UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

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

Dine Brands Global, Inc.

(Exact name of registrant as specified in its charter)

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

(818) 240-6055

(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	DIN	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐		
		Smaller reporting company	☐
		Emerging growth company	☐

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

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

As of October 21, 2020, the Registrant had 16,418,749 shares of Common Stock outstanding.

Dine Brands Global, Inc. and Subsidiaries
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Cautionary Statement Regarding Forward-Looking Statements

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

Factors that could cause actual results to differ materially from the projections, forecasts, estimates and expectations discussed in this Quarterly Report on Form 10-Q include, among other things: uncertainty regarding the duration and severity of the ongoing COVID-19 pandemic and its ultimate impact on our business; general economic conditions; our level of indebtedness; compliance with the terms of our securitized debt; our ability to refinance our current indebtedness or obtain additional financing; our dependence on information technology; potential cyber incidents; the implementation of restaurant development plans; our dependence on our franchisees; the concentration of our Applebee's franchised restaurants in a limited number of franchisees; the financial health of our franchisees, including any insolvency or bankruptcy; credit risks from our IHOP franchisees operating under our previous IHOP business model in which we built and equipped IHOP restaurants and then franchised them to franchisees; insufficient insurance coverage to cover potential risks associated with the ownership and operation of restaurants; our franchisees' and other licensees' compliance with our quality standards and trademark usage; general risks associated with the restaurant industry; potential harm to our brands' reputation; risks of food-borne illness or food tampering; possible future impairment charges; trading volatility and fluctuations in the price of our stock; our ability to achieve the financial guidance we provide to investors; successful implementation of our business strategy; the availability of suitable locations for new restaurants; shortages or interruptions in the supply or delivery of products from third parties or availability of utilities; the management and forecasting of appropriate inventory levels; development and implementation of innovative marketing and use of social media; changing health or dietary preference of consumers; risks associated with doing business in international markets; the results of litigation and other legal proceedings; third-party claims with respect to intellectual property assets; delivery initiatives and use of third-party delivery vendors; our allocation of human capital and our ability to attract and retain management and other key employees; compliance with federal, state and local governmental regulations; risks associated with our self-insurance; natural disasters or other serious incidents; our success with development initiatives outside of our core business; the adequacy of our internal controls over financial reporting and future changes in accounting standards; and other matters in the “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020, many of which are beyond our control.

Fiscal Quarter End

The Company’s fiscal quarters end on the Sunday closest to the last day of each calendar quarter. For convenience, the fiscal quarters of each year are referred to as ending on March 31, June 30, September 30 and December 31. The first fiscal quarter of 2020 began on December 30, 2019 and ended on March 29, 2020; the second and third fiscal quarters of 2020 ended on June 28, 2020 and September 27, 2020, respectively. The first fiscal quarter of 2019 began on December 31, 2018 and ended on March 31, 2019; the second and third fiscal quarters of 2019 ended on June 30, 2019 and September 29, 2019, respectively.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

Assets	September 30, 2020	December 31, 2019
	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 309,278	$ 116,043
Receivables, net of allowance of $12,221 (2020) and $3,138 (2019)	122,148	136,869
Restricted cash	47,511	40,732
Prepaid gift card costs	25,690	36,077
Prepaid income taxes	13,831	13,290
Other current assets	5,942	3,906
Total current assets	524,400	346,917
Other intangible assets, net	552,943	575,103
Operating lease right-of-use assets	355,766	366,931
Goodwill	251,628	343,862
Property and equipment, net	195,105	216,420
Long-term receivables, net of allowance of $9,854 (2020) and $8,155 (2019)	69,898	85,999
Deferred rent receivable	62,458	70,308
Non-current restricted cash	32,800	15,700
Other non-current assets, net	25,918	28,271
Total assets	$ 2,070,916	$ 2,049,511
Liabilities and Stockholders' Deficit		
Current liabilities:		
Current maturities of long-term debt	$ 13,000	$ —
Accounts payable	28,930	40,925
Gift card liability	114,495	159,019
Current maturities of operating lease obligations	75,470	72,815
Current maturities of finance lease and financing obligations	13,116	13,669
Accrued employee compensation and benefits	17,498	23,904
Dividends payable	—	11,702
Deferred franchise revenue, short-term	7,862	10,086
Accrued advertising expenses	28,338	8,760
Other accrued expenses	22,402	17,032
Total current liabilities	321,111	357,912
Long-term debt	1,494,538	1,288,248
Operating lease obligations, less current maturities	351,927	359,025
Finance lease obligations, less current maturities	72,349	77,393
Financing obligations, less current maturities	34,488	37,682
Deferred income taxes, net	83,502	98,499
Deferred franchise revenue, long-term	54,101	56,944
Other non-current liabilities	15,264	15,582
Total liabilities	2,427,280	2,291,285
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, $1 par value, 10,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.01 par value; shares: 40,000,000 authorized; September 30, 2020 - 24,883,124 issued, 16,416,695 outstanding; December 31, 2019 - 24,925,447 issued, 16,521,921 outstanding	249	249
Additional paid-in-capital	255,907	246,192
(Accumulated deficit) retained earnings	(53,992)	61,653
Accumulated other comprehensive loss	(56)	(58)
Treasury stock, at cost; shares: September 30, 2020 - 8,466,429; December 31, 2019 - 8,403,526	(558,472)	(549,810)
Total stockholders' deficit	(356,364)	(241,774)
Total liabilities and stockholders' deficit	$ 2,070,916	$ 2,049,511

See the accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	2020	**2019**	**2020**	**2019**
Revenues:				
Franchise revenues:				
Royalties, franchise fees and other	$ 69,820	$ 88,686	$ 191,915	$ 275,912
Advertising revenues	51,932	67,514	142,750	211,882
Total franchise revenues	121,752	156,200	334,665	487,794
Company restaurant sales	27,353	30,548	75,427	100,034
Rental revenues	26,194	28,970	78,910	89,559
Financing revenues	1,344	1,687	4,237	5,280
Total revenues	176,643	217,405	493,239	682,667
Cost of revenues:				
Franchise expenses:				
Advertising expenses	51,932	67,514	142,750	211,882
Bad debt expense (credit)	2,845	(662)	8,416	(1,254)
Other franchise expenses	5,858	7,724	15,999	23,159
Total franchise expenses	60,635	74,577	167,165	233,787
Company restaurant expenses	28,303	30,361	79,774	93,131
Rental expenses:				
Interest expense from finance leases	1,106	1,351	3,453	4,325
Other rental expenses	19,692	21,251	61,121	63,841
Total rental expenses	20,798	22,602	64,574	68,166
Financing expenses	123	145	393	437
Total cost of revenues	109,859	127,685	311,906	395,521
Gross profit	66,784	89,720	181,333	287,146
General and administrative expenses	36,873	38,922	105,351	121,105
Interest expense, net	16,844	15,238	49,143	45,233
Impairment and closure charges	168	157	124,521	640
Amortization of intangible assets	2,659	2,925	8,240	8,774
Loss on extinguishment of debt	—	—	—	8,276
Loss on disposition of assets	1,087	746	2,630	1,187
Income (loss) before income taxes	9,153	31,732	(108,552)	101,931
Income tax benefit (provision)	865	(7,815)	6,119	(24,981)
Net income (loss)	10,018	23,917	(102,433)	76,950
Other comprehensive income (loss) net of tax:				
Foreign currency translation adjustment	2	(1)	2	—
Total comprehensive income (loss)	$ 10,020	$ 23,916	$ (102,431)	$ 76,950
Net income (loss) available to common stockholders:				
Net income (loss)	$ 10,018	$ 23,917	$ (102,433)	$ 76,950
Less: Net income allocated to unvested participating restricted stock	(329)	(795)	(420)	(2,621)
Net income (loss) available to common stockholders	$ 9,689	$ 23,122	$ (102,853)	$ 74,329
Net income (loss) available to common stockholders per share:				
Basic	$ 0.60	$ 1.38	$ (6.34)	$ 4.35
Diluted	$ 0.60	$ 1.36	$ (6.34)	$ 4.27
Weighted average shares outstanding:				
Basic	16,221	16,762	16,229	17,095
Diluted	16,283	17,055	16,229	17,432

See the accompanying Notes to Consolidated Financial Statements.

Dine Brands Global, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Deficit
(In thousands)
(Unaudited)

	Three Months ended September 30, 2020							
	Common Stock					Treasury Stock		
	Shares Outstanding	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Shares	Cost	Total
Balance at June 30, 2020	16,418	$ 249	$ 254,429	$ (64,010)	$ (58)	8,483	$ (559,181)	$ (368,571)
Net income	—	—	—	10,018	—	—	—	10,018
Other comprehensive income	—	—	—	—	2	—	—	2
Reissuance of treasury stock	16	—	(709)	—	—	(16)	709	—
Net issuance of shares for stock plans	(11)	—	—	—	—	—	—	—
Repurchase of restricted shares for taxes	(6)	—	(309)	—	—	—	—	(309)
Stock-based compensation	—	—	2,523	—	—	—	—	2,523
Other	—	—	(27)	—	—	—	—	(27)
Balance at September 30, 2020	16,417	$ 249	$ 255,907	$ (53,992)	$ (56)	8,467	$ (558,472)	$ (356,364)

	Nine Months ended September 30, 2020							
	Common Stock					Treasury Stock		
	Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Shares	Cost	Total
Balance at December 31, 2019	16,522	$ 249	$ 246,192	$ 61,653	$ (58)	8,404	$ (549,810)	$ (241,774)
Adoption of credit loss accounting guidance (Note 3)	—	—	—	(497)	—	—	—	(497)
Net loss	—	—	—	(102,433)	—	—	—	(102,433)
Other comprehensive income	—	—	—	—	2	—	—	2
Purchase of Company common stock	(460)	—	—	—	—	460	(26,527)	(26,527)
Reissuance of treasury stock	397	—	2,658	—	—	(397)	17,865	20,523
Net issuance of shares for stock plans	(7)	—	—	—	—	—	—	—
Repurchase of restricted shares for taxes	(35)	—	(2,438)	—	—	—	—	(2,438)
Stock-based compensation	—	—	9,193	—	—	—	—	9,193
Dividends on common stock	—	—	507	(12,715)	—	—	—	(12,208)
Other	—	—	(205)	—	—	—	—	(205)
Balance at September 30, 2020	16,417	$ 249	$ 255,907	$ (53,992)	$ (56)	8,467	$ (558,472)	$ (356,364)

See the accompanying Notes to Consolidated Financial Statements.

Dine Brands Global, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Deficit
(In thousands)
(Unaudited)

Three Months ended September 30, 2019

	Common Stock					Treasury Stock		
	Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shares	Cost	Total
Balance at June 30, 2019	17,252	$ 249	$ 240,555	$ 33,832	$ (59)	7,697	$ (489,702)	$ (215,125)
Net income	—	—	—	23,917	—	—	—	23,917
Other comprehensive loss	—	—	—	—	(1)	—	—	(1)
Purchase of Company common stock	(524)	—	—	—	—	524	(42,717)	(42,717)
Reissuance of treasury stock	73	—	582	—	—	(73)	3,151	3,733
Net issuance of shares for stock plans	(11)	—	—	—	—	—	—	—
Repurchase of restricted shares for taxes	(4)	—	(347)	—	—	—	—	(347)
Stock-based compensation	—	—	2,326	—	—	—	—	2,326
Dividends on common stock	—	—	242	(11,810)	—	—	—	(11,568)
Balance at September 30, 2019	16,786	$ 249	$ 243,358	$ 45,939	$ (60)	8,148	$ (529,268)	$ (239,782)

Nine Months ended September 30, 2019

	Common Stock					Treasury Stock		
	Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shares	Cost	Total
Balance at December 31, 2018	17,644	$ 250	$ 237,726	$ 10,414	$ (60)	7,341	$ (450,603)	$ (202,273)
Adoption of new lease accounting guidance	—	—	—	(5,030)	—	—	—	(5,030)
Net income	—	—	—	76,950	—	—	—	76,950
Other comprehensive income	—	—	—	—	—	—	—	—
Purchase of Company common stock	(1,067)	—	—	—	—	1,067	(90,073)	(90,073)
Reissuance of treasury stock	260	(1)	(736)	—	—	(260)	11,408	10,671
Net issuance of shares for stock plans	(23)	—	—	—	—	—	—	—
Repurchase of restricted shares for taxes	(28)	—	(2,589)	—	—	—	—	(2,589)
Stock-based compensation	—	—	8,220	—	—	—	—	8,220
Dividends on common stock	—	—	737	(36,395)	—	—	—	(35,658)
Balance at September 30, 2019	16,786	$ 249	$ 243,358	$ 45,939	$ (60)	8,148	$ (529,268)	$ (239,782)

See the accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2020	**2019**
Cash flows from operating activities:		
Net (loss) income	$ (102,433)	$ 76,950
Adjustments to reconcile net (loss) income to cash flows provided by operating activities:		
Impairment and closure charges	124,469	640
Depreciation and amortization	32,053	31,515
Non-cash stock-based compensation expense	9,193	8,220
Non-cash interest expense	1,990	2,722
Deferred income taxes	24,172	(2,890)
Deferred revenue	(5,067)	(6,590)
Loss on extinguishment of debt	—	8,276
Loss on disposition of assets	2,630	1,187
Other	1,173	(4,584)
Changes in operating assets and liabilities:		
Accounts receivable, net	(27,849)	4,233
Current income tax receivables and payables	(41,426)	7,101
Gift card receivables and payables	(1,980)	(15,868)
Other current assets	(2,034)	(3,519)
Accounts payable	6,777	359
Accrued employee compensation and benefits	(6,406)	(6,069)
Accrued advertising	19,579	(1,366)
Other current liabilities	1,887	5,282
Cash flows provided by operating activities	36,728	105,599
Cash flows from investing activities:		
Principal receipts from notes, equipment contracts and other long-term receivables	15,731	16,156
Net additions to property and equipment	(9,088)	(13,360)
Proceeds from sale of property and equipment	517	400
Additions to long-term receivables	(1,475)	(6,955)
Other	(358)	(258)
Cash flows provided by (used in) investing activities	5,327	(4,017)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	1,300,000
Repayment of long-term debt	—	(1,283,750)
Borrowing from revolving credit facility	220,000	—
Repayment of revolving credit facility	—	(25,000)
Payment of debt issuance costs	—	(12,707)
Dividends paid on common stock	(23,934)	(35,273)
Repurchase of common stock	(29,853)	(90,073)
Principal payments on finance lease obligations	(9,034)	(10,329)
Proceeds from stock options exercised	20,523	10,672
Tax payments for restricted stock upon vesting	(2,438)	(2,589)
Other	(205)	—
Cash flows provided by (used in) financing activities	175,059	(149,049)
Net change in cash, cash equivalents and restricted cash	217,114	(47,467)
Cash, cash equivalents and restricted cash at beginning of period	172,475	200,379
Cash, cash equivalents and restricted cash at end of period	$ 389,589	$ 152,912
Supplemental disclosures:		
Interest paid in cash	$ 51,706	$ 49,554
Income taxes paid in cash	$ 11,348	$ 34,337

See the accompanying Notes to Consolidated Financial Statements.

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

1. General

The accompanying unaudited consolidated financial statements of Dine Brands Global, Inc. (the “Company” or “Dine Brands Global”) have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The operating results for the nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2020.

The consolidated balance sheet at December 31, 2019 has been derived from the audited consolidated financial statements at that date but does not include all of information and footnotes required by U.S. GAAP for complete financial statements.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

2. Basis of Presentation

The Company’s fiscal quarters end on the Sunday closest to the last day of each calendar quarter. For convenience, the fiscal quarters of each year are referred to as ending on March 31, June 30, September 30 and December 31. The first fiscal quarter of 2020 began on December 30, 2019 and ended on March 29, 2020; the second and third fiscal quarters of 2020 ended on June 28, 2020 and September 27, 2020, respectively. The first fiscal quarter of 2019 began on December 31, 2018 and ended on March 31, 2019; the second and third fiscal quarters of 2019 ended on June 30, 2019 and September 29, 2019, respectively.

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

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

Risks and Uncertainties

The Company was subject to risks and uncertainties as a result of the rapidly spreading outbreak of a novel strain of coronavirus, designated “COVID-19.” The extent of the continued impact of the COVID-19 pandemic on the Company's business is highly uncertain and difficult to predict, as measures taken in response to and the effect of the pandemic has varied and continues to vary by state and municipalities within states. Assessments of the success of measures taken and the timing of any further restrictions, or lifting of such restrictions, is rapidly evolving. The Company first began to experience impacts from COVID-19 in March 2020, as federal, state and local governments began to react to the public health crisis by encouraging “social distancing” and requiring, in varying degrees, restaurant dine-in limitations and other restrictions that largely limited the restaurants of the Company's franchisees and its company-operated restaurants to take-out and delivery sales. Many international restaurants were temporarily closed for at least a part of March as well as a result of government restrictions put in place in various countries. Subsequent to imposition, government-imposed dine-in restrictions were relaxed in many of the locations in which the Company operates, although dining room capacity continues to be limited to 50% or less at most restaurants. Additionally, economies worldwide also have been negatively impacted by the COVID-19 pandemic, which possibly could cause a domestic and/or global economic recession.

2. Basis of Presentation (Continued)

The Company has taken several actions to mitigate the effects of the COVID-19 pandemic on its operations and its franchisees, as follows: (i) drew down $220 million from its revolving credit facility, leaving available remaining borrowing under the facility of approximately $2 million; (ii) terminated repurchases of common stock for the foreseeable future; (iii) the Company's Board of Directors decided not to declare a dividend for the second, third and fourth quarters of 2020; (iv) voluntarily increased the interest reserve for securitized debt from the required $16.4 million (one quarter of estimated interest) to $32.8 million; (v) reduced discretionary costs, limited new hiring and reduced the use of independent contractors; (vi) temporarily furloughed certain team members across various functional groups at its restaurant support centers; (vii) deferred franchisee payment of royalty, advertising and other fees, and lease obligations for up to two months on a case-by-case basis; (viii) deferred franchisee remodel and development obligations for up to 15 months; (ix) engaged a national real estate firm to assist franchisees with landlord discussions regarding rent deferrals, abatements and other modifications to lease agreements; (x) negotiated deferrals and abatements for properties on which the Company was lessee and (xi) hired external consultants to work with franchisees in assessing their financial health and to better understand performance variability.

The severity of the continued impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, how long the pandemic will last, whether/when recurrences of the virus may arise, what restrictions on in-restaurant dining may be enacted or re-enacted, the timing and extent of customer re-engagement with the Company's brands and, in general, what the short- and long-term impact on consumer discretionary spending the COVID-19 pandemic might have on the Company and the restaurant industry as a whole, all of which are uncertain and cannot be predicted. The Company's future results of operations and liquidity could adversely be impacted by the length of time dine-in restrictions are in place and the success of any initiatives or programs that the Company may undertake to address financial and operational challenges faced by itself and its franchisees. As such, the extent to which the COVID-19 pandemic may continue to materially impact the Company's financial condition, liquidity, or results of operations is highly uncertain.

Reclassifications

Certain 2019 amounts previously reported have been reclassified to conform to the presentation requirements of a newly adopted accounting standard on the measurement of current expected credit losses (See Note 3). Amounts reported in 2019 have not been restated.

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

Accounting Standards Adopted in the Current Fiscal Year

In February 2016, the Financial Accounting Standards Board (“FASB”) issued new guidance on the measurement of current expected credit losses (“CECL”) on financial instruments. The new guidance has replaced the incurred loss methodology of recognizing credit losses on financial instruments with a methodology that estimates the expected credit loss on financial instruments and reflects the net amount expected to be collected on the financial instrument. The Company adopted this change in accounting principle as of the first day of the first fiscal quarter of 2020 using the modified retrospective method. Accordingly, financial information for periods prior to the date of initial application has not been adjusted.

