

**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, 2021

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

(State or other jurisdiction of incorporation or organization)

**450 North Brand Boulevard,
Glendale, CA**

(Address of principal executive offices)

95-3038279

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

91203-2346

(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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 28, 2021, the Registrant had 17,217,023 shares of Common Stock outstanding.

Dine Brands Global, Inc. and Subsidiaries
Index

	<u>Page</u>
<u>PART I.</u>	
<u>FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1—Financial Statements</u>	<u>3</u>
<u>Consolidated Balance Sheets - September 30, 2021 (unaudited) and December 31, 2020</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income (unaudited) - Three and Nine Months Ended September 30, 2021 and 2020</u>	<u>4</u>
<u>Consolidated Statements of Stockholders' Deficit (unaudited) - Three and Nine Months Ended September 30, 2021 and 2020</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows (unaudited) - Nine Months Ended September 30, 2021 and 2020</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>8</u>
<u>Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3—Quantitative and Qualitative Disclosures about Market Risk</u>	<u>48</u>
<u>Item 4—Controls and Procedures</u>	<u>49</u>
<u>PART II.</u>	
<u>OTHER INFORMATION</u>	<u>50</u>
<u>Item 1—Legal Proceedings</u>	<u>50</u>
<u>Item 1A—Risk Factors</u>	<u>50</u>
<u>Item 2—Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>50</u>
<u>Item 3—Defaults Upon Senior Securities</u>	<u>50</u>
<u>Item 4—Mine Safety Disclosures</u>	<u>50</u>
<u>Item 5—Other Information</u>	<u>50</u>
<u>Item 6—Exhibits</u>	<u>51</u>
<u>Signatures</u>	<u>52</u>

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 (including the emergence of variant strains) 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 this report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 and in our other filings with the Securities and Exchange Commission, 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 2021 began on January 4, 2021 and ended on April 4, 2021; the second and third fiscal quarters of 2021 ended on July 4, 2021 and October 3, 2021, respectively. 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.

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, 2021 (Unaudited)	December 31, 2020
Current assets:		
Cash and cash equivalents	\$ 304,159	\$ 383,369
Receivables, net of allowance of \$5,852 (2021) and \$15,057 (2020)	92,135	121,897
Restricted cash	64,685	39,884
Prepaid gift card costs	21,890	29,080
Prepaid income taxes	2,025	6,178
Other current assets	8,744	6,098
Total current assets	493,638	586,506
Other intangible assets, net	541,999	549,671
Operating lease right-of-use assets	334,624	346,086
Goodwill	251,628	251,628
Property and equipment, net	175,318	187,977
Long-term receivables, net of allowance of \$7,344 (2021) and \$7,999 (2020)	46,622	54,512
Deferred rent receivable	51,820	56,449
Non-current restricted cash	16,400	32,800
Other non-current assets, net	10,450	9,316
Total assets	\$ 1,922,499	\$ 2,074,945
Liabilities and Stockholders' Deficit		
Current liabilities:		
Current maturities of long-term debt	\$ —	\$ 13,000
Accounts payable	42,586	37,424
Gift card liability	115,878	144,159
Current maturities of operating lease obligations	71,219	69,672
Current maturities of finance lease and financing obligations	10,608	11,293
Accrued employee compensation and benefits	30,752	21,237
Accrued advertising	53,873	21,641
Deferred franchise revenue, short-term	7,388	7,682
Other accrued expenses	12,678	22,460
Total current liabilities	344,982	348,568
Long-term debt	1,279,071	1,491,996
Operating lease obligations, less current maturities	323,855	345,163
Finance lease obligations, less current maturities	61,499	69,012
Financing obligations, less current maturities	32,183	32,797
Deferred income taxes, net	69,008	78,293
Deferred franchise revenue, long-term	46,723	52,237
Other non-current liabilities	19,495	11,530
Total liabilities	2,176,816	2,429,596
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, 2021 - 25,003,116 issued, 17,219,847 outstanding; December 31, 2020 - 24,882,122 issued, 16,452,174 outstanding	250	249
Additional paid-in-capital	253,751	257,625
Retained earnings (accumulated deficit)	22,523	(55,553)
Accumulated other comprehensive loss	(59)	(55)
Treasury stock, at cost; shares: September 30, 2021 - 7,783,269; December 31, 2020 - 8,429,948	(530,782)	(556,917)
Total stockholders' deficit	(254,317)	(354,651)
Total liabilities and stockholders' deficit	\$ 1,922,499	\$ 2,074,945

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		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Revenues:				
Franchise revenues:				
Royalties, franchise fees and other	\$ 90,417	\$ 69,820	\$ 265,138	\$ 191,915
Advertising revenues	70,709	51,932	203,918	142,750
Total franchise revenues	161,126	121,752	469,056	334,665
Company restaurant sales	35,275	27,353	109,418	75,427
Rental revenues	31,273	26,194	84,797	78,910
Financing revenues	1,045	1,344	3,266	4,237
Total revenues	228,719	176,643	666,537	493,239
Cost of revenues:				
Franchise expenses:				
Advertising expenses	70,709	51,932	203,918	142,750
Bad debt (credit) expense	(1,962)	2,845	(4,246)	8,416
Other franchise expenses	6,922	5,858	20,197	15,999
Total franchise expenses	75,669	60,635	219,869	167,165
Company restaurant expenses	33,867	28,303	101,510	79,774
Rental expenses:				
Interest expense from finance leases	822	1,106	2,677	3,453
Other rental expenses	23,645	19,692	63,359	61,121
Total rental expenses	24,467	20,798	66,036	64,574
Financing expenses	113	123	356	393
Total cost of revenues	134,116	109,859	387,771	311,906
Gross profit	94,603	66,784	278,766	181,333
General and administrative expenses	43,704	36,873	122,891	105,351
Interest expense, net	15,721	16,844	47,956	49,143
Closure and impairment charges	443	168	5,024	124,521
Amortization of intangible assets	2,664	2,659	8,015	8,240
Loss on disposition of assets	1,299	1,087	1,436	2,630
Income before income taxes	30,772	9,153	93,444	(108,552)
Income tax (provision) benefit	(7,661)	865	(15,368)	6,119
Net income (loss)	23,111	10,018	78,076	(102,433)
Other comprehensive income net of tax:				
Foreign currency translation adjustment	(2)	2	(4)	2
Total comprehensive income (loss)	\$ 23,109	\$ 10,020	\$ 78,072	\$ (102,431)
Net income (loss) available to common stockholders:				
Net income (loss)	\$ 23,111	\$ 10,018	\$ 78,076	\$ (102,433)
Less: Net income allocated to unvested participating restricted stock	(502)	(329)	(1,920)	(420)
Net income (loss) available to common stockholders	\$ 22,609	\$ 9,689	\$ 76,156	\$ (102,853)
Net income (loss) available to common stockholders per share:				
Basic	\$ 1.34	\$ 0.60	\$ 4.55	\$ (6.34)
Diluted	\$ 1.33	\$ 0.60	\$ 4.52	\$ (6.34)
Weighted average shares outstanding:				
Basic	16,911	16,221	16,752	16,229
Diluted	16,971	16,283	16,858	16,229

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, 2021

	Common Stock					Treasury Stock		
	Shares Outstanding	Amount	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Shares	Cost	Total
Balance at June 30, 2021	17,178	\$ 250	\$ 250,509	\$ (588)	\$ (57)	7,833	\$ (532,865)	\$ (282,751)
Net income	—	—	—	23,111	—	—	—	23,111
Other comprehensive loss	—	—	—	—	(2)	—	—	(2)
Reissuance of treasury stock	50	—	422	—	—	(50)	2,083	2,505
Net use of shares for stock plans	(6)	—	—	—	—	—	—	—
Repurchase of restricted shares for taxes	(2)	—	(140)	—	—	—	—	(140)
Stock-based compensation	—	—	2,960	—	—	—	—	2,960
Tax payments for share settlement of restricted stock units	—	—	—	—	—	—	—	—
Balance at September 30, 2021	<u>17,220</u>	<u>\$ 250</u>	<u>\$ 253,751</u>	<u>\$ 22,523</u>	<u>\$ (59)</u>	<u>7,783</u>	<u>\$ (530,782)</u>	<u>\$ (254,317)</u>

Nine Months ended September 30, 2021

	Common Stock					Treasury Stock		
	Shares Outstanding	Amount	Additional Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Shares	Cost	Total
Balance at December 31, 2020	16,452	\$ 249	\$ 257,625	\$ (55,553)	\$ (55)	8,430	\$ (556,917)	\$ (354,651)
Net income	—	—	—	78,076	—	—	—	78,076
Other comprehensive loss	—	—	—	—	(4)	—	—	(4)
Reissuance of treasury stock	647	1	(1,120)	—	—	(647)	26,135	25,016
Net issuance of shares for stock plans	140	—	—	—	—	—	—	—
Repurchase of restricted shares for taxes	(19)	—	(1,543)	—	—	—	—	(1,543)
Stock-based compensation	—	—	8,572	—	—	—	—	8,572
Tax payments for share settlement of restricted stock units	—	—	(9,783)	—	—	—	—	(9,783)
Balance at September 30, 2021	<u>17,220</u>	<u>\$ 250</u>	<u>\$ 253,751</u>	<u>\$ 22,523</u>	<u>\$ (59)</u>	<u>7,783</u>	<u>\$ (530,782)</u>	<u>\$ (254,317)</u>

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

	Nine Months ended September 30, 2020								
	Common Stock				Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock		
	Shares Outstanding	Amount	Additional Paid-in Capital	Total			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 use 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)	
Tax payments for share settlement of restricted stock units	—	—	(205)	—	—	—	—	(205)	
Balance at September 30, 2020	<u>16,417</u>	<u>\$ 249</u>	<u>\$ 255,907</u>	<u>\$ (53,992)</u>	<u>\$ (56)</u>	<u>8,467</u>	<u>\$ (558,472)</u>	<u>\$ (356,364)</u>	

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,	
	2021	2020
Cash flows from operating activities:		
Net income (loss)	\$ 78,076	\$ (102,433)
Adjustments to reconcile net income (loss) to cash flows provided by operating activities:		
Non-cash impairment and closure charges	4,949	124,469
Depreciation and amortization	29,995	32,053
Non-cash stock-based compensation expense	8,572	9,193
Non-cash interest expense	2,146	1,990
Deferred income taxes	(9,156)	24,172
Deferred revenue	(5,808)	(5,067)
Loss on disposition of assets	1,436	2,630
Other	(8,418)	1,173
Changes in operating assets and liabilities:		
Accounts receivable, net	8,398	(27,849)
Current income tax receivables and payables	4,544	(41,426)
Gift card receivables and payables	(9,215)	(1,980)
Other current assets	(2,645)	(2,034)
Accounts payable	9,678	6,777
Accrued employee compensation and benefits	9,569	(6,406)
Accrued advertising	32,232	19,579
Other current liabilities	(8,791)	1,887
Cash flows provided by operating activities	<u>145,562</u>	<u>36,728</u>
Cash flows from investing activities:		
Principal receipts from notes, equipment contracts and other long-term receivables	14,795	15,731
Net additions to property and equipment	(7,923)	(9,088)
Proceeds from sale of property and equipment	946	517
Additions to long-term receivables	—	(1,475)
Other	(357)	(358)
Cash flows provided by investing activities	<u>7,461</u>	<u>5,327</u>
Cash flows from financing activities:		
Repayment of long-term debt	(9,750)	—
Borrowing from revolving credit facility	—	220,000
Repayment of revolving credit facility	(220,000)	—
Dividends paid on common stock	—	(23,934)
Repurchase of common stock	—	(29,853)
Principal payments on finance lease obligations	(7,772)	(9,034)
Proceeds from stock options exercised	25,016	20,523
Repurchase of restricted stock for tax payments upon vesting	(1,543)	(2,438)
Tax payments for share settlement of restricted stock units	(9,783)	(205)
Cash flows (used in) provided by financing activities	<u>(223,832)</u>	<u>175,059</u>
Net change in cash, cash equivalents and restricted cash	(70,809)	217,114
Cash, cash equivalents and restricted cash at beginning of period	456,053	172,475
Cash, cash equivalents and restricted cash at end of period	<u>\$ 385,244</u>	<u>\$ 389,589</u>
Supplemental disclosures:		
Interest paid in cash	\$ 49,366	\$ 51,706
Income taxes paid in cash	\$ 21,143	\$ 11,348
Non-cash conversion of accounts receivable to notes receivable	\$ 3,748	\$ —

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, 2021 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2021.

