurants. In November 2007, we completed the acquisition of Applebee's International, Inc. ("Applebee's") which became a wholly-owned subsidiary of the Company. Through various IHOP and Applebee's subsidiaries (see Exhibit 21, Subsidiaries of DineEquity, Inc.) we own and operate 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.

Domestically, IHOP restaurants are located in all 50 states 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.

As of December 31, 2011, our system-wide restaurant portfolio consisted of:

	December 31, 2011		
	Applebee's	IHOP	Total
Domestic:			
Franchise/Area license	1,694	1,499	3,193
Company	177	15	192
International			
Franchise/Area license	148	36	184
Total	2,019	1,550	3,569
Percentage franchised	91	% 99	% 95

With over 3,500 restaurants combined, we believe we are the largest full-service restaurant company in the world. Since the Applebee's acquisition, we have pursued a strategy to transition from an Applebee's 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 have made substantial progress in executing that strategy. As of December 31, 2011, we have refranchised 325 Applebee's company-operated restaurants since the acquisition. We refranchised an additional 17 Applebee's company-operated restaurants in a six-state market area geographically centered around Memphis, Tennessee in January 2012. We are planning to franchise a significant majority of the remaining 160 Applebee's company-operated restaurants over the next several years while retaining part of the Kansas City area as a Company market. We believe our 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.

29

---

Table of Contents

## Key Performance Indicators

In evaluating and assessing the performance of our business, we consider our key performance indicators to be: (i) percentage change in domestic same-restaurant sales for Applebee's and IHOP; (ii) Applebee's company-operated restaurant operating margin; (iii) net franchise restaurant development for Applebee's and IHOP; (iv) consolidated cash from operations; and (v) consolidated free cash flow. An overview of our 2011 performance in these metrics is as follows:

	Applebee's	IHOP	
Percentage change in domestic same-restaurant sales - System-wide	2.0%	(2.0	)%
Percentage change in domestic same-restaurant sales - Franchise	2.0%	(2.0	)%
Percentage change in domestic same-restaurant sales - Company	1.8%	n/a	
Restaurant operating margin	14.5%	n/a	
Net Franchise restaurant development	9	37	
Restaurants refranchised	132	3	

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

For the year ended December 31, 2011 our consolidated cash from operations was \$121.7 million and our consolidated free cash flow was \$108.5 million. Additional information on each of these metrics is presented under the captions "Restaurant Data," "Company Restaurant Operations" and "Liquidity and Capital Resources" below.

## Key Overall Strategies

## DineEquity's Key Strategies

DineEquity is continuing with its efforts to reduce debt and improve profitability. Keys to this are the ongoing refranchising activity and an ongoing program to leverage core competencies across the entire enterprise to reduce costs and improve effectiveness. We have a fundamentally differentiated approach to brand management that centers on the powerful and strategic combination of marketing, menu, operations and remodel initiatives that creates a unique and relevant connection with our guests. Additionally, our shared services operating platform allows our brands to focus on key factors that drive the business while leveraging the resources and expertise of our scalable, centralized support structure. We believe this is a competitive point of difference. Together, this closely integrated approach results in differentiated brand performance that drives DineEquity's growth and delivers results for our shareholders.

## Applebee's Key Strategies

We are in the process of a multi-year effort to revitalize the Applebee's brand. Applebee's domestic system-wide same-restaurant sales increased 2.0% in 2011. This was Applebee's second year of positive results and outpaced our group of competitors. We accomplished this growth by executing on the following key strategies: (i) drive profitable sales and traffic; (ii) improve margins and restaurant level economics; and (iii) transform the business.

## Drive Profitable Sales and Traffic

Continued focus on meeting the consumer's need for value throughout 2011, with such promotions as the return of our successful "Sizzling Entrées" starting at \$8.99 nationwide and the rotation of new products into our "2 for \$20" offering. We ended the year with Sizzling Entrées featuring our Double Barrel Whiskey Sirloin, a popular addition to our Sizzling Entrées lineup;

Continued innovation of the menu. Since the acquisition in 2007, more than 80% of Applebee's menu now consists of either new offerings or improved offerings with high quality ingredients;

Continued our unique healthy food offerings by refreshing our "Under 550" calorie menu in January 2011, which combined with our Weight Watchers menu has established us as a category leader in providing healthy dining options to our guests;

Focused on late night business through beverage and appetizer innovation and local restaurant marketing efforts; and Launched a guest driven lunch program focusing on choice and pace of service in early 2011.