Upon adoption of the new CECL guidance, the Company recognized an increase to its allowance for credit losses of $0.7 million. The Company recognized an adjustment to retained earnings upon adoption of $0.5 million, net of tax of $0.2 million.

Additional new accounting guidance became effective for the Company as of the beginning of fiscal 2020 that the Company reviewed and concluded was either not applicable to its operations or had no material effect on its consolidated financial statements in the current or future fiscal years.

Newly Issued Accounting Standards Not Yet Adopted

In December 2019, the FASB issued new guidance intended to simplify the accounting for income taxes, change the accounting for certain income tax transactions, and make other minor changes. The Company will be required to adopt the new guidance beginning with its first fiscal quarter of 2021; early adoption in any interim period after issuance of the new guidance is permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements but does not expect this standard to have a material effect on its financial statements. The Company does not intend to adopt the standard early.

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

In March 2020, the FASB issued guidance which provides optional expedients and exceptions for applying current U.S. GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate (LIBOR) or by another reference rate expected to be discontinued. The guidance can be adopted immediately and is applicable to contracts entered into on or before December 31, 2022. We are currently evaluating our contracts that reference LIBOR and the potential effects of adopting this new guidance.

The Company reviewed all other newly issued accounting pronouncements and concluded that they either are not applicable to the Company's operations or that no material effect is expected on the Company's financial statements when adoption is required in the future.

4. Impairment and Closure Charges

Goodwill and Intangible Assets

Most of the Company's goodwill and intangible assets arose from the November 29, 2007 acquisition of Applebee's. The Company evaluates its goodwill and the indefinite-lived Applebee's tradename for impairment annually in the fourth quarter of each year or on an interim basis if events or changes in circumstances between annual tests indicate a potential impairment. Definite-lived intangible assets and long-lived tangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable based on estimated undiscounted future cash flows.

Because of the risks and uncertainties associated with the COVID-19 pandemic, during the three months ended March 31, 2020, the Company performed assessments to determine whether the impacts of COVID-19 indicated a potential impairment to our goodwill and intangible assets, as well as our tangible assets. In the second quarter of 2020, the Company noted that its common stock had recovered less of its early March 2020 (pre-pandemic) market value than the overall U.S. stock market had recovered. The Company also was able to assess several additional months of data as to the impact of the COVID-19 pandemic on its operations and, in turn, assess the impact that might have on the risk premium incorporated into its discount rate. Based on these developments, the Company determined that an interim quantitative test of goodwill and indefinite-lived intangible assets for impairment should be performed as of May 24, 2020. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The fair value technique used in this instance is classified as Level 3, where unobservable inputs are used when little or no market data is available.

During the three months ended September 30, 2020, the Company assessed its goodwill, intangible assets and tangible assets for impairment, considering, among other things, the market value of the Company's stock, absolute and relative to peers, and the Company's operating performance during the three months ended September 30, 2020 compared to forecast results that had been used in performing the impairment analyses during the second quarter of 2020 discussed above. The Company concluded the were no indicators of additional impairment during the three months ended September 30, 2020.

In performing the quantitative test for impairment of goodwill in the second quarter of 2020, the Company used the income approach method of valuation that includes the discounted cash flow method and the market approach that includes the guideline public company method to determine the fair value of goodwill and intangible assets. Significant assumptions made by management in estimating fair value under 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 based on the Company's estimated cost of equity capital and after-tax cost of debt. Significant assumptions used to determine fair value under the guideline public company method include the selection of guideline companies and the valuation multiples applied.

In performing the impairment review of the tradename in the second quarter of 2020, the Company used 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 forecasted revenue.

As a result of performing the quantitative test of impairment, the Company recognized an impairment of $92.2 million to the goodwill of the Applebee's franchise unit and an impairment of $11.0 million to Applebee's tradename during the three months ended June 30, 2020. The majority of the impairment was due to an increase in the assessed risk premium incorporated into the discount rate assumption.

4. Impairment and Closure Charges (Continued)

In addition, the Company reviewed its reacquired franchising rights and determined that the carrying amount exceeded the estimated fair value by $3.3 million and has recorded an impairment to that intangible asset.

Changes in the carrying amount of goodwill for the nine months ended September 30, 2020 are as follows:

	Applebee's Franchise Unit	Applebee's Company Unit	IHOP Franchise Unit	Total
	(In millions)			
Balance at December 31, 2019:	$ 328.4	$ 4.6	$ 10.8	$ 343.9
Impairment loss	(92.2)	—	—	(92.2)
Balance at September 30, 2020:	$ 236.2	$ 4.6	$ 10.8	$ 251.6

Changes in the carrying amount of intangible assets for the nine months ended September 30, 2020 are as follows:

	Not Subject to Amortization		Subject to Amortization			
	Tradename	Other	Franchising Rights	Reacquired Franchising Rights	Leaseholds	Total
	(In millions)					
Balance at December 31, 2019:	$ 479.0	$ 3.2	$ 79.0	$ 9.8	$ 4.1	$ 575.1
Impairment loss	(11.0)	—	—	(3.3)	—	(14.3)
Amortization expense	—	—	(7.5)	(0.7)	(0.1)	(8.3)
Additions	—	0.4	—	—	—	0.4
Balance at September 30, 2020:	$ 468.0	$ 3.6	$ 71.5	$ 5.8	$ 4.0	$ 552.9

The Company's goodwill and intangible assets are at risk of additional impairment in the future in the event of sustained downward movement in the Company's stock price, downward revisions of long-term performance assumptions or increases in the assumed long-term discount rate.

Long-lived Assets Impairment and Closure Charges

Long-lived tangible asset impairment and closure charges for the three and nine months ended September 30, 2020 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In millions)			
Long-lived tangible asset impairment	$ —	$ —	$ 17.1	$ —
Closure charges	0.2	0.3	0.9	0.5
Total long-lived asset impairment and closure charges	$ 0.2	$ 0.3	$ 18.0	$ 0.5

The long-lived asset impairment for the nine months ended September 30, 2020 related to 45 Applebee's company-operated restaurants and 29 IHOP franchisee-operated restaurants for which the carrying amount exceeded the undiscounted cash flows The impairment recorded represented the difference between the carrying value and the estimated fair value. Approximately $11.2 million of the total impairment related to operating lease right-of-use assets that had been recorded in 2019 upon adoption of new lease accounting guidance codified in Accounting Standards Topic 842, while $5.9 million related to impairments of land, building, leasehold improvements and finance leases. The impairments by individual property varied in amount, ranging from the largest single-property impairment of $1.3 million to less than $5,000.

5. Revenue Disclosures

Franchise revenue (which comprises most of the Company's revenues) and revenue from company-operated restaurants are recognized in accordance with current guidance for revenue recognition as codified in Accounting Standards Topic 606 (“ASC 606”). Under ASC 606, revenue is recognized upon transfer of control of promised services or goods to customers in an amount that reflects the consideration the Company expects to receive for those services or goods.

Franchising Activities

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

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

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

- Franchise and development fees are recognized as revenue ratably on a straight-line basis over the term of the franchise agreement commencing with the restaurant opening date. As these fees are typically received in cash at or near the beginning of the franchise term, the cash received is initially recorded as a contract liability until recognized as revenue over time;
- The Company is entitled to royalties and advertising fees based on a percentage of the franchisee's gross sales as defined in the franchise agreement. Royalty and advertising revenue are recognized when the franchisee's reported sales occur. Depending on timing within a fiscal period, the recognition of revenue results in either what is considered a contract asset (unbilled receivable) or, once billed, accounts receivable, and are included in “receivables, net” in the Consolidated Balance Sheets.
- Revenue from the sale of proprietary pancake and waffle dry mix is recognized in the period in which distributors ship the franchisee's order; recognition of revenue results in an accounts receivable included in “receivables, net” in the Consolidated Balance Sheets.

In determining the amount and timing of revenue from contracts with customers, the Company exercises significant judgment with respect to collectibility of the amount; however, the timing of recognition does not require significant judgments as it is based on either the term of the franchise agreement, the month of reported sales by the franchisee or the date of product shipment, none of which require estimation. The Company does not incur a significant amount of contract acquisition costs in conducting franchising activities. The Company's franchising arrangements do not contain a significant financing component.

Company Restaurant Revenue

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 that are remitted to the appropriate taxing authorities.

5. Revenue Disclosures (Continued)

The following table disaggregates franchise revenue by major type for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Franchise Revenue:				
Royalties	$ 56,061	$ 72,506	$ 154,672	$ 226,888
Advertising fees	51,932	67,514	142,750	211,882
Pancake and waffle dry mix sales and other	10,690	13,201	27,575	40,158
Franchise and development fees	3,069	2,979	9,668	8,866
Total franchise revenue	$ 121,752	$ 156,200	$ 334,665	$ 487,794

Accounts receivable from franchisees as of September 30, 2020 and December 31, 2019 were $94.4 million (net of allowance of $7.0 million) and $63.5 million (net of allowance of $0.7 million), respectively, and were included in receivables, net in the Consolidated Balance Sheets.

Changes in the Company's contract liability for deferred franchise and development fees during the nine months ended September 30, 2020 are as follows:

	Deferred Franchise Revenue (short- and long-term)
	(In thousands)
Balance at December 31, 2019	$ 67,030
Recognized as revenue during the nine months ended September 30, 2020	(9,029)
Fees deferred during the nine months ended September 30, 2020	3,962
Balance at September 30, 2020	$ 61,963

The balance of deferred revenue as of September 30, 2020 is expected to be recognized as follows:

	(In thousands)
Remainder of 2020	$ 1,928
2021	7,876
2022	7,233
2023	6,708
2024	6,082
Thereafter	32,136
Total	$ 61,963

6. Current Expected Credit Losses

Prior to the adoption of CECL, the Company recorded incurred loss reserves against receivable balances based on current and historical information, with delinquency status being the primary indicator of a deterioration in credit quality. The recently adopted CECL reserve methodology requires companies to measure expected credit losses on financial instruments based on the total estimated amount to be collected over the lifetime of the instrument. Under the CECL model, reserves may be established against financial asset balances even if the risk of loss is remote or has not yet manifested itself.

Upon adoption of the CECL methodology, the Company developed its estimated loss reserves in the following manner. The Company continued to record specific reserves against account balances of franchisees deemed “at-risk” when a potential loss is likely or imminent as a result of prolonged payment delinquency (greater than 90 days past due) and where notable credit deterioration has become evident. For financial assets that are not currently deemed “at-risk,” an allowance is recorded based on expected loss rates derived pursuant to the following CECL methodology that assesses four components - historical losses, current conditions, reasonable and supportable forecasts, and a reversion to history, if applicable.

6. Current Expected Credit Losses (Continued)

Historical Losses

Historical loss rates over a five-year span were calculated for financial assets with common risk characteristics. The Company determined historical loss rate data for each franchise brand concept was more relevant than a single blended rate. Historical losses were determined based on the average charge off method. Historical loss rates are further adjusted by factors related to current conditions and forecasts of future economic conditions.

Current Conditions

The Company identified three metrics that it believes provide the most relevant reflection of the current risks inherent in the Company's franchisee-based restaurant business, as follows: (1) delinquency status, (2) system-wide same-restaurant sales, and (3) four-wall EBITDA profitability. The current conditions adjustment factor was increased to account for the impact of the COVID-19 pandemic.

Reasonable and Supportable Forecasts

The third component in the CECL methodology involves consideration of macroeconomic conditions that can impact the estimate of expected credit losses in the future. The Company has not developed an internal methodology in this regard; rather, the Company utilizes existing, publicly accessible sources of economic data, primarily forecasts of overall unemployment rate as well as consumer spending based on the personal consumption expenditure (PCE) index.

Reversion to History

The Company has determined that reversion to history was not required since the remaining average lives of the Company's financial assets are not exceedingly lengthy.

The Company considers its portfolio segments to be the following:

Accounts Receivable (Franchise-Related)

Most of the Company's short-term receivables due from franchisees are derived from royalty, advertising and other franchise-related fees.

Notes Receivable

Notes receivable balances primarily relate to the conversion of certain Applebee's franchisee accounts receivable to notes receivable, cash loans to franchisees for working capital purposes, a note receivable in connection with the sale of IHOP company restaurants in June 2017, and IHOP franchise fee and other notes. The notes are typically collateralized by the franchise. Due to the riskier nature of Applebee's notes that were converted from previously delinquent franchisee accounts receivable balances, a significant portion of these notes have specific reserves recorded against them amounting to $14.4 million as of September 30, 2020.

Direct Financing Leases Receivable

Direct financing lease receivables relate to IHOP franchise development activity prior to 2003 when IHOP typically leased or purchased the restaurant site, built and equipped the restaurant, then franchised the restaurant to a franchisee. IHOP provided the financing for leasing or subleasing the site. Direct financing leases at September 30, 2020, comprised 98 leases with a weighted average remaining life of 4.1 years, and relate to locations that IHOP is leasing from third parties and subleasing to franchisees.

6. Current Expected Credit Losses (Continued)

Equipment Leases Receivable

Equipment leases receivable also relate to IHOP franchise development activity prior to 2003. Equipment lease contracts are collateralized by the equipment in the restaurant. The estimated fair value of the equipment collateralizing these lease contracts are not deemed to be significant given the very seasoned and mature nature of this portfolio. The weighted average remaining life of the Company's equipment leases is 5.6 years as of September 30, 2020.

Distributor Receivables

Receivables due from distributors are related to the sale of IHOP's proprietary pancake and waffle dry mix to franchisees through the Company's network of suppliers and distributors.

Gift Card Receivables

Gift card receivables consist primarily of amounts due from third-party vendors. Receivables related to gift card sales are subject to seasonality and usually peak around year end as a result of the December holiday season.

	September 30, 2020	December 31, 2019
	(In millions)	
Accounts receivable	$ 99.7	$ 60.8
Gift card receivables	3.8	46.7
Notes receivable	28.9	28.9
Financing receivables:		
Equipment leases receivable	49.8	56.3
Direct financing leases receivable	25.5	34.0
Franchise fee notes receivable	0.1	0.1
Other	6.5	7.3
	214.1	234.2
Less: allowance for doubtful accounts and notes receivable	(22.1)	(11.3)
	192.0	222.9
Less: current portion	(122.1)	(136.9)
Long-term receivables	$ 69.9	$ 86.0

Changes in the allowance for credit losses during the nine months ended September 30, 2020 were as follows:

	Accounts Receivable	Notes receivable, short-term	Notes receivable, long-term	Lease Receivables	Equipment Notes	Other [1]	Total
	(In millions)						
Balance, December 31, 2019	$ 0.7	$ 2.4	$ 8.2	$ —	$ —	$ —	$ 11.3
Increase due to CECL adoption	0.3	0.0	0.1	0.1	0.1	0.1	0.7
Bad debt expense for the nine months ended September 30, 2020	3.8	2.7	1.4	0.1	0.2	0.2	8.4
Advertising provision adjustment	2.4	(0.1)	(0.2)	—	—	—	2.1
Write-offs	(0.2)	(0.1)	—	(0.0)	(0.1)	—	(0.4)
Recoveries	0.0	—	—	0.0	—	—	0.0
Balance, September 30, 2020	$ 7.0	$ 4.9	$ 9.5	$ 0.2	$ 0.2	$ 0.3	$ 22.1

[1] Primarily distributor receivables, gift card receivables and credit card receivables

6. Current Expected Credit Losses (Continued)

The Company's primary credit quality indicator for all portfolio segments is delinquency. The delinquency status of receivables (other than accounts receivable, gift card receivables and distributor receivables) at September 30, 2020 was as follows:

	Notes receivable, short-term	Notes receivable, long-term	Lease Receivables	Equipment Notes	Other [1]	Total
			(In millions)			
Current	$ 4.2	$ 22.4	$ 25.5	$ 49.8	$ 1.6	$ 103.5
30-59 days	0.2	—	—	—	—	0.2
60-89 days	0.2	—	—	—	—	0.2
90-119 days	0.2	—	—	—	—	0.2
120+ days	1.7	—	—	—	—	1.7
Total	$ 6.5	$ 22.4	$ 25.5	$ 49.8	$ 1.6	$ 105.8

[1] Primarily credit card receivables

The year of origination of the Company's financing receivables is as follows:

	Notes receivable, short and long-term	Lease Receivables	Equipment Notes	Total
		(In millions)		
2020	$ 1.9	$ 1.5	$ —	$ 3.4
2019	7.8	0.9	—	8.7
2018	12.8	—	—	12.8
2017	6.3	—	—	6.3
2016	—	1.3	—	1.3
Prior	0.1	21.8	49.8	71.7
Total	$ 28.9	$ 25.5	$ 49.8	$ 104.2

The Company does not place its financing receivables in non-accrual status.

7. Lease Disclosures

The Company engages in leasing activity as both a lessee and a lessor. The majority of the Company's lease portfolio originated when the Company was actively involved in the development and financing of IHOP restaurants prior to the franchising of the restaurant to the franchisee. This activity included the Company's purchase or leasing of the site on which the restaurant was located and subsequently leasing/subleasing the site to the franchisee. With a few exceptions, the Company ended this practice in 2003 and the Company's current lease activity is predominantly comprised of renewals of existing lease arrangements and exercises of options on existing lease arrangements.

The Company currently leases from third parties the real property on which approximately 600 IHOP franchisee-operated restaurants and one Applebee's franchisee-operated restaurant are located; the Company (as lessor) subleases the property to the franchisees that operate those restaurants. The Company also leases property it owns to the franchisees that operate approximately 60 IHOP restaurants and one Applebee's restaurant. The Company leases from third parties the real property on which 69 Applebee's company-operated restaurants are located. The Company also leases office space for its principal corporate office in Glendale, California and restaurant support centers in Kansas City, Missouri and Raleigh, North Carolina. The Company does not have a significant amount of non-real estate leases.

7. Lease Disclosures (Continued)

The Company's existing leases/subleases related to IHOP restaurants generally provided for an initial term of 20 to 25 years, with most having one or more five-year renewal options. Leases related to Applebee's restaurants generally have an initial term of 10 to 20 years, with renewal terms of five to 20 years. Option periods were not included in determining liabilities and right-of-use assets related to operating leases. Approximately 115 of the Company's leases contain provisions requiring additional rent payments to the Company (as lessor) based on a percentage of restaurant sales. Approximately 240 of the Company's leases contain provisions requiring additional rent payments by the Company (as lessee) based on a percentage of restaurant sales.

The individual lease agreements do not provide information to determine the implicit interest rate in the agreements. The Company made significant judgments in determining the incremental borrowing rates that were used in calculating operating lease liabilities as of the adoption date. Due to the large number of leases, the Company applied a portfolio approach by grouping the leases based on the original lease term. The Company estimated the interest rate for each grouping primarily by reference to (i) yield rates on debt issuances by companies of a similar credit rating as the Company; (ii) U.S. Treasury rates as of the adoption date; and (iii) adjustments for differences in years to maturity.