The consolidated balance sheet at December 31, 2020 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, 2020.

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 2021 began on January 4, 2021 and ended on April 4, 2021; the second and third fiscal quarters of 2021 ended on July 4, 2021 and October 3, 2021, respectively. 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 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 may include the calculation and assessment of the following: impairment of goodwill, other intangible assets and tangible assets; income taxes; allowance for credit losses on 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 continuing outbreak of a novel strain of coronavirus, designated “COVID-19,” and evolving variants thereof. The extent of the continued impact of the COVID-19 pandemic on the Company’s business remains uncertain and difficult to predict, as measures taken in response to and the effect of the pandemic have varied and continue to vary by country, state and municipalities within states. The Company first began to experience impacts from the COVID-19 pandemic in March 2020, as federal, state, local and international governments reacted 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 during the initial stages of the pandemic. Subsequently, government-imposed dine-in restrictions have been relaxed or removed in many of the locations in which the Company operates as incidents of infection decline and vaccination rates increase within the respective governmental jurisdictions. As of September 30, 2021, 99% of domestic Applebee’s and IHOP restaurants were open and operating without government-mandated restrictions.

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

2. Basis of Presentation (Continued)

The Company took 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 in March 2020; that borrowing was repaid in March 2021; (ii) suspended repurchases of common stock and the declaration of dividends on common stock after the first quarter of 2020 (See Note 17, Subsequent Events); (iii) deferred franchisee payment of royalty, advertising and other fees, and lease obligations for up to two months on a case-by-case basis, with 99% of Applebee's and 97% of IHOP deferrals collected as of September 30, 2021; (iv) deferred franchisee remodel and development obligations for up to 15 months; and (v) negotiated deferrals and abatements for properties on which the Company was lessee.

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 and variants of the virus may arise, the availability and acceptance of vaccines, what restrictions on in-restaurant dining may be imposed or re-imposed, 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 resurgence of outbreaks of the virus and its variants that result in the re-imposition of dine-in restrictions, as well as 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 remains highly uncertain.

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

Accounting Standards Adopted in the Current Fiscal Year

In December 2019, the Financial Accounting Standards Board ("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 adopted the new guidance at the beginning of the first fiscal quarter of 2021. Adoption did not have any material effect on the consolidated financial statements.

Additional new accounting guidance became effective for the Company as of the beginning of fiscal 2021 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 March 2020, with an update in January 2021, 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. The Company is currently evaluating its contracts that reference LIBOR and the potential effects of adopting this new guidance.

In July 2021, the FASB issued guidance which affect lessors with lease contracts that (i) have variable lease payments that do not depend on a reference index or a rate and (ii) would have resulted in the recognition of a selling loss at lease commencement if classified as sales-type or direct financing. The amendments are effective for fiscal years beginning after December 15, 2021. The Company is currently evaluating lease contracts 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.

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

4. Revenue Disclosures

Franchise revenue 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 collectability 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.

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

4. Revenue Disclosures (Continued)

The following table disaggregates franchise revenue by major type for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	(In thousands)			
Franchise Revenue:				
Royalties	\$ 75,098	\$ 56,061	\$ 217,499	\$ 154,672
Advertising fees	70,709	51,932	203,918	142,750
Pancake and waffle dry mix sales and other	12,782	10,690	37,197	27,575
Franchise and development fees	2,537	3,069	10,442	9,668
Total franchise revenue	\$ 161,126	\$ 121,752	\$ 469,056	\$ 334,665

Accounts and other receivables from franchisees as of September 30, 2021 and December 31, 2020 were \$64.2 million (net of allowance of \$2.1 million) and \$76.3 million (net of allowance of \$11.4 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, 2021 were as follows:

	Deferred Franchise Revenue (short- and long-term)
	(In thousands)
Balance at December 31, 2020	\$ 59,919
Recognized as revenue during the nine months ended September 30, 2021	(9,621)
Fees deferred during the nine months ended September 30, 2021	3,813
Balance at September 30, 2021	<u>\$ 54,111</u>

The balance of deferred revenue as of September 30, 2021 is expected to be recognized as follows:

	(In thousands)
2021 (remaining three months)	\$ 1,892
2022	7,303
2023	6,724
2024	6,129
2025	5,349
Thereafter	26,714
Total	<u>\$ 54,111</u>

5. Current Expected Credit Losses ("CECL")

The 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. The Company records 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 Company's CECL methodology that assesses four components - historical losses, current conditions, reasonable and supportable forecasts, and a reversion to history, if applicable.

5. Current Expected Credit Losses (Continued)

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.

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.

Notes Receivable

Notes receivable balances primarily relate to the conversion of certain past due 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 and IHOP franchise fee and other notes. The notes are typically collateralized by the franchise. A significant portion of these notes have specific reserves recorded against them amounting to \$10.7 million as of September 30, 2021.

Equipment Leases Receivable

Equipment leases receivable 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. 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 4.9 years as of September 30, 2021.

Direct Financing Leases Receivable

Direct financing lease receivables also relate to IHOP franchise development activity prior to 2003. IHOP provided the financing for leasing or subleasing the site. Direct financing leases at September 30, 2021, comprised 74 leases with a weighted average remaining life of 5.1 years, and relate to locations that IHOP is leasing from third parties and subleasing to franchisees.

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 and are included as part of Other receivables.

	September 30, 2021	December 31, 2020
	(In millions)	
Accounts receivable	\$ 64.2	\$ 85.7
Gift card receivables	5.3	22.5
Notes receivable	21.1	18.6
Financing receivables:		
Equipment leases receivable	35.3	43.9
Direct financing leases receivable	18.6	22.7
Other	7.4	6.1
	151.9	199.5
Less: allowance for credit losses	(13.2)	(23.1)
	138.7	176.4
Less: current portion	(92.1)	(121.9)
Long-term receivables	\$ 46.6	\$ 54.5

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

5. Current Expected Credit Losses (Continued)

The Company's primary credit quality indicator for all portfolio segments is delinquency. Changes in the allowance for credit losses during the nine months ended September 30, 2021 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, 2020	\$ 11.2	\$ 3.6	\$ 5.3	\$ 0.4	\$ 2.3	\$ 0.3	\$ 23.1
Bad debt (credit) expense for the nine months ended September 30, 2021	(9.0)	0.4	4.5	0.1	(0.1)	(0.1)	(4.2)
Advertising provision adjustment	(0.0)	0.3	(2.7)	—	—	—	(2.4)
Write-offs	(0.2)	(0.6)	—	(0.5)	(2.1)	—	(3.4)
Other	0.0	—	—	0.1	0.0	—	0.1
Balance, September 30, 2021	\$ 2.0	\$ 3.7	\$ 7.1	\$ 0.1	\$ 0.1	\$ 0.2	\$ 13.2

⁽¹⁾ Primarily distributor receivables, gift card receivables and credit card receivables

The delinquency status of receivables (other than accounts receivable, gift card receivables and distributor receivables) at September 30, 2021 was as follows:

	Notes receivable, short-term	Notes receivable, long-term	Lease Receivables	Equipment Notes	Other ⁽¹⁾	Total
(In millions)						
Current	\$ 5.2	\$ 14.6	\$ 18.6	\$ 35.3	\$ 1.9	\$ 75.6
30-59 days	0.0	—	—	—	—	0.0
60-89 days	0.0	—	—	—	—	0.0
90-119 days	0.0	—	—	—	—	0.0
120+ days	1.3	—	—	—	—	1.3
Total	\$ 6.5	\$ 14.6	\$ 18.6	\$ 35.3	\$ 1.9	\$ 76.9

⁽¹⁾ Primarily credit card receivables

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

	Notes receivable, short and long-term	Lease Receivables	Equipment Notes	Total
(In millions)				
2021	\$ 13.4	\$ 2.7	\$ —	\$ 16.1
2020	0.6	1.5	—	2.1
2019	0.9	0.8	—	1.7
2018	0.0	—	—	0.0
2017	6.1	—	—	6.1
Prior	0.1	13.6	35.3	49.0
Total	\$ 21.1	\$ 18.6	\$ 35.3	\$ 75.0

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

6. Lease Disclosures

The Company engages in leasing activity as both a lessee and a lessor. The Company currently leases from third parties the real property on which approximately 540 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 55 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

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

6. Lease Disclosures (Continued)

centers in Kansas City, Missouri and Raleigh, North Carolina. The Company does not have a significant amount of non-real estate leases.

The Company's existing leases/subleases related to IHOP restaurants generally provide 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 280 of the Company's leases met the sales levels that required variable rent payments to the Company (as lessor), based on a percentage of restaurant sales during the nine months ended September 30, 2021. Approximately 45 of the leases met the sales levels that required variable rent payments by the Company (as lessee), based on a percentage of restaurant sales during the nine months ended September 30, 2021.

The Company's lease cost for the three and nine months ended September 30, 2021 and 2020 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	(In millions)			
Finance lease cost:				
Amortization of right-of-use assets	\$ 1.1	\$ 1.2	\$ 3.5	\$ 3.7
Interest on lease liabilities	1.3	1.6	4.2	5.0
Operating lease cost	24.4	25.7	74.2	78.8
Variable lease cost	4.5	0.2	5.2	0.5
Short-term lease cost	0.0	0.0	0.0	0.0
Sublease income	(28.8)	(23.9)	(78.0)	(72.0)
Lease cost	<u>\$ 2.5</u>	<u>\$ 4.9</u>	<u>\$ 9.1</u>	<u>\$ 16.1</u>

Future minimum lease payments under noncancelable leases as lessee as of September 30, 2021 were as follows:

	Finance Leases	Operating Leases
	(In millions)	
2021 (remaining three months)	\$ 3.7	\$ 23.1
2022	14.2	90.1
2023	11.5	74.5
2024	9.7	69.8
2025	8.6	61.4
Thereafter	51.0	161.5
Total minimum lease payments	<u>98.7</u>	<u>480.4</u>
Less: interest/imputed interest	(27.4)	(85.3)
Total obligations	<u>71.3</u>	<u>395.1</u>
Less: current portion	(9.8)	(71.2)
Long-term lease obligations	<u>\$ 61.5</u>	<u>\$ 323.9</u>

The weighted average remaining lease term as of September 30, 2021 was 9.5 years for finance leases and 6.9 years for operating leases. The weighted average discount rate as of September 30, 2021 was 10.1% for finance leases and 5.6% for operating leases.