## Table of Contents

### Improve Margins and Restaurant Level Economics

We have continued to build upon process and system improvements deployed in prior years by improving our operating metrics. Food inventory management and labor efficiencies were realized during the second half of 2011, which will carry forward into 2012. These operational improvements helped mitigate the impact of increasing commodity costs and higher payroll taxes. We continued to reap the benefits of our supply chain co-op to leverage our scale to manage through commodity cost inflation, which was also mitigated by the realignment of our distribution centers in 2010. The margin improvements were not at the expense of the guest as we achieved system-wide all-time high guest satisfaction scores.

We continue to monitor our franchisees through our franchisee operations rating system, which provides visibility concerning their performance in relation to guest experience, food safety and training.

### Transform the Business

In June 2010, we rolled out “Connections,” the new comprehensive restaurant revitalization program involving people, place and promotional aspects. The people aspect involves re-training and re-certification for kitchen staff and team members. The place aspect involves exterior and interior modifications to the restaurant to signal change. The promotional aspect involves a local public relations and marketing plan to re-connect with the neighborhood. Our franchisees have embraced this initiative and by year-end 2011, over 30% of the restaurants in the domestic system were revitalized.

The Company remains committed to our strategy to transition to a 99% franchise-operated Applebee's system which includes buyers who are financially qualified, share our vision for revitalizing the Applebee's brand, are willing to invest in the business, and have well-qualified management teams. During 2011, we refranchised 132 company-operated restaurants and refranchised an additional 17 company-operated restaurants in January 2012. We anticipate that reaching our goal of a 99% franchisee-operated system may take several years to complete. This highly franchised business model is expected to require less capital investment, improve overall segment profit margins and reduce the volatility of cash flow performance over time, while also providing cash proceeds from the refranchising of the restaurants for the retirement of debt.

In a challenging economic environment and a highly competitive casual dining category, there can be no assurance that the strategies described above, when implemented, will achieve the intended results, including the refranchising of the remaining Applebee's domestic company-operated restaurants, within the time frame anticipated.

### IHOP's Key Strategies

We pursue growth through a three-part strategic framework: (1) energize and grow the IHOP brand; (2) improve operations performance; and (3) optimize franchise development.

#### Energize and Grow the IHOP Brand

We continually seek to energize and grow our brand while protecting and leveraging our breakfast heritage. In 2011, we launched “Make it an IHOP day”, which will build on the success of our previous award-winning advertising campaign of “Come Hungry. Leave Happy.” Our new campaign provides a unique opportunity to further engage guests and foster the emotional connection they have with our brand. In 2011, we continued the strategy of limited time offers on promotional products. We seek to enhance our media strategies to emphasize national advertising on broadcast, cable and syndicated television and strengthen our product promotion process. Over the last four years, we have shifted the allocation of our media spending towards national advertising. Due to this reallocation from local to national advertising, starting in 2010 we were able to provide continuous media support for all national initiatives and limited time offers, as well as secondary messages such as National Pancake Day, IHOP for Dinner, Gift Cards and Kids Eat Free.

Our current remodel program, commenced in 2010, captures the energy and innovation necessary to keep the IHOP brand relevant, dynamic and enticing. We continue to expand our gift card program to increase the number of points of distribution. In 2011, we implemented a business-to-business gift card program. We are also actively enhancing our social media presence. We continue to build the e-club, launched in 2010, which enables both national and local offers to be sent electronically to our guests that sign up for the program.





## Table of Contents

### Improve Operations Performance

We strive to improve every aspect of restaurant operations. To enhance our guest-centric culture, in 2010 IHOP moved our guest feedback process from a mystery shop to a “Voice of the Guest” program, which provides real-time consumer responses to the operators and the brand. IHOP continues its use of a franchisee grading system adopted during 2003, which evaluates the operational standards of each of our restaurants. This franchisee grading system is a comprehensive scorecard that includes Voice of the Guest scores, operational assessment scores and health department ratings, among other things. In addition, we intend to continue our focus on making exceptional service a priority for franchisees by providing tools for improved restaurant execution, while highlighting our motto, “service as good as our pancakes.” Our goal is to create a memorable guest experience while consistently delivering delicious, appealing food. Substantially all IHOP restaurants are using pollable point-of-sale systems to capture and report a broad range of sales and product mix data. This information is used by management to, among other things, gauge guest acceptance of menu items and the success of promotions and limited time offers.

### Optimize Franchise Development

Under the Current Business Model, IHOP seeks to optimize franchise development by recruiting franchise developers within and outside the current system and working with these franchise developers in the site selection and building process. This strategy has proved successful as we have developed approximately 453 restaurants since the inception of the Current Business Model and we have a pipeline of 299 additional new restaurants committed, optioned or pending. The strong existing franchisee base accounts for over 95% of these future development obligations. In addition, we may take steps to consolidate and rehabilitate existing markets if we believe that doing so is advisable in order to fully realize development potential.

