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**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, 2009

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

(State or other jurisdiction
of incorporation or organization)

95-3038279

(I.R.S. Employer
Identification No.)

450 North Brand Boulevard, Glendale, California

(Address of principal executive offices)

91203-2306

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 28, 2009: \$431.9 million.

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

<u>Class</u>	<u>Outstanding as of February 26, 2010</u>
Common Stock, \$.01 par value	17,710,052

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on Tuesday, May 18, 2010 (the "2010 Proxy Statement") are incorporated by reference into Part III.

DINEEQUITY, INC. AND SUBSIDIARIES

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2009

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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 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.

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 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 on Form 10-K. Further, the SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at 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 53 weeks in our 2009 fiscal year, which ended on January 3, 2010; the 2008 and 2007 fiscal years ended on December 28, 2008 and December 30, 2007, respectively, and each contained 52 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, operation and franchising 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: 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 owned by franchisees and area licensees are not attributable to the Company. With over 3,400 franchised or company-operated restaurants combined, we are the largest full-service restaurant company in the world.

This Annual Report on Form 10-K should be read in conjunction with the cautionary statements on page 28 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.

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Applebee's

The franchise operations segment consists of 1,609 restaurants operated by Applebee's franchisees in the United States, one U.S. territory and 15 countries outside of the United States. Franchise operations revenue consists primarily of franchise royalty revenues and the portion of the franchise fees allocated to Applebee's intellectual property. Franchise operations expenses include pre-opening training expenses and other franchise-related costs.

The company restaurant operations segment consists of 398 company-operated restaurants in the United States and one company-operated restaurant in China. Company restaurant sales are retail sales at company-operated restaurants. Company restaurant expenses are operating expenses at company-operated restaurants and include food, beverage (alcoholic and non-alcoholic), labor, benefits, utilities, rent and other restaurant operating costs.

Rental operations activities are not currently a significant part of Applebee's business. Financing operations activities are not currently a part of Applebee's business.

IHOP

The franchise operations segment consists of 1,443 restaurants operated by IHOP franchisees and area licensees in the United States, two U.S. territories and two countries outside of the U.S. Franchise operations revenue consists primarily of franchise royalty revenues, sales of proprietary products (primarily pancake and waffle dry-mixes), franchise advertising fees and the portion of the franchise fees allocated to IHOP intellectual property. Franchise operations expenses include advertising expense, the cost of proprietary products, pre-opening training expenses and other franchise-related costs.

The company restaurant operations segment consists of 12 company-operated restaurants in the United States and one restaurant reacquired from a franchisee that was operated by IHOP on a temporary basis until refranchised on January 4, 2010. 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, benefits, utilities, rent and other restaurant operating costs.

Rental operations revenue includes revenue from operating leases and interest income from direct financing leases. Rental operations expenses are costs of operating leases and interest expense on capital leases on franchisee-operated restaurants. Currently, the rental operations revenue and expenses are substantially generated by IHOP.

Financing operations revenue consists of the portion of franchise fees not allocated to IHOP intellectual property, sales of equipment, as well as interest income from the financing of franchise fees and equipment leases. 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 Annual Report on Form 10-K. Revenue derived from all foreign countries, in the aggregate, comprises less than 5% 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 2,008 system-wide restaurants as of December 31, 2009, Applebee's Neighborhood Grill & Bar is the largest casual dining concept in the world, in terms of number of restaurants and market share. As of December 31, 2009, franchisees operated 1,609 of these restaurants and 399 restaurants were

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company-operated. The restaurants were located in 49 states, 16 countries outside of the United States and one U.S. territory.

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 consist of a development agreement and separate franchise agreements for each franchised 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 standard Applebee's franchise agreement provides for an initial term of 20 years and permits renewal for up to an additional 20 years upon payment of an additional franchise fee. Our current standard 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.

We currently require domestic franchisees of Applebee's restaurants to contribute 2.75% of their gross sales to a national advertising fund and to spend at least 1% of their gross sales on local marketing and promotional activities. Under most 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.

We are pursuing a strategy that transitions from our current 80% franchised system to an approximately 98% franchised system. In order to accomplish this strategy we plan to franchise substantially all of the company-operated Applebee's restaurants while retaining restaurants in one company market in Kansas City. This heavily franchised business model is expected to require less capital investment, improve margins, and reduce the volatility of cash flow performance over time.

We currently have 73 franchise groups, including 31 international franchisees. We have generally selected franchisees that are experienced multi-unit restaurant operators. Many franchisees have operated or concurrently operate other restaurant concepts. Our franchisees operate Applebee's restaurants in 49 states in the United States, 15 countries outside of the United States and one U.S. territory. We have assigned development rights to the vast majority of domestic areas in all states except Hawaii and the company-operated markets.

As of December 31, 2009, there were 1,470 domestic franchise restaurants. During 2009, 18 domestic franchise restaurants opened, 25 domestic franchise restaurants closed and seven company-operated restaurants were franchised.

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 currently have 31 international franchisees. As of December 31, 2009, these franchisees operated 139 Applebee's restaurants. During 2009, 15 new international franchise restaurants were opened while four international franchise restaurants were closed. 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.

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.

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 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, 2009, 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 and product development.

Company-Operated Restaurants

Historically, company-operated Applebee's 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 an approximately 98% franchised system. 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.

In 2009, we franchised seven company-owned restaurants in the New Mexico market, bringing the total number of company-operated restaurants that have been franchised to 110 since the transition process was begun in 2008.

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As of December 31, 2009, our company-operated Applebee's restaurants were located in the following areas:

<u>Area</u>	
New England (includes Maine, Massachusetts, New Hampshire, New York, Rhode Island and Vermont)	71
Detroit/Southern Michigan	65
Minneapolis/St. Paul, Minnesota	63
Virginia	59
St. Louis, Missouri/Illinois	57
Kansas City, Missouri/Kansas	34
Washington, D.C. (includes Maryland and Virginia)	30
Central Missouri/Kansas/Arkansas	12
Memphis, Tennessee	7
Shanghai, China	1
	<u>399</u>

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.

Future Restaurant Development

There are currently 36 development agreements in place covering the entire United States (except Hawaii) and 15 development agreements calling for restaurant development in foreign countries. As noted above, we are in the process of franchising the majority of our domestic company-operated restaurants. In conjunction with the franchising of these restaurants, we expect to enter into development agreements with the new franchisees setting forth requirements for additional development in each market.

In 2010, we expect franchisees to open a total of approximately 30 new Applebee's franchise restaurants. We currently do not plan to open any domestic company-operated restaurants. The following table represents Applebee's restaurant development commitments for 2010 and 2011. We have disclosed 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.

	<u>Contractual Opening of Restaurants by Year</u>	
	<u>2010</u>	<u>2011</u>
Domestic development agreements	19	16
International development agreements	14	9
Total	<u>33</u>	<u>25</u>

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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 may also be affected by various factors including weather-related and other construction delays and difficulties in obtaining regulatory approvals.

Composition of Franchise System

The number of restaurants held by an individual franchisee ranges from one to 205 restaurants. The table below sets forth information regarding the number of Applebee's restaurants owned by domestic franchisees as of December 31, 2009 as well as the total number of restaurants falling into each of the listed ownership ranges.

<u>Number of Restaurants Held by Franchisee</u>	<u>Franchisees</u>		<u>Restaurants</u>	
	<u>Number</u>	<u>Percent of Total</u>	<u>Number</u>	<u>Percent of Total</u>
One to Ten	10	24%	60	4%
Eleven to Twenty-Five	13	31%	246	17%
Twenty-Six to Fifty	10	24%	378	26%
Fifty-One to One Hundred	7	17%	478	33%
One Hundred-One and over	2	5%	308	21%
Total(a)	42	100%	1,470	100%

(a) Percentages may not add due to rounding.

There were 31 international franchisees with 139 restaurants open as of December 31, 2009. All of these franchisees had fewer than 23 restaurants open as of December 31, 2009. In addition, three international franchisees had not yet opened a restaurant as of December 31, 2009.

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 entrees as well as appetizers, salads, sandwiches, specialty drinks and desserts. All Applebee's restaurants offer beer, wine, liquor and premium specialty drinks.

During 2004, Applebee's began a five-year exclusive strategic alliance with Weight Watchers International, Inc. to offer Weight Watchers® branded menu items to our guests. At the conclusion of the exclusive agreement the parties entered into a new, non-exclusive endorsement agreement which became effective in January 5, 2009. Under the new 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 initial term of the agreement was for one year and has been extended through at least December 2010.

Marketing and Advertising

Applebee's has historically concentrated its advertising and marketing efforts primarily on food-specific promotions, as well as on Weight Watchers, Carside To Go™ and other Applebee's branded messaging. Our advertising and marketing includes national, regional and local expenditures utilizing primarily television, radio, direct mail and print media, as well as alternative channels such as the Internet, product placements and the use of third-party retailers to market our gift cards. For the year ended December 31, 2009, approximately 4% of Applebee's company restaurant sales were allocated for marketing activities. This amount includes contributions to the national advertising fund,

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which develops and funds the national promotions and the development of television and radio commercials and print advertising materials. We focus the remainder of 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. In February 2009, we announced the formation of Centralized Supply Chain Services, LLC ("CSCS" or the "Co-op"), an independent purchasing cooperative, to manage procurement activities for domestic Applebee's and IHOP restaurants choosing to join the cooperative (see "Purchasing Cooperative" below).

Purchasing Cooperative

In February 2009, CSCS, an independent cooperative entity, was formed to operate as a purchasing cooperative for the operators of Applebee's and IHOP domestic restaurants. 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 a product (or set of products) purchased by operators. As of December 31, 2009, 100% of Applebee's franchise restaurants and over 95% of IHOP franchise restaurants are members of CSCS.

We believe the larger scale provided by combining the supply chain requirements of both brands will provide continuing cost savings and efficiencies while helping to ensure compliance with Company quality and safety standards. We also believe that the Co-op will result in closer alignment of interests and a stronger relationship with the franchise community.

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." As of December 31, 2009, there were a total of 1,456 IHOP restaurants of which 1,279 were subject to franchise agreements, 164 were subject to area license agreements and 13 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 entrees, appetizers, desserts and non-alcoholic beverages specified by IHOP, including our award-winning pancakes. We own and

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operate ten IHOP restaurants in the Cincinnati market primarily for testing new menu items and operational or procedural systems and for other research and development purposes. We also operate two IHOP Café restaurants, a new, non-traditional format currently under evaluation for possible additional development. In addition we may also operate, from time to time on a temporary basis until refranchised, IHOP restaurants that we reacquire for a variety of reasons from IHOP franchisees. IHOP restaurants are located in all 50 states of the United States, in the District of Columbia, and internationally in Canada, Mexico, Puerto Rico and the U.S. Virgin Islands.

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, and many operate 24 hours a day.

Franchising

Franchising activities include both company-financed and franchisee-financed development. For clarity of presentation, the discussion below is separated between those activities specific to the Company's business model as it was in effect prior to 2003 (referred to as the Previous Business Model) and those adopted in January 2003 (referred to as the Current Business Model). As discussed in greater detail below, under the Previous Business Model the Company developed a substantial majority of all IHOP restaurants with the intention of leasing them to franchisees. Under 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 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 1,443 IHOP restaurants subject to franchise and area license agreements as of December 31, 2009, a total of 347 operate under the Current Business Model.

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

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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 1,443 IHOP restaurants subject to franchise and area license agreements as of December 31, 2009, a total of 1,096 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; (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 rebrand these restaurants to new franchisees fairly quickly. Where that is not the case, we typically operate the reacquired restaurant pending rebranding. These reacquired restaurants may require investments in remodeling and rehabilitation before they can be rebranded. 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, 2009, the area licensees for the state of Florida and certain counties in Georgia operated or sub-franchised a total of 152 IHOP restaurants, and the area licensees for the province of British Columbia, Canada operated or sub-franchised a total of 12 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. We treat the revenues from our area licensees as franchise operations revenues for financial reporting purposes.

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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.

We highly value good franchisor/franchisee relations and strive to maintain positive working relationships with our franchisees. We sponsor the IHOP Franchise Board of Advisors, an elected 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. In February 2009, we announced the formation of CSCS, an independent purchasing cooperative to manage all procurement activities for domestic Applebee's and IHOP restaurants choosing to join the cooperative (see "Purchasing Cooperative" on page 9).

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, restaurants developed by us under the Previous Business Model are returned by franchisees to us and may be operated by the Company for an indefinite period until they are refranchised. As of December 31, 2009, there were a total of 13 company-operated restaurants, 10 of which were located in the Cincinnati market, two of which were IHOP Cafés and one was a former franchise restaurant being operated temporarily that was refranchised in January 2010.

We utilize the company-operated restaurants in the Cincinnati market to facilitate the testing of new building types and remodel designs, new products 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 2009, our franchisees and area licensees financed and developed 75 new restaurants and we developed one company-operated IHOP Café restaurant. We currently do not intend to build additional traditional 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 2009, IHOP entered into 13 franchise development agreements. As of December 31, 2009, we had signed commitments from franchisees to build 254 IHOP restaurants over the next eight years plus

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options for an additional 103 restaurants. This number includes 16 restaurants under single-store development agreements, 266 restaurants under multi-store development agreements and 75 restaurants under international development agreements.

In 2010, we expect to open a total of 60 to 70 new IHOP restaurants, including 50 to 55 franchise restaurants, three to four area license restaurants in Florida and seven to 11 restaurants outside the U.S. or in non-traditional channels.

The following table represents our IHOP restaurant development commitments, including options, as of December 31, 2009:

	Number of Signed Agreements at 12/31/09	Contractual Openings of Restaurants by Year				
		2010	2011	2012	2013 and thereafter	Total
Single-store development agreements	16	12	4	—	—	16
Multi-store development agreements	72	57	49	34	126	266
International development agreements	6	7	6	3	59	75
Total	94	76	59	37	185	357

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 and various economic factors.

Composition of Franchise System

The number of restaurants held by an individual franchisee ranges from one to 58 restaurants. The table below sets forth information regarding the number of IHOP restaurants owned by domestic franchisees as of December 31, 2009 as well as the total number of restaurants falling into each of the listed ranges.

Number of Restaurants Held by Franchisee	Franchisees		Restaurants	
	Number	Percent of Total	Number	Percent of Total
One	181	50%	181	14%
Two to Five	121	34%	337	26%
Six to Ten	31	9%	223	17%
Eleven to Fifteen	12	3%	143	11%
Sixteen and over	15	4%	395	31%
Total(a)	360	100%	1,279	100%

(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

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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.

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 advertising fees comprised of (i) a local advertising fee equal to 2.0% of weekly gross sales, which is used to cover the cost of local media purchases and (ii) a national advertising fee equal to 1.0% of weekly gross sales. Area licensees are generally required to pay lesser amounts toward advertising.

The local advertising cooperatives have historically used the local advertising fees to purchase television advertising time, radio advertising time and place advertisements in printed media or direct mail locally. In addition, we encourage other local marketing by our franchisees. These marketing programs often include discount coupons and specials aimed at increasing guest traffic and encouraging repeat business. The national marketing fund is primarily used for the creation of advertising and to defray certain expenses associated with our marketing and advertising functions.

Beginning in 2005, we and the franchisees have reallocated 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 2007 and 2008 the franchisees agreed to reallocate one half of their local advertising fees to national media spending; for 2010 and 2009 the franchisees agreed to reallocate 62% of their local advertising fees. As a result, more of our television advertising will be seen on national broadcast, syndication and cable media.

In 2009, we expanded the scope of our gift card program by utilizing third-party retailers to market our gift cards.

Supply Chain

IHOP has entered into supply contracts for pancake and waffle dry-mixes and pricing agreements for most major products carried in IHOP restaurants to ensure the availability of quality products at competitive prices. IHOP has negotiated other agreements or arrangements with food distribution companies to limit markups charged on food and restaurant supplies purchased by individual IHOP restaurants. 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. In February 2009, we announced the formation of CSCS, an independent purchasing cooperative to manage procurement activities for domestic Applebee's and IHOP restaurants choosing to join the cooperative (see "Purchasing Cooperative" on page 9).

Industry Overview and Competition

The Applebee's and IHOP restaurant chains are among the numerous restaurant chains and independent restaurants competing in the \$550 billion-plus consumer food service market in the United States. The restaurant business 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

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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, Bob Evans Restaurants and Perkins Restaurant and Bakery. 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 number of restaurants and 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.

Trademarks and Service Marks

We own the rights to the "Applebee's Neighborhood Grill & Bar®" service mark and certain variations thereof and to other service marks used in our Applebee's system in the United States and in various foreign countries. In addition, we own trademarks and service marks used in the IHOP system, including "International House of Pancakes®," "IHOP" and variations of each, as well as "The Never Empty Coffee Pot," "Rooty Tooty Fresh 'N Fruity," "Harvest Grain 'N Nut," and "Come Hungry, Leave Happy." We have registered or applied to register our material trademarks and service marks with the United States Patent and Trademark Office. We also register new trademarks and service marks from time to time. We will protect our trademarks and service marks by appropriate legal action when necessary.

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 are also 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

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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 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.

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, 2009, we employed approximately 22,900 employees, of whom approximately 650 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 economic conditions that are largely out of our control could adversely affect the Company's business, results of operations, liquidity and capital resources. 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 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 where the perceived wealth of customers has decreased (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 reduce profitability of franchise restaurants, potentially impacting the ability of franchisees to make royalty payments as they become due. Reduction in cash flows from either company-operated or franchised restaurants could have a material adverse effect on the Company's liquidity and capital resources.

We incurred substantial indebtedness to finance the Applebee's acquisition which could adversely affect our business and limit our ability to respond to changes in our business. As of December 31, 2009, we had outstanding long-term debt of approximately \$1.6 billion, almost all of which was incurred to finance the 2007 acquisition of Applebee's. In addition, we may incur additional debt to the extent permitted under the terms of our debt covenants. Our substantial indebtedness and the fact that we are contractually obligated to apply a large portion of our cash flow from operations to make payments of interest and principal on our indebtedness has, among other ramifications:

- reduced funds available for capital expenditures, acquisitions and other purposes;
- increased our vulnerability to adverse economic and industry conditions;
- limited our ability to obtain additional financing; and
- limited our ability to apply proceeds from a securities offering or asset sale to purposes other than the repayment of debt.

Our debt covenants associated with this indebtedness limit our ability to incur additional indebtedness, make investments, pay dividends and engage in other transactions. In addition, our debt covenants require that certain debt service coverage and consolidated leverage ratios be met. Our failure to comply with these covenants could result in an event of default that, if not cured or waived, could result, among other things, in the acceleration of all of our indebtedness and the imposition of a third party to act as Servicer for our IHOP and Applebee's franchise systems.

We may be unable to generate sufficient cash flow to satisfy our significant debt service obligations, which would adversely affect our financial condition and results of operations. The Applebee's and IHOP November 2007 securitization indebtedness has an accelerated payment date of December 2012, with possible extensions available until June 2013. The IHOP March 2007 securitization indebtedness has an accelerated payment date of March 2012, with possible extensions available until March 2014. Our ability to make interest and principal payments on our indebtedness and to refinance our indebtedness prior to the accelerated payment date will depend on our ability to generate cash from operations. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If our business does not generate sufficient cash flow from operations, if currently anticipated cost savings and operating improvements are not realized on

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schedule, in the amounts anticipated or at all, or if future borrowings are not available to us in amounts sufficient to enable us to pay our indebtedness or to fund our other liquidity needs, our financial condition and results of operations may be adversely affected. If we cannot generate sufficient cash flow from operations to make scheduled interest and principal payments on our debt obligations in the future, we may need to refinance all or a portion of our indebtedness on or before maturity, sell assets, defer payment of Series A Preferred Stock dividends (and by so doing incur a higher dividend rate), delay capital expenditures or seek additional equity. If we are unable to refinance our indebtedness on commercially reasonable terms or at all, or to effect any other action relating to our indebtedness on satisfactory terms or at all, the indebtedness will be subject to rapid amortization no later than June 2013 because if the IHOP November 2007 securitization debt goes into rapid amortization, the IHOP March 2007 securitization debt will go into rapid amortization even if extended to March 2014. Under rapid amortization, all excess cash flow (after all required payments have been made) will be deposited in the principal payment account and used to repay principal of the applicable securitization debt.

Declines in our financial performance could result in additional impairment charges in future periods. U.S. generally accepted accounting principles 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 are primarily estimated using discounted cash flows based on five-year forecasts of financial results that incorporate assumptions as to same-store sales trends, future development plans and brand-enhancing initiatives, among other things. 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, 2009 our total stockholders' equity was \$69.9 million. A significant impairment writedown 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.

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 similar styles of businesses. The trend toward convergence in grocery, deli, and restaurant services 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. Although we may implement a number of business strategies, the future success of new products, initiatives and overall strategies is highly 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 new business strategy that includes, among other things, (i) the franchising of more than 90% of the Applebee's company-operated restaurants, (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) more generally, improvements to the overall performance of the Applebee's business by applying some of the strategies we previously applied to the IHOP restaurant business. 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 franchising of Applebee's company-operated restaurants may not improve the performance of such restaurants and may not reduce the capital expenditures to the extent we anticipate or result in the other intended benefits of the strategy. The actual benefit from the franchising of the Applebee's company-operated restaurants is uncertain and may be less than anticipated.

As of December 31, 2009 we have franchised 110 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 399 company-operated restaurants on desirable terms or within the anticipated time frame. 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 franchising of Applebee's company-operated restaurants is not expected to be completed for several years. If market rents, comparable transaction valuations or other assumptions prove to be incorrect, the actual proceeds from the franchising 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 real property is located may adversely affect our ability to execute the franchising transactions or to achieve the anticipated returns from such transactions. Market conditions may have changed at the time the franchising 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.

Factors specific to the restaurant industry, some of which are outside of our control, may have a material adverse effect on our business. 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 store 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 extreme 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

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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 stores;
- the inability to manage a large number of restaurants due to unanticipated changes in executive management, and 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.

Shortages or interruptions in the supply or delivery of food supplies could have a material adverse effect on our system-wide sales, revenues or profits. 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 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. 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 current consumer preferences, which may result in reductions to the revenues generated by our company-operated restaurants and the franchise payments we receive from franchisees.

Harm to our brands' reputation may have a material adverse effect on our business. 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 have a material adverse effect on our financial condition or results of operations. 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 and our franchisees are subject to a variety of litigation risks that may negatively impact performance. 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. 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 U.S. 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 U.S. 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. The restaurant industry is 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 and employment. We are also subject to licensing and regulation by state and local departments relating to the service of alcoholic beverages, health, sanitation, fire and safety standards, and to laws governing relationships with employees, including minimum wage requirements, overtime, working conditions and citizenship requirements. We are also 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 ability 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. 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.

We are subject to the Fair Labor Standards Act, various other laws and state and local regulations in the United States and in the foreign countries in which we operate from time to time, governing such matters as minimum-wage requirements, overtime and other working conditions and citizenship requirements. A significant number of the food-service employees in our restaurants are paid at rates related to the United States federal minimum wage or the relevant state minimum wage, and past increases in the United States federal and state minimum wage, as well as changes in the method of calculating the minimum wage and crediting of tips, have increased labor costs, as would future increases. Any increases in labor costs might cause us or our franchisees to inadequately staff Applebee's or IHOP restaurants. Understaffed restaurants could result in reduced gross sales and decreased profits at such restaurants.

We and our franchisees must also comply with Title III of the Americans with Disabilities Act (the "ADA"). Compliance with the ADA generally requires that public spaces provide reasonable accommodation to disabled individuals and that new commercial spaces or modifications of commercial spaces conform to specific accessibility guidelines unless materially unfeasible. Although newer restaurants are designed to meet the ADA construction standards, some older restaurants may not meet the ADA standards. A finding of noncompliance with the ADA could result in the imposition of injunctive relief, fines, an award of damages to private litigants or additional capital expenditures to remedy such noncompliance. Any imposition of injunctive relief, fines, damage awards or capital expenditures could adversely affect our revenue or profits.

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 frame specified in their development agreements;
- the availability of financing, at acceptable rates and terms, to both franchisees and third-party landlords, for restaurant development;

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- 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 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 concept and standards.

Concentration of Applebee's franchised restaurants in a limited number of franchisees subjects us to greater credit risk. As of December 31, 2009, Applebee's franchisees operated 1,470 Applebee's restaurants in the United States, which restaurants comprised 79% of the total Applebee's restaurants in the United States. As of December 31, 2009, the nine largest Applebee's franchisees owned 786 restaurants, representing 53% 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 franchising of most the company-operated Applebee's restaurants that is part of our strategy is not expected to reduce the degrees 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 may also 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 restaurant may be materially adversely affected.

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, the disruption to the performance of the restaurants could materially and adversely affect our business.

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 brand 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 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 pay 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 "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.

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. These negative factors will 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 revitalizing Applebee's store locations through a new remodel program 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, which could have a material adverse effect on our business.

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 by operation of 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 may also be recoverable on behalf of the franchisee as a preferential transfer under the United States Bankruptcy Code.

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, then we could be required to develop or adopt non-infringing intellectual property or 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 sublicensees 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 sublicense our intellectual property to our franchisees and to product suppliers, manufacturers, distributors, advertisers and other third parties. The franchise agreements and other sublicense agreements require that each franchisee or other sublicensee use the intellectual property in accordance with established or approved quality control guidelines. However, there can be no assurance that the franchisees or other sublicensees will use the intellectual property assets in accordance with such guidelines. Franchisee and sublicensee noncompliance with the terms and conditions of the governing franchise agreement or other sublicense agreement may reduce the overall goodwill associated with our brands. Franchisees and other sublicensees may refer to our intellectual property improperly in writings or conversation, resulting in the weakening of the distinctiveness of our intellectual property. There can be no assurance that the franchisees or other sublicensees will not take actions that could have a material adverse effect on the reputation of the Applebee's or IHOP intellectual property. Any such actions could have a corresponding material adverse effect on our business and revenues.

In addition, even if the sublicensee product suppliers, manufacturers, distributors, or advertisers observe and maintain the quality and integrity of the intellectual property assets in accordance with the relevant sublicense 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 have a material adverse effect on our business, by virtue of, among other things, reducing the public's acceptance of Applebee's or IHOP restaurants, thereby reducing 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, or a breach in security of these systems could 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 federal and state laws, as well as by certain third-party agreements. If our security and information systems are compromised or our employees or if 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.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The table below shows the location and ownership of the combined 3,464 Applebee's and IHOP restaurants as of December 31, 2009:

	Applebee's			IHOP			
	Franchise	Company-Operated	Total	Franchise	Company-Operated	Area License	Total
<i>United States</i>							
Alabama	29	—	29	18	—	—	18
Alaska	2	—	2	4	—	—	4
Arizona	33	—	33	36	—	—	36
Arkansas	9	2	11	14	—	—	14
California	112	—	112	227	1	—	228
Colorado	27	—	27	29	—	—	29
Connecticut	9	—	9	6	—	—	6
Delaware	12	—	12	5	—	—	5
District of Columbia	—	—	—	1	—	—	1
Florida	106	—	106	—	—	148	148
Georgia	69	—	69	70	—	4	74
Hawaii	—	—	—	6	—	—	6
Idaho	12	—	12	9	—	—	9
Illinois	52	14	66	52	—	—	52
Indiana	59	7	66	20	—	—	20
Iowa	27	—	27	9	—	—	9
Kansas	19	15	34	18	—	—	18
Kentucky	32	5	37	2	1	—	3
Louisiana	17	—	17	25	—	—	25
Maine	—	11	11	1	—	—	1
Maryland	14	12	26	30	—	—	30
Massachusetts	—	32	32	16	—	—	16
Michigan	21	65	86	18	—	—	18
Minnesota	2	59	61	9	—	—	9
Mississippi	15	3	18	9	—	—	9
Missouri	2	60	62	23	—	—	23
Montana	7	—	7	5	—	—	5
Nebraska	19	—	19	5	—	—	5
Nevada	14	—	14	23	—	—	23
New Hampshire	—	16	16	2	—	—	2
New Jersey	56	—	56	39	—	—	39
New Mexico	18	—	18	12	—	—	12
New York	106	1	107	47	—	—	47
North Carolina	55	2	57	40	—	—	40
North Dakota	11	—	11	1	—	—	1
Ohio	96	—	96	20	9	—	29
Oklahoma	20	—	20	24	—	—	24
Oregon	21	—	21	7	—	—	7
Pennsylvania	74	2	76	18	—	—	18
Rhode Island	—	8	8	2	—	—	2
South Carolina	41	—	41	25	—	—	25
South Dakota	6	—	6	5	—	—	5
Tennessee	34	4	38	32	—	—	32
Texas	92	—	92	180	2	—	182
Utah	16	—	16	19	—	—	19
Vermont	—	3	3	1	—	—	1
Virginia	2	71	73	53	—	—	53
Washington	39	—	39	29	—	—	29
West Virginia	15	2	17	6	—	—	6
Wisconsin	43	4	47	13	—	—	13
Wyoming	5	—	5	3	—	—	3
Total							
Domestic	1,470	398	1,868	1,268	13	152	1,433

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	Applebee's			IHOP			
	Franchise	Company-Operated	Total	Franchise	Company-Operated	Area License	Total
<i>International</i>							
Bahrain	1	—	1	—	—	—	—
Brazil	9	—	9	—	—	—	—
Canada	25	—	25	2	—	12	14
Chile	2	—	2	—	—	—	—
China	—	1	1	—	—	—	—
Costa Rica	1	—	1	—	—	—	—
Greece	8	—	8	—	—	—	—
Guatemala	3	—	3	—	—	—	—
Honduras	7	—	7	—	—	—	—
Jordan	1	—	1	—	—	—	—
Kuwait	5	—	5	—	—	—	—
Lebanon	1	—	1	—	—	—	—
Mexico	56	—	56	7	—	—	7
Puerto Rico	2	—	2	1	—	—	1
Qatar	4	—	4	—	—	—	—
Saudi Arabia	12	—	12	—	—	—	—
United Arab Emirates	2	—	2	—	—	—	—
St. Croix, Virgin Islands	—	—	—	1	—	—	1
Total International	139	1	140	11	—	12	23
Totals	1,609	399	2,008	1,279	13	164	1,456

As of December 31, 2009, we operated 399 Applebee's restaurants and 13 IHOP restaurants for a total of 412 company-operated restaurants. Of these restaurants, we leased the building for 55 sites, owned the building and leased the land for 183 sites, owned the land and building for 12 sites and leased the land and building for 162 sites.

Of the 1,279 franchisee-operated IHOP restaurants, 62 were located on sites owned by us, 696 were located on sites leased by us from third parties and 521 were located on sites owned or leased by franchisees. All of the IHOP restaurants operated by the area licensee and all of the franchisee-operated Applebee's restaurants were located on sites owned or leased by the area licensee or the franchisee.

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 5 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 lease 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 the Kansas City metropolitan area under a lease expiring in July 2023. We also lease a small executive suite space for our company operations in the Cincinnati market.

Item 3. Legal Proceedings.

We are subject from time to time to 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 would not have a material adverse impact on our business or consolidated financial position.

Gerald Fast v. Applebee's

The Company is currently defending a collective action filed under the Fair Labor Standards Act styled 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, the Company 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 8th Circuit for review on interlocutory appeal. Briefing on the issues for interlocutory appeal was completed by the parties on October 2, 2009.

The Company believes it has strong defenses to the substantive claims asserted and intends to vigorously defend this case. An estimate of the possible loss, if any, or the range of the loss cannot be made and, therefore, the Company has not accrued a loss contingency related to this matter. It is reasonably possible that future events will occur in the near term that provide clarification as to an estimate of the possible loss, if any, or the range of the loss related to this matter.

Item 4. Reserved.

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 New York Stock Exchange ("NYSE") under the symbol "DIN". The following table sets forth the high and low sales prices of our common stock on the NYSE, and dividends paid, for each quarter of 2009 and 2008.

Quarter	Fiscal Year 2009			Fiscal Year 2008		
	Prices		Dividends Paid	Prices		Dividends Paid
	High	Low		High	Low	
First	\$ 14.56	\$ 5.24	\$ 0.00	\$ 55.77	\$ 34.70	\$ 0.25
Second	\$ 34.71	\$ 10.48	\$ 0.00	\$ 53.50	\$ 35.65	\$ 0.25
Third	\$ 33.06	\$ 20.25	\$ 0.00	\$ 38.98	\$ 14.91	\$ 0.25
Fourth	\$ 26.44	\$ 19.97	\$ 0.00	\$ 18.62	\$ 5.65	\$ 0.25

Holdings

As of February 1, 2010, there were approximately 6,100 registered holders of record of our common stock. That number excludes the beneficial owners of shares held in "street" name through banks, brokers and other financial institutions.

Dividends

The Company had accrued \$0.2 million as dividends for the Series A Perpetual Preferred Stock as of the end of fiscal 2009 (January 3, 2010).

The Company's most recent quarterly dividend of \$0.25 per common share was paid in December 2008. Effective December 11, 2008, the Company suspended the payment of its quarterly cash dividend to common shareholders for the foreseeable future in order to maximize the financial flexibility of the Company. Future dividend payments on the common shares 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, 2009, 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	1,659,100	\$ 21.30	1,248,046
Equity compensation plans not approved by security holders	—	—	—
Total	1,659,100	\$ 21.30	1,248,046

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The number of securities remaining available for future issuance includes 1,226,146 shares and 21,900 shares under our 2001 Stock Incentive Plan and 2005 Stock Incentive Plan for Non-Employee Directors, respectively. Please refer to Note 18, Stock-Based Incentive Plans, in the Notes to the Consolidated Financial Statements for a description of each plan.

Issuer Purchases of Equity Securities

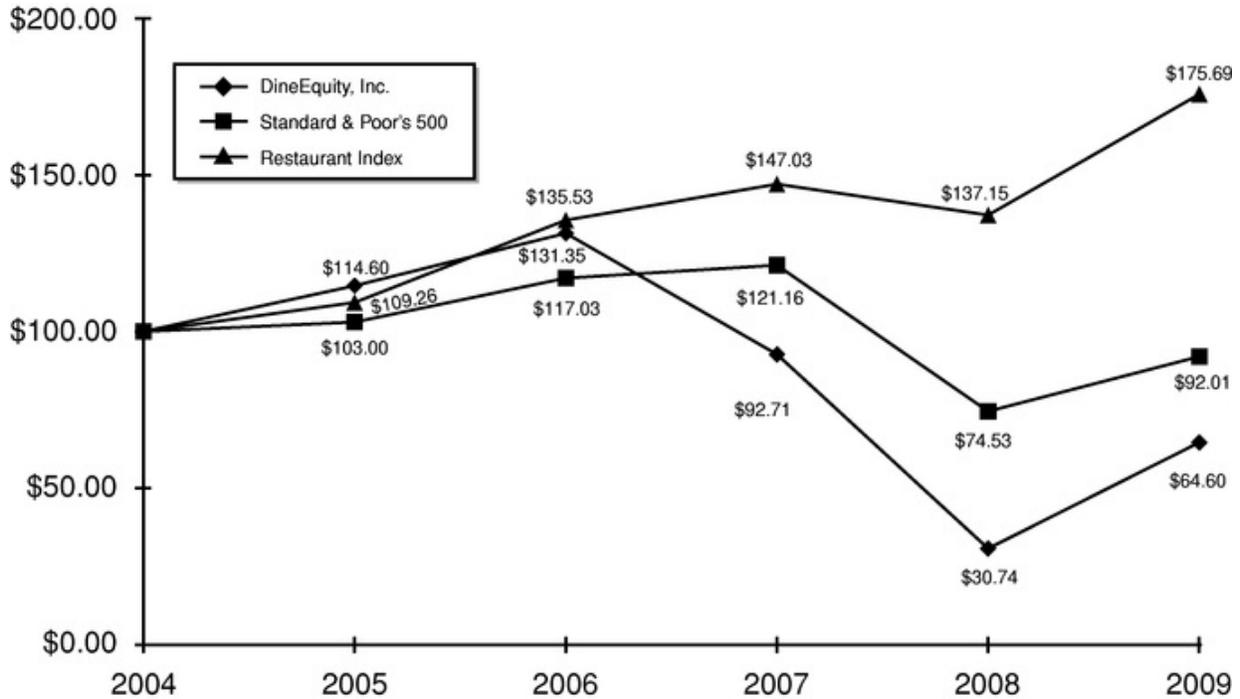
In January 2003, our Board of Directors authorized a program to repurchase shares of our common stock. The Board approved the repurchase of up to 7.2 million shares of common stock from time to time, depending on market conditions and other factors. No repurchases were made during 2008 or 2009. In February 2009, the Board of Directors cancelled the authorization to repurchase any additional shares under this program. A total of 6,327,877 shares were repurchased under the stock repurchase program prior to the cancellation of the program.

During 2009, a total of 50,927 shares of restricted stock were surrendered to the Company at an average price of \$11.87 per share to satisfy tax withholding obligations in connection with the vesting of restricted stock awards issued to employees under our 2001 Stock Incentive Plan.

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, 2009. The graph and table assume \$100 invested at the close of trading on the last day of trading in 2004 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, 2009)**



	2004	2005	2006	2007	2008	2009
DineEquity, Inc.	\$ 100.00	\$ 114.60	\$ 131.35	\$ 92.71	\$ 30.74	\$ 64.60
Standard & Poor's 500	100.00	103.00	117.03	121.16	74.53	92.01
Restaurant Index	100.00	109.26	135.53	147.03	137.15	175.69

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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, 2009, 2008, 2007, 2006 and 2005 are derived from our audited consolidated financial statements.

	Fiscal Year Ended December 31,				
	2009	2008	2007(a)	2006	2005
	(In millions, except per share amounts)				
Revenues					
Franchise revenues	\$ 372.2	\$ 353.3	\$ 205.8	\$ 179.3	\$ 167.4
Company restaurant sales	890.0	1,103.2	125.9	13.6	14.0
Rental income	133.9	131.4	132.4	132.1	131.6
Financing revenues	17.9	25.7	20.5	24.6	35.0
Total revenues	1,414.0	1,613.6	484.6	349.6	348.0
Costs and expenses					
Franchise expenses	102.3	96.2	88.1	83.1	78.8
Company restaurant expenses	766.5	978.2	117.4	15.6	15.1
Rental expenses	97.3	98.1	98.4	97.9	98.4
Financing expenses	0.4	7.3	1.3	4.3	12.3
General and administrative expenses	158.5	182.3	81.6	63.5	58.8
Interest expense	186.5	203.2	28.7	7.9	8.3
Impairment and closure charges	105.1	240.6	4.4	—	0.9
Amortization of intangible assets	12.3	12.1	1.1	—	—
(Gain) loss on extinguishment of debt	(45.7)	(15.2)	2.2	—	—
Other (income) expense, net	(5.8)	(1.0)	2.0	4.4	4.6
Loss on derivative financial instrument	—	—	62.1	—	—
Total costs and expenses	1,377.4	1,801.8	487.3	276.7	277.2
Income (loss) before income taxes	36.6	(188.2)	(2.7)	72.9	70.8
Provision (benefit) for income taxes	5.2	(33.7)	(2.2)	28.3	26.9
Net income (loss)	\$ 31.4	\$ (154.5)	\$ (0.5)	\$ 44.6	\$ 43.9
Net income (loss)	\$ 31.4	\$ (154.5)	\$ (0.5)	\$ 44.6	\$ 43.9
Less: Series A Preferred stock dividends	(19.5)	(19.0)	(1.5)	—	—
Less: Accretion of Series B Preferred stock	(2.3)	(2.1)	(0.2)	—	—
Less: Net (income) loss allocated to unvested participating restricted stock	(0.4)	6.4	—	—	—
Net income (loss) available to common stockholders	\$ 9.2	\$ (169.2)	\$ (2.2)	\$ 44.6	\$ 43.9
Net income (loss) available to common stockholders per share:					
Basic	\$ 0.55	\$ (10.09)	\$ (0.13)	\$ 2.46	\$ 2.26
Diluted	\$ 0.55	\$ (10.09)	\$ (0.13)	\$ 2.43	\$ 2.24
Weighted average shares outstanding:					
Basic	16.9	16.8	17.2	18.1	19.4
Diluted	16.9	16.8	17.2	18.3	19.6
Dividends declared per common share(b)	—	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Dividends paid per common share(b)	—	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Balance Sheet Data (end of year)					
Cash and cash equivalents	\$ 82.3	\$ 114.4	\$ 26.8	\$ 19.5	\$ 23.1
Restricted cash—short-term	72.7	83.4	128.1	—	—
Restricted cash—long-term	48.2	53.4	58.0	—	—
Property and equipment, net	771.4	824.5	1,139.6	309.7	318.0
Total assets	3,100.9	3,361.2	3,831.2	766.3	770.2
Long-term debt, net of current maturities	1,637.2	1,853.4	2,263.9	94.5	114.2

Financing obligations, net of current maturities	309.4	318.7	—	—	—
Capital lease obligations, net of current maturities	152.8	161.3	168.2	170.4	172.7
Stockholders' equity	69.9	42.8	209.4	289.2	293.8

-
- (a) We acquired Applebee's International, Inc. on November 29, 2007. The results of operations related to this acquisition have been included in our fiscal 2007 consolidated operating results since the date of the acquisition.
- (b) Effective December 11, 2008, the Company has suspended payments of dividends to common stockholders for the foreseeable future.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements in certain circumstances. This report contains statements that involve expectations, plans or intentions (such as those relating to future business or financial results, new features or services, or management strategies). These statements are forward-looking and are subject to risks and uncertainties, so actual results may vary materially from those expressed or implied by any forward-looking statements. You can identify these forward-looking statements by words such as "may," "will," "should," "expect," "anticipate," "believe," "estimate," "intend," "plan" and other similar expressions. You should consider our forward-looking statements in light of the risks discussed under the heading "Risk Factors" in Item 1A above 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 Securities and Exchange Commission. We assume no obligation to update 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.

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 or the Company. Sales of restaurants that are owned by franchisees and area licensees are not attributable to the Company. With more than 3,400 restaurants combined, we are the largest full-service restaurant company in the world.

Key Overall Strategies

Applebee's Key Strategies

We are in the process of a three-to-five year effort to revitalize the Applebee's brand. In 2009, we accomplished the following under each key strategy:

Drive Profitable Sales and Traffic

- Continued to focus on value throughout 2009 through our "2 for \$20" offering, which emerged as one of the most recognized and regarded value propositions in casual dining;
- Re-engineered our new product development process, rebuilding our innovation infrastructure and organizational capabilities;
- Launched a new campaign featuring the tagline "There's no place like the neighborhood." The role of this advertising is to differentiate the brand through emotional storytelling while launching new product news, driving traffic and enhancing perceptions of the brand;

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- Introduced a line of healthy food and beverage offerings through a totally integrated marketing communications approach, including network television, national visibility platform, local support, social media, website support and public relations; and
- Developed a new menu design, engineered to increase profitability and make menu decisions easier for our guests. The new menu was implemented across the system in early 2010.

Improve margins and unit level economics

We implemented numerous initiatives to improve the operations and profitability of Applebee's company operated restaurants, resulting in a 270 basis point profit margin improvement from the prior year. The improved margins resulted from introduction of labor deployment tools, food and beverage cost improvement initiatives and better control over other costs. The margin improvements were not at the expense of the guest as we achieved all-time high guest satisfaction scores.

We also refined our franchisee operations rating system to provide greater visibility to our franchisees concerning their performance in relation to guest experience, food safety and training.

Transform the business

The Company remains committed to our strategy to franchise a substantial majority of the 399 company-operated restaurants to 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. We have the financial flexibility to meet our obligations without additional refranchising transactions, so we will only pursue transactions that make economic sense. We anticipate it will take several years to be completed and will continue to focus on optimizing the performance of the business

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 franchising of the remaining Applebee's domestic company-operated restaurants, within the time frame described above.

IHOP's Key Strategies

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

Energize the IHOP Brand

We seek to energize our brand by continuing our "Come Hungry. Leave Happy" advertising campaign. This message has successfully resonated with our guests for almost seven years and we expect to continue with this campaign in the future. In 2003, we also initiated the strategy of limited time offers on promotional products. Since that time, we have enhanced our execution of this promotional product approach by improving the appeal of these promotions and the franchisees' execution. In addition, 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 two years, we have shifted the allocation of our media spending towards national advertising. Due to this reallocation from local to national advertising, in 2009 we were able to provide continuous media support for all national initiatives, such as limited time offers, and secondary messages, such as IHOP for Dinner, Gift Cards and Kids Eat Free.

We developed new prototype and remodel programs in 2004, which have become the standards for all development and remodel activity going forward. By the end of 2009, substantially all franchisees have completed their remodels under this program. We also launched our "IHOP 'n Go" takeout program in February 2007 and a successful gift card program in 2006 in order to ensure that we remain

relevant with our customers and meet their changing dining patterns. In 2009, we expanded the scope of our gift card program by utilizing third-party retailers to market our gift cards.

Improve Operations Performance

We will continue to improve the operations of the restaurants. During 2003, we established an IHOP franchisee grading system to evaluate the operational standards of each of our restaurant units. This franchisee grading system is a comprehensive scorecard that covers mystery shop scores, operational assessment scores and health department ratings, among other things. By December 31, 2009, 90% of all franchisees had received grades of "A" or "B" for their restaurants. In addition, we intend to continue focusing 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." Substantially all IHOP restaurants are using pollable point-of-sale ("POS") 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.

Maximize Franchise Development

Under the Current Business Model, IHOP seeks to maximize franchise development by emphasizing the recruitment of franchise developers within and outside the current system in order to grow its revenues. We have a strong existing franchisee base. Since 2003, more than 70% of new restaurants have been opened by pre-existing franchisees. This strategy has proven very successful as franchisees have developed approximately 350 units since the inception of the Current Business Model and we have a pipeline of 357 additional new units committed, optioned or pending. In addition, we may take steps to intervene, 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.