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

6. Lease Disclosures (Continued)

During the three and nine months ended September 30, 2021 and 2020, the Company made the following cash payments for leases:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	(In millions)			
Principal payments on finance lease obligations	\$ 2.5	\$ 3.0	\$ 7.8	\$ 9.0
Interest payments on finance lease obligations	\$ 1.3	\$ 1.6	\$ 4.2	\$ 5.0
Payments on operating leases	\$ 22.9	\$ 23.5	\$ 68.7	\$ 70.0
Variable lease payments	\$ 4.4	\$ 0.1	\$ 5.0	\$ 0.7

The Company's income from operating leases for the three and nine months ended September 30, 2021 and 2020 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	(In millions)			
Minimum lease payments	\$ 23.9	\$ 24.3	\$ 71.7	\$ 72.2
Variable lease income	6.8	1.1	11.1	3.8
Total operating lease income	\$ 30.7	\$ 25.4	\$ 82.8	\$ 76.0

Minimum payments to be received as lessor under noncancelable operating leases as of September 30, 2021 were as follows:

	(In millions)
2021 (remaining three months)	\$ 25.5
2022	101.7
2023	98.2
2024	89.1
2025	78.5
Thereafter	193.6
Total minimum rents receivable	\$ 586.6

The Company's income from direct financing leases for the three and nine months ended September 30, 2021 and 2020 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	(In millions)			
Interest income	\$ 0.5	\$ 0.8	\$ 1.6	\$ 2
Variable lease income	0.1	0.0	0.4	0
Total financing lease income	\$ 0.6	\$ 0.8	\$ 2.0	\$ 2

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

6. Lease Disclosures (Continued)

Minimum payments to be received as lessor under noncancelable direct financing leases as of September 30, 2021 were as follows:

	(In millions)
2021 (remaining three months)	\$ 2.3
2022	7.8
2023	3.9
2024	1.8
2025	1.0
Thereafter	5.4
Total minimum rents receivable	22.2
Less: unearned income	(3.6)
Total net investment in direct financing leases	18.6
Less: current portion	(7.1)
Long-term investment in direct financing leases	\$ 11.5

7. Long-Term Debt

At September 30, 2021 and December 31, 2020, long-term debt consisted of the following:

	September 30, 2021	December 31, 2020
	(In millions)	
Series 2019-1 4.194% Fixed Rate Senior Secured Notes, Class A-2-I	\$ 693.0	\$ 698.3
Series 2019-1 4.723% Fixed Rate Senior Secured Notes, Class A-2-II	594.0	598.5
Series 2019-1 Variable Funding Senior Notes Class A-1, variable interest rate of 2.42% at December 31, 2020	—	220.0
Debt issuance costs	(7.9)	(11.8)
Long-term debt, net of debt issuance costs	1,279.1	1,505.0
Current portion of long-term debt	—	(13.0)
Long-term debt	\$ 1,279.1	\$ 1,492.0

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 entered into a revolving financing facility, the 2019-1 Variable Funding Senior Notes, Class A-1 (the "Credit Facility"), that allows for drawings up to \$225 million of variable funding notes and the issuance of letters of credit. The Credit Facility 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 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.

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

7. Long-Term Debt (Continued)**2019 Class A-2 Notes**

The legal final maturity of the 2019 Class A-2 Notes is 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. Exceeding the leverage ratio of 5.25x does not violate any covenant related to the New Notes. 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 Indenture.

As of September 30, 2021, the Company's leverage ratio was 4.36x. As a result, quarterly principal payments on the 2019 Class A-2 Notes of \$3.25 million currently are not required.

The Company may voluntarily repay the 2019 Class A-2 Notes at any time; however, if the 2019 Class A-2 Notes are repaid prior to certain dates, the Company would be required to pay make-whole premiums. As of September 30, 2021, the make-whole premium associated with voluntary prepayment of the Class A-2-I Notes was approximately \$15 million; this amount declines progressively each quarter to zero in June 2022. As of September 30, 2021, the make-whole premium associated with voluntary prepayment of the Class A-2-II Notes was approximately \$46 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. The Company estimated the fair value of these derivatives to be immaterial as of September 30, 2021, based on the probability-weighted discounted cash flows associated with either event.

2019 Class A-1 Notes

The Co-Issuers entered into the Credit Facility that allows for drawings up to \$225 million of variable funding notes and the issuance of letters of credit. The applicable interest rate under the Credit Facility 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 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 Credit Facility. 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.

In March 2020, the Company borrowed \$220.0 million against the Credit Facility. The \$220.0 million was repaid on March 5, 2021, and there have been no new borrowings since that date. The maximum amount of borrowings from the Credit Facility outstanding during the nine months ended September 30, 2021 was \$220.0 million. As of September 30, 2021, there were no outstanding borrowings under the Credit Facility. The interest rate for borrowings under the Credit Facility 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 Credit Facility borrowings for the period outstanding during the nine months ended September 30, 2021 was 2.4%.

At September 30, 2021, \$3.3 million was pledged against the Credit Facility for outstanding letters of credit, leaving \$221.7 million available for borrowing. The letters of credit are used primarily to satisfy insurance-related collateral requirements.

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

7. Long-Term Debt (Continued)

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, 2021 was approximately 4.8x.

Debt Issuance Costs

Amortization of costs incurred in connection with the issuance of the 2019 Class A-2 Notes of \$0.6 million and \$0.5 million were included in interest expense for the three months ended September 30, 2021 and 2020, respectively. Amortization of costs incurred in connection with the issuance of the 2019 Class A-2 Notes of \$1.7 million and \$1.6 million were included in interest expense for the nine months ended September 30, 2021 and 2020, respectively. Amortization costs incurred in connection with the Company's Credit Facility and prior credit facility of \$0.2 million and \$0.1 million were included in interest expense for the three months ended September 30, 2021 and 2020, respectively. Amortization costs incurred in connection with the Company's Credit Facility and prior credit facility of \$0.5 million and \$0.4 million were included in interest expense for the nine months ended September 30, 2021 and 2020, respectively.

At September 30, 2021, total unamortized debt issuance costs related to the 2019 Class A-2 Notes of \$7.9 million are reported as a direct reduction of the 2019 Class A-2 Notes in the Consolidated Balance Sheets. At September 30, 2021, total unamortized debt issuance costs of \$1.7 million related to the Credit Facility and prior credit facility are classified as other long-term assets because there are no borrowings outstanding against the Credit Facility.

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

7. Long-Term Debt (Continued)

Maturities of Long-term Debt

- The anticipated repayment date of the Class A-2-I Notes is June 2024.
- The anticipated repayment date of the Class A-2-II Notes is June 2026.
- Quarterly principal payments on the Class A-2-I and Class A-2-II Notes totaling \$3.25 million (\$13.0 million per annum) are required if the Company's leverage ratio is greater than 5.25x.

8. Stockholders' Deficit

Dividends

Dividends declared and paid per share for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three months ended September 30,		Nine months ended Septemb 30,	
	2021	2020	2021	2020
Dividends declared per common share	\$ —	\$ —	\$ —	\$ 0.7
Dividends paid per common share	\$ —	\$ —	\$ —	\$ 1.4

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.

The Company did not repurchase any shares during the three and nine months ended September 30, 2021. The Company did not repurchase any shares during the three months ended September 30, 2020 and repurchased 459,899 shares during the nine months ended September 30, 2020. As of September 30, 2021, cumulative repurchases of stock total 1,697,597 shares at a cost of \$129.8 million, with a dollar value of \$70.2 million remaining for repurchase under the 2019 Repurchase Program.

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, 2021, the Company re-issued 646,679 shares of treasury stock at a total FIFO cost of \$26.1 million.

9. Income Taxes

The Company's effective tax rate was 16.4% (a tax provision of \$15.4 million on pre-tax book income of \$93.4 million) for the nine months ended September 30, 2021, as compared to 5.6% for the nine months ended September 30, 2020 (a tax benefit of \$6.1 million on pre-tax book loss of \$108.6 million). The effective tax rate for the nine months ended September 30, 2021 was lower than the statutory federal tax rate of 21% primarily due to the recognition of excess tax benefits on stock-based compensation in the first quarter of 2021. In addition, the effective tax rate for the nine months ended September 30, 2021 was different than the prior comparable period due to the impairment of goodwill in the second quarter of 2020, which was not deductible for income tax purposes and therefore had no associated tax benefit.

The total gross unrecognized tax benefit as of September 30, 2021 and December 31, 2020 was \$2.3 million and \$2.2 million, respectively, excluding interest, penalties and related tax benefits. The Company estimates the unrecognized tax benefit as of September 30, 2021 may decrease over the upcoming 12 months by an amount up to \$0.2 million related to settlements with taxing authorities and expiring statutes of limitations. 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.

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

9. Income Taxes (Continued)

As of September 30, 2021, accrued interest was \$0.6 million and accrued penalties were less than \$0.1 million, excluding any related income tax benefits. As of December 31, 2020, accrued interest was \$0.9 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.

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 2017 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 11, 2021, the American Rescue Plan Act of 2021 (“ARP Act”) was enacted in response to the COVID-19 pandemic. The Company is continuing to evaluate the impact of the ARP Act, but at present, does not expect the ARP Act would result in a material impact to our income tax benefit or provision.

10. 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:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Total stock-based compensation expense:	(In millions)			
Equity classified awards expense	\$ 3.0	\$ 2.5	\$ 8.6	\$ 9.2
Liability classified awards expense	0.2	1.1	2.2	0.6
Total pre-tax stock-based compensation expense	3.2	3.6	10.8	9.8
Book income tax benefit	(0.8)	(0.9)	(2.7)	(2.4)
Total stock-based compensation expense, net of tax	<u>\$ 2.4</u>	<u>\$ 2.7</u>	<u>\$ 8.1</u>	<u>\$ 7.4</u>

As of September 30, 2021, total unrecognized compensation expense of \$18.2 million related to restricted stock and restricted stock units and \$3.4 million related to stock options are expected to be recognized over a weighted average period of 1.4 years for restricted stock and restricted stock units and 1.6 years for stock options.

Fair Value Assumptions

The Company granted 95,891 stock options during the nine months ended September 30, 2021 for which the fair value was estimated using a Black-Scholes option pricing model. The following summarizes the weighted average assumptions used in the Black-Scholes model:

Risk-free interest rate	0.5 %
Historical volatility	67.7 %
Dividend yield	— %
Expected years until exercise	4.5
Fair value of options granted	\$40.25

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

10. Stock-Based Compensation (Continued)
Equity Classified Awards - Stock Options

Stock option balances at September 30, 2021, and activity for the nine months ended September 30, 2021 were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in Millions)
Outstanding at December 31, 2020	1,014,670	\$ 64.16		
Granted	95,891	75.28		
Exercised	(518,536)	48.74		
Expired	(37,458)	100.56		
Forfeited	(58,213)	88.41		
Outstanding at September 30, 2021	<u>496,354</u>	76.83	6.8	\$ 6.3
Vested at September 30, 2021 and Expected to Vest	<u>478,581</u>	76.73	6.7	\$ 6.1
Exercisable at September 30, 2021	<u>316,154</u>	\$ 73.73	5.7	\$ 5.2

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 2021 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, 2021. 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.

Equity Classified Awards - Restricted Stock and Restricted Stock Units

Outstanding balances as of September 30, 2021, and activity related to restricted stock and restricted stock units for the nine months ended September 30, 2021 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, 2020	254,331	\$ 76.50	355,570	\$ 28.01
Granted	133,225	83.41	68,998	63.04
Released	(51,319)	66.68	(317,702)	22.95
Forfeited	(49,469)	82.16	—	—
Outstanding at September 30, 2021	<u>286,768</u>	\$ 80.49	<u>106,866</u>	\$ 65.67

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, 2020	52,956
Released	(38,916)
Forfeited	(1,176)
Outstanding at September 30, 2021	<u>12,864</u>

For the three months ended September 30, 2021 and 2020, an expense of \$0.1 million and \$0.8 million, respectively, was included as stock-based compensation expense related to cash-settled restricted stock units. For the nine months ended September 30, 2021 and 2020, an expense of \$1.5 million and a credit of \$0.1 million, respectively, was included as stock-based compensation expense related to cash-settled restricted stock units. At September 30, 2021 and December 31, 2020, liabilities of \$0.9 million and \$2.5 million, respectively, related to cash-settled restricted stock units were included as part of accrued employee compensation and benefits in the Consolidated Balance Sheets.

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

10. Stock-Based Compensation (Continued)**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 the total stockholder return of Dine Brands Global common stock compared to the total stockholder returns of a peer group of companies. 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, 2021 and 2020, an expense of \$0.2 million and \$0.3 million, respectively, were included in total stock-based compensation expense related to LTIP awards. For the nine months ended September 30, 2021 and 2020, \$0.7 million and \$0.7 million, respectively, were included in total stock-based compensation expense related to LTIP awards. At September 30, 2021 and December 31, 2020, liabilities of \$1.4 million and \$2.1 million, respectively, related to LTIP awards were included as part of accrued employee compensation and benefits in the Consolidated Balance Sheets.