The Company's lease cost for the three and nine months ended September 30, 2020 and 2019 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	(In millions)			
Finance lease cost:				
Amortization of right-of-use assets	$ 1.2	$ 1.3	$ 3.7	$ 4.0
Interest on lease liabilities	1.6	1.9	5.0	5.9
Operating lease cost	25.7	26.5	78.8	79.8
Variable lease cost	0.2	0.6	0.5	1.9
Short-term lease cost	0.0	0.0	0.0	0.0
Sublease income	(23.9)	(26.5)	(72.0)	(81.9)
Lease cost	$ 4.9	$ 3.8	$ 16.1	$ 9.7

Future minimum lease payments under noncancelable leases as lessee as of September 30, 2020 were as follows:

	Finance Leases	Operating Leases
	(In millions)	
2020 (remaining three months)	$ 5.9	$ 31.0
2021	16.7	90.3
2022	15.0	82.9
2023	11.9	67.9
2024	9.7	62.2
Thereafter	59.4	194.1
Total minimum lease payments	118.5	528.3
Less: interest/imputed interest	(33.9)	(101.0)
Total obligations	84.7	427.4
Less: current portion	(12.3)	(75.5)
Long-term lease obligations	$ 72.3	$ 351.9

The weighted average remaining lease term as of September 30, 2020 was 9.0 years for finance leases and 7.4 years for operating leases. The weighted average discount rate as of September 30, 2020 was 10.2% for finance leases and 5.7% for operating leases.

7. Lease Disclosures (Continued)

During the three and nine months ended September 30, 2020 and 2019, the Company made the following cash payments for leases:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	(In millions)			
Principal payments on finance lease obligations	$ 3.0	$ 3.4	$ 9.0	$ 10.3
Interest payments on finance lease obligations	$ 1.6	$ 1.9	$ 5.0	$ 5.9
Payments on operating leases	$ 23.5	$ 22.9	$ 70.0	$ 68.7
Variable lease payments	$ 0.1	$ 0.6	$ 0.7	$ 2.1

The Company's income from operating leases for the three and nine months ended September 30, 2020 and 2019 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	(In millions)			
Minimum lease payments	$ 24.3	$ 25.0	$ 72.2	$ 76.2
Variable lease income	1.1	2.5	3.8	8.5
Total operating lease income	$ 25.4	$ 27.5	$ 76.0	$ 84.7

Minimum payments to be received as lessor under noncancelable operating leases as of September 30, 2020 were as follows:

	(In millions)
2020 (remaining three months)	$ 29.0
2021	104.7
2022	101.4
2023	96.6
2024	87.7
Thereafter	220.7
Total minimum rents receivable	$ 640.0

The Company's income from direct financing leases for the three and nine months ended September 30, 2020 and 2019 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	(In millions)			
Interest income	$ 0.8	$ 1.2	$ 2.6	$ 3.9
Variable lease income	0.0	0.2	0.2	1.0
Total operating lease income	$ 0.8	$ 1.4	$ 2.8	$ 4.9

7. Lease Disclosures (Continued)

Minimum payments to be received as lessor under noncancelable direct financing leases as of September 30, 2020 were as follows:

	(In millions)
2020 (remaining three months)	$ 3.3
2021	10.6
2022	7.8
2023	3.7
2024	1.5
Thereafter	3.9
Total minimum rents receivable	30.7
Less: unearned income	(5.3)
Total net investment in direct financing leases	25.5
Less: current portion	(9.1)
Long-term investment in direct financing leases	$ 16.4

8. Long-Term Debt

At September 30, 2020 and December 31, 2019, long-term debt consisted of the following:

	September 30, 2020	December 31, 2019
	(In millions)	
Series 2019-1 4.194% Fixed Rate Senior Secured Notes, Class A-2-I	$ 700.0	$ 700.0
Series 2019-1 4.723% Fixed Rate Senior Secured Notes, Class A-2-II	600.0	600.0
Series 2019-1 Variable Funding Senior Notes Class A-1, variable interest rate of 2.44% at September 30, 2020	220.0	—
Debt issuance costs	(12.5)	(11.8)
Long-term debt, net of debt issuance costs	1,507.5	1,288.2
Current portion of long-term debt	(13.0)	—
Long-term debt	$ 1,494.5	$ 1,288.2

On June 5, 2019, Applebee's Funding LLC and IHOP Funding LLC (the "Co-Issuers"), each a special purpose, wholly-owned indirect subsidiary of the Company, issued two tranches of fixed rate senior secured notes, the Series 2019-1 4.194% Fixed Rate Senior Secured Notes, Class A-2-I ("Class A-2-I Notes") in an initial aggregate principal amount of $700 million and the Series 2019-1 4.723% Fixed Rate Senior Secured Notes, Class A-2-II ("Class A-2-II Notes") in an initial aggregate
principal amount of $600 million (the "Class A-2-II Notes" and, together with the Class A-2-I Notes, the "2019 Class A-2 Notes"). The 2019 Class A-2 Notes were issued pursuant to an offering exempt from registration under the Securities Act of 1933, as amended.

The Co-Issuers also replaced their existing revolving financing facility, the 2018-1 Variable Funding Senior Notes, Class A-1 ("2018-1 Class A-1 Notes"), with a new revolving financing facility, the 2019-1 Variable Funding Senior Notes, Class A-1 (the "Revolver"), on substantially the same terms as the 2018-1 Class A-1 Notes in order to conform the term of the Revolver to the anticipated repayment dates for the 2019 Class A-2 Notes. The Revolver allows for drawings up to $225 million of variable funding notes and the issuance of letters of credit. The Revolver and the 2019 Class A-2 Notes are referred to collectively herein as the "New Notes." The New Notes were issued in a securitization transaction pursuant to which substantially all the domestic revenue-generating assets and domestic intellectual property held by the Co-Issuers and certain other special-purpose, wholly-owned indirect subsidiaries of the Company (the "Guarantors") were pledged as collateral to secure the New Notes.

The Company used the majority of the net proceeds of the offering to repay the entire outstanding balance of approximately $1.28 billion of Series 2014-1 4.277% Fixed Rate Senior Notes, Class A-2. The Company used the remaining proceeds of the offering to pay for transactions costs associated with the securitization refinancing transaction and for general corporate purposes.

8. Long-Term Debt (Continued)

2019 Class A-2 Notes

The New Notes were issued under a Base Indenture, dated as of September 30, 2014, and amended and restated as of June 5, 2019 (the “Base Indenture”), and the related Series 2019-1 Supplement to the Base Indenture, dated June 5, 2019 (the “Series 2019-1 Supplement”), among the Co-Issuers and Citibank, N.A., as the trustee (in such capacity, the “Trustee”) and securities intermediary. The Base Indenture and the Series 2019-1 Supplement (collectively, the “Indenture”) will allow the Co-Issuers to issue additional series of notes in the future subject to certain conditions set forth therein.

The legal final maturity of the 2019 Class A-2 Notes is in June 2049, but rapid amortization will apply if the Class A-2-I Notes are not repaid by June 2024 (the “Class A-2-I Anticipated Repayment Date”) and for the Class A-2-II Notes if not repaid by June 2026 (the “Class A-2-II Anticipated Repayment Date”). If the Co-Issuers have not repaid or refinanced the Class A-2-I Notes by the Class A-2-I Anticipated Repayment Date or the Class A-2-II Notes by the Class A-2-II Anticipated Repayment Date, then additional interest will accrue on the Class A-2-I Notes and the Class A-2-II Notes, as applicable, at the greater of: (A) 5.0% and (B) the amount, if any, by which the sum of the following exceeds the applicable Series 2019-1 Class A-2 Note interest rate: (x) the yield to maturity (adjusted to a quarterly bond-equivalent basis) on the applicable anticipated repayment date of the United States Treasury Security having a term closest to 10 years plus (y) 5.0%, plus (z) 2.15% for the Series 2019-1 Class A-2-I Notes and 2.64% for the Series 2019-1 Class A-2-II Notes.

While the 2019 Class A-2 Notes are outstanding, payment of principal and interest is required to be made on the 2019 Class A-2 Notes on a quarterly basis. The quarterly principal payment of $3.25 million on the 2019 Class A-2 Notes may be suspended when the leverage ratio for the Company and its subsidiaries is less than or equal to 5.25x. In general, the leverage ratio is the Company's indebtedness (as defined in the Indenture) divided by adjusted EBITDA (as defined in the Indenture) for the four preceding quarterly periods. The complete definitions of all calculation elements of the leverage ratio are contained in the Base Indenture, dated as of September 30, 2014, amended and restated as of June 5, 2019.

As of September 30, 2020, the Company's leverage ratio was 6.67x. As a result, the Company anticipates making principal payments on the 2019 Class A-2 Notes of $3.25 million beginning in the fourth quarter of 2020. Exceeding the leverage ratio of 5.25x does not violate any covenant related to the New Notes.

The Company may voluntarily repay the 2019 Class A-2 Notes at any time; however, if we repay the 2019 Class A-2 Notes prior to certain dates we would be required to pay make-whole premiums. As of September 30, 2020, the make-whole premium associated with voluntary prepayment of the Class A-2-I Notes was approximately $41 million; this amount declines progressively each quarter to zero in June 2022. As of September 30, 2020, the make-whole premium associated with voluntary prepayment of the Class A-2-II Notes was approximately $84 million; this amount declines progressively each quarter to zero in June 2024.

The Company would also be subject to a make-whole premium in the event of a mandatory prepayment required following a Rapid Amortization Event or certain asset dispositions. The mandatory make-whole premium requirements are considered derivatives embedded in the New Notes that must be bifurcated for separate valuation. We estimated the fair value of these derivatives to be immaterial as of September 30, 2020, based on the probability-weighted discounted cash flows associated with either event.

2019 Class A-1 Notes

The Co-Issuers also entered into the Revolver that allows for drawings up to $225 million of variable funding notes and the issuance of letters of credit. The 2019 Class A-1 Notes were issued under the Indenture. Drawings and certain additional terms related to the Revolver are governed by the 2019 Class A-1 Note Purchase Agreement, dated June 5, 2019, among the Co-Issuers, certain special-purpose, wholly-owned indirect subsidiaries of the Company, each as a Guarantor, the Company, as manager, certain conduit investors, financial institutions and funding agents, and Barclays Bank PLC, as provider of letters credit, swingline lender and administrative agent (the “Purchase Agreement”).

The Revolver is governed, in part, by the Purchase Agreement and by certain generally applicable terms contained in the Indenture. The applicable interest rate under the Revolver depends on the type of borrowing by the Co-Issuers. The applicable interest rate for advances is generally calculated at a per annum rate equal to the commercial paper funding rate or one-, two-, three- or six-month Eurodollar Funding Rate, in either case, plus 2.15%. The applicable interest rate for swingline advances and unreimbursed draws on outstanding letters of credit is a per annum base rate equal to the sum of (a) 1.15% plus (b) the greatest

8. Long-Term Debt (Continued)

of (i) the Prime Rate in effect from time to time, (ii) the Federal Funds Rate in effect from time to time plus 0.50% and (iii) the one-month Eurodollar Funding Rate plus 1.00%. There is no upfront fee for the Revolver. There is a fee of 50 basis points on any unused portion of the revolving financing facility. Undrawn face amounts of outstanding letters of credit that are not cash collateralized accrue a fee of 2.15% per annum.

During the nine months ended September 30, 2020, the Company borrowed $220.0 million against the Revolver, all of which was outstanding at September 30, 2020. At September 30, 2020, $2.8 million was pledged against the Revolver for outstanding letters of credit, leaving $2.2 million available for borrowing. The letters of credit are used primarily to satisfy insurance-related collateral requirements. The maximum amount of the Revolver outstanding during the nine months ended September 30, 2020 was $220.0 million and the weighted average interest rates for the three and nine months ended September 30, 2020 were 2.53% and 3.31%, respectively. It is anticipated that any principal and interest on the Revolver will be repaid in full on or prior to the quarterly payment date in June 2024, subject to two additional one-year extensions at the option of the Company upon the satisfaction of certain conditions.

Covenants and Restrictions

The New Notes are subject to a series of covenants and restrictions customary for transactions of this type, including: (i) that the Co-Issuers maintain specified reserve accounts to be used to make required payments in respect of the New Notes, (ii) provisions relating to optional and mandatory prepayments, and the related payment of specified amounts, including specified call redemption premiums in the case of Class A-2 Notes under certain circumstances; (iii) certain indemnification payments in the event, among other things, the transfers of the assets pledged as collateral for the New Notes are in stated ways defective or ineffective and (iv) covenants relating to recordkeeping, access to information and similar matters. The New Notes are subject to customary rapid amortization events provided for in the Indenture, including events tied to failure of the Securitization Entities (as defined in the Indenture) to maintain the stated debt service coverage ratio (“DSCR”), the sum of domestic retail sales for all restaurants being below certain levels on certain measurement dates, certain manager termination events, certain events of default and the failure to repay or refinance the Class A-2 Notes on the anticipated repayment dates. The New Notes are also subject to certain customary events of default, including events relating to non-payment of required interest, principal or other amounts due on or with respect to the New Notes, failure of the Securitization Entities to maintain the stated DSCR, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties and certain judgments.

In general, the DSCR ratio is Net Cash Flow (as defined in the Indenture) for the four quarters preceding the calculation date divided by the total debt service payments (as defined in the Indenture) of the preceding four quarters. The complete definitions of the DSCR and all calculation elements are contained in the Indenture. Failure to maintain a prescribed DSCR can trigger a Cash Flow Sweeping Event, A Rapid Amortization Event, a Manager Termination Event or a Default Event as described below. In a Cash Flow Sweeping Event, the Trustee is required to retain 50% of excess Cash Flow (as defined in the Indenture) in a restricted account. In a Rapid Amortization Event, all excess Cash Flow is retained and used to retire principal amounts of debt. In a Manager Termination Event, the Company may be replaced as manager of the assets securitized under the Indenture. In a Default Event, the outstanding principal amount and any accrued but unpaid interest can be called to become immediately due and payable. Key DSCRs are as follows:

- DSCR less than 1.75x - Cash Flow Sweeping Event
- DSCR less than 1.20x - Rapid Amortization Event
- Interest-only DSCR less than 1.20x - Manager Termination Event
- Interest-only DSCR less than 1.10x - Default Event

The Company's DSCR for the reporting period ended September 30, 2020 was approximately 3.2x.

Debt Issuance Costs

The Company incurred costs of approximately $12.9 million in connection with the issuance of the 2019 Class A-2 Notes. These debt issuance costs are being amortized using the effective interest method over the estimated life of each tranche of the 2019 Class A-2 Notes. Amortization costs of $0.5 million and $1.6 million were included in interest expense for the three months and nine months ended September 30, 2020, respectively.

8. Long-Term Debt (Continued)

The Company incurred costs of approximately $0.2 million in connection with the replacement of the 2018-1 Class A-1 Notes with the Revolver. These debt issuance costs were added to the remaining unamortized costs of approximately $2.8 million related to the 2018-1 Class A-1 Notes, the total of which costs is being amortized using the effective interest method over the estimated five-year life of the Revolver. Amortization costs of $0.1 million and $0.4 million were included in interest expense for the three and nine months ended September 30, 2020, respectively.

At September 30, 2020, total unamortized debt issuance costs of $12.5 million are reported as a direct reduction of the Revolver and 2019 Class A-2 Notes in the Consolidated Balance Sheets. That amount includes $2.6 million of costs related to the Revolver that were classified as other long-term assets as of December 31, 2019 because there had been no borrowing against the Revolver since it was established.

For additional information on the 2019 Class A-2 Notes and the Revolver, refer to Note 8 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Maturities of Long-term Debt

Face-value maturities of long-term debt for each of the next five years, assuming the Company's leverage ratio remains greater than 5.25x, are as follows:

		(In millions)
2020 (remaining three months)	$	3.3
2021		13.0
2022		13.0
2023		13.0
2024		903.3
Thereafter		574.5
Total	$	1,520.0

9. Stockholders' Deficit

Dividends

During the nine months ended September 30, 2020, the Company paid dividends on common stock of $23.9 million, representing a cash dividend of $0.69 per share declared in the fourth quarter of 2019, paid on January 10, 2020 to stockholders of record at the close of business on December 20, 2019 and a cash dividend of $0.76 per share declared in the first quarter of 2020, paid on April 3, 2020 to stockholders of record at the close of business on March 20, 2020. Dividends were not declared for the second or third quarters of 2020, and the Board of Directors has determined that it will not declare dividends for the fourth quarter of 2020.

Dividends declared and paid per share for the three months and nine months ended September 30, 2020 and 2019 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Dividends declared per common share	$ —	$ 0.69	$ 0.76	$ 2.07
Dividends paid per common share	$ —	$ 0.69	$ 1.45	$ 2.01

Stock Repurchase Program

In February 2019, the Company's Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to $200 million of the Company's common stock (the "2019 Repurchase Program") on an opportunistic basis from time to time in the open market or in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The 2019 Repurchase Program, as approved by the Board of Directors, does not require the repurchase of a specific number of shares and can be terminated at any time.

9. Stockholders' Deficit (Continued)

A summary of shares repurchased under the 2019 Repurchase Program, during three and nine months ended September 30, 2020 and cumulatively, is as follows:

	Shares	Cost of shares
		(In millions)
Repurchased during the three months ended September 30, 2020	—	$ —
Repurchased during the nine months ended September 30, 2020	459,899	$ 26.5
Cumulative (life-of-program) repurchases	1,697,597	$ 129.8
Remaining dollar value of shares that may be repurchased	n/a	$ 70.2

Treasury Stock

Repurchases of the Company's common stock are included in treasury stock at the cost of shares repurchased plus any transaction costs. Treasury stock may be re-issued when stock options are exercised, when restricted stock awards are granted and when restricted stock units settle in stock upon vesting. The cost of treasury stock re-issued is determined using the first-in, first-out (“FIFO”) method. During the nine months ended September 30, 2020, the Company re-issued 396,996 shares of treasury stock at a total FIFO cost of $17.9 million.

10. Income Taxes

The Company's effective tax rate was 5.6% for the nine months ended September 30, 2020 as compared to 24.5% for the nine months ended September 30, 2019. The effective tax rate of 5.6% for the nine months ended September 30, 2020 (the tax benefit of $6.1 million on the pretax book loss of $108.6 million) was significantly different than the rate of the prior comparable period and the statutory federal tax rate of 21% because the $92.2 million impairment of goodwill incurred in the prior quarter is not deductible for federal income tax purposes and therefore has no associated tax benefit.

The total gross unrecognized tax benefit as of September 30, 2020 and December 31, 2019 was $6.2 million and $7.6 million, respectively, excluding interest, penalties and related tax benefits. The Company estimates the unrecognized tax benefit as of September 30, 2020 may decrease over the upcoming 12 months by an amount up to $1.0 million related to settlements with taxing authorities, statutes of limitations expirations and method changes. For the remaining liability, due to the uncertainties related to these tax matters, the Company is unable to make a reasonable estimate as to when cash settlement with a taxing authority will occur.

As of September 30, 2020, accrued interest was $1.9 million and accrued penalties were less than $0.1 million, excluding any related income tax benefits. As of December 31, 2019, accrued interest was $2.5 million and accrued penalties were less than $0.1 million, excluding any related income tax benefits. The Company recognizes interest accrued related to unrecognized tax benefits and penalties as a component of its income tax provision recognized in its Consolidated Statements of Comprehensive Income (Loss).

The Company files federal income tax returns and the Company or one of its subsidiaries file income tax returns in various state and international jurisdictions. With few exceptions, the Company is no longer subject to federal tax examinations by tax authorities for years before 2014 and state or non-United States tax examinations by tax authorities for years before 2011. The Company believes that adequate reserves have been provided related to all matters contained in the tax periods open to examination.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted in response to the COVID-19 pandemic. The Company is continuing to evaluate the impact of the CARES Act, but at present does not expect the CARES Act would result in a material impact to our income tax benefit or provision.