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

Economic Uncertainties

During 2009, the recession that followed last year's global economic decline and financial market disruption continued to impact the U.S. economy and the economies of most countries worldwide. Consumers continue to be faced with general economic uncertainty fueled by difficult consumer credit markets, softness in both the commercial and residential real estate markets, high unemployment and lagging consumer confidence. While the financial market disruption of 2008 has abated, we believe financial market volatility, high unemployment, foreclosures and lower valuations for residential real estate will continue to put pressure on consumer spending. These conditions make it challenging for us to accurately forecast and plan for future business activities as the reduction 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.

This economic uncertainty may affect our business and operations in a number of ways, including but not limited to:

- lower profitability and cash flows from company-operated restaurants;

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- reduced cash flows from franchisees due to both a lower sales base on which royalties and other payments are calculated and possible impairment of the ability of franchisees to make payments when due as a result of the economic effects cited above on their businesses;
- reduced availability of financing for franchisees to fulfill their new restaurant development commitments;
- limited or lack of credit availability for potential purchasers of Applebee's company-operated restaurants;
- lower proceeds from the franchising of Applebee's company-operated restaurants due to both lower restaurant sales and profitability and/or inability to consummate transactions at all; and
- lower estimated fair values for goodwill, intangible assets and long-lived assets resulting in future non-cash impairment charges.

We cannot predict the effect or duration of this economic slowdown or the timing and strength of a subsequent recovery in the economy in general or the restaurant industry in particular. If our business significantly deteriorates due to these macroeconomic effects, our financial condition and results of operations will likely be materially and adversely affected.

Fifty-Three Week Fiscal Year

Our fiscal year ends on the Sunday nearest to December 31 of each year. As a result, every five or six years our fiscal year contains 53 calendar weeks. Fiscal 2009 contained 53 weeks whereas fiscal 2008 and 2007 each contained 52 weeks. The estimated impact of the 53rd week in fiscal 2009 in comparison to fiscal 2008 was an increase in revenue of \$29.2 million, an increase in segment profit of \$13.5 million and an increase in income before income taxes of \$10.9 million. While certain expenses increased in direct relationship to additional revenue from the 53rd week, other costs (for example, depreciation and other fixed costs) are incurred on a calendar month basis. Therefore, the impact of the additional week is not necessarily indicative of a typical relationship of expenses to revenues measured over a longer period of comparison, such as a fiscal month or a fiscal quarter.

Securitized Debt and Related Interest Expense

Certain of our subsidiaries incurred a substantial amount of indebtedness to finance the Applebee's acquisition. Because of early retirement of debt and a decline in variable interest rates, our interest expense decreased \$16.7 million from the prior year. While it is not likely interest rates on our variable-rate debt will continue to decline significantly below current levels and may, in fact, increase in the future, we will amortize debt in the normal course of business and we intend to use excess operating cash flow to repurchase debt when the opportunity is available. As a result we expect our total interest expense will decline. We estimate our interest expense for fiscal 2010 will range from \$175 million to \$180 million, which includes \$40 million of non-cash interest charges. However, interest expense is expected to remain as one of the largest components of costs and expenses in the future until such time that debt balances are repaid.

[Table of Contents](#)Significant Gains and Charges

There were several significant gains and charges that affect the comparisons of fiscal year 2009 results with previously reported periods, as presented in the following table:

	Year ended December 31,		
	2009	2008	2007
	(In millions)		
Impairment and closure charges	\$ 105.1	\$ 240.6	\$ 4.4
(Gain) loss on extinguishment of debt	(45.7)	(15.2)	2.2
(Gain) loss on disposition of assets	(6.9)	0.3	(0.1)
Loss on derivative financial instrument	—	—	62.1

Each transaction is discussed in further detail under paragraphs captioned with those descriptions elsewhere in Item 7. Given the uncertainty as to the achievement of the forecasts used in assessing possible impairment of tangible and intangible assets, it is reasonably possible that impairment charges may occur in future periods. While the fair value of our debt is currently less than its carrying value (see Note 12 of Notes to the Consolidated Financial Statements), the difference between fair value and carrying value has decreased considerably over the past year. Therefore, while we expect to continue to dedicate a portion of excess cash flow towards opportunistic debt retirement, it is likely that gains on future extinguishments of debt will be smaller than those recognized in 2009 and 2008, if they occur at all.

Financial Statement Effect of Franchising Company-Operated Restaurants

We have franchised 110 Applebee's company-operated restaurants since the second quarter of 2008 and are planning to franchise a significant majority of the remaining 399 company-operated Applebee's over the next several years. As the number of company-operated restaurants declines, the amount of Company restaurant revenues and Company restaurant expenses in future periods will decline significantly compared to amounts reported in previous periods. Franchise royalty revenues and expenses will likely increase as company-operated restaurants are franchised, although not in the same magnitude as the Company restaurant revenues decline as franchise royalties are based on a percentage of the franchisee's revenues. Additionally, under terms of the securitized debt agreements, all of the proceeds from asset sales must be used to retire long-term debt (at face value), which would result in a decrease in interest expense 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. Applebee's information for 2007 is comprised of data from the 11-month period prior to the acquisition date of November 29, 2007 and one month of Applebee's data subsequent to the acquisition date ("Pro Forma 2007"). "Effective restaurants" are the number of restaurants in a given period, adjusted to account for restaurants open for only a portion of the period. Information is presented for all effective restaurants in the Applebee's and IHOP systems, which includes restaurants owned by the Company, as well as those owned by franchisees and area licensees. Sales of restaurants that are owned by franchisees and area licensees are not attributable to the Company. However, we believe that presentation of this information is useful in analyzing our revenues because franchisees and area licensees pay us royalties and advertising fees that are generally based on a percentage of their sales, as well as, 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.

	<u>Year Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
			(Pro Forma)
Applebee's Restaurant Data			
Effective restaurants(a)			
Franchise	1,595	1,504	1,429
Company	401	486	513
Total	1,996	1,990	1,942
System-wide(b)			
Domestic sales percentage change(c)(i)	(2.1)%	(0.4)%	(0.2)%
Domestic same-store sales percentage change(d)(i)	(4.5)%	(2.2)%	(2.1)%
Franchise(b)(e)			
Domestic sales percentage change(c)(g)(i)	3.6%	1.6%	0.1%
Domestic same-store sales percentage change(d)(i)	(4.4)%	(2.4)%	(2.0)%
Domestic average weekly unit sales (in thousands)	\$ 45.3	\$ 47.2	\$ 48.2
Company			
Domestic sales percentage change(c)(g)(i)	(19.7)%	(6.1)%	(0.9)%
Domestic same-store sales percentage(d)(i)	(4.8)%	(1.3)%	(2.2)%
Domestic average weekly unit sales (in thousands)	\$ 41.1	\$ 43.1	\$ 43.9

	<u>Year Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
IHOP Restaurant Data			
Effective restaurants(a)			
Franchise	1,245	1,189	1,144
Company	11	10	12
Area license	161	158	158
Total	1,417	1,357	1,314
System-wide(b)			
Sales percentage change(c)	5.6%	5.5%	6.9%
Domestic same-store sales percentage change(d)	(0.8)%	1.5%	2.2%
Franchise(b)(e)			
Sales percentage change(c)	6.3%	5.9%	7.1%
Same-store sales percentage change(d)	(0.8)%	1.5%	2.2%
Average weekly unit sales (in thousands)	\$ 35.1	\$ 35.2	\$ 34.6
Company(f)			
	n.m.	n.m.	n.m.
Area License(h)			
IHOP sales percentage change(c)	(1.6)%	3.1%	4.2%

(a) "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.

(b) "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

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sales at Company-operated restaurants. Sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company.

- (c) "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 year ended December 31, 2009 contained 53 weeks. The fiscal years ended December 31, 2008 and 2007 each contained 52 weeks.
- (d) "Same-store 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 store closures, the restaurants open throughout both fiscal periods being compared will be different from period to period. Same-store sales percentage change does not include data on IHOP restaurants located in Florida.
- (e) Applebee's domestic franchise restaurant sales were \$3.5 billion, \$3.4 billion and \$3.3 billion in the fiscal years ended December 31, 2009, 2008, and 2007, respectively. Domestic franchise sales for Applebee's restaurants in the 2007 period subsequent to the acquisition date were \$319.5 million. IHOP franchise restaurant sales were \$2.3 billion, \$2.2 billion and \$2.1 billion for the fiscal years ended December 31, 2009, 2008 and 2007, respectively.
- (f) Sales percentage change and same-store sales percentage change for IHOP company-operated restaurants are not meaningful 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.
- (g) The sales percentage change for Applebee's franchise and company-operated restaurants is impacted by the franchising of 103 company-operated restaurants during 2008 and seven company-operated restaurants in 2009.
- (h) IHOP area license restaurants are located in Florida and Georgia in the U.S and in British Columbia, Canada. Sales at IHOP area license restaurants were \$214.9 million, \$218.4 million and \$211.9 million for the fiscal years ended December 31, 2009, 2008 and 2007, respectively.
- (i) We acquired Applebee's on November 29, 2007. The change in domestic system store sales was (3.1)% and (4.8)%, respectively, for the five-week period in the 2007 period subsequent to the acquisition date. The change in domestic franchise restaurant store sales and same-store sales, as reported to the Company, was (2.4)% and (5.0)%, respectively, for the five-week period in the 2007 period subsequent to the acquisition date. The change in Applebee's store sales and same-store sales was (5.1)% and (4.5)%, respectively, for the five-week period in the 2007 period subsequent to the acquisition date.

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The following tables summarize Applebee's and IHOP restaurant development and franchising activity. Applebee's information for 2007 is comprised of data from the 11-month period prior to the acquisition date, November 29, 2007, and one month of Applebee's data subsequent to the acquisition date ("Pro Forma 2007"), with 2006 and 2005 information representing data derived from Applebee's prior to the acquisition date ("Predecessor Applebee's").

	<u>Year Ended December 31,</u>				
	<u>2009</u>	<u>2008</u>	<u>2007</u> (Pro forma)	<u>2006</u> (Predecessor Applebee's)	<u>2005</u>
Applebee's Restaurant Development Activity					
Total restaurants, beginning of year	2,004	1,976	1,930	1,804	1,671
New openings					
Company-developed	—	1	14	35	52
Franchise-developed	33	48	66	108	92
Total new openings	33	49	80	143	144
Closings					
Company	—	(3)	(24)	(4)	(1)
Franchise	(29)	(18)	(10)	(13)	(10)
Total closings	(29)	(21)	(34)	(17)	(11)
Total restaurants, end of year	<u>2,008</u>	<u>2,004</u>	<u>1,976</u>	<u>1,930</u>	<u>1,804</u>
Summary—end of year					
Franchise	1,609	1,598	1,465	1,409	1,318
Company	399	406	511	521	486
Total	<u>2,008</u>	<u>2,004</u>	<u>1,976</u>	<u>1,930</u>	<u>1,804</u>
Applebee's Franchise Restaurant Activity					
Domestic franchise-developed	18	28	44	90	78
International franchise-developed	15	20	22	18	14
Refranchised	7	103	—	—	—
Total restaurant franchised	40	151	66	108	92
Closings					
Domestic franchise	(25)	(15)	(10)	(12)	(10)
International franchise	(4)	(3)	—	(1)	—
Total franchise closings	(29)	(18)	(10)	(13)	(10)
Reacquired by the Company	—	—	—	(4)	(11)
Net franchise restaurant additions	<u>11</u>	<u>133</u>	<u>56</u>	<u>91</u>	<u>71</u>

The increase in Applebee's franchise closings in 2009 was due primarily to the closing of seven restaurants after the franchise agreements were terminated due to nonpayment of royalties and advertising fees. One of the seven restaurants re-opened under new ownership in 2009, and the Company expects two additional restaurants to re-open under new ownership in 2010. Another reason

for the increase was that six of the restaurants closed in 2009 were originally planned to be closed in 2008.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
IHOP Restaurant Development Activity					
Total restaurants, beginning of year	1,396	1,344	1,302	1,242	1,186
New openings					
Company-developed	1	1	—	4	4
Franchise-developed	69	65	59	57	58
Area license	6	5	1	8	5
Total new openings	76	71	60	69	67
Closings					
Company	—	(1)	(2)	—	(1)
Franchise	(14)	(16)	(12)	(8)	(10)
Area license	(2)	(2)	(4)	(1)	—
Total closings	(16)	(19)	(18)	(9)	(11)
Total restaurants, end of year	1,456	1,396	1,344	1,302	1,242
Summary—end of year					
Franchise	1,279	1,225	1,176	1,132	1,082
Company	13	11	11	10	7
Area license	164	160	157	160	153
Total	1,456	1,396	1,344	1,302	1,242
IHOP Franchise Restaurant Activity					
Company-developed	—	—	—	—	3
Domestic franchise-developed	62	62	57	57	58
International franchise-developed	7	3	2	—	—
Rehabilitated and refranchised	2	13	4	9	26
Total restaurants franchised	71	78	63	66	87
Closings					
Domestic franchise	(14)	(15)	(12)	(8)	(10)
International franchise	—	(1)	—	—	—
Total franchise closings	(14)	(16)	(12)	(8)	(10)
Reacquired by the Company	(3)	(13)	(7)	(8)	(23)
Net franchise restaurant additions	54	49	44	50	54

Comparison of the fiscal years ended December 31, 2009 and 2008

Overview

Our 2009 financial results were significantly impacted by (i) impairment charges related to intangible and long-lived assets; (ii) gains on the opportunistic early retirement of debt with excess cash flow; (iii) reductions of general and administrative and interest expenses; (iv) a 53rd calendar week included in fiscal 2009; and (v) the franchising of 110 Applebee's company-operated restaurants since the second quarter of 2008. In comparing the Company's financial results for 2009 to those of 2008, we note:

- Revenues decreased \$200.0 million to \$1.4 billion in 2009 from \$1.6 billion in 2008. The decline was primarily due to the net effect of franchising 110 company-operated Applebee's restaurants

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since the second quarter of 2008 and a decline in IHOP and Applebee's same-store sales, partially offset by an increase in IHOP and Applebee's effective franchise units.

- Segment profit for 2009 increased \$13.8 million, comprised as follows:

Franchise operations	\$ 12.9
Company restaurant operations	(1.5)
Rental operations	3.3
Financing operations	(0.9)
Total segment profit	\$ 13.8

The increase was primarily due to the favorable impact of the 53rd week, an increase in IHOP and Applebee's effective franchise units and margin improvements in Applebee's company-operated restaurants partially offset by the net effect of franchising 110 company-operated Applebee's restaurants since the second quarter of 2008 and a decline in Applebee's and IHOP same-store sales.

- Impairment and closure charges were \$135.5 million lower than 2008. While we recognized an impairment of intangible assets in 2009 that was higher than in 2008, there was no impairment of goodwill in 2009 and impairments of tangible assets were lower in 2009 than in 2008.
- Gains on the extinguishment of debt totaled \$45.7 million in 2009 compared to \$15.2 million in 2008.
- General and administrative expenses decreased \$23.8 million due primarily to the franchising of 110 Applebee's company-operated restaurants, integration of Applebee's and IHOP administrative functions, transition-related costs from 2008 that did not recur, other cost reduction initiatives implemented in 2009 and lower stock-based compensation expense.
- Interest expense was \$16.7 million lower in 2009 compared to 2008 due to the early retirement of fixed rate debt and lower interest rates on the Company's variable rate lines of credit.

Franchise Operations

	<u>2009</u>	<u>2008</u>	<u>Favorable (Unfavorable) Variance</u>	<u>% Change</u>
	(In millions)			
Franchise revenues				
Applebee's	\$ 154.0	\$ 148.4	\$ 5.6	3.8%
IHOP	218.2	204.9	13.3	6.5%
Total franchise revenues	372.2	353.3	18.9	5.3%
Franchise expenses				
Applebee's	4.9	4.1	(0.8)	19.2%
IHOP	97.3	92.1	(5.2)	5.7%
Total franchise expenses	102.2	96.2	(6.0)	6.2%
Franchise segment profit				
Applebee's	149.1	144.3	4.8	3.3%
IHOP	120.9	112.8	8.1	7.1%
Total franchise segment profit	\$ 270.0	\$ 257.1	\$ 12.9	5.0%
Segment profit as % of revenue	72.5%	72.8%		

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The increase in Applebee's franchise revenues was primarily attributable to higher royalties due to an increase in effective franchise restaurants of 91 units, the impact of a 53rd week of operations in 2009 and revenues from temporary liquor license agreements related to Applebee's company-operated restaurants in the Texas market that were franchised in October 2008, partially offset by a 4.4% decline in domestic same-store sales and a decline in franchise fees. The increase in effective restaurants was due to the franchising of 110 company-operated restaurants since the second quarter of 2008 while the decrease in franchise fees was due to fewer net franchise openings in 2009.

The increase in IHOP franchise revenue was primarily attributable to growth in effective franchise and area license restaurants of 59 units and the 53rd week of operations that impacted revenues from royalties, pancake and waffle dry mix sales and franchise advertising fees, partially offset by a decrease of 0.8% in same-store sales for IHOP franchise restaurants. Same-store sales declined as a higher average guest check was offset by a decline in guest traffic. The Company believes that the decline experienced in comparable guest traffic is reflective of the current adverse economic conditions affecting customers and impacting the restaurant industry as a whole.

The increase in IHOP franchise expenses is due to the costs of sales associated with the increased revenues from pancake and waffle dry mix sales and franchise advertising fees. Applebee's franchise expenses are relatively smaller than IHOP's due to advertising expenses. 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 and local advertising cooperatives constitute agency transactions and therefore are not recognized as franchise revenue and expense.

The 53rd week contributed additional franchise segment profit of approximately \$5.9 million in 2009.

Company Restaurant Operations

	<u>2009</u>	<u>2008</u>	<u>Favorable (Unfavorable) Variance</u>	<u>% Change</u>
	(In millions)			
Company restaurant sales	\$ 890.0	\$ 1,103.2	\$ (213.2)	19.3%
Company restaurant expenses	766.5	978.2	211.7	21.6%
Company restaurant segment profit	<u>\$ 123.5</u>	<u>\$ 125.0</u>	<u>\$ (1.5)</u>	<u>1.2%</u>
Segment profit as % of revenue	<u>13.9%</u>	<u>11.3%</u>		

As of December 31, 2009, Company restaurant operations were comprised of 399 Applebee's company-operated restaurants and 13 IHOP company-operated restaurants. The impact of the IHOP restaurants on all comparisons of fiscal 2009 with the same period of 2008 was negligible.

Company restaurant sales declined \$213.2 million. Applebee's company restaurant sales declined \$213.8 million, of which \$192.1 million was due to the franchising of 110 restaurants since the second quarter of 2008 and the full-year impact of three restaurant closures in 2008, in addition to a decrease in domestic same-store sales of 4.8%, partially offset by an increase of \$19.7 million due to the 53rd week. The change in same-store sales was driven mainly by a decline in guest traffic that was partially offset by a slightly higher average guest check. An increase of 2.7% in effective pricing was substantially offset by an unfavorable mix shift due to promotional campaigns and customer selection of, on average, lower-priced menu items. The Company believes that the decline in comparable guest traffic is reflective of the current adverse economic conditions affecting customers and impacting the restaurant industry as a whole.

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Company restaurant expenses declined \$211.7 million. Applebee's company restaurant expenses declined \$212.5 million, of which \$169.6 million was due to the franchising of 110 restaurants since the second quarter of 2008, and declined \$25.6 million due to the decrease in same-store sales. The operating margin for Applebee's company restaurant operations improved to 14.4% for 2009 from 11.7% for the same period of last year, as shown below:

<u>Restaurant Expenses as Percentage of Restaurant Sales (Applebee's)</u>	<u>2009</u>	<u>2008</u>	Favorable (Unfavorable)	
			<u>Variance</u>	
Food and beverage	26.2%	26.9%	0.7%	
Labor	33.3%	34.8%	1.5%	
Direct and occupancy	26.1%	26.7%	0.6%	
Total Company restaurant expenses(a)	85.6%	88.3%	2.7%	

(a) Percentages may not add due to rounding.

Margins across all cost categories were favorably affected by three factors: (a) effective pricing increases partially offset by an unfavorable mix shift (b) the franchising of company-operated restaurants which, as a group, operated at margins less than the average of the remaining company-operated restaurants and (c) the impact of the 53rd week. Improvements in specific cost categories were as follows:

- Food and beverage costs as a percentage of company restaurant sales decreased primarily due to increased vendor discounts and rebates partially offset by an increase in commodity costs.
- Labor costs as a percentage of restaurant sales benefited from a reduction in management incentive expense due to retention costs in 2008 that did not recur, improvements in hourly labor from effective wage rate management and improved productivity, and lower group insurance costs.
- Direct and occupancy costs as a percentage of company restaurant sales decreased primarily due to lower natural gas rates and lower depreciation and straight-line rent adjustments due to 2008 purchase price allocation adjustments.

The 53rd week contributed additional company restaurant segment profit of approximately \$4.9 million for Applebee's in 2009.

Rental Operations

	<u>2009</u>	<u>2008</u>	Favorable (Unfavorable)	
			<u>Variance</u>	<u>% Change</u>
	(In millions)			
Rental revenues	\$ 133.9	\$ 131.4	\$ 2.5	1.9%
Rental expenses	97.3	98.1	0.8	0.8%
Rental operations segment profit	\$ 36.6	\$ 33.3	\$ 3.3	9.8%
Segment profit as % of revenue	27.3%	25.3%		

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

Rental segment profit increased by \$3.3 million. Of that increase, \$2.4 million was due to the 53rd week in 2009, in addition to a slight decline in depreciation and interest expense.

Financing Operations

	<u>2009</u>	<u>2008</u>	<u>Favorable (Unfavorable) Variance</u>	<u>% Change</u>
	(In millions)			
Financing revenues	\$ 17.9	\$ 25.7	\$ (7.8)	30.4%
Financing expenses	0.4	7.3	6.9	94.9%
Financing operations segment profit	<u>\$ 17.5</u>	<u>\$ 18.4</u>	<u>\$ (0.9)</u>	<u>4.8%</u>
Segment profit as % of revenue	<u>97.9%</u>	<u>71.6%</u>		

All of our financing operations relate to IHOP restaurants. Both revenues and expenses declined as there was minimal revenue or expense related to the rehabilitation and refranchising of one restaurant during 2009 as compared with revenues and expenses of \$8.1 million and \$7.3 million, respectively, in 2008 related to the rehabilitation and refranchising of 14 restaurants. Additionally, franchise and equipment note interest declined due to the expected reduction in note balances, partially offset by a 53rd week of revenue in 2009.

The 53rd week contributed additional financing segment profit of approximately \$0.3 million in 2009.

Other Expense and Income Components

	<u>2009</u>	<u>2008</u>	<u>Favorable (Unfavorable) Variance</u>	<u>% Change</u>
	(In millions)			
General and administrative expenses	\$ 158.5	\$ 182.3	\$ 23.8	13.0%
Interest expense	186.5	203.2	16.7	8.2%
Impairment and closure charges	105.1	240.6	135.5	56.3%
Amortization of intangible assets	12.3	12.1	(0.2)	1.4%
Gain on extinguishment of debt	(45.7)	(15.2)	30.5	200.7%
(Gain) loss on disposition of assets	(6.9)	0.3	7.2	n.m.
Other expense (income)	1.3	(1.2)	(2.5)	207.0%
Income tax provision (benefit)	5.2	(33.7)	(38.9)	115.4%

n.m.—percentage change not meaningful

General and Administrative Expenses

General and administrative expenses declined \$23.7 million, primarily as the result of savings related to franchising of Applebee's company-operated restaurants, integration of Applebee's and IHOP administrative functions, other cost reduction initiatives and lower stock-based compensation expense. Additionally, transition-related costs recorded in 2008 did not recur. These favorable items were partially offset by \$3.0 million of development incentive credits related to the Applebee's support center in 2008 that also did not recur in 2009 and higher litigation expenses.

Interest Expense

The \$16.7 million decrease in interest expense is primarily due to the retirement of long-term debt over the past 12 months and, to a lesser extent, to lower interest rates on variable-rate debt. Average long-term obligations (long-term debt, capital lease obligations and financing obligations) declined

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\$0.15 billion to \$2.25 billion for 2009 from \$2.40 billion during 2008. Additionally, the weighted average interest rate on variable rate debt was approximately 2.5% for 2009 compared to 4.7% for 2008.

Impairment and Closure Charges

Impairment and closure charges for the years ended December 31, 2009 and 2008 were as follows:

	Year Ended	
	December 31,	
	2009	2008
	(In millions)	
Goodwill impairment	\$ —	\$ 124.8
Tradenname impairment	93.5	44.1
Long-lived tangible asset impairment	10.4	71.4
Closure charges	1.2	0.3
Total impairment and closure charges	\$ 105.1	\$ 240.6

Goodwill

In accordance with U.S GAAP, goodwill must be evaluated for impairment, at a minimum, on an annual basis, and more frequently if the Company believes indicators of impairment exist. Such indicators include, but are not limited to, events or circumstances such as a significant adverse change in the business climate, unanticipated competition, a loss of key personnel, adverse legal or regulatory developments, or a significant decline in the market price of the Company's common stock. In the process of the annual impairment review, we primarily use the income approach method of valuation that uses a discounted cash flow model to estimate the fair value of reporting units. Significant assumptions used in the discounted cash flow model include future trends in sales, operating expenses, overhead expenses, depreciation, capital expenditures, and changes in working capital, along with an appropriate discount rate. During the course of fiscal 2009, we made periodic assessments as to whether there were indicators of impairment, particularly with respect to the significant assumptions underlying the discounted cash flow model, and determined an interim test of goodwill was not warranted. Accordingly, we performed the annual test of goodwill impairment in the fourth quarter of 2009. In performing the test, the Company revised downwards the same-store sales change assumption in its five-year forecast that had been used in the prior year. The Company also revised downward the assumed discount rate. In performing the first step of the impairment test, the estimated fair value of both the IHOP and Applebee's franchised restaurant units exceeded their respective carrying values and it was concluded there was no impairment of goodwill. The goodwill that had been allocated to the Applebee's company-operated restaurants unit was fully impaired in 2008.

A significant majority of our goodwill arose from the November 29, 2007 acquisition of Applebee's; \$10.8 million of goodwill resulted from a prior transaction related to the IHOP franchised restaurants unit. We allocated the goodwill from the acquisition to two reporting units, the Applebee's company-operated restaurants unit (the "Company unit") and the Applebee's franchised restaurants unit ("Applebee's franchise unit"). Consistent with our intent to franchise the significant majority of the company-operated Applebee's restaurants acquired, we determined the fair value of the Company unit for purposes of assigning goodwill to be the estimated sales value of the restaurants, the value that a market participant would have paid to purchase the restaurants on the day following the acquisition. The fair value of the Company unit was based on a multiple of approximately six times the operating cash flow for the trailing twelve months of the Company unit. This multiple was supported by actual refranchising transactions negotiated within a month after the acquisition. The fair value of the franchise unit was determined using a discounted cash flow based on forecast royalty revenues from the franchise operations. These fair values, which reconciled to the overall purchase price paid to acquire

Applebee's, were then used to assign goodwill between the reporting units as the excess of the estimated fair value over the carrying value (as of November 29, 2007) of each reporting unit.

During the course of fiscal 2008, we made periodic assessments as to whether there were indicators of impairment, particularly with respect to the significant assumptions underlying the discounted cash flow model. Those assessments included consideration of the uncertainty with respect to the depth and duration of the economic slowdown and the timing of a recovery, and the fact that the Company was in the process of implementing several initiatives designed to improve Applebee's same-store-sales and margin performance. These assessments concluded that the sales forecasts being used to assess potential impairment were achievable within ranges that did not indicate impairment. We therefore determined an interim test of goodwill during the first three quarters of 2008 was not warranted.

In the fourth quarter of 2008, we performed the annual test for impairment of goodwill, utilizing a discounted cash flows model of the income approach as described above. The impairment test of goodwill of the two Applebee's units was performed as of October 31, 2008. The impairment test of the goodwill of the IHOP unit was performed as of December 31, 2008, the date as of which the analysis has been performed in prior years. Towards the latter part of 2008, while there was still considerable uncertainty with respect to the economic slowdown, the prevailing view was that a recovery was not likely to begin until the latter half of 2009 or early 2010. Therefore, during the fourth quarter of 2008, we revised downward our forecasted sales assumption for 2009 which also impacted the assumed cash flows for both 2009 and the following 2010-2013 time period due to an assumed lower base from which the 2010-2013 time period had originally been projected. We also revised our projections with respect to both the estimated timing and estimated proceeds to be received from the franchising of Applebee's company-operated restaurants.

The first step of the impairment test compared the fair value of each of our reporting units to their carrying value. Based on this first step, we concluded that the fair value of the IHOP unit and the Applebee's franchise unit was in excess of their respective net carrying values and no impairment of goodwill was warranted. However, because of downward revisions to the 2009-2013 sales forecast and to franchising proceeds, the fair value of the Applebee's company unit was less than the net carrying value of its assets assigned, requiring the second step of the impairment test. In performing the second step of the impairment test we concluded that the goodwill allocated to the Applebee's company unit was fully impaired and an impairment charge of \$113.5 million was recorded. No tax benefit was associated with the impairment of goodwill.

Subsequent to the annual test of impairment as of October 31, 2008, the commercial real estate market continued to weaken, the credit markets continued constrained, economic forecasts were uncertain as to how long the recessionary period would last, and the company's stock price declined. We concluded an interim test of goodwill of the Applebee's franchise unit was warranted. We again revised the significant assumptions underlying the discounted cash flow model and updated our impairment analysis of the Applebee's franchise unit as of December 31, 2008. The Company determined the fair value of the Applebee's franchise unit was still in excess of its carrying value as of December 31, 2008 and no impairment was required.

Tradename Impairment

In accordance with U.S. GAAP, indefinite-lived intangible assets must be evaluated for impairment, at a minimum, on an annual basis, and more frequently if the Company believes indicators of impairment exist. Such indicators include, but are not limited to, events or circumstances such as a significant adverse change in the business climate, unanticipated competition, a loss of key personnel, adverse legal or regulatory developments, or a significant decline in the market price of the Company's common stock. In performing the impairment review of the tradename intangible asset, the Company

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primarily uses the relief of royalty method under the income approach method of valuation. Significant assumptions used to determine fair value under the relief of royalty method include future trends in sales, a royalty rate and a discount rate to be applied to the forecast revenue stream. During the course of fiscal 2009, the Company made periodic assessments as to whether there were indicators of impairment, particularly with respect to the significant assumptions noted above. In the first half of the year, same-store sales trends were within the range of the forecast used in the assessment. During the third quarter of 2009, same-store sales trended below the forecast range; however, during 2009 there were also indications that a lessening of underlying risk might result in a lower discount rate as well. As a result of these assessments, the Company determined an interim test of indefinite-lived intangibles was not necessary.

During the fourth quarter of 2009, the Company performed the annual test of impairment for indefinite-lived intangibles, primarily the Applebee's tradename assigned in the purchase price allocation. The Company revised downwards two key assumptions in its five-year forecast: the same-store sales change and the assumed discount rate. All other assumptions used in the relief from royalty calculation were unchanged from the prior year. As the result of the revised assumptions, the estimated fair value of the tradename was less than the carrying value and an impairment of \$93.5 million was recognized, along with a related tax benefit of \$37.2 million.

During the fourth quarter of 2008, the Company performed an impairment test of its indefinite-lived intangible assets, primarily the Applebee's tradename assigned in the purchase price allocation. We utilized the relief from royalty method under the income approach to determine the fair value of the tradename. We determined the fair value of the tradename as of December 31, 2008 was less than the carrying value. An impairment charge of \$44.1 million was recorded with a tax benefit of \$17.3 million associated with the charge.

Long-lived Tangible Asset Impairment

On a quarterly basis, the Company assesses whether events or changes in circumstances have occurred that potentially indicate the carrying value of tangible long-lived assets may not be recoverable. Recoverability of a restaurant's assets is measured by comparing the assets' carrying value to the undiscounted future cash flows expected to be generated over the assets' remaining useful life or remaining lease term, whichever is less. If the total expected undiscounted future cash flows are less than the carrying amount of the assets, this may be an indicator of impairment. If it is decided that there has been an impairment, the carrying amount of the asset is written down to the estimated fair value. The fair value is determined by discounting the future cash flows based on our cost of capital.

In performing these assessments throughout 2009, the Company recognized impairments of long-lived tangible assets of \$10.4 million. The impaired assets comprised three IHOP company-operated restaurants, various assets related to one IHOP franchise restaurant, one Applebee's company-operated restaurant, a write-down to the estimated sales value based on a current letter of intent of one Applebee's restaurant that had been closed in a prior period and included in assets held for sale as of December 31, 2008 and four parcels of Applebee's real estate. The Company had fee ownership of the properties on which four Applebee's company-operated restaurants were located. These restaurants were franchised in the fourth quarter of 2008 but the Company retained ownership of the land and continued to lease the property to the franchisee. The Company's strategy does not contemplate retaining such properties as a lessor on a long-term basis. During the third quarter of 2009, the Company determined the properties met the requirements under U.S. GAAP to be reclassified as assets held for sale. The properties were written down to the estimated fair value that will be received upon sale. The Company evaluated the causal factors of all impairments of long-lived assets as they were recorded during 2009 and concluded they were based on factors specific to each asset and were not potential indicators of an impairment of goodwill, indefinite-lived intangible assets or other long-lived assets. Closure costs of \$1.2 million related to two IHOP franchise restaurants.

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In June 2008, the Company entered into a sale-leaseback transaction relating to 181 parcels of real estate comprising land, buildings and improvements. The net book value of the real estate exceeded the proceeds received by \$40.6 million. All of the parcels involved in the transactions had been acquired in the November 29, 2007 acquisition of Applebee's and their estimated fair value was assigned as part of the purchase price allocation as of that date. The Company evaluated events subsequent to November 29, 2007 and noted a deterioration in both the domestic real estate and credit markets between the date of the purchase price allocation and the June 2008 closing date of the sale-leaseback transactions. In the absence of objective evidence to the contrary, the Company concluded that the estimated fair value of the real estate determined in the purchase price allocation had been reasonable, and the decline in value related primarily to market events subsequent to the acquisition date necessitating an impairment charge as opposed to an adjustment to the allocated purchase price.

The Company evaluated whether this charge, in addition to other macroeconomic data and the decline in the market price of the Company's common stock, were indicators of potential impairment of its goodwill, intangible assets and long-lived assets. The Company concluded that they were not indicators, because (i) the impairment charge was related to a specific transaction that resulted in the disposal of the majority of the Company's real estate; (ii) Applebee's June 30, 2008 year-to-date same-store sales for company-operated stores had increased slightly compared with the same period of the prior year; (iii) while directionally the U.S. economy was slowing down, there was considerable uncertainty as to the depth and duration of the slowdown, such that the Company believed its internal forecasts of same-store sales growth were achievable; and (iv) the Company's net book value was in excess of its market capitalization throughout the period up to and including the date of filing its Form 10-Q for the Quarterly Period ending June 30, 2008.

As part of the ongoing assessment of the recoverability of its long-lived assets, the Company recorded impairment charges of \$28.3 million for the three-month period ended September 30, 2008. Of that amount, \$26.8 million related to Applebee's properties and primarily resulted from a continuing deterioration in credit markets in general and a decline in operating results of Applebee's company-operated restaurants expected to be franchised in particular geographic areas. The remainder of the impairment related to an individual underperforming IHOP property whose estimates of future cash flows indicated that the carrying value would not be recovered.

The Company again evaluated whether the impairment charges taken in the third quarter of 2008, in addition to other macroeconomic data and the decline in the market price of the Company's common stock, were an indicator of potential impairment of its goodwill, intangible assets and long-lived assets. The Company concluded that they were not an indicator, because (i) the impairments were related to specific transactions in three geographic markets characterized as having a larger proportion of underperforming restaurants than the other geographic markets in which the remaining company-operated restaurants are located; (ii) while Applebee's year-to-date September 30, 2008 same-store sales for company-operated stores had decreased slightly compared with the same period of the prior year, the Company was in the process of implementing several initiatives designed to improve the same-store sales and did not believe there had been enough time to adequately assess the effectiveness of those initiatives; (iii) while economic data confirmed that the U.S. economy had been recessionary since December of 2007, there was still considerable uncertainty as to the depth and duration of the slowdown, and although Applebee's year-to-date same-store sales were lower than the prior period, Applebee's decline had been less than its competitors, such that the Company believed its internal forecasts of same-store sales growth were achievable; and (iv) the Company's net book value was in excess of its market capitalization throughout the third quarter ended September 30, 2008, and while the market capitalization did decline below the Company's net book value subsequent to September 30, 2008, by the October 31, 2008 date of filing its Form 10-Q for the Quarterly Period ending September 30, 2008, the Company's net book value was in excess of its market capitalization.

Gain on Extinguishment of Debt

During 2009 and 2008, we recognized the following gains on the early retirement of debt:

Transaction Date	Instrument	Face Amount		Gain ⁽¹⁾
		Retired	Cash Paid	
(In millions)				
March, 2009	Class A-2-II-X	\$ 78.4	\$ 49.0	\$ 26.4
May, 2009	Class A-2-II-A	35.2	24.3	9.6
June, 2009	Class A-2-II-X	15.6	12.1	2.8
November, 2009	Class A-2-II-X	53.4	46.5	5.3
December, 2009	Class A-2-II-X	17.0	15.0	1.6
	Total 2009	\$ 199.6	\$ 146.9	\$ 45.7
August, 2008	Class A-2-II-X	\$ 23.5	\$ 20.0	\$ 2.4
October, 2008	Class A-2-II-X	35.2	20.0	12.8
	Total 2008	\$ 58.7	\$ 40.0	\$ 15.2

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

The Company intends to continue to dedicate a portion of excess cash flow towards opportunistic debt retirement. However, the difference between the face amount of debt retired and the amount we have paid has decreased over time and it is likely that gains on future extinguishments of debt, as a percentage of the face amount retired, will be smaller than the average gain recognized in 2008 and 2009, if they occur at all.

(Gain) Loss on Disposition of Assets

The Company recognized a gain on disposition of assets of \$6.9 million in 2009, primarily related to the franchising of seven Applebee's restaurants in the New Mexico market and sale of a parcel of land held by IHOP.

Other Expense (Income)

In 2009, other items of income and expense netted to an expense of \$1.3 million compared to income of \$1.2 million in 2008. The primary reason for the change was lower interest income resulting from significantly lower interest rates on U.S. Treasury-based investments.

Provision for Income Taxes

We recognized a tax provision of \$5.2 million in 2009 as compared to a tax benefit of \$33.7 million in 2008. The change was primarily due to the increase in our pretax book income. The 2009 effective tax rate of 14.1% applied to pretax book income was lower than the statutory Federal tax rate of 35% primarily due to tax credits and changes in tax rates, state tax laws and unrecognized tax benefits, partially offset by state income taxes and changes in the tax asset valuation allowance. The tax credits are primarily FICA tip and other compensation-related tax credits associated with Applebee's company-owned restaurant operations and credits associated with the Applebee's Restaurant Support Center in Lenexa, Kansas.

Comparison of the fiscal years ended December 31, 2008 and 2007

Our 2008 financial results were significantly impacted by (i) the inclusion of twelve months of Applebee's operations as compared with one month in fiscal 2007; (ii) impairment charges related to goodwill, intangible assets and real property; (iii) increased interest expense on \$2.3 billion worth of

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funded debt; and (iv) a loss on a derivative financial instrument in 2007 that did not recur in 2008. In comparing the Company's financial results for 2008 to those in 2007, we note:

- Total revenues increased \$1.1 billion from \$0.5 billion in 2007 to \$1.6 billion in 2008, with revenues from Applebee's company restaurant sales comprising more than two-thirds of total revenue.
- Segment profit for fiscal 2008 increased \$254.4 million, comprised as follows:

Franchise operations	\$ 139.4
Company restaurant operations	116.6
Rental operations	(0.7)
Financing operations	(0.9)
Total segment profit	\$ 254.4

The increase was primarily due to the inclusion of twelve months of Applebee's operations as compared with one month in fiscal 2007, an increase in the number of IHOP effective franchise restaurants and a 3.5% increase in same-store sales for IHOP franchise restaurants.

- General and administrative expenses decreased as a percentage of total revenues from 16.8% in 2007 to 11.3% in 2008.

Franchise Operations

	<u>2008</u>	<u>2007</u>	<u>Favorable (Unfavorable) Variance</u>
	(In millions)		
Franchise Revenues			
Applebee's	\$ 148.4	\$ 14.2	\$ 134.2
IHOP	204.9	191.6	13.4
Total franchise revenues	<u>353.3</u>	<u>205.8</u>	<u>147.6</u>
Franchise Expenses			
Applebee's	4.1	0.2	(4.0)
IHOP	92.1	87.9	(4.2)
Total franchise expenses	<u>96.2</u>	<u>88.1</u>	<u>(8.2)</u>
Franchise Segment Profit			
Applebee's	144.3	14.0	130.3
IHOP	112.8	103.7	9.1
Total franchise segment profit	<u>\$ 257.1</u>	<u>\$ 117.7</u>	<u>\$ 139.4</u>

Consolidated franchise revenues grew by \$147.6 million or 71.7% in 2008 as compared to 2007, with \$134.2 million of the increase due to the Applebee's acquisition (see "Pro Forma Comparison of the fiscal years ended December 31, 2008 and 2007—Applebee's"). In addition, IHOP franchise revenues increased \$13.4 million, or 7.0%, in 2008 compared to 2007. The growth in IHOP franchise revenues was primarily due to a 5.9% increase in total IHOP franchise restaurant sales that was primarily attributable to the following:

- effective IHOP franchise restaurants increased by 3.9%; and
- same-store sales for IHOP franchise restaurants increased by 1.5%.

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Franchise restaurant retail sales are sales recorded at restaurants that are owned by franchisees and area licensees and are not attributable to the Company. Franchise restaurant retail sales are useful in analyzing our franchise revenues because franchisees and area licensees pay us royalties and other fees that are generally based on a percentage of their sales. "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. IHOP effective franchise restaurants increased to 1,189 units, an increase of 45 due to net new restaurant openings in 2008 and the annualized effect of new restaurant development in 2007.

Consolidated franchise expenses increased by \$8.2 million in 2008 as compared to 2007, which was due to the increase in franchise expenses for IHOP restaurants of \$4.2 million and the inclusion of twelve months of Applebee's franchise expenses in 2008 as opposed to one month in 2007. IHOP franchise expenses such as advertising and the cost of proprietary products are related to IHOP franchise restaurant retail sales. The increase in IHOP franchise expenses was primarily a result of the 5.9% increase in IHOP franchise restaurant retail sales, in addition to an increase in the amount of financial relief granted to IHOP franchisees. These increases were partially offset by lower bad debt expense. Applebee's franchise expenses are relatively smaller than IHOP's due to advertising expenses. Franchise fees designated for IHOP's national advertising fund and local marketing and advertising cooperatives are recognized as revenue and expense of franchise operation; however, Applebee's national advertising fund and local advertising cooperatives constitute agency transactions and therefore are not recognized as franchise revenue and expense.

Consolidated franchise operations profit increased by \$139.4 million in the 2008 compared to 2007. This increase was due primarily to the Applebee's acquisition. IHOP franchise operations profit as a percentage of revenue increased from 54.1% to 55.1%, or \$9.1 million, in 2008 compared to 2007.

Company Restaurant Operations

	<u>2008</u>	<u>2007</u>	<u>Favorable (Unfavorable) Variance</u>
	<u>(In millions)</u>		
Company restaurant sales	\$ 1,103.2	\$ 125.9	\$ 977.3
Company restaurant expenses	978.2	117.5	(860.7)
Company restaurant segment profit	<u>\$ 125.0</u>	<u>\$ 8.4</u>	<u>\$ 116.6</u>

Total company restaurant sales increased in 2008 by \$977.3 million as compared to 2007. The increase in total company restaurant sales was due to the Applebee's acquisition which contributed \$979.3 million of the increase. The company restaurant expenses increased by \$860.7 million as compared to 2007. This increase was due to Applebee's, which contributed \$863.2 million of the increase (see "Pro Forma Comparison of the fiscal years ended December 31, 2008 and 2007—Applebee's").

IHOP company restaurant operations, which are essentially research and development restaurants and restaurants reacquired from franchisees that are operated on a temporary basis, were relatively unchanged from the prior year. IHOP company restaurant sales and cost of sales were lower in 2008 as compared to 2007 due to two fewer effective restaurants, resulting in a slightly lower segment loss.

Rental Operations

	<u>2008</u>	<u>2007</u>	<u>Favorable (Unfavorable) Variance</u>
	<u>(In millions)</u>		
Rental revenues	\$ 131.4	\$ 132.4	\$ (1.0)
Rental expenses	98.1	98.4	0.3
Rental operations segment profit	<u>\$ 33.3</u>	<u>\$ 34.0</u>	<u>\$ (0.7)</u>

Rental operations profit, which is rental income less rental expenses, decreased by \$0.7 million or 2.1% in 2008 as compared to 2007. Rental operations profit was impacted by the write-off of deferred rent resulting from terminated subleases on restaurants reacquired in 2008. Deferred rent on operating subleases is the difference between straight-line rent and the actual amount received. Straight-line rent is the amount of rent over the full lease term spread over equal monthly amounts.