11. Net Income (Loss) per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	<i>(In thousands, except per share data)</i>			
Numerator for basic and diluted income (loss) per common share:				
Net income (loss)	\$ 23,111	\$ 10,018	\$ 78,076	\$ (102,433)
Less: Net income allocated to unvested participating restricted stock	(502)	(329)	(1,920)	(420)
Net income (loss) available to common stockholders - basic	22,609	9,689	76,156	(102,853)
Effect of unvested participating restricted stock in two-class calculation	2	2	13	—
Net income (loss) available to common stockholders - diluted	<u>\$ 22,611</u>	<u>\$ 9,691</u>	<u>\$ 76,169</u>	<u>\$ (102,853)</u>
Denominator:				
Weighted average outstanding shares of common stock - basic	16,911	16,221	16,752	16,229
Dilutive effect of stock options	60	62	106	—
Weighted average outstanding shares of common stock - diluted	<u>16,971</u>	<u>16,283</u>	<u>16,858</u>	<u>16,229</u>
Net income (loss) per common share:				
Basic	<u>\$ 1.34</u>	<u>\$ 0.60</u>	<u>\$ 4.55</u>	<u>\$ (6.34)</u>
Diluted	<u>\$ 1.33</u>	<u>\$ 0.60</u>	<u>\$ 4.52</u>	<u>\$ (6.34)</u>

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.

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 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.

Dine Brand Global, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

12. Segments (Continued)

As of September 30, 2021, the franchise operations segment consisted of (i) 1,620 restaurants operated by Applebee's franchisees in the United States, two U.S. territories and 11 countries outside the United States and (ii) 1,747 restaurants operated by IHOP franchisees and area licensees in the United States, two U.S. territories and seven 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 and interest income on Applebee's notes receivable from franchisees. Financing expenses are the cost of taxes related to IHOP equipment leases.

Information on segments is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	(In millions)			
Revenues from external customers:				
Franchise operations	\$ 161.2	\$ 121.8	\$ 469.1	\$ 334.7
Rental operations	31.3	26.2	84.8	78.9
Company restaurants	35.2	27.3	109.4	75.4
Financing operations	1.0	1.3	3.2	4.2
Total	<u>\$ 228.7</u>	<u>\$ 176.6</u>	<u>\$ 666.5</u>	<u>\$ 493.2</u>
Interest expense:				
Rental operations	\$ 1.2	\$ 1.6	\$ 3.8	\$ 4.7
Company restaurants	0.8	0.7	2.4	1.7
Corporate	15.7	16.8	48.0	49.1
Total	<u>\$ 17.7</u>	<u>\$ 19.1</u>	<u>\$ 54.2</u>	<u>\$ 55.5</u>
Depreciation and amortization:				
Franchise operations	\$ 2.5	\$ 2.5	\$ 7.6	\$ 7.6
Rental operations	2.8	3.0	8.3	9.3
Company restaurants	1.7	1.8	5.3	5.0
Corporate	3.0	3.4	8.8	10.2
Total	<u>\$ 10.0</u>	<u>\$ 10.7</u>	<u>\$ 30.0</u>	<u>\$ 32.1</u>
Gross profit (loss), by segment:				
Franchise operations	\$ 85.5	\$ 61.1	\$ 249.2	\$ 167.5
Rental operations	6.8	5.4	18.8	14.3
Company restaurants	1.4	(0.9)	7.9	(4.4)
Financing operations	0.9	1.2	2.9	3.9
Total gross profit	94.6	66.8	278.8	181.3
Corporate and unallocated expenses, net	(63.8)	(57.6)	(185.4)	(289.9)
Income (loss) before income taxes	<u>\$ 30.8</u>	<u>\$ 9.2</u>	<u>\$ 93.4</u>	<u>\$ (108.6)</u>

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

13. Closure and Impairment Charges

Closure and impairment charges for the three and nine months ended September 30, 2021 were as follows:

<u>Closure and Impairment Charges</u>	<u>Three months ended September 30,</u>		<u>Nine months ended September 30</u>	
	2021	2020	2021	2020
	(In millions)			
Closure charges	\$ 0.4	\$ 0.2	\$ 3.3	\$ 0
Long-lived tangible asset impairment	(0.0)	—	1.7	17
Goodwill impairment	—	—	—	92
Tradenname impairment	—	—	—	11
Impairment of reacquired franchise rights	—	—	—	3
Total impairment and closure charges	<u>\$ 0.4</u>	<u>\$ 0.2</u>	<u>\$ 5.0</u>	<u>\$ 124</u>

Closure Charges

The closure charges for the three months ended September 30, 2021 related to revisions to existing closure reserves, including accretion, primarily for 52 IHOP restaurants closed prior to June 30, 2021. The closure charges for the nine months ended September 30, 2021 comprised \$2.0 million related to 23 IHOP restaurants closed in 2021 and \$1.3 million for revisions to existing closure reserves, including accretion, primarily for 29 IHOP restaurants closed prior to December 31, 2020.

Long-lived Tangible Asset Impairment

The long-lived asset impairment of \$1.7 million for the nine months ended September 30, 2021 related to four 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. The impairments 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 Codification Topic 842.

Goodwill and Intangible Assets

For the three and nine months ended September 30, 2021, the Company determined that there were no indicators of impairment to goodwill and intangible assets.

Impairments in 2020

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.

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.

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

13. Closure and Impairment Charges (Continued)

In performing the quantitative test for impairment of goodwill, 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, 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 the forecast revenue stream.

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.

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.

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, 2021 and December 31, 2020 were as follows:

	September 30, 2021	December 31, 2020
	(In millions)	
Face Value of Class A-2 Notes	\$ 1,287.0	\$ 1,296.8
Fair Value of Class A-2 Notes	\$ 1,332.0	\$ 1,259.5

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.

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

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 \$229.3 million as of September 30, 2021. 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 2021 through 2048. Excluding unexercised option periods, the Company's potential liability for future payments under these leases is \$43.4 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. Cash, Cash Equivalents and Restricted Cash

Cash and Cash Equivalents

The Company considers all highly liquid investment securities with remaining maturities at the date of purchase of three months or less to be cash equivalents. These cash equivalents are stated at cost which approximates market value. Cash held related to IHOP advertising funds and the Company's gift card programs is not considered to be restricted cash as there are no restrictions on the use of these funds.

The components of cash and cash equivalents were as follows:

	September 30, 2021	December 31, 2020
	(In millions)	
Money market funds	\$ 30.0	\$ 175
IHOP advertising funds and gift card programs	75.7	71
Other depository accounts	198.5	136
Total cash and cash equivalents	<u>\$ 304.2</u>	<u>\$ 383</u>

The decrease in money market funds between December 31, 2020 and September 30, 2021 was due to the repayment of \$220.0 million previously drawn on the Company's Credit Facility.

Current Restricted Cash

Current restricted cash primarily consisted of funds required to be held in trust in connection with the Company's securitized debt and funds from Applebee's franchisees pursuant to franchise agreements, usage of which was restricted to advertising activities. The components of current restricted cash were as follows:

	September 30, 2021	December 31, 2020
	(In millions)	
Securitized debt reserves	\$ 28.0	\$ 27
Applebee's advertising funds	36.6	12
Other	0.1	0
Total current restricted cash	<u>\$ 64.7</u>	<u>\$ 39</u>

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

16. Cash, Cash Equivalents and Restricted Cash (Continued)

Non-current Restricted Cash

Non-current restricted cash was \$16.4 million and \$32.8 million at September 30, 2021 and December 31, 2020, respectively, and represents interest reserves required to be set aside for the duration of the Company's securitized debt. The minimum reserve is approximately one quarter's interest payment on the Company's securitized debt, currently approximately \$16 million. The Company voluntarily increased the amount held in the reserve account to twice the minimum amount during the year ended December 31, 2020. During the nine months ended September 30, 2021, the Company reduced the reserve back to the minimum amount.

17. Subsequent Events

On October 28, 2021, the Company's Board of Directors declared a fourth quarter 2021 cash dividend of \$0.40 per common share, payable to shareholders of record as of December 20, 2021 on January 7, 2022. On October 29, 2021, the Company announced it intends to resume repurchases of its common stock under its 2019 Repurchase Program. As of September 30, 2021, \$70.2 million of the \$200 million purchase authorization remains available for repurchases.

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, 2020. 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").

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 3,439 restaurants combined, 98% of which are franchised, we believe we are one of the largest full-service restaurant companies in the world.

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.

Events Impacting Comparability of Financial Information

Comparisons of financial results for the three and nine months ended September 30, 2021 with those for the three and nine months ended September 30, 2020 were significantly impacted by the extent of restrictions in place on restaurant operations during the respective periods. In March 2020, the World Health Organization declared a global pandemic related to the outbreak of a novel strain of coronavirus, designated "COVID-19." 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 and/or indoor dining limitations, capacity limitations or other restrictions. For the most part, these restrictions largely limited our restaurants to off-premise sales (take-out and delivery) from approximately the second week of March 2020 until May 2020. In May 2020, governmental entities slowly began to relax restrictions as infection rates from the initial outbreak declined, but restaurants allowed to re-open were largely limited to occupancy of 50% or less of capacity during the period from May 2020 to September 30, 2020.

The operating status of our restaurants was fluid during the three and nine months ended September 30, 2021 and subject to change. Restrictions on restaurant operations were relaxed, removed or increased in response to changes in the number of COVID-19 infections, the availability and acceptance of vaccines and an increase in vaccination rates within the respective governmental jurisdictions. Generally speaking, during the second quarter of 2021, many federal, state and local governments began to relax or remove the restrictive protocols noted above, while most international governments maintained the restrictions, the degree of which varied by country.

As of September 30, 2021, 99% of domestic Applebee's and IHOP restaurants were open and operating without government-mandated restrictions. This represents a slight improvement from June 30, 2021 and a significant improvement from March 31, 2021, at which time approximately 23% of domestic Applebee's restaurants and 11% of domestic IHOP restaurants were operating without government-mandated restrictions. Internationally, government-mandated restrictions vary by country, with most international restaurants still under restrictions. Generally speaking, restaurants in Mexico, Canada and Puerto Rico have a lower level of restriction than other countries in which we operate.

Government-mandated restrictions notwithstanding, more than half of IHOP restaurants that operated 24 hours a day for all or parts of a week prior to the pandemic are currently closed during overnight hours. As of September 30, 2021, approximately 440 IHOP restaurants were operating 24 hours a day, seven days a week, with approximately 60 restaurants operating 24 hours a day for some portion of the week. As of December 31, 2019, the last reporting period prior to the pandemic, approximately 845 IHOP restaurants were operating 24 hours a day, seven days a week, with approximately 245 restaurants operating 24 hours a day for some portion of the week.

We have experienced a number of temporary and permanent closures of our restaurants during the COVID-19 pandemic. These closures occurred for a variety of reasons, and all closures were not necessarily related to the impact of the COVID-19 pandemic or related restrictions. We cannot predict how long the COVID-19 pandemic and its impact on our operations will last, including recurrences of the virus and the emergence of new variants of the virus, the acceptance of vaccines worldwide and the availability of vaccines internationally, restrictions on in-restaurant dining that 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.