11. Stock-Based Compensation

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	(In millions)			
Total stock-based compensation expense:				
Equity classified awards expense	$ 2.5	$ 2.4	$ 9.2	$ 8.3
Liability classified awards expense	1.1	0.2	0.6	2.6
Total pre-tax stock-based compensation expense	3.6	2.6	9.8	10.9
Book income tax benefit	(0.9)	(0.6)	(2.4)	(2.8)
Total stock-based compensation expense, net of tax	$ 2.7	$ 2.0	$ 7.4	$ 8.1

As of September 30, 2020, total unrecognized compensation expense of $14.7 million related to restricted stock and restricted stock units and $2.9 million related to stock options are expected to be recognized over a weighted average period of 1.1 years for restricted stock and restricted stock units and 1.3 years for stock options.

Fair Value Assumptions

The Company granted 167,969 stock options during the nine months ended September 30, 2020 for which the fair value was estimated using a Black-Scholes option pricing model. The following summarizes the assumptions used in the Black-Scholes model:

Risk-free interest rate	1.2 %
Weighted average historical volatility	30.5 %
Dividend yield	3.5 %
Expected years until exercise	4.6
Weighted average fair value of options granted	$17.53

Equity Classified Awards - Stock Options

Stock option balances at September 30, 2020, and activity for the nine months ended September 30, 2020 were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in Millions)
Outstanding at December 31, 2019	1,217,438	$ 66.43		
Granted	167,969	87.17		
Exercised	(270,024)	76.01		
Expired	(48,119)	112.58		
Forfeited	(45,247)	86.39		
Outstanding at September 30, 2020	1,022,017	64.25	6.7	$ 5.5
Vested at September 30, 2020 and Expected to Vest	983,454	63.99	6.7	$ 5.3
Exercisable at September 30, 2020	423,261	$ 70.54	5.3	$ 0.4

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the closing stock price of the Company's common stock on the last trading day of the third quarter of 2020 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2020. The aggregate intrinsic value will change based on the fair market value of the Company's common stock and the number of in-the-money options.

11. Stock-Based Compensation (Continued)

Equity Classified Awards - Restricted Stock and Restricted Stock Units

Outstanding balances as of September 30, 2020, and activity related to restricted stock and restricted stock units for the nine months ended September 30, 2020 were as follows:

	Restricted Stock	Weighted Average Grant Date Fair Value	Stock-Settled Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2019	224,515	$ 70.52	357,807	$ 30.35
Granted	127,041	75.86	30,997	77.33
Released	(93,160)	55.58	(33,234)	63.98
Forfeited	(38,172)	85.01	—	—
Outstanding at September 30, 2020	220,224	$ 78.12	355,570	$ 28.01

Liability Classified Awards - Cash-settled Restricted Stock Units

The Company has granted cash-settled restricted stock units to certain employees. These instruments are recorded as liabilities at fair value as of the respective period end.

	Cash-Settled Restricted Stock Units
Outstanding at December 31, 2019	63,852
Granted	2,658
Released	(1,426)
Forfeited	(11,603)
Outstanding at September 30, 2020	53,481

For the three months ended September 30, 2020 and 2019, an expense of $0.8 million and a credit of $0.2 million, respectively, was included as stock-based compensation expense related to cash-settled restricted stock units. For the nine months ended September 30, 2020 and 2019, a credit of $0.1 million and an expense of $1.0 million, respectively, was included as stock-based compensation expense related to cash-settled restricted stock units. At September 30, 2020 and December 31, 2019, liabilities of $2.1 million and $2.3 million, respectively, related to cash-settled restricted stock units were included as part of accrued employee compensation and benefits in the Consolidated Balance Sheets.

Liability Classified Awards - Long-Term Incentive Awards

The Company has granted cash long-term incentive awards (“LTIP awards”) to certain employees. Annual LTIP awards vest over a three-year period and are determined using multipliers from 0% to 200% of the target award based on (i) the total stockholder return of Dine Brands Global common stock compared to the total stockholder returns of a peer group of companies and (ii) the percentage increase in the Company's adjusted earnings per share (as defined in the applicable award agreement). The awards are considered stock-based compensation and are classified as liabilities measured at fair value as of the respective period end. For the three months ended September 30, 2020 and 2019, an expense of $0.3 million and $0.5 million, respectively, were included in total stock-based compensation expense related to LTIP awards. For the nine months ended September 30, 2020 and 2019, $0.7 million and $1.7 million, respectively, were included in total stock-based compensation expense related to LTIP awards. At September 30, 2020 and December 31, 2019, liabilities of $2.1 million and $2.9 million, respectively, related to LTIP awards were included as part of accrued employee compensation and benefits in the Consolidated Balance Sheets.

12. Segments

The Company identifies its reporting segments based on the organizational units used by management to monitor performance and make operating decisions. The Company currently has five operating segments: Applebee's franchise operations, Applebee's company-operated restaurant operations, IHOP franchise operations, rental operations and financing operations. The Company has four reportable segments: franchise operations, (an aggregation of Applebee's and IHOP franchise operations), company-operated restaurant operations, rental operations and financing operations. The Company

12. Segments (Continued)

considers these to be its reportable segments, regardless of whether any segment exceeds 10% of consolidated revenues, income before income tax provision or total assets.

As of September 30, 2020, the franchise operations segment consisted of (i) 1,659 restaurants operated by Applebee's franchisees in the United States, two U.S. territories and 11 countries outside the United States and (ii) 1,807 restaurants operated by IHOP franchisees and area licensees in the United States, two U.S. territories and 13 countries outside the United States. Franchise operations revenue consists primarily of franchise royalty revenues, franchise advertising revenue, sales of proprietary products to franchisees (primarily pancake and waffle dry mixes for the IHOP restaurants), and franchise fees. Franchise operations expenses include advertising expenses, the cost of IHOP proprietary products, bad debt expense, franchisor contributions to marketing funds, pre-opening training expenses and other franchise-related costs.

Company restaurant sales are retail sales at 69 Applebee's company-operated restaurants. Company restaurant expenses are operating expenses at company-operated restaurants and include food, labor, 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 from finance leases on which the Company is the lessee.

Financing revenues primarily consist of interest income from the financing of IHOP equipment leases and franchise fees, sales of equipment associated with refranchised IHOP restaurants and interest income on Applebee's notes receivable from franchisees. Financing expenses are primarily the cost of restaurant equipment associated with refranchised IHOP restaurants.

Information on segments is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	(In millions)			
Revenues from external customers:				
Franchise operations	$ 121.8	$ 156.2	$ 334.7	$ 487.8
Rental operations	26.2	29.0	78.9	89.6
Company restaurants	27.3	30.5	75.4	100.0
Financing operations	1.3	1.7	4.2	5.3
Total	$ 176.6	$ 217.4	$ 493.2	$ 682.7
Interest expense:				
Rental operations	$ 1.6	$ 1.8	$ 4.7	$ 6.1
Company restaurants	0.7	0.5	1.7	1.6
Corporate	16.8	15.2	49.1	45.2
Total	$ 19.1	$ 17.5	$ 55.5	$ 52.9
Depreciation and amortization:				
Franchise operations	$ 2.5	$ 2.6	$ 7.6	$ 7.7
Rental operations	3.0	3.3	9.3	10.2
Company restaurants	1.8	1.6	5.0	4.7
Corporate	3.4	3.2	10.2	8.9
Total	$ 10.7	$ 10.7	$ 32.1	$ 31.5
Gross profit, by segment:				
Franchise operations	$ 61.1	$ 81.6	$ 167.5	$ 254.0
Rental operations	5.4	6.4	14.3	21.4
Company restaurants	(0.9)	0.2	(4.4)	6.9
Financing operations	1.2	1.5	3.9	4.8
Total gross profit	66.8	89.7	181.3	287.1
Corporate and unallocated expenses, net	(57.6)	(58.0)	(289.9)	(185.2)
Income (loss) before income taxes	$ 9.2	$ 31.7	$ (108.6)	$ 101.9

13. Net Income (Loss) per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	(In thousands, except per share data)			
Numerator for basic and diluted income (loss) per common share:				
Net income (loss)	$ 10,018	$ 23,917	$ (102,433)	$ 76,950
Less: Net income allocated to unvested participating restricted stock	(329)	(795)	(420)	(2,621)
Net income (loss) available to common stockholders - basic	9,689	23,122	(102,853)	74,329
Effect of unvested participating restricted stock in two-class calculation	2	6	—	28
Net income (loss) available to common stockholders - diluted	$ 9,691	$ 23,128	$ (102,853)	$ 74,357
Denominator:				
Weighted average outstanding shares of common stock - basic	16,221	16,762	16,229	17,095
Dilutive effect of stock options	62	293	—	337
Weighted average outstanding shares of common stock - diluted	16,283	17,055	16,229	17,432
Net income (loss) per common share:				
Basic	$ 0.60	$ 1.38	$ (6.34)	$ 4.35
Diluted	$ 0.60	$ 1.36	$ (6.34)	$ 4.27

For the nine months ended September 30, 2020, diluted loss per common share was computed using the basic weighted average number of shares outstanding during the period as the 86,000 shares from common stock equivalents would have been antidilutive.

The calculation of net loss per share for the three and six months ended June 30, 2020, previously reported as ($8.04) per share and ($6.69) per share, respectively, allocated an incorrect portion of the net loss from each period to unvested participating restricted stock. The correct calculation is a loss of ($8.33) per share for the three months ended June 30, 2020 and a loss of ($6.96) per share for the six months ended June 30, 2020.

14. Fair Value Measurements

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

The Company believes the fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying amounts due to their short duration.

The fair values of the Company's 2019 Class A-2 Notes at September 30, 2020 and December 31, 2019 were as follows:

	September 30, 2020	December 31, 2019
	(In millions)	
Face Value of Class A-2 Notes	$ 1,300.0	$ 1,300.0
Fair Value of Class A-2 Notes	$ 1,164.4	$ 1,326.3

The fair values were determined based on Level 2 inputs, including information gathered from brokers who trade in the Company’s 2019 Class A-2 Notes, as well as information on notes that are similar to those of the Company.

15. Commitments and Contingencies

Litigation, Claims and Disputes

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

Lease Guarantees

In connection with the sale of Applebee’s restaurants to franchisees, the Company has, in certain cases, guaranteed or has potential continuing liability for lease payments totaling $253.5 million as of September 30, 2020. This amount represents the maximum potential liability for future payments under these leases. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from 2020 through 2048. Excluding unexercised option periods, the Company's potential liability for future payments under these leases is $38.2 million. In the event of default, the indemnity and default clauses in the sale or assignment agreements govern the Company's ability to pursue and recover damages incurred.

16. Restricted Cash

Current restricted cash of $47.5 million at September 30, 2020 primarily consisted of $40.5 million of funds required to be held in trust in connection with the Company's securitized debt and $6.9 million of funds from Applebee's franchisees pursuant to franchise agreements, usage of which was restricted to advertising activities. Current restricted cash of $40.7 million at December 31, 2019 primarily consisted of $38.4 million of funds required to be held in trust in connection with the Company's securitized debt and $2.3 million of funds from Applebee's franchisees pursuant to franchise agreements, usage of which was restricted to advertising activities.

Non-current restricted cash of $32.8 million at September 30, 2020 and $15.7 million at December 31, 2019 represents interest reserves required to be set aside for the duration of the Company's securitized debt. During the nine months ended September 30, 2020, the Company voluntarily increased the reserve from the required $16.4 million (one quarter of interest and fees related to the 2019 Class A-1 Notes and 2019 Class A-2 Notes) to the current balance of $32.8 million.

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

You should read the following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this report. Statements contained in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to the section of this report under the heading "Cautionary Statement Regarding Forward-Looking Statements" for more information.

Overview

The following discussion and analysis provides information which we believe is relevant to an assessment and understanding of our consolidated results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and the notes thereto included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and the MD&A contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019. Except where the context indicates otherwise, the words "we," "us," "our," "Dine Brands Global" and the "Company" refer to Dine Brands Global, Inc., together with its subsidiaries that are consolidated in accordance with United States generally accepted accounting principles ("U.S. GAAP"). The financial tables appearing in Management's Discussion and Analysis present amounts in millions of dollars that are rounded from our consolidated financial statements presented in thousands of dollars. As a result, the tables may not foot or crossfoot due to rounding.

Through various subsidiaries, we own, franchise and operate the Applebee's Neighborhood Grill & Bar® ("Applebee's") concept in the bar and grill segment within the casual dining category of the restaurant industry and we own and franchise the International House of Pancakes® ("IHOP") concept in the family dining category of the restaurant industry. References herein to Applebee's® and IHOP® restaurants are to these two restaurant concepts, whether operated by franchisees, area licensees and their sub-licensees (collectively, "area licensees") or by us. With over 3,500 restaurants combined, the substantial majority of which are franchised, we believe we are one of the largest full-service restaurant companies in the world. The June 15, 2020 issue of *Nation's Restaurant News* reported that IHOP and Applebee's were the largest restaurant systems in the family dining and casual dining categories, respectively, in terms of United States system-wide sales during 2019.

We identify our business segments based on the organizational units used by management to monitor performance and make operating decisions. We currently have five operating segments: Applebee's franchise operations, Applebee's company-operated restaurant operations, IHOP franchise operations, rental operations and financing operations. We have four reportable segments: franchise operations (an aggregation of Applebee's and IHOP franchise operations), company-operated restaurant operations, rental operations and financing operations. We consider these to be our reportable segments, regardless of whether any segment exceeds 10% of consolidated revenues, income before income tax provision or total assets.

Ongoing Impact of COVID-19

The global pandemic declared in March 2020 by the World Health Organization related to the outbreak of a novel strain of coronavirus, designated "COVID-19," continued to have a significant adverse impact on our operations throughout the third fiscal quarter and remains ongoing. Initially, federal, state, local and international governments reacted to the COVID-19 pandemic by encouraging or requiring social distancing, instituting shelter-in-place orders, and requiring, in varying degrees, reduced operating hours, restaurant dine-in limitations, capacity limitations or other restrictions that largely limited restaurants to take-out and delivery sales. While shelter-in-place directives largely have been removed as of September 30, 2020, most federal, state, local and international governments have maintained protocols that limit restaurant dine-in occupancy levels to 50% capacity or less at most of our restaurants. We and our franchisees have instituted operational procedures to comply with applicable regulatory requirements and to monitor developing health authority recommendations in order to protect the health and foster the confidence of employees and guests at the restaurants.

Since March 2020, we have taken several actions to mitigate the effects of the COVID-19 pandemic on the Company, its operations and its franchisees, as discussed below:

- We drew down a total of $220 million from our revolving credit facility. Including approximately $3 million in letters of credit, $223 million of the total $225 million available under our revolving facility has been utilized. We had no immediate need for additional liquidity, but in light of then-current market conditions and uncertainty related to the COVID-19 pandemic, we drew on the revolving facility to maximize our financial flexibility.

- We stopped repurchasing our common stock for the foreseeable future and our Board of Directors has decided not to declare a dividend for the second, third and fourth quarters of 2020. We will reevaluate our capital allocation strategy as industry conditions improve and normal restaurant operations resume.
- We voluntarily increased the interest reserve set aside for our securitized debt, from the required $16.4 million to $32.8 million. We also voluntarily accelerated the funding of interest on our securitized debt with the redirection of cash receipts within the securitization structure. As of October 26, 2020, the interest payments on long-term debt due December 7, 2020 and March 5, 2021 have been fully funded.
- We have reduced discretionary costs, limited new hiring and significantly reduced the use of independent contractors. At the outset of the pandemic, we temporarily furloughed certain team members across various functional groups in our restaurant support centers and company-operated restaurants and also curtailed the hours of substantially all of the hourly restaurant associates at our company-operated restaurants. Most of the hourly restaurant associates at our company-operated restaurants returned to work following the re-opening of those restaurants, and as of October 26, 2020, there were no team members from the restaurant support centers remaining on furlough. Our General & Administrative ("G&A") expenses for the three and nine months ended September 30, 2020 were lower than the same periods of the prior year by $2.0 million and $15.8 million, respectively.
- We offered Applebee's franchisees the opportunity to defer payment of their royalty, advertising and IT support fees, primarily for the months of March and April. A total of 30 franchisees representing 94% of Applebee's restaurants have deferred payments totaling $33.4 million. Repayment of deferred amounts, scheduled over up to nine months, began in the third quarter of 2020. As of September 30, 2020, the outstanding balance was approximately $24.4 million, with four franchisees having repaid their deferred balances in full.
- We offered IHOP franchisees the opportunity to defer their royalty, advertising, equipment rent and sublease rent payments, primarily for the months of March and April. A total of 193 franchisees representing 58% of IHOP restaurants have deferred payments totaling $22.3 million. Repayment of deferred amounts, scheduled over up to 36 weeks, began in the third quarter of 2020. As of September 30, 2020, the outstanding balance was approximately $20.4 million, with 37 franchisees having repaid their deferred balances in full.
- We received rent deferrals and abatements on properties we lease of approximately $11 million, primarily related to rent deferrals for properties on which IHOP restaurants are located.
- We allowed franchisees to defer their 2020 unit remodel and development obligations for up to 15 months.
- We have worked with our franchisees to offer a limited menu and to modify their operating hours in a manner that optimizes the functionality of their restaurants. Our expectation is restaurants will return to normal operating hours as sales return to pre-pandemic levels.
- We hired external consultants to work with franchisees in assessing their financial health and to better understand performance variability. We began this process in the 3rd quarter working closely with key franchise leaders.

In March 2020, in light of the COVID-19 pandemic, Standard & Poor's ("S&P") placed the Company on "credit watch-negative" with respect to its 2019 Class A-2 Notes. In September 2020, S&P removed the Company from the credit watch and reaffirmed the "BBB" rating of the 2019 Class A-2 Notes.

The significance of the impacts of the COVID-19 pandemic resulted in our performing impairment assessments of our long-lived assets, goodwill and other intangible assets. As a result of these assessments, we recorded impairment charges of approximately $124 million in the second fiscal quarter of 2020. See *Consolidated Results of Operations - Comparison of the Three and Nine Months ended September 30, 2020 and September 30, 2019 - Impairment and Closure Costs"* for further discussion of the impairments. There were no additional impairments recorded during the third fiscal quarter of 2020.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. Among the various provisions in the CARES Act, the Company is utilizing the payroll tax deferrals offered and has claimed an Employee Retention Credit. As of September 30, 2020, the Company has deferred the payment of $2.0 million in payroll taxes, of which 50% will be paid by December 31, 2021 and the remaining 50% will be paid by December 31, 2022. The Company also has claimed an Employee Retention Credit of $0.6 million as of September 30, 2020. The Company did not receive any form of loan pursuant to the Paycheck Protection Program established under the CARES Act. Other than the deferrals and credits noted above, the Company did not receive financial aid pursuant to assistance programs offered by the federal government related to the COVID-19 pandemic.