Prior to 2008, rental operations were exclusively related to IHOP. As the result of several transactions related to the franchising of Applebee's company-operated restaurants, Applebee's now has rental income. The amount of Applebee's rental income in 2008 was \$58,000 offset by \$28,000 of expense. The activity relates only to the franchising of the restaurants; Applebee's is not entering into rental operations similar to those of IHOP.

Financing Operations

	<u>2008</u>	<u>2007</u>	<u>Favorable (Unfavorable) Variance</u>
	<u>(In millions)</u>		
Financing revenues	\$ 25.7	\$ 20.5	\$ 5.2
Financing expenses	7.3	1.2	(6.1)
Financing operations segment profit	<u>\$ 18.4</u>	<u>\$ 19.3</u>	<u>\$ (0.9)</u>

Financing operations profit, which is financing revenues less financing expenses, is exclusively attributable to the IHOP business unit. In 2008, financing operations profit decreased by \$0.9 million compared to 2007. This decrease was primarily attributable to the decrease in franchise and equipment note interest due to the expected reduction in franchise fee note balances. These decreases were partially offset by an increase in net profit margin on the sale of franchises and equipment associated with company-developed and rehabilitated and refranchised restaurants. In 2008, the Company had a net profit margin of \$0.6 million associated with 14 refranchised restaurants, compared to a margin of \$0.1 million associated with four refranchised restaurants in 2007.

General and Administrative Expenses

General and administrative expenses increased by \$100.6 million or 123.3% in 2008 compared to the prior year, primarily due to the inclusion of twelve months of Applebee's expenses in 2008 as opposed to one month in 2007. The full year of Applebee's expenses represented \$89.6 million of the increase. The remainder of the increase was primarily due to litigation settlements of \$4.7 million, and increased professional and consulting services of \$5.3 million, primarily related to the ongoing integration of Applebee's. The Company expects that general and administrative expenses will decrease in 2009 due to (i) the planned refranchising of approximately 200 Applebee's company-operated restaurants and (ii) cost-cutting measures implemented in February 2009.

Interest Expense

Interest expense increased by \$174.5 million in 2008 compared to 2007, primarily attributable to a full year of interest expense associated with the debt incurred for the acquisition as compared to one month in 2007. Interest expense in 2008 was comprised primarily of interest on acquisition-related debt of \$147.6 million; interest on Applebee's financing obligations related to sales- leaseback transactions of \$14.4 million; non-cash amortization of deferred financing costs of \$26.1 million; and non-cash amortization of the loss on the effective portion of an interest rate swap of \$12.8 million.

Impairment and Closure Charges

Impairment and closure charges increased significantly to \$240.6 million in 2008 compared to \$4.4 million in 2007, with closure charges representing \$0.3 million and \$1.1 million for the years ended December 31, 2008 and 2007, respectively.

In June 2008, the Company entered into a sale-leaseback transaction relating to 181 parcels of real estate comprising land, buildings and improvements. The net book value of the real estate exceeded the proceeds received by \$40.6 million. All of the parcels involved in the transactions had been acquired in the November 29, 2007 acquisition of Applebee's and their estimated fair value was assigned as part of the purchase price allocation as of that date. The Company evaluated events subsequent to November 29, 2007 and noted a deterioration in both the domestic real estate and credit markets between the date of the purchase price allocation and the June 2008 closing date of the sale-leaseback transactions. In the absence of objective evidence to the contrary, the Company concluded that the estimated fair value of the real estate determined in the purchase price allocation had been reasonable, and the decline in value related primarily to market events subsequent to the acquisition date necessitating an impairment charge as opposed to an adjustment to the allocated purchase price.

The Company evaluated whether this charge, in addition to other macroeconomic data and the decline in the market price of the Company's common stock, were indicators of potential impairment of its goodwill, intangible assets and long-lived assets. The Company concluded that they were not indicators, because (i) the impairment charge was related to a specific transaction that resulted in the disposal of the majority of the Company's real estate; (ii) Applebee's June 30, 2008 year-to-date same-store sales for company-operated stores had increased slightly compared with the same period of the prior year; (iii) while directionally the U.S. economy was slowing down, there was considerable uncertainty as to the depth and duration of the slowdown, such that the Company believed its internal forecasts of same-store sales growth were achievable; and (iv) the Company's net book value was in excess of its market capitalization throughout the period up to and including the date of filing its Form 10-Q for the Quarterly Period ending June 30, 2008.

As part of the ongoing assessment of the recoverability of its long-lived assets, the Company recorded impairment charges of \$28.3 million for the three-month period ended September 30, 2008. Of that amount, \$26.8 million related to Applebee's properties and primarily resulted from a continuing deterioration in credit markets in general and a decline in operating results of Applebee's company-operated restaurants expected to be franchised in particular geographic areas. The remainder of the impairment related to an individual underperforming IHOP property whose estimates of future cash flows indicated that the carrying value would not be recovered.

The Company again evaluated whether the impairment charges taken in the third quarter of 2008, in addition to other macroeconomic data and the decline in the market price of the Company's common stock, were an indicator of potential impairment of its goodwill, intangible assets and long-lived assets. The Company concluded that they were not an indicator, because (i) the impairments were related to specific transactions in three geographic markets characterized as having a larger proportion of underperforming restaurants than the other geographic markets in which the remaining company-operated restaurants are located; (ii) while Applebee's year-to-date September 30, 2008

same-store sales for company-operated stores had decreased slightly compared with the same period of the prior year, the Company was in the process of implementing several initiatives designed to improve the same-store sales and did not believe there had been enough time to adequately assess the effectiveness of those initiatives; (iii) while economic data confirmed that the U.S. economy had been recessionary since December of 2007, there was still considerable uncertainty as to the depth and duration of the slowdown, and although Applebee's year-to-date same-store sales were lower than the prior period, Applebee's decline had been less than its competitors, such that the Company believed its internal forecasts of same-store sales growth were achievable; and (iv) the Company's net book value was in excess of its market capitalization throughout the third quarter ended September 30, 2008, and while the market capitalization did decline below the Company's net book value subsequent to September 30, 2008, by the October 31, 2008 date of filing its Form 10-Q for the Quarterly Period ending September 30, 2008, the Company's net book value was in excess of its market capitalization.

In the fourth quarter of 2008, the Company completed its annual test for impairment of goodwill. We utilized a discounted cash flows model of the income approach to assess the fair value of our three reporting units, the IHOP franchised restaurants unit ("IHOP unit"), Applebee's company-operated restaurants unit ("Applebee's company unit") and Applebee's franchised restaurants unit ("Applebee's franchise unit"). The impairment test of goodwill of the two Applebee's units which hold the significant majority of the total goodwill was performed as of October 31, 2008. The impairment test of the goodwill of the IHOP unit was performed as of December 31, 2008, the date as of which the analysis has been performed in prior years.

The first step of the impairment test compared the fair value of each of our reporting units to their carrying value. Significant assumptions used to determine fair value under the discounted cash flows model include future trends in sales, operating expenses, overhead expenses, depreciation, capital expenditures and changes in working capital along with an appropriate discount rate. Additional assumptions were made as to proceeds to be received from future franchising of company-operated restaurants. Based on this first step, we concluded that the fair value of the IHOP unit and the Applebee's franchise unit was in excess of their respective net carrying values and no impairment of goodwill was warranted. However, the fair value of the Applebee's company unit was less than the net carrying value of its assets assigned, requiring the second step of the impairment test. In performing the second step of the impairment test we concluded that the goodwill allocated to the Applebee's company unit was fully impaired and an impairment charge of \$113.5 million was recorded. No tax benefit is associated with the impairment of goodwill.

During the fourth quarter of 2008 the commercial real estate market continued to weaken, the credit markets continued to be constrained, economic forecasts were uncertain as to how long the recessionary period would last, and the company's stock price declined. The Company revised the significant assumptions underlying the discounted cash flows model and updated its impairment analysis of the Applebee's franchise unit. The Company determined the fair value of the Applebee's franchise unit was in excess of its carrying value as of December 31, 2008.

In addition, the Company performed an impairment test of its indefinite-lived intangible assets, primarily the Applebee's tradename assigned in the purchase price allocation. We utilized the relief from royalty method under the income approach to determine the fair value of the tradename. We determined the fair value of the tradename as of December 31, 2008 was less than the carrying value. An impairment charge of \$44.1 million was recorded with a tax benefit of \$17.3 million associated with the charge.

Impairment and closure charges in 2007 included the impairment of long lived assets for three restaurants closed in 2007, and impairment losses on two restaurants in which the reacquisition values exceeded the historical resale values. The decision to close or impair the restaurants in 2007 was a result of a comprehensive analysis that examined restaurants not meeting minimum return on

investment thresholds and certain other operating performance criteria. The assets for these restaurants were written down to their estimated fair value.

Amortization of Intangible Assets

Amortization of intangible assets was \$12.1 million and \$1.1 million for the years ended December 31, 2008 and 2007, respectively. The increase was due to the inclusion of twelve months of amortization in 2008 as compared to one month in 2007. The amortization relates to intangible assets with finite lives, primarily franchising rights, recorded as part the allocation of the Applebee's purchase price.

(Gain) Loss on Extinguishment of Debt

In August 2008, the Company retired certain Series 2007-1 Class A-2-II-A Fixed Rate Term Senior Notes due December 2037 with a face amount of \$23.5 million for a cash payment of \$20.0 million. The transaction resulted in a gain of \$2.4 million after the write-off of the discount and deferred financing costs related to the debt retired.

In October 2008, the Company retired certain Series 2007-1 Class A-2-II-X Fixed Rate Term Senior Notes due December 2037 with a face amount of \$35.2 million for a cash payment of \$20.0 million. The Company recognized a gain on extinguishment of debt of approximately \$12.8 million after the write-off of the discount and deferred financing costs related to the debt retired.

The loss on extinguishment of debt of \$2.2 million in 2007 resulted from early debt retirement with funds generated by the securitization transactions for IHOP. These costs include the write-off of deferred financing costs in the amount of \$1.0 million, and \$1.2 million for prepayment penalties as a result of paying off IHOP's pre-existing debt.

Loss on Derivative Financial Instrument

As further described under "Liquidity and Capital Resources," we entered into a swap arrangement in July 2007. We terminated the swap arrangement upon the consummation of the Applebee's acquisition on November 29, 2007. Settlement of the swap resulted in a loss related to the decline in fair value of the undesignated portion of the hedge of \$62.1 million for 2007. No such transaction occurred in 2008.

Provision for Income Taxes

We recognized a tax benefit of \$33.7 million in 2008 as compared to a tax benefit of \$2.2 million in 2007. The change was primarily due to the decrease in our pretax book income, partially offset by impairment of non-deductible goodwill.

Pro Forma Comparison of the fiscal years ended December 31, 2008 and 2007—Applebee's

The following section illustrates certain financial results of Applebee's on a stand-alone basis comparing 2008 as consolidated into the Company with 2007 information comprised of the 11-month data from Applebee's prior to the acquisition date of November 29, 2007 and the one-month data of Applebee's subsequent to the acquisition date ("Pro Forma 2007").

Results of Operations—2008 with Pro Forma 2007

	<u>2008</u>	<u>2007</u>
		<u>(Pro Forma)</u>
	(In millions)	
Franchise revenues	\$ 148.4	\$ 143.7
Company restaurant sales	1,088.1	1,158.5
Franchise expenses	4.1	1.5
Company restaurant expenses	961.0	1,039.1
General and administrative expenses	101.8	199.5

Franchise Operations

Applebee's franchise revenues in 2008 increased 3.3% from \$143.7 million to \$148.4 million as compared to pro forma 2007, primarily due to an increase in effective restaurants from 1,429 restaurants in 2007 to 1,504 restaurants in 2008 and \$1.7 million of revenue on temporary liquor agreements on company-operated restaurants in the Texas market that were franchised in October 2008. The increase in effective restaurants was mainly due to the company stores franchised during 2008 and new store openings in 2008. This increase was partially offset by a decrease in franchise domestic same-store sales of 2.4% in 2008 as compared to 2007.

Applebee's franchise expenses in 2008 increased from \$1.5 million to \$4.1 million as compared to pro forma 2007. This increase was due primarily to \$1.6 million of expenses related to temporary liquor agreements on the Texas restaurants noted above and \$0.9 million increase in claims expense recognized related to the captive insurance subsidiary.

Company Restaurant Operations

Applebee's company restaurant sales for the full fiscal year in 2008 decreased 6.1% from pro forma \$1,158.5 million in 2007 to \$1,088.1 million in 2008. This decrease was due primarily to the decrease in effective restaurants of 5.3% from 513 restaurants in 2007 to 486 restaurants in 2008 due to the franchising of company stores during 2008 and a decrease in company same-store sales of 1.3% in 2008 as compared to 2007. The decrease in same-store sales is driven mainly by decline in guest traffic partially offset by an increase in average guest check. The Company believes that the decrease experienced in comparable guest traffic is reflective of the current economic conditions impacting consumers. The increase in average guest check is due to menu price increases and a favorable mix shift.

Applebee's company restaurant operations profit for 2008 increased by \$7.7 million from \$119.4 million in 2007 to \$127.1 million in 2008. The components of company restaurant expenses, as a percentage of company restaurant sales, were as follows:

	<u>2008</u>	<u>2007</u>	<u>Variance</u>
		<u>(Pro forma)</u>	
Food and beverage	26.9%	26.9%	0.0%
Labor	34.8	34.9	0.1
Direct and occupancy	26.7	27.8	1.1
Pre-opening expense	0.0	0.2	0.2
Total Cost of Company Restaurant Sales(a)	88.3%	89.7%	1.4%

(a) Percentages may not add due to rounding.

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Total food and beverage costs as a percent of company restaurant sales were flat in 2008 as compared to 2007. Food usage was impacted by increased commodity costs but offset by price increases and food cost improvement initiatives.

Total labor costs as a percent of company restaurant sales decreased by 0.1% in 2008 as compared to 2007. The decrease in 2008 was due primarily to reductions in hourly labor costs as a percentage of sales due to an increased guest check offset by higher management incentive compensation driven by a more costly bonus program in place during the first fiscal quarter of 2008.

Direct and occupancy costs decreased by 1.1% in 2008 as compared to 2007 due primarily to favorable depreciation expense, which resulted from purchase price allocations related to Applebee's acquisition and the reclassification of restaurants into assets held for sale, partially offset by an increase in rent expense and smallwares associated with purchase accounting and unfavorable utility expense. Pre-opening expense decreased by 0.2% in 2008 as compared to 2007 due to opening one company restaurant in early 2008 as compared to 14 in 2007. We do not currently plan to open any domestic company-operated restaurants in the foreseeable future.

Rental Operations

As the result of several transactions related to the franchising of Applebee's company-operated restaurants, Applebee's now has rental income. The amount of Applebee's rental income in 2008 was \$58,000 offset by \$28,000 in expenses. This activity relates only to the franchising of the restaurants; Applebee's is not entering into rental operations similar to those of IHOP.

General and Administrative Expenses

General and administrative expenses as a percentage of sales decreased from 15.3% in 2007 to 8.2% in 2008. The decrease was due primarily to the non-recurrence of stock-based compensation and severance costs incurred in connection with the Applebee's acquisition as well as non-recurrence of costs related to the exploration of strategic alternatives for enhancing shareholder value.

Liquidity and Capital Resources of the Company

The acquisition of Applebee's in November 2007 had a significant impact on the liquidity and capital resources of the Company. While the addition of Applebee's increased our cash flow from operations, a significant portion of the increase was consumed by interest payments on \$2.3 billion of indebtedness incurred to finance the acquisition. Cash paid for interest was \$166.4 million in 2009 and \$194.8 million in 2008 as compared to \$31.3 million in 2007. The amount of indebtedness also limits our ability to obtain additional financing, due to both explicit limitations in the indenture under which the indebtedness was issued and marketplace perception of our remaining debt capacity.

As described in Note 8 of the Notes to the Consolidated Financial Statements, the Fixed Rate Notes (the "Notes") issued as part of the Applebee's and IHOP November 2007 securitization transactions have a legal maturity of December 2037; however, the indentures under which the Notes were issued includes provisions which may require the early repayment, in whole or in part, of the Notes which, if not met, would require the Company to use all or part of the excess cash flow that would otherwise be available for general business purposes to fund a reserve account for the Notes or to begin to pay down the Notes (see "Debt Covenant Compliance" below). As of December 31, 2009, the conditions that would require an early repayment date for the Notes had not occurred.

Irrespective of covenant compliance, the accelerated payment date for the Applebee's and IHOP November 2007 securitization debt is December 2012, subject to extensions as discussed below.

In the event that we are unable to refinance the Applebee's and IHOP November 2007 securitization debt by December 2012, we will have the ability to extend the scheduled payment date

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for six months if we are in compliance with applicable covenant ratios at that time. The interest rate on this debt will increase by 0.50%, and any unpaid amount will accrue interest at such increased rate.

Similarly, if we are unable to refinance the IHOP March 2007 securitization debt by March 2012, we will have the ability to extend the scheduled repayment date for up to two years with a 0.25% annual increase in the interest rate each year. However, if the IHOP November 2007 securitization debt goes into rapid amortization, the IHOP March 2007 securitization debt will go into rapid amortization as well.

We intend to refinance all of the Applebee's and IHOP indebtedness prior to the expiration of such extension periods that are available. We may also seek to renegotiate the terms applicable to the repayment of principal under the relevant securitization program, raise capital or otherwise explore alternative measures to repay the securitization debt. In the event that we are unable to refinance the Applebee's or IHOP securitization debt upon the expiration of the relevant extension periods, a Rapid Amortization Event (see "Debt Covenant Compliance" below) will occur under the applicable securitization program and all excess cash flow (after all required payments have been made) will be deposited in the principal payment account for that program and used to repay principal of the applicable securitization debt.

Currently, there is no specific plan to prepay any of the securitization debt prior to December 2012. However, we are constantly reviewing all available options to efficiently manage our debt portfolio in light of the general economic climate and market conditions. In the event a significant portion of the securitization debt is repaid prior to December 2012, we may be liable for certain make-whole prepayment penalties with respect to the securitization debt and the applicable insurance policies. The amount of any prepayment penalty with respect to the securitization debt would be determined based upon, among other things, the date of repayment, prevailing benchmark interest rates at the time of repayment and the percentage of debt repaid. Although generally speaking the amount of penalty will decline to zero in December 2012, the decline is not necessarily linear over time due to specific provisions under the indenture under which the debt was issued and the variability of interest rates. Detailed calculations of prepayment penalties are contained in the applicable series supplements filed as Exhibits 4.6 and 4.7 to our Form 10-Q filed on May 9, 2007 and Exhibits 4.20 and 4.22 to our Form 10-K filed on February 28, 2008. The prepayment penalty does not apply to open-market repurchases of the debt.

Debt Covenant Compliance

As part of the financing for the Applebee's acquisition, certain subsidiaries of the Company completed two separate securitization transactions. The securitization transactions consisted of an issuance of debt collateralized by Applebee's restaurant assets (the "Applebee's Notes") and a separate issuance of debt collateralized by IHOP restaurant assets (the "IHOP Notes"). Previously, IHOP completed a \$200 million securitization in March 2007, which is subject to the same debt covenants as IHOP's November 2007 securitization. This securitized debt is subject to a series of covenants and restrictions which are customary for transactions of this type. As of December 31, 2009, approximately \$1.7 billion of securitized debt is subject to these covenants and restrictions.

The most significant covenants related to the securitized debt require the maintenance of a consolidated leverage ratio and certain debt service coverage ratios. The consolidated leverage ratio is defined as (a) the sum of: (i) all securitized debt (assuming all variable funding facilities are fully drawn); (ii) all other debt of the Company; and (iii) current monthly operating lease expense multiplied

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by 96; divided by (b) the sum of: (i) the Company's EBITDA (as defined) for the preceding 12 months; and (ii) annualized operating lease expense. Maximum ratios for this test were as follows:

	<u>Applebee's Notes</u>	<u>IHOP Notes</u>
Through November 2008	8.0x	7.75x
Through November 2009	7.75x	7.5x
Thereafter	7.25x	7.0x

Failure to remain under these maximums could result in required early amortization of outstanding principal amounts of the Applebee's Notes or IHOP Notes. At December 31, 2009, the Company's consolidated leverage ratio was 5.71x. If the EBITDA component of the calculation had been \$95.4 million, or 22.8%, lower, the Company would have exceeded the maximum ratio allowed for the IHOP Notes. The Company's consolidated leverage ratio was 6.8x at December 31, 2008. The consolidated leverage ratio has never fallen below a required maximum for either the Applebee's Notes or the IHOP Notes in any period since the Notes were issued.

As noted above, the denominator of the consolidated leverage ratio includes EBITDA for the preceding 12 months. Our EBITDA has benefited from gains on debt extinguishment that will ultimately drop out of the calculation once they fall out of the rolling 12-month calculation period. To the extent gains on debt extinguishment do not continue to occur in amounts similar to those that have been recognized in the past 12 months, our consolidated leverage ratio will be adversely impacted. The consolidated leverage ratio calculated as of December 31, 2009, excluding all gains on extinguishment of debt from the rolling 12-month calculation period, would have been 6.26x.

The formulas for calculating the debt service coverage ratios ("DSCR") for each securitization are fairly complex with numerous defined terms. In concept, DSCR is the ratio of restaurant net cash flow (as defined) divided by total debt service payments, which include, among other things, interest payments, insurance premiums and administrative expenses. The minimum DSCR for the preceding three months is 1.85x. The consequences of falling below specified minimum three-month DSCRs vary depending upon the actual ratio achieved. Three-month DSCRs below 1.85x can trigger a Cash Trapping Event, a Rapid Amortization Event, or a Default Event, as outlined in the table below. In a Cash Trapping Event, the indenture trustee for the affected securitization is required to retain a certain percentage of cash flow (after all required payments have been made) in a restricted account. No principal amounts of debt are retired in a Cash Trapping Event. In a Rapid Amortization Event, all excess cash flow (after all required payments have been made) is retained and used to retire principal amounts of debt. These events are triggered as follows:

	<u>Applebee's Notes</u>	<u>IHOP Notes</u>
Cash Trapping Event	Less than 1.85x: 25% of cash flow	Less than 1.85x: 40% of cash flow
Cash Trapping Event	Less than 1.75x: 50% of cash flow	Less than 1.65x: 80% of cash flow
Rapid Amortization Event	Less than 1.5x	Less than 1.5x
Default Event	Less than 1.2x	Less than 1.25x

There are also provisions for a one-time cure of either a Cash Trapping Event or a Rapid Amortization Event if the DSCR recovers to certain levels for three consecutive payment dates. A Rapid Amortization Event can also be triggered in other defined circumstances unrelated to the DSCR, including Applebee's failure to maintain a minimum level of system-wide sales. At December 31, 2009, the Applebee's three-month DSCR was 2.60x and the IHOP three-month DSCR was 3.31x. If the restaurant cash flow components of the calculation had been \$14.4 million, or 28.7%, and \$10.0 million, or 44.1%, lower for purposes of the Applebee's and IHOP calculations, respectively, the Company would have fallen below the 1.85x minimum threshold. At December 31, 2008, the Applebee's

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three-month DSCR was 2.0x and the IHOP three-month DSCR was 3.0x. The DSCR has never fallen below 1.85x for either the Applebee's Notes or the IHOP Notes in any period since the Notes were issued.

A second covenant test based on DSCR becomes effective under the Applebee's Notes beginning with the fiscal quarter commencing January 2010 and ending with the fiscal quarter commencing October 2012. This test is based on the same DSCR calculation described above but covering the preceding 12-month period as opposed to the preceding three-month period. A 12-month DSCR below minimum set forth in the following table can trigger a Partial Amortization Event. In a Partial Amortization Event, the indenture trustee for the Applebee's securitization is required to retain an amount equal to the lesser of (i) the sum of \$5,583,000 plus the shortfall, if any, in the retained amount from a preceding period under a Partial Amortization Event and (ii) the outstanding principal amount of the Applebee's Notes plus the shortfall, if any, from a preceding period under a Partial Amortization Event. All retained amounts are used to retire principal amounts of debt in order of seniority. The initial minimum 12-month DSCR is 2.20x and that minimum increases by 5 basis points each quarter, as follows:

<u>Fiscal Quarter Commencing in:</u>	<u>Minimum Twelve-Month DCSR</u>
January 2010	2.20x
April 2010	2.25x
July 2010	2.30x
October 2010	2.35x
January 2011	2.40x
April 2011	2.45x
July 2011	2.50x
October 2011	2.55x
January 2012	2.60x
April 2012	2.65x
July 2012	2.70x
October 2012	2.75x

The test of Applebee's 12-month DSCR set forth above is not required until the payment date occurring in January 2010 and will end with the payment date occurring in December 2012. The Applebee's 12-month DSCR as of December 31, 2009 was 3.07x.

Franchising of Applebee's Company-Operated Restaurants

Another effect of the Applebee's acquisition on our liquidity is the planned monetization of certain Applebee's assets. We are continuing to pursue a strategy which transitions from our current 80% franchised Applebee's system to an approximately 98% franchised Applebee's system, similar to IHOP's 99% franchised system. In order to accomplish this strategy, we plan to franchise substantially all of the company-operated Applebee's restaurants while retaining part of the Kansas City area as a company market. This heavily 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 franchising of the restaurants. If our strategy to transition to a 98% franchised system is delayed or sales proceeds from franchising restaurants are less than anticipated, we believe that the company-operated Applebee's restaurants will continue to generate sufficient cash from operations to meet our obligations, such that we will not be compelled to enter into refranchising transactions at prices lower than we deem appropriate. Under the terms of the securitized debt agreements, all of the proceeds of asset dispositions must be used to retire long-term debt at par.

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During 2009, we completed the franchising of seven company-operated Applebee's restaurants in the New Mexico markets. Proceeds from asset dispositions, including the seven restaurants, totaled \$15.8 million for the twelve months ended December 31, 2009. Of that amount, \$11.8 million was used to retire Applebee's Notes (see Note 8 of the Notes to the Consolidated Financial Statements).

Credit Facilities

Applebee's has a \$100 million revolving credit facility, the Series 2007-1 Class A-1 Variable Funding Senior Notes. IHOP has a \$25 million revolving credit facility, the Series 2007-2 Variable Funding Notes. At December 31, 2009, both revolving credit facilities had been fully drawn and the Company does not presently have additional committed sources of credit. However, we believe that our unrestricted cash and cash equivalents, which totaled \$82.3 million as of December 30, 2009, and cash generated from operating activities provide adequate liquidity for the foreseeable future in the absence of additional credit facilities.

The payments up to \$30.0 million of the Series 2007-1 Class A-1 Variable Funding Senior Notes and the entire issue of the Series 2007-1 Class A-2-II-A Fixed Rate Term Senior Notes issued in connection with the Applebee's securitization are insured under a financial guaranty insurance policy. If the insurance company were to become subject to insolvency or similar proceedings, an event of default would occur under the indenture pursuant to which the notes were issued, and the holders of the variable funding notes would no longer be required to fund draws on the facility. We have no reason to question the solvency of the insurance company that insures these payments, and its senior unsecured debt obligations are highly rated at the current time.

The payments of the Series 2007-2 Variable Funding Senior Notes and the Series 2007-1 Fixed Rate Notes issued in connection with the March 2007 IHOP securitization are insured under a financial guaranty insurance policy. There are concerns about the solvency of FGIC and the effectiveness of the insurance policy as FGIC is presently required to suspend payment on all claims in accordance with an order issued by the New York Insurance Department on November 24, 2009. While the insolvency of FGIC will not cause an event of default under the Indenture pursuant to which these notes were issued, it will cause FGIC to cease being the controlling party with respect to the March 2007 Notes and will require the IHOP Co-Issuers to obtain consent from a majority of the Noteholders rather than FGIC for any actions to be taken with respect to the securitization program, including amendments that require the consent of the controlling party.

Our ability to pay the interest on our indebtedness, to make scheduled payments of principal and to fund planned capital expenditures will depend on future performance of our operations, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Based upon the current level of operations and our current expectations for future periods in light of the current economic environment, we presently anticipate that our cash and cash equivalents, which totaled \$82.3 million as of December 31, 2009, together with expected cash flows from operations will be sufficient to meet our anticipated cash requirements for working capital, retirement of securitized debt, capital expenditures and other obligations for at least the next 12 months. Further, based on current projections, we believe that we will remain in compliance with the debt covenants discussed above for at least the next 12 months. However, if we are not able to achieve forecasted revenue targets and operating improvements, this assessment would have to be reconsidered. Additionally, certain Applebee's Notes have accelerated payment dates in December 2012, and we will likely seek to refinance this debt if it has not been repaid prior to then. We may not be able to effect any future refinancing of our debt on commercially reasonable terms or at all.

Cash Flows

In summary, our cash flows were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In millions)		
Net cash provided by operating activities	\$ 157.9	\$ 110.8	\$ 106.3
Net cash provided by (used in) investing activities	18.8	35.2	(1,937.4)
Net cash (used in) provided by financing activities	(208.8)	(58.4)	1,838.4
Net (decrease) increase in cash and cash equivalents	<u>\$ (32.1)</u>	<u>\$ 87.6</u>	<u>\$ 7.3</u>

Operating Activities

Cash provided by operating activities is primarily driven by revenues earned and collected from our franchisees, operating earnings from our company-operated restaurants and profit from our rental operations and financing operations. Franchise revenues consist of royalties, IHOP advertising fees and sales of proprietary products for IHOP, each of which fluctuates with increases or decreases in franchise retail sales. Franchise retail sales are impacted by the development of IHOP and Applebee's restaurants by our franchisees and by fluctuations in same-store sales. Operating earnings from company-operated restaurants are impacted by many factors which include but are not limited to changes in traffic patterns, pricing activities and changes in operating expenses. Rental operations profit is rental income less rental expenses. Rental income includes revenues from operating leases and interest income from direct financing leases. Rental expenses are costs of prime operating leases and interest expense on prime capital leases on franchisee-operated restaurants. Financing operations revenue consists of the portion of franchise fees not allocated to IHOP intellectual property, sales of equipment, as well as interest income from the financing of franchise fees and equipment leases. Financing expenses are primarily the cost of restaurant equipment.

Cash provided by operating activities totaled \$157.9 million during the 12 months ended December 31, 2009 from \$110.8 million in the same period in 2008, primarily due to an increase in net income of \$185.8 million, partially offset by a decrease of \$137.5 million in noncash adjustments (primarily depreciation, non-cash interest, impairment charges, gains on debt extinguishment and asset sales and deferred taxes). Working capital changes used cash of \$16.3 million during 2009 compared to a \$21.4 million use in 2008. The decrease in working capital used was due primarily to the faster settlement of receivables from gift card sales and lower payments for retention bonuses, partially offset by an increase in prepayments related to the January 3, 2010 close of the 2009 fiscal year and the timing of payments for advertising. Cash paid for interest in 2009 was \$166.4 million as compared to \$194.8 million in 2008.

Investing Activities

Net cash provided by investing activities in 2009 was primarily attributable to \$15.7 of proceeds from dispositions of assets, primarily the franchising of seven Applebee's company-operated restaurants, and \$15.0 million of principal receipts from notes and equipment contracts receivable, partially offset by \$15.4 million of capital expenditures. Capital expenditures are expected to range between \$18 million and \$20 million in fiscal 2010.

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The following table represents the principal receipts on various receivables due from our franchisees as of December 31, 2009:

	Principal Receipts Due By Period						
	2010	2011	2012	2013	2014	Thereafter	Total
	(In millions)						
Equipment leases(1)	\$ 6.8	\$ 6.9	\$ 7.1	\$ 7.4	\$ 7.9	\$ 110.4	\$ 146.5
Direct financing leases(2)	4.1	4.8	5.5	6.5	7.4	83.0	111.3
Franchise notes and other(3)	5.3	2.9	2.4	1.0	0.8	2.7	15.1
Total	\$ 16.2	\$ 14.6	\$ 15.0	\$ 14.9	\$ 16.1	\$ 196.1	\$ 272.9

- (1) Equipment lease receivables extend through the year 2029.
- (2) Direct financing lease receivables extend through the year 2024.
- (3) Franchise note receivables extend through the year 2016.

Financing Activities

Financing activities used net cash of \$208.8 million during 2009. Cash used in financing activities primarily consisted of \$173.8 million in repayments of long-term debt, payment of accrued debt issuance costs of \$20.3 million, capital lease obligation and financing obligation repayments of \$16.2 million and \$24.1 million in dividend payments on Series A Preferred Stock. Of the long-term debt repayments, \$146.9 million was related to the early retirement of securitization debt with excess cash, \$15.0 million was related to scheduled repayments and \$11.8 million related to redemptions with proceeds of asset dispositions and other items as required under the securitization agreements. Cash provided by financing activities resulted from a decrease of \$15.9 million in restricted cash related to the securitizations and a borrowing of \$10.0 million from the IHOP revolving credit facility.

Share Repurchases and Dividends

In January 2003, our Board of Directors authorized a program to repurchase shares of the Company's common stock. As of December 31, 2007, the Board approved the repurchase of up to 7.2 million shares of common stock. The Company has repurchased 6.3 million shares of its common stock since the inception of the program at a total cost of \$280.0 million. The Company did not repurchase shares in 2009. In February 2009, the Board of Directors cancelled the authorization to repurchase any additional shares under this program.

The Company had accrued \$0.2 million as dividends for the Series A Perpetual Preferred Stock as of January 3, 2010, the close of fiscal 2009.

The Company's most recent quarterly dividend of \$0.25 per common share was paid in December 2008. Effective December 11, 2008, the Company suspended the payment of its quarterly cash dividend to common shareholders for the foreseeable future in order to maximize the financial flexibility of the Company. Future dividend payments on the common shares 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.

Off-Balance Sheet Arrangements

As of December 31, 2009, we had no off-balance sheet arrangements, as defined in Item 303(a)(4) of SEC Regulation S-K.

Contractual Obligations and Commitments

The following are our significant contractual obligations and commitments as of December 31, 2009:

<u>Contractual Obligations</u>	<u>Payments Due By Period</u>				<u>Total</u>
	<u>1 Year</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>More than 5 Years</u>	
	(in millions)				
Debt	\$ 25.2	\$ 1,637.2	\$ —	\$ —	\$ 1,662.4
Financing obligation	31.6	61.2	64.0	415.1	571.9
Operating leases	88.7	174.8	176.4	1,096.6	1,536.5
Capital leases	25.0	49.6	49.8	165.8	290.2
Purchase commitments	62.8	—	—	—	62.8
Other obligations	6.6	—	—	—	6.6
Total minimum payments	239.9	1,922.8	290.2	1,677.5	4,130.4
Less interest	(30.9)	(72.5)	(66.6)	(204.1)	(374.1)
	<u>\$ 209.0</u>	<u>\$ 1,850.3</u>	<u>\$ 223.6</u>	<u>\$ 1,473.4</u>	<u>\$ 3,756.3</u>

At December 31, 2009, we had a reserve for unrecognized tax benefit including potential interest and penalties, net of related tax benefit, totaling \$15.9 million, of which approximately \$3.0 million is expected to be paid within one year. For the remaining liability, due to the uncertainties related to these tax matters, we are unable to make a reasonably reliable estimate when cash settlement with a taxing authority will occur.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenues and expenses in the reporting period. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. Accounting assumptions and estimates are inherently uncertain and actual results may differ materially from our estimates.

We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our consolidated financial statements:

Goodwill and Intangibles

Goodwill is recorded when the aggregate purchase price of an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Intangible assets resulting from the acquisition are accounted for using the purchase method of accounting and are estimated by management based on the fair value of the assets received. Identifiable intangible assets are comprised primarily of trademarks, tradenames, liquor licenses, which are considered to have an indefinite life, and franchise agreements, recipes and menus, favorable lease agreements, which are considered to have a finite life. Intangible assets with finite lives are being amortized over the period of estimated benefit using the straight-line method and estimated useful lives. Goodwill and indefinite life intangible assets are not subject to amortization.

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Goodwill has been allocated to three reporting units, the IHOP franchised restaurants unit ("IHOP unit"), Applebee's company-operated restaurants unit ("Applebee's company unit") and Applebee's franchised restaurants unit ("Applebee's franchise unit"). The significant majority of the Company's goodwill resulted from the November 29, 2007 acquisition of Applebee's and has been allocated between the two Applebee's units. The Company tests goodwill and other indefinite life intangible assets for impairment on an annual basis in the fourth quarter. The annual impairment test of goodwill of the two Applebee's units is performed as of October 31 of each year. The annual impairment test of the goodwill of the IHOP unit is performed as of December 31 of each year, the date as of which the analysis has been performed in prior years. In addition to the annual test of impairment, goodwill and indefinite life intangible assets must be evaluated more frequently if the Company believes indicators of impairment exist. Such indicators include, but are not limited to, events or circumstances such as a significant adverse change in the business climate, unanticipated competition, a loss of key personnel, adverse legal or regulatory developments, or a significant decline in the market price of the Company's common stock.

In the process of the Company's annual impairment review of goodwill, the Company primarily uses the income approach method of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies to determine the fair value. Significant assumptions used to determine fair value under the discounted cash flows model include future trends in sales, operating expenses, overhead expenses, depreciation, capital expenditures, and changes in working capital along with an appropriate discount rate. Additional assumptions are made as to proceeds to be received from future franchising of company-operated restaurants. Step one of the impairment test compares the fair value of each of our reporting units to its carrying value. If the fair value is in excess of the carrying value, no impairment exists. If the step one test does indicate an impairment, step two must take place. Under step two, the fair value of the assets and liabilities of the reporting unit are estimated as if the reporting unit were acquired in a business combination. The excess of the fair value of the reporting unit over the carrying amounts assigned to its assets and liabilities is the implied fair value of the goodwill, to which the carrying value of the goodwill must be adjusted. The fair value of all reporting units is then compared to the current market value of the Company's common stock to determine if the fair values estimated in the impairment testing process are reasonable in light of the current market value.

In the process of the Company's annual impairment review of the tradename, the most significant indefinite life intangible asset, the Company primarily uses the relief of royalty method under income approach method of valuation. Significant assumptions used to determine fair value under the relief of royalty method include future trends in sales, a royalty rate and a discount rate to be applied to the forecast revenue stream.

Long-Lived Assets

We assess long-lived and intangible assets with finite lives for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. We test impairment using historical cash flows and other relevant facts and circumstances as the primary basis for our estimates of future cash flows. We consider factors such as the number of years the restaurant has been operated by us, sales trends, cash flow trends, remaining lease life, and other factors which apply on a case-by-case basis. The analysis is performed at the individual restaurant level for indicators of permanent impairment. Recoverability of the restaurant's assets is measured by comparing the assets' carrying value to the undiscounted cash flows expected to be generated over the assets' remaining useful life or remaining lease term, whichever is less. If the total expected undiscounted future cash flows are less than the carrying amount of the assets, the carrying amount is written down to the estimated fair value, and a loss resulting from impairment is recognized by charging to earnings. This process requires the use of estimates and assumptions, which are subject to a high degree of judgment.

If these assumptions change in the future, we may be required to record impairment charges for these assets.

Fair Value Measurements

The Company determines the fair market values of its financial assets and liabilities, as well as non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis, based on the fair value hierarchy established in U.S. GAAP. We measure our financial assets and liabilities using inputs from the following three levels of the fair value hierarchy. The three levels are as follows:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.
- Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).
- Level 3 includes unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing the asset or liability. We develop these inputs based on the best information available, including our own data.

For more information on the financial instruments the Company measures at fair value, see Note 11, Fair Value Measurements, of Notes to the Consolidated Financial Statements.

Purchase Price Allocation

The purchase price for acquisitions is allocated to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values as determined in accordance with U.S. GAAP. The determination of estimated fair values of identifiable intangible assets and certain tangible assets requires significant estimates and assumptions, including but not limited to, determining the estimated future cash flows, estimated useful lives of assets and appropriate discount rates. We believe the estimated fair values assigned to the Applebee's assets acquired and liabilities assumed are based on reasonable assumptions.

Leases

Our restaurants are located on (i) sites owned by us, (ii) sites leased by us from third parties and (iii) sites owned or leased by franchisees. At the inception of the lease, each property is evaluated to determine whether the lease will be accounted for as an operating or capital lease in accordance with the provisions of U.S. GAAP governing the accounting for leases.

The lease term used for straight-line rent expense is calculated from the date we obtain possession of the leased premises through the lease termination date. Prior to January 2, 2006, we capitalized rent expense from possession date through construction completion and reported the related asset in property and equipment. Capitalized rent was amortized through depreciation and amortization expense over the estimated useful life of the related assets limited to the lease term. Straight-line rent recorded during the preopening period (construction completion through restaurant open date) was recorded as expense. Commencing January 2, 2006, we expense rent from possession date through restaurant open date. Once a restaurant opens for business, we record straight-line rent over the lease term plus contingent rent to the extent it exceeded the minimum rent obligation per the lease agreement. We use a consistent lease term when calculating depreciation of leasehold improvements, when determining straight-line rent expense and when determining classification of our leases as either operating or capital.

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There is potential for variability in the rent holiday period, which begins on the possession date and ends on the restaurant open date, during which no cash rent payments are typically due under the terms of the lease. Factors that may affect the length of the rent holiday period generally relate to construction related delays. Extension of the rent holiday period due to delays in restaurant opening will result in greater preopening rent expense recognized during the rent holiday period and lesser occupancy expense during the rest of the lease term (post-opening).

For leases that contain rent escalations, we record the total rent payable during the lease term, as determined above, on the straight-line basis over the term of the lease (including the rent holiday period beginning upon our possession of the premises), and record the difference between the minimum rents paid and the straight-line rent as a lease obligation. Certain leases contain provisions that require additional rental payments based upon restaurant sales volume ("contingent rent"). Contingent rentals are accrued each period as the liabilities are incurred, in addition to the straight-line rent expense noted above.

Certain of our lease agreements contain tenant improvement allowances. For purposes of recognizing incentives, we amortize the incentives over the shorter of the estimated useful life or lease term. For tenant improvement allowances, we also record a deferred rent liability or an obligation in our non-current liabilities on the consolidated balance sheets.

Management makes judgments regarding the probable term for each restaurant property lease, which can impact the classification and accounting for a lease as capital or operating, the rent holiday and/or escalations in payment that are taken into consideration when calculating straight-line rent and the term over which leasehold improvements for each restaurant are amortized. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported if different assumed lease terms were used.

Stock-Based Compensation

We account for stock-based compensation in accordance with U.S. GAAP governing share-based payments. Accordingly, we measure stock-based compensation expense at the grant date, based on the fair value of the award, and recognize the expense over the employee's requisite service period using the straight-line method. The fair value of each employee stock option and restricted stock award is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our share-based compensation. The Black-Scholes model meets the requirements of U.S. GAAP. The measurement of stock-based compensation expense is based on several criteria including, but not limited to, the valuation model used and associated input factors, such as expected term of the award, stock price volatility, risk free interest rate and forfeiture rate. These inputs are subjective and are determined using management's judgment. If differences arise between the assumptions used in determining stock-based compensation expense and the actual factors which become known over time, we may change the input factors used in determining future stock-based compensation expense. Any such changes could materially impact our operations in the period in which the changes are made and in subsequent periods.

Income Taxes

We provide for income taxes based on our estimate of federal and state income tax liabilities. Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayers and respective governmental authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions. We review our tax positions quarterly and adjust the balances as new information becomes available.

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We recognize deferred tax assets and liabilities using the enacted tax rates for the effect of temporary differences between the financial reporting basis and the tax basis of recorded assets and liabilities. Deferred tax accounting requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portions or all of the net deferred tax assets will not be realized. This test requires projection of our taxable income into future years to determine if there will be taxable income sufficient to realize the tax assets. The preparation of the projections requires considerable judgment and is subject to change to reflect future events and changes in the tax laws. When we establish or reduce the valuation allowance against our deferred tax assets, our income tax expense will increase or decrease, respectively, in the period such determination is made.

Tax contingency reserves result from our estimates of potential liabilities resulting from differences between actual and audited results. We usually file our income tax returns several months after our fiscal year end. All tax returns are subject to audit by federal and state governments, usually years after the returns are filed, and could be subject to differing interpretation of the tax laws. Changes in the tax contingency reserves result from resolution of audits of prior year filings, the expiration of the statute of limitations, changes in tax laws and current year estimates for asserted and unasserted items. Inherent uncertainties exist in estimates of tax contingencies due to changes in tax law, both legislated and concluded through the various jurisdictions' tax court systems. Significant changes in our estimates could materially affect our reported results.

Under U.S. GAAP addressing the accounting for uncertainty in income taxes, tax positions that previously failed to meet the more-likely-than-not threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first subsequent financial reporting period in which that threshold is not longer met. We are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various tax jurisdictions. The application is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or to reverse previously recorded tax liabilities.

Insurance Reserves

We use estimates in the determination of the appropriate liabilities for general liability, workers' compensation and health insurance. The estimated liability is established based upon historical claims data and third-party actuarial estimates of settlement costs for incurred claims. Unanticipated changes in these factors may require us to revise our estimates. We periodically reassess our assumptions and judgments and make adjustments when significant facts and circumstances dictate. A change in any of the above estimates could impact our consolidated statements of earnings, and the related asset or liability recorded in our consolidated balance sheets would be adjusted accordingly. Historically, actual results have not been materially different than the estimates that are described above.

Derivative Financial Instruments

In the normal course of business we utilize derivative instruments to manage our exposure to interest rate risks. We account for our derivative instruments under U.S. GAAP that requires that all derivative instruments be recorded on the balance sheet at fair value and establishes criteria for designation and effectiveness of the hedging relationships.