Update on Key COVID-19 Pandemic Actions

Updates regarding several actions taken over the past 15 months to mitigate the effects of the COVID-19 pandemic on the Company, its operations and its franchisees, are discussed below:

- We suspended our repurchasing of common stock and the declaration of dividends on our common stock after the first quarter of 2020. After evaluating repurchases of common stock and dividend payments on common stock within the context of our overall capital allocation strategy, giving consideration to our current and forecast earnings, financial condition, cash requirements and other factors, we intend to resume repurchases of the Company's common stock under our existing \$200 million stock repurchase program approved by the Board of Directors in 2019 (the "2019 Repurchase Program"). As of September 30, 2021, \$70.2 million of the \$200 million remains available for repurchases. Additionally, on October 28, 2021, our Board of Directors declared a fourth quarter 2021 cash dividend of \$0.40 per common share, payable January 7, 2022.
- In March 2021, we repaid \$220 million of borrowings outstanding under our revolving credit facility ("Credit Facility") that initially had been drawn in March 2020. At the time of the initial draw, we had no immediate need for additional liquidity, but in light of then-current market conditions and significant uncertainty related to the COVID-19 pandemic, we drew on the revolving facility to maximize our financial flexibility. As of September 30, 2021, our borrowing capacity under the Credit Facility was \$221.7 million. See "*Liquidity and Capital Resources*" below for more information.
- We offered Applebee's franchisees the opportunity to defer payment of their royalty, advertising and other fees, primarily amounts due for the months of March and April 2020. A total of 30 franchisees representing 94% of Applebee's restaurants 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, 2021, most of the deferred amounts have been collected. Approximately \$0.7 million and \$13.3 million was collected during the three and nine months ended September 30, 2021, respectively. Collection of these amounts had a favorable impact on cash provided by operating activities during the nine months ended September 30, 2021.
- We offered IHOP franchisees the opportunity to defer their royalty, advertising, equipment rent and sublease rent payments, primarily amounts due for the months of March and April 2020. Initially, 193 franchisees representing 58% of IHOP restaurants deferred payments totaling \$24.1 million. Including subsequent deferrals made on a case-by case basis, the deferral program totaled \$28.6 million. Repayment of deferred amounts, scheduled over up to 36 weeks, began in the third quarter of 2020. In certain instances, repayments were temporarily paused for up to 60 days. As of September 30, 2021, the outstanding balance of these deferrals was \$0.8 million, with approximately \$2.8 million and \$15.6 million collected during the three months and nine months ended September 30, 2021, respectively. A total of 149 franchisees have repaid their deferred balances in full. Collection of these balances had a favorable impact on cash provided by operating activities during the nine months ended September 30, 2021.
- We received rent deferrals and abatements on properties we lease of approximately \$11 million during fiscal 2020, primarily related to rent deferrals for properties on which IHOP restaurants are located. As of September 30, 2021, the outstanding balance of those deferrals was \$0.4 million, with approximately \$0.5 million and \$4.6 million paid during the three and nine months ended September 30, 2021, respectively. Payment of these deferrals reduced our cash provided by operating activities during the nine months ended September 30, 2021.

Key Financial Results

The financial tables appearing in MD&A 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.

	Three months ended September 30,		Favorable (Unfavorable) Variance	Nine months ended September 30,		Favorable (Unfavorable) Variance
	2021	2020		2021	2020	
(In millions, except per share data)						
Income (loss) before income taxes	\$ 30.8	\$ 9.2	\$ 21.6	\$ 93.4	\$ (108.6)	\$ 202.0
Income tax (provision) benefit	(7.7)	0.9	(8.5)	(15.4)	6.1	(21.5)
Net income (loss)	\$ 23.1	\$ 10.0	\$ 13.1	\$ 78.1	\$ (102.4)	\$ 180.5
Effective tax rate	24.9 %	(9.5)%	(34.3)%	16.4 %	5.6 %	(10.8)%
Net income (loss) per diluted share	\$ 1.33	\$ 0.60	\$ 0.73	\$ 4.52	\$ (6.34)	\$ 10.86
			% increase			% increase
Weighted average diluted shares	17.0	16.3	4.2 %	16.9	16.2	3.9 %

Our effective tax rate for the three months ended September 30, 2021 was significantly different than the rate of the prior comparable period primarily due to the release of unrecognized tax benefits in the third quarter of 2020. Our effective tax rate for the nine months ended September 30, 2021 was significantly different than the rate of the prior comparable period and the statutory federal tax rate of 21% primarily due to the one-time recognition of excess tax benefits on stock-based compensation related to the departure of our previous chief executive officer in the first quarter of 2021 and the impairment of goodwill in the second quarter of 2020, which was not deductible for income tax purposes and therefore had no associated tax benefit.

The following table highlights the primary components of the increase in our income before income taxes for the three and nine months ended September 30, 2021, compared to our income before income taxes for the three and nine months ended September 30, 2020:

	Favorable (Unfavorable) Variance	
	Three months ended September 30, 2021	Nine months ended September 30, 2021
(In millions)		
Increase in gross profit:		
Applebee's franchise operations	\$ 13.9	\$ 41.6
IHOP franchise operations	10.5	40.1
Company restaurant operations	2.3	12.3
Rental and financing operations	1.1	3.5
Total increase in gross profit	27.8	97.5
Closure and impairment charges	(0.2)	119.5
Increase in G&A expenses	(6.8)	(17.5)
Other	0.9	2.6
Increase in income before income taxes	\$ 21.6	\$ 202.0

As discussed above under "Events Impacting the Comparability of Financial Information," the imposition and subsequent relaxation or removal of restrictions imposed on in-restaurant dining in response to the COVID-19 pandemic had a significant impact on comparisons of our gross profit between the three and nine months ended September 30, 2021 and the same periods of 2020.

The significant impacts of the COVID-19 pandemic resulted in our performing impairment assessments of our long-lived assets, goodwill and other intangible assets during the nine months ended September 30, 2020. 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 impairments of goodwill or other intangible assets during the three and nine months ended September 30, 2021.

Increases in commodity, labor and other restaurant operating costs experienced at restaurants owned and operated by our franchisees could impact us to the extent our franchisees are adversely impacted by a sustained decline in their operating margins. At company operated restaurants, increases in commodity, labor and other restaurant operating costs impact us directly. As of September 30, 2021, we operate 69 Applebee's restaurants, representing 2% of the 3,439 restaurants comprising our system.

See "Consolidated Results of Operations - Comparison of the Three and Nine Months ended September 30, 2021 and September 30, 2020" for additional discussion of the changes shown 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, 2021 were as follows:

	Three months ended September 30, 2021		Nine months ended September 30, 2021	
	Applebee's	IHOP	Applebee's	IHOP
Sales percentage increase in reported retail sales - 2021 vs. 2020	30.2 %	46.1 %	38.6 %	41.6 %
% increase in domestic system-wide same-restaurant sales - 2021 vs. 2020	27.7 %	40.1 %	39.5 %	40.5 %
% increase (decrease) in domestic system-wide same-restaurant sales - 2021 vs. 2019	12.5 %	(0.4)%	5.3 %	(8.4)%
Net franchise restaurant (reduction) increase ⁽¹⁾	(7)	3	(20)	(22)
Net (decrease) increase in total effective restaurants ⁽²⁾	(17)	42	4	54

⁽¹⁾ Franchise and area license restaurant closings, net of openings, during the three and nine months ended September 30, 2021.

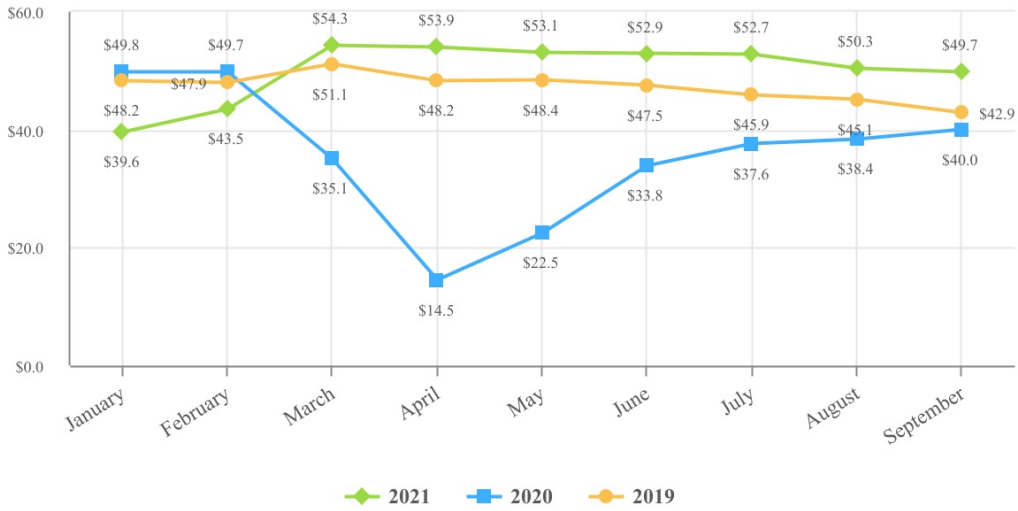
⁽²⁾ Change in the weighted average number of franchise, area license and company-operated restaurants open during the three and nine months ended September 30, 2021, compared to the weighted average number of those open during the same periods of 2020.

The changes in sales percentage and domestic same-restaurant sales of both brands were impacted by the varying degrees of restrictions on in-restaurant dining in effect during each period as discussed under "Events Impacting the Comparability of Financial Information." Additionally, the calculation of the percentage change in domestic same-restaurant sales was also impacted by a shift in the weeks of comparison because of a 53rd week in fiscal 2020.

The change in total effective restaurants for each brand reflects both permanent closures, net of openings, over the past 12 months as well as the weighted effect of restaurants temporarily closed during the three and nine months ended September 30, 2021 and 2020. Even though the absolute number of franchise restaurants may decrease, the number of effective restaurants can increase because of the re-opening of restaurants that had been temporarily closed during the respective 2020 comparative periods.

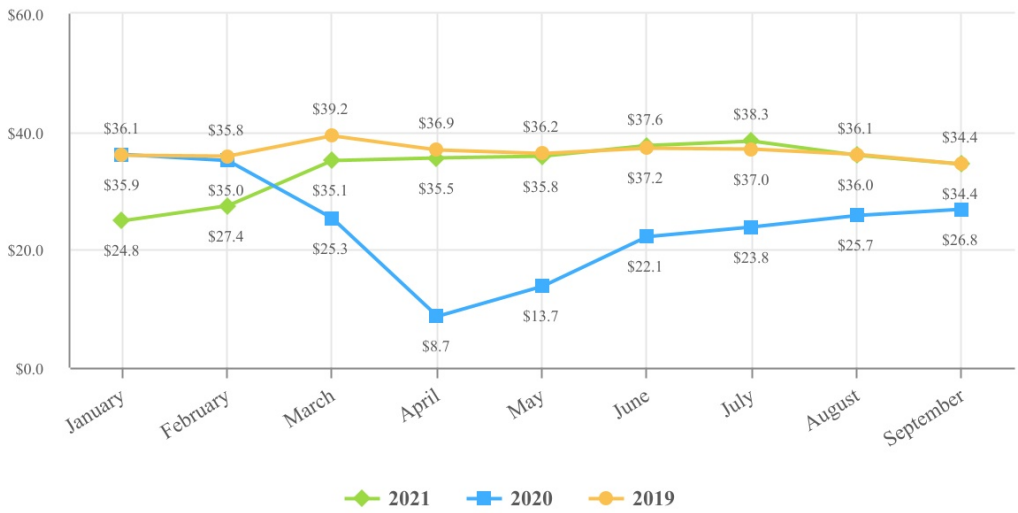
In light of the distortion caused by the pandemic and a 53rd week in fiscal 2020 on the changes in sales percentage and domestic same-restaurant sales, we believe a comparison of average weekly unit sales, a function of reported retail sales and the number of effective restaurants, for the nine individual months of 2021, 2020 and 2019, provides additional insight into each brand's performance during the three and nine months ended September 30, 2021 as compared to the same periods of 2020 and 2019:

**Average Weekly Unit Sales - Applebee's
(in thousands)**



◆ 2021 ■ 2020 ● 2019

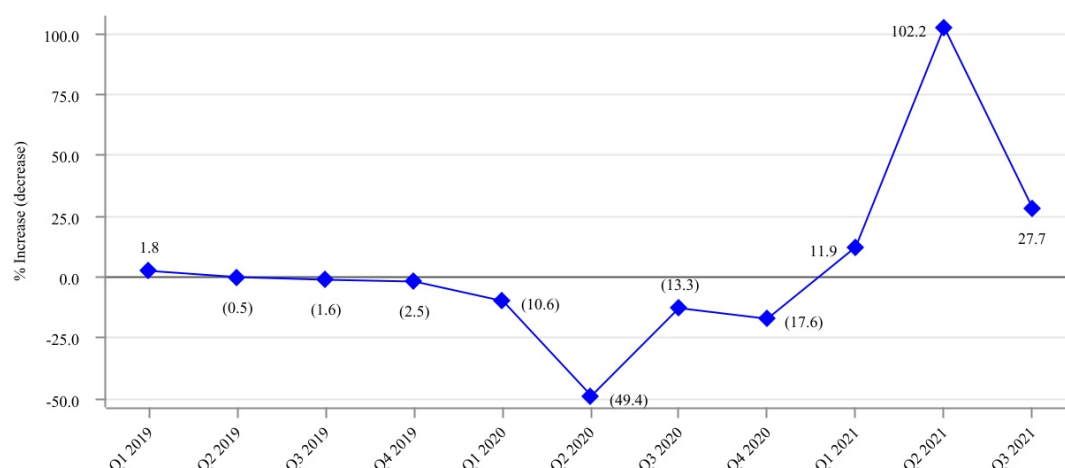
**Average Weekly Unit Sales - IHOP
(in thousands)**