Our total cash balances as of the past five fiscal quarter ends were are follows:

	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020
			(In millions)		
Cash and cash equivalents	$ 100.5	$ 116.0	$ 344.6	$ 278.5	$ 309.3
Restricted cash, current	36.7	40.7	34.2	31.2	47.5
Restricted cash, non-current	15.7	15.7	16.4	32.8	32.8
Total	$ 152.9	$ 172.4	$ 395.2	$ 342.5	$ 389.6

The increase in total cash balances from December 31, 2019 to March 31, 2020 is primarily due to the draw-down of $220 million from our revolving credit facility in March 2020. The decrease in total cash balances from March 31, 2020 to June 30, 2020 is primarily due the impact on our operations of the COVID-19 pandemic as well as to our offering franchisees the opportunity to defer payments due to us as noted above. The increase in total cash balances from June 30, 2020 to September 30, 2020 reflects the improvement in operations as restrictions on in-restaurant dining became more relaxed and commencement of collections of amounts deferred by franchisees discussed above. See *"Consolidated Results of Operations - Comparison of the Three and Nine Months ended September 30, 2020 and September 30, 2019."*

Operating activities provided cash of $36.7 million for the nine months ended September 30, 2020, compared with cash provided by operating activities of $105.6 million for the nine months ended September 30, 2019. The decrease primarily was due to a significant decline in customer traffic at our restaurants that adversely impacted our segment operations and to payment deferrals we offered to our franchisees, partially offset by reduced G&A expenses and rent deferrals and abatements we received from our landlords. Franchisees began repaying the deferrals noted above in the third quarter of 2020. See *"Liquidity and Capital Resources - Cash Flows."*

As international, federal, state and local governments began to remove or modify existing restrictions on dine-in restaurant operations in certain jurisdictions, we and our franchisees have been able to increase dine-in services at Applebee's and IHOP restaurants in compliance with jurisdictional requirements. As a result, the operating status of IHOP and Applebee's restaurants changed during the third quarter of 2020 as follows:

	Status as of 2020 Fiscal Month Ended			
	June	July	August	September
Applebee's Domestic				
Restaurants with dining rooms open*	1,522	1,505	1,558	1,595
Restaurants limited to off-premise sales	70	94	37	3
Restaurants temporarily closed	41	31	24	16
Total	1,633	1,630	1,619	1,614
% of total operating in some capacity	97 %	98 %	99 %	99 %
IHOP Domestic				
Restaurants with dining rooms open*	1,485	1,321	1,349	1,425
Restaurants limited to off-premise sales	76	244	234	167
Restaurants temporarily closed	134	128	99	91
Total	1,695	1,693	1,682	1,683
% of total operating in some capacity	92 %	92 %	94 %	95 %
International				
Restaurants with dining rooms open*	131	169	203	207
Restaurants limited to off-premise sales	56	34	9	8
Restaurants temporarily closed	57	37	25	23
Total	244	240	237	238
% of total operating in some capacity	77 %	85 %	89 %	90 %

* In most instances, limited to 50% capacity or less and/or reduced operating hours

The operating status of our restaurant remains fluid and subject to change. There can be no assurance the percentage of restaurants operating in some capacity as presented above will continue or will not reverse as government authorities modify existing restrictions or implement new restrictions on dine-in restaurant operations in responses to changes in the number of COVID-19 infections in their respective jurisdictions, particularly in light of a projected increase in COVID-19 infections during the upcoming fall and winter seasons. There can be no assurance the total number of restaurants will not change subsequent to September 30, 2020. See *"Restaurant Data - Restaurant Development Activity."*

Our average weekly sales per restaurant increased during the three months ended September 30, 2020, as shown below. We believe the improvement was primarily due to the continued re-opening of dining rooms, retention of off-premise sales and the resumption of national media advertising in July. We had virtually no national media advertising during the second quarter of 2020.

Average weekly unit sales (in thousands)	**Fiscal Month of 2020 Ended**				
	July	**August**	**September**	**Three months ended September 30, 2020**	**Three months ended September 30, 2019**
Applebee's domestic	$37.6	$38.4	$40.0	$39.2	$45.0
IHOP	$23.8	$25.7	$26.8	$25.6	$35.7

Despite the improvement noted over the course of the third quarter, average weekly restaurant sales for the three months ended September 30, 2020 were 12.9% lower at Applebee's restaurants and 28.3% lower at IHOP restaurants compared to the same period of the prior year. The decrease primarily was due to a substantial decline in customer traffic at our restaurants, primarily resulting from the measures undertaken to stem the spread of COVID-19, which had a significant unfavorable impact on the Key Financial Results presented below.

We cannot predict how long the COVID-19 pandemic and its impact on our operations will last, whether or when recurrences of the virus may arise, what restrictions on in-restaurant dining may be imposed or re-imposed, the timing and extent of customer re-engagement with our brands and, in general, what the short- and long-term impact on consumer discretionary spending the COVID-19 pandemic might have on our operations and the restaurant industry as a whole.

Key Financial Results

	Three months ended September 30,		**Favorable (Unfavorable) Variance**	**Nine months ended September 30,**		**Favorable (Unfavorable) Variance**
	2020	**2019**		**2020**	**2019**	
			(In millions, except per share data)			
Income (loss) before income taxes	$ 9.2	$ 31.7	$ (22.6)	$ (108.6)	$ 101.9	$ (210.5)
Income tax (provision) benefit	0.9	(7.8)	8.7	6.1	(25.0)	31.1
Net income (loss)	$ 10.0	$ 23.9	$ (13.9)	$ (102.4)	$ 76.9	$ (179.4)
Effective tax rate	(9.5)%	24.6 %	34.1 %	5.6 %	24.5 %	18.9 %
Net income (loss) per diluted share	$ 0.60	$ 1.36	$ (0.76)	$ (6.34)	$ 4.27	$ (10.61)
			% (decrease)			**% (decrease)**
Weighted average diluted shares	16.3	17.1	(4.5)%	16.2	17.4	(6.9)%

The following table highlights the primary components of the decrease in our income before income taxes for the three and nine months ended September 30, 2020, compared to our income before income taxes from the same periods of 2019:

	Favorable (Unfavorable) Variance	
	Three months ended September 30, 2020	Nine months ended September 30, 2020
	(In millions)	
Decrease in gross profit:		
Applebee's franchise operations	$ (9.0)	$ (39.0)
IHOP franchise operations	(11.5)	(47.5)
Company restaurant operations	(1.1)	(11.3)
Rental and financing operations	(1.3)	(8.0)
Total decrease in gross profit	(22.9)	(105.8)
Impairment and closure charges	—	(123.9)
Decrease in G&A expenses	2.0	15.8
Loss on extinguishment of debt	—	8.3
Other income and expense items	(1.7)	(4.8)
Decrease in income before income taxes	$ (22.6)	$ (210.5)

The significant impacts of the COVID-19 pandemic resulted in our performing impairment assessments of our long-lived assets, goodwill and other intangible assets. As a result of these assessments, we recorded an impairment to Applebee's goodwill of $92.2 million, an impairment to Applebee's intangible assets of $14.3 million and impairments to long-lived assets of both brands totaling approximately $17.2 million in the second quarter of 2020. There were no similar impairments recorded in the third quarter of 2020.

Gross profit for the three and nine months ended September 30, 2020 decreased compared to the same periods of the prior year, primarily due to a significant decrease in customer traffic resulting from the measures undertaken to stem the spread of COVID-19 discussed above, as well as an increase in bad debt expense.

See *"Consolidated Results of Operations - Comparison of* the *Three and Nine Months ended September 30, 2020 and September 30, 2019"* for additional discussion of the changes presented above.

Key Performance Indicators

In evaluating the performance of each restaurant concept, we consider the key performance indicators to be the system-wide sales percentage change, the percentage change in domestic system-wide same-restaurant sales ("domestic same-restaurant sales"), net franchise restaurant development and the change in effective restaurants. Changes in both domestic same-restaurant sales and in the number of Applebee's and IHOP restaurants will impact our system-wide retail sales that drive franchise royalty revenues. Restaurant development also impacts franchise revenues in the form of initial franchise fees and, in the case of IHOP restaurants, sales of proprietary pancake and waffle dry mix.

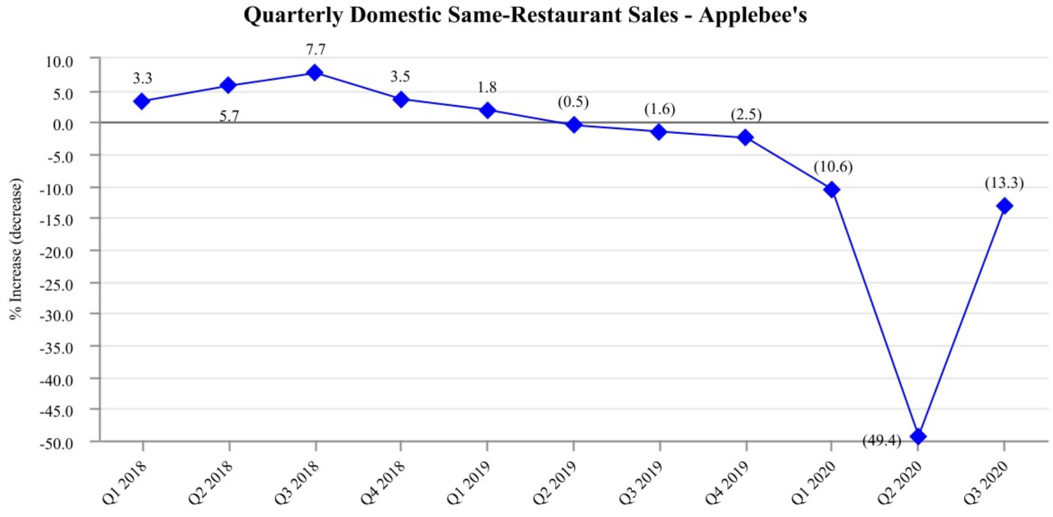
Our key performance indicators for the three and nine months ended September 30, 2020 were as follows:

	Three months ended September 30, 2020		Nine months ended September 30, 2020	
	Applebee's	IHOP	Applebee's	IHOP
Sales percentage decrease	(16.7)%	(34.4)%	(27.6)%	(37.6)%
% decrease in domestic system-wide same-restaurant sales	(13.3)%	(30.2)%	(24.1)%	(33.8)%
Net franchise restaurant reduction [1]	(21)	(16)	(59)	(34)
Net decrease in total effective restaurants [2]	(105)	(138)	(133)	(146)

[1] Franchise and area license restaurant closings, net of openings, during the three and nine months ended September 30, 2020.
[2] Change in the weighted average number of franchise, area license and company-operated restaurants open during the three and nine months ended September 30, 2020, compared to the weighted average number of those open during the same period of 2019.

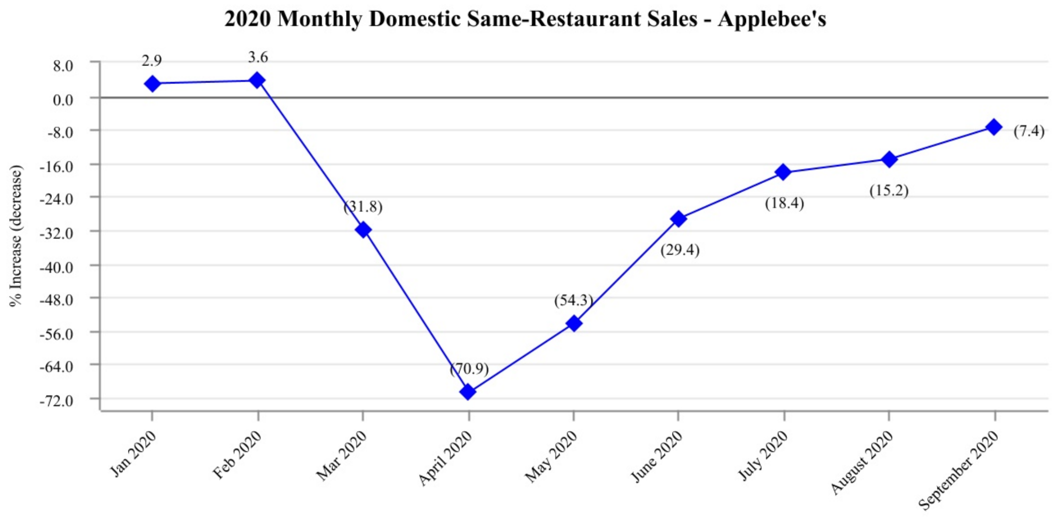
The Applebee's and IHOP sales percentage decreases for the three and nine months ended September 30, 2020 were due to a decrease in domestic same-restaurant sales primarily as a result of the effects of COVID-19, as well as a decrease in total effective restaurants. The decrease in total effective restaurants for each brand reflects both permanent closures, net of openings, and the weighted effect of restaurants temporarily closed during the three and nine months ended September 30, 2020.

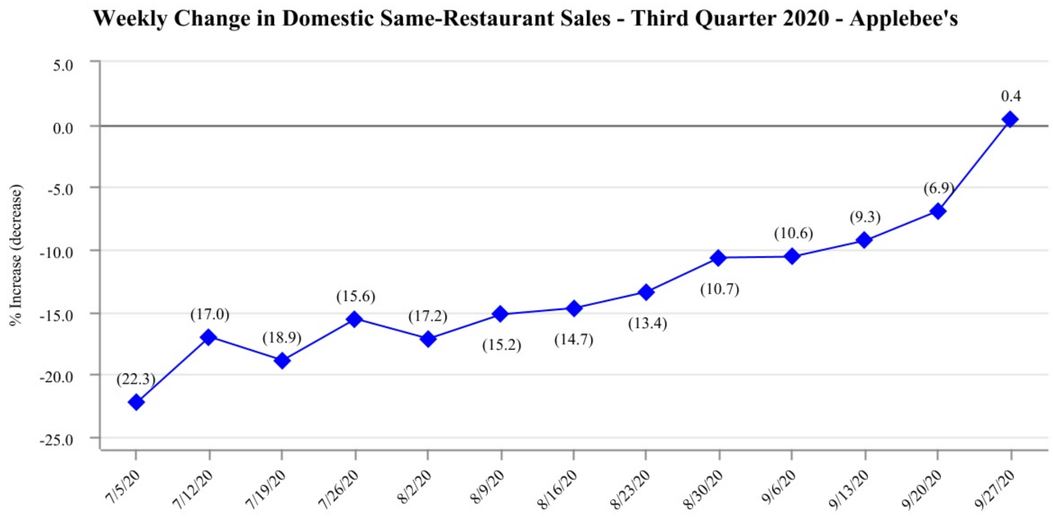
Domestic Same-Restaurant Sales



Applebee’s system-wide domestic same-restaurant sales decreased 13.3% for the three months ended September 30, 2020 and decreased 24.1% for the nine months ended September 30, 2020 from the same periods of the prior year. The decreases primarily were due to a significant decline in customer traffic as a result of the effects of COVID-19 that began to impact our restaurants around the middle of March 2020, partially offset by an increase in average check.

Applebee’s system-wide domestic same-restaurant sales for the three months ended September 30, 2020 improved significantly compared to the decrease of 49.4% for the three months ended June 30, 2020. This improvement primarily was due to the easing or removal of governmental restrictions on dine-in restaurant operations in certain jurisdictions, an increase in consumers' ability and desire to patronize restaurants, retention of off-premise sales and the Company's return to national media advertising in July 2020 after having temporarily discontinued its national advertising programs in March 2020. As shown in the table below, after reaching a low point in April 2020, Applebee's experienced progressive improvement in same-restaurant sales for the months of May through September 2020. On a weekly basis, Applebee's same-restaurant sales improved sequentially for 10 of the 13 weeks comprising the third quarter of 2020, culminating with an increase of 0.4% in same-restaurant sales for the week ended September 27, 2020.





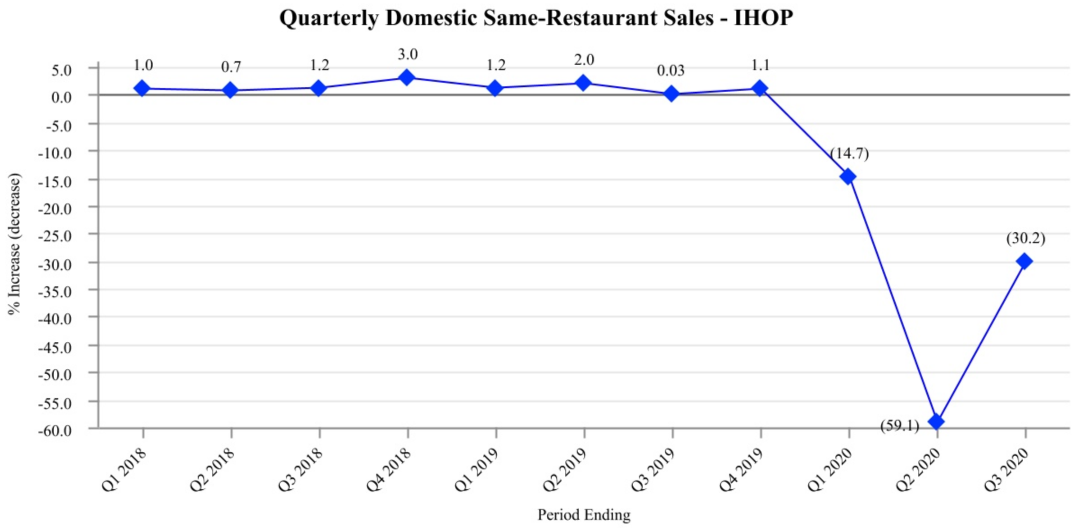
While off-premise sales as a percentage of total sales has declined from the April 2020 peak as the dine-in capability of restaurants has expanded, off-premise sales have increased compared to pre-pandemic levels.

Applebee's off-premise sales as % total

2020 Fiscal Month Ended								
Jan	Feb	March	April	May	June	July	August	September
13.1 %	14.4 %	22.0 %	99.8 %	76.4 %	40.2 %	38.0 %	34.9 %	31.7 %

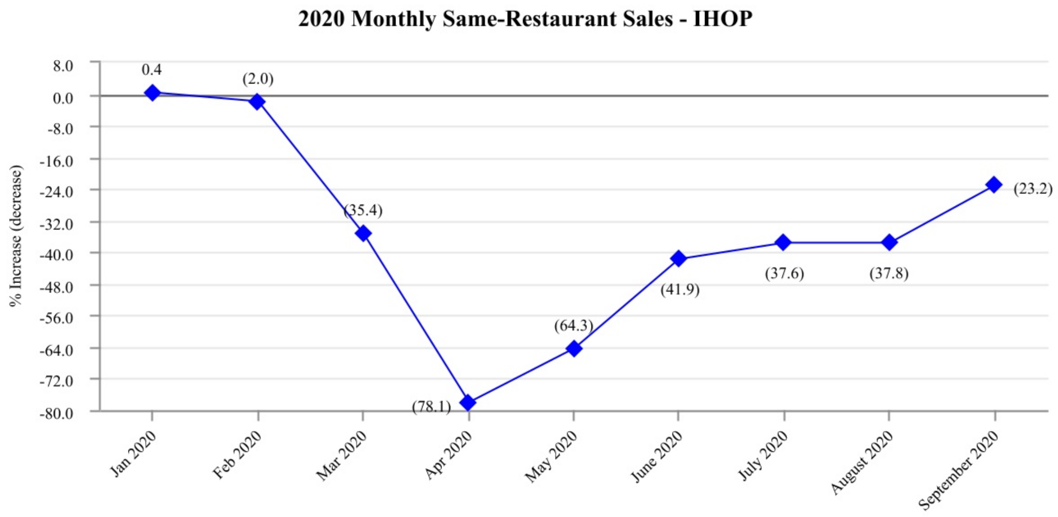
Based on data from Black Box Intelligence, a restaurant sales reporting firm ("Black Box"), Applebee's 13.3% decrease in same-restaurant sales for the three months ended September 30, 2020 outperformed the casual dining segment of the restaurant industry (excluding Applebee's) during that same period. During the three months ended September 30, 2020, the casual dining segment also experienced a decrease in same-restaurant sales that was due to a significant decline in customer traffic as well as a slight decrease in average customer check. Applebee's decrease in traffic for the three months ended September 30, 2020 was less than that of the casual dining segment, and Applebee's increase in average check was greater than that of the casual dining segment.