We use derivative financial instruments primarily for purposes of hedging exposures to fluctuations in interest rates. All derivatives are recognized on the balance sheet at fair value. For derivative

instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income or loss and reclassified into earnings in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings (for example, in "interest expense" when the hedged transactions are interest cash flows associated with debt). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in other income/expense in current earnings during the period of change.

At inception of the hedge, we choose the Hypothetical Derivative Method of effectiveness calculation, which we must use for the life of the contract and we will measure effectiveness quarterly. If the transaction qualifies for hedge treatment, the changes in fair values related to the effective portion of the derivatives are recorded in other comprehensive income or loss or in income/expense, depending on the designation of the derivative as a cash flow hedge. We obtain the values on a quarterly basis from the counterparty of the derivative contracts. The undesignated portion of the derivative contract is calculated and recorded in the Company's Consolidated Statements of Operations at the end of each quarter until settled. Presently we have no active derivative financial instruments.

Recently Adopted Accounting Standards

In September 2006, the Financial Accounting Standards Board (the "FASB") amended U.S. GAAP with respect to fair value measurements. These amendments, among other things, defined "fair value," established a framework for measuring fair value and expanded disclosures about fair value measurements. In February 2008, the FASB delayed for one year the applicability of the amended fair-value measurement requirements to certain nonfinancial assets and liabilities. The Company adopted the requirements that had been deferred on January 1, 2009. The adoption did not have a material impact on the Company's financial condition, results of operations or cash flows.

In December 2007, the FASB amended U.S. GAAP with respect to business combinations. These amendments, among other things, established principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. These amendments also established disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The amendments are effective for fiscal years beginning after December 15, 2008. The Company adopted the amended requirements for business combinations on January 1, 2009 and will apply the requirements prospectively.

In March 2008, the FASB amended U.S. GAAP with respect to derivative instruments and hedging activities. These amendments, among other things, require companies to provide enhanced disclosures about (a) how and why they use derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. The Company adopted the new disclosure requirements on January 1, 2009. As the amendments did not change current accounting practice, there was no impact of the adoption on the Company's results of operations and financial condition.

In April 2008, the FASB amended U.S. GAAP with respect to the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of the amendments is to improve the consistency between the useful life of a recognized intangible asset under previously existing U.S. GAAP related to goodwill and other intangible assets and the period of expected cash flows used to measure the fair value of the asset under U.S. GAAP with respect to business combinations. The Company adopted the amended

requirements on January 1, 2009, and will apply the provisions prospectively to any intangible assets acquired after the effective date.

In June 2008, the FASB amended U.S. GAAP with respect to determining if an instrument granted in a share-based payment transaction is a participating security. These amendments, among other things, require unvested share-based payment awards that contain rights to receive non-forfeitable dividends or dividend equivalents to be included in the two-class method of computing earnings per share. The Company retroactively adopted these amendments on January 1, 2009. The impact of the adoption on earnings per share as previously reported for the years ended December 31, 2008 and 2007 was not material.

In April 2009, the FASB amended U.S. GAAP to address concerns regarding (a) determining whether a market is not active and a transaction is not orderly, (b) recognition and presentation of other-than-temporary impairments and (c) interim disclosures of fair values of financial instruments. The Company adopted these amendments effective April 1, 2009. There was no impact of the adoption on the Company's consolidated financial statements.

In May 2009, the FASB amended U.S. GAAP with respect to subsequent events. These amendments, among other things, established general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted these amendments effective April 1, 2009. The FASB modified its guidance in February 2010 and the Company adopted the modification for its December 2009 financial reporting. There was no impact of the adoption or the modification on the Company's consolidated financial statements.

In June 2009, the FASB established the *FASB Accounting Standards Codification* (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the Securities and Exchange Commission (the "SEC") under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification became effective for the Company in the third fiscal quarter of 2009. Adoption of the Codification did not have a material effect on the Company's financial statements.

In August 2009, the FASB amended U.S. GAAP with respect to measuring liabilities at fair value. These amendments provide clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value of such liability using one or more of the techniques prescribed by the update. Adoption of these amendments in the fourth quarter of fiscal year 2009 did not have a material effect on the Company's financial statements.

New Accounting Pronouncements

In June 2009, the FASB amended U.S. GAAP with respect to the accounting for transfers of financial assets. These amendments, among other things, clarified that the objective of U.S. GAAP is to determine whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control over transferred financial assets; limited the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset; and removed the concept of a qualifying special-purpose entity. The Company will be required to adopt these amendments effective January 1, 2010, and is currently evaluating the potential impact, if any, on its consolidated financial statements.

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In June 2009, the FASB amended U.S. GAAP with respect to the consolidation of variable interest entities ("VIEs"). These amendments, among other things, (i) change existing guidance for determining whether an entity is a VIE; (ii) require ongoing reassessments of whether an entity is the primary beneficiary of a VIE; and (iii) require enhanced disclosures about an entity's involvement in a VIE. The Company will be required to adopt these amendments effective January 1, 2010. Adoption of these amendments will not result in the identification of additional VIEs. For the VIE the Company has currently identified (see Note 14 of Notes to the Consolidated Financial Statements), adoption will not change the determination that the Company is not the primary beneficiary.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to financial market risk, including interest rates and commodity prices. We address these risks through controlled risk management that may include the use of derivative financial instruments to economically hedge or reduce these exposures. We do not enter into financial instruments for trading or speculative purposes.

Interest Rate Risk

Our interest income and expense is more sensitive to fluctuations in the general level of U.S. interest rates than to changes in rates in other markets. Changes in the U.S. interest rates affect the interest earned on our cash and cash equivalents, restricted cash and investments, and interest expense on our variable funding notes. Our future investment income may fall short of expectations due to changes in interest rates.

Investments in fixed interest rate earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates. We currently do not hold any fixed rate investments. As of December 31, 2009 our long-term investments are comprised primarily of certificates of deposits, mutual funds invested in auction rate securities and one auction rate security; these investments are included in restricted assets related to the captive insurance subsidiary. We have classified these investments as available-for-sale. Due to the short time period between reset dates of the interest rates, there are no unrealized gains or losses associated with interest rate related to the auction rate securities. The one auction rate security has a contractual maturity of December 2030. Based on our cash and cash equivalents, restricted cash and long-term investment holdings as of December 31, 2009, a 1% increase in interest rates would increase our annual interest income by approximately \$1.4 million. A 1% decline in interest rates would decrease our annual interest income by less than \$1.4 million as the majority of our cash and cash equivalents, restricted cash and long-term investment holdings are currently yielding less than 1%.

On July 16, 2007, we entered into an interest rate swap contract (the "Swap") as a condition of the acquisition financing with Lehman Brothers Special Financial Inc. ("LBSFI"), guaranteed by Lehman Brothers Holdings, Inc. ("LBHI"). The Swap was intended to hedge our interest payments on the asset-backed notes that were issued in November 2007 to finance the Applebee's acquisition. The Swap sets forth the terms of a five-year interest rate swap in which we would be the fixed rate payer and LBSFI would be the floating rate payer (the "Reference Swap"). The Reference Swap has an effective date of July 16, 2008, a notional amount of \$2.039 billion, a floating rate of LIBOR and a fixed rate of 5.694%. On November 29, 2007, we terminated the Swap upon the consummation of the Applebee's acquisition. The fair value of the Swap was \$124.0 million. The fair value of the designated portion of the Swap amounted to \$61.9 million (\$38.0 million net of tax effect) and is included as "Accumulated other comprehensive loss" in our consolidated balance sheet. The fair value of the undesignated portion of the Swap resulted in additional interest expense of \$62.1 million for the year ended December 31, 2007, which was included in our consolidated statement of operations.

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At December 31, 2009, we had \$125.0 million of variable rate debt. If the interest on our variable rate debt were to increase or decrease by 1% for the year, annual interest expense would increase or decrease by approximately \$1.25 million based on the amount of outstanding variable rate debt at December 31, 2009.

Commodity Prices

Many of the food products purchased by us and our franchisees and area licensees are affected by commodity pricing and are, therefore, subject to unpredictable price volatility. Extreme changes in commodity prices and/or long-term changes could affect our franchisees, area licensees and company-operated restaurants adversely. We expect that, in most cases, the IHOP and Applebee's systems would be able to pass increased commodity prices through to our consumers via increases in menu prices. From time to time, competitive circumstances could limit short-term menu price flexibility, and in those cases, margins would be negatively impacted by increased commodity prices. We believe that any changes in commodity pricing that cannot be adjusted for by changes in menu pricing or other strategies would not be material to our financial condition, results of operations or cash flows.

In February 2009, the Company and owners of Applebee's and IHOP franchise restaurants formed Centralized Supply Chain Services, LLC ("CSCS" or the "Co-op") to manage procurement activities for the Applebee's and IHOP restaurants choosing to join the Co-op. We believe the larger scale created by combining the supply chain requirements of both brands under one organization can provide cost savings and efficiency in the purchasing function. As of December 31, 2009, 100% of Applebee's franchise restaurants and over 95% of IHOP franchise restaurants are members of CSCS. While the majority of the food products utilized by IHOP and Applebee's systems are sourced through CSCS, in some instances, we enter into commitments to purchase food and other items on behalf of the IHOP and Applebee's systems. None of these food product contracts or agreements is a derivative instrument. At December 31, 2009, our outstanding purchase commitments for food products were less than \$1 million.

Item 8. Financial Statements and Supplementary Data.

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DineEquity, Inc. and Subsidiaries**Consolidated Balance Sheets****(In thousands, except share amounts)**

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 82,314	\$ 114,443
Restricted cash	72,690	83,355
Receivables, net	104,690	117,930
Inventories	12,236	10,959
Prepaid income taxes	7,702	15,734
Prepaid gift cards	19,878	15,375
Prepaid expenses	13,425	1,692
Deferred income taxes	15,444	27,504
Assets held for sale	8,765	11,861
Total current assets	<u>337,144</u>	<u>398,853</u>
Non-current restricted cash	48,173	53,395
Restricted assets related to captive insurance subsidiary	4,344	5,849
Long-term receivables	259,775	277,106
Property and equipment, net	771,372	824,482
Goodwill	697,470	697,470
Other intangible assets, net	849,552	956,036
Other assets, net	133,038	148,026
Total assets	<u>\$3,100,868</u>	<u>\$3,361,217</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term debt	\$ 25,200	\$ 15,000
Accounts payable	31,729	48,983
Accrued employee compensation and benefits	37,397	44,299
Gift card liability	105,465	95,532
Accrued financing costs	—	20,071
Other accrued expenses	54,549	55,249
Accrued interest payable	3,627	3,580
Total current liabilities	<u>257,967</u>	<u>282,714</u>
Long-term debt, less current maturities	1,637,198	1,853,367
Financing obligations, less current maturities	309,415	318,651
Capital lease obligations, less current maturities	152,758	161,310
Deferred income taxes	369,127	395,448
Other liabilities	117,449	119,910
Total liabilities	<u>2,843,914</u>	<u>3,131,400</u>
Commitments and contingencies		
Preferred stock, Series A, \$1 par value, 220,000 shares authorized; 190,000 shares issued and outstanding	187,050	187,050
Stockholders' equity		
Convertible preferred stock, Series B, at accreted value, 10,000,000 shares authorized;		

35,000 shares issued and outstanding	39,623	37,332
Common stock, \$0.01 par value, 40,000,000 shares authorized; 2009: 23,780,015 shares issued and 17,564,449 shares outstanding; 2008: 23,696,950 shares issued and 17,466,355 shares outstanding	238	237
Additional paid-in-capital	171,207	165,315
Retained earnings	155,397	145,810
Accumulated other comprehensive loss	(20,811)	(29,408)
Treasury stock, at cost (2009: 6,215,566 shares; 2008: 6,230,595 shares)	(275,750)	(276,519)
Total stockholders' equity	69,904	42,767
Total liabilities and stockholders' equity	<u>\$3,100,868</u>	<u>\$3,361,217</u>

See the accompanying notes to the consolidated financial statements.

DineEquity, Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands, except per share amounts)

	Year Ended December 31,		
	2009	2008	2007
Revenues			
Franchise revenues	\$ 372,198	\$ 353,331	\$ 205,757
Company restaurant sales	890,020	1,103,228	125,905
Rental income	133,845	131,347	132,422
Financing revenues	17,899	25,722	20,475
Total revenues	<u>1,413,962</u>	<u>1,613,628</u>	<u>484,559</u>
Costs and Expenses			
Franchise expenses	102,256	96,243	88,054
Company restaurant expenses	766,466	978,197	117,448
Rental expenses	97,303	98,057	98,402
Financing expenses	370	7,314	1,215
General and administrative expenses	158,469	182,239	81,597
Interest expense	186,473	203,141	28,654
Impairment and closure charges	105,094	240,630	4,381
Amortization of intangible assets	12,306	12,132	1,132
(Gain) loss on extinguishment of debt	(45,678)	(15,242)	2,223
(Gain) loss on disposition of assets	(6,947)	259	(98)
Other expense (income), net	1,266	(1,185)	2,128
Loss on derivative financial instrument	—	—	62,131
Total costs and expenses	<u>1,377,378</u>	<u>1,801,785</u>	<u>487,267</u>
Income (loss) before income taxes	36,584	(188,157)	(2,708)
Provision (benefit) for income taxes	5,175	(33,698)	(2,228)
Net income (loss)	<u>\$ 31,409</u>	<u>\$ (154,459)</u>	<u>\$ (480)</u>
Net income (loss)	\$ 31,409	\$ (154,459)	\$ (480)
Less: Series A preferred stock dividends	(19,531)	(19,000)	(1,561)
Less: Accretion of Series B preferred stock	(2,291)	(2,151)	(181)
Less: Net (income) loss allocated to unvested participating restricted stock	(351)	6,417	34
Net income (loss) available to common stockholders	<u>\$ 9,236</u>	<u>\$ (169,193)</u>	<u>\$ (2,188)</u>
Net income (loss) available to common stockholders per share			
Basic	<u>\$ 0.55</u>	<u>\$ (10.09)</u>	<u>\$ (0.13)</u>
Diluted	<u>\$ 0.55</u>	<u>\$ (10.09)</u>	<u>\$ (0.13)</u>
Weighted average shares outstanding			
Basic	<u>16,917</u>	<u>16,764</u>	<u>17,232</u>
Diluted	<u>16,917</u>	<u>16,764</u>	<u>17,232</u>
Dividends declared per common share	<u>—</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>
Dividends paid per common share	<u>—</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>

See the accompanying notes to the consolidated financial statements.

DineEquity, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity

(In thousands, except share amounts)

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Treasury Stock, at cost</u>	<u>Total</u>
	<u>Shares Issued</u>	<u>Series B Amount</u>	<u>Shares Issued</u>	<u>Amount</u>					
Balance, December 31, 2006	—	\$ —	22,818,007	\$ 227	\$ 131,748	\$ 358,975	(133)	\$(201,604)	\$ 289,213
Net loss	—	—	—	—	—	(480)	—	—	(480)
Interest rate swap, net of tax	—	—	—	—	—	—	(36,605)	—	(36,605)
Comprehensive loss									(37,085)
Cumulative effect of adoption of FIN 48	—	—	—	—	—	(489)	—	—	(489)
Repurchase of treasury shares	—	—	—	—	—	—	—	(77,020)	(77,020)
Issuance of preferred stock Series B	35,000	35,000	—	—	(750)	—	—	—	34,250
Net issuance of shares pursuant to stock plans	—	—	541,657	3	8,925	—	—	970	9,898
Stock-based compensation	—	—	—	—	6,165	—	—	—	6,165
Tax benefit from stock options exercised	—	—	—	—	3,476	—	—	—	3,476
Dividends — common stock	—	—	—	—	—	(17,293)	—	—	(17,293)
Dividends — preferred stock	—	—	—	—	—	(1,742)	—	—	(1,742)
Accretion of Series B preferred stock	—	181	—	—	—	(181)	—	—	—
Balance, December 31, 2007	35,000	35,181	23,359,664	230	149,564	338,790	(36,738)	(277,654)	209,373
Net loss	—	—	—	—	—	(154,459)	—	—	(154,459)
Interest rate swap, net of tax	—	—	—	—	—	—	7,716	—	7,716
Temporary decline in available-for- sale securities	—	—	—	—	—	—	(386)	—	(386)
Comprehensive loss									(147,129)
Repurchase of restricted shares	—	—	(18,274)	—	(540)	—	—	—	(540)
Net issuance of shares pursuant to stock plans	—	—	355,560	7	982	—	—	1,135	2,124
Stock-based compensation	—	—	—	—	13,445	—	—	—	13,445
Tax benefit from stock options exercised	—	—	—	—	1,864	—	—	—	1,864
Dividends — common stock	—	—	—	—	—	(17,370)	—	—	(17,370)

Dividends										
—preferred stock	—	—	—	—	—	(19,000)	—	—	(19,000)	
Accretion of Series B preferred stock	—	2,151	—	—	—	(2,151)	—	—	—	
Balance,										
December 31,										
2008	35,000	37,332	23,696,950	237	165,315	145,810	(29,408)	(276,519)	42,767	
Net income	—	—	—	—	—	31,409	—	—	31,409	
Interest rate swap, net of tax	—	—	—	—	—	—	8,507	—	8,507	
Temporary decline in available-for-sale securities	—	—	—	—	—	—	90	—	90	
Comprehensive income									40,006	
Repurchase of restricted shares	—	—	(50,927)	—	(605)	—	—	—	(605)	
Net issuance of shares pursuant to stock plans	—	—	133,992	1	323	—	—	—	324	
Reissuance of treasury stock	—	—	—	—	(769)	—	—	769	—	
Stock-based compensation	—	—	—	—	10,710	—	—	—	10,710	
Tax benefit from stock options exercised	—	—	—	—	(3,767)	—	—	—	(3,767)	
Dividends										
—preferred stock	—	—	—	—	—	(19,531)	—	—	(19,531)	
Accretion of Series B preferred stock	—	2,291	—	—	—	(2,291)	—	—	—	
Balance,										
December 31,										
2009	35,000	\$39,623	23,780,015	\$ 238	\$ 171,207	\$ 155,397	\$ (20,811)	\$(275,750)	\$ 69,904	

See the accompanying notes to the consolidated financial statements.

DineEquity, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

(In thousands)

	<u>Year Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash flows from operating activities			
Net income (loss)	\$ 31,409	\$ (154,459)	\$ (480)
Adjustments to reconcile net income (loss) to cash flows provided by operating activities			
Depreciation and amortization	65,379	72,934	26,043
Non-cash interest expense	39,422	39,083	5,786
(Gain) loss on extinguishment of debt	(45,678)	(15,242)	2,223
Impairment and closure charges	105,094	240,630	4,381
Loss on derivative financial instrument	—	—	62,131
Deferred income taxes	(19,875)	(65,226)	(31,324)
Stock-based compensation expense	10,710	12,089	6,958
Tax benefit from stock-based compensation	531	1,864	3,476
Excess tax benefit from stock options exercised	(48)	(315)	(2,693)
(Gain) loss on disposition of assets	(6,947)	259	(98)
Other	(5,816)	1,172	(3,602)
Changes in operating assets and liabilities			
Receivables	11,607	(2,441)	(22,479)
Inventories	(1,474)	182	512
Prepaid expenses	(25,273)	(146)	(17,147)
Accounts payable	(14,867)	(23,749)	37,266
Accrued employee compensation and benefits	(8,119)	(11,609)	(21,868)
Gift card liability	7,180	18,480	43,685
Other accrued expenses	14,613	(2,667)	13,553
Cash flows provided by operating activities	<u>157,848</u>	<u>110,839</u>	<u>106,323</u>
Cash flows from investing activities			
Additions to property and equipment	(15,372)	(31,765)	(11,871)
Reductions (additions) to long-term receivables	2,528	(4,743)	1,538
Acquisition of business, net of cash acquired	—	(10,261)	(1,943,567)
Collateral released by captive insurance subsidiary	1,549	4,559	345
Proceeds from sale of property and equipment and assets held for sale	15,777	61,137	870
Principal receipts from notes and equipment contracts receivable	15,025	15,797	16,617
Other	(672)	471	(1,324)
Cash flows provided by (used in) investing activities	<u>18,835</u>	<u>35,195</u>	<u>(1,937,392)</u>
Cash flows from financing activities			
Proceeds from issuance of long-term debt	10,000	35,000	2,296,216
Proceeds from financing obligations	—	370,502	—
Repayment of long-term debt	(173,777)	(421,325)	(268,199)
Principal payments on capital lease and financing obligations	(16,160)	(9,854)	(5,364)
Dividends paid	(24,091)	(33,362)	(17,293)
(Payment of costs) issuance of preferred stock	—	(1,500)	222,800
Reissuance (purchase) of treasury stock, net	—	1,135	(76,050)
Repurchase of restricted stock	(605)	(540)	—

Proceeds from stock options exercised	324	989	8,928
Excess tax benefit from stock options exercised	48	315	2,693
Payment of accrued debt issuance costs	(20,300)	(48,902)	(138,021)
Payment of early debt extinguishment costs	(129)	(103)	(1,219)
Restricted cash related to securitization	15,878	49,216	(186,100)
Cash flows (used in) provided by financing activities	(208,812)	(58,429)	1,838,391
Net change in cash and cash equivalents	(32,129)	87,605	7,322
Cash and cash equivalents at beginning of year	114,443	26,838	19,516
Cash and cash equivalents at end of year	\$ 82,314	\$ 114,443	\$ 26,838
Supplemental disclosures			
Interest paid	\$ 166,361	\$ 194,763	\$ 31,331
Income taxes paid	\$ 31,245	\$ 40,931	\$ 25,712

See the accompanying notes to the consolidated financial statements.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

1. 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. ("DineEquity"). The Company owns and operates two restaurant concepts: Applebee's Neighborhood Grill and Bar®, or Applebee's, in the bar and grill segment of the casual dining category of the restaurant industry, and International House of Pancakes®, or IHOP, in the family dining category of the restaurant industry. The first International House of Pancakes restaurant opened in 1958 in Toluca Lake, California. Shortly thereafter the Company's predecessor began developing and franchising additional restaurants. As of December 31, 2009, there were a total of 1,456 IHOP restaurants of which 1,279 were subject to franchise agreements, 164 were subject to area license agreements and 13 were company-operated restaurants. IHOP restaurants are located in all 50 states of the United States, two U.S. territories and in Canada and Mexico.

In November 2007, the Company completed the acquisition of Applebee's International, Inc. ("Applebee's"), which became a wholly owned subsidiary of the Company. As of December 31, 2009, there were a total of 2,008 Applebee's restaurants, of which 1,609 were subject to franchise agreements and 399 were company-operated restaurants. The restaurants were located in 49 states, 16 countries outside of the United States and one U.S. territory.

References herein to Applebee's and IHOP restaurants are to these two restaurant concepts, whether operated by franchisees, area licensees or the Company. Retail sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company.

2. Basis of Presentation and Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of DineEquity, Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. However, the subsidiaries have not guaranteed the obligations of the Company, and the assets of the subsidiaries generally are not available to pay creditors of the Company. Also, the Company has not guaranteed the obligations of the subsidiaries, and the assets of the Company generally are not available to pay creditors of the subsidiaries.

Fiscal Periods

The Company has a 52/53 week fiscal year that ends on the Sunday nearest to December 31 of each year. For convenience, the Company refers to all fiscal years as ending on December 31 and fiscal quarters as ending on March 31, June 30 and September 30. The 2009, 2008 and 2007 fiscal years presented herein ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively. The 2009 fiscal year contained 53 weeks while the 2008 and 2007 fiscal years each contained 52 weeks.

Reclassifications

Certain reclassifications have been made to prior year information to conform to the fiscal 2009 presentation. The reclassifications did not have a material impact on the 2008 and 2007 consolidated financial statements.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Concentration of Credit Risk

The Company's cash, cash equivalents, receivables and investments are potentially subject to concentration of credit risk. Cash, cash equivalents and investments are placed with financial institutions that management believes are creditworthy. The Company does not believe that it is exposed to any significant credit risk on cash and cash equivalents. At times, cash and cash equivalent balances may be in excess of FDIC insurance limits.

Receivables are derived from revenues earned from franchisees and distributors located primarily in the United States. The Company is subject to a concentration of credit risk with respect to Applebee's franchisee receivables. As of December 31, 2009, Applebee's franchisees operated 1,470 Applebee's restaurants in the United States (which comprised 79% of the total Applebee's restaurants in the United States). Of those restaurants, the nine largest Applebee's franchisees owned 786 restaurants, representing 53% of all franchised Applebee's restaurants in the United States. Receivables from all Applebee's franchisees totaled \$26.6 million at December 31, 2009.

The Company maintains an allowance for doubtful accounts based upon our historical experience taking into account current economic conditions. Historically, such losses have been within management's expectations.

Cash and Cash Equivalents

The Company considers all highly liquid investment securities with remaining maturities at the date of purchase of three months or less to be cash equivalents. These cash equivalents are stated at cost which approximates market value.

Restricted Assets

Restricted Cash

The Company entered into three separate securitization transactions which resulted in the issuance of a total of \$2.3 billion in debt in 2007. The proceeds received from these transactions primarily were used to fund the acquisition of Applebee's. In addition, a portion of the proceeds was used to fund certain cash accounts as required by the indentures and other agreements related to the securitization transactions ("Securitization Agreements"). These cash accounts are to be used only for the purposes specified in the Securitization Agreements. The Company has presented these cash accounts as restricted cash in both the current and non-current asset sections of the consolidated balance sheets.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Other Restricted Assets

The Company has restricted assets related to its captive insurance subsidiary which are included in non-current assets in the consolidated balance sheets. The captive insurance subsidiary was formed to provide insurance coverage to Applebee's and its franchisees. These restricted assets are primarily investments use of which is restricted for the payment of insurance claims.

Investments

The Company's investments comprise certificates of deposit, money market funds and auction rate securities included in restricted assets related to the captive insurance subsidiary in the Consolidated balance sheets. The Company has classified all investments as available-for-sale with any unrealized gain or loss included in Other Comprehensive Income. The contractual maturity of the auction rate security is 2030.

Inventories

Inventories consisting of food, beverages, merchandise and supplies are stated at the lower of cost (on a first-in, first-out basis) or market. When necessary, the Company reserves for obsolescence and shrinkage based upon inventory turnover trends, historical experience and the specific identification method.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Equipment under capital leases is stated at the present value of the minimum lease payments. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or remaining useful lives. Leasehold improvements and equipment under capital leases are amortized on a straight-line basis over their estimated useful lives or the lease term, if less. The Company has capitalized certain costs incurred in connection with the development of internal-use software which are included in property and equipment and amortized over the expected useful life of the asset. The general ranges of depreciable and amortizable lives are as follows:

Category	Depreciable Life
Buildings and improvements	25 - 40 years
Leaseholds and improvements	Shorter of primary lease term or between three to 25 years
Equipment and fixtures	Between two to 10 years
Properties under capital leases	Primary lease term or remaining primary lease term

Property and equipment are identified as assets held for sale when they meet the criteria of U.S. GAAP. The Company ceases recording depreciation on assets that are classified as held for sale.

The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of qualified assets and is amortized over the estimated useful lives of the assets.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets, which include amortizable intangible and tangible assets, in accordance with U.S. GAAP. The Company tests impairment using historical cash flows and other relevant facts and circumstances as the primary basis for our estimates of future cash flows. The Company considers factors such as the number of years the restaurant has been in operation, sales trends, cash flow trends, remaining lease life and other factors which apply on a case-by-case basis. The analysis is performed at the individual restaurant level for indicators of permanent impairment.

Recoverability of a restaurant's assets is measured by comparing the assets' carrying value to the undiscounted future cash flows expected to be generated over the assets' remaining useful life or remaining lease term, whichever is less. If the total expected undiscounted future cash flows are less than the carrying amount of the assets, this may be an indicator of impairment. If it is decided that there has been an impairment, the carrying amount of the asset is written down to the estimated fair value. The fair value is determined in accordance with U.S. GAAP governing fair value measurements. The primary method of estimating fair value is by discounting the future cash flows based on our cost of capital. A loss resulting from impairment is recognized by a charge against operations.

The Company may decide to close certain company-operated restaurants. Typically such decisions are based on operating performance or strategic considerations. In these instances, the Company reserves, or writes off, the full carrying value of these restaurants as impaired.

Periodically, the Company will reacquire a previously franchised restaurant. At the time of reacquisition, the franchise will be recorded at the lower of (1) the sum of the franchise receivables and costs of reacquisition, or (2) the estimated net realizable value. The net realizable value of a reacquired franchise is based on the Company's average five-year historical franchise resale value. The historical resale value used in 2009 was \$240,000. An impairment loss will be recognized equal to the amount by which the reacquisition value exceeds the historical resale value.

On a quarterly basis, the Company assesses whether events or changes in circumstances have occurred that potentially indicate the carrying value of long-lived assets may not be recoverable. See Note 17, Impairment and Closure Charges.

Goodwill and Intangible Assets

Goodwill is recorded when the aggregate purchase price of an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Intangible assets resulting from the acquisition are accounted for using the purchase method of accounting and are estimated by management based on the fair value of the assets received. Identifiable intangible assets are comprised primarily of trademarks, tradenames and franchise agreements. Identifiable intangible assets with finite lives are being amortized over the period of estimated benefit using the straight-line method and estimated useful lives. Goodwill and intangible assets considered to have an indefinite life are not subject to amortization. The determination of indefinite life is subject to reassessment if changes in facts and circumstances indicate the period of benefit has become finite.

Goodwill has been allocated to three reporting units, the IHOP franchised restaurants unit ("IHOP franchise unit"), Applebee's company-operated restaurants unit ("Applebee's company unit") and Applebee's franchised restaurants unit ("Applebee's franchise unit") in accordance with

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

U.S. GAAP. The significant majority of the Company's goodwill resulted from the November 29, 2007 acquisition of Applebee's and has been allocated between the two Applebee's units. The Company tests goodwill and other indefinite life intangible assets for impairment on an annual basis in the fourth quarter. The impairment test of goodwill of the two Applebee's units is performed as of October 31 of each year. The impairment test of the goodwill of the IHOP franchise unit is performed as of December 31 of each year. In addition to the annual test of impairment, goodwill must be evaluated more frequently if the Company believes indicators of impairment exist. Such indicators include, but are not limited to, events or circumstances such as a significant adverse change in the business climate, unanticipated competition, a loss of key personnel, adverse legal or regulatory developments or a significant decline in the market price of the Company's common stock.

In the process of the Company's annual impairment review of goodwill, the Company primarily uses the income approach method of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies to determine the fair value of our goodwill and intangible assets. Significant assumptions used to determine fair value under the discounted cash flows model include future trends in sales, operating expenses, overhead expenses, depreciation, capital expenditures and changes in working capital, along with an appropriate discount rate. Additional assumptions are made as to proceeds to be received from future franchising of company-operated restaurants. Step one of the impairment test compares the fair value of each of our reporting units to their carrying value. If the fair value is in excess of the carrying value, no impairment exists. If the step one test does indicate an impairment, step two must take place. Under step two, the fair value of the assets and liabilities of the reporting unit are estimated as if the reporting unit were acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of the goodwill, to which the carrying value of the goodwill must be adjusted. The fair value of all reporting units is then compared to the current market value of the Company's common stock to determine if the fair values estimated in the impairment testing process are reasonable in light of the current market value.

As a result of the impairment reviews performed in 2009, an impairment of intangible assets was recorded. As a result of the impairment reviews performed in 2008, impairments of goodwill and intangible assets were recorded. See Note 17, Impairment and Closure Charges.

Self-Insurance Liability

The Company is self-insured for a portion of its employee workers' compensation, general liability and, through December 31, 2008, employee health insurance obligations. The Company maintains stop-loss coverage with third party insurers to limit its total exposure. The accrued liability associated with these programs is based on historical claims data and our estimate of the ultimate costs to be incurred to settle known claims and claims incurred but not reported as of the balance sheet date. The estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, actuarial assumptions and economic conditions. If actual trends, including the severity or frequency of claims, differ from our estimates, our financial results could be impacted.

Revenue Recognition

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

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

The franchise operations revenue consists primarily of royalty revenues, sales of proprietary IHOP products, IHOP advertising fees and the portion of the franchise fees allocated to the Company's intellectual property. Company restaurant sales are retail sales at company-operated restaurants. Rental operations revenue includes revenue from operating leases and interest income from direct financing leases. Financing operations revenue consists of the portion of franchise fees not allocated to the Company's intellectual property and sales of equipment as well as interest income from the financing of franchise fees and equipment leases.

Revenues from franchised and area licensed restaurants include royalties, continuing rent and service fees and initial franchise fees. Royalties are recognized in the period in which the sales are reported to have occurred. Continuing fees are recognized in the period earned. Initial franchise fees are recognized upon the opening of a restaurant, which is when the Company has performed substantially all initial services required by the franchise agreement. Fees from development agreements are deferred and recorded into income when a restaurant under the development agreement is opened.

Sales by company-operated restaurants are recognized when food and beverage items are sold. Company restaurant sales are reported net of sales taxes collected from guests and the sales taxes are remitted to the appropriate taxing authorities.

In addition, the Company records a liability in the period in which a gift card is issued and proceeds are received. As gift cards are redeemed, this liability is reduced and revenue is recognized. The Company recognizes gift card breakage income when the likelihood of the redemption of the gift card becomes remote.

Leases

The Company leases the majority of all IHOP restaurants. The restaurants are subleased to IHOP franchisees or, in a few instances, are operated by the Company. The Company's IHOP leases generally provide for an initial term of 15 to 25 years, with most having one or more five-year renewal options at the Company's option. In addition, the Company leases a majority of its company-operated Applebee's restaurants. Franchisees are responsible for financing their properties. The Applebee's company-operated leases generally have an initial term of 10 to 20 years, with renewal terms of five to 20 years, and provide for a fixed rental plus, in certain instances, percentage rentals based on gross sales. The rental payments or receipts on leases that meet the operating lease criteria are recorded as rental expense or rental income. Rental expense and rental income for these operating leases are recognized on the straight-line basis over the original terms of the leases. The difference between straight-line rent expense or income and actual amounts paid or received represents deferred rent and is included in the balance sheets as other assets or other liabilities, respectively.

The rental payments or receipts on those property leases that meet the capital lease criteria will result in the recognition of interest expense or interest income and a reduction of capital lease obligation or financing lease receivable. Capital lease obligations are amortized based on the Company's incremental borrowing rate and direct financing leases are amortized using the implicit interest rate.

The lease term used for straight-line rent expense is calculated from the date the Company obtains possession of the leased premises through the lease termination date. The Company expenses rent from possession date through restaurant open date as expense. Once a restaurant opens for business, the

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Company records straight-line rent over the lease term plus contingent rent to the extent it exceeded the minimum rent obligation per the lease agreement. The Company uses a consistent lease term when calculating depreciation of leasehold improvements, when determining straight-line rent expense and when determining classification of its leases as either operating or capital. For leases that contain rent escalations, the Company records the total rent payable during the lease term, as determined above, on the straight-line basis over the term of the lease (including the rent holiday period beginning upon our possession of the premises), and records the difference between the minimum rents paid and the straight-line rent as a lease obligation. Certain leases contain provisions that require additional rental payments based upon restaurant sales volume ("contingent rent"). Contingent rentals are accrued each period as the liabilities are incurred, in addition to the straight-line rent expense noted above.

Certain lease agreements contain tenant improvement allowances, rent holidays and lease premium, which are amortized over the shorter of the estimated useful life or lease term. For tenant improvement allowances, the Company also records a deferred rent liability or an obligation in our non-current liabilities on the consolidated balance sheets and amortizes the deferred rent over the term of the lease as a reduction to company restaurant expenses in the consolidated statements of operations.

Preopening Expenses

Expenditures related to the opening of new or relocated restaurants are charged to expense when incurred.

Advertising

Franchise fees designated for IHOP's national advertising fund and local marketing and advertising cooperatives are recognized as revenue as the fees are earned and become receivables from the franchisee in accordance with U.S. GAAP governing the accounting for franchise fee revenue. In accordance with U.S. GAAP governing advertising costs, related advertising obligations are accrued and the costs expensed at the same time the related revenue is recognized. Franchise fees designated for Applebee's national advertising fund and local advertising cooperatives constitute agency transactions and are not recognized as revenues and expenses. In both cases, the advertising fees are recorded as a liability against which specific costs are charged.

Advertising expense reflected in the consolidated statements of operations includes local marketing advertising costs incurred by company-operated restaurants, contributions to the national advertising fund made by Applebee's company-operated restaurants and certain advertising costs incurred by the Company to benefit future franchise operations. Costs of advertising are expensed either as incurred or the first time the advertising takes place. Advertising expense included in company restaurant operations and franchise operations for the years ended December 31, 2009, 2008 and 2007 was \$36.7 million, \$45.3 million and \$5.0 million, respectively. In addition, significant advertising expenses also are incurred by franchisees through the national advertising funds and local marketing and advertising cooperatives.

Asset Retirement Obligations

The Company currently has certain leases which may require it to return the property to the landlord in its original condition. The Company records expenses for these leases in its consolidated

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

financial statements as company restaurant expenses. At both December 31, 2009 and 2008, the liability recorded for asset retirement obligations was \$0.3 million.

Derivative Financial Instruments

The Company accounts for derivative instruments and hedging activities in accordance with U.S. GAAP. All derivatives are recognized on the balance sheet at their fair value. On the date that the Company enters into a derivative contract, management formally documents all relationships between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge (a "swap"), to the extent that the hedge is effective, are recorded in accumulated other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction. The Company measures effectiveness of the swap at each quarter end, using the hypothetical derivative method. Under this method, hedge effectiveness is measured based on a comparison of the change in fair value of the actual swap designated as the hedging instrument and the change in fair value of the hypothetical swap which would have the terms that identically match the critical terms of the hedged cash flows from the anticipated debt issuance. The amount of ineffectiveness, if any, recorded in earnings would be equal to the excess of the cumulative change in the fair value of the swap over the cumulative change in the fair value of the plain vanilla swap lock, as defined in the accounting literature. Once a swap is settled, the effective portion is amortized over the estimated life of the hedged item.

In the past, the Company has utilized derivative financial instruments to manage its exposure to interest rate risks. The Company has not entered into any derivative financial instruments since an interest rate swap entered into in conjunction with the acquisition of Applebee's was terminated in 2007 (See Note 8, Debt). The Company does not enter into derivative financial instruments for trading purposes.

Fair Value Measurements

Effective January 1, 2008, the Company determines the fair market values of its financial assets and liabilities, as well as non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis, based on the fair value hierarchy established in U.S. GAAP. The Company measures its financial assets and liabilities using inputs from the following three levels of the fair value hierarchy. The three levels are as follows:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).
- Level 3 includes unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available, including our own data.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

For more information on the financial instruments the Company measures at fair value, see Note 11, Fair Value Measurements.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. The Company also determines its tax contingencies in accordance with U.S. GAAP governing the accounting for contingencies. The Company records estimated tax liabilities to the extent the contingencies are probable and can be reasonably estimated.

Effective January 1, 2007, the Company adopted U.S. GAAP governing the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. The impact of the Company's reassessment of its tax positions upon adoption did not have a material impact on the results of operations, financial condition or liquidity.

Stock-Based Compensation

The Company has in effect stock incentive plans under which incentive stock options have been granted to employees and restricted stock units and non-qualified stock options have been granted to employees and non-employee members of the Board of Directors. The Company accounts for all stock-based payments to employees and non-employees, including grants of employee stock options and restricted stock units to be recognized in the financial statements, based on their respective grant date fair values. The Company also accounts for the benefits of tax deduction in excess of recognized compensation cost be reported as a financing cash flow.

U.S. GAAP requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service periods. The Company has estimated the fair value of each award as of the date of grant or assumption using the Black-Scholes option pricing model, which considers, among other factors, the expected life of the award and the expected volatility of the Company's stock price. Although the Black-Scholes model meets the requirement of U.S. GAAP and the SEC, the fair values generated by the model may not be indicative of the actual fair values of the Company's awards, as it does not consider other factors important to those stock-based payment awards, such as continued employment, periodic vesting requirements and limited transferability.

The Company accounts for option grants to non-employees in accordance with U.S. GAAP, whereby the fair value of such options is determined using the Black-Scholes option pricing model at the earlier of the date at which the non-employee's performance is complete or a performance commitment is reached.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Comprehensive Income (Loss)

The Company displays comprehensive income (loss) in the Consolidated Statements of Changes in Shareholders' Equity, with additional disclosure regarding the components in the Notes to the Consolidated Financial Statements. Accumulated other comprehensive loss is attributable to the unrealized loss, net of tax, on an interest rate swap that the Company entered into during 2007 and a temporary decline in the fair value of available-for-sale securities.

Net Income (Loss) Per Share

Earnings per share is calculated using the two-step method prescribed in U.S. GAAP. Basic net income (loss) per share is computed by dividing the net income (loss) available to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) available to common stockholders for the period by the weighted average number of common shares and potential shares of common stock outstanding during the period if their effect is dilutive. For the years ended December 31, 2009, 2008 and 2007, certain dilutive shares were not included in computing the diluted net loss per share because their effect was anti-dilutive. The Company uses the treasury stock method to calculate the weighted average shares used in the diluted earnings per share calculation. Potentially dilutive common shares include the assumed exercise of stock options, assumed vesting of restricted stock units and assumed conversion of preferred stock using the if-converted method.

Business Segments

The Company's revenues and expenses are recorded in four segments: franchise operations, company restaurant operations, rental operations, and financing operations. Within each segment, the Company operates two distinct restaurant concepts: Applebee's and IHOP.

Applebee's

The franchise operations segment consists of restaurants operated by Applebee's franchisees in the United States, one U.S. territory and 15 countries outside the United States. Franchise operations revenue consists primarily of franchise royalty revenues and the portion of the franchise fees allocated to Applebee's intellectual property. Franchise operations expenses include pre-opening training expenses and other franchise-related costs.

The company restaurant operations segment consists of company-operated restaurants in the United States and China. Company restaurant sales are retail sales at company-operated restaurants. Company restaurant expenses are operating expenses at company-operated restaurants and include food, labor, benefits, utilities, rent and other restaurant operating costs. The operating results of this segment are substantially generated by Applebee's restaurants.

Rental operations activities are not currently a significant part of Applebee's business. This activity relates only to the franchising of the restaurants; Applebee's is not entering into rental operations similar to those of IHOP.

Financing operations activities are not currently a part of Applebee's business.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

IHOP

The franchise operations segment consists of restaurants operated by IHOP franchisees and area licensees in the United States, two U.S. territories and two countries outside the U.S. Franchise operations revenue consists primarily of franchise royalty revenues, sales of proprietary products, franchise advertising fees and the portion of the franchise fees allocated to IHOP intellectual property. Franchise operations expenses include advertising expense, the cost of proprietary products and pre-opening training expenses and other franchise-related costs.

The company restaurant operations segment consists of company-operated restaurants in the United States. In addition, from time to time, restaurants that are reacquired from franchisees are operated by IHOP on a temporary basis. Company restaurant sales are retail sales at company-operated restaurants. Company restaurant expenses are operating expenses at company-operated restaurants and include food, labor, benefits, utilities, rent and other restaurant operating costs.

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

Financing operations revenue consists of the portion of franchise fees not allocated to IHOP intellectual property, sales of equipment, as well as interest income from the financing of franchise fees and equipment leases. Financing expenses are primarily the cost of restaurant equipment.

Recently Adopted Accounting Standards

In September 2006, the Financial Accounting Standards Board (the "FASB") amended U.S. GAAP with respect to fair value measurements. These amendments, among other things, defined "fair value," established a framework for measuring fair value and expanded disclosures about fair value measurements. In February 2008, the FASB delayed for one year the applicability of the amended fair-value measurement requirements to certain nonfinancial assets and liabilities. The Company adopted the requirements that had been deferred on January 1, 2009. The adoption did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB amended U.S. GAAP with respect to business combinations. These amendments, among other things, established principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. These amendments also established disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The amendments are effective for fiscal years beginning after December 15, 2008. The Company adopted the amended requirements for business combinations on January 1, 2009 and will apply the requirements prospectively.

In March 2008, the FASB amended U.S. GAAP with respect to derivative instruments and hedging activities. These amendments, among other things, require companies to provide enhanced disclosures about (a) how and why they use derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. The Company adopted the new disclosure requirements on January 1, 2009. As the amendments did not change current accounting practice, there was no impact of the adoption on the Company's consolidated financial statements.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

In April 2008, the FASB amended U.S. GAAP with respect to the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of the amendments is to improve the consistency between the useful life of a recognized intangible asset under previously existing U.S. GAAP related to goodwill and other intangible assets and the period of expected cash flows used to measure the fair value of the asset under U.S. GAAP with respect to business combinations. The Company adopted the amended requirements on January 1, 2009, and will apply the provisions prospectively to any intangible assets acquired after the effective date.

In June 2008, the FASB amended U.S. GAAP with respect to determining if an instrument granted in a share-based payment transaction is a participating security. These amendments, among other things, require unvested share-based payment awards that contain rights to receive non-forfeitable dividends or dividend equivalents to be included in the two-class method of computing earnings per share. The Company retroactively adopted these amendments on January 1, 2009. The impact of the adoption on earnings per share as previously reported for the years ended December 31, 2008 and 2007 was not material.

In April 2009, the FASB amended U.S. GAAP to address concerns regarding (a) determining whether a market is not active and a transaction is not orderly; (b) recognition and presentation of other-than-temporary impairments; and (c) interim disclosures of fair values of financial instruments. The Company adopted these amendments effective April 1, 2009. There was no impact of the adoption on the Company's consolidated financial statements.

In May 2009, the FASB amended U.S. GAAP with respect to subsequent events. These amendments, among other things, established general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted these amendments effective April 1, 2009. The FASB modified its guidance in February 2010 and the Company adopted the modification for its December 2009 financial reporting. There was no impact of the adoption or the modification on the Company's consolidated financial statements.