◆ 2021 ■ 2020 ● 2019

Domestic Same-Restaurant Sales

**Quarterly Domestic Same-Restaurant Sales - Applebee's
One -Year Comparison to Comparable Prior Period**



Applebee’s system-wide domestic same-restaurant sales increased 27.7% for the three months ended September 30, 2021 and 39.5% for the nine months ended September 30, 2021 as compared to the same periods of 2020. The increase in both periods was due to a substantial increase in customer traffic as well as increase in average check. The increase in customer traffic primarily was due to the positive changes in restaurant operating status as discussed under “*Events Impacting the Comparability of Financial Information*,” as well as increased consumer desire to patronize restaurants after the relaxation of pandemic restrictions. The increase in average check was primarily due to favorable mix shifts related to a reduction in core menu items, successful promotional food and beverage offerings and a larger number of items purchased with off-premise orders, as well as menu price increases by franchisees. Applebee’s system-wide domestic same-restaurant sales increased 12.5% for the three months ended September 30, 2021 and 5.3% for the nine months ended September 30, 2021 as compared to the same periods of 2019. The increase in both periods was due to an increase in customer check partially offset by a decrease in traffic.

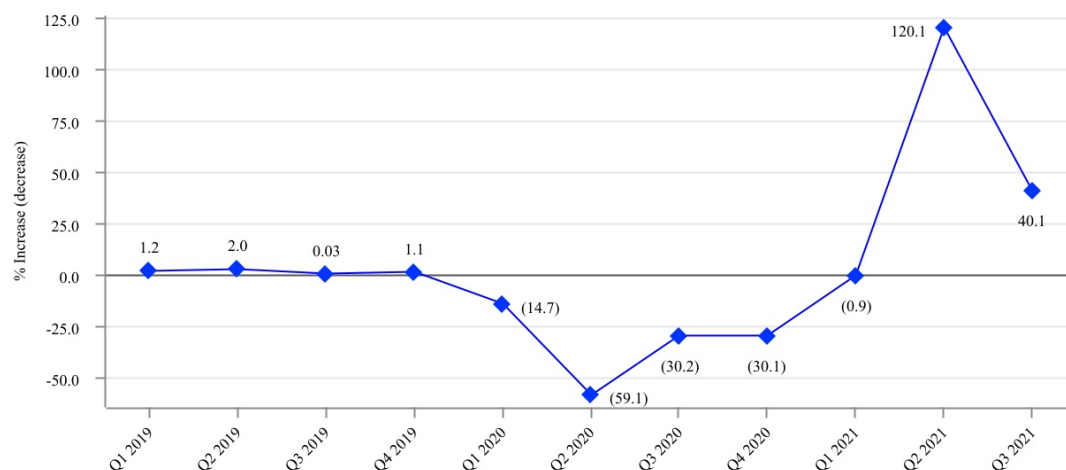
Applebee's Off-premise Sales Data

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Off-premise sales (in millions) ⁽¹⁾	\$ 282.9	\$ 273.8	\$ 945.5	\$ 720.9
% sales mix	27.5%	34.0%	31.9%	33.9%

⁽¹⁾ Primarily to-go, delivery and catering sales.

Based on data from Black Box Intelligence, a restaurant sales reporting firm (“Black Box”), Applebee’s increase in same-restaurant sales for both the three and nine months ended September 30, 2021 outperformed the casual dining segment of the restaurant industry (excluding Applebee’s) during the same periods of 2019.

**Quarterly Domestic Same-Restaurant Sales - IHOP
One-Year Comparison to Comparable Prior Period**



IHOP's system-wide domestic same-restaurant sales increased 40.1% for the three months ended September 30, 2021 and 40.5% for the nine months ended September 30, 2021 as compared to the same periods of 2020. Most of the improvement in both periods was due to a significant increase in customer traffic as well as an increase in average check. The increase in customer traffic was primarily due to the positive changes in restaurant operating status as discussed under "Events Impacting the Comparability of Financial Information," as well as increased consumer desire to patronize restaurants after the relaxation of pandemic restrictions. The increase in average check was primarily due to an increase in menu prices as well as a general increase in consumer spending due to larger party sizes and greater spending per person. IHOP's system-wide domestic same-restaurant sales decreased 0.4% for the three months ended September 30, 2021 and 8.4% for the nine months ended September 30, 2021 as compared to the same periods of 2019. The decrease in both periods was due to a decrease in traffic partially offset by an increase in customer check. As also noted under "Events Impacting the Comparability of Financial Information," more than half of IHOP restaurants that operated 24 hours a day for all or parts of a week prior to the pandemic are currently closed during overnight hours.

IHOP Off-premise Sales Data

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Off-premise sales (in millions) ⁽¹⁾	\$ 157.3	\$ 163.0	\$ 507.6	\$ 395.9
% sales mix	23.9%	34.1%	27.9%	28.9%

⁽¹⁾ Primarily to-go, delivery and catering sales.

Based on data from Black Box, IHOP's increase in same-restaurant sales for the three months ended September 30, 2021 outperformed the family dining segment of the restaurant industry (excluding IHOP) during that same period of 2019. IHOP's increase in same-restaurant sales for the nine months ended September 30, 2021 underperformed the family dining segment of the restaurant industry (excluding IHOP) during that same period of 2019.

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,	
	2021	2020	2021	2020
(Unaudited)				
Applebee's Restaurant Data				
Effective Restaurants^(a)				
Franchise	1,619	1,636	1,623	1,620
Company	69	69	69	68
Total	<u>1,688</u>	<u>1,705</u>	<u>1,692</u>	<u>1,688</u>
System-wide^(b)				
Domestic sales percentage change ^(c)	30.2 %	(16.7)%	38.6 %	(27.6)%
Domestic same-restaurant sales percentage change ^(d)	27.7 %	(13.3)%	39.5 %	(24.1)%
Franchise^(b)				
Domestic sales percentage change ^(c)	30.2 %	(16.9)%	38.4 %	(27.7)%
Domestic same-restaurant sales percentage change ^(d)	27.8 %	(13.4)%	39.3 %	(24.1)%
Average weekly domestic unit sales (in thousands)	\$ 51.4	\$ 39.2	\$ 50.6	\$ 36.6

IHOP Restaurant Data				
Effective Restaurants^(a)				
Franchise	1,573	1,530	1,568	1,517
Area license	156	157	156	153
Total	<u>1,729</u>	<u>1,687</u>	<u>1,724</u>	<u>1,670</u>
System-wide^(b)				
Sales percentage change ^(c)	46.1 %	(34.4)%	41.6 %	(37.6)%
Domestic same-restaurant sales percentage change, including area license restaurants ^(d)	40.1 %	(30.2)%	40.5 %	(33.8)%
Franchise^(b)				
Sales percentage change ^(c)	45.7 %	(34.3)%	40.9 %	(37.6)%
Domestic same-restaurant sales percentage change ^(d)	39.4 %	(29.9)%	39.4 %	(33.6)%
Average weekly unit sales (in thousands)	\$ 36.2	\$ 25.6	\$ 34.0	\$ 24.9
Area License^(b)				
Sales percentage change ^(c)	50.9 %	(35.0)%	48.1 %	(37.1)%

- (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. Effective Restaurants do not include units operated as ghost kitchens (small kitchens with no store-front presence, used to fill off-premise orders).
- (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. System-wide sales do not include retail sales of ghost kitchens. 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:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
(Unaudited)				
Applebee's domestic franchise restaurant sales	\$ 1,013	\$ 778	\$ 3,000	\$ 2,168.4
Applebee's company-operated restaurants	35.2	27.4	109.4	75.4
IHOP franchise restaurant sales	740.4	508.3	2,079.2	1,475.2
IHOP area license restaurant sales	69.8	46.2	202.4	136.6
Total	<u>\$ 1,858</u>	<u>\$ 1,360</u>	<u>\$ 5,391</u>	<u>\$ 3,855.6</u>

- (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 during 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.

Restaurant Development Activity

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
(Unaudited)				
Applebee's				
Summary - beginning of period:				
Franchise	1,627	1,680	1,640	1,718
Company	69	69	69	69
Beginning of period	1,696	1,749	1,709	1,787
Franchise restaurants opened:				
Domestic	2	1	4	1
International	—	3	1	3
Total franchise restaurants opened	2	4	5	4
Franchise restaurants permanently closed:				
Domestic	(5)	(20)	(15)	(52)
International	(4)	(5)	(10)	(11)
Total franchise restaurants permanently closed	(9)	(25)	(25)	(63)
Net franchise restaurant reduction	(7)	(21)	(20)	(59)
Summary - end of period:				
Franchise	1,620	1,659	1,620	1,659
Company	69	69	69	69
Total Applebee's restaurants, end of period	1,689	1,728	1,689	1,728
Domestic	1,587	1,614	1,587	1,614
International	102	114	102	114
IHOP				
Summary - beginning of period:				
Franchise	1,588	1,666	1,611	1,680
Area license	156	157	158	161
Company	3	—	3	—
Total IHOP restaurants, beginning of period	1,747	1,823	1,772	1,841
Franchise/area license restaurants opened:				
Domestic franchise	7	1	22	8
Domestic area license	1	2	2	3
International franchise	1	3	2	5
Total franchise/area license restaurants opened	9	6	26	16
Franchise/area license restaurants permanently closed:				
Domestic franchise	(5)	(16)	(35)	(35)
Domestic area license	(1)	—	(3)	(3)
International franchise	—	(6)	(9)	(10)
International area license	—	—	(1)	(2)
Total franchise/area license restaurants permanently closed	(6)	(22)	(48)	(50)
Net franchise/area license restaurant reduction	3	(16)	(22)	(34)
Franchised by the Company	—	—	1	—
Franchise restaurants reacquired by the Company	—	—	(1)	—
Net reduction in franchise/area license restaurants	3	(16)	(22)	(34)
Summary - end of period:				
Franchise	1,591	1,648	1,591	1,648
Area license	156	159	156	159
Company	3	—	3	—
Total IHOP restaurants, end of period	1,750	1,807	1,750	1,807
Domestic	1,656	1,683	1,656	1,683
International	94	124	94	124

The restaurant counts and activity presented above do not include two domestic Applebee's ghost kitchens (small kitchens with no store-front presence, used to fill off-premise orders), one international Applebee's ghost kitchen and six international IHOP ghost kitchens. The Applebee's franchise restaurant count at the beginning of the nine-month period ended September 30, 2021 was adjusted downward by two restaurants, representing two ghost kitchens that had been included in the total reported count as of December 31, 2020.

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 reductions in this table and 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.