In a challenging economic environment and a highly competitive family dining category, there can be no assurance that the strategies described above, when implemented, will achieve the intended results within the time frame anticipated.

### 2011 Highlights

Highlights of our fiscal 2011 performance include:

Reducing our long-term debt by \$308.6 million, in turn lowering our consolidated leverage ratio to 5.3x at December 31, 2011 from 5.7x at December 31, 2010. The reduction primarily came from a combination of cash proceeds and elimination of financing obligations from the refranchising of Applebee's company-operated restaurants and our free cash flow.

Increasing Applebee's domestic same-restaurant sales by 2.0% during 2011, the second consecutive year of same-restaurant sales growth. Applebee's same-restaurant sales have increased in five of the last six quarters.

Refranchising of 132 Applebee's company-operated restaurants, bringing the total number of Applebee's refranchised to 325 since the acquisition and increasing the percentage of franchise restaurants in Applebee's system to 91% .

Repricing of our senior secured credit facility, which lowered the interest rate floor on the variable-rate facility from 6.0% to 4.25% and increased the amount of our revolving credit facility. The interest rate reduction lowered our interest expense on borrowings under the senior secured credit facility by approximately \$10 million.

Opening of 58 new restaurants worldwide by IHOP franchisees and area licensees.

Remodeling over 500 restaurants system-wide. Applebee's and its franchisees remodeled 351 restaurants during 2011 while IHOP and its franchisees remodeled 182 restaurants.

Expanding the international scope of IHOP's system by entering into a multi-restaurant franchise agreement for the development of 40 new IHOP restaurants in Kuwait, the Kingdom of Saudi Arabia, Jordan, Lebanon, Qatar, the United Arab Emirates, Oman, Bahrain and Egypt.

Table of Contents

## Significant Known Events, Trends or Uncertainties Impacting or Expected to Impact Comparisons of Reported or Future Results

## Current Economic Conditions

While Gross Domestic Product grew at a modest pace during 2011, we believe overhanging concerns about high levels of unemployment and fluctuating levels of home foreclosures in addition to lower overall valuations for residential real estate and rising gasoline prices may continue to temper consumer discretionary spending. A decline or lack of growth in disposable income for discretionary spending could cause our customers to change historic purchasing behavior and choose lower-cost dining options or alternatives to dining out. These factors could have an adverse effect on our business, results of operations and financial condition.

## Sales Trends

	Domestic System-wide Same Restaurant Sales											
	Increase (Decrease)											
	2009				2010				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Applebee's												
Quarter	(3.0)%	(4.3)%	(6.5)%	(4.5)%	(2.7)%	(1.6)%	3.3%	2.9%	3.9%	3.1%	(0.3)%	1.0%
YTD	(3.0)%	(3.6)%	(4.5)%	(4.5)%	(2.7)%	(2.2)%	(0.5)%	0.3%	3.9%	3.5%	2.3%	2.0%
IHOP												
Quarter	2.0%	(0.6)%	(1.1)%	(3.1)%	(0.4)%	(1.0)%	0.1%	1.1%	(2.7)%	(2.9)%	(1.5)%	(1.0)%
YTD	2.0%	0.7%	0.2%	(0.8)%	(0.4)%	(0.7)%	(0.4)%	0.0%	(2.7)%	(2.8)%	(2.4)%	(2.0)%

Applebee's domestic system-wide same-restaurant sales increased 2.0% for the year ended December 31, 2011. This marked the second consecutive year of same-restaurant sales growth. The increase in same-restaurant sales was driven mainly by an increase in average guest check as guest traffic was flat. The higher average guest check came from an increase of approximately 1.4% in menu pricing and an increase from favorable product mix changes.

IHOP's domestic system-wide same-restaurant sales decreased 2.0% for the year ended December 31, 2011. The decrease was primarily due to a decline in guest traffic, which we believe was due in part to certain promotions during the year that did not drive sales as expected, partially offset by a higher average guest check compared to fiscal 2010.

## Debt Modification and Retirements

On February 25, 2011, we entered into Amendment No. 1 (the "Amendment") to our existing Credit Agreement dated as of October 8, 2010 (the "Credit Agreement"). Pursuant to the Amendment, the interest rate margin applicable to LIBOR-based 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 loans were reduced from 1.50% to 1.25% for LIBOR-based loans and from 2.50% to 2.25% for Base Rate denominated loans. We recognized costs of \$4.0 million in our Consolidated Statements of Operations related to this debt modification.