In June 2009, the FASB established the *FASB Accounting Standards Codification*TM (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the Securities and Exchange Commission (the "SEC") under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification became effective for the Company in the third fiscal quarter of 2009. Adoption of the Codification did not have a material effect on the Company's consolidated financial statements.

In August 2009, the FASB amended U.S. GAAP with respect to measuring liabilities at fair value. These amendments provide clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value of such liability using one or more of the techniques prescribed by the update. Adoption of these amendments in the fourth quarter of fiscal year 2009 did not have a material effect on the Company's consolidated financial statements.

DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)****New Accounting Pronouncements**

In June 2009, the FASB amended U.S. GAAP with respect to the accounting for transfers of financial assets. These amendments, among other things, clarified that the objective of U.S. GAAP is to determine whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control over transferred financial assets; limited the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset; and removed the concept of a qualifying special-purpose entity. The Company will be required to adopt these amendments effective January 1, 2010, and is currently evaluating the potential impact, if any, on its consolidated financial statements.

In June 2009, the FASB amended U.S. GAAP with respect to the consolidation of variable interest entities ("VIEs"). These amendments, among other things, (i) change existing guidance for determining whether an entity is a VIE; (ii) require ongoing reassessments of whether an entity is the primary beneficiary of a VIE; and (iii) require enhanced disclosures about an entity's involvement in a VIE. The Company will be required to adopt these amendments effective January 1, 2010. Adoption of these amendments will not result in the identification of additional VIEs. For the VIE the Company has currently identified (see Note 14 of Notes to Consolidated Financial Statements), adoption will not change the determination that the Company is not the primary beneficiary.

3. Receivables

	<u>2009</u>	<u>2008</u>
	(In thousands)	
Accounts receivable	\$ 53,245	\$ 55,241
Gift card receivables	22,660	32,345
Credit card receivables	7,494	7,587
Notes receivable	17,678	22,664
Equipment leases receivable	146,537	153,560
Direct financing leases receivable	111,307	115,517
Other	8,966	11,063
	<u>367,887</u>	<u>397,977</u>
Less: allowance for doubtful accounts	(3,422)	(2,941)
	<u>364,465</u>	<u>395,036</u>
Less: current portion	(104,690)	(117,930)
Long-term receivables	<u>\$ 259,775</u>	<u>\$ 277,106</u>

Accounts receivable primarily includes receivables due from franchisees and distributors. Gift card receivables consist primarily of amounts due from third-party vendors. Credit card receivables consist primarily of amounts due from credit card companies used by the Company to process customer transactions. Notes receivable include IHOP franchise fee notes in the amount of \$10.4 million and \$16.1 million at December 31, 2009 and 2008, respectively. IHOP franchise fee notes have a term of five to eight years and are due in equal weekly installments, primarily bear interest averaging 8.32%

DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****3. Receivables (Continued)**

and 8.77% per annum at December 31, 2009 and 2008, respectively, and are collateralized by the franchise. The term of an equipment lease contract coincides with the term of the corresponding restaurant building lease. Equipment lease contracts are due in equal weekly installments, primarily bear interest averaging 10.15% and 10.11% per annum at December 31, 2009 and 2008, respectively, and are collateralized by the equipment. Where applicable, franchise fee notes, equipment contracts and building leases contain cross-default provisions wherein a default under one constitutes a default under all. There is not a disproportionate concentration of credit risk in any geographic area.

The following table summarizes the activity in the allowance for doubtful accounts:

<u>Allowance for Doubtful Accounts</u>	<u>(In thousands)</u>
Balance at December 31, 2006	\$ 1,359
Provision	2,039
Charge-offs	(399)
Balance at December 31, 2007	2,999
Provision	1,280
Charge-offs	(1,548)
Recoveries	210
Balance at December 31, 2008	2,941
Provision	1,645
Charge-offs	(1,279)
Recoveries	115
Balance at December 31, 2009	\$ 3,422

4. Assets Held For Sale

The Company classifies assets as held for sale and ceases the depreciation of the assets when there is a plan for disposal of the assets and those assets meet the held for sale criteria as defined in U.S. GAAP. Reacquired franchises, property and equipment and other assets held for sale are accounted for on the specific identification basis.

Reacquired franchises

For reacquired franchises, the Company records the franchise and equipment at the lower of (1) the sum of the franchise receivables and costs of reacquisition, or (2) the estimated net realizable value at the reacquisition date. Pending the sale of such franchise, the carrying value is amortized ratably over the remaining life of the asset or lease, and the estimated net realizable value is evaluated in conjunction with our impairment evaluation of long-lived assets. There was \$469,000 in reacquired franchises and equipment included in assets held for sale at December 31, 2009 and none at December 31, 2008.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

4. Assets Held For Sale (Continued)

Property and equipment

At December 31, 2007, assets held for sale primarily consisted of approximately 40 company-operated Applebee's restaurants in the California and Nevada markets, Applebee's previous corporate headquarters building, Applebee's corporate aircraft and property and equipment from closed stores.

As the preliminary purchase price allocation was finalized during 2008, certain purchase price fair values were revised downward and, as a result, assets held for sale were reduced by \$11.0 million. Additionally, an impairment was recognized on assets held for sale of \$5.6 million due to deterioration in the credit markets in general and a decline in operating results of Applebee's company-operated restaurants expected to be franchised in particular geographic areas. Also during 2008, four parcels of land held for future restaurant development, three company-owned restaurants in the Delaware market, 49 company-operated restaurants in the Texas market and seven company-operated stores in the New Mexico market were reclassified as assets held for sale. Additionally, one company-owned restaurant was reclassified out of assets held for sale after a determination was made that the Company had continuing involvement with the property which precluded classification as an asset held for sale.

The sales of the restaurants in the California, Nevada, Delaware and Texas markets, along with one closed store site were completed in 2008. The Company received proceeds of approximately \$49.4 million from these transactions. At December 31, 2008, assets held for sale comprised primarily seven company-operated restaurants in New Mexico and four parcels of land held for future restaurant development and property and equipment from closed stores.

The sales of the seven restaurants in the New Mexico market and of certain property and equipment associated with closed restaurants were completed during fiscal 2009. The Company reclassified to assets held for sale the fair value of four parcels of land on which four Applebee's company-operated restaurants were located. These restaurants had been franchised during 2008 but the Company retained ownership of the land and continued to lease the property to the franchisee. The Company's strategy does not contemplate retaining such properties as a lessor on a long-term basis, and, based on the requirements under U.S. GAAP, the Company determined the properties should be reclassified as assets held for sale. The Company also reclassified the net assets of one company-operated restaurant expected to be sold and recognized an additional impairment on the property and equipment from a previously closed restaurant. The balance of assets held for sale at December 31, 2009 of \$8.8 million was primarily comprised of four parcels of land previously acquired and held for future development, four parcels of land on which Applebee's franchised restaurants are situated, the net assets of one restaurant expected to be sold and property and equipment from one previously closed Applebee's restaurant. The sale of the restaurant to be sold closed in January, 2010.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

4. Assets Held For Sale (Continued)

The following table summarizes the changes in the balance of assets held for sale during fiscal 2009 and 2008:

	<u>(in millions)</u>
Balance December 31, 2007	\$ 66.1
Purchase price valuation adjustments	(11.0)
Impairment charges	(5.6)
Assets sold	(62.7)
Assets reclassified to held for sale	24.0
Other	1.1
Balance December 31, 2008	11.9
Impairment charges	(1.2)
Assets sold	(6.5)
Assets reclassified to held for sale	4.6
Balance December 31, 2009	\$ 8.8

All assets reported as held for sale are part of the company restaurant operations segment.

5. Property and Equipment

Property and equipment by category is as follows:

	<u>2009</u>	<u>2008</u>
	<u>(In thousands)</u>	
Land	\$ 170,287	\$ 172,775
Buildings and improvements	395,868	400,250
Leaseholds and improvements	269,949	274,577
Equipment and fixtures	114,920	110,811
Construction in progress	9,392	5,955
Properties under capital lease obligations	60,064	59,643
	<u>1,020,480</u>	<u>1,024,011</u>
Less accumulated depreciation and amortization	(249,108)	(199,529)
Property and equipment, net	\$ 771,372	\$ 824,482

The Company recorded depreciation expense on property and equipment of \$51.9 million, \$58.9 million and \$24.9 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Accumulated depreciation and amortization includes accumulated amortization for properties under capital lease obligations in the amount of \$24.6 million and \$21.7 million at December 31, 2009 and 2008, respectively.

The Company records capitalized interest in connection with the development of new restaurants and amortizes it over the estimated useful life of the related asset. Capitalized interest, net of amortization, was \$413,000 and \$442,000 at December 31, 2009 and 2008, respectively. During 2009 the Company capitalized \$22,000 of interest costs and charged \$51,000 to expense.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

6. Goodwill

The significant majority of the Company's goodwill and other intangible assets arose from the November 29, 2007 acquisition of Applebee's. The following table summarizes changes in the carrying value of goodwill:

	<u>Reporting Unit</u>			<u>Total</u>
	<u>IHOP Franchise</u>	<u>Applebee's Franchise</u>	<u>Applebee's Company</u>	
	(In millions)			
Balance, December 31, 2006	\$ 10.8	\$ —	\$ —	\$ 10.8
Acquisition of business	—	537.6	182.3	719.9
Balance, December 31, 2007	10.8	537.6	182.3	730.7
Purchase price adjustments	—	149.1	(57.5)	91.6
Refranchising	—	—	(11.3)	(11.3)
Annual impairment test	—	—	(113.5)	(113.5)
Balance, December 31, 2008	10.8	686.7	—	697.5
Annual impairment test	—	—	—	—
Balance, December 31, 2009	<u>\$ 10.8</u>	<u>\$ 686.7</u>	<u>\$ —</u>	<u>\$ 697.5</u>

In accordance with U.S GAAP, goodwill must be evaluated for impairment, at a minimum, on an annual basis, and more frequently if the Company believes indicators of impairment exist. Such indicators include, but are not limited to, events or circumstances such as a significant adverse change in the business climate, unanticipated competition, a loss of key personnel, adverse legal or regulatory developments, or a significant decline in the market price of the Company's common stock. In the process of the Company's annual impairment review, the Company primarily uses the income approach method of valuation that utilizes a discounted cash flow model to estimate the fair value of its reporting units. Significant assumptions used to determine fair value under the discounted cash flows model include future trends in sales, operating expenses, overhead expenses, depreciation, capital expenditures, and changes in working capital, along with an appropriate discount rate. During the course of fiscal 2009, the Company made periodic assessments as to whether there were indicators of impairment, particularly with respect to the significant assumptions underlying the discounted cash flow model, and determined an interim test of goodwill was not warranted. Accordingly, the Company performed its annual test of goodwill impairment in the fourth quarter of 2009. In the first step of the impairment test, the estimated fair value of both the IHOP and Applebee's franchising units exceeded their respective carrying values and it was concluded there was no impairment of goodwill.

During the twelve months ended December 31, 2008, there were several adjustments impacting goodwill. A significant portion of the fair value that had been assigned to property and equipment in the preliminary purchase price allocation was related to 510 Applebee's company-operated restaurants. In the preliminary purchase price allocation, the Company used assumptions as to rental data, capitalization rates and obsolescence factors such as profitability, years in operation and lease holding period. The assumptions used in the preliminary purchase price allocation were based on per-restaurant averages that were applied to the entire portfolio of properties. Subsequently, the Company utilized these same assumptions but with data specific to each individual restaurant and estimated a larger amount of obsolescence. As a result, the fair value of property and equipment from the preliminary purchase price valuation was revised downwards by approximately \$133 million. Additionally, the data

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

6. Goodwill (Continued)

used to estimate the capitalization rate in the preliminary allocation was based in part on industry data, the reporting of which lagged the actual timing by several months. Once data on capitalization rates being utilized in late November 2007 became available, the Company updated the capitalization rate assumptions accordingly. As a result of this additional information on capitalization rates the estimated fair value of property and equipment was revised downwards approximately \$14 million. The corresponding offset to these revisions was an increase to goodwill of \$91.5 million, net of deferred taxes, recorded in 2008.

After the revisions to the estimated purchase price allocation, the goodwill arising from the acquisition of Applebee's totaled \$811.5 million, of which \$124.8 million was assigned to Applebee's company-operated restaurant reporting unit (the "Company unit") and \$686.7 million to Applebee's franchise reporting unit (the "franchise unit"). Consistent with the Company's intent to franchise the significant majority of the company-operated Applebee's restaurants acquired on November 29, 2007, the Company determined the fair value of the Company unit for purposes of assigning goodwill to be the estimated sales value of the restaurants, the value that a market participant would have paid to purchase the restaurants on the day following the acquisition. The fair value of the Company unit was based on a multiple of approximately six times the operating cash flow for the trailing twelve months of the company unit. This multiple was supported by actual refranchising transactions negotiated within a month after the acquisition. The fair value of the franchise unit was determined using a discounted cash flow based on forecast royalty revenues from the franchise operations. These fair values, which reconciled to the overall purchase price paid to acquire Applebee's, were then used to assign goodwill between the reporting units as the excess of the estimated fair value of over the carrying value (as of November 29, 2007) of each reporting unit. The goodwill resulting from this acquisition is not expected to be deductible for tax purposes.

During 2008 the Company completed several refranchising transactions involving components of the Company unit (see Note 4, Assets Held For Sale). The goodwill of the Company unit was reduced by \$11.3 million for the goodwill allocated to these restaurants.

In performing the 2008 annual impairment test of goodwill, the Company concluded the remaining goodwill allocated to the Company unit was fully impaired and an impairment charge of \$113.5 million was recorded (see Note 17, Impairment and Closure Charges).

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

7. Other Intangible Assets

The Company did not have any intangible assets prior to the November 29, 2007 acquisition of Applebee's. As of December 31, 2009, intangible assets are as follows:

	Not Subject to Amortization			Subject to Amortization			Total
	Tradename	Liquor		Franchising Rights	Recipes and Menus		
		Licenses	Other		Leaseholds		
Balance, December 31, 2006	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Acquisition of business	790.0	6.4	—	200.5	15.7	—	1,012.6
Amortization expense	—	—	—	(1.0)	(0.1)	—	(1.1)
Balance, December 31, 2007	790.0	6.4	—	199.5	15.6	—	1,011.5
Additions	—	—	—	—	—	7.3	7.3
Purchase price adjustments	—	(1.7)	—	—	—	0.4	(1.3)
Amortization expense	—	—	—	(10.0)	(2.1)	(1.7)	(13.8)
Impairment	(44.1)	—	—	—	—	—	(44.1)
Refranchising	—	(1.8)	—	—	—	(1.8)	(3.6)
Balance, December 31, 2008	745.9	2.9	—	189.5	13.5	4.2	956.0
Amortization expense	—	—	—	(10.0)	(2.3)	(1.1)	(13.4)
Impairment	(93.5)	—	—	—	—	—	(93.5)
Other	—	—	0.2	—	—	0.3	0.5
Balance, December 31, 2009	\$ 652.4	\$ 2.9	\$ 0.2	\$ 179.5	\$ 11.2	\$ 3.4	\$ 849.6

See Note 17, Impairment and Closure Charges, regarding the impairment of the tradename recognized in 2009 and 2008.

Annual amortization expense for next five fiscal years is estimated to be approximately \$12.9 million annually. The weighted average life of the intangible assets subject to amortization is 18.6 and 18.7 years at December 31, 2009 and 2008, respectively.

Gross and net carrying amounts of intangible assets subject to amortization at December 31, 2009 and 2008 are as follows:

	December 31, 2009			December 31, 2008		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
(In millions)						
Franchising rights	\$ 200.5	\$ (21.0)	\$ 179.5	\$ 200.5	\$ (11.0)	\$ 189.5
Recipes and menus	15.7	(4.5)	11.2	15.7	(2.2)	13.5
Leaseholds/other	6.2	(2.8)	3.4	5.9	(1.7)	4.2

Total	<u>\$ 222.4</u>	<u>\$ (28.3)</u>	<u>\$ 194.1</u>	<u>\$ 222.1</u>	<u>\$ (14.9)</u>	<u>\$ 207.2</u>
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DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****8. Debt**

Debt consists of the following components:

	<u>2009</u>	<u>2008</u>
	(In millions)	
Series 2007-1 Class A-2-II-A Fixed Rate Term Senior Notes due December 2037, at a fixed rate of 7.1767% (inclusive of an insurance premium of 0.75%)	\$ 599.1	\$ 640.6
Series 2007-1 Class A-2-II-X Fixed Rate Term Senior Notes due December 2037, at a fixed rate of 7.0588%	434.2	604.3
Series 2007-1 Class M-1 Fixed Rate Term Subordinated Notes due December 2037, at a fixed rate of 8.4044%	104.0	119.0
Series 2007-1 Class A-1 Variable Funding Senior Notes, final maturity date December 2037, at a rate of 2.89% and 3.86% as of December 31, 2009 and 2008, respectively	100.0	100.0
Series 2007-1 Fixed Rate Notes due March 2037, at a fixed rate of 5.744% (inclusive of an insurance premium of 0.60%)	175.0	175.0
Series 2007-2 Variable Funding Notes, final maturity date March 2037, at a rate of 0.3% and 2.1% as of December 31, 2009 and 2008, respectively	25.0	15.0
Series 2007-3 Fixed Rate Term Notes due December 2037, at a fixed rate of 7.0588%	245.0	245.0
Discount on Fixed Rate Notes	(19.9)	(30.5)
Total debt	<u>1,662.4</u>	<u>1,868.4</u>
Less current maturities	(25.2)	(15.0)
Long-term debt	<u>\$ 1,637.2</u>	<u>\$ 1,853.4</u>

During fiscal 2009, the Company retired Series 2007-1 Class A-2-II-X Fixed Rate Term Senior Notes due December 2037 with a face amount of \$164.6 million and Series 2007-1 Class A-2-II-A Fixed Rate Term Senior Notes due December 2037 with a face amount of \$35.2 million for cash payments totaling \$146.9 million. The Company recognized a gain on extinguishment of this debt of \$45.7 million after the write-off of the discount and deferred financing costs related to the debt retired.

During fiscal 2009, the Company received proceeds from disposition of assets and release of certain reserve funds totaling \$11.8 million. As required by the terms of the Applebee's securitization agreements (discussed below), these funds were used to retire Series 2007-1 Class A-2-II-X Fixed Rate Term Senior Notes and Series 2007-1 Class A-2-II-A Fixed Rate Term Senior Notes at face values of \$5.5 million and \$6.3 million, respectively.

In January 2009, the Company began making scheduled monthly payments on the Series 2007-1 Class M-1 Fixed Rate Term Subordinated Notes due December 2037. Scheduled payments totaled \$15.0 million during fiscal 2009.

During fiscal 2008, the Company retired Series 2007-1 Class A-2-II-X Fixed Rate Term Senior Notes due December 2037 with a face amount of \$35.2 million and Series 2007-1 Class A-2-II-A Fixed Rate Term Senior Notes due December 2037 with a face amount of \$23.5 million for cash payments

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

8. Debt (Continued)

totaling \$40.0 million. The Company recognized a gain on extinguishment of this debt of \$15.2 million after the write-off of the discount and deferred financing costs related to the debt retired.

Long-Term Debt Instruments Outstanding

All of the Company's outstanding long-term debt instruments arose from several securitization transactions that took place in 2007, which are referred to as the "March 2007 Securitization Transaction" and the "November 2007 Securitization Transactions."

March 2007 Securitization Transaction

On March 16, 2007, IHOP Franchising, LLC, a wholly-owned subsidiary of the Company, and its wholly-owned subsidiary, IHOP IP, LLC (collectively, the "IHOP Co-Issuers"), issued \$175 million of Series 2007-1 Fixed Rate Notes (the "Series 2007-1 FRN") and completed a securitized financing facility providing for the issuance of up to \$25 million of Series 2007-2 Variable Funding Notes (the "Series 2007-2 VFN" and together with the Series 2007-1 FRN, the "March 2007 Notes").

The March 2007 Notes were issued under a Base Indenture dated March 16, 2007 (the "IHOP Base Indenture") and related Series Supplements, each dated March 16, 2007 (together with the IHOP Base Indenture, the "Indenture") among the IHOP Co-Issuers and Wells Fargo Bank, National Association, as the Indenture Trustee. The March 2007 Notes were issued in private transactions and are secured under the Indenture by various types of collateral as described herein. The March 2007 Notes were the first issuances under this program. While the Applebee's notes (discussed below) are outstanding, the IHOP Co-Issuers are not allowed to make additional borrowings through the sale of a new series of notes under this program.

Series 2007-1 Fixed Rate Notes

The Series 2007-1 FRN have a stated fixed interest rate of 5.144% per annum, an anticipated repayment date in March 2012, and a final payment date in March 2037. The effective interest rate on the Series 2007-1 FRN is 7.218%, after taking account of the premium on the Insurance Policy (described below under "Third Party Credit Enhancement") and the amortization of certain transaction-related expenditures. The anticipated repayment date of the Series 2007-1 FRN may be extended for two successive one-year periods at the election of the IHOP Co-Issuers subject to satisfaction of certain conditions as specified in the Indenture, including compliance with applicable covenant ratios and system-wide sales levels. The interest rate on the Series 2007-1 FRN would increase by 0.25% and the insurance premium will increase by 0.05% each year during any such extension period.

Series 2007-2 Variable Funding Notes

The Series 2007-2 VFN allow for drawings on a revolving basis. Interest on the Series 2007-2 VFN will generally be payable (a) in the event that commercial paper is issued to fund the Series 2007-2 VFN, at the rate, which is the per annum rate equivalent to the weighted average of the per annum rate payable by the commercial paper conduit in respect of promissory notes issued by the commercial paper conduit to fund the Series 2007-2 VFN, and (b) in the event that other means are used to fund the Series 2007-2 VFN, at per annum rates equal to (i) a base rate of either the prime rate or the Federal funds rate, plus 0.40%, or (ii) a Eurodollar rate to be determined by reference to the British

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

8. Debt (Continued)

Banker's Association Interest Settlement Rates for deposits in dollars for the applicable period. It is expected that amounts will be drawn under the Series 2007-2 VFN from time to time as needed by the IHOP Co-Issuers in connection with the operation of the IHOP franchising business. As of December 31, 2009 and 2008, a total of \$25.0 million and \$15.0 million, respectively, was drawn on the Series 2007-2 VFN. There is a commitment fee on the unused portion of the Series 2007-2 VFN of 0.15% per annum.

March 2007 Securitization Structure

The IHOP Co-Issuers are indirect wholly-owned subsidiaries of the Company that hold substantially all of the franchising assets used in the operation of the IHOP restaurant franchising business. In connection with the securitization transaction, two other limited liability companies, IHOP Property Leasing, LLC and IHOP Real Estate, LLC, were formed as subsidiaries of IHOP Franchising, LLC and an existing subsidiary, IHOP Properties, Inc., was transferred to IHOP Franchising, LLC and converted to a limited liability company. On and after the closing of the securitization transaction, these three subsidiaries (the "Real Estate Subsidiaries") own the real property assets related to the IHOP restaurant franchising business, including the fee and leasehold interests on the real property on which many IHOP restaurants are located and the related leases and sub-leases, respectively, to franchisees.

In connection with the March 2007 Securitization Transaction, the franchise agreements, franchise notes, area license agreements (related to the United States and Mexico), product sales agreements, equipment leases and other assets related to the IHOP restaurant franchising business were transferred to IHOP Franchising, LLC, the intellectual property related to the IHOP restaurant franchising business, among other things, was transferred to IHOP IP, LLC, the fee interests in real property and related franchisee leases were transferred to IHOP Real Estate, LLC and certain of the leasehold interests related to the IHOP franchised restaurants and the related subleases to franchisees were transferred to IHOP Property Leasing, LLC. The remaining leasehold interests and franchisee subleases are owned by IHOP Properties, LLC. The IHOP Co-Issuers have pledged all of their assets to the Indenture Trustee as security for the March 2007 Notes and any additional notes issued by the IHOP Co-Issuers. Although the March 2007 Notes are expected to be repaid solely from these subsidiaries' assets, the March 2007 Notes are solely obligations of the IHOP Co-Issuers and none of the Company, its direct or indirect subsidiaries, including the Real Estate Subsidiaries, guarantee or are in any way liable for the IHOP Co-Issuers' obligations under the Indenture, the March 2007 Notes or any other obligation in connection with the issuance of the March 2007 Notes. The Company has agreed, however, to guarantee the performance of the obligations of International House of Pancakes, LLC., its wholly-owned direct subsidiary, as servicer in connection with the servicing of the assets included as collateral under the Indenture and certain indemnity obligations relating to the transfer of the collateral assets to the IHOP Co-Issuers and the Real Estate Subsidiaries.

March 2007 Third Party Credit Enhancement

Timely payment of interest (other than contingent interest) and the outstanding principal of the March 2007 Notes were insured under a financial guaranty insurance policy issued by Financial Guaranty Insurance Company ("FGIC") under an Insurance and Indemnity Agreement among FGIC, the Company and various subsidiaries of the Company. There are concerns about the solvency of FGIC and the effectiveness of the insurance policy as FGIC is presently required to suspend payment on all

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

8. Debt (Continued)

claims in accordance with an order issued by the New York Insurance Department on November 24, 2009. While the insolvency of FGIC will not cause an event of default under the Indenture pursuant to which the March 2007 Notes were issued, it will cause FGIC to cease being the controlling party with respect to the March 2007 Notes and will require the IHOP Co-Issuers to obtain consent from a majority of the Noteholders rather than FGIC for any actions to be taken with respect to the securitization program, including amendments that require the consent of the controlling party.

March 2007 Covenants/Restrictions

The March 2007 Notes are subject to a series of covenants and restrictions under the Indenture customary for transactions of this type, including those relating to (i) the maintenance of specified reserve accounts to be used to make required payments in respect of the March 2007 Notes; (ii) certain debt service coverage and consolidated leverage ratios to be met, the failure of which may result in early amortization of the outstanding principal amounts due in respect of the March 2007 Notes or removal of International House of Pancakes, Inc., as servicer, among other things; (iii) optional prepayment subject to certain conditions; (iv) the Company's maintenance of more than 50% ownership interest in International House of Pancakes, LLC. and a restriction on the Company's merger with unaffiliated entities, unless the Company is the surviving entity or the surviving entity assumes all of the Company's obligations in connection with the securitization transaction and certain other conditions are satisfied; (v) limitations on indebtedness that may be incurred by the Company on a consolidated basis; and (vi) recordkeeping, access to information and similar matters. The March 2007 Notes are also subject to customary events of default, including events relating to non-payment of interest and principal due on or in respect of the March 2007 Notes, failure to comply with covenants within certain time frames, certain bankruptcy events, breach of representations and warranties, failure of security interest to be effective, a valid claim being made under the relevant insurance policy and the failure to meet the applicable debt service coverage ratio.

March 2007 Use of Proceeds

The net proceeds from the sale of the March 2007 Fixed Rate Notes on March 16, 2007 were \$171.7 million. Of this amount, \$114.2 million was used to repay existing indebtedness of the Company; \$2.4 million was deposited into an interest reserve account for the Series 2007-1 FRN; and \$3.1 million was deposited into a lease payment account for payment to third-party property lessors. The Company used the remaining proceeds primarily to pay the costs of the transaction and for share repurchases. In November, 2007, a total of \$15.0 million was drawn on the Series 2007-2 VFN which was used as part of the payment for the Applebee's acquisition. The remaining \$10.0 million balance on the Series 2007-2 VFN was subsequently drawn in June 2009 and used to repurchase debt on the open market.

November 2007 Securitization Transactions

As part of the financing for the Applebee's acquisition, certain subsidiaries of the Company completed two separate securitization transactions with total proceeds of \$2.039 billion. The securitization transactions consisted of an issuance of debt collateralized by Applebee's restaurant assets and a separate issuance of debt collateralized by IHOP restaurant assets under the IHOP securitization program.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

8. Debt (Continued)

Applebee's Securitization

On November 29, 2007, Applebee's Enterprises LLC, Applebee's IP LLC and other wholly-owned subsidiaries of Applebee's (collectively, the "Applebee's Co-Issuers"), completed a \$1.794 billion securitization transaction as described below. All of the notes issued in the Applebee's securitization were issued pursuant to an indenture (the "Applebee's Base Indenture"), and entered into by and among the Applebee's Co-Issuers and Wells Fargo Bank, and the related Series 2007-1 Supplement, each dated as of November 29, 2007 (together with the Applebee's Base Indenture, the "Applebee's Indenture").

Fixed Rate Notes

The Applebee's securitization consists of the following four classes of fixed rate notes (the "Applebee's November 2007-1 Notes"):

- \$350 million of Series 2007-1 Class A-2-I-X Fixed Rate Term Senior Notes, which do not have the benefit of a financial guaranty insurance policy. These notes had an expected life of approximately six months, with a legal maturity of 30 years. The Class A-2-I-X Fixed Rate Term Senior Notes were repaid in July 2008.
- \$675 million of Series 2007-1 Class A-2-II-A Fixed Rate Term Senior Notes that have the benefit of a financial guaranty insurance policy covering payment of interest when due and payment of principal at the applicable legal final maturity date. These notes have an expected life of approximately five years, with a legal maturity of 30 years.
- \$650 million of Series 2007-1 Class A-2-II-X Fixed Rate Term Senior Notes, which do not have the benefit of a financial guaranty insurance policy. These notes have an expected life of approximately five years, with a legal maturity of 30 years.
- \$119 million of Series 2007-1 Class M-1 Fixed Rate Term Subordinated Notes, which do not have the benefit of a financial guaranty insurance policy. These notes have an expected life of approximately four years, with a legal maturity of 30 years.

The Applebee's Indenture includes provisions which accelerate certain of the payment dates which, if not met, would require the Company to use operating funds to begin to pay down the outstanding debt. The accelerated payment date for the Applebee's November 2007-1 Notes will occur in December 2012, unless accelerated by failure to comply with provisions of the Applebee's Indenture. As of December 31, 2009, there was no acceleration of payment dates.

In the event that the Company is unable to refinance the Applebee's securitization debt by December 2012, then the Company will have the ability to extend the scheduled payment date for six months if in compliance with applicable covenant ratios at that time and, under certain circumstances, if consent is obtained from the series controlling party. Upon an extension, the interest rate on the Applebee's securitization debt will increase by 0.50%, and any unpaid amount will accrue interest at such increased rate and the insurance premium will increase by 0.1%.

In the event that the Company is unable to refinance the Applebee's securitization debt by December 2012, or, if an extension has been obtained and the Company is unable to refinance the Applebee's securitization debt by June 2013, the debt will go into rapid amortization and all excess cash

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

8. Debt (Continued)

flow (after defined required payments have been made) will be retained by the indenture trustee for the securitization and used to retire principal amounts of debt.

Series 2007-1 Class A-1 Variable Funding Senior Notes

The Applebee's securitization also included a \$100 million revolving credit facility of Series 2007-1 Class A-1 Variable Funding Senior Notes issued in two classes, with each drawdown allocated between the two classes on a pro rata basis. The 2007-1 Class A-1-A Variable Funding Notes in an amount up to \$30 million have the benefit of a financial guaranty insurance policy covering payment of interest when due and payment of principal at the legal final maturity date. The Series 2007-1 Class A-1-X Variable Funding Notes in an amount up to \$70 million do not have the benefit of a financial guaranty insurance policy. As of December 31, 2009 and 2008, there was \$100 million outstanding under this facility, consisting of \$30.0 million insured and \$70.0 million uninsured.

Securitization Structure

All of the Applebee's November 2007-1 Notes were issued by indirect subsidiaries of Applebee's that hold substantially all of the intellectual property, franchising assets and other restaurant assets of the Applebee's system and a certificate representing the right to receive a portion of the weekly residual cash flow from the IHOP securitization program. The servicing and repayment obligations related to the Applebee's November 2007-1 Notes and certain ongoing fees and expenses, including the premiums payable to the financial guaranty insurance company, are solely the responsibility of these indirect subsidiaries. Neither DineEquity, Inc., which is the ultimate parent of each of the subsidiaries involved in the securitization, nor Applebee's has guaranteed or is in any way liable for the obligations of the subsidiaries involved in the securitization, including the Applebee's November 2007-1 Notes and any other obligations of such subsidiaries arising in connection with the issuance of the Applebee's November 2007-1 Notes.

Third Party Credit Enhancement

Timely payment of interest (other than contingent interest) and the outstanding principal of the Series 2007-1 Class A-2-II-A Fixed Rate Term Senior Notes are insured under a financial guaranty insurance policy issued by Assured Guaranty Corp. ("Assured"). The insurance policy has been issued under an Insurance and Indemnity Agreement among Assured, the Company and various subsidiaries of the Company.

Covenants/Restrictions

The Applebee's November 2007-1 Notes are subject to a series of covenants and restrictions under the Applebee's Indenture which are customary for transactions of this type, including those relating to (i) the maintenance of specified reserve accounts to be used to make required payments in respect of the Applebee's November 2007-1 Notes; (ii) certain debt service coverage and consolidated leverage ratios to be met, the failure of which may result in early amortization of the outstanding principal amounts due in respect of the Applebee's November 2007-1 Notes or removal of Applebee's Services, Inc., as servicer, among other things; (iii) optional prepayment subject to certain conditions; (iv) a restriction on the Company's merger with unaffiliated entities, unless the Company is the surviving entity or the surviving entity assumes all of the Company's obligations in connection with the

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

8. Debt (Continued)

securitization transaction and certain other conditions are satisfied; (v) limitations on indebtedness that may be incurred by the Company on a consolidated basis; and (vi) recordkeeping, access to information and similar matters. The Applebee's November 2007-1 Notes are also subject to customary events of default, including events relating to non-payment of interest and principal due on or in respect of the Applebee's November 2007-1 Notes, failure to comply with covenants within certain time frames, certain bankruptcy events, breach of representations and warranties, failure of security interest to be effective, a valid claim being made under the relevant insurance policy and the failure to meet the applicable debt service coverage ratio.

IHOP Securitization

Series 2007-3 Fixed Rate Notes

On November 29, 2007, the IHOP Co-Issuers issued \$245 million of Series 2007-3 Fixed Rate Notes (the "Series 2007-3 FRN") in a securitized financing transaction. The Series 2007-3 FRN have an expected life of five years, with a legal maturity of 30 years. This issuance was the third issuance of debt securities by the IHOP Co-Issuers pursuant to a securitization structure established on March 16, 2007.

If the Company is unable to refinance the Series 2007-3 IHOP securitization debt by December 2012, then the Company will have the ability to extend the scheduled repayment date for six months if in compliance with applicable covenant ratios and system-wide sales levels at that time. Upon extension, the interest rate on the Series 2007-3 IHOP securitization debt will increase by 0.50% and any unpaid amount will accrue interest at such increased rate.

In the event that the Company is unable to refinance the Series 2007-3 IHOP securitization debt by December 2012, or, if an extension has been obtained and the Company is unable to refinance the Series 2007-3 IHOP securitization debt by June 2013, the debt will go into rapid amortization, and all excess cash flow (after defined required payments have been made) will be retained by the indenture trustee for the securitization and used to retire principal amounts of debt.

The Series 2007-3 FRN were issued by the IHOP Co-Issuers, which hold substantially all of the intellectual property and franchising assets of the IHOP system. The servicing and repayment obligations related to the Series 2007-3 FRN and certain on-going fees and expenses are solely the responsibility of the IHOP Co-Issuers. DineEquity, Inc., which is the ultimate parent of each of the IHOP Co-Issuers, has not guaranteed and is not in any way liable for the obligations of the IHOP Co-Issuers, including the Series 2007-3 FRN, the March 2007 Notes or any other obligations of the IHOP Co-Issuers incurred in connection with the issuance of the Series 2007-3 FRN or the March 2007 Notes. The Company does, however, guarantee the performance of International House of Pancakes, LLC, as servicer for the IHOP securitization program.

All of the Series 2007-3 FRN issued in the IHOP securitization were issued under the IHOP Base Indenture, as amended and supplemented from time to time, including by the related supplement to the IHOP Base Indenture dated as of November 29, 2007.

Securitization Structure

The securitization structure for Series 2007-3 FRN is substantially similar to the structure for the Series 2007-1 FRN and Series 2007-2 VFN.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

8. Debt (Continued)

Third Party Credit Enhancement

The Series 2007-3 FRN does not have any third party credit enhancement.

Covenants/Restrictions

The covenants under the Indenture and applicable to all notes were modified with the consent of the holders of the Series 2007-1 FRN.

Prepayment Penalties

In the event a significant portion of the securitization debt is repaid prior to December 2012, the Company may be liable for certain make-whole prepayment penalties with respect to the securitization debt and the applicable insurance policies. The amount of any prepayment penalty with respect to the securitization debt would be determined based upon, among other things, the date of repayment, prevailing benchmark interest rates at the time of repayment and the percentage of debt repaid.

Weighted Average Effective Interest Rate

The weighted average effective interest rate on all of the notes issued in the November 2007 securitization transactions, exclusive of the amortization of fees and expenses associated with the securitization transactions, is 7.1799%. Taking into account fees and expenses (excluding the interest rate swap transaction discussed below) associated with the securitization transactions that will be amortized as additional non-cash interest expense over a five-year period, which is the expected life of the notes, the weighted average effective interest rate for the notes issued in November 2007 securitization transactions is 8.4571%.

Covenants/Restrictions Compliance

The Company was in compliance with all the covenants/restriction related to the March 2007 and November 2007 securitized notes as of December 31, 2009 and has been in compliance for each month since issuance of the securitized notes.

Maturities

At December 31, 2009, the aggregate amounts of existing long-term debt maturing in each of the next five years and thereafter are as follows:

	<u>(In millions)</u>
2010	\$ 25.2
2011	25.2
2012	1,612.0
2013	—
2014	—
Thereafter	—
	<u>\$ 1,662.4</u>

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

8. Debt (Continued)

Discount on Notes

The discount on notes reflects the difference between the proceeds received from the sale of the notes and the face amount to be repaid over the life of the notes. The discount is being amortized as additional interest expense over the estimated life of the notes under the effective interest method.

The proceeds received from the sale of the Applebee's November 2007-1 Notes and the Series 2007-3 FRN (collectively, the "Notes") are net of amounts paid to the purchaser of the Notes who plans to resell these Notes.

Deferred Financing Costs

In connection with the March 2007 and November 2007 securitization transactions, the Company recorded approximately \$82.5 million of deferred financing costs. These deferred financing costs will be amortized using the effective interest method over the estimated life of the related debt. Amortization associated with the deferred financing costs included in interest expense for the years ended December 31, 2009, 2008 and 2007 was \$15.0 million, \$17.0 million and \$3.8 million, respectively. For the years ended December 31, 2009 and 2008, amortization associated with deferred financing costs of \$2.4 million and \$0.3 million, respectively, was included in the calculation of gain on retirement of debt. As of December 31, 2009 and 2008, \$42.5 million and \$64.7 million respectively, of deferred financing costs are reported as Other Assets in the consolidated balance sheet.

Interest Rate Swap

On July 16, 2007, the Company entered into an interest rate swap (the "Swap"), which was intended to hedge the interest payments on the securitized notes that were issued in November 2007 to finance the Applebee's acquisition. The Swap had a notional amount of \$2.039 billion and a fixed interest rate of 5.694%.

In connection with the closing of the November 2007 securitized financing transactions, the Company settled the Swap at a cost of \$124.0 million. As a result of the Swap settlement, the Company incurred interest expense on the undesignated portion of the Swap in an amount of \$62.1 million in 2007, and is amortizing the designated portion of the Swap of \$61.9 million into interest expense over the expected four-year life of the Applebee's November 2007-1 Notes and five-year life of IHOP Series 2007-3 FRN (see Note 16, Other Comprehensive Income (Loss)).

9. Financing Obligations

On May 19, 2008, the Company entered into a Purchase and Sale Agreement relating to the sale and leaseback of 181 parcels of real property (the "Sale-Leaseback Transaction"), each of which is improved with a restaurant operating as an Applebee's Neighborhood Grill and Bar (the "Properties"). On June 13, 2008, the closing date of the Sale-Leaseback Transaction, the Company entered into a Master Land and Building Lease ("Master Lease") for the Properties. The proceeds received from the transaction were \$337.2 million. The Master Lease calls for an initial term of twenty years and four five-year options to extend the term.

The Company has an ongoing obligation related to the Properties until such time as the lease related to each of the Properties is assigned to a qualified franchisee in a transaction meeting certain parameters set forth in the Master Lease. Due to this continuing involvement, the transaction was

DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****9. Financing Obligations (Continued)**

recorded under the financing method in accordance with U.S. GAAP governing sale-leaseback transactions involving real estate. Accordingly, the value of the land, buildings and improvements will remain on the Company's books and the buildings and improvements will continue to be depreciated over their remaining useful lives. The net proceeds received have been recorded as a financing obligation. A portion of the lease payments is recorded as a decrease to the financing obligation and a portion is recognized as interest expense. In the event the lease obligation of any individual property or group of properties is assumed by a qualified franchisee the Company's continuing involvement will cease. At that time, that portion of the transaction related to that property or group of properties is expected to be recorded as a sale in accordance with U.S. GAAP and the net book value of those properties will be removed from the Company's books, along with a ratable portion of the remaining financing obligation.

As of December 31, 2009, the Company's continuing involvement with 23 of the 181 Properties was ended by assignment of the lease obligation to a qualified franchisee or a release from the lessor. In accordance with the accounting described above, the transactions related to these properties have been recorded as a sale with property and equipment and financing obligations each reduced by \$45.2 million.

In July 2008, the Company entered into a sale-leaseback transaction with respect to its support center in Lenexa, Kansas. In connection with this transaction, the Company received approximately \$39 million in proceeds. The initial term of the leaseback agreement is 15 years. As the Company expects to have continuing involvement in the form of future subleasing of a substantial portion of the support center, the transaction will be recorded under the financing method as described above.

As of December 31, 2009, future minimum lease payments under financing obligations during the initial terms of the leases related to the sale-leaseback transactions are as follows:

<u>Fiscal Years</u>	<u>(In millions)</u>
2010	\$ 31.6
2011	31.9
2012(1)	29.3
2013	32.0
2014	32.1
Thereafter	415.0
Total minimum lease payments	571.9
Less interest	(253.4)
Total financing obligations	318.5
Less current portion(2)	(9.1)
Long-term financing obligations	\$ 309.4

- (1) Due to the varying closing date of the Company's fiscal year, 11 monthly payments will be made in fiscal 2012.
- (2) Included in other accrued expenses on the consolidated balance sheet.

DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****10. Leases**

The Company leases the majority of all restaurants. The restaurants are subleased to IHOP franchisees or in a few instances operated by the Company. These noncancelable leases and subleases consist primarily of land, buildings and improvements.

The following is the Company's net investment in direct financing lease receivables:

	<u>2009</u>	<u>2008</u>
	(In millions)	
Total minimum rents receivable	\$ 220.9	\$ 241.6
Less unearned income	(109.6)	(126.1)
Net investment in direct financing lease receivables	111.3	115.5
Less current portion	(4.1)	(3.5)
Long-term direct financing lease receivables	<u>\$ 107.2</u>	<u>\$ 112.0</u>

Contingent rental income, which is the amount above and beyond base rent, for the years ended December 31, 2009, 2008 and 2007 was \$15.6 million, \$18.0 million and \$17.5 million, respectively.

The following is the Company's net investment in equipment leases receivable:

	<u>2009</u>	<u>2008</u>
	(In millions)	
Total minimum leases receivable	\$ 283.2	\$ 302.4
Less unearned income	(136.7)	(148.9)
Net investment in equipment leases receivables	146.5	153.5
Less current portion	(6.8)	(7.0)
Long-term equipment leases receivable	<u>\$ 139.7</u>	<u>\$ 146.5</u>

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

10. Leases (Continued)

The following are minimum future lease payments on the Company's noncancelable leases as lessee at December 31, 2009:

	<u>Capital Leases</u>	<u>Operating Leases</u>
	(In millions)	
2010	\$ 25.0	\$ 88.7
2011	24.9	88.3
2012	24.7	86.5
2013	24.8	88.4
2014	25.0	88.1
Thereafter	165.9	1,096.6
Total minimum lease payments	290.3	\$ 1,536.6
Less interest	(129.5)	
Capital lease obligations	160.8	
Less current portion(1)	(8.0)	
Long-term capital lease obligations	\$ 152.8	

(1) Included in other accrued expenses on the consolidated balance sheet.

The asset cost and carrying amount on company-owned property leased at December 31, 2009, was \$92.0 million and \$74.7 million, respectively. The asset cost and carrying amount on company-owned property leased at December 31, 2008, was \$95.4 million and \$79.5 million, respectively. The asset cost and carrying amounts represent the land and building asset values and net book values on sites leased to franchisees.

The minimum future lease payments shown above have not been reduced by the following future minimum rents to be received on noncancelable subleases and leases of owned property at December 31, 2009:

	<u>Direct Financing Leases</u>	<u>Operating Leases</u>
	(In millions)	
2010	\$ 18.4	\$ 96.2
2011	18.5	96.2
2012	18.6	96.8
2013	18.7	97.6
2014	18.7	97.8
Thereafter	128.0	1,063.2
Total minimum rents receivable	\$ 220.9	\$ 1,547.8

The Company has noncancelable leases, expiring at various dates through 2032, which require payment of contingent rents based upon a percentage of sales of the related restaurant as well as property taxes, insurance and other charges. Subleases to franchisees of properties under such leases

DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****10. Leases (Continued)**

are generally for the full term of the lease obligation at rents that include the Company's obligations for property taxes, insurance, contingent rents and other charges. Generally, the noncancelable leases include renewal options. Contingent rent expense for all noncancelable leases for the years ended December 31, 2009, 2008 and 2007 was \$3.9 million, \$4.5 million and \$3.4 million, respectively. Minimum rent expense for all noncancelable operating leases for the years ended December 31, 2009, 2008 and 2007 was \$86.6 million, \$91.2 million and \$67.6 million, respectively.