Closures of Applebee's and IHOP restaurants adversely 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, with certain restaurants, we own or lease the underlying property and sublease it to the applicable franchisee. Thus, our rental income also could be adversely affected due to the loss of such income, as well as 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, 2021 and 2020

Financial Results

Revenue	Three months ended September 30,		Favorable (Unfavorable) Variance	Nine months ended September 30,		Favorable (Unfavorable) Variance
	2021	2020		2021	2020	
	(In millions)					
Franchise operations	\$ 161.2	\$ 121.8	\$ 39.4	\$ 469.1	\$ 334.7	\$ 134.4
Rental operations	31.3	26.2	5.1	84.8	78.9	5.9
Company restaurant operations	35.2	27.4	7.8	109.4	75.4	34.0
Financing operations	1.0	1.3	(0.3)	3.2	4.2	(1.0)
Total revenue	\$ 228.7	\$ 176.7	\$ 52.0	\$ 666.5	\$ 493.2	\$ 173.3
Change vs. prior period	29.5 %			35.1 %		

Total revenue for the three and nine months ended September 30, 2021 increased significantly compared with the same periods of the prior year. As discussed under "Events Impacting the Comparability of Financial Information," the operating capacity of our restaurants during the respective 2020 periods was severely restricted after the first week of March 2020 as 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 and/or indoor dining limitations, capacity limitations or other restrictions that largely limited restaurants to off-premise sales (take-out and delivery) in the early stages of the pandemic. During the respective 2021 periods, many governmental authorities relaxed or eliminated restrictions on restaurant operations in response to declines in the number of COVID-19 infections, the availability of vaccines and an increase of the number of vaccinated individuals within their respective jurisdictions. This had a favorable impact on same-restaurant sales and customer traffic in our franchise and company restaurant operations as well as a favorable impact on rental revenue based on a percentage of franchisees' retail sales.

Gross Profit (Loss)	Three months ended September 30,		Favorable (Unfavorable) Variance	Nine months ended September 30,		Favorable (Unfavorable) Variance
	2021	2020		2021	2020	
	(In millions)					
Franchise operations	\$ 85.5	\$ 61.1	\$ 24.4	\$ 249.2	\$ 167.5	\$ 81.7
Rental operations	6.8	5.4	1.4	18.8	14.3	4.5
Company restaurant operations	1.4	(0.9)	2.3	7.9	(4.4)	12.3
Financing operations	0.9	1.2	(0.3)	2.9	3.9	(1.0)
Total gross profit	\$ 94.6	\$ 66.8	\$ 27.8	\$ 278.8	\$ 181.3	\$ 97.5
Change vs. prior period	41.7 %			53.7 %		

Total gross profit for the three and nine months ended September 30, 2021 increased compared with the same periods of the prior year, primarily due to the increased revenue from franchise, company-operated restaurant and rental operations as well as lower bad debt expense in franchise operations. Favorable changes to the aging status of certain franchisee receivables resulted in a downward revision of estimated reserve requirements of \$4.8 million and \$12.7 million for the three and nine months ended September 30, 2021, respectively.

Franchise Operations	Three months ended September 30,		Favorable (Unfavorable) Variance	Nine months ended September 30,		Favorable (Unfavorable) Variance
	2021	2020		2021	2020	
	(In millions, except number of restaurants)					
Effective Franchise Restaurants: ⁽¹⁾						
Applebee's	1,619	1,636	(17)	1,623	1,620	3
IHOP	1,729	1,687	42	1,724	1,670	54
Franchise Revenues:						
Applebee's franchise fees	\$ 43.6	\$ 32.4	\$ 11.2	\$ 126.1	\$ 90.1	\$ 36.0
IHOP franchise fees	46.9	37.5	9.4	139.1	101.8	37.3
Advertising fees	70.7	51.9	18.8	203.9	142.8	61.1
Total franchise revenues	161.2	121.8	39.4	469.1	334.7	134.4
Franchise Expenses:						
Applebee's	0.5	3.2	2.7	2.2	7.8	5.6
IHOP	4.5	5.5	1.0	13.8	16.6	2.8
Advertising expenses	70.7	51.9	(18.8)	203.9	142.8	(61.1)
Total franchise expenses	75.7	60.6	(15.1)	219.9	167.2	(52.7)
Franchise Gross Profit:						
Applebee's	43.1	29.2	13.9	123.9	82.3	41.6
IHOP	42.4	31.9	10.5	125.3	85.2	40.1
Total franchise gross profit	\$ 85.5	\$ 61.1	\$ 24.4	\$ 249.2	\$ 167.5	\$ 81.7
Gross profit as % of franchise revenue ⁽²⁾	53.0 %	50.2 %		53.1 %	50.1 %	
Gross profit as % of franchise fees ⁽³⁾	94.5 %	87.5 %		94.0 %	87.3 %	

⁽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, 2021 increased 34.4% compared to the same period of the prior year. Approximately \$9.1 million of the increase was due to the 27.8% increase in domestic franchise same-restaurant sales, \$1.2 million was due to improved franchisee collectability and \$0.6 million due to an increase in international revenues.

Applebee's franchise fee revenue for the nine months ended September 30, 2021 increased 39.9% compared to the same period of the prior year. Approximately \$31.4 million of the increase was due to the 39.3% increase in domestic franchise same-restaurant sales, \$2.8 million was due to the reopening of restaurants temporarily closed during the prior year period, \$2.0 million was due to improved collectability, \$0.9 million was due to an increase in other franchise fees and \$0.6 million due to an increase in international revenues. These favorable items were partially offset by a \$1.5 million decrease in royalty revenue due to permanent restaurant closures.

The decrease in Applebee's franchise expenses for the three months ended September 30, 2021 compared with the same period of the prior year primarily was due to a decrease in bad debt expense. Bad debt expense for the three months ended September 30, 2021 was a credit of \$0.4 million as compared to bad debt expense of \$2.4 million during the three months ended September 30, 2020.

The decrease in Applebee's franchise expenses for the nine months ended September 30, 2021 compared with the same period of the prior year primarily was due to a decrease in bad debt expense. Bad debt expense for the nine months ended September 30, 2021 was a credit of \$0.5 million as compared to bad debt expense of \$5.2 million during the nine months ended September 30, 2020.

IHOP franchise fee revenue for the three months ended September 30, 2021 increased 25.2% compared to the same period of the prior year, primarily due to higher royalty and pancake and waffle dry mix revenues resulting from a 39.4% increase in domestic franchise same-restaurant sales, and an increase of \$0.4 million in international royalty revenues. These favorable changes were partially offset by a \$2.7 million decrease in domestic termination and other franchise fees and a decrease of \$0.2 million due to permanent restaurant closures.

IHOP franchise fee revenue for the nine months ended September 30, 2021 increased 36.6% compared to the same period of the prior year, primarily due to higher royalty and pancake and waffle dry mix revenues resulting from a 39.4% increase in domestic franchise same-restaurant sales, and a \$1.6 million increase in international termination fees. These favorable changes were partially offset by a decrease of \$0.9 million due to restaurant closures and a \$0.5 million decrease in domestic termination and other franchise fees.

IHOP franchise expenses for the three months ended September 30, 2021 increased from the same period of the prior year primarily due to an increase in purchases of pancake and waffle dry mix, partially offset by a \$1.9 million decrease in bad debt expense. IHOP bad debt expense was a credit of \$1.5 million for the three months ended September 30, 2021 as compared to bad debt expense of \$0.4 million in the prior year period.

IHOP franchise expenses for the nine months ended September 30, 2021 declined from the same period of the prior year primarily due to a \$6.5 million decrease in bad debt expense partially offset by an increase in purchases of pancake and waffle dry mix. IHOP reduced its allowance for credit losses by \$3.6 million during the nine months ended September 30, 2021 compared to bad debt expense of \$2.9 million in the prior year period.

Advertising revenue and expense by brand for the three and nine months ended September 30, 2021 and 2020 were as follows:

	<u>Three months ended September 30,</u>		<u>Increase</u>	<u>Nine months ended September 30,</u>		<u>Increase</u>
	<u>2021</u>	<u>2020</u>		<u>2021</u>	<u>2020</u>	
	(In millions)					
Advertising Revenues and Expenses:						
Applebee's	\$ 43.5	\$ 33.0	\$ 10.5	\$ 127.0	\$ 88.0	\$ 39
IHOP	27.2	18.9	8.3	76.9	54.8	22
Total advertising revenues and expenses	\$ 70.7	\$ 51.9	\$ 18.8	\$ 203.9	\$ 142.8	\$ 61

Applebee's advertising revenue and expense for the three months ended September 30, 2021 increased 31.8% compared to the same period of the prior year. Approximately \$9.8 million of the increase was due to the 27.8% increase in domestic franchise same-restaurant sales and \$0.9 million of the increase was due to improved collectability from franchisees. IHOP's advertising revenue and expense for the three months ended September 30, 2021 increased 43.9% compared to the same period of the prior year, primarily due to the 39.4% increase in domestic franchise same-restaurant sales and the reopening of restaurants temporarily closed during the prior year period.

Applebee's advertising revenue and expense for the nine months ended September 30, 2021 increased 44.3% compared to the same period of the prior year. Approximately \$33.8 million of the increase was due to the 39.3% increase in domestic franchise same-restaurant sales, \$5.0 million of the increase was due to improved collectability from franchisees and \$3.0 million was due to the reopening of restaurants temporarily closed during the prior year period. Partially offsetting the increases was a \$1.6 million decrease in advertising revenue due to permanent restaurant closures. IHOP's advertising revenue and expense for the nine months ended September 30, 2021 increased 40.5% compared to the same period of the prior year, primarily due to the 39.4% increase in domestic franchise same-restaurant sales, partially offset by the impact of permanent restaurant closures over the past 12 months.

It is our accounting policy to recognize any deficiency in advertising fee revenue compared to advertising expenditure or any 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
	2021	2020		2021	2020	
(In millions)						
Rental revenues	\$ 31.3	\$ 26.2	\$ 5.1	\$ 84.8	\$ 78.9	\$ 5.9
Rental expenses	24.5	20.8	(3.7)	66.0	64.6	(1.4)
Rental operations gross profit	\$ 6.8	\$ 5.4	\$ 1.4	\$ 18.8	\$ 14.3	\$ 4.5
Gross profit as % of revenue ⁽¹⁾	21.8 %	20.6 %		22.1 %	18.2 %	

⁽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 finance leases.

Rental segment revenue for the three months ended September 30, 2021 increased as compared to the same period of the prior year, primarily due to a \$1.9 million increase in rental income based on a percentage of franchisees' retail sales and a \$1.3 million decline in level rent adjustments, partially offset by a \$1.8 million decrease due to restaurant closures, lease buy-outs and the scheduled expiration of leases, as well as a progressive decline of \$0.3 million in interest income as direct financing leases are repaid. Additionally, rental revenue increased \$4.0 million due to the gross presentation of certain elements of variable sublease income, such as common area maintenance payments received from franchisees and remitted to landlords, which previously were reported on a net basis. Rental segment expenses for the three months ended September 30, 2021 increased compared to the same period of the prior year due to the \$4.0 million of variable expenses offsetting the revenue increase noted above and a \$0.3 million increase in rent paid based on a percentage of franchisees' retail sales, partially offset by a \$0.4 million decrease in interest expense as finance lease obligations are repaid and a \$0.2 million decrease in depreciation expense.

Rental segment revenue for the nine months ended September 30, 2021 increased as compared to the same period of the prior year, primarily due to a \$3.5 million increase in rental income based on a percentage of franchisees' retail sales and a \$2.8 million decline in level rent adjustments, partially offset by a \$3.5 million decrease due to restaurant closures, lease buy-outs and the scheduled expiration of leases, as well as a progressive decline of \$1.0 million in interest income as direct financing leases are repaid. Additionally, rental revenue increased \$4.0 million due to the gross presentation of certain elements of variable sublease income, previously reported on a net basis as discussed above. Rental segment expenses for the nine months ended September 30, 2021 increased compared to the same period of the prior year due to the \$4.0 million of certain elements of variable sublease income offsetting the revenue increase noted above and a \$0.6 million increase in rent paid based on a percentage of franchisees' retail sales, partially offset by a \$1.3 million decrease in base rent, primarily due to restaurant closures, lease buy-outs and expirations, a \$0.9 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,		Favorable (Unfavorable) Variance	Nine months ended September 30,		Favorable (Unfavorable) Variance
	2021	2020		2021	2020	
Effective Restaurants	69	69	—	69	68	
(In millions)						
Applebee's Company restaurant sales ⁽¹⁾	\$ 35.2	\$ 27.4	\$ 7.8	\$ 109.4	\$ 75.4	\$ 34
Applebee's Company restaurant expenses ⁽¹⁾	33.7	27.5	(6.2)	101.0	78.0	(23)
IHOP restaurant expenses ⁽²⁾	0.1	0.8	0.7	0.5	1.8	1
Company restaurant gross profit	\$ 1.4	\$ (0.9)	\$ 2.3	\$ 7.9	\$ (4.4)	\$ 12
Gross profit as % of revenue ⁽³⁾	4.4 %	(0.6) %		7.7 %	(3.4) %	

⁽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.