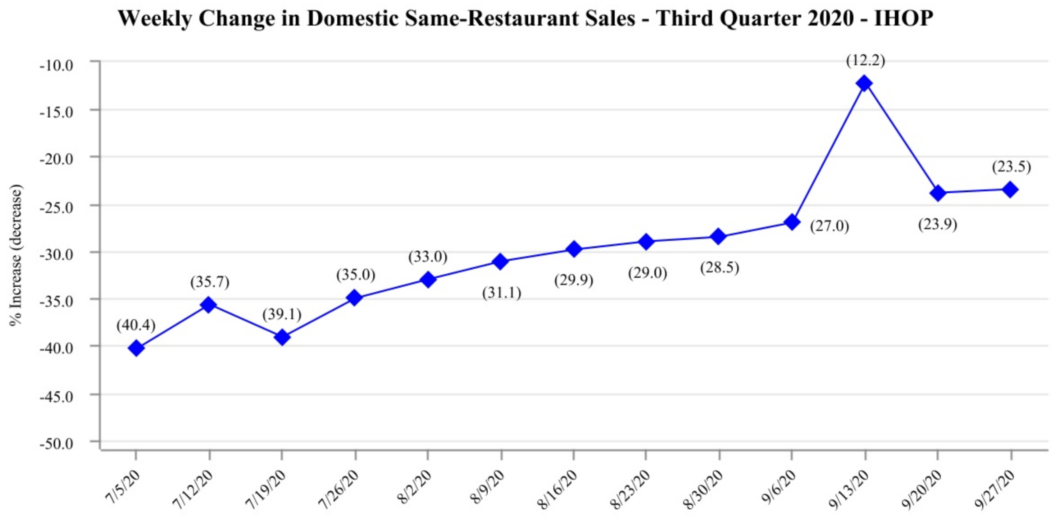
Applebee's 24.1% decrease in same-restaurant sales for the nine months ended September 30, 2020 underperformed the casual dining segment of the restaurant industry (excluding Applebee's) during that same period. During the nine months ended September 30, 2020, the casual dining segment also experienced a decrease in same-restaurant sales that was due to a significant decline in customer traffic. Applebee's decrease in traffic for the nine months ended September 30, 2020 was greater than that of the casual dining segment during that same period.



IHOP's system-wide domestic same-restaurant sales decreased 30.2% for the three months ended September 30, 2020 and decreased 33.8% for the nine months ended September 30, 2020 from the same periods of the prior year. The decreases primarily were due to a significant decline in customer traffic as a result of the effects of COVID-19 that began to impact our restaurants around the middle of March 2020, partly offset by an increase in average check. Based on data from Black Box, the family dining segment underperformed the overall restaurant industry for both the three and nine months ended September 30, 2020. The breakfast category, in general, has experienced larger transaction declines than other dayparts.

IHOP's system-wide domestic same-restaurant sales for the three months ended September 30, 2020 improved significantly compared to the decrease of 59.1% for the three months ended June 30, 2020. This improvement primarily was due to the easing or removal of governmental restrictions on dine-in restaurant operations in certain jurisdictions, an increase in the consumer's ability and desire to patronize restaurants, retention of off-premise sales and the Company's return to national media advertising in July 2020 after having temporarily discontinued its national advertising programs in March 2020. As shown in the table below, after reaching a low point in April 2020, IHOP experienced progressive improvement in same-restaurant sales for four of the five months of May through September 2020. On a weekly basis, IHOP's same-restaurant sales improved sequentially for 9 of the 13 weeks comprising the third quarter of 2020.





While off-premise sales as a percentage of total sales has declined from the April 2020 peak as the dine-in capability of restaurants has expanded, off-premise sales have increased compared to pre-pandemic levels.

IHOP off-premise sales as % total

2020 Fiscal Month Ended								
Jan	Feb	March	April	May	June	July	August	September
9.7 %	10.4 %	17.0 %	94.7 %	68.8 %	35.8 %	35.0 %	32.5 %	30.6 %

Based on data from Black Box, IHOP's 30.2% decrease in same-restaurant sales for the three months ended September 30, 2020 outperformed the family dining segment of the restaurant industry (excluding IHOP) during that period. During the three months ended September 30, 2020, the family dining segment also experienced a decrease in same-restaurant sales that was due to a significant decline in customer traffic, partially offset by an increase in average customer check. IHOP's decrease in traffic for the three months ended September 30, 2020 was less than that of the family dining segment.

IHOP's 33.8% decrease in same-restaurant sales for the nine months ended September 30, 2020 underperformed the family dining segment of the restaurant industry (excluding IHOP) during that same period. During the nine months ended September 30, 2020, the family dining segment also experienced a decrease in same-restaurant sales that was due to a significant decline in customer traffic, partially offset by an increase in average customer check. IHOP's decrease in traffic for the nine months ended September 30, 2020 was greater that of the family dining segment and IHOP's increase in average check was smaller than that of the family dining segment.

Restaurant Data

The following table sets forth the number of "Effective Restaurants" in the Applebee's and IHOP systems and information regarding the percentage change in sales at those restaurants compared to the same periods of the prior year. Sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company and, as such, the percentage change in sales at Effective Restaurants is based on non-GAAP sales data. 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 based on a percentage of their sales, and, where applicable, rental payments under leases that partially may be based on a percentage of their sales. Management also uses this information to make decisions about plans for future development of additional restaurants as well as evaluation of current operations.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Applebee's Restaurant Data	(Unaudited)			
Effective Restaurants[a]				
Franchise	1,636	1,741	1,620	1,752
Company	69	69	68	69
Total	**1,705**	**1,810**	**1,688**	**1,821**
System-wide[b]				
Domestic sales percentage change[c]	(16.7)%	(3.8)%	(27.6)%	(2.7)%
Domestic same-restaurant sales percentage change[d]	(13.3)%	(1.6)%	(24.1)%	(0.1)%
Franchise[b]				
Domestic sales percentage change[c] [e]	(16.9)%	(6.8)%	(27.7)%	(5.9)%
Domestic same-restaurant sales percentage change[d]	(13.4)%	(1.7)%	(24.1)%	(0.2)%
Average weekly domestic unit sales (in thousands)	$ 39.2	$ 45.0	$ 36.6	$ 47.7
IHOP Restaurant Data				
Effective Restaurants[a]				
Franchise	1,530	1,667	1,517	1,660
Area license	157	158	153	156
Total	**1,687**	**1,825**	**1,670**	**1,816**
System-wide[b]				
Sales percentage change[c]	(34.4)%	1.2 %	(37.6)%	2.2 %
Domestic same-restaurant sales percentage change, including area license restaurants[d]	(30.2)%	0.03 %	(33.8)%	1.1 %
Franchise[b]				
Sales percentage change[c]	(34.3)%	1.1 %	(37.6)%	2.2 %
Domestic same-restaurant sales percentage change[d]	(29.9)%	0.03 %	(33.6)%	1.0 %
Average weekly unit sales (in thousands)	$ 25.6	$ 35.7	$ 24.9	$ 36.5
Area License[b]				
Sales percentage change[c]	(35.0)%	2.4 %	(37.1)%	2.4 %

(a) "Effective Restaurants" are the weighted average number of restaurants open in each 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 consist of restaurants owned by franchisees and area licensees as well as those owned by the Company.

(b) "System-wide sales" are retail sales at Applebee's restaurants operated by franchisees and IHOP restaurants operated by franchisees and area licensees, as reported to the Company, in addition to retail sales at company-operated Applebee's restaurants. Sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company. An increase in franchisees' reported sales will result in a corresponding increase in our royalty revenue, while a decrease in franchisees' reported sales will result in a corresponding decrease in our royalty revenue. Unaudited reported sales for Applebee's domestic franchise restaurants, Applebee's company-operated restaurants, IHOP franchise restaurants and IHOP area license restaurants were as follows:

Reported sales (in millions)	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
	(Unaudited)			
Applebee's domestic franchise restaurant sales	$ 778.2	$ 936.5	$ 2,168.4	$ 2,997.2
Applebee's company-operated restaurants	27.3	30.5	75.4	100.0
IHOP franchise restaurant sales	508.3	773.9	1,475.2	2,364.4
IHOP area license restaurant sales	46.2	71.1	136.6	217.2
Total	$ 1,360.0	$ 1,812.0	$ 3,855.6	$ 5,678.8

(c) "Sales percentage change" reflects, for each category of restaurants, the percentage change in sales in any given fiscal period compared to the prior fiscal period for all restaurants in that category.

(d) "Domestic same-restaurant sales percentage change" reflects the percentage change in sales in any given fiscal period, compared to the same weeks in the prior fiscal period, for domestic 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 restaurant openings and restaurant closures, the domestic restaurants open throughout both fiscal periods being compared may be different from period to period.

(e) The Applebee's franchise sales percentage change for the nine months ended September 30, 2019 was impacted by the acquisition of 69 franchise restaurants in December 2018 that became reported as company-operated.

Restaurant Development Activity

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Applebee's	(Unaudited)			
Summary - beginning of period:				
Franchise	1,680	1,746	1,718	1,768
Company restaurants	69	69	69	69
Beginning of period	**1,749**	**1,815**	**1,787**	**1,837**
Franchise restaurants opened:				
Domestic	1	—	1	—
International	3	—	3	1
Total franchise restaurants opened	4	—	4	1
Franchise restaurants permanently closed:				
Domestic	(20)	(9)	(52)	(26)
International	(5)	(2)	(11)	(8)
Total franchise restaurants permanently closed	(25)	(11)	(63)	(34)
Net franchise restaurant reduction	**(21)**	**(11)**	**(59)**	**(33)**
Summary - end of period:				
Franchise	1,659	1,735	1,659	1,735
Company restaurants	69	69	69	69
Total Applebee's restaurants, end of period	**1,728**	**1,804**	**1,728**	**1,804**
Domestic	1,614	1,667	1,614	1,667
International	114	137	114	137

IHOP

Summary - beginning of period:				
Franchise	1,666	1,669	1,680	1,669
Area license	157	159	161	162
Total IHOP restaurants, beginning of period	**1,823**	**1,828**	**1,841**	**1,831**
Franchise/area license restaurants opened:				
Domestic franchise	1	8	8	23
Domestic area license	2	3	3	5
International franchise	3	7	5	9
Total franchise/area license restaurants opened	6	18	16	37
Franchise/area license restaurants permanently closed:				
Domestic franchise	(16)	(7)	(35)	(19)
Domestic area license	—	(1)	(3)	(6)
International franchise	(6)	(2)	(10)	(7)
International area license	—	—	(2)	—
Total franchise/area license restaurants permanently closed	(22)	(10)	(50)	(32)
Net franchise/area license restaurant (reduction) addition	**(16)**	**8**	**(34)**	**5**
Summary - end of period:				
Franchise	1,648	1,675	1,648	1,675
Area license	159	161	159	161
Total IHOP restaurants, end of period	**1,807**	**1,836**	**1,807**	**1,836**
Domestic	1,683	1,708	1,683	1,708
International	124	128	124	128

The closures presented in the tables above represent permanent closures of restaurants. Temporary closures, which can occur for a variety of reasons, are not reflected as a reduction in this table and temporarily closed restaurants are included in the summary counts at the beginning and end of each period shown. Temporary closures are reflected in the weighted calculation of Effective Restaurants presented in the preceding Restaurant Data table.

For the full year of 2020, we believe our expectations regarding net restaurant development and closures by our Applebee's franchisees and IHOP franchisees and area licensees could be materially impacted by the continuing impact of COVID-19 and our temporary suspension of franchisee development obligations in response thereto. Given the significant uncertainties related to the COVID-19 pandemic, including the potential re-imposition of dine-in operating restrictions on restaurants, customer re-engagement with our brands and the short- and long-term impact on consumer discretionary spending, we have withdrawn our 2020 net restaurant development and closure guidance issued on February 24, 2020.

We and certain of our IHOP franchisees are evaluating the long-term viability of certain IHOP restaurants in light of individual store-level economics impacted by the COVID-19 crisis. While the timing and extent of any closures resulting from these evaluations are uncertain, we currently anticipate the evaluations could result in the closure of up to 100 IHOP restaurants over the next six months. Our franchisees are independent businesses and their decisions to close restaurants, both temporarily and permanently, can be impacted by numerous factors that are outside of our control, including but not limited to, the impact of COVID-19 on individual franchisees as well as franchisees' agreements with their lenders and landlords. While we are not able at this time to determine the impact of such closure on our results, changes in the number of Applebee's and IHOP restaurants impact our system-wide retail sales that drive our franchise royalty revenues as well as, in the case of IHOP restaurants, sales of proprietary pancake and waffle dry mix. Further, in the case of certain such restaurants, we own or lease the underlying property and sublease it to the applicable franchisee. Thus, our rental income could be adversely affected due to our obligation to make rental or other payments for such properties.

CONSOLIDATED RESULTS OF OPERATIONS
Comparison of the Three and Nine Months ended September 30, 2020 and September 30, 2019

Financial Results

Revenue	**Three months ended September 30,**		**Favorable (Unfavorable) Variance**	**Nine months ended September 30,**		**Favorable (Unfavorable) Variance**
	2020	**2019**		**2020**	**2019**	
			(In millions)			
Franchise operations	$ 121.8	$ 156.2	$ (34.4)	$ 334.7	$ 487.8	$ (153.1)
Rental operations	26.2	29.0	(2.8)	78.9	89.6	(10.7)
Company restaurant operations	27.4	30.5	(3.1)	75.4	100.0	(24.6)
Financing operations	1.3	1.7	(0.4)	4.2	5.3	1.1
Total revenue	$ 176.7	$ 217.4	$ (40.7)	$ 493.2	$ 682.7	$ (189.5)
Change vs. prior period	(18.7)%			(27.7)%		

Total revenue for franchise and company restaurant operations for the three and nine months ended September 30, 2020 decreased compared with the same periods of the prior year, primarily due to a significant decline in customer traffic at our restaurants as a result of the effects of measures put in place by various levels of government to mitigate the spread of the COVID-19 virus and changes in consumer behavior resulting therefrom. Rental operations revenue was also impacted by COVID-19 effects, primarily due to a decline in rent paid based on a percentage of franchisees' retail sales

Gross Profit	**Three months ended September 30,**		**Favorable (Unfavorable) Variance**	**Nine months ended September 30,**		**Favorable (Unfavorable) Variance**
	2020	**2019**		**2020**	**2019**	
			(In millions)			
Franchise operations	$ 61.1	$ 81.6	$ (20.5)	$ 167.5	$ 254.0	$ (86.5)
Rental operations	5.4	6.4	(1.0)	14.3	21.4	(7.1)
Company restaurant operations	(0.9)	0.2	(1.1)	(4.4)	6.9	(11.3)
Financing operations	1.2	1.5	(0.2)	3.9	4.8	(1.0)
Total gross profit	$ 66.8	$ 89.7	$ (22.9)	$ 181.3	$ 287.1	$ (105.8)
Change vs. prior period	(25.6)%			(36.8)%		

Total gross profit for the three and nine months ended September 30, 2020 decreased compared with the same periods of the prior year, primarily due to a significant decline in customer traffic at our restaurants as a result of the effects of measures put in place by various levels of government to mitigate the spread of the COVID-19 virus and changes in consumer behavior resulting therefrom, as well as increases in bad debt expense of $3.5 million and $9.7 million, respectively, for three and nine months ended September 30, 2020.

Franchise Operations	Three months ended September 30, 2020	2019	Favorable (Unfavorable) Variance	Nine months ended September 30, 2020	2019	Favorable (Unfavorable) Variance
	(In millions, except number of restaurants)					
Effective Franchise Restaurants:[1]						
Applebee's	1,636	1,741	(105)	1,620	1,752	(132)
IHOP	1,687	1,825	(138)	1,670	1,816	(146)
Franchise Revenues:						
Applebee's franchise fees	$ 32.4	$ 38.6	$ (6.2)	$ 90.1	$ 123.3	$ (33.3)
IHOP franchise fees	37.5	50.1	(12.6)	101.8	152.6	(50.7)
Advertising fees	51.9	67.5	(15.6)	142.8	211.9	(69.1)
Total franchise revenues	121.8	156.2	(34.4)	334.7	487.8	(153.1)
Franchise Expenses:						
Applebee's	3.2	0.4	(2.8)	7.8	2.1	(5.7)
IHOP	5.5	6.7	1.1	16.6	19.8	3.2
Advertising expenses	51.9	67.5	15.6	142.8	211.9	69.1
Total franchise expenses	60.6	74.6	13.9	167.2	233.8	66.6
Franchise Gross Profit:						
Applebee's	29.2	38.2	(9.0)	82.3	121.2	(39.0)
IHOP	31.9	43.4	(11.5)	85.2	132.8	(47.5)
Total franchise gross profit	$ 61.1	$ 81.6	$ (20.5)	$ 167.5	$ 254.0	$ (86.5)
Gross profit as % of revenue [2]	50.2 %	52.3 %		50.1 %	52.1 %	
Gross profit as % of franchise fees [2][3]	87.5 %	92.0 %		87.3 %	92.1 %	

[1] Effective Franchise Restaurants are the weighted average number of franchise and area license restaurants open in each fiscal period, adjusted to account for restaurants open for only a portion of the period.
[2] Percentages calculated on actual amounts, not rounded amounts presented above.
[3] From time to time, advertising fee revenue may be different from advertising expenses in a given accounting period. Over the long term, advertising activity should not generate gross profit or loss.

Applebee's franchise fee revenue for the three months ended September 30, 2020 declined 16.2% compared to the same period of the prior year. Approximately $4.5 million of the decline was due to a decrease of 13.4% in domestic franchise same-restaurant sales primarily caused by the adverse impact on customer traffic of COVID-19-related mitigation measures and changes in consumer behavior. Additionally, revenue decreased $0.8 million due to temporary domestic restaurant closures and $0.8 million due to permanent domestic restaurant closures. Applebee's international revenues declined $0.7 million, primarily due to a decline in same-restaurant sales as well as a $0.2 million decline due to temporary and permanent restaurant closures.

The increase in Applebee's franchise expenses for the three months ended September 30, 2020 compared with the same period of the prior year was due to an increase in bad debt expense. Bad debt expense for the three months ended September 30, 2020 was $2.4 million as compared to bad debt recovery of $0.7 million during the three months ended September 30, 2019.

IHOP franchise fee revenue for the three months ended September 30, 2020 decreased 25.2% compared to the same period of the prior year, primarily due to lower royalty and pancake and waffle dry mix revenues resulting from a 29.9% decrease in domestic franchise same-restaurant sales primarily caused by the adverse impact on customer traffic of COVID-19-related mitigation measures and changes in consumer behavior. Approximately $1.9 million of the revenue decline was due to domestic temporary restaurant closures. IHOP's international revenues declined $1.5 million, due primarily to a decline in same-restaurant sales as well as a $0.2 million decrease due to temporary and permanent restaurant closures. Partially offsetting these unfavorable items was an increase in forfeited franchise fees.

IHOP franchise expenses for the three months ended September 30, 2020 declined from the same period of the prior year primarily due to a decrease in purchase of pancake and waffle dry mix, partially offset by an increase in bad debt expense. IHOP's bad debt expense for the three months ended September 30, 2020 was $0.4 million as compared to a small amount of bad debt recovery during the three months ended September 30, 2019.

Total franchise gross profit decreased for the three months ended September 30, 2020 compared to the same period of the prior year, primarily due to significant decreases in domestic franchise same-restaurant sales for both Applebee's and IHOP primarily resulting from the adverse impact on customer traffic of COVID-19-related mitigation measures and changes in consumer behavior, as well as an increase in bad debt expense.

Applebee’s franchise fee revenue for the nine months ended September 30, 2020 declined 27.0% compared to the same period of the prior year. Approximately $25.8 million of the decline was due to a decrease of 24.1% in domestic franchise same-restaurant sales primarily caused by the adverse impact on customer traffic of COVID-19-related mitigation measures and changes in consumer behavior. Additionally, revenue decreased $4.0 million due to temporary domestic restaurant closures and $2.5 million due to permanent domestic restaurant closures. Applebee's international revenues declined $2.6 million, primarily due to a decline in same-restaurant sales as well as a $0.6 million decrease due to temporary closures and a $0.2 million due to permanent restaurant closures. These unfavorable changes were partially offset by a decrease in domestic delivery credits that reduce royalty revenue and an increase in international franchise fees.