11. Fair Value Measurements

U.S GAAP pertaining to fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). U.S. GAAP establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists; therefore requiring an entity to develop its own assumptions.

The Company has one group of financial instruments, restricted assets related to Applebee's captive insurance subsidiary, which are required under U.S. GAAP to be measured on a recurring basis at fair value. None of the Company's non-financial assets or non-financial liabilities is required to be measured at fair value on a recurring basis. The Company has not elected to use fair value measurement, as provided under U.S. GAAP, for any assets or liabilities for which fair value measurement is not presently required.

Restricted assets related to a captive insurance subsidiary are carried at fair value and consisted of the following at December 31, 2009: \$0.8 million of cash and certificates of deposit held in escrow, \$0.9 million in money market funds invested in U.S. government securities, \$2.0 million in mutual funds invested in auction-rate securities and one auction-rate security of \$0.6 million. At December 31, 2008 restricted assets related to a captive insurance subsidiary consisted of the following: \$1.1 million of cash and certificates of deposit held in escrow, \$1.4 million in money market funds invested in U.S. government securities, \$2.1 million in mutual funds invested in auction-rate securities and two auction-rate securities of \$1.2 million. The money market funds, the auction rate securities and the mutual funds invested in auction-rate securities are considered available for sale.

Financial instruments measured at fair value on a recurring basis at December 31, 2009 and 2008 are as follows:

	<u>Fair Value</u>	<u>Fair Value Measured Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		(In millions)		
At December 31, 2009:				
Restricted assets of captive insurance company	\$ 4.3	\$ 1.7	\$ —	\$ 2.6
At December 31, 2008:				
Restricted assets of captive insurance company	\$ 5.8	\$ 2.5	\$ —	\$ 3.3

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

11. Fair Value Measurements (Continued)

The level 3 inputs used consist of a discounted cash flow under the income approach using primarily assumptions as to future interest payments and a discount rate. There was no change in the valuation methodology between the years presented.

12. Fair Value of Financial Instruments

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

The following table summarizes cost and market value of our financial instruments measured at fair value (see Note 11, Fair Value Measurements) at December 31, 2009:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(in millions)			
Cash equivalents and money market funds	\$ 1.7	\$ —	\$ —	\$ 1.7
Auction-rate securities	\$ 2.9	\$ —	\$ (0.3)	\$ 2.6

During 2009, auction-rate securities with a face value of \$725,000 were sold for \$674,000, with the realized losses of \$51,000 included in earnings for the year ended December 31, 2009. The scheduled maturity of the auction-rate security is December, 2030.

The fair values of non-current financial liabilities are shown in the following table:

	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
	(in millions)			
Long-term debt, less current maturities	\$ 1,637.2	\$ 1,547.5	\$ 1,853.4	\$ 1,177.2
Series A Preferred Stock	\$ 187.1	\$ 168.3	\$ 187.1	\$ 131.2

At December 31, 2009 and 2008, the fair value of the non-current financial liabilities was determined based on Level 3 inputs using a risk-adjusted discounted cash flow model under the income approach.

13. Commitments and Contingencies

Purchase Commitments

In some instances, the Company enters into commitments to purchase advertising and other items. Most of these agreements are fixed price purchase commitments. At December 31, 2009, the outstanding purchase commitments were \$62.8 million, the majority of which related to advertising.

Lease Guarantees and Contingencies

In connection with the sale of Applebee's restaurants to franchisees and other parties, the Company has, in certain cases, guaranteed or had potential continuing liability for lease payments. As

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

13. Commitments and Contingencies (Continued)

of December 31, 2009 and 2008, the Company has outstanding lease guarantees or is contingently liable for approximately \$119.0 million and \$160.9 million, respectively. This amount represents the maximum potential liability of future payments under these leases. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from 2010 through 2044. In the event of default, the indemnity and default clauses in our sale or assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of December 31, 2009.

In 2004, Applebee's arranged for a third-party financing company to provide up to \$250.0 million to qualified franchisees for loans to fund development of new restaurants, subject to its approval. The Company provided a limited guarantee of 10% of certain loans advanced under this program. The Company will be released from its guarantee if certain operating results are met after the restaurant has been open for at least two years. As of December 31, 2009, there were loans outstanding under this program to four franchisees for approximately \$33.6 million, net of any guarantees from which the Company was released. The fair value of the Company's guarantees under this financing program were approximately \$287,000 and \$70,000 as of December 31, 2009 and 2008, respectively, and are recorded in non-current liabilities in the consolidated balance sheet. This program expired on October 31, 2007; however, the Company's guarantee will remain outstanding until the provisions for release have been satisfied, as defined in the related agreement.

Litigation, Claims and Disputes

The Company is 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 would not have a material adverse impact on the Company's business or consolidated financial statements.

Gerald Fast v. Applebee's

The Company is currently defending a collective action filed under the Fair Labor Standards Act styled 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, the Company 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 8th Circuit for review on interlocutory appeal. Briefing on the issues for interlocutory appeal was completed by the parties on October 2, 2009.

The Company believes it has strong defenses to the substantive claims asserted and intends to vigorously defend this case. An estimate of the possible loss, if any, or the range of the loss cannot be

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

13. Commitments and Contingencies (Continued)

made and, therefore, the Company has not accrued a loss contingency related to this matter. It is reasonably possible that future events will occur in the near term that provide clarification as to an estimate of the possible loss, if any, or the range of the loss related to this matter.

Letters of Credit

The Company provides letters of credit, primarily to various insurance carriers to collateralize obligations for outstanding claims. As of December 31, 2009, The Company had approximately \$21.7 million of unused letters of credit outstanding. These letters expire at different points in 2010 and are automatically renewed for an additional year if no cancellation notice is submitted.

Severance Agreements

Applebee's had severance and employment agreements with certain officers which provided for severance payments to be made in the event of a change in control. In connection with the Company's acquisition of Applebee's, the change in control provisions of these agreements were triggered. Certain officers were terminated at the acquisition date. The severance amounts for these individuals have been accrued in the consolidated financial statements. In addition, certain officers will be terminated over the next two years. The Company accrued these severance costs over the expected service period. As of December 31, 2009 and 2008, the Company has accrued \$1.9 million and \$3.8 million, respectively, in its consolidated balance sheet.

14. Consolidation of Variable Interest Entities

U.S. GAAP prescribes the accounting for certain entities, called variable interest entities ("VIEs"), in which equity investors do not have the characteristics of a controlling interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. Under U.S. GAAP, an enterprise that absorbs a majority of the VIE's expected losses, receives a majority of the VIE's expected residual returns, or both, is considered to be the primary beneficiary of the VIE and must consolidate the entity in its financial statements.

In February 2009, the Company and owners of Applebee's and IHOP franchise restaurants formed Centralized Supply Chain Services, LLC ("CSCS" or the "Co-op") to manage procurement activities for the Applebee's and IHOP restaurants choosing to join the Co-op. CSCS meets the definition of a VIE under U.S. GAAP. Under the terms of the Co-op agreements, each member restaurant belonging to CSCS has equal and identical ownership rights and obligations. IHOP franchise restaurants to which the Company has provided financial support in the form of loans to purchase franchises and equipment are considered de facto agents of the Company for purposes of determining the primary beneficiary of the VIE. Company-owned Applebee's and IHOP restaurants, in addition to the IHOP franchise restaurants deemed to be de facto agents, comprised only 33.6% of the CSCS membership as of the date of determination of the primary beneficiary of the VIE. Accordingly, the Company is not considered to be the primary beneficiary of the VIE and therefore does not consolidate the results of CSCS.

Under the Co-op agreements, the Company was obligated to make a one-time payment to CSCS for start-up costs of \$6.3 million, \$5.5 million of which has been paid as of December 31, 2009, with a payment of \$0.8 million due in January 2010. The Company is not obligated to provide any support to the Co-op under any express or implied agreement beyond this \$6.3 million.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

14. Consolidation of Variable Interest Entities (Continued)

The Co-op does not purchase items on behalf of member restaurants; rather, it facilitates purchasing agreements and distribution arrangements between suppliers and member restaurants. Each member restaurant is responsible for only the goods and services it chooses to purchase and bears no responsibility or risk of loss for goods and services purchased by other member restaurants. Further, the Company bears no responsibility or risk of loss for goods and services purchased franchise restaurants deemed de facto agents for purposes of determining the primary beneficiary of the VIE. Based on these facts, the Company believes its maximum estimated loss related to its membership in the Co-op is de minimis.

The Company does not anticipate that the adoption on January 1, 2010 of new U.S. GAAP requirements with respect to VIEs will affect the determination of the primary beneficiary of the Co-op (see Note 2, Basis of Presentation and Summary of Significant Accounting Policies).

15. Preferred Stock and Stockholders' Equity

Preferred Stock

As part of the financing for the Applebee's acquisition, on November 29, 2007, the Company completed two separate private placements of preferred stock.

Series A Perpetual Preferred Stock

On November 29, 2007, the Company issued and sold 190,000 shares of Series A Perpetual Preferred Stock (the "Series A Perpetual Preferred Stock") for an aggregate purchase price of \$190.0 million in cash. Total issuance costs were approximately \$3.0 million. All of the shares were sold to MSD SBI, L.P., an affiliate of MSD Capital, L.P., pursuant to a purchase agreement dated as of July 15, 2007, as amended as of November 29, 2007. The shares of Series A Perpetual Preferred Stock rank (i) senior to the common stock, and any series of preferred stock specifically designated as junior to the Series A Perpetual Preferred Stock, with respect to the payment of dividends and distributions, in a liquidation, dissolution or winding up, and upon any other distribution of the Company's assets; and (ii) on a parity with all other series of preferred stock, including the Series B Convertible Preferred Stock, described below, with respect to the payment of dividends and distributions, in a liquidation, dissolution or winding up, and upon any other distribution of the Company's assets.

The holders of the Series A Perpetual Preferred Stock are entitled to receive dividends, at the rates and on the dates set forth in the Certificate of Designations for the Series A Perpetual Preferred Stock (the "Series A Certificate of Designations"), if, as, and when such dividends are declared by the Company's Board of Directors, but out of funds legally available for the payment of dividends, which dividends are payable in cash, subject to the Company's right to elect to accumulate any dividends payable after the first anniversary of the issue date. If, on any scheduled dividend payment date, the holder of record of a share of Series A Perpetual Preferred Stock does not receive in cash the full amount of any dividend required to be paid on such share on such date pursuant to the Series A Certificate of Designations (such unpaid dividends that have accrued and were required to be paid, but remain unpaid, on a scheduled dividend payment date, together with any accrued and unpaid accumulated dividends, the "Passed Dividends"), then such Passed Dividends accumulate on such outstanding share of Series A Perpetual Preferred Stock, whether or not there are funds legally available for the payment thereof or such Passed Dividends are declared by the Company's Board of Directors, and until such Passed Dividends have been paid, the applicable dividend rate under the

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

15. Preferred Stock and Stockholders' Equity (Continued)

Series A Certificate of Designations is computed on the sum of the stated value of the share plus such unpaid Passed Dividend. In the event that Passed Dividends shall have accrued but remain unpaid for two consecutive quarterly dividend periods (each such quarterly dividend period, a "Passed Quarter"), the applicable dividend rate under the Series A Certificate of Designations is, as of the end of such two-Passed Quarters period, prospectively increased by two percent (2.0%) per annum, and the applicable dividend rate under the Series A Certificate of Designations further increases prospectively by two percent (2.0%) per annum as of the end of each subsequent two-Passed Quarters period with respect to which Passed Dividends shall have accrued but remain unpaid. The Series A Certificate of Designations further provides that (i) under no circumstances shall the dividend rate applicable at any time prior to the tenth (10th) anniversary of the issue date of the Series A Perpetual Preferred Stock exceed sixteen percent (16%) per annum, and (ii) upon payment by the Company of all accrued and unpaid Passed Dividends, the dividend rate is thereupon automatically reduced prospectively to the applicable per annum dividend rate under the Series A Certificate of Designations. As of December 31, 2009, all required dividends have been paid in cash on the scheduled dividend payment dates.

The Certificate of Designations for Series A Perpetual Preferred Stock requires that, upon the occurrence of a Change of Control, unless prohibited by applicable law, the Company shall redeem all then outstanding shares of the Series A Perpetual Preferred Stock for cash at a redemption price per share corresponding to the timing of such Change of Control, as specified in the Certificate of Designations. U.S. GAAP requires preferred securities that are redeemable for cash or other assets to be classified outside of permanent equity if they are redeemable upon the occurrence of an event that is not solely within the control of the issuer. Accordingly, the Series A Perpetual Preferred Stock is not included as a component of Stockholders' Equity in the accompanying Consolidated Balance Sheets.

Series B Convertible Preferred Stock

On November 29, 2007, the Company issued and sold 35,000 shares of Series B Convertible Preferred Stock for an aggregate purchase price of \$35.0 million in cash. Total issuance costs were approximately \$0.8 million. All of the shares were sold to affiliates of Chilton Investment Company, LLC (collectively, "Chilton") pursuant to a purchase agreement dated as of July 15, 2007. The shares of Series B Convertible Preferred Stock rank (i) senior to the common stock, and any series of preferred stock specifically designated as junior to the Series B Convertible Preferred Stock, with respect to the payment of dividends and distributions, in a liquidation, dissolution or winding up, and upon any other distribution of the Company's assets; and (ii) on a parity with all other series of preferred stock, including the Series A Perpetual Preferred Stock, with respect to the payment of dividends and distributions, in a liquidation, dissolution or winding up, and upon any other distribution of the Company's assets.

Each share of Series B Convertible Preferred Stock has an initial stated value of \$1,000, that increases at the rate of 6.0% per annum, compounded quarterly, commencing on the issue date of such share of Series B Convertible Preferred Stock to and including the earlier of (i) the date of liquidation, dissolution or winding up or the redemption of such share, or (ii) the date such share is converted into the Company's common stock. The stated value of a share as so accreted as of any date is referred to as the accreted value of the share as of that date. Shares of Series B Convertible Preferred Stock may be redeemed by the Company, in whole or in part at the Company's option, on or after the fourth anniversary of the issue date, at a redemption price equal to the accreted value as of the applicable redemption date, subject to the terms set forth in the Certificate of Designations for the Series B

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

15. Preferred Stock and Stockholders' Equity (Continued)

Convertible Preferred Stock ("the "Series B Certificate of Designations"). The Series B Convertible Preferred Stock entitles the holders thereof to receive certain dividends and distributions to the extent that any dividends or distributions paid on the Company's common stock exceed the annual accretion on the Series B Convertible Preferred Stock. Holders of Series B Convertible Preferred Stock are entitled to vote on all matters (including the election of directors) submitted to the holders of the Company's common stock, as a single class with the holders of the Company's common stock, with each share of Series B Convertible Preferred Stock having one vote per share of the Company's common stock then issuable upon conversion of such share of Series B Convertible Preferred Stock. As of December 31, 2009 and 2008, the aggregate accretion for the Series B Convertible Preferred Stock was \$4.6 million and \$2.3 million, respectively.

At any time and from time to time, any holder of Series of B Convertible Preferred Stock may convert all or any portion of the Series B Convertible Stock held by such holder into a number of shares of the Company's common stock computed by multiplying (i) each \$1,000 of aggregate accreted value of the shares to be converted by (ii) the conversion rate then in effect (which initially is 14.44878 shares of common stock per \$1,000 of accreted value, but subject to customary anti-dilution adjustments). All outstanding shares of Series B Convertible Preferred Stock will automatically convert into shares of the Company's common stock on the fifth anniversary of the issue date, at the conversion rate then in effect, without any action on the part of the holder thereof.

The Company also entered into a registration rights agreement, dated as of November 29, 2007, with Chilton pursuant to which the Company granted Chilton certain registration rights with respect to the shares of Series B Convertible Preferred Stock issued to Chilton and the shares of common stock issuable upon conversion of the Series B Convertible Preferred Stock.

Share Repurchase Program

In January 2003, our Board of Directors authorized a program to repurchase shares of the Company's common stock. As of December 31, 2008, the Board had approved the repurchase of up to 7.2 million shares of common stock. The Company has repurchased 6.3 million shares of its common stock since the inception of the program at a total cost of \$280.0 million. The Company did not repurchase shares in 2009 or 2008. In February 2009, the Board of Directors cancelled the authorization to repurchase any additional shares under this program.

Dividends

The Company had accrued \$0.2 million as dividends on Series A Perpetual Preferred Stock as of December 31, 2009.

The Company paid regular quarterly dividends of \$0.25 per common share beginning in May 2003 through November 2008. In December 2008, the Board of Directors suspended the payment of the quarterly cash dividend to common stockholders for the foreseeable future as part of actions the Company is taking to maximize its financial flexibility. Future dividend declarations on the common shares may be made at the discretion of the Board of Directors after consideration of the Company's earnings, financial condition, cash requirements, future prospects and other factors. There were no dividends declared or paid on common shares in 2009.

DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****16. Other Comprehensive Income (Loss)**

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

	<u>Year Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(in millions)		
Net income (loss)	\$ 31.4	\$ (154.4)	\$ (0.5)
Other comprehensive income (net of tax):			
Interest rate swap	8.5	7.7	(36.6)
Temporary decline in available-for-sale securities	0.1	(0.4)	—
Total comprehensive income (loss)	<u>\$ 40.0</u>	<u>\$ (147.1)</u>	<u>\$ (37.1)</u>

The amount of income tax benefit allocated to the interest rate swap was \$5.6 million, \$4.9 million and \$24.1 million for the years ended December 31, 2009, 2008 and 2007, respectively. The amount of income tax benefit allocated to the temporary decline in available-for-sale securities was \$0.1 million for the year ended December 31, 2008.

The loss related to an interest rate swap designated as a cash flow hedge is being reclassified into earnings as interest expense over the expected life of the related debt, estimated to be approximately five years. Approximately \$9.2 million, net of tax, is expected to be reclassified into earnings over the next 12 months.

The accumulated comprehensive loss of \$20.8 million (net of tax) as of December 31, 2009 is comprised of \$20.5 million related to a terminated interest rate swap and \$0.3 million related to a temporary decline in available-for-sale securities. The accumulated comprehensive loss of \$29.4 million (net of tax) as of December 31, 2008 is comprised of \$29.0 million related to a terminated interest rate swap and \$0.4 million related to a temporary decline in available-for-sale securities.

17. Impairments and Closure Charges

Impairment and closure charges for the years ended December 31, 2009, 2008 and 2007 were as follows:

	<u>Year Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In millions)		
Goodwill impairment	\$ —	\$ 124.8	\$ —
Tradename impairment	93.5	44.1	—
Long-lived tangible asset impairment	10.4	71.4	3.3
Closure charges	1.2	0.3	1.1
Total impairment and closure charges	<u>\$ 105.1</u>	<u>\$ 240.6</u>	<u>\$ 4.4</u>

In accordance with U.S. GAAP, indefinite-lived intangible assets must be evaluated for impairment, at a minimum, on an annual basis, and more frequently if the Company believes indicators of impairment exist. Such indicators include, but are not limited to, events or circumstances such as a significant adverse change in the business climate, unanticipated competition, a loss of key personnel, adverse legal or regulatory developments, or a significant decline in the market price of the Company's

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

17. Impairments and Closure Charges (Continued)

common stock. In performing the impairment review of the tradename intangible asset, the Company primarily used the relief of royalty method under income approach method of valuation. Significant assumptions used to determine fair value under the relief of royalty method include future trends in sales, a royalty rate and a discount rate to be applied to the forecast revenue stream. During the course of fiscal 2009, the Company made periodic assessments as to whether there were indicators of impairment, particularly with respect to the significant assumptions noted above. In the first half of the year, same-store sales trends were within the range of the forecast used in the assessment. During the third quarter of 2009, same-store sales trended below the forecast range; however, during 2009 there were also indications that a lessening of underlying risk might result in a lower discount rate as well. As a result of these assessments the Company determined an interim test of indefinite-lived intangibles was not necessary.

During the fourth quarter of 2009, the Company performed the annual test of impairment indefinite-lived intangibles. The Company revised downwards the same-store sales change assumption in its five-year forecast. The Company also revised downward the assumed discount rate. All other assumptions used in the discounted relief from royalty calculation were unchanged. As the result of the revised assumptions, the estimated fair value of the tradename was less than the carrying value and an impairment of \$93.5 million was recognized.

On a quarterly basis, the Company assesses whether events or changes in circumstances have occurred that potentially indicate the carrying value of tangible long-lived assets may not be recoverable. Recoverability of a restaurant's assets is measured by comparing the assets' carrying value to the undiscounted future cash flows expected to be generated over the assets' remaining useful life or remaining lease term, whichever is less. If the total expected undiscounted future cash flows are less than the carrying amount of the assets, this may be an indicator of impairment. If it is decided that there has been an impairment, the carrying amount of the asset is written down to the estimated fair value. The fair value is determined by discounting the future cash flows from the asset, based on our cost of capital. We believe this method provides a reasonable estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

Throughout 2009, the Company recognized impairments of long-lived tangible assets of \$10.4 million. The impaired assets comprised three IHOP company-operated restaurants, various assets related to one IHOP franchise restaurants, one Applebee's company-operated restaurant, a write-down to the estimated sales value, based on a current letter of intent, of one Applebee's restaurant that had been closed in a prior period and was included in assets held for sale and four parcels of Applebee's real estate. The Company had fee ownership of the properties on which four Applebee's company-operated restaurants were located. These restaurants were franchised in the fourth quarter of 2008 but the Company retained ownership of the land and continued to lease the property to the franchisee. The Company's strategy does not contemplate retaining such properties as a lessor on a long-term basis. During the third quarter of 2009, the Company determined the properties met the requirements under U.S. GAAP to be reclassified as assets held for sale. The properties were written down to the estimated fair value that will be received upon sale. The Company evaluated the causal factors of all impairments of long-lived assets as they were recorded during 2009 and concluded they were based on factors specific to each asset and not potential indicators of an impairment of long-lived assets as a whole.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

17. Impairments and Closure Charges (Continued)

The Company recognized closure charges of \$1.2 million in 2009 related to two IHOP franchise restaurants.

During 2008 the Company recognized impairment and closure charges totaling \$240.6 million. In June 2008, the Company entered into a sale-leaseback transaction relating to 181 parcels of real estate comprising land, buildings and improvements. The net book value of the real estate exceeded the proceeds received by \$40.6 million. All of the parcels involved in the transactions had been acquired in the November 29, 2007 acquisition of Applebee's and their estimated fair value was assigned as part of the purchase price allocation as of that date. The Company evaluated events subsequent to November 29, 2007 and noted a deterioration in both the domestic real estate and credit markets between the date of the purchase price allocation and the June 2008 closing date of the sale-leaseback transactions. In the absence of objective evidence to the contrary, the Company concluded that the estimated fair value of the real estate determined in the purchase price allocation had been reasonable and the decline in value related primarily to market events subsequent to the acquisition date necessitating a fixed asset impairment charge as opposed to an adjustment to the allocated purchase price.

The Company evaluated whether, as of June 30, 2008, this charge, in addition to other macroeconomic data and the decline in the market price of the Company's common stock, were indicators of potential impairment of its goodwill, intangible assets and long-lived assets. The Company concluded that they were not indicators because (i) the impairment charge was related to a specific transaction that resulted in the disposal of the majority of the Company's real estate; (ii) Applebee's June 30, 2008 year-to-date same-store sales for company-operated stores had increased slightly compared with the same period of the prior year; (iii) while directionally the U.S. economy was slowing down, there was considerable uncertainty as to the depth and duration of the slowdown, such that the Company believed its internal forecasts of same-store sales growth were achievable; and (iv) the Company's net book value was in excess of its market capitalization throughout the period up to and including the date of filing its Form 10-Q for the Quarterly Period ended June 30, 2008.

As part of the ongoing assessment of the recoverability of its long-lived assets, the Company recorded fixed asset impairment charges of \$28.3 million for the three-month period ended September 30, 2008. Of that amount, \$26.8 million related to Applebee's properties and primarily resulted from a continuing deterioration in credit markets in general and a decline in operating results of Applebee's company-operated restaurants expected to be franchised in particular geographic areas. The remainder of the impairment related to an individual underperforming IHOP property whose estimates of future cash flows indicated the carrying value would not be recovered.

The Company again evaluated whether the impairment charges taken in the third quarter of 2008, in addition to other macroeconomic data and the decline in the market price of the Company's common stock, were an indicator of potential impairment of its goodwill, intangible assets and long-lived assets. The Company concluded that they were not an indicator, because (i) the impairments were related to specific transactions in three geographic markets characterized as having a larger proportion of underperforming restaurants than the other geographic markets in which the remaining company-operated restaurants are located; (ii) while Applebee's year-to-date September 30, 2008 same-store sales for company-operated stores had decreased slightly compared with the same period of the prior year, the Company was in the process of implementing several initiatives designed to improve the same-store sales and did not believe there had been enough time to adequately assess the

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

17. Impairments and Closure Charges (Continued)

effectiveness of those initiatives; (iii) while economic data confirmed that the U.S. economy had been recessionary since December of 2007, there was still considerable uncertainty as to the depth and duration of the slowdown, and although Applebee's year-to-date same-store sales were lower than the prior period, Applebee's decline had been less than its competitors, such that the Company believed its internal forecasts of same-store sales growth were achievable; and (iv) the Company's net book value was in excess of its market capitalization throughout the third quarter ended September 30, 2008, and while the market capitalization did decline below the Company's net book value subsequent to September 30, 2008, by the October 31, 2008 date of filing its Form 10-Q for the Quarterly Period ended September 30, 2008, the Company's net book value was in excess of its market capitalization.

In the fourth quarter of 2008 the Company completed its annual test for impairment of goodwill. We utilized a discounted cash flows model of the income approach to assess the fair value of our three reporting units, the IHOP franchised restaurants unit ("IHOP unit"), Applebee's company-operated restaurants unit ("Applebee's company unit") and Applebee's franchised restaurants unit ("Applebee's franchise unit"). The impairment test of goodwill of the two Applebee's units which hold the significant majority of the total goodwill was performed as of October 31, 2008. The impairment test of the goodwill of the IHOP unit was performed as of December 31, 2008, the date as of which the analysis has been performed in prior years.

The first step of the impairment test compared the fair value of each of our reporting units to their carrying value. Significant assumptions used to determine fair value under the discounted cash flows model include future trends in sales, operating expenses, overhead expenses, depreciation, capital expenditures, and changes in working capital along with an appropriate discount rate. Additional assumptions were made as to proceeds to be received from future franchising of company-operated restaurants. Based on this first step, we concluded the fair value of the IHOP unit and the Applebee's franchise unit was in excess of their respective net carrying values and no impairment of goodwill was warranted. However, the fair value of the Applebee's company unit was less than the net carrying value of its assets assigned, requiring the second step of the impairment test. In performing the second step of the impairment test the Company concluded that the goodwill allocated to the Applebee's company unit was fully impaired and an impairment charge of \$113.5 million was recorded. No tax benefit is associated with the impairment of goodwill.

During the fourth quarter of 2008 the commercial real estate market continued to weaken, the credit markets continued constrained, economic forecasts were uncertain as to how long the recessionary period would last, and the Company's stock price declined. The Company revised the significant assumptions underlying the discounted cash flows model, primarily its 2009 revenue forecast and the discount rate, and updated its impairment analysis of the Applebee's franchise unit. The Company determined the fair value of the Applebee's franchise unit was in excess of its carrying value as of December 31, 2008.

In addition, the Company performed an impairment test of its indefinite-lived intangible assets, primarily the Applebee's tradename assigned in the purchase price allocation. The Company utilized the relief from royalty method under the income approach to determine the fair value of the tradename. The Company determined the fair value of the tradename as of December 31, 2008 was less than the carrying value. An impairment charge of \$44.1 million was recorded with a tax benefit of \$17.3 million associated with the charge. The Company also recorded goodwill and fixed asset impairment charges of \$13.5 million related to company-operated restaurants expected to be franchised in the fourth quarter.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

17. Impairments and Closure Charges (Continued)

Impairment and closure charges in 2007 included the impairment of long lived assets for three restaurants closed in 2007, and impairment losses on two restaurants in which the reacquisition values exceeded the historical resale values. The decision to close or impair the restaurants in 2007 was a result of a comprehensive analysis that examined restaurants not meeting minimum return on investment thresholds and certain other operating performance criteria. The assets for these restaurants were written down to their estimated fair value.

18. Stock-Based Incentive Plans

General Description

The Stock Incentive Plan (the "1991 Plan") was adopted in 1991 and amended and restated in 1998 to authorize the issuance of up to 3,760,000 shares of common stock pursuant to options, restricted stock, and other long-term stock-based incentives to officers and key employees of the Company. The 2001 Stock Incentive Plan (the "2001 Plan," together with the 1991 Plan, the "Plans") was adopted in 2001 and amended and restated in 2005 and 2008 to authorize the issuance of up to 4,200,000 shares of common stock. No option can be granted at an option price of less than the fair market value at the date of grant as defined in both Plans. Exercisability of options is determined at, or after, the date of grant by the administrator of both Plans. All options granted under both Plans through December 31, 2009, become exercisable one-third after one year, two-thirds after two years and 100% after three years or immediately upon a change in control of the Company, as defined in both Plans.

The Stock Option Plan for Non-Employee Directors (the "Directors Plan") was adopted in 1994 and amended and restated in 1999 to authorize the issuance of up to 400,000 shares of common stock pursuant to options to non-employee members of the Company's Board of Directors. Options were to be granted at an option price equal to 100% of the fair market value of the stock on the date of grant. Options granted pursuant to the Directors Plan vest and become exercisable one-third after one year, two-thirds after two years and 100% after three years or immediately upon a change in control of the Company, as defined in the Directors Plan. Options for the purchase of shares were granted to each non-employee Director under the Directors Plan as follows: (1) an option to purchase 15,000 shares on February 23, 1995, or on the Director's election to the Board of Directors if he or she was not a Director on such date, and (2) an option to purchase 5,000 shares annually in conjunction with the Company's Annual Meeting of Stockholders for that year.

The 2005 Stock Incentive Plan for Non-Employee Directors (the "2005 Plan") was adopted in 2005 to authorize the issuance of up to 200,000 shares of common stock to non-employee members of the Company's Board of Directors. Awards may be made in common stock, in options to purchase common stock, or in shares of common stock subject to certain restrictions ("Restricted Stock"), or any combination thereof. The terms and conditions of awards granted are established by the Compensation Committee of the Company's Board of Directors, but become immediately vested upon a change in control of the Company, as defined in the 2005 Plan. Options are to be granted at an option price not less than 100% of the fair market value of the stock on the date of grant. The 2005 Plan provides for an initial grant of Restricted Stock ("Initial Grant"). At the end of a specified performance period, the number of shares in the Initial Grant will be increased or decreased, based on the percentage increase or decrease in the fair market value of the Company's common stock during the performance period.

DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****18. Stock-Based Incentive Plans (Continued)*****Stock-Based Compensation Expense***

From time to time, the Company grants stock options and restricted stock to officers, directors and employees of the Company under the 2001 Plan and the 2005 Plan. The stock options generally vest over a three-year period and have a maturity of ten years from the issuance date. Option exercise prices equal the closing price on the New York Stock Exchange of the Company's common stock on the date of grant. Restricted Stock is issued at no cost to the holder and generally vests over terms determined by the Compensation Committee of the Company's Board of Directors. Restricted Stock generally vests only if the employee is actively employed by the Company on the vesting date; unvested Restricted Stock is forfeited upon termination, retirement before age 65, death or disability, unless the Compensation Committee of the Company's Board of Directors determines otherwise. When vested options are exercised and when Restricted Stock is issued, the Company generally issues new shares from its authorized but unissued share pool or utilizes treasury stock.

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

	<u>Year Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In millions)		
Total stock-based compensation:			
Pre-tax compensation expense	\$ 10.7	\$ 12.1	\$ 7.0
Tax benefit	(4.2)	(4.7)	(2.7)
Total stock-based compensation expense, net of tax	<u>\$ 6.5</u>	<u>\$ 7.4</u>	<u>\$ 4.3</u>

As of December 31, 2009, \$7.6 million and \$6.2 million (including forfeitures) of total unrecognized compensation cost related to restricted stock and stock options, respectively, is expected to be recognized over a weighted average period of approximately 1.45 years for restricted stock and 1.99 years for stock options.

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

18. Stock-Based Incentive Plans (Continued)

Stock Options

Stock option activity for the years ended December 31, 2009, 2008 and 2007 is summarized as follows:

<u>Shares Under Option</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Weighted Average Remaining Contractual Term (in Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2006	824,689	\$ 34.71		
Granted	7,900	57.26		
Exercised	(282,517)	31.69		
Forfeited	(8,316)	48.67		
Outstanding at December 31, 2007	541,756	36.41		
Granted	576,000	36.05		
Exercised	(41,500)	23.82		
Forfeited	(77,799)	41.65		
Expired	(64,518)	35.50		
Outstanding at December 31, 2008	933,939	36.37		
Granted	1,016,750	8.22		
Exercised	(15,500)	20.87		
Forfeited	(222,923)	20.35		
Expired	(53,166)	40.07		
Outstanding at December 31, 2009	1,659,100	\$ 21.30	7.78	\$ 16,249,600
Vested and Expected to Vest at December 31, 2009	1,407,339	\$ 22.34	7.57	\$ 12,998,500
Exercisable at December 31, 2009	479,915	\$ 38.24	4.80	\$ 372,900

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 was \$0.1 million, \$0.8 million and \$7.8 million, respectively.

Cash received from options exercised under all stock-based payment arrangements for the years ended December 31, 2009, 2008 and 2007 was \$0.3 million, \$1.0 million and \$8.9 million, respectively. The actual tax benefit realized for the tax deduction from option exercises under the stock-based payment arrangements totaled \$0.5 million, \$1.9 million and \$3.5 million, respectively, for the years ended December 31, 2009, 2008 and 2007.



DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

18. Stock-Based Incentive Plans (Continued)

The following table summarizes information regarding outstanding and exercisable options at December 31, 2009:

<u>Range of Exercise Prices</u>	<u>Number of Shares Outstanding as of 12/31/2009</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Number of Shares Exercisable as of 12/31/2009</u>	<u>Weighted Average Exercise Price Per Share</u>
\$5.55 - \$5.55	793,600	9.14	\$ 5.50	—	\$ —
\$5.90 - \$16.37	93,125	7.18	10.81	27,501	15.17
\$20.09-\$28.11	65,665	2.47	24.18	65,665	24.18
\$28.80-\$29.10	82,333	8.82	29.07	7,333	28.80
\$31.09-\$35.79	81,666	5.54	33.71	51,666	35.23
\$36.10-\$38.88	58,465	3.98	36.14	58,465	36.14
\$40.00-\$40.00	276,000	8.15	40.00	92,002	40.00
\$40.98-\$46.92	34,166	6.24	45.29	24,166	44.62
\$47.90-\$48.09	145,346	5.09	48.07	135,346	48.08
\$50.67-\$62.00	28,734	7.17	52.42	17,771	52.61
\$5.55 - \$62.00	<u>1,659,100</u>	<u>7.78</u>	<u>\$ 21.30</u>	<u>479,915</u>	<u>\$ 38.24</u>

The following table summarizes the Company's nonvested options as of December 31, 2008, 2007 and 2006 and changes during the years ended December 31, 2008 and 2007:

	<u>Number of Shares</u>	<u>Weighted Average Grant-Date Fair Value Per Share</u>
Nonvested at December 31, 2006	267,195	\$ 11.25
Granted	7,800	14.21
Vested	(167,004)	11.04
Forfeited	(7,816)	11.86
Nonvested at December 31, 2007	100,175	11.96
Granted	576,000	18.70
Vested	(89,653)	11.77
Forfeited	(77,799)	21.07
Nonvested at December 31, 2008	508,723	18.23
Granted	1,016,750	5.03
Vested	(123,365)	19.95
Forfeited	(222,923)	10.19
Nonvested at December 31, 2009	<u>1,179,185</u>	<u>\$ 7.10</u>

Fair Value of Options

The per share fair values of the stock options granted have been estimated as of the date of grant or assumption using the Black-Scholes option pricing model. The Black-Scholes model considers, among other factors, the expected life of the option and the expected volatility of the Company's stock price. The Black-Scholes model meets the requirements of U.S. GAAP but the fair values generated by

DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****18. Stock-Based Incentive Plans (Continued)**

the model may not be indicative of the actual fair values of the Company's stock-based awards. The following table summarizes the assumptions used to value options granted in the respective periods:

	2009	2008	2007
Risk free interest rate	1.95%	2.83%	4.39%
Weighted average historical volatility	72.3%	77.9%	24.9%
Dividend yield	—	3.09%	1.75%
Expected years until exercise	5 Years	5 Years	5 Years
Forfeitures	11.0%	7.02%	6.72%
Weighted average fair value of options granted	\$ 5.03	\$ 18.70	\$ 14.21

Restricted Stock

Restricted stock activity for the years ended December 31, 2009, 2008 and 2007 is set forth below:

	Number of Shares	Weighted Average Grant-Date Per Share Fair Value
Unvested at December 31, 2006	168,100	\$ 50.31
Granted	277,190	54.72
Forfeited	(10,000)	52.96
Unvested at December 31, 2007	435,290	53.04
Granted	399,785	38.75
Released	(72,520)	55.89
Forfeited	(91,075)	46.19
Unvested at December 31, 2008	671,480	45.07
Granted	241,125	10.92
Released	(139,649)	51.40
Forfeited	(122,633)	34.23
Unvested at December 31, 2009	650,323	\$ 33.09

19. Employee Benefit Plans**401(k) Savings and Investment Plan**

Effective January 1, 2009, the Company amended the DineEquity, Inc. 401(k) Plan to (i) include salaried and hourly employees of Applebee's, and (ii) modify the Company matching formula. As amended, the Company matches 100% of the first three percent of the employee's eligible compensation deferral and 50% of the next two percent of the employee's eligible compensation deferral. All contributions under this plan vest immediately. The Company's contribution was \$3.5 million for the year ended December 31, 2009.

In 2001, the Company adopted a defined contribution plan authorized under Section 401(k) of the Internal Revenue Code. The plan covered IHOP employees who met the minimum credited service requirements of the 409(k) plan. Employees whose terms of service are covered by a collective bargaining agreement are not eligible. Employees may contribute the maximum allowable for the

DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****19. Employee Benefit Plans (Continued)**

current year of their pre-tax covered compensation as determined by the limitations of the tax code. DineEquity common stock is not an investment option for employees in the 409(k) plan. Substantially all of the administrative cost of the 409(k) plan is borne by the Company. Beginning in 2004, the Company matched 100% of the employees' contributions up to 3.0% of eligible compensation. The Company's contribution was \$0.6 million and \$0.7 million for the years ended December 31, 2008 and 2007, respectively.

For plan years 2005 through 2008, the Company has funded, to eligible participants in the 409(k) plan, a profit sharing cash contribution equal to 3% of eligible compensation. The Company's profit sharing contribution was \$0.9 million and \$1.0 million for the plan years 2008 and 2007, respectively.

In 1992, Predecessor Applebee's established a defined contribution plan authorized under Section 401(k) of the Internal Revenue Code which has been assumed by the Company in connection with the acquisition. Through December 2008 the Company made matching cash contributions of 50% of each eligible employee's contributions not to exceed 4% of their annual compensation. All contributions under this plan vested immediately. Predecessor Applebee's had made matching contributions in the calendar year following the end of each plan year; accordingly, the Company made no contributions in 2007 following the acquisition. Beginning in January 2008, the Company made matching contributions each payroll period. The Company made matching contributions of \$3.4 million in 2008, representing its matching contributions for 2008 and the 2007 period subsequent to the acquisition and Predecessor Applebee's matching contributions for 2007. For the period from November 29, 2007 to December 31, 2007, the Company made no cash contribution to the Plan.

20. Income Taxes

The provision (benefit) for income taxes for the years ended December 31, 2009, 2008 and 2007 is as follows:

	Year Ended December 31,		
	2009	2008	2007
	(In millions)		
Provision for income taxes:			
Current			
Federal	\$ 28.8	\$ 25.5	\$ 15.0
State and foreign	4.2	4.7	6.8
	<u>33.0</u>	<u>30.2</u>	<u>21.8</u>
Deferred			
Federal	(21.4)	(54.1)	(19.3)
State	(6.4)	(9.8)	(4.7)
	<u>(27.8)</u>	<u>(63.9)</u>	<u>(24.0)</u>
Provision (benefit) for income taxes	<u>\$ 5.2</u>	<u>\$ (33.7)</u>	<u>\$ (2.2)</u>

DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****20. Income Taxes (Continued)**

The provision (benefit) for income taxes differs from the expected federal income tax rates as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutory federal income tax rate	35.0%	(35.0)%	(35.0)%
State and other taxes, net of federal tax benefit	5.8	(1.4)	1.5
Change in unrecognized tax benefits	(9.7)	1.0	(54.5)
Change in valuation allowance	7.5	—	26.0
State adjustments including audits and settlements	4.5	(0.2)	(27.7)
Refund claims for research and development credits and compensation deductions	—	—	(17.9)
State income tax receivables adjustment	0.4	0.1	7.4
Compensation related tax credits, net of deduction offsets	(14.9)	(3.4)	(27.1)
Changes in tax rates and state tax laws	(6.5)	(0.3)	47.5
Kansas High Performance Incentive Program credits	(7.3)	—	—
Goodwill impairment	—	21.1	—
Other	(0.7)	0.2	(1.7)
Effective tax rate	<u>14.1%</u>	<u>(17.9)%</u>	<u>(81.5)%</u>

DineEquity, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

20. Income Taxes (Continued)

Net deferred tax assets (liabilities) consist of the following components:

	<u>2009</u>	<u>2008</u>
	(In millions)	
Differences in capitalization and depreciation and amortization of reacquired franchises and equipment	\$ 4.9	\$ 4.9
Differences in acquisition financing costs	26.2	26.9
Employee compensation	16.9	23.1
Other comprehensive income primarily interest rate swap loss	13.2	18.8
Deferred gain on sale of assets	1.6	1.4
Book/tax difference in revenue recognition	8.3	11.6
Michigan business tax	9.4	9.4
Kansas High Performance Incentive Program credits	3.4	—
Other	27.9	28.4
Deferred tax assets	111.8	124.5
Valuation allowance	(9.8)	(7.0)
Total deferred tax assets after valuation allowance	102.0	117.5
Differences between financial and tax accounting in the recognition of franchise and equipment sales	(68.2)	(69.3)
Differences in capitalization and depreciation ⁽¹⁾	(332.2)	(382.6)
Differences in acquisition financing costs	(16.5)	(16.3)
Book/tax difference in revenue recognition	(16.7)	—
Differences between book and tax basis of property and equipment	(10.3)	(8.9)
Other	(11.8)	(8.3)
Deferred tax liabilities	(455.7)	(485.4)
Net deferred tax (liabilities)	\$ (353.7)	\$ (367.9)
Net deferred tax asset (liability)—current	\$ 17.5	\$ 29.6
Valuation allowance—current	(2.1)	(2.1)
Net deferred tax asset (liability)—current	15.4	27.5
Net deferred tax asset (liability)—non current	(361.4)	(390.5)
Valuation allowance—non current	(7.7)	(4.9)
Net deferred tax asset (liability)—non current	(369.1)	(395.4)
Net deferred tax (liabilities)	\$ (353.7)	\$ (367.9)

(1) Primarily related to the Applebee's acquisition.

The Company or one of its subsidiaries files Federal income tax returns and income tax returns in various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to federal, state or non-U.S. income tax examinations by tax authorities for years before 2006 for federal returns and before 2005 for other jurisdictions. Applebee's is currently under audit by the U.S. Internal Revenue Service (the "IRS") for the period ended November 29, 2007. The Company is currently under audit by the IRS for the period ended December 30, 2007.

DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****20. Income Taxes (Continued)**

At December 31, 2009, the Company had a liability for unrecognized tax benefit including potential interest and penalties, net of related tax benefit, totaling \$15.9 million, of which approximately \$3.0 million is expected to be paid within one year. For the remaining liability, due to the uncertainties related to these tax matters, the Company is unable to make a reasonably reliable estimate when a cash settlement with a taxing authority will occur.

The total unrecognized tax benefit as of December 31, 2009 and 2008 was \$11.0 million and \$18.6 million, respectively, excluding interest, penalties and related income tax benefits. The decrease of \$7.6 million is due primarily to settlements with taxing authorities resulting in a decrease in unrecognized tax benefits related to prior year positions. The entire \$11.0 million will be included in the Company's effective income tax rate if recognized. The Company estimates the unrecognized tax benefits may decrease over the upcoming 12 months by an amount up to \$2.1 million related to settlements with taxing authorities and the lapse of the statute of limitations. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<u>(in millions)</u>
Unrecognized tax benefit as of December 31, 2007	\$ 13.8
Change as a result of prior year tax positions	4.3
Change as a result of current year tax positions	0.9
Decreases relating to settlements with taxing authorities	(0.3)
Decreases as a result of a lapse of the statute of limitations	(0.1)
Unrecognized tax benefit as of December 31, 2008	18.6
Change as a result of prior year tax positions	0.6
Change as a result of current year tax positions	—
Decreases relating to settlements with taxing authorities	(7.2)
Decreases as a result of a lapse of the statute of limitations	(1.0)
Unrecognized tax benefit as of December 31, 2009	<u>\$ 11.0</u>

As of December 31, 2009, the accrued interest and penalties were \$11.6 million and \$1.6 million, respectively, excluding any related income tax benefits. As of December 31, 2008, the accrued interest and penalties were \$13.7 million and \$2.9 million, respectively, excluding any related income tax benefits. The decrease of \$2.1 million of accrued interest is primarily related to the decrease of unrecognized tax benefits due to settlements with taxing authorities, partially offset by the accrual of interest during the twelve months ended December 31, 2009. The Company recognizes interest accrued related to unrecognized tax benefits and penalties as a component of income tax expense which is recognized in the Consolidated Statements of Operations.