During the year ended December 31, 2011, we repaid \$161.5 million of outstanding borrowings under the Credit Agreement and we repurchased \$59.3 million of our 9.5% Senior Notes. Including write-off of the discount and deferred financing costs related to the debt retired and a \$4.9 million premium paid on the Senior Notes, we recognized a loss on the retirement of debt of \$11.2 million. Additionally, as the result of refranchising 132 Applebee's company-operated restaurants, we were released from financing obligations of \$40.0 million related to 21 of the properties refranchised.

## Financial Statement Effect of Refranchising Company-Operated Restaurants

We plan to transition to a 99% franchisee-operated Applebee's system by refranchising and selling the related restaurant assets of a significant majority of the remaining Applebee's company-operated restaurants when such refranchisings and sales are in alignment with our business strategy. We may suspend or delay our plans to refranchise Applebee's company-operated restaurants and sell the related restaurant assets if we do not believe the sales proceeds from the transaction would be satisfactory. We consider a range of factors that could impact the likelihood of future refranchising of Applebee's company-operated restaurants and sale of related restaurant assets and possible proceeds from such transactions.

As the number of company-operated restaurants declines, the amount reported in future periods for Company restaurant revenues and Company restaurant expenses will also decline while franchise royalty revenues and expenses will increase, as

Table of Contents

compared to amounts reported in previous periods. Segment profit will also decline as company-operated restaurants are refranchised because the associated royalties are a smaller percentage of restaurant revenues than the restaurant operating profit margin percentage of restaurants formerly company-operated. However, refranchising of additional Applebee's company-operated restaurants will result in the reduction of interest expense as proceeds from the sale of related restaurant assets (subject to certain exclusions) must be used to retire debt. Refranchising of additional Applebee's company-operated restaurants also will result in a reduction of both general and administrative expenses and required capital investment in restaurant assets.

## Stock Repurchase Program

On August 15, 2011, the Board of Directors approved the repurchase of up to \$45 million of our common stock. Under the program, we may repurchase shares on an opportunistic basis from time to time in open market transactions and in privately negotiated transactions, as appropriate. The repurchase program does not require the repurchase of a specific number of shares and may be terminated at any time. As of December 31, 2011, we have repurchased 534,101 shares of stock for \$21.2 million, at an average price of \$39.64 per share.

## Significant Gains and Charges

There were several significant gains and charges that affect the comparisons of fiscal year 2011 results with the previous periods presented herein, as shown in the following table:

	Year ended December 31,		
	2011	2010	2009
	(In millions)		
Impairment and closure charges	\$29.9	\$4.3	\$105.6
Loss (gain) on extinguishment of debt and temporary equity	11.2	107.0	(45.7 )
(Gain) on disposition of assets	(43.3 )	(13.6 )	(7.4 )

Each transaction is discussed in further detail under paragraphs captioned with those descriptions elsewhere in Item 7. The significant impairment and closure charges in 2009 primarily related to a \$93.5 million impairment of intangible assets. Our fixed and intangible assets (including goodwill) must be assessed continually for indicators of impairment. Given the uncertainty as to future economic and other assumptions used in assessing impairments, it is possible that significant impairment charges may occur in future periods. We incurred significant charges in connection with the refinancing of debt in October 2010. Additionally, prior to that refinancing, our debt traded at less than its carrying value such that early retirement by purchases on the open market resulted in significant gains. The fair value of our current debt instruments is currently greater than its carrying value (see Note 12 of Notes to the Consolidated Financial Statements). Therefore, while we may dedicate a portion of excess cash flow towards early debt retirement, we do not anticipate recognizing gains on the extinguishment of debt.

Gains on disposition of assets relate primarily to the refranchising and sale of related restaurant assets of Applebee's company-operated restaurants. While we plan to refranchise a significant majority of the remaining Applebee's company-operated restaurants, there can be no assurance as to either the timing of additional transactions or the amount of gain or loss that may be recognized in the future.

## Restaurant Data

The following table sets forth, for each of the past three years, 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 period 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 company-operated restaurants, as well as those operated by franchisees and area licensees. Sales of restaurants that are operated 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, in some cases, 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.