The increase in Applebee's franchise expenses for the nine months ended September 30, 2020 compared with the same period of the prior year was due to $6.4 million increase in bad debt expense. Bad debt expense for the nine months ended September 30, 2020 was $5.2 million as compared to a bad debt recovery of $1.1 million during the nine months ended September 30, 2019.

IHOP franchise fee revenue for the nine months ended September 30, 2020 decreased 33.3% compared to the same period of the prior year, primarily due to lower royalty and pancake and waffle dry mix revenues resulting from a 33.6% decrease in domestic franchise same-restaurant sales primarily caused by the adverse impact on customer traffic of COVID-19-related mitigation measures and changes in consumer behavior. Additionally, revenue decreased $6.3 million due to temporary domestic restaurant closures. IHOP's international revenues declined $3.4 million, due primarily to a decline in same-restaurant sales as well as a $0.4 million decrease due to temporary and permanent restaurant closures. These unfavorable changes were partially offset by a $0.6 million increase in franchise fees.

IHOP franchise expenses for the nine months ended September 30, 2020 declined from the same period of the prior year primarily due to a decrease in purchases of pancake and waffle dry mix, partially offset by a $3.1 million increase in bad debt expense. IHOP bad debt expense for the nine months ended September 30, 2020 was $2.9 million compared to a bad debt recovery of $0.2 million in the prior year period.

Total franchise gross profit decreased for the nine months ended September 30, 2020 compared to the same period of the prior year, primarily due to significant decreases in domestic franchise same-restaurant sales for both Applebee's and IHOP primarily resulting from the adverse impact on customer traffic of COVID-19-related mitigation measures and changes in consumer behavior, as well as an increase in bad debt expense.

Advertising revenue and expense by brand for the three and nine months ended September 30, 2020 and 2019 were as follows:

	Three months ended September 30, 2020	Three months ended September 30, 2019	Increase (decrease)	Nine months ended September 30, 2020	Nine months ended September 30, 2019	Increase (decrease)
			(In millions)			
Advertising Revenues and Expenses:						
Applebee’s	$ 33.0	$ 39.0	$ (6.0)	$ 88.0	$ 124.4	$ (36.4)
IHOP	18.9	28.5	(9.6)	54.8	87.5	(32.7)
Total advertising revenues and expenses	$ 51.9	$ 67.5	$ (15.6)	$ 142.8	$ 211.9	$ (69.1)

Applebee's advertising revenue and expense for the three months ended September 30, 2020 decreased 15.3% compared to the same period of the prior year, primarily due to the decrease of 13.4% in domestic franchise same-restaurant sales, a $0.9 million decrease due to temporary domestic restaurant closures and a $0.9 million decrease due to permanent domestic restaurant closures. IHOP's advertising revenue and expense for the three months ended September 30, 2020 decreased 33.7% compared to the same period of the prior year, primarily due to the decrease of 29.9% in domestic franchise same-restaurant sales, as well as a decrease due to temporary and permanent restaurant closures.

Applebee's advertising revenue and expense for the nine months ended September 30, 2020 decreased 29.3% compared to the same period of the prior year, primarily due to the decrease of 24.1% in domestic franchise same-restaurant sales, a $4.3 million decrease due to temporary domestic restaurant closures, a $2.9 million decrease due to permanent domestic restaurant closures and a $2.2 million decrease due to franchisee collectibility. IHOP's advertising revenue and expense for the nine months ended September 30, 2020 decreased 37.4% compared to the same period of the prior year, primarily due to the decrease of 33.6% in domestic franchise same-restaurant sales, as well as a decrease due to temporary and permanent restaurant closures.

It is our accounting policy to recognize any deficiency in advertising fee revenue compared to advertising expenditure or recovery of a previously recognized deficiency in advertising fee revenue compared to advertising expenditure in the fourth quarter of our fiscal year.

Rental Operations	Three months ended September 30,		Favorable (Unfavorable) Variance	Nine months ended September 30,		Favorable (Unfavorable) Variance
	2020	2019		2020	2019	
			(In millions)			
Rental revenues	$ 26.2	$ 29.0	$ (2.8)	$ 78.9	$ 89.6	$ (10.7)
Rental expenses	20.8	22.6	1.8	64.6	68.2	3.6
Rental operations gross profit	$ 5.4	$ 6.4	$ (1.0)	$ 14.3	$ 21.4	$ (7.1)
Gross profit as % of revenue (1)	20.6 %	22.0 %		18.2 %	23.9 %	

(1) Percentages calculated on actual amounts, not rounded amounts presented above.

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

Rental segment revenue for the three months ended September 30, 2020 decreased as compared to the same period of the prior year primarily due to a $1.7 million decline in rental income based on a percentage of franchisees' retail sales, a $0.3 million decrease in base rent due to restaurant closures and lease buy-outs and a progressive decline of $0.4 million in interest income as direct financing leases are repaid. Rental segment expenses for the three months ended September 30, 2020 decreased compared to the same period of the prior year primarily due to a $0.9 million decrease in base rent expense due to restaurant closures and lease buy-outs, a $0.4 million decrease in rent paid based on a percentage of franchisees' retail sales, a $0.3 million decrease in depreciation expense and a $0.2 million decrease in interest expense as finance lease obligations are repaid.

Rental segment revenue for the nine months ended September 30, 2020 decreased as compared to the same period of the prior year, primarily due to a $5.5 million decrease in rental income based on a percentage of franchisees' retail sales, a $2.7 million decrease in base rent due to restaurant closures and lease buy-outs and a progressive decline of $1.2 million in interest income as direct financing leases are repaid. Rental segment expenses for the nine months ended September 30, 2020 decreased compared to the same period of the prior year primarily due to a $1.3 million decrease in rent paid based on a percentage of franchisees' retail sales, $1.4 million decrease in interest expense as finance lease obligations are repaid and a $0.9 million decrease in depreciation expense.

Company Restaurant Operations

	Three months ended September 30, 2020	2019	Favorable (Unfavorable) Variance	Nine months ended September 30, 2020	2019	Favorable (Unfavorable) Variance
Effective Restaurants	69	69	—	68	69	(1)
			(In millions)			
Company restaurant sales[1]	$ 27.4	$ 30.5	$ (3.1)	$ 75.4	$ 100.0	$ (24.6)
Company restaurant expenses[1]	27.5	30.3	2.8	78.0	93.1	15.1
IHOP restaurant expenses[2]	0.8	—	(0.8)	1.8	—	(1.8)
Company restaurant gross profit	$ (0.9)	$ 0.2	$ (1.1)	$ (4.4)	$ 6.9	$ (11.3)
Gross profit as % of revenue [3]	(0.6)%	0.6 %		(3.4)%	6.9 %	

[1] Related to 69 Applebee's company-operated restaurants.

[2] Costs associated with IHOP restaurants in the process of being refranchised.

[3] Calculated for Applebee's company-operated restaurants only. Percentages calculated on actual amounts, not rounded amounts presented above.

All 69 company-operated Applebee's restaurants have remained open throughout the three months ended September 30, 2020. The slight decrease in effective restaurants for the nine months ended September 30, 2020 reflects the temporary closure of seven restaurants for a short period of time in April 2020. In compliance with state and local requirements, the restaurants were largely limited to off-premise sales for approximately 10 weeks (the last three weeks of the first quarter and the first seven weeks of the second quarter). By mid-May, 2020, the dining rooms for all 69 restaurants were open but limited to no more than 50% of capacity. As a result of these restrictions, same-restaurant sales decreased 10.7% and 24.2%, respectively, for the three and nine months ended September 30, 2020. The comparison of gross profit for Applebee's company-operated restaurants as a percentage of revenue for the three and nine months ended September 30, 2020 as compared to the same periods of the prior year was adversely impacted by the COVID-19-related operating constraints described above.

In addition, Company segment restaurant expenses for the three and nine months ended September 30, 2020 include approximately $0.8 million and $1.8 million, respectively, of costs associated with certain IHOP restaurants while in the process of being refranchised.

Financing Operations

Financing revenues primarily consist of interest income from the financing of IHOP equipment leases and franchise fees, sales of equipment associated with refranchised IHOP restaurants and interest income on Applebee's notes receivable from franchisees. Financing expenses are the cost of any restaurant equipment sold associated with refranchised IHOP restaurants.

Financing revenue and gross profit for the three and nine months ended September 30, 2020 declined primarily because of decreases in interest income as note balances are repaid.

G&A Expenses

	Three months ended September 30, 2020	2019	Favorable (Unfavorable) Variance	Nine months ended September 30, 2020	2019	Favorable (Unfavorable) Variance
			(In millions)			
Total G&A expenses	$ 36.9	$ 38.9	$ 2.0	$ 105.4	$ 121.1	$ 15.8

G&A expenses for the three months ended September 30, 2020 decreased 5.3% compared to the same period of the prior year, primarily due to a $1.7 million decrease in travel costs. Included in total G&A expenses for the three months ended September 30, 2020 were $0.9 million of expenses related to company-operated restaurants, a decrease of $0.4 million from the same period of the prior year. As of October 26, 2020, there were no team members from the restaurant support centers remaining on furlough.

G&A expenses for the nine months ended September 30, 2020 decreased 13.0% compared to the same period of the prior year, primarily due to an $10.9 million decrease in personnel-related costs, as well as decreases in travel and consumer research costs, partially offset by increased depreciation primarily related to capitalized software projects. The decline in personnel-related costs was primarily due to lower costs of salaries and benefits, related in large part to the furloughing of approximately one-third of team members across various functional groups in our restaurant support centers for approximately six months, as well as lower costs of equity-based and other incentive compensation. Included in total G&A expenses for the nine months ended September 30, 2020 were $3.1 million of expenses related to company-operated restaurants, a decrease of $0.7 million from the same period of the prior year.

Impairment and Closure Costs	**Three months ended September 30,**		**Favorable (Unfavorable) Variance**	**Nine months ended September 30,**		**Favorable (Unfavorable) Variance**
	2020	**2019**		**2020**	**2019**	
			(In millions)			
Goodwill impairment	$ —	$ —	$ —	$ 92.2	$ —	$ (92.2)
Tradename impairment	—	—	—	11.0	—	(11.0)
Long-lived asset impairment	—	—	—	17.2	—	(17.2)
Impairment of reacquired franchise rights	—	—	—	3.3	—	(3.3)
Closure costs	0.2	0.2	0.0	0.8	0.6	(0.2)
Total	$ 0.2	$ 0.2	$ 0.0	$ 124.5	$ 0.6	$ (123.9)

The Company evaluates its goodwill and the indefinite-lived Applebee's tradename for impairment annually in the fourth quarter of each year or on an interim basis if events or changes in circumstances between annual tests indicate a potential impairment. Definite-lived intangible assets and long-lived tangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable based on estimated undiscounted future cash flows.

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly spreading outbreak of COVID-19. In the second quarter of 2020, the Company noted that its common stock had recovered less of its early March 2020 (pre-pandemic) market value than the overall U.S. stock market had recovered. The Company also was able to assess several additional months of data as to the impact of the COVID-19 pandemic on its operations and, in turn, assess the impact that might have on the risk premium incorporated into its discount rate. Based on these developments, the Company determined that an interim quantitative test of goodwill and indefinite-lived intangible assets for impairment should be performed as of May 24, 2020. In determining fair value, the Company utilized valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The fair value technique used in this instance is classified as Level 3, where unobservable inputs are used when little or no market data is available.

In performing the quantitative test for impairment of goodwill, we used the income approach method of valuation that includes the discounted cash flow method and the market approach that includes the guideline public company method to determine the fair value of goodwill and intangible assets. Significant assumptions made by management in estimating fair value under 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 based on our estimated cost of equity capital and after-tax cost of debt. Significant assumptions used to determine fair value under the guideline public company method include the selection of guideline companies and the valuation multiples applied.

In performing the impairment review of the tradename, we used 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.

As a result of performing the quantitative test of impairment, the Company recognized an impairment of Applebee's goodwill of $92.2 million and an impairment of Applebee's tradename of $11.0 million in the second quarter of 2020.

The majority of the impairment was due to an increase in the assessed risk premium incorporated in the discount rate. These assets are at risk of additional impairment in the future in the event of sustained downward movement in the Company's stock price, downward revisions of long-term performance assumptions or increases in the assumed long-term discount rate.

The long-lived asset impairment of $17.2 million related to 45 Applebee's company-operated restaurants and 29 IHOP franchisee-operated restaurants for which the carrying amount exceeded the undiscounted cash flows The impairment recorded represented the difference between the carrying value and the estimated fair value. Approximately $11.2 million of the total impairment related to operating lease right-of-use assets that had been recorded in 2019 upon adoption of new accounting guidance for leases codified in Accounting Standards Topic 842, while $5.9 million related to impairments of land, building, leasehold improvements and finance leases. The impairments by individual property varied in amount, ranging from the largest single-property impairment of $1.3 million to less than $5,000.

An impairment of $3.3 million was recognized related to the reacquired franchise rights intangible asset recorded in the purchase price allocation of the December 2018 acquisition of 69 Applebee's restaurants from a former franchisee.

During the three months ended September 30, 2020, the Company assessed its goodwill, intangible assets and tangible assets for impairment, considering, among other things, the market value of our stock, absolute and relative to peers, and the Company's operating performance during the three months ended September 30, 2020 compared to forecast results that had been used in performing the impairment analyses during the second quarter of 2020 discussed above. The Company concluded the were no indicators of additional impairment during the three months ended September 30, 2020.

Other Income and Expense Items	**Three months ended September 30,**		**Favorable (Unfavorable) Variance**	**Nine months ended September 30,**		**Favorable (Unfavorable) Variance**
	2020	**2019**		**2020**	**2019**	
			(In millions)			
Interest expense, net	$ 16.8	$ 15.2	$ (1.6)	$ 49.1	$ 45.2	$ (3.9)
Amortization of intangible assets	2.7	2.9	0.3	8.2	8.8	0.5
Loss on disposition of assets	1.1	0.7	(0.3)	2.6	1.2	(1.4)
Total	$ 20.6	$ 18.9	$ (1.7)	$ 60.0	$ 55.2	$ (4.8)

<u>Interest expense, net</u>

Interest expense, net for the three and nine months ended September 30, 2020 was higher than the same periods of the prior year, primarily due to increased interest expense on $220.0 million borrowed under our Revolver in March 2020. See *"Liquidity and Capital Resources"* for additional discussion related to the Revolver borrowing.

<u>Loss on disposition of assets</u>

The loss on disposition of assets for the three months ended September 30, 2020 primarily related to disposition of capitalized software no longer in use. The loss on disposition of assets for the nine months ended September 30, 2020 primarily related to termination of 12 IHOP restaurant leases and the loss on capitalized software recognized during the three months ended September 30, 2020. There were no individually significant losses on disposition of assets during the three and nine months ended September 30, 2019.

Income Taxes	**Three months ended September 30,**		**Favorable (Unfavorable) Variance**	**Nine months ended September 30,**		**Favorable (Unfavorable) Variance**
	2020	**2019**		**2020**	**2019**	
			(In millions)			
Income (loss) before income taxes	$ 9.2	$ 31.7	$ (22.5)	$ (108.6)	$ 101.9	$ (210.5)
Income tax provision (benefit)	$ (0.9)	$ 7.8	$ 8.7	$ (6.1)	$ 25.0	$ 31.1
Effective tax rate	(9.5)%	24.6 %	34.1 %	5.6 %	24.5 %	18.9 %

Our income tax provision or benefit will vary from period to period in our normal course of business for two reasons: a change in income before income taxes and a change in the effective tax rate. Changes in our income before income taxes were addressed in the preceding sections of *"Consolidated Results of Operations - Comparison of the Three and Nine Months Ended September 30, 2020 and 2019."*

Our effective tax rate for the three months ended September 30, 2020 was significantly different than the rate of the prior comparable period and the statutory federal tax rate of 21% primarily due to the release of unrecognized tax benefits. As noted under *"Impairment and Closure Charges"* above, our effective tax rate for the nine months ended September 30, 2020 was significantly different than the rate of the prior comparable period and the statutory federal tax rate of 21% primarily because the $92.2 million impairment of goodwill incurred in the prior quarter is not deductible for federal income tax purposes and therefore has no associated tax benefit.

Liquidity and Capital Resources

On June 5, 2019, Applebee's Funding LLC and IHOP Funding LLC (the "Co-Issuers"), each a special purpose, wholly-owned indirect subsidiary of the Company, issued two tranches of fixed rate senior secured notes, the Series 2019-1 4.194% Fixed Rate Senior Secured Notes, Class A-2-I ("Class A-2-I Notes") in an initial aggregate principal amount of $700 million and the Series 2019-1 4.723% Fixed Rate Senior Secured Notes, Class A-2-II ("Class A-2-II Notes") in an initial aggregate principal amount of $600 million (the "Class A-2-II Notes" and, together with the Class A-2-I Notes, the "2019 Class A-2 Notes"). The 2019 Class A-2 Notes were issued pursuant to an offering exempt from registration under the Securities Act of 1933, as amended.

The Co-Issuers also established a new revolving financing facility, the 2019-1 Variable Funding Senior Notes, Class A-1 (the "Revolver") that allows for drawings up to $225 million of variable funding notes and the issuance of letters of credit. The Revolver and the 2019 Class A-2 Notes are referred to collectively herein as the "New Notes." The New Notes were issued in a securitization transaction pursuant to which substantially all the domestic revenue-generating assets and domestic intellectual property held by the Co-Issuers and certain other special-purpose, wholly-owned indirect subsidiaries of the Company (the "Guarantors") were pledged as collateral to secure the New Notes.

While the 2019 Class A-2 Notes are outstanding, payment of principal and interest is required to be made on the 2019 Class A-2 Notes on a quarterly basis. The quarterly principal payment totaling $3.25 million on the 2019 Class A-2 Notes may be suspended when the leverage ratio for the Company and its subsidiaries is less than or equal to 5.25x. In general, the leverage ratio is our indebtedness (as defined in the Indenture) divided by adjusted EBITDA (as defined in the Indenture) for the four preceding quarterly periods. The complete definitions of all calculation elements of the leverage ratio are contained in the Base Indenture, dated as of September 30, 2014, amended and restated as of June 5, 2019 (the "Base Indenture"), as supplemented by the related Series 2019-1 Supplement to the Base Indenture, dated June 5, 2019 (the "Series 2019-1 Supplement"), among the Co-Issuers and Citibank, N.A., as the trustee (in such capacity, the "Trustee") and securities intermediary (the Base Indenture and the Series 2019-1 Supplement, collectively, the "Indenture").

As of September 30, 2020, our leverage ratio was 6.67x. As a result, principal payments on the 2019 Class A-2 Notes of $3.25 million will be required in the fourth quarter of 2020 and first quarter of 2021. The leverage ratio is not a maintenance covenant and exceeding the leverage ratio of 5.25x does not violate any covenant related to the New Notes.

The Company may voluntarily repay the 2019 Class A-2 Notes at any time; however, if we repay the 2019 Class A-2 Notes prior to certain dates we would be required to pay make-whole premiums. As of September 30, 2020, the make-whole premium associated with voluntary prepayment of the Class A-2-I Notes was approximately $41 million; this amount declines each quarter to zero in June 2022. As of September 30, 2020, the make-whole premium associated with voluntary prepayment of the Class A-2-II Notes was approximately $84 million; this amount declines each quarter to zero in June 2024. We would also be subject to a make-whole premium in the event of a mandatory prepayment required following a Rapid Amortization Event or certain asset dispositions. The mandatory make-whole premium requirements are considered derivatives embedded in the New Notes that must be bifurcated for separate valuation. We estimated the fair value of these derivatives to be immaterial as of September 30, 2020, based on the probability-weighted discounted cash flows associated with either event.