The Company has various state net operating loss carryovers representing \$1.9 million of state taxes. The net operating loss carryovers will expire, if unused, during the period from 2010 through 2028. In 2009, the Company completed the certification process for High Performance Incentive Program ("HPIP") credits associated with the Applebee's Restaurant Support Center in Lenexa, Kansas. The HPIP credits available for carry back and carry forward are approximately \$3.4 million and will expire, if unused, during the period from 2016 through 2019.

For the years ended December 31, 2009 and December 31, 2008, the Company had a total valuation allowance in the amounts of \$9.8 million and \$7.0 million, respectively. Of the total

DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****20. Income Taxes (Continued)**

\$9.8 million in 2009, \$7.0 million is related to a change in the enacted tax law for the state of Michigan, \$1.2 million is related to the Massachusetts enacted legislation requiring unitary businesses to file combined reports and \$1.6 million is related to the HPIP credits associated with the Applebee's Restaurant Support Center in Lenexa, Kansas.

21. Net Income (Loss) Per Share

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

	Year Ended December 31,		
	2009	2008	2007
	(In thousands, except per share data)		
Numerator for basic and diluted income (loss) per common share:			
Net income (loss)	\$ 31,409	\$ (154,459)	\$ (480)
Less: Series A preferred stock dividends	(19,531)	(19,000)	(1,561)
Less: Accretion of Series B preferred stock	(2,291)	(2,151)	(181)
Less: Net (income) loss allocated to unvested participating restricted stock	(351)	6,417	34
Net income (loss) available to common stockholders	<u>\$ 9,236</u>	<u>\$ (169,193)</u>	<u>\$ (2,188)</u>
Denominator:			
Weighted average outstanding shares of common stock	16,917	16,764	17,232
Dilutive effect of:			
Common stock equivalents	—	—	—
Common stock and common stock equivalents	<u>16,917</u>	<u>16,764</u>	<u>17,232</u>
Net (loss) income per common share:			
Basic	<u>\$ 0.55</u>	<u>\$ (10.09)</u>	<u>\$ (0.13)</u>
Diluted	<u>\$ 0.55</u>	<u>\$ (10.09)</u>	<u>\$ (0.13)</u>

For the years ended December 31, 2009, 2008 and 2007, diluted loss per common share is computed using the weighted average number of common shares outstanding during the period, as the 848,000, 756,000 and 627,000 shares, respectively, from common stock equivalents would have been antidilutive.

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

Information on segments and a reconciliation to income before income taxes are as follows:

	Year Ended December 31,		
	2009	2008	2007
	(In millions)		
Revenues			
Franchise operations	\$ 372.2	\$ 353.3	\$ 205.8
Company restaurants	890.0	1,103.2	125.9
Rental operations	133.9	131.4	132.4
Financing operations	17.9	25.7	20.5
Total	<u>\$ 1,414.0</u>	<u>\$ 1,613.6</u>	<u>\$ 484.6</u>
Intercompany Real Estate Charges			
Company restaurants	\$ —	\$ —	\$ 0.1
Rental operations	—	—	3.4
Corporate	—	—	(3.5)
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Income (loss) before income taxes			
Franchise operations	\$ 270.0	\$ 257.1	\$ 117.7
Company restaurants	123.5	125.0	8.5
Rental operations	36.6	33.3	34.0
Financing operations	17.5	18.4	19.3
Corporate	(411.0)	(622.0)	(182.2)
Income (loss) before income taxes	<u>\$ 36.6</u>	<u>\$ (188.2)</u>	<u>\$ (2.7)</u>
Income tax expense (benefit)	<u>\$ 5.2</u>	<u>\$ (33.7)</u>	<u>\$ (2.2)</u>
Interest Expense			
Company restaurants	\$ 0.9	\$ 1.0	\$ 0.5
Rental operations	19.9	20.2	20.8
Financing operations	—	—	—
Corporate	186.5	203.1	28.7
Total	<u>\$ 207.3</u>	<u>\$ 224.3</u>	<u>\$ 50.0</u>
Depreciation and amortization			
Franchise operations	\$ 10.0	\$ 10.0	\$ 1.0
Company restaurants	30.1	38.3	5.7
Rental operations	11.6	11.9	12.0
Financing operations	—	—	—
Corporate	13.7	12.9	7.3
Total	<u>\$ 65.4</u>	<u>\$ 73.1</u>	<u>\$ 26.0</u>
Impairment and closure charges			
Franchise operations	\$ 74.7	\$ 2.3	\$ —
Company restaurants	30.4	238.3	4.4
Total	<u>\$ 105.1</u>	<u>\$ 240.6</u>	<u>\$ 4.4</u>
Capital Expenditures			
Franchise operations	\$ 0.4	\$ 0.2	\$ 0.4
Company restaurants	5.8	14.3	6.3
Corporate	9.2	17.3	5.7
Total	<u>\$ 15.4</u>	<u>\$ 31.8</u>	<u>\$ 12.4</u>
Goodwill	<u>\$ 697.5</u>	<u>\$ 697.5</u>	<u>\$ 730.7</u>
Total Assets			
Franchise operations	\$ 1,478.7	\$ 1,519.4	\$ 1,415.8
Company restaurants	647.5	734.8	1,234.7
Rental operations	433.0	459.0	465.4
Financing operations	182.1	198.9	192.3
Corporate	359.6	449.1	523.0
Total	<u>\$ 3,100.9</u>	<u>\$ 3,361.2</u>	<u>\$ 3,831.2</u>

DineEquity, Inc. and Subsidiaries**Notes to the Consolidated Financial Statements (Continued)****23. Selected Quarterly Financial Data (Unaudited)**

	<u>Revenues(a)</u>	<u>Operating Margin</u>	<u>Net Income (Loss)</u>	<u>Net Income (Loss) Per Share— Basic(b)</u>	<u>Net Income (Loss) Per Share— Diluted(b)</u>
(In thousands, except per share amounts)					
2009					
1 st Quarter	\$ 375,556	\$ 120,853	\$ 37,141	\$ 1.82	\$ 1.80
2nd Quarter	349,650	109,119	24,814	1.11	1.09
3 rd Quarter	333,551	104,590	13,505	0.46	0.46
4 th Quarter(c)	355,205	113,005	(44,051)	(2.84)	(2.84)
2008					
1 st Quarter	\$ 442,789	\$ 114,789	\$ 13,854	\$ 0.50	\$ 0.50
2nd Quarter	424,133	114,898	(19,385)	(1.42)	(1.42)
3 rd Quarter	391,181	105,723	(11,804)	(0.98)	(0.98)
4 th Quarter(c)	355,525	98,407	(137,124)	(8.15)	(8.15)

- (a) Revenues have been impacted by the franchising of 110 company-operated Applebee's restaurants since the second quarter of 2008.
- (b) The quarterly amounts may not add to the full year amount.
- (c) The 4th quarter net loss and net loss per share were significantly impacted by impairment charges taken against intangible assets in 2009, and goodwill and intangible assets in 2008.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of DineEquity, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of DineEquity Inc. and Subsidiaries ("the Company") as of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of DineEquity, Inc. and Subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), DineEquity, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2010 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California

March 3, 2010

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such terms are defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, amended, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their assessment as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2009 based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2009.

The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report that appears herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of DineEquity, Inc. and Subsidiaries

We have audited DineEquity, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). DineEquity, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, DineEquity, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of DineEquity Inc. and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2009 of DineEquity, Inc. and Subsidiaries and our report dated March 3, 2010 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 3, 2010

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the fourth quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item regarding our directors and executive officers is incorporated by reference to the following sections to be set forth in our Proxy Statement for the 2010 Annual Meeting of Shareholders ("2010 Proxy Statement") to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2009.

- (a) *Identification of Directors.* The information under the section entitled "Information Concerning Nominees and Members of the Board of Directors."
- (b) *Identification of Executive Officers and Certain Employees.* The information under the section entitled "Executive Officers of the Company."
- (c) *Compliance with Section 16(a) of the Exchange Act.* The information under the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance."
- (d) *Code of Ethics.* The information under the section entitled "Code of Ethics for Chief Executive and Senior Financial Officers."
- (e) *Audit Committee.* The information under the sections entitled "Board Committees and their Functions" and "Report of the Audit Committee."

Item 11. Executive Compensation.

The information required by this Item regarding executive compensation is incorporated by reference to the sections entitled "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" to be set forth in our 2010 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item regarding security ownership and management is incorporated by reference to the sections entitled "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance under Equity Compensation Plans" to be set forth in our 2010 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item regarding certain relationships and related transactions is incorporated by reference to the sections entitled "Certain Relationships and Related Transactions," and "Director Independence" to be set forth in our 2010 Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by this Item regarding principal accountant fees and services is incorporated by reference to the section entitled "Independent Auditor Fees" to be set forth in our 2010 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) Consolidated Financial Statements

The following documents are contained in Part II, Item 8 of this Annual Report on Form 10-K:

Consolidated Balance Sheets as of December 31, 2009 and 2008.

Consolidated Statements of Operations for each of the three years in the period ended December 31, 2009.

Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2009.

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2009.

Notes to the Consolidated Financial Statements.

Reports of Independent Registered Public Accounting Firm.

(a)(2) Financial Statement Schedules

All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

Exhibits that are not filed herewith have been previously filed with the Securities and Exchange Commission and are incorporated herein by reference.

- 2.1 Agreement and Plan of Merger, dated as of July 15, 2007, by and among IHOP Corp., CHLH Corp. and Applebee's International, Inc. (Exhibit 2.1 to Registrant's Form 8-K filed July 17, 2007 is incorporated herein by reference).
- 3.1 Restated Certificate of Incorporation of DineEquity, Inc. (Exhibit 3.1 to Registrant's Form 8-K dated June 2, 2008 is incorporated herein by reference).
- 3.2 Amended Bylaws of DineEquity, Inc. (Exhibit 3.2 to Registrant's Form 8-K dated June 2, 2008 is incorporated herein by reference).
- 3.3 Amendment to the Bylaws of IHOP Corp. dated November 14, 2000 (Exhibit 3.3 to Registrant's Form 10-Q for the quarterly period ended March 31, 2001 is incorporated herein by reference).
- 3.4 Certificate of Designations with respect to the Series A Perpetual Preferred Stock (Exhibit 3.1 to Registrant's Form 8-K filed December 5, 2007 is incorporated herein by reference).
- 3.5 Certificate of Designations with respect to the Series B Convertible Preferred Stock (Exhibit 3.2 to Registrant's Form 8-K filed December 5, 2007 is incorporated herein by reference).
- 4.1 Senior Note Purchase Agreement, dated as of November 1, 1996, among IHOP, Inc., IHOP Corp. and Jackson National Life Insurance Company and other purchasers (Exhibit 4.2 to Registrant's 2002 Form 10-K is incorporated herein by reference).

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- 4.2 First Amendment to Senior Note Purchase Agreement, dated as of October 28, 2002, among IHOP Inc., IHOP Corp., and Jackson National Life Insurance Company and other purchasers (Exhibit 4.3 to Registrant's 2002 Form 10-K is incorporated herein by reference).
- 4.3 Revolving line of credit note among International House of Pancakes, Inc., a Delaware Corporation and Wells Fargo Bank, N.A. dated as of June 28, 2001 (Exhibit 4.4 to Registrant's 2001 Form 10-K is incorporated herein by reference).
- 4.4 First Amendment to Credit Agreement, dated as of May 31, 2002, among International House of Pancakes, Inc., a Delaware Corporation and Wells Fargo Bank, National Association (Exhibit 4.7 to Registrant's Form 10-Q for the quarterly period ended June 30, 2002 is incorporated herein by reference).
- 4.5 Loan Agreement dated as of April 27, 2001, among IHOP Properties, Inc., International House of Pancakes, Inc., IHOP Corp., IHOP Realty Corp., and Bank of America, N.A. (Exhibit 4.5 to Registrant's 2001 Form 10-K is incorporated herein by reference).
- 4.6 First Addendum to loan agreement, dated as of March 13, 2002, among IHOP Properties, Inc., International House of Pancakes, Inc., IHOP Corp., IHOP Realty Corp., and Bank of America, N.A. (Exhibit 4.6 to Registrant's Form 10-Q for the quarterly period ended March 31, 2003 is incorporated herein by reference).
- 4.7 Second Addendum to loan agreement, dated as of October 28, 2002, among IHOP Properties, Inc., International House of Pancakes, Inc., IHOP Corp., IHOP Realty Corp., and Bank of America, N.A. (Exhibit 4.8 to Registrant's 2002 Form 10-K is incorporated herein by reference).
- 4.8 Note Purchase Agreement, dated as of October 28, 2002, among IHOP Corp., International House of Pancakes, Inc. and AIG Annuity Insurance Company and other purchasers (Exhibit 4.1 to Registrant's Form 10-Q for the quarterly period ended September 30, 2002 is incorporated herein by reference).
- 4.9 Amended and restated Intercreditor Agreement, dated as of October 28, 2002, among Wells Fargo Bank, N.A., MONY Life Insurance Company and other noteholders (Exhibit 4.10 to Registrant's 2002 Form 10-K is incorporated herein by reference).
- 4.10 Third Addendum to loan agreement, dated as of March 8, 2004, among IHOP Properties, Inc., International House of Pancakes, Inc., IHOP Corp., IHOP Realty Corp., and Bank of America, N.A. (Exhibit 4.11 to Registrant's 2003 Form 10-K is incorporated herein by reference).
- 4.11 Second Amendment to Senior Note Purchase Agreement, dated as of February 24, 2005, among IHOP Corp., and Jackson National Life Insurance Company and other purchasers (Exhibit 4.1 to Registrant's Form 10-Q for the quarterly period ended March 31, 2005 is incorporated herein by reference).
- 4.12 First Amendment and Waiver to Note Purchase Agreement, dated as of February 24, 2005, among IHOP Corp., International House of Pancakes, Inc. and AIG Annuity Insurance Company and other purchasers (Exhibit 4.2 to Registrant's Form 10-Q for the quarterly period ended March 31, 2005 is incorporated herein by reference).
- 4.13 Second Amendment to Credit Agreement, dated as of May 31, 2005, by and between International House of Pancakes, Inc. and Wells Fargo Bank, National Association (Exhibit 10.2 to Registrant's Form 8-K for May 31, 2005, is incorporated herein by reference).

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- 4.14 Form of revolving line of credit note, dated as of May 31, 2005, by and between International House of Pancakes, Inc. in favor of Wells Fargo Bank, National Association (Exhibit 10.3 to Registrant's Form 8-K for May 31, 2005, is incorporated herein by reference).
- 4.15 Fourth Addendum to loan agreement, dated as of February 10, 2006, among IHOP Properties, Inc., International House of Pancakes, Inc., IHOP Corp., IHOP Realty Corp., and Bank of America, N.A. (Exhibit 4.16 to Registrant's 2005 Form 10-K is incorporated herein by reference).
- 4.16 Third Amendment to Credit Agreement, dated as of September 29, 2006, by and between International House of Pancakes, Inc. and Wells Fargo Bank, National Association (Exhibit 10.1 to Registrant's Form 8-K for September 29, 2006, is incorporated herein by reference).
- 4.17 Base Indenture, dated as of March 16, 2007, by and among IHOP Franchising, LLC, IHOP IP, LLC and Wells Fargo Bank, National Association (Exhibit 4.1 to Registrant's Form 10-Q for the quarterly period ended March 31, 2007 is incorporated herein by reference).
- 4.18 Series Supplement for the Series 2007-1 Fixed Rate Term Notes, dated as of March 16, 2007, by and among IHOP Franchising, LLC, IHOP IP, LLC, Wells Fargo Bank, National Association and Financial Guaranty Insurance Company (Exhibit 4.6 to Registrant's Form 10-Q for the quarterly period ended March 31, 2007 is incorporated herein by reference).
- 4.19 Series Supplement for the Series 2007-2 Variable Funding Notes, dated as of March 16, 2007, by and among IHOP Franchising, LLC, IHOP IP, LLC, Wells Fargo Bank, National Association and Financial Guaranty Insurance Company (Exhibit 4.7 to Registrant's Form 10-Q for the quarterly period ended March 31, 2007 is incorporated herein by reference).
- 4.20 Series Supplement for the Series 2007-3 Fixed Rate Term Notes, dated as of November 29, 2007, by and among IHOP Franchising, LLC, IHOP IP, LLC and Wells Fargo Bank, National Association (Exhibit 4.20 to Registrant's 2008 Form 10-K for the year ended December 31, 2007 is incorporated herein by reference).
- 4.21 Base Indenture, dated as of November 29, 2007, by and among Applebee's Enterprises LLC, Applebee's IP LLC, certain other entities listed therein, and Wells Fargo Bank, National Association, as Indenture Trustee (Exhibit 4.21 to Registrant's 2008 Form 10-K for the year ended December 31, 2007 is incorporated herein by reference).
- 4.22 Series 2007-1 Supplement to the Base Indenture, dated as of November 29, 2007, by and among Applebee's Enterprises LLC, Applebee's IP LLC, certain other entities listed therein, and Wells Fargo Bank, National Association (Exhibit 4.22 to Registrant's 2008 Form 10-K for the year ended December 31, 2007 is incorporated herein by reference).
- 4.23 Supplement No. 4 to the Base Indenture, dated as of June 9, 2008, by and among IHOP Franchising, LLC, IHOP IP, LLC, the Financial Guaranty Insurance Company and Wells Fargo Bank, National Association (Exhibit 4.1 to Registrant's Form 8-K, dated June 13, 2008 is incorporated herein by reference).
- 4.24 Supplement No. 1 to the Base Indenture to the Series 2007-1 Supplement, dated January 17, 2008, by and among Applebee's Enterprises LLC, Applebee's IP LLC, Applebee's Restaurants North LLC, Applebee's Restaurants Mid-Atlantic LLC, Applebee's Restaurants West LLC, Applebee's Restaurants Texas LLC, Applebee's Restaurants Kansas LLC, Applebee's Restaurants Vermont Inc., LLC, Applebee's Restaurants Inc. and Wells Fargo Bank, National Association (Exhibit 4.24 to Registrant's Form 10-K for the year ended December 31, 2008 is incorporated herein by reference).

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- 4.25 Supplement No. 2 to the Base Indenture and Amendment No. 1 to the Series 2007-1 Supplement, dated June 19, 2008, by and among Applebee's Enterprises LLC, Applebee's IP LLC, Applebee's Restaurants North LLC, Applebee's Restaurants Mid-Atlantic LLC, Applebee's Restaurants West LLC, Applebee's Restaurants Texas LLC, Applebee's Restaurants Kansas LLC, Applebee's Restaurants Vermont Inc., LLC, Applebee's Restaurants Inc. and Wells Fargo Bank, National Association (Exhibit 4.1 to Registrant's Form 8-K, dated July 11, 2008 is incorporated herein by reference).
- † 10.1 Employment Agreement between DineEquity, Inc. and Richard C. Celio dated November 1, 2008 (Exhibit 10.2 to Registrant's Form 10-K for the year ended December 31, 2008 is incorporated herein by reference).
- † 10.2 Employment Agreement between DineEquity, Inc. and Michael Archer dated November 1, 2008 (Exhibit 10.3 to Registrant's Form 10-K for the year ended December 31, 2008 is incorporated herein by reference).
- † 10.3 Employment Agreement between DineEquity, Inc. and Julia A. Stewart dated November 1, 2008 (Exhibit 10.4 to Registrant's Form 10-K for the year ended December 31, 2008 is incorporated herein by reference).
- † 10.4 Employment Agreement between DineEquity, Inc. and John F. Tierney dated April 3, 2009 (Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended March 31, 2009 is incorporated herein by reference).
- † 10.5 Employment Agreement between DineEquity, Inc. and Jean Birch dated June 22, 2009 (Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended June 30, 2009 is incorporated herein by reference).
- † 10.6 Area Franchise Agreement, effective as of May 5, 1988, by and between IHOP, Inc. and FMS Management Systems, Inc. (Exhibit 10.8 to Registrant's 2002 Form 10-K is incorporated herein by reference).
- † 10.7 IHOP Corp. 2001 Stock Incentive Plan (the "2001 Plan") (Appendix "B" to Registrant's Proxy Statement for the Annual Meeting of Stockholders held on May 15, 2001 is incorporated herein by reference).
- † 10.8 International House of Pancakes 401(k) Plan (Exhibit 10.15 to Registrant's 2001 Form 10-K is incorporated herein by reference).
- † 10.9 IHOP Corp. Executive Incentive Plan effective January 1, 2005 (Exhibit 10.12 to Registrant's 2004 Form 10-K is incorporated herein by reference).
- † 10.10 IHOP Corp. 2001 Stock Incentive Plan Non-qualified Stock Option Agreement (Exhibit 10.15 to Registrant's 2003 Form 10-K is incorporated herein by reference).
- † 10.11 IHOP Corp. 2005 Stock Incentive Plan for Non-Employee Directors (the "2005 Plan") (Appendix "A" to Registrant's Proxy Statement for the Annual Meeting of Stockholders held on May 24, 2005 is incorporated herein by reference).
- † 10.12 IHOP Corp 2001 Stock Incentive Plan as amended and restated (Appendix "A" to Registrant's Proxy Statement, filed on April 17, 2008 is incorporated herein by reference).
- † 10.13 IHOP Corp 2001 Senior Executive Incentive Plan as amended and restated (Appendix "B" to Registrant's Proxy Statement, filed on April 17, 2008 is incorporated herein by reference).
- † 10.14 Separation Agreement, dated September 5, 2008 between Thomas G. Conforti and DineEquity, Inc. (Exhibit 10.1 to Registrant's Form 8-K, dated September 9, 2008 is incorporated herein by reference).

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- † 10.15 DineEquity, Inc. Executive Severance and Change in Control Policy, dated October 13, 2008 (Exhibit 10.16 to Registrant's Form 10-K for the year ended December 31, 2008 is incorporated herein by reference).
- *† 10.16 IHOP Corp. Deferred Compensation Plan effective January 1, 2003
- 10.17 Servicing Agreement, dated as of March 16, 2007, by and among IHOP Franchising, LLC, IHOP IP, LLC, IHOP Property Leasing, LLC, IHOP Properties, LLC, IHOP Real Estate, LLC, International House of Pancakes, Inc., IHOP Corp. and Wells Fargo Bank, National Association, as Indenture Trustee (Exhibit 4.2 to Registrant's Form 10-Q for the quarterly period ended March 31, 2007 is incorporated herein by reference).
- 10.18 Amendment No. 1 to Servicing Agreement, dated as of November 28, 2007, by and among IHOP Franchising, LLC, IHOP IP, LLC, IHOP Property Leasing, LLC, IHOP Properties, LLC, IHOP Real Estate, LLC, International House of Pancakes, Inc., IHOP Corp. and Wells Fargo Bank, National Association, as Indenture Trustee (Exhibit 10.17 to Registrant's 2008 Form 10-K for the year ended December 31, 2007 is incorporated herein by reference).
- 10.19 Parent Asset Sale Agreement, dated as of March 16, 2007, by IHOP Holdings, LLC, as Purchaser, and International House of Pancakes, Inc. as Seller (Exhibit 4.3 to Registrant's Form 10-Q for the quarterly period ended March 31, 2007 is incorporated herein by reference).
- 10.20 Guaranty, dated as of March 16, 2007, by IHOP Corp., in favor of IHOP Holdings, LLC (Exhibit 4.4 to Registrant's Form 10-Q for the quarterly period ended March 31, 2007 is incorporated herein by reference).
- 10.21 Amendment No. 1 to Guaranty, dated as of November 28, 2007, by IHOP Corp., in favor of IHOP Holdings, LLC (Exhibit 10.20 to Registrant's 2008 Form 10-K for the year ended December 31, 2007 is incorporated herein by reference).
- 10.22 Series 2007-1 Fixed Rate Term Notes Purchase Agreement, dated as of March 16, 2007, by and among IHOP Franchising, LLC, IHOP IP, LLC, IHOP Corp. and Goldman and Sachs & Co (Exhibit 4.5 to Registrant's Form 10-Q for the quarterly period ended March 31, 2007 is incorporated herein by reference).
- 10.23 Variable Funding Note Purchase Agreement, dated as of March 16, 2007, by and among IHOP Franchising, LLC, IHOP IP, LLC, International House of Pancakes, Inc., Wells Fargo, National Association, as Indenture Trustee, certain conduit investors, as Conduit Investors, certain financial institutions, as Committed Note Purchaser, certain Funding Agents and Wells Fargo Bank, National Association, as Administrative Agent (Exhibit 4.8 to Registrant's Form 10-Q for the quarterly period ended March 31, 2007 is incorporated herein by reference).
- 10.24 Series A Perpetual Preferred Stock Purchase Agreement, dated as of July 15, 2007, by and between IHOP Corp. and MSD SBI, L.P. (Exhibit 10.1 to Registrant's Form 8-K filed on July 17, 2007 is incorporated herein by reference).
- 10.25 First Amendment to Series A Perpetual Preferred Stock Purchase Agreement, dated as of November 29, 2007, by and between IHOP Corp. and MSD SBI, L.P. (Exhibit 10.1 to Registrant's Form 8-K filed December 5, 2007 is incorporated herein by reference).
- 10.26 Series B Convertible Preferred Stock Purchase Agreement, dated as of July 15, 2007, by and among IHOP Corp. and the purchasers identified on Schedule A thereto (Exhibit 10.2 to Registrant's Form 8-K filed July 17, 2007 is incorporated herein by reference).

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- 10.27 Commitment Letter, dated July 15, 2007, by and among IHOP Corp., CHLH Corp., Lehman Brothers Commercial Bank, Lehman Brothers Inc. and Lehman Commercial Paper Inc. (Exhibit 10.1 to Registrant's Form 10-Q for the quarterly period ended September 30, 2007 is incorporated herein by reference).
- 10.28 Registration Rights Agreement, dated as of November 29, 2007, by and among IHOP Corp. and the persons identified on Schedule A thereto (Exhibit 10.2 to Registrant's Form 8-K filed December 5, 2007 is incorporated herein by reference).
- 10.29 Series 2007-3 Fixed Rate Term Notes Purchase Agreement, dated as of November 29, 2007, by and among IHOP Franchising, LLC, IHOP IP, LLC, International House of Pancakes, Inc., IHOP Corp. and Lehman Brothers Inc., as Initial Purchaser (Exhibit 10.28 to Registrant's 2008 Form 10-K for the year ended December 31, 2007 is incorporated herein by reference).
- 10.30 Servicing Agreement, dated as of November 29, 2007, by and among Applebee's Enterprises LLC, Applebee's IP LLC, certain other entities listed therein, Applebee's Franchising LLC, Applebee's Services, Inc., Applebee's International, Inc., Assured Guaranty Corp., and Wells Fargo Bank, National Association, as Indenture Trustee (Exhibit 10.29 to Registrant's 2008 Form 10-K for the year ended December 31, 2007 is incorporated herein by reference).
- 10.31 IHOP Corp. Servicing Guaranty, dated as of November 29, 2007, by IHOP Corp., in favor of Applebee's Enterprises LLC, Applebee's IP LLC, and certain other entities listed therein (Exhibit 10.30 to Registrant's 2008 Form 10-K for the year ended December 31, 2007 is incorporated herein by reference).
- 10.32 Guaranty and Collateral Agreement (Applebee's Franchising LLC), dated as of November 29, 2007, by and among Applebee's Franchising LLC, Applebee's Enterprises LLC, and Wells Fargo Bank, National Association (Exhibit 10.31 to Registrant's 2008 Form 10-K for the year ended December 31, 2007 is incorporated herein by reference).
- 10.33 Guaranty and Collateral Agreement (Applebee's Holdings LLC), dated as of November 29, 2007, by and among Applebee's Holdings LLC, Applebee's Enterprises LLC, and Wells Fargo Bank, National Association (Exhibit 10.32 to Registrant's 2008 Form 10-K for the year ended December 31, 2007 is incorporated herein by reference).
- 10.34 Class A-1 Note Purchase Agreement, dated as of November 29, 2007, by and among Applebee's Enterprises LLC, Applebee's IP LLC, certain other entities listed therein, Applebee's Services, Inc., as Servicer, certain financial institutions, as Committed Note Purchasers, certain funding agents, Lehman Commercial Paper Inc., as Swingline Lender, and Lehman Commercial Paper Inc., as Class A-1 Administrative Agent (Exhibit 10.33 to Registrant's 2008 Form 10-K for the year ended December 31, 2007 is incorporated herein by reference).
- 10.35 Purchase Agreement, dated as of November 29, 2007, by and among Applebee's Enterprises LLC, Applebee's IP LLC, certain other entities listed therein, Applebee's Holdings LLC, Applebee's Franchising LLC, IHOP Corp., Applebee's International, Inc., Applebee's Services, Inc., Applebee's Holdings II Corp., and Lehman Brothers Inc., as Initial Purchaser (Exhibit 10.34 to Registrant's 2008 Form 10-K for the year ended December 31, 2007 is incorporated herein by reference).
- 14.0 IHOP Corp. Code of Ethics for Chief Executive and Senior Financial Officers (Exhibit 14.0 to Registrant's 2004 Form 10-K is incorporated herein by reference).
- *21 Subsidiaries of DineEquity, Inc.
- *23.1 Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.

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*31.1 Certification of CEO pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.

*31.2 Certification of CFO pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.

*32.1 Certification of CEO pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.

*32.2 Certification of CFO pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.

* Filed herewith.

† A contract, compensatory plan or arrangement in which directors or executive officers are eligible to participate.

/s/ GILBERT T. RAY

Gilbert T. Ray

Director

/s/ PATRICK W. ROSE

Patrick W. Rose

Director

IHOP Corp.
Deferred Compensation Plan
Master Plan Document

Effective January 1, 2003

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IHOP CORP.
DEFERRED COMPENSATION PLAN
Effective January 1, 2003

Purpose

The purpose of this Plan is to provide specified benefits to a select group of management or highly compensated Employees and Directors who contribute materially to the continued growth, development and future business success of IHOP Corp., a Delaware corporation, and its subsidiaries, if any, that sponsor this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

ARTICLE 1
Definitions

For the purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

- 1.1 “Account Balance” shall mean, with respect to a Participant, a credit on the records of the Employer equal to the sum of (i) the Deferral Account balance, (ii) the Company Contribution Account balance, (iii) the Company Restoration Contribution Account balance, and (iv) the Stock Option Gain Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.
- 1.2 “Annual Bonus” shall mean any compensation, in addition to Base Annual Salary, Commissions and LTIP Amounts payable to a Participant during a Plan Year, under any Employer’s annual bonus and cash incentive plans, excluding stock options.
- 1.3 “Annual Company Contribution Amount” shall mean, for any one Plan Year, the amount determined in accordance with Section 3.5.
- 1.4 “Annual Company Restoration Contribution Amount” for any one Plan Year shall be the amount determined in accordance with Section 3.6.
- 1.5 “Annual Deferral Amount” shall mean that portion of a Participant’s Base Annual Salary, Annual Bonus, Commissions, Director Fees and LTIP Amounts that a Participant defers in accordance with Article 3 for any one Plan Year. In the event of a Participant’s Retirement, Disability (if deferrals cease in accordance with Section 8.1), death or a Termination of Employment prior to the end of a Plan Year, such year’s Annual Deferral Amount shall be the actual amount withheld prior to such event.
- 1.6 “Annual Installment Method” shall be an annual installment payment over the number of years selected by the Participant in accordance with this Plan, calculated as follows: (i) for the first annual installment, the vested Account Balance of the Participant shall be calculated as of the close of business on or around the date on which the Participant Retires, as determined by the Committee in its sole discretion, and (ii) for remaining annual installments, the vested Account

Balance of the Participant shall be calculated on every applicable anniversary of the date on which the Participant Retires. Each annual installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if the Participant elects a ten (10) year Annual Installment Method, the first payment shall be 1/10 of the vested Account Balance, calculated as described in this definition. The following year, the payment shall be 1/9 of the vested Account Balance, calculated as described in this definition. Shares of Stock that shall be distributable from the Stock Option Gain Account shall be distributable in shares of actual Stock in the same manner previously described. However, the Committee may, in its sole discretion, (i) adjust the annual installments in order to distribute whole shares of actual Stock and/or (ii) accelerate the distribution of such actual shares of Stock by payment of a lump sum.

- 1.7 “Annual Stock Option Gain Amount” shall mean, with respect to a Participant for any one Plan Year, the portion of Qualifying Gains deferred with respect to an Eligible Stock Option exercise, in accordance with Section 3.7 of this Plan. In the event of a Participant’s Retirement, Disability (if deferrals cease in accordance with Section 8.1), death or a Termination of Employment prior to the end of a Plan Year, such year’s Annual Stock Option Gain Amount shall be the actual amount withheld prior to such event.
- 1.8 “Base Annual Salary” shall mean the annual cash compensation relating to services performed during any calendar year, excluding bonuses, commissions, overtime, fringe benefits, stock options, relocation expenses, incentive payments, non-monetary awards, director fees and other fees, and automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee’s gross income). Base Annual Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of any Employer and shall be calculated to include amounts not otherwise included in the Participant’s gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by any Employer; provided, however, that all such amounts will be included in compensation only to the extent that had there been no such plan, the amount would have been payable in cash to the Employee.
- 1.9 “Beneficiary” shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 10, that are entitled to receive benefits under this Plan upon the death of a Participant.
- 1.10 “Beneficiary Designation Form” shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.
- 1.11 “Board” shall mean the board of directors of the Company.
- 1.12 “Change in Control” shall mean the first to occur of any of the following events:
- (a) Any “person” (as that term is used in Section 13 and 14(d)(2) of the Securities Exchange Act of 1934 (“Exchange Act”)) becomes the beneficial owner (as that term is used in

Section 13(d) of the Exchange Act), directly or indirectly, of fifty percent (50%) or more of the Company's capital stock entitled to vote in the election of directors;

- (b) During any period of not more than two consecutive years, not including any period prior to the adoption of this Plan, individuals who, at the beginning of such period constitute the board of directors of the Company, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (a), (c), (d) or (e) of this Section 1.12) whose election by the board of directors or nomination for election by the Company's stockholders was approved by a vote of at least three-fourths (3/4ths) of the directors then still in office, who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;
- (c) The shareholders of the Company approve any consolidation or merger of the Company, other than a consolidation or merger of the Company in which the holders of the common stock of the Company immediately prior to the consolidation or merger hold more than fifty percent (50%) of the common stock of the surviving corporation immediately after the consolidation or merger;
- (d) The shareholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; or
- (e) The shareholders of the Company approve the sale or transfer of all or substantially all of the assets of the Company to parties that are not within a "controlled group of corporations" (as defined in Code Section 1563) in which the Company is a member.

1.13 "Claimant" shall have the meaning set forth in Section 15.1.

1.14 "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.

1.15 "Commissions" shall mean the cash commissions payable to a Participant by any Employer for services rendered during a Plan Year, excluding Annual Bonus, LTIP Amounts or other additional incentives or awards payable to the Participant.

1.16 "Committee" shall mean the committee described in Article 13.

1.17 "Company" shall mean IHOP Corp., a Delaware corporation, and any successor to all or substantially all of the Company's assets or business.

1.18 "Company Contribution Account" shall mean (i) the sum of the Participant's Annual Company Contribution Amounts, plus (ii) amounts credited or debited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant's Company Contribution Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Contribution Account.

1.19 "Company Restoration Contribution Account" shall mean (i) the sum of all of a Participant's Annual Company Restoration Contribution Amounts, plus (ii) amounts credited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant's Company Restoration Contribution Account, less (iii) all distributions made to the

Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Restoration Contribution Account.

- 1.20 "Deduction Limitation" shall mean the limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan, as set forth in Article 4.
- 1.21 "Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts, plus (ii) amounts credited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant's Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.
- 1.22 "Director" shall mean any member of the board of directors of any Employer.
- 1.23 "Director Fees" shall mean the annual fees paid by any Employer, including retainer fees and meetings fees, as compensation for serving on the board of directors.
- 1.24 "Disability" or "Disabled" shall mean a determination that a Participant is disabled made by either (i) the carrier of any individual or group disability insurance policy, sponsored by the Participant's Employer, or (ii) the Social Security Administration. Upon request by the Employer, the Participant must submit proof of the carrier's or Social Security Administration's determination.
- 1.25 "Disability Benefit" shall mean the benefit set forth in Article 8.
- 1.26 "Election Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan.
- 1.27 "Eligible Stock Option" shall mean one or more non-qualified stock option(s) selected by the Committee in its sole discretion and exercisable under a plan or arrangement of IHOP Corp. or any Employer permitting a Participant under this Plan to defer gain with respect to such option.
- 1.28 "Employee" shall mean a person who is an employee of any Employer.
- 1.29 "Employer(s)" shall mean the Company and/or any of its subsidiaries (now in existence or hereafter formed or acquired) that have been selected by the Board to participate in the Plan and have adopted the Plan as a sponsor.
- 1.30 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.
- 1.31 "ESOP Plan" shall be that certain IHOP Employee Stock Ownership Plan, adopted by the Company.
- 1.32 "In-Service Distribution" shall mean the distribution set forth in Section 5.1.
- 1.33 "LTIP Amounts" shall mean any compensation payable to a Participant as an Employee under any Employer's long-term incentive plan or any other long-term incentive arrangement designated by the Committee.
- 1.34 "Participant" shall mean any Employee or Director (i) who is selected to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who signs a Plan Agreement, an Election Form and a Beneficiary Designation Form, (iv) whose signed Plan Agreement, Election Form and

Beneficiary Designation Form are accepted by the Committee, (v) who commences participation in the Plan, and (vi) whose Plan Agreement has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an account balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.

- 1.35 "Plan" shall mean the IHOP Corp. Deferred Compensation Plan, which shall be evidenced by this instrument and by each Plan Agreement, as they may be amended from time to time.
- 1.36 "Plan Agreement" shall mean a written agreement, as may be amended from time to time, which is entered into by and between an Employer and a Participant. Each Plan Agreement executed by a Participant and the Participant's Employer shall provide for the entire benefit to which such Participant is entitled under the Plan; should there be more than one Plan Agreement, the Plan Agreement bearing the latest date of acceptance by the Employer shall supersede all previous Plan Agreements in their entirety and shall govern such entitlement. The terms of any Plan Agreement may be different for any Participant, and any Plan Agreement may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan; provided, however, that any such additional benefits or benefit limitations must be agreed to by both the Employer and the Participant.
- 1.37 "Plan Year" shall mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.
- 1.38 "Qualifying Gain" shall mean the incremental value inuring to a Participant upon the exercise of an Eligible Stock Option, using a Stock-for-Stock payment method, during any Plan Year. For purposes of this section, the phrase "Stock-for-Stock payment method" shall, in all events, be limited to the Participant's delivery of a properly executed statement in which he or she attests to ownership of the number of shares required to exercise the Eligible Stock Option, rather than actual delivery of such shares. Such incremental value shall be deliverable to the Participant in the form of additional shares of Stock and shall be computed as follows: (i) the total fair market value of the shares of Stock held/acquired as a result of the exercise of an Eligible Stock Option using a Stock-for-Stock payment method, minus (ii) the total exercise price. For example, assume a Participant elects to exercise an Eligible Stock Option to purchase 1,000 shares of Stock at an exercise price of \$20 per share (i.e., a total exercise price of \$20,000), when the Stock has a current fair market value of \$25 per share (i.e., a total current fair market value of \$25,000) and elects to defer one hundred (100) percent of the Qualifying Gain (i.e., \$5,000). Using the Stock-for-Stock payment method, the Participant would deliver a properly executed statement attesting to ownership of 800 shares of Stock (worth \$20,000 at exercise) to exercise the Eligible Stock Option and would receive, in return, 800 shares of Stock (worth \$20,000 at exercise) plus a Qualifying Gain, in the form of an unfunded and unsecured promise by the Company for 200 additional shares of Stock in the future (worth \$5,000 at exercise). The number of additional shares of Stock deliverable to the Participant in the future as a result of the Qualifying Gain shall be fixed and determined as of the date of the exercise of the Eligible Stock Option using the closing price of the Stock as of the end of the business day closest to the date of such exercise.
- 1.39 "Retirement", "Retire(s)" or "Retired" shall mean, with respect to an Employee, severance from employment from all Employers for any reason other than a leave of absence, death or Disability

on or after the date on which such Participant's age plus Years of Service equals at least seventy; and shall mean with respect to a Director who is not an Employee, severance of his or her directorships with all Employers on or after the later of (y) the attainment of age seventy (70), or (z) in the sole discretion of the Committee, an age later than age seventy (70). If a Participant is both an Employee and a Director, Retirement shall not occur until he or she Retires as both an Employee and a Director, which Retirement shall be deemed to be a Retirement as a Director; provided, however, that such a Participant may elect, at least three years prior to Retirement and in accordance with the policies and procedures established by the Committee, to Retire for purposes of this Plan at the time he or she Retires as an Employee, which Retirement shall be deemed to be a Retirement as an Employee.

- 1.40 "Retirement Benefit" shall mean the benefit set forth in Article 6.
- 1.41 "Stock" shall mean IHOP Corp. common stock, \$.01 par value, or any other equity securities of the Company designated by the Committee.
- 1.42 "Stock Option Gain Account" shall mean the aggregate value, measured on any given date, of (i) the number of shares of Stock deferred by a Participant as a result of all Annual Stock Option Gain Amounts, plus (ii) the number of additional shares credited as a result of the deemed reinvestment of dividends in accordance with all of the applicable crediting provisions of the IHOP Corp. Stock Unit Fund that relate to the Participant's Stock Option Gain Account, less (iii) the number of such shares of Stock previously distributed to the Participant or his or her Beneficiary pursuant to this Plan, subject in each case to any adjustments to the number of such shares determined by the Committee with respect to the IHOP Corp. Stock Unit Fund pursuant to Section 3.9. This portion of the Participant's Account Balance shall only be distributable in actual shares of Stock.
- 1.43 "Survivor Benefit" shall mean the benefit set forth in Article 9.
- 1.44 "Termination Benefit" shall mean the benefit set forth in Article 7.
- 1.45 "Termination of Employment" shall mean the severing of employment with all Employers, or service as a Director of all Employers, voluntarily or involuntarily, for any reason other than Retirement, Disability, death or an authorized leave of absence. If a Participant is both an Employee and a Director, a Termination of Employment shall occur only upon the termination of the last position held; provided, however, that such a Participant may elect, at least three years before Termination of Employment and in accordance with the policies and procedures established by the Committee, to be treated for purposes of this Plan as having experienced a Termination of Employment at the time he or she ceases employment with an Employer as an Employee.
- 1.46 "Trust" shall mean one or more trusts established pursuant to that certain Master Trust Agreement, dated as of December 27, 2002 between the Company and the trustee named therein, as amended from time to time.
- 1.47 "Unforeseeable Financial Emergency" shall mean an unanticipated emergency that is caused by an event beyond the control of the Participant that would result in severe financial hardship to the Participant resulting from (i) a sudden and unexpected illness or accident of the Participant or a

dependent of the Participant, (ii) a loss of the Participant's property due to casualty, or (iii) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee.

1.48 "Years of Service" shall mean the total number of full years in which a Participant has been employed by one or more Employers. For purposes of this definition, a year of employment shall be a 365 day period (or 366 day period in the case of a leap year) that, for the first year of employment, commences on the Employee's date of hiring and that, for any subsequent year, commences on an anniversary of that hiring date. The Committee shall make a determination as to whether any partial year of employment shall be counted as a Year of Service.

ARTICLE 2

Selection, Enrollment, Eligibility

2.1 **Selection by Committee.** Participation in the Plan shall be limited to a select group of management and highly compensated Employees and Directors of the Employer, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Employees and Directors to participate in the Plan.

2.2 **Enrollment Requirements.** As a condition to participation, each selected Employee or Director shall complete, execute and return to the Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form, all within thirty (30) days after he or she is selected to participate in the Plan. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary.

2.3 **Eligibility: Commencement of Participation.** Provided an Employee or Director selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, including returning all required documents to the Committee within the specified time period, that Employee or Director shall commence participation in the Plan on the first day of the month following the month in which the Employee or Director completes all enrollment requirements. If an Employee or a Director fails to meet all such requirements within the period required, in accordance with Section 2.2, that Employee or Director shall not be eligible to participate in the Plan until the first day of the Plan Year following the delivery to and acceptance by the Committee of the required documents.

2.4 **Termination of Participation and/or Deferrals.** If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes, (ii) prevent the Participant from making future deferral elections and/or (iii) immediately distribute the Participant's then vested Account Balance as a Termination Benefit and terminate the Participant's participation in the Plan.

ARTICLE 3

Deferral Commitments/Company Contribution Amounts/Company Restoration Contribution Amounts/Stock Option Gain Amounts/Vesting/Crediting/Taxes

3.1 **Minimum Deferrals.**

(a) **Annual Deferral Amount.** For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Annual Salary, Annual Bonus, Commissions, LTIP Amounts and/or Director Fees in the following minimum amounts for each deferral elected:

<u>Deferral</u>	<u>Minimum Amount</u>
Base Annual Salary, Annual Bonus, Commissions and/or LTIP Amounts	\$5,000 aggregate
Director Fees	\$0

If an election is made for less than the stated minimum amounts, or if no election is made, the amount deferred shall be zero.