Table of Contents

	Year Ended December 31,			
	2011	2010	2009	
<b>Applebee's Restaurant Data</b>				
Effective restaurants(a)				
Franchise	1,770	1,621	1,595	
Company	240	380	401	
Total	2,010	2,001	1,996	
System-wide(b)				
Domestic sales percentage change(c)	2.6	% (1.8	)% (2.1	)%
Domestic same-restaurant sales percentage change(d)	2.0	% 0.3	% (4.5	)%
Franchise(e)				
Domestic sales percentage change(c)(g)	11.3	% (0.1	)% 3.6	%
Domestic same-restaurant sales percentage change(d)	2.0	% 0.6	% (4.4	)%
Domestic average weekly unit sales (in thousands)	\$46.4	\$45.8	\$45.3	
Company				
Domestic sales percentage change(c)(g)	(35.7%)	(8.4	)% (19.7	)%
Domestic same-restaurant sales percentage(d)	1.8	% (1.3	)% (4.8	)%
Domestic average weekly unit sales (in thousands)	\$41.0	\$40.4	\$41.1	
	Year Ended December 31,			
	2011	2010	2009	
<b>IHOP Restaurant Data</b>				
Effective restaurants(a)				
Franchise	1,343	1,296	1,245	
Company	11	11	11	
Area license	163	164	161	
Total	1,517	1,471	1,417	
System-wide(b)				
Sales percentage change(c)	1.9	% 2.2	% 5.6	%
Domestic same-restaurant sales percentage change(d)	(2.0	)% 0.0	% (0.8	)%
Franchise(e)				
Sales percentage change(c)	1.7	% 2.1	% 6.3	%
Same-restaurant sales percentage change(d)	(2.0	)% (0.1	)% (0.8	)%
Average weekly unit sales (in thousands)	\$34.4	\$35.1	\$35.1	
Company(f)	n/a	n/a	n/a	
Area License(e)				
IHOP sales percentage change(c)	2.9	% 3.3	% (1.6	)%

Table of Contents

"Effective restaurants" are the number of restaurants in a given fiscal 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.

"System-wide sales" are retail sales of Applebee's and IHOP restaurants operated by franchisees and IHOP restaurants operated by area licensees as reported to the Company, in addition to retail sales at company-operated restaurants. Sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company.

"Sales percentage change" reflects, for each category of restaurants, the percentage change in sales in any given fiscal year compared to the prior fiscal year for all restaurants in that category. The fiscal years ended December 31, 2011 and 2010 each contained 52 weeks; the fiscal year ended December 31, 2009 contained 53 weeks.

"Same-restaurant sales percentage change" reflects the percentage change in sales, in any given fiscal year compared to the prior fiscal year, for restaurants that have been operated throughout both fiscal periods that are being compared and have been open for at least 18 months. Because of new unit openings and restaurant closures, the restaurants open throughout both fiscal periods being compared will be different from period to period.

Same-restaurant sales percentage change does not include data on IHOP restaurants located in Florida. Applebee's domestic franchise restaurant sales, IHOP franchise restaurant sales and IHOP area license restaurant sales for the years ended December 31, 2011, 2010 and 2009 were as follows:

Reported sales (unaudited)	Year Ended December 31,		
	2011	2010	2009
	(In millions)		
Applebee's franchise restaurant sales	\$3,916.4	\$3,519.4	\$3,523.1
IHOP franchise restaurant sales	\$2,405.3	\$2,364.7	\$2,315.9
IHOP area license restaurant sales	\$228.6	\$220.0	\$214.9

Sales percentage change and same-restaurant sales percentage change for IHOP company-operated restaurants are not applicable ("n/a") due to the relatively small number and test-market nature of the restaurants, along with the periodic inclusion of restaurants reacquired from franchisees that are temporarily operated by the Company.

The sales percentage change for Applebee's franchise and company-operated restaurants is impacted by the refranchising of 132 company-operated restaurants during 2011, 83 company-operated restaurants during 2010 and seven company-operated restaurants during 2009.



Table of Contents

The following tables summarize Applebee's and IHOP restaurant development and franchising activity.

	Year Ended December 31,		
	2011	2010	2009
Applebee's Restaurant Development Activity			
Total restaurants, beginning of year	2,010	2,008	2,004
New openings			
Franchise	24	27	33
Total new openings	24	27	33
Closings			
Company	—	(7	) —
Franchise	(15	) (18	) (29
Total closings	(15	) (25	) (29
Total restaurants, end of year	2,019	2,010	2,008
Summary—end of year			
Franchise	1,842	1,701	1,609
Company	177	309	399
Total	2,019	2,010	2,008
Applebee's Franchise Restaurant Activity			
Domestic franchise openings	15	14	18
International franchise openings	9	13	15
Refranchised	132	83	7
Total restaurants franchised	156	110	40
Closings			
Domestic franchise	(6	) (14	) (25
International franchise	(9	) (4	) (4
Total franchise closings	(15	) (18	) (29
Net franchise restaurant additions	141	92	11

Year Ended December 31,  
2011