Covenants and Restrictions

The New Notes are subject to a series of covenants and restrictions customary for transactions of this type, including: (i) that the Co-Issuers maintain specified reserve accounts to be used to make required payments in respect of the New Notes, (ii) provisions relating to optional and mandatory prepayments, and the related payment of specified amounts, including specified call redemption premiums in the case of Class A-2 Notes under certain circumstances; (iii) certain indemnification payments in the event, among other things, the transfers of the assets pledged as collateral for the New Notes are in stated ways defective or ineffective and (iv) covenants relating to recordkeeping, access to information and similar matters. The New Notes are subject to customary rapid amortization events provided for in the Indenture, including events tied to failure of the Securitization Entities to maintain the stated debt service coverage ratio ("DSCR"), the sum of domestic retail sales for all restaurants being below certain levels on certain measurement dates, certain manager termination events, certain events of default and the failure to repay or refinance the Class A-2 Notes on the anticipated repayment dates. The New Notes are also subject to certain customary events of default, including events relating to non-payment of required interest, principal or other amounts due on or with respect to the New Notes, failure of the Securitization Entities to maintain the stated DSCR, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties and certain judgments.

In general, the DSCR ratio is Net Cash Flow (as defined in the Indenture) for the four quarters preceding the calculation date divided by the total debt service payments (as defined in the Indenture) of the preceding four quarters. The complete definitions of the DSCR and all calculation elements are contained in the Indenture. Failure to maintain a prescribed DSCR can trigger a Cash Flow Sweeping Event, A Rapid Amortization Event, a Manager Termination Event or a Default Event as described below. In a Cash Flow Sweeping Event, the Trustee is required to retain 50% of excess Cash Flow (as defined in the Indenture) in a restricted account. In a Rapid Amortization Event, all excess Cash Flow is retained and used to retire principal amounts of debt. In a Manager Termination Event, the Company may be replaced as manager of the assets securitized under the Indenture. In a Default Event, the outstanding principal amount and any accrued but unpaid interest can be called to become immediately due and payable. Key DSCRs are as follows:

- DSCR less than 1.75x - Cash Flow Sweeping Event
- DSCR less than 1.20x - Rapid Amortization Event
- Interest-only DSCR less than 1.20x - Manager Termination Event
- Interest-only DSCR less than 1.10x - Default Event

Our DSCR for the reporting period ended September 30, 2020 was approximately 3.2x.

During the second quarter of 2020, we voluntarily increased the interest reserve required to be set aside for our securitized debt from $16.4 million to $32.8 million, which represents an estimated six months of interest and fees related to the 2019 Class A-2 Notes and the Revolver. During the second quarter of 2020, we voluntarily began accelerating the funding of interest on the 2019 Class A-2 Notes and the Revolver with the redirection of cash receipts within the securitization structure. As of October 26, the interest payments on the 2019 Class A-2 Notes and the Revolver due December 7, 2020 and March 5, 2021 have been fully funded within the securitization structure, in addition to the $32.8 million of interest reserve noted above.

In March 2020, in light of the COVID-19 pandemic, Standard & Poor's (“S&P”) placed the Company on "credit watch-negative" with respect to its 2019 Class A-2 Notes. In September 2020, S&P removed the Company from the credit watch and reaffirmed the “BBB” rating of the 2019 Class A-2 Notes.

Use of Credit Facilities

In March 2020, the Co-Issuers drew down a total of $220.0 million of the amount then available under the Revolver. Although the Company had no immediate need for additional liquidity, the Co-Issuers drew on the Revolver to increase the Company’s financial flexibility in light of then-current market conditions and uncertainty due to the COVID-19 outbreak. It is anticipated that the principal and interest on the Revolver will be repaid in full on or prior to the quarterly payment date in June 2024, subject to two additional one-year extensions at the option of the Company upon the satisfaction of certain conditions. The current interest rate for borrowings under the Revolver is the three-month LIBOR rate plus 2.15% for 60% of the advances and the commercial paper funding rate of our conduit investor plus 2.15% for 40% of the advances. The weighted average interest rate on Revolver borrowings for the period outstanding was 2.53% and 3.31%, respectively, for the three and nine months ended September 30, 2020.

At September 30, 2020, $2.8 million was pledged against the Revolver for outstanding letters of credit, leaving $2.2 million of the Revolver available for borrowing. The letters of credit are used primarily to satisfy insurance-related collateral requirements.

Capital Allocation

Dividends

During the nine months ended September 30, 2020, we paid dividends on common stock of $23.9 million, representing a cash dividend of $0.69 per share declared in the fourth quarter of 2019, paid in January 2020, and a cash dividend of $0.76 per share declared in the first quarter of 2020, paid in April 2020.

Stock Repurchases

In February 2019, the Company’s Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to $200 million of the Company’s common stock (the “2019 Repurchase Program”) on an opportunistic basis from time to time in the open market or in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The 2019 Repurchase Program, as approved by the Board of Directors, does not require the repurchase of a specific number of shares and can be terminated at any time.

A summary of shares repurchased under the 2019 Repurchase Program during the three and nine months ended September 30, 2020 and cumulatively, is as follows:

	Shares	Cost of shares
		(In millions)
2019 Repurchase Program:		
Repurchased during the three months ended September 30, 2020	—	$ —
Repurchased during the nine months ended September 30, 2020	459,899	$ 26.5
Cumulative (life-of-program) repurchases	1,697,597	$ 129.8
Remaining dollar value of shares that may be repurchased	n/a	$ 70.2

We evaluate dividend payments on common stock and repurchases of common stock within the context of our overall capital allocation strategy with our Board of Directors on an ongoing basis, giving consideration to our current and forecast earnings, financial condition, cash requirements and other factors. In order to maintain financial flexibility in light of the COVID-19 pandemic, we have ceased repurchasing our common stock for the foreseeable future and our Board of Directors has decided not to declare a dividend for the second, third and fourth quarters of 2020. We will continue to evaluate our capital allocation strategy as industry conditions evolve and normal restaurant operations resume.

From time to time, we also repurchase shares owned and tendered by employees to satisfy tax withholding obligations on the vesting of restricted stock awards. Shares are deemed purchased at the closing price of our common stock on the vesting date. See Part II, Item 2 for detail on this stock repurchase activity during the second quarter of 2020.

Cash Flows

In summary, our cash flows for the nine months ended September 30, 2020 and September 30, 2019 were as follows:

	Nine months ended September 30,		
	2020	2019	Variance
		(In millions)	
Net cash provided by operating activities	$ 36.7	$ 105.6	$ (68.9)
Net cash provided by (used in) investing activities	5.3	(4.0)	9.3
Net cash provided by (used in) financing activities	175.1	(149.1)	324.2
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 217.1	$ (47.5)	$ 264.6

Operating Activities

Cash provided by operating activities decreased $68.9 million during the nine months ended September 30, 2020 compared to the same period of the prior year. Our net income plus the non-cash reconciling items shown in our statements of cash flows (primarily impairment and closure charges, depreciation, deferred taxes and stock-based compensation) decreased $27.3 million from 2019. This change was primarily due to a decrease in gross profit primarily due to a significant decline in customer traffic at our restaurants as a result of the effects of measures put in place by various levels of government to mitigate the spread of the COVID-19 virus and related changes in consumer behavior, partially offset by a decrease in G&A expenses, each of which was discussed in preceding sections of the MD&A. Additionally, net changes in working capital used cash of $51.5 million during the nine months ended September 30, 2020 compared to using cash of $9.8 million during the same period of the prior year, an unfavorable change of $41.6 million. The unfavorable change in working capital was primarily due to an increase in trade receivables resulting from payment deferrals offered to franchisees and a net increase in tax receivables related, in part, to an estimated tax payment made in the first quarter of 2020 before the impacts of the COVID-19 pandemic were considered, as well as a tax refund received in 2019 that did not recur. These unfavorable items were partially offset by the timing of marketing accruals due in part to the temporary suspension of the Company's national advertising programs from March to June of 2020. In summary, the decrease of $68.9 million in cash provided by operating activities for the nine months ended September 30, 2020 was due to the $27.3 million decrease in net income plus non-cash reconciling items and the unfavorable change of $41.6 million in cash used by working capital changes.

Investing Activities

Investing activities provided net cash of $5.3 million for the nine months ended September 30, 2020. Principal receipts from notes, equipment contracts and other long-term receivables of $15.7 million were partially offset by capital expenditures of $9.1 million and loans to franchisees of $1.5 million. Investing activities used net cash of $4.0 million for the nine months ended September 30, 2019. The variance between the two periods was due to decreases in capital expenditures and loans to franchisees during the nine months ended September 30, 2020 compared to the same period of the prior year.

Financing Activities

Financing activities provided net cash of $175.1 million for the nine months ended September 30, 2020. As discussed above under Use of Credit Facilities, we drew down $220.0 million from our Revolver to increase our financial flexibility in light of then-current market conditions and uncertainty due to the COVID-19 outbreak. We also had a net cash inflow of approximately $18.1 million related to equity compensation awards. These financing inflows were partially offset by cash dividends paid on our common stock totaling $23.9 million, repurchases of our common stock totaling $29.9 million and repayments of finance lease obligations of $9.0 million.

Financing activities used net cash of $149.0 million for the nine months ended September 30, 2019. The increase of $324.2 million in the net cash provided by/used in financing activities was primarily due to the $220 million drawdown from our Revolver, a decrease in repurchases of common stock of $60.2 million, a decrease in dividend payments of $9.9 million, each actions which were discussed under *"Ongoing Impact of COVID-19."* Additionally, during the nine months ended September 30, 2019, we repaid $25.0 million on our credit facility that had been drawn in 2018 and paid $12.7 million in debt issuance costs associated with our 2019 debt refinancing and similar transaction did not recur in 2020.

Cash and Cash Equivalents

Our total cash balance as of September 30, 2020 was are follows:

	September 30, 2020 (In millions)
Cash and cash equivalents	$ 309.3
Restricted cash, current	47.5
Restricted cash, non-current	32.8
Total	$ 389.6

Cash and cash equivalents include $59.0 million of cash held for gift card programs and advertising funds.

We believe that our cash on hand, cash flow from operations, and the actions taken to mitigate the effects of the COVID-19 pandemic discussed under *Significant Recent Developments* will provide us with adequate liquidity for the next twelve months.

Adjusted Free Cash Flow

We define "adjusted free cash flow" for a given period as cash provided by operating activities, plus receipts from notes and equipment contract receivables, less additions to property and equipment. Management uses this liquidity measure in its periodic assessment of, among other things, cash dividends per share of common stock and repurchases of common stock and we believe it is important for investors to have the same measure used by management for that purpose. Adjusted free cash flow does not represent residual cash flow available for discretionary purposes.

Adjusted free cash flow is a non-U.S. GAAP measure. This non-U.S. GAAP measure is not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies. Non-U.S. GAAP measures should be considered in addition to, and not as a substitute for, the U.S. GAAP information contained within our financial statements. Reconciliation of the cash provided by operating activities to adjusted free cash flow is as follows:

	Nine months ended September 30,		
	2020	2019	Variance
	(In millions)		
Cash flows provided by operating activities	$ 36.7	$ 105.6	$ (68.9)
Receipts from notes and equipment contracts receivable	8.0	8.6	(0.6)
Additions to property and equipment	(9.1)	(13.4)	4.3
Adjusted free cash flow	$ 35.6	$ 100.8	$ (65.2)

The Company expects to generate positive adjusted free cash flow during the remaining three months of 2020.

Off-Balance Sheet Arrangements

We have obligations for guarantees on certain franchisee lease agreements, as disclosed in Note 15 - Commitments and Contingencies, of Notes to Consolidated Financial Statements of Part I, Item 1 of this Form 10-Q. Other than such guarantees, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4) of SEC Regulation S-K as of September 30, 2020.

Contractual Obligations and Commitments

As discussed above, in March 2020, we drew down a total of $220 million from the Revolver. Other than this borrowing, there were no material changes to the contractual obligations table as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions affecting 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. We continually review the estimates and underlying assumptions to ensure they are appropriate for the circumstances. Accounting assumptions and estimates are inherently uncertain and actual results may differ materially from our estimates.

A summary of our critical accounting estimates is included in Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2019. During the nine months ended September 30, 2020, there were no significant changes in our critical accounting policies, other than our accounting policy for current expected credit losses, which changed because of the adoption of the accounting guidance discussed in Note 3 - Accounting Standards Adopted and Newly Issued Accounting Standards Not Yet Adopted, in the Notes to Consolidated Financial Statements and in our critical accounting estimates, other than those related to the valuation of goodwill, intangibles and long-lived assets discussed in Note 4 - Impairment and Closure Charges, in the Notes to Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The following change from the information contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019 took place during the nine months ended September 30, 2020:

Interest Rate Risk

We are only exposed to interest rate risk on borrowings we make under our 2019 Class A-1 Notes, a revolving credit facility (the “Revolver”), borrowings from which are subject to variable interest rates. In March 2020, we drew down $220.0 million from the Revolver, all of which was outstanding at September 30, 2020. A 1% increase or decrease in interest rates would increase or decrease our annual interest expense by $2.2 million.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures.

The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on such evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting.

There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

Please refer to our risk factors disclosed in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

The novel coronavirus (COVID-19) pandemic has disrupted and may further disrupt our business, which could further materially affect our operations, and business and financial results. In addition, any other epidemic, disease outbreak or public health emergency may result in similar adverse effects.

The COVID-19 pandemic has impacted and may continue to impact sales and traffic at our and our franchisees' restaurants, may make it more difficult to staff restaurants and, in more severe cases, may damage our reputation, cause an inability to obtain supplies, increase commodity costs or cause partial or total closures of impacted restaurants. The extent to which the COVID-19 pandemic and other epidemics, disease outbreaks or public health emergencies will impact our business, liquidity, financial condition, and results of operations, will depend on numerous evolving factors that we may not be able to accurately predict or assess, including the duration and scope of the pandemic, epidemic, disease outbreak, or public health emergency; the negative impact on the economy; the short and longer-term impacts on the demand for restaurant services and levels of consumer confidence; the ability of us and our franchisees to successfully navigate the impacts; government action, including restrictions on restaurant operations; increased unemployment; and reductions in consumer discretionary spending. Even if a virus or other disease does not spread significantly, the perceived risk of infection or health risk may damage our reputation and adversely affect our business, liquidity, financial condition and results of operations.

We and our franchisees have been and could further be adversely affected by government restrictions on public gatherings; shelter-in-place orders; and limitations on operations of restaurants, including dine-in restrictions, mandatory or voluntary closures or restrictions on hours of operations. Certain restaurants in the U.S. and abroad are currently under government mandates or guidelines to temporarily suspend operation of restaurants or limit restaurant dine-in business in light of COVID-19. We are unable to predict when these measures may be scaled back, or how quickly our operations will return to previous levels after the measures are scaled back. Certain other restaurants have had dine-in restrictions and other operational limitations lifted but we are unable to predict whether or when these restrictions may be reinstated or new restrictions may be implemented if the COVID-19 pandemic worsens. To assist franchisees impacted by COVID-19, we have offered deferral of royalty, advertising, and other fees, including, in some cases, lease payments. We have temporarily suspended franchisee development obligations. These changes and any additional changes may materially adversely affect our business, liquidity, financial condition, and results of operations, particularly if these changes are in place for a prolonged amount of time. The COVID-19 pandemic as well as other epidemics, disease outbreaks or public health emergencies may also materially adversely affect our ability to implement our growth plans, including delays in development of new locations or adversely impact our overall ability to successfully execute our plans to enter into new markets.

As we previously announced, we drew down a significant majority of the amount available under our revolving facility. The increase in our level of debt may adversely affect our financial and operating activities or ability to incur additional debt. Furthermore, the impacts of COVID-19 could cause us to fail to meet certain financial performance measures, including debt service coverage ratios and minimum domestic franchise system sales amounts, that must be met to avoid a possible rapid amortization event or event of default under the terms of our existing debt arrangements. In addition, as a result of the risks described above, we may be required to raise additional capital, and there is no guarantee that debt and/or equity financings will be available in the future to fund our obligations, or will be available on terms consistent with our expectations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Equity Securities by the Company

Period	Total number of shares purchased		Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (b)		Approximate dollar value of shares that may yet be purchased under the plans or programs (b)
June 29, 2020 - July 26, 2020[(a)]	1,973	$	39.20	—	$	70,200,000
July 27, 2020 - August 23, 2020[(a)]	2,154		53.35	—	$	70,200,000
August 24, 2020 - September 27, 2020[(a)]	1,898		61.19	—	$	70,200,000
	6,025	$	51.18	—	$	70,200,000

(a) These amounts represent shares owned and tendered by employees to satisfy tax withholding obligations arising upon vesting of restricted stock awards. Shares so surrendered by the participants are repurchased by us pursuant to the terms of the plan under which the shares were issued and the applicable individual award agreements and not pursuant to publicly announced repurchase authorizations.

(b) In February 2019, the Company’s Board of Directors approved the 2019 Repurchase Program authorizing the Company to repurchase up to $200 million of the Company's common stock. The 2019 Repurchase Program, as approved by the Board of Directors, does not require the repurchase of a specific number of shares and can be terminated at any time.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

*31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
*31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
*32.1	Certification of Chief Executive Officer 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 Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Schema Document.***
101.CAL	Inline XBRL Calculation Linkbase Document.***
101.DEF	Inline XBRL Definition Linkbase Document.***
101.LAB	Inline XBRL Label Linkbase Document.***
101.PRE	Inline XBRL Presentation Linkbase Document.***
104	Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

** The certifications attached as Exhibits 32.1 and 32.2 accompany this Quarterly 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.

*** Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 and 104 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dine Brands Global, Inc.
(Registrant)

Dated: 28th day of October, 2020	By: /s/ Stephen P. Joyce Stephen P. Joyce *Chief Executive Officer* *(Principal Executive Officer)*
Dated: 28th day of October, 2020	By: /s/ Thomas H. Song Thomas H. Song *Chief Financial Officer* *(Principal Financial Officer and Principal Accounting Officer)*

Exhibit 31.1

Certification Pursuant to
Rule 13a-14(a) of the
Securities Exchange Act of 1934, As Amended

I, Stephen P. Joyce, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dine Brands Global, 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.

Dated: 28th day of October, 2020

/s/ Stephen P. Joyce

Stephen P. Joyce
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification Pursuant to
Rule 13a-14(a) of the
Securities Exchange Act of 1934, As Amended

I, Thomas H. Song, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dine Brands Global, 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.

Dated: 28th day of October, 2020

/s/ Thomas H. Song

Thomas H. Song
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q of Dine Brands Global, Inc. (the “Company”) for the quarter ended September 30, 2020, as filed with the Securities and Exchange Commission on the 28th day of October, 2020 (the “Report”), Stephen P. Joyce, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

(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.

Dated: 28th day of October, 2020

/s/ Stephen P. Joyce

Stephen P. Joyce
Chief Executive Officer
(Principal 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. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent the Company expressly and specifically incorporates it by reference in such filing.

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

In connection with the Quarterly Report on Form 10-Q of Dine Brands Global, Inc. (the "Company") for the quarter ended September 30, 2020, as filed with the Securities and Exchange Commission on the 28th day of October, 2020 (the "Report"), Thomas H. Song, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

(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.

Dated: 28th day of October, 2020

/s/ Thomas H. Song

Thomas H. Song
Chief Financial Officer
(Principal Financial Officer and Principal Accounting 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. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent the Company expressly and specifically incorporates it by reference in such filing.