(b) **Annual Stock Option Gain Amount.** For each Eligible Stock Option, a Participant may elect to defer, as his or her Annual Stock Option Gain Amount, the following minimum percentage of Qualifying Gain with respect to exercise of the Eligible Stock Option:

<u>Deferral</u>	<u>Minimum Percentage</u>
Qualifying Gain	0%

If no election is made, the amount deferred shall be zero.

(c) **Short Plan Year.** Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, the minimum Annual Deferral Amount shall be an amount equal to the minimum set forth above, multiplied by a fraction, the numerator of which is the number of complete months remaining in the Plan Year and the denominator of which is 12.

3.2 **Maximum Deferral.**

- (a) **Annual Deferral Amount.** For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Annual Salary, Annual Bonus, Commissions, LTIP Amounts and/or Director Fees up to the following maximum percentages for each deferral elected:

Deferral	Maximum Amount
Base Annual Salary	90%
Annual Bonus	100%

Commissions	100%
LTIP Amounts	100%
Director Fees	100%

- (b) **Annual Stock Option Gain Amount.** For each Eligible Stock Option, a Participant may elect to defer, as his or her Annual Stock Option Gain Amount, Qualifying Gain up to the following maximum percentage with respect to exercise of the Eligible Stock Option:

Deferral	Maximum Percentage
Qualifying Gain	100%

Annual Stock Option Gain Amounts may also be limited by other terms or conditions set forth in the stock option plan or agreement under which such options are granted.

- (c) **Short Plan Year.** Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, the maximum Annual Deferral Amount (i) with respect to Base Annual Salary and Director Fees shall be limited to the amount of compensation not yet earned by the Participant as of the date the Participant submits a Plan Agreement and Election Form to the Committee for acceptance, and (ii) with respect to Annual Bonus, LTIP Amounts and Commissions shall be limited to those amounts deemed eligible for deferral, in the sole discretion of the Committee.

3.3 **Election to Defer; Effect of Election Form.**

- (a) **First Plan Year.** In connection with a Participant's commencement of participation in the Plan, the Participant shall make an irrevocable deferral election for the Plan Year in which the Participant commences participation in the Plan, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above) and accepted by the Committee.
- (b) **Subsequent Plan Years.** For each succeeding Plan Year, an irrevocable deferral election for that Plan Year, and such other elections as the Committee deems necessary or desirable under the Plan, shall be made by timely delivering a new Election Form to the Committee, in accordance with its rules and procedures, before the end of the Plan Year preceding the Plan Year for which the election is made. If no such Election Form is timely delivered for a Plan Year, the Annual Deferral Amount shall be zero for that Plan Year.
- (c) **Stock Option Gain Deferral.**
- (i) For an election to defer gain upon the exercise of an Eligible Stock Option exercise to be valid: (i) a separate Election Form must be completed and signed by the Participant with respect to the Eligible Stock Option; (ii) such election must be irrevocable; (iii) the executed Election Form must be timely delivered to the Committee or its designee at least six (6) months prior to the date the Participant

elects to exercise the Eligible Stock Option; (iv) the Participant must agree not to exercise the Eligible Stock Option prior to six (6) months from the date the executed, irrevocable Election Form is submitted to the Committee or its designee; (v) the Eligible Stock Option must be exercised using the "Stock-for-Stock payment method"; and (vi) the Stock constructively delivered by the Participant to exercise the Eligible Stock Option must have been owned by the Participant during the entire six (6) month period prior to its delivery and/or otherwise qualify the Eligible Stock Option for favorable accounting treatment, as determined in the sole discretion of the Committee.

- (ii) Notwithstanding any other provision of this Plan to the contrary, (i) an Eligible Stock Option may be exercised prior to the end of the six (6) month period following the date on which the executed Election Form is delivered to the Committee or its designee, and (ii) the resulting Qualifying Gain will not be deferred into this Plan, if (a) a Change in Control occurs, or (b) the Participant Retires, dies while an Employee or Director, or experiences a Termination of Employment, and the Eligible Stock Option would otherwise expire prior to the end of the six (6) month period following the date on which the executed Election Form was delivered to the Committee or its designee.

3.4 **Withholding and Crediting of Annual Deferral Amounts.** For each Plan Year, the Base Annual Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Base Annual Salary payroll in equal amounts, as adjusted from time to time for increases and decreases in Base Annual Salary. The Annual Bonus, Commissions, LTIP Amounts and/or Director Fees portion of the Annual Deferral Amount shall be withheld at the time the Annual Bonus, Commissions, LTIP Amounts or Director Fees are or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself. Annual Deferral Amounts shall be credited to a Participant's Deferral Account at the time such amounts would otherwise have been paid to the Participant.

3.5 **Annual Company Contribution Amount.**

- (a) For each Plan Year, an Employer may be required to credit amounts to a Participant's Company Contribution Account in accordance with employment or other agreements entered into between the Participant and the Employer. Such amounts shall be credited on the date or dates prescribed by such agreements.
- (b) For each Plan Year, an Employer, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Company Contribution Account under this Plan, which amount shall be for that Participant the Annual Company Contribution Amount for that Plan Year. The amount so credited to a Participant may be smaller or larger than the amount credited to any other Participant, and the amount credited to any Participant for a Plan Year may be zero, even though one or more other Participants receive an Annual Company Contribution Amount for that Plan Year. The Annual Company Contribution Amount described in this Section 3.5(b), if any, shall be credited as of the last day of the Plan Year. If a Participant is not employed by an Employer as of

the last day of a Plan Year other than by reason of his or her Retirement or death while employed, the Annual Company Contribution Amount for that Plan Year shall be zero.

3.6 **Annual Company Restoration Contribution Amount.** A Participant's Annual Company Restoration Contribution Amount for any Plan Year shall be a number of shares of Stock equal in value to the difference between (i) the "contributions" and "forfeitures" that would have been allocated to the Participant's "account" under the ESOP Plan for such Plan Year, pursuant to the terms of the ESOP Plan in effect for such year, based on such Participant's "compensation" calculated as if such Participant had not deferred any amounts under this Plan, and without regard to any qualified plan limits that would otherwise apply to the ESOP Plan; and (ii) the amount of the "contributions" and "forfeitures" actually allocated to the Participant's "account" under the ESOP Plan during such Plan Year. However, if a Participant is not employed by an Employer as of the last day of a Plan Year other than by reason of his or her Retirement or death while employed, the Annual Company Restoration Contribution Amount for that Plan Year shall be zero. The amount so credited to a Participant, if any, under this Plan shall be for that Participant the Annual Company Restoration Contribution Amount for that Plan Year, and shall be credited to the Participant's Company Restoration Contribution Account in shares of Stock on a date or dates to be determined by the Committee, in its sole discretion. The portion of any Annual Company Restoration Contribution Amount shall be reflected on the books of the Company as an unfunded, unsecured promise to deliver to the Participant a specific number of actual shares of Stock in the future.

3.7 **Annual Stock Option Gain Amount.** Subject to any terms and conditions imposed by the Committee, Participants may elect to defer, under the Plan, all or some portion of Qualifying Gains attributable to an Eligible Stock Option exercise, which amount shall be for that Participant the Annual Stock Option Gain Amount for that Plan Year. The portion of any Qualifying Gains shall be reflected on the books of the Company as an unfunded, unsecured promise to deliver to the Participant a specific number of actual shares of Stock in the future. Such shares of Stock would otherwise have been delivered to the Participant, pursuant to the Eligible Stock Option exercise, but for the Participant's election to defer.

3.8 **Vesting.**

- (a) A Participant shall at all times be 100% vested in his or her Deferral Account and Stock Option Gain Account.
- (b) A Participant shall be vested in his or her Company Contribution Account in accordance with the vesting schedule(s) set forth in his or her Plan Agreement, employment agreement or any other agreement entered into between the Participant and his or her Employer. If not addressed in such agreements, a Participant shall vest in his or her Company Contribution Account in accordance with the schedule declared by the Committee in its sole discretion.
- (c) A Participant shall be vested in his or her Company Restoration Contribution Account only to the extent that the Participant would be vested in such amounts under the provisions of the ESOP Plan, as determined by the Committee in its sole discretion.

3.9 **Crediting/Debiting of Account Balances.** In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance in accordance with the following rules:

- (a) **Measurement Funds.** Subject to the restrictions found in Section 3.9(c) below, the Participant may elect one or more of the measurement funds selected by the Committee, in its sole discretion, which are based on certain mutual funds (the "Measurement Funds"), for the purpose of crediting or debiting additional amounts to his or her Account Balance. As necessary, the Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund. Each such action will take effect as of the first day of the first calendar quarter that begins at least thirty (30) days after the day on which the Committee gives Participants advance written notice of such change.
- (b) **Election of Measurement Funds.** Subject to the restrictions found in Section 3.9(c) below, a Participant, in connection with his or her initial deferral election in accordance with Section 3.3(a) above, shall elect, on the Election Form, one or more Measurement Fund(s) (as described in Section 3.9(a) above) to be used to determine the amounts to be credited or debited to his or her Account Balance. If a Participant does not elect any of the Measurement Funds as described in the previous sentence, the Participant's Account Balance shall automatically be allocated into the lowest-risk Measurement Fund, as determined by the Committee, in its sole discretion. Subject to the restrictions found in Section 3.9(c) below, the Participant may (but is not required to) elect, by submitting an Election Form to the Committee that is accepted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the amounts to be credited or debited to his or her Account Balance, or to change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply as of the first business day deemed reasonably practicable by the Committee, in its sole discretion, and shall continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence.
- (c) **IHOP Corp. Stock Unit Fund.**
 - (i) A Participant's Company Restoration Contribution Account and Stock Option Gain Account will be automatically allocated to the IHOP Corp. Stock Unit Fund Measurement Fund. Participants may not select any other Measurement Fund to be used to determine the amounts to be credited or debited to their Company Restoration Contribution Account and Stock Option Gain Account. Furthermore, no other portion of the Participant's Account Balance can be either initially allocated or re-allocated to the IHOP Corp. Stock Unit Fund.
 - (ii) Any stock dividends, cash dividends or other non-cash dividends that would have been payable on the Stock credited to a Participant's Account Balance shall be credited to the Participant's Account Balance in the form of additional shares of Stock and shall automatically and irrevocably be deemed to be re-invested in the IHOP Corp. Stock Unit Fund until such amounts are distributed to the Participant.

The number of shares credited to the Participant for a particular stock dividend shall be equal to (a) the number of shares of Stock credited to the Participant's Account Balance as of the payment date for such dividend in respect of each share of Stock, multiplied by (b) the number of additional shares of Stock actually paid as a dividend in respect of each share of Stock. The number of shares credited to the Participant for a particular cash dividend or other non-cash dividend shall be equal to (a) the number of shares of Stock credited to the Participant's Account Balance as of the payment date for such dividend in respect of each share of Stock, multiplied by (b) the fair market value of the dividend, divided by (c) the "fair market value" of the Stock on the payment date for such dividend.

- (iii) The number of shares of Stock credited to the Participant's Account Balance may be adjusted by the Committee, in its sole discretion, to prevent dilution or enlargement of Participants' rights with respect to the portion of his or her Account Balance allocated to the IHOP Corp. Stock Unit Fund, in the event of any reorganization, reclassification, stock split, or other unusual corporate transaction or event which affects the value of the Stock, provided that any such adjustment shall be made taking into account any crediting of shares of Stock to the Participant under Section 3.9.
- (iv) For purposes of this Section 3.9, the fair market value of the Stock shall be determined by the Committee in its sole discretion.
- (d) **Proportionate Allocation.** In making any election described in Section 3.9(b) above, the Participant shall specify on the Election Form, in increments of one percent (1%), the percentage of his or her Account Balance to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Account Balance).
- (e) **Crediting or Debiting Method.** The performance of each elected Measurement Fund (either positive or negative) will be determined by the Committee, in its reasonable discretion, based on the performance of the Measurement Funds themselves. A Participant's Account Balance shall be credited or debited on a daily basis based on the performance of each Measurement Fund selected by the Participant, such performance being determined by the Committee in its sole discretion.
- (f) **No Actual Investment.** Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Company or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest funds in any or all of the investments on which the Measurement Funds are based, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not

represent any investment made on his or her behalf by the Company or the Trust; the Participant shall at all times remain an unsecured creditor of the Company.

3.10 **FICA and Other Taxes.**

- (a) **Annual Deferral Amounts.** For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Annual Salary, Annual Bonus, Commissions and LTIP Amounts that are not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.10.
- (b) **Company Restoration Contribution Account and Company Contribution Account .** When a participant becomes vested in a portion of his or her Company Restoration Contribution Account or Company Contribution Account, the Participant's Employer(s) shall withhold from the Participant's Base Annual Salary, Annual Bonus, Commissions and/or LTIP Amounts that are not deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes. If necessary, the Committee may reduce the vested portion of the Participant's Company Restoration Contribution Account or Company Contribution Account, as applicable, in order to comply with this Section 3.10.
- (c) **Annual Stock Option Gain Amounts.** For each Plan Year in which an Annual Stock Option Gain Amount is being first withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Annual Salary, Annual Bonus, Commissions, LTIP Amounts and Qualifying Gains that are not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Stock Option Gain Amount. If necessary, the Committee may reduce the Annual Stock Option Gain Amount in order to comply with this Section 3.10.
- (d) **Distributions.** The Participant's Employer(s), or the trustee of the Trust, shall withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Employer(s), or the trustee of the Trust, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Employer(s) and the trustee of the Trust.

ARTICLE 4
Deduction Limitation

- 4.1 **Deduction Limitation on Benefit Payments.** If an Employer determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Employer would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Employer to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, the Employer may defer all or any portion of a

distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.9 above, even if such amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) at the earliest possible date, as determined by the Employer in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Section 162(m), or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.

ARTICLE 5

In-Service Distribution; Unforeseeable Financial Emergencies; Withdrawal Election

- 5.1 **In-Service Distribution.** In connection with each election to defer an Annual Deferral Amount, a Participant may irrevocably elect to receive an In-Service Distribution from the Plan with respect to all or a portion of (i) the Annual Deferral Amount and (ii) the Annual Company Contribution Amount. The In-Service Distribution shall be a lump sum payment in an amount that is equal to the portion of the Annual Deferral Amount and the vested portion of the Annual Company Contribution Amount that the Participant elected to have distributed as an In-Service Distribution, plus amounts credited or debited in the manner provided in Section 3.9 above on that amount, calculated as of the close of business on or around the date on which the In-Service Distribution becomes payable, as determined by the Committee in its sole discretion. Subject to the other terms and conditions of this Plan, each In-Service Distribution elected shall be paid out during a ninety (90) day period commencing immediately after the first day of any Plan Year designated by the Participant. The Plan Year designated by the Participant must be at least three Plan Years after the end of the Plan Year in which the Annual Deferral Amount is actually deferred or the vested portion of the Annual Company Contribution Amount is actually contributed. By way of example, if an In-Service Distribution is elected for Annual Deferral Amounts that are deferred in the Plan Year commencing January 1, 2003, the In-Service Distribution would become payable during a ninety (90) day period commencing January 1, 2007. Notwithstanding the language set forth above, the Committee shall, in its sole discretion, adjust the amount distributable as an In-Service Distribution if any portion of the Annual Company Contribution Amount is invested on the In-Service Distribution Date.
- 5.2 **Other Benefits Take Precedence Over In-Service Distributions.** Should an event occur that triggers a benefit under Article 6, 7, 8 or 9, any Annual Deferral Amount, plus amounts credited or debited thereon, that is subject to an In-Service Distribution election under Section 5.1 shall not be paid in accordance with Section 5.1 but shall be paid in accordance with the other applicable Article.
- 5.3 **Withdrawal Payout/Suspensions for Unforeseeable Financial Emergencies.** If the Participant experiences an Unforeseeable Financial Emergency, the Participant may petition the Committee (i) to suspend deferrals of Base Annual Salary, Annual Bonus, Commissions,

Director Fees, LTIP Amounts and Qualifying Gains required to be made by such Participant, to the extent deemed necessary by the Committee to satisfy the Unforeseeable Financial Emergency, or (ii) to suspend deferrals of Base Annual Salary, Annual Bonus, Commissions, Director Fees, LTIP Amounts and Qualifying Gains required to be made by such Participant, to the extent deemed necessary by the Committee to satisfy the Unforeseeable Financial Emergency, and receive a partial or full payout from the Plan. The payout shall not exceed the lesser of the Participant's vested Account Balance, excluding the portion of the Account Balance attributable to the Company Restoration Contribution Account and Stock Option Gain Account, calculated as if such Participant were receiving a Termination Benefit, or the amount reasonably needed to satisfy the Unforeseeable Financial Emergency. A Participant may not receive a payout from the Plan to the extent that the Unforeseeable Financial Emergency is or may be relieved (i) through reimbursement or compensation by insurance or otherwise, (ii) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship or (iii) by suspension of deferrals under this Plan.

If the Committee, in its sole discretion, approves a Participant's petition for suspension, the Participant's deferrals under this Plan shall be suspended as of the date of such approval. If the Committee, in its sole discretion, approves a Participant's petition for suspension and payout, the Participant's deferrals under this Plan shall be suspended as of the date of such approval and the Participant shall receive a payout from the Plan within ninety (90) days of the date of such approval.

- 5.4 **Withdrawal Election.** A Participant may elect, at any time, to withdraw all or a portion of his or her vested Account Balance, excluding the portion of the Account Balance attributable to the Company Restoration Contribution Account and Stock Option Gain Account. For purposes of this Section 5.4, the value of a Participant's vested Account Balance shall be calculated as of the close of business on or around the date on which receipt of the Participant's election is acknowledged by the Committee, as determined by the Committee in its sole discretion, less a withdrawal penalty equal to 10% of the amount withdrawn (the net amount shall be referred to as the "Withdrawal Amount"). This election can be made at any time, before or after Retirement or Disability, and whether or not the Participant is in the process of being paid pursuant to an installment payment schedule. The Participant shall make this election by giving the Committee advance written notice of the election in a form determined from time to time by the Committee. The Participant shall be paid the Withdrawal Amount within ninety (90) days of his or her election. Once the Withdrawal Amount is paid, the Participant's participation in the Plan shall be suspended for the remainder of the Plan Year in which the withdrawal is elected and for one (1) full Plan Year thereafter (the "Suspension Period"). During the Suspension Period, the Participant will continue to be eligible for the benefits provided in Articles 5, 6, 7, 8 or 9 in accordance with the provisions of those Articles, and any previously elected deferrals of Qualifying Gains will continue to be withheld. However, the portion of such Participant's Annual Deferral Amount which is attributable to Base Annual Salary, Annual Bonus, Commissions, LTIP Amounts and/or Director Fees shall not be withheld during the Suspension Period, and the Participant shall not be allowed to make any deferral elections during the Suspension Period.

ARTICLE 6
Retirement Benefit

- 6.1 **Retirement Benefit.** A Participant who Retires shall receive, as a Retirement Benefit, his or her vested Account Balance, calculated as of the close of business on or around the date on which the Participant Retires, as determined by the Committee in its sole discretion.
- 6.2 **Payment of Retirement Benefit.** A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form to receive the Retirement Benefit in a lump sum or pursuant to an Annual Installment Method of up to 10 years. The Participant may change his or her election to an allowable alternative payout period by submitting a new Election Form to the Committee, provided that any such Election Form is submitted to and accepted by the Committee in its sole discretion at least thirteen (13) months prior to the Participant's Retirement. The Election Form most recently accepted by the Committee shall govern the payout of the Retirement Benefit. If a Participant does not make any election with respect to the payment of the Retirement Benefit, then such benefit shall be payable in a lump sum. The lump sum payment shall be made, or installment payments shall commence, no later than ninety (90) days after the date on which the Participant Retires. Remaining installments, if any, shall be paid no later than ninety (90) days after each anniversary of the date on which the Participant Retires.

ARTICLE 7
Termination Benefit

- 7.1 **Termination Benefit.** A Participant who experiences a Termination of Employment shall receive a Termination Benefit, which shall be equal to the Participant's vested Account Balance, calculated as of the close of business on or around the date on which the Participant experiences a Termination of Employment, as determined by the Committee in its sole discretion.
- 7.2 **Payment of Termination Benefit.** The Termination Benefit shall be paid to the Participant in a lump sum payment no later than ninety (90) days after the date on which the Participant experiences the Termination of Employment.

ARTICLE 8
Disability Waiver and Benefit

- 8.1 **Disability Waiver.**
- (a) **Waiver of Deferral.** If a Participant is determined to be both (i) suffering from a Disability, and (ii) receiving 100 percent of his or her Base Annual Salary or Director Fees during the period of Disability, then the Participant's Annual Deferral Amount and Qualifying Gains shall continue to be withheld during such period of Disability. If a Participant is determined to be both (i) suffering from a Disability, and (ii) receiving less than 100 percent of his or her Base Annual Salary or Director Fees during the period of such Disability, then such Participant shall be excused from fulfilling that portion of the

Annual Deferral Amount commitment that would otherwise have been withheld from a Participant's Base Annual Salary, Annual Bonus, Commissions, LTIP Amounts and/or Director Fees for the Plan Year during which the Participant first suffers a Disability. However, any previously elected deferrals of Qualifying Gains shall continue to be withheld during such Disability. During the period of Disability, the Participant shall not be allowed to make any additional deferral elections, but will continue to be eligible for the benefits provided in Articles 5, 6, 7, 8 or 9 in accordance with the provisions of those Articles.

- (b) **Deferral Following Disability.** If a Participant (i) returns to employment, or service as a Director, with an Employer after a Disability ceases, and (ii) payment of 100 percent of his or her Base Annual Salary or Director Fees recommences, the Participant may elect to defer an Annual Deferral Amount and Annual Stock Option Gain Amount for the Plan Year following his or her return to employment or service and for every Plan Year thereafter while a Participant in the Plan; provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.3 above.

8.2 **Continued Eligibility; Disability Benefit.**

- (a) **Continued Eligibility.** A Participant suffering a Disability shall, for benefit purposes under this Plan, continue to be considered to be employed, or in the service of an Employer as a Director, and shall be eligible for the benefits provided for in Articles 5, 6, 7 or 9 in accordance with the provisions of those Articles. Notwithstanding the above, the Committee shall have the right to, in its sole and absolute discretion and for purposes of this Plan only, deem the Participant's employment to have terminated at any time after such Participant is determined to be suffering a Disability.
- (b) **Deemed Termination of Employment.** If, in the Committee's discretion, the Disabled Participant's employment has terminated, and such Participant is not otherwise eligible to Retire, the Participant shall be deemed to have experienced a Termination of Employment for purposes of this Plan and will receive a Disability Benefit. The Disability Benefit shall be equal to his or her vested Account Balance, calculated as of the close of business on or around the date on which the Disabled Participant is deemed to have experienced a Termination of Employment, as determined by the Committee in its sole discretion. The Participant shall receive his or her Disability Benefit in a lump sum payment no later than ninety (90) days after the date on which the Committee deems the Disabled Participant to have experienced a Termination of Employment.
- (c) **Deemed Retirement.** If, in the Committee's discretion, the Disabled Participant's employment has terminated, and such Participant is otherwise eligible to Retire, the Participant shall be deemed to have Retired for purposes of this Plan and will receive a Disability Benefit. The Disability Benefit shall be equal to his or her vested Account Balance, calculated as of the close of business on or around the date on which the Participant is deemed to have Retired, as determined by the Committee in its sole discretion. The Participant shall receive his or her Disability Benefit in the same form in which such Participant elected to receive his or her Retirement Benefit. The lump sum

payment shall be made, or installment payments shall commence, no later than ninety (90) days after the date on which the Disabled Participant is deemed to have Retired. Remaining installments, if any, shall be paid no later than ninety (90) days after each anniversary of the date on which the Disabled Participant is deemed to have Retired.

ARTICLE 9 **Survivor Benefit**

- 9.1 **Survivor Benefit.** The Participant's Beneficiary(ies) shall receive a Survivor Benefit upon the Participant's death which will be equal to (i) the Participant's vested Account Balance, calculated as of the close of business on or around the date of the Participant's death, as selected by the Committee in its sole discretion, if the Participant dies prior to his or her Retirement, Termination of Employment or Disability, or (ii) the Participant's unpaid Retirement Benefit, calculated as of the close of business on or around the date of the Participant's death, as selected by the Committee in its sole discretion, if the Participant dies before his or her Retirement Benefit is paid in full.
- 9.2 **Payment of Survivor Benefit.** The Survivor Benefit shall be paid to the Participant's Beneficiary(ies) in a lump sum payment no later than ninety (90) days after the date on which the Committee is provided with proof that is satisfactory to the Committee of the Participant's death.

ARTICLE 10 **Beneficiary Designation**

- 10.1 **Beneficiary.** Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.
- 10.2 **Beneficiary Designation; Change; Spousal Consent.** A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. If the Participant names someone other than his or her spouse as a Beneficiary and if the Committee requires that a spousal consent be obtained with respect to such Participant, a spousal consent, in the form designated by the Committee, must be signed by that Participant's spouse and returned to the Committee. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.
- 10.3 **Acknowledgment.** No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Committee or its designated agent.

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- 10.4 **No Beneficiary Designation.** If a Participant fails to designate a Beneficiary as provided in Sections 10.1, 10.2 and 10.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.
- 10.5 **Doubt as to Beneficiary.** If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Participant's Employer to withhold such payments until this matter is resolved to the Committee's satisfaction.
- 10.6 **Discharge of Obligations.** The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant, and that Participant's Plan Agreement shall terminate upon such full payment of benefits.

ARTICLE 11 **Leave of Absence**

- 11.1 **Paid Leave of Absence.** If a Participant is authorized by the Participant's Employer to take a paid leave of absence from the employment of the Employer, (i) the Participant shall continue to be considered eligible for the benefits provided in Articles 5, 6, 7, 8 or 9 in accordance with the provisions of those Articles, and (ii) the Annual Deferral Amount and any previously elected deferrals of Qualifying Gains shall continue to be withheld during such paid leave of absence in accordance with Section 3.3.
- 11.2 **Unpaid Leave of Absence.** If a Participant is authorized by the Participant's Employer to take an unpaid leave of absence from the employment of the Employer for any reason, such Participant shall continue to be eligible for the benefits provided in Articles 5, 6, 7, 8 or 9 in accordance with the provisions of those Articles, and any previously elected deferrals of Qualifying Gains shall continue to be withheld during such unpaid leave of absence in accordance with Section 3.3. However, the Participant shall be excused from fulfilling that portion of the Annual Deferral Amount commitment that would otherwise have been withheld from such Participant's Base Annual Salary, Annual Bonus, Commissions, LTIP Amounts and/or Director Fees during the remainder of the Plan Year in which the unpaid leave of absence is taken. During the unpaid leave of absence, the Participant shall not be allowed to make any additional deferral elections. However, if the Participant returns to employment, the Participant may elect

to defer an Annual Deferral Amount and Annual Stock Option Gain Amount for the Plan Year following his or her return to employment and for every Plan Year thereafter while a Participant in the Plan.

ARTICLE 12
Termination, Amendment or Modification

- 12.1 **Termination.** Although each Employer anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that any Employer will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, each Employer reserves the right to discontinue its sponsorship of the Plan and/or to terminate the Plan at any time with respect to any or all of its participating Employees and Directors, by action of its board of directors. Upon the termination of the Plan with respect to any Employer, the Plan Agreements of the affected Participants who are employed by that Employer, or in the service of that Employer as Directors, shall terminate and their vested Account Balances shall be determined (i) as if they had experienced a Termination of Employment on the date of Plan termination; or (ii) if Plan termination occurs after the date upon which a Participant was eligible to Retire, then with respect to that Participant as if he or she had Retired on the date of Plan termination. Such benefits shall be paid to the Participants as follows: (i) prior to a Change in Control, if the Plan is terminated with respect to all of its Participants, an Employer shall have the right, in its sole discretion, and notwithstanding any elections made by the Participant, to pay such benefits in a lump sum or pursuant to an Annual Installment Method of up to 15 years, with amounts credited and debited during the installment period as provided herein; or (ii) prior to a Change in Control, if the Plan is terminated with respect to less than all of its Participants, an Employer shall be required to pay such benefits in a lump sum; or (iii) after a Change in Control, if the Plan is terminated with respect to some or all of its Participants, the Employer shall be required to pay such benefits in a lump sum. The termination of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination; provided however, that the Employer shall have the right to accelerate installment payments without a premium or prepayment penalty by paying the vested Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).
- 12.2 **Amendment.** Any Employer may, at any time, amend or modify the Plan in whole or in part with respect to that Employer by the action of its board of directors; provided, however, that: (i) no amendment or modification shall be effective to decrease or restrict the value of a Participant's vested Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification, and (ii) no amendment or modification of this Section 12.2 or Section 13.2 of the Plan shall be effective. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification; provided, however, that the Employer shall have the right to accelerate installment payments by paying the vested Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided

that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

- 12.3 **Plan Agreement.** Despite the provisions of Sections 12.1 and 12.2 above, if a Participant's Plan Agreement contains benefits or limitations that are not in this Plan document, the Employer may only amend or terminate such provisions with the written consent of the Participant.
- 12.4 **Effect of Payment.** The full payment of the Participant's vested Account Balance under Articles 5, 6, 7, 8 or 9 of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan and the Participant's Plan Agreement shall terminate.

ARTICLE 13 **Administration**

- 13.1 **Committee Duties.** Except as otherwise provided in this Article 13, this Plan shall be administered by a Committee, which shall consist of the Board, or such committee as the Board shall appoint. Members of the Committee may be Participants under this Plan. The Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Company.
- 13.2 **Administration Upon Change In Control.** For purposes of this Plan, the Committee shall be the "Administrator" at all times prior to the occurrence of a Change in Control. Within one-hundred and twenty (120) days following a Change in Control, an independent third party "Administrator" may be selected by the individual who, immediately prior to the Change in Control, was the Company's Chief Executive Officer or, if not so identified, the Company's highest ranking officer (the "Ex-CEO"), and approved by the Trustee. The Committee, as constituted prior to the Change in Control, shall continue to be the Administrator until the earlier of (i) the date on which such independent third party is selected and approved, or (ii) the expiration of the one-hundred and twenty (120) day period following the Change in Control. If an independent third party is not selected within one-hundred and twenty (120) days of such Change in Control, the Committee, as described in Section 13.1 above, shall be the Administrator. The Administrator shall have the discretionary power to determine all questions arising in connection with the administration of the Plan and the interpretation of the Plan and Trust including, but not limited to benefit entitlement determinations; provided, however, upon and after the occurrence of a Change in Control, the Administrator shall have no power to direct the investment of Plan or Trust assets or select any investment manager or custodial firm for the Plan or Trust. Upon and after the occurrence of a Change in Control, the Company must: (1) pay all reasonable administrative expenses and fees of the Administrator; (2) indemnify the

Administrator against any costs, expenses and liabilities including, without limitation, attorney's fees and expenses arising in connection with the performance of the Administrator hereunder, except with respect to matters resulting from the gross negligence or willful misconduct of the Administrator or its employees or agents; and (3) supply full and timely information to the Administrator on all matters relating to the Plan, the Trust, the Participants and their Beneficiaries, the Account Balances of the Participants, the date and circumstances of the Retirement, Disability, death or Termination of Employment of the Participants, and such other pertinent information as the Administrator may reasonably require. Upon and after a Change in Control, the Administrator may be terminated (and a replacement appointed) by the Trustee only with the approval of the Ex-CEO. Upon and after a Change in Control, the Administrator may not be terminated by the Company.

- 13.3 **Agents.** In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to any Employer.
- 13.4 **Binding Effect of Decisions.** The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.
- 13.5 **Indemnity of Committee.** All Employers shall indemnify and hold harmless the members of the Committee, any Employee to whom the duties of the Committee may be delegated, and the Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, any of its members, any such Employee or the Administrator.
- 13.6 **Employer Information.** To enable the Committee and/or Administrator to perform its functions, the Company and each Employer shall supply full and timely information to the Committee and/or Administrator, as the case may be, on all matters relating to the compensation of its Participants, the date and circumstances of the Retirement, Disability, death or Termination of Employment of its Participants, and such other pertinent information as the Committee or Administrator may reasonably require.

ARTICLE 14
Other Benefits and Agreements

- 14.1 **Coordination with Other Benefits.** The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Participant's Employer. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

ARTICLE 15
Claims Procedures

- 15.1 **Presentation of Claim.** Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a “Claimant”) may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within sixty (60) days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.
- 15.2 **Notification of Decision.** The Committee shall consider a Claimant’s claim within a reasonable time, but no later than ninety (90) days after receiving the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial ninety (90) day period. In no event shall such extension exceed a period of ninety (90) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. The Committee shall notify the Claimant in writing:
- (a) that the Claimant’s requested determination has been made, and that the claim has been allowed in full; or
 - (b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant’s requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:
 - (i) the specific reason(s) for the denial of the claim, or any part of it;
 - (ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;
 - (iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary;
 - (iv) an explanation of the claim review procedure set forth in Section 15.3 below; and
 - (v) a statement of the Claimant’s right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.
- 15.3 **Review of a Denied Claim.** On or before sixty (60) days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant’s duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. The Claimant (or the Claimant’s duly authorized representative):
- (a) may, upon request and free of charge, have reasonable access to, and copies of, all documents, records and other information relevant to the claim for benefits;

- (b) may submit written comments or other documents; and/or
- (c) may request a hearing, which the Committee, in its sole discretion, may grant.

15.4 **Decision on Review.** The Committee shall render its decision on review promptly, and no later than sixty (60) days after the Committee receives the Claimant's written request for a review of the denial of the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial sixty (60) day period. In no event shall such extension exceed a period of sixty (60) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. In rendering its decision, the Committee shall take into account all comments, documents, records and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

- (a) specific reasons for the decision;
- (b) specific reference(s) to the pertinent Plan provisions upon which the decision was based;
- (c) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits; and
- (d) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a).

15.5 **Legal Action.** A Claimant's compliance with the foregoing provisions of this Article 15 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under this Plan.

ARTICLE 16

Trust

16.1 **Establishment of the Trust.** In order to provide assets from which to fulfill the obligations of the Participants and their beneficiaries under the Plan, the Company may establish a Trust by a trust agreement with a third party, the trustee, to which each Employer may, in its discretion, contribute cash or other property, including securities issued by the Company, to provide for the benefit payments under the Plan.

16.2 **Interrelationship of the Plan and the Trust.** The provisions of the Plan and the Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.

16.3 **Distributions From the Trust.** Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Employer's obligations under this Plan.

ARTICLE 17

Miscellaneous

- 17.1 **Status of Plan.** The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that “is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees” within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.
- 17.2 **Unsecured General Creditor.** Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of an Employer’s assets shall be, and remain, the general, unpledged unrestricted assets of the Employer. An Employer’s obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.
- 17.3 **Employer’s Liability.** An Employer’s liability for the payment of benefits shall be defined only by the Plan and the Plan Agreement, as entered into between the Employer and a Participant. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.
- 17.4 **Nonassignability.** Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant’s or any other person’s bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.
- 17.5 **Not a Contract of Employment.** The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an “at will” employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of any Employer, either as an Employee or a Director, or to interfere with the right of any Employer to discipline or discharge the Participant at any time.
- 17.6 **Furnishing Information.** A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.

- 17.7 **Terms.** Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.
- 17.8 **Captions.** The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.
- 17.9 **Governing Law.** Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of California without regard to its conflicts of laws principles.
- 17.10 **Notice.** Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

IHOP Corp.
450 N. Brand Boulevard
Glendale, CA 91203
Attn: General Counsel

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

- 17.11 **Successors.** The provisions of this Plan shall bind and inure to the benefit of the Participant's Employer and its successors and assigns and the Participant and the Participant's designated Beneficiaries.
- 17.12 **Spouse's Interest.** The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.
- 17.13 **Validity.** In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.
- 17.14 **Incompetent.** If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as

the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

17.15 **Court Order.** The Committee is authorized to make any payments directed by court order in any action in which the Plan or the Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Committee, in its sole discretion, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.

17.16 **Distribution in the Event of Taxation.**

(a) **In General.** If, for any reason, all or any portion of a Participant's benefits under this Plan becomes taxable to the Participant prior to receipt, a Participant may petition the Committee before a Change in Control, or the trustee of the Trust after a Change in Control, for a distribution of that portion of his or her benefit that has become taxable. Upon the grant of such a petition, which grant shall not be unreasonably withheld (and, after a Change in Control, shall be granted), a Participant's Employer shall distribute to the Participant immediately available funds in an amount equal to the taxable portion of his or her benefit (which amount shall not exceed a Participant's unpaid vested Account Balance under the Plan). If the petition is granted, the tax liability distribution shall be made within 90 days of the date when the Participant's petition is granted. Such a distribution shall affect and reduce the benefits to be paid under this Plan.

(b) **Trust.** If the Trust terminates in accordance with its terms and benefits are distributed from the Trust to a Participant in accordance therewith, the Participant's benefits under this Plan shall be reduced to the extent of such distributions.

17.17 **Insurance.** The Employers, on their own behalf or on behalf of the trustee of the Trust, and, in their sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as the Trust may choose. The Employers or the trustee of the Trust, as the case may be, shall be the sole owner and beneficiary of any such insurance. The Participant shall have no interest whatsoever in any such policy or policies, and at the request of the Employers shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Employers have applied for insurance.

17.18 **Legal Fees To Enforce Rights After Change in Control.** The Company and each Employer is aware that upon the occurrence of a Change in Control, the Board or the board of directors of a Participant's Employer (which might then be composed of new members) or a shareholder of the Company or the Participant's Employer, or of any successor corporation might then cause or attempt to cause the Company, the Participant's Employer or such successor to refuse to comply with its obligations under the Plan and might cause or attempt to cause the Company or the Participant's Employer to institute, or may institute, litigation seeking to deny Participants the benefits intended under the Plan. In these circumstances, the purpose of the Plan could be frustrated. Accordingly, if, following a Change in Control, it should appear to any Participant

that the Company, the Participant's Employer or any successor corporation has failed to comply with any of its obligations under the Plan or any agreement thereunder or, if the Company, such Employer or any other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny, diminish or to recover from any Participant the benefits intended to be provided, then the Company and the Participant's Employer irrevocably authorize such Participant to retain counsel of his or her choice at the expense of the Company and the Participant's Employer (who shall be jointly and severally liable) to represent such Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company, the Participant's Employer or any director, officer, shareholder or other person affiliated with the Company, the Participant's Employer or any successor thereto in any jurisdiction.

IN WITNESS WHEREOF, the Company has signed this Plan document as of December 27, 2002.

"Company"
IHOP Corp., a Delaware corporation

By: /s/ Mark D. Weisberger
Mark D. Weisberger
Vice President, Legal, Secretary &
General Counsel

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Exhibit 21

SUBSIDIARIES OF DINEEQUITY, INC.
As of December 31, 2009

<u>Name of Entity</u>	<u>State or Other Jurisdiction of Incorporation or Organization</u>
DineEquity, Inc.	DE
International House of Pancakes, LLC.	DE
III Industries of Canada, LTD.	Canada
IHOP of Canada ULC	Canada
Blue Roof Advertising, Inc.	CA
IHOP Holdings, LLC	DE
IHOP Franchising, LLC	DE
IHOP Property Leasing, LLC	DE
IHOP Property Leasing II, LLC	DE
IHOP Properties, LLC	DE
IHOP Realty, LLC	DE
IHOP Real Estate, LLC	DE
IHOP IP, LLC	DE
IHOP Franchise Company, LLC	DE
IHOP TPGC, LLC	OH
ACM Cards, Inc.	FL
AFSS, Inc.	KS
AII Services—Europe, Limited	U.K.
Anne Arundel Apple Holding Corporation	MD
Apple American Limited Partnership of Minnesota	MN
Apple Vermont Restaurants, Inc.	VT
Applebee's Beverage, Inc.	TX
Applebee's Brazil, LLC	KS
Applebee's Canada Corp.	Canada
Applebee's International, Inc.	DE
Applebee's Investments, LLC	KS
Applebee's Michigan Services, LLC	MI
Applebee's Northeast, Inc.	MA
Applebee's of Calvert County, Inc.	MD
Applebee's of Maryland, Inc.	MD
Applebee's of Michigan, Inc.	MI
Applebee's of Minnesota, Inc.	MN
Applebee's of Nevada, Inc.	NV
Applebee's of New Mexico, Inc.	NM
Applebee's of St. Mary's County, Inc.	MD
Applebee's of Texas, Inc.	TX
Applebee's of Virginia, Inc.	V A
Applebee's Restaurantes Brasil, LTDA.	Brazil
Applebee's Restaurantes De Mexico S.de R.L. de C.V.	Mexico
Applebee's UK, LLC	KS
Applebee's Enterprises, LLC	DE
Applebee's Franchising, LLC	DE
Applebee's Holdings II Corp.	DE
Applebee's Holdings, LLC	DE

<u>Name of Entity</u>	<u>State or Other Jurisdiction of Incorporation or Organization</u>
Applebee's Restaurants Allegany County Licensing, LLC	DE
Applebee's Restaurants Calvert County Licensing, LLC	DE
Applebee's Restaurants Kansas, LLC	KS
Applebee's Restaurants Maryland Licensing, LLC	DE
Applebee's Restaurants Mid-Atlantic, LLC	DE
Applebee's Restaurants North, LLC	DE
Applebee's Restaurants St. Mary's County Licensing, LLC	DE
Applebee's Restaurants Texas, LLC	TX
Applebee's Restaurants Vermont, Inc.	VT
Applebee's Restaurants West, LLC	DE
Applebee's Restaurants, Inc.	KS
Applebee's Services, Inc.	KS
Gourmet Beverage of Georgia, Inc.	GA
Gourmet Beverage of Kansas, Inc.	KS
Gourmet Systems Beverage, Inc.	TX
Gourmet Systems of Arizona, Inc.	AZ
Gourmet Systems of Brazil, LLC	KS
Gourmet Systems of California, Inc.	CA
Gourmet Systems of Georgia, Inc.	GA
Gourmet Systems of Kansas, Inc.	KS
Gourmet Systems of Minnesota, Inc.	MN
Gourmet Systems of Nevada, Inc.	NV
Gourmet Systems of New York, Inc.	NY
Gourmet Systems of Pennsylvania, Inc.	PA
Gourmet Systems of Tennessee, Inc.	TN
Gourmet Systems of Texas, Inc.	TX
Gourmet Systems, Inc.	MO
Gourmetwest Nevada, Limited Liability Company	NV
Innovative Restaurant Concepts, Inc.	GA
IRC Kansas, Inc.	KS
Neighborhood Insurance, Inc.	VT
RB International, Inc.	KS
Rio Bravo Services, Inc.	KS
Shanghai Applebee's Restaurant Management Co. LTD.	Xuhui District, Puxi, China
Summit Restaurants, Inc.	GA
The Heidi Fund, Inc.	KS

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[Exhibit 21](#)

[SUBSIDIARIES OF DINEEQUITY, INC. As of December 31, 2009](#)

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- Form S-8 No. 333-46361 pertaining to the IHOP Corp. 1991 Stock Incentive Plan
- Form S-8 No. 333-71768 pertaining to the IHOP Corp. 2001 Stock Incentive Plan of DineEquity, Inc. and Subsidiaries, and
- Form S-8 No. 333-149771 pertaining to the IHOP Corp. 2005 Stock Incentive Plan for Non-Employee Directors
- Form S-3/A No. 333-160836 of DineEquity, Inc., and in the related Prospectus

of our reports dated March 3, 2010, with respect to the consolidated financial statements of DineEquity, Inc. and Subsidiaries and the effectiveness of internal control over financial reporting of DineEquity, Inc. and Subsidiaries, included in this Annual Report (Form 10-K) for the year ended December 31, 2009.

/s/ ERNST & YOUNG LLP

Los Angeles, California

March 3, 2010

QuickLinks

[Exhibit 23.1](#)

[Consent of Independent Registered Public Accounting Firm](#)

**Certification Pursuant to
Rule 13a-14(a) of the
Securities Exchange Act of 1934, As Amended**

I, Julia A. Stewart, certify that:

1. I have reviewed this Annual Report on Form 10-K of DineEquity, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 3, 2010

/s/ JULIA A. STEWART

Julia A. Stewart
Chairman and Chief Executive Officer

QuickLinks

[Exhibit 31.1](#)

[Certification Pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934, As Amended](#)

**Certification Pursuant to
Rule 13a-14(a) of the
Securities Exchange Act of 1934, As Amended**

I, John F. Tierney, certify that:

1. I have reviewed this Annual Report on Form 10-K of DineEquity, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 3, 2010

/s/ JOHN F. TIERNEY

John F. Tierney
Chief Financial Officer (Principal Financial Officer)

QuickLinks

[Exhibit 31.2](#)

[Certification Pursuant to Rule 13a-14\(a\) of the Securities Exchange Act of 1934, As Amended](#)

**Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of DineEquity, Inc. (the "Company") for the year ended December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Julia A. Stewart, Chairman and Chief Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 3, 2010

/s/ JULIA A. STEWART

Julia A. Stewart
Chairman and Chief Executive Officer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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[Exhibit 32.1](#)

[Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

**Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of DineEquity, Inc. (the "Company") for the year ended December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John F. Tierney, as Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 3, 2010

/s/ JOHN F. TIERNEY

John F. Tierney
Chief Financial Officer
(Principal Financial Officer)

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

QuickLinks

[Exhibit 32.2](#)

[Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)