Applebee's company same-restaurant sales for the three months ended September 30, 2021 increased 26.1% compared to the same period of 2020, the significant majority of which was due to an increase in customer traffic. Applebee's company same-restaurant sales for the nine months ended September 30, 2021 increased 44.6% compared to the same period of 2020, primarily due to an increase in customer traffic as well as an increase in average check.

The increase in customer traffic primarily was due to the favorable change in operating capacity of the restaurants during the nine months ended September 30, 2021 compared to the same period of 2020. All 69 of the Applebee's company-operated restaurants are located in South Carolina or North Carolina. Since the second week of January 2021, the 27 restaurants in South Carolina have operated without capacity limitations, while the 42 restaurants in North Carolina operated at 50% capacity until June 1, 2021, from which point those 42 restaurants also were able to operate without capacity limitations. In comparison, all 69 restaurants operated without restriction for the first 10 weeks of 2020 but essentially were limited only to off-premise sales from the middle of March until the middle of May 2020, at which time all 69 restaurants were allowed to operate at 50% capacity. The increase in average check for the three months and nine months ended September 30, 2021 was due to favorable product mix and daypart shifts, as well as menu price increases.

Gross profit and gross profit as a percentage of revenue for the three and nine months ended September 30, 2021 improved compared the same periods of the prior year, which were adversely impacted by the COVID-19-related operating constraints described above. The decline in gross profit and gross profit as a percentage of revenue for the three months ended September 30, 2021 when compared to that for the nine months ended September 30, 2021 was due to higher food, labor and delivery costs in the third quarter.

Company segment restaurant expenses for the three and nine months ended September 30, 2021 and 2020 also include costs associated with reacquired IHOP restaurants in the process of being refranchised. None of the reacquired IHOP restaurants were open during the three and nine months ended September 30, 2021 and 2020 and recorded no restaurant revenues in any of those periods.

Financing Operations

Financing revenues primarily consist of interest income from the financing of IHOP equipment leases and franchise fees as well as interest income on Applebee's notes receivable from franchisees. Financing expenses are the cost of taxes related to IHOP equipment leases.

Financing revenue and gross profit for the three and nine months ended September 30, 2021 declined compared to the same periods of the prior year, primarily because of progressive decline in interest income as note balances are repaid.

G&A Expenses

	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Increase	2021	2020	Increase
	(In millions)					
Total G&A expenses	\$ 43.7	\$ 36.9	\$ (6.8)	\$ 122.9	\$ 105.4	\$ (17.5)

G&A expenses for the three months ended September 30, 2021 increased 18.5% compared to the same period of the prior year, primarily due to an increase in personnel-related costs. The increase in personnel-related costs primarily was due to higher costs of bonus and equity-based incentive compensation. Included in total G&A expenses for the three months ended September 30, 2021 were \$1.3 million of expenses related to company-operated restaurants, an increase of \$0.4 million from the same period of the prior year.

G&A expenses for the nine months ended September 30, 2021 increased 16.6% compared to the same period of the prior year, primarily due to an increase in personnel-related costs, partially offset by a decrease in professional services expenses and lower depreciation costs. The increase in personnel-related costs primarily was due to higher costs of bonus and equity-based incentive compensation. Included in total G&A expenses for the nine months ended September 30, 2021 were \$4.0 million of expenses related to company-operated restaurants, an increase of \$0.9 million from the same period of the prior year.

Impairment and Closure Charges

	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Favorable (Unfavorable) Variance	2021	2020	Favorable (Unfavorable) Variance
	(In millions)					
Closure charges	\$ 0.4	\$ 0.2	\$ (0.2)	\$ 3.3	\$ 0.9	\$ (2)
Long-lived tangible asset impairment	(0.0)	(0.0)	0.0	1.7	17.1	15
Goodwill impairment	—	—	—	—	92.2	92
Tradenname impairment	—	—	—	—	11.0	11
Impairment of reacquired franchise rights	—	—	—	—	3.3	3
Total impairment and closure charges	\$ 0.4	\$ 0.2	\$ (0.2)	\$ 5.0	\$ 124.5	\$ 119

2021 Charges

The closure charges for the three months ended September 30, 2021 related to revisions to existing closure reserves, including accretion, primarily for 52 IHOP restaurants closed prior to June 30, 2021. The closure charges for the nine months ended September 30, 2021 comprised \$2.0 million related to 23 IHOP restaurants closed in 2021 and \$1.3 million for revisions to existing closure reserves, including accretion, primarily for 29 IHOP restaurants closed prior to December 31, 2020.

Long-lived tangible asset impairment charges for the nine months ended September 30, 2021 related to four IHOP franchisee-operated restaurants for which the carrying amount exceeded the undiscounted cash flows. The charges in both periods primarily related to the impairment of operating lease right-of-use assets that had been recorded in 2019 upon adoption of new lease accounting guidance codified in Accounting Standards Codification Topic 842 ("ASC 842").

2020 Charges

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.

We determined that an interim quantitative test of goodwill and indefinite-lived intangible assets for impairment should be performed as of May 24, 2020 based on circumstances that had arisen from the COVID-19 epidemic. In determining fair value, we 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.

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 during the nine months ended September 30, 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.

During the nine months ended September 30, 2020, we recognized a long-lived asset impairment totaling \$17.2 million related to 46 Applebee's company-operated restaurants and 33 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 \$9.4 million of the total impairment related to operating lease right-of-use assets that had been recorded in 2019 upon adoption of ASC 842, while \$7.8 million related to impairments of land, building, leasehold improvements and finance leases. The impairments by individual property varied in amount, ranging from the largest individual impairment of \$1.3 million to less than \$5,000.

An impairment of \$3.3 million was recognized during the nine months ended September 30, 2020 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.

<u>Other Income and Expense Items</u>	<u>Three months ended September 30,</u>		<u>Favorable (Unfavorable) Variance</u>	<u>Nine months ended September 30,</u>		<u>Favorable (Unfavorable) Variance</u>
	<u>2021</u>	<u>2020</u>		<u>2021</u>	<u>2020</u>	
	(In millions)					
Interest expense, net	\$ 15.7	\$ 16.8	\$ 1.1	\$ 48.0	\$ 49.1	\$ 1.2
Amortization of intangible assets	2.7	2.7	(0.0)	8.0	8.2	0.2
Loss on disposition of assets	1.3	1.1	(0.2)	1.4	2.6	1.2
Total	\$ 19.7	\$ 20.6	\$ 0.9	\$ 57.4	\$ 60.0	\$ 2.6

Interest expense, net

Interest expense, net for the three months ended September 30, 2021 declined compared to the same period of the prior year due to a decrease in interest expense on our Credit Facility. We had no borrowings outstanding under our Credit Facility during the three months ended September 30, 2021, whereas we had \$220 million outstanding during the three months ended September 30, 2020.

Interest expense, net for the nine months ended September 30, 2021 declined compared to the same period of the prior year due to a decrease in interest expense on our Credit Facility, partially offset by a decrease in interest income. Borrowings under our Credit Facility were outstanding for fewer days in the 2021 period than the 2020 period. We borrowed \$220.0 million during the third week of March 2020 and that amount remained outstanding until it was repaid the first week of March 2021. Interest income was \$0.1 million for nine months ended September 30, 2021, a decrease from interest income of \$0.9 million for the nine months ended September 30, 2020. See "*Liquidity and Capital Resources*" for additional discussion related to our Credit Facility.

Loss on disposition of assets

The loss on disposition of assets for the three and nine months ended September 30, 2021 primarily related to disposition of capitalized software no longer in use. 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 the termination of 12 IHOP restaurant leases and the loss on capitalized software no longer in use recognized during the three months ended September 30, 2020.

Income Taxes

	<u>Three months ended September 30,</u>		<u>Favorable (Unfavorable) Variance</u>	<u>Nine months ended September 30,</u>		<u>Favorable (Unfavorable) Variance</u>
	<u>2021</u>	<u>2020</u>		<u>2021</u>	<u>2020</u>	
	(In millions)					
Income (loss) before income taxes	\$ 30.8	\$ 9.2	\$ 21.6	\$ 93.4	\$ (108.6)	\$ 202.0
Income tax provision (benefit)	\$ 7.7	\$ (0.9)	\$ (8.5)	\$ 15.4	\$ (6.1)	\$ (21.5)
Effective tax rate	24.9 %	(9.5)%	(34.3)%	16.4 %	5.6 %	(10.8)%

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 (loss) before income taxes and a change in the effective tax rate. Changes in our income (loss) before income taxes were addressed in the preceding sections of “*Consolidated Results of Operations - Comparison of the Three and Nine Months Ended September, 2021 and 2020.*”

Our effective tax rate for the three months ended September 30, 2021 was significantly different than the rate of the prior comparable period primarily due to the release of unrecognized tax benefits in the third quarter of 2020. Our effective tax rate for the nine months ended September 30, 2021 was significantly different than the rate of the prior comparable period and the statutory federal tax rate of 21% primarily due to the one-time recognition of excess tax benefits on stock-based compensation related to the departure of our previous chief executive officer in the first quarter of 2021 and the impairment of goodwill in the second quarter of 2020, which was not deductible for income tax purposes and therefore had 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 “Credit Facility”) that allows for drawings up to \$225 million of variable funding notes and the issuance of letters of credit. The 2019 Class A-2 Notes and the Credit Facility 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. 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 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”). 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.

As of September 30, 2021, our leverage ratio was 4.36x. As a result, quarterly principal payments on the 2019 Class A-2 Notes are no longer required. The last required \$3.25 million principal payment was made on September 7, 2021.

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, 2021, the make-whole premium associated with voluntary prepayment of the Class A-2-I Notes was approximately \$15 million; this amount declines each quarter to zero in June 2022. As of September 30, 2021, the make-whole premium associated with voluntary prepayment of the Class A-2-II Notes was approximately \$46 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, 2021, 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, 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, 2021 was approximately 4.8x.

During the second quarter of 2020, we voluntarily increased the interest reserve set aside for our securitized debt from the required \$16.4 million to \$32.8 million, which represented an estimated six months of interest and fees related to the 2019 Class A-2 Notes and the Credit Facility. In April 2021, we reduced the balance of the interest reserve to \$16.4 million, the required three months of interest and fees related to the 2019 Class A-2 Notes and the Credit Facility.

Use of Credit Facilities

In March 2020, the Co-Issuers drew down a total of \$220.0 million from the Credit Facility. The \$220.0 million borrowing was repaid on March 5, 2021. The current interest rate for borrowings under the Credit Facility 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 Credit Facility borrowings for the period outstanding during the nine months ended September 30, 2021 was 2.4%. There were no Credit Facility borrowings outstanding during the three months ended September 30, 2021.

At September 30, 2021, there were no outstanding borrowings under the Credit Facility. At September 30, 2021, \$3.3 million was pledged against the Credit Facility for outstanding letters of credit, leaving \$221.7 million available for borrowing. The letters of credit are used primarily to satisfy insurance-related collateral requirements.

Capital Allocation

To maintain financial flexibility in light of the COVID-19 pandemic, we suspended our repurchasing of common stock and the declaration of dividends on our common stock after the first quarter of 2020. After evaluating repurchases of common stock and dividend payments on common stock within the context of our overall capital allocation strategy, giving consideration to our current and forecast earnings, financial condition, cash requirements and other factors, we will be reinstating repurchases of common stock under the 2019 Repurchase Program, approved by the Board of Directors in February 2019. As of September 30, 2021, \$70.2 million of the \$200 million remains available for repurchases. Additionally, on October 28, 2021, our Board of Directors declared a fourth quarter 2021 cash dividend of \$0.40 per common share, payable to shareholders of record as of December 20, 2021 on January 7, 2022. This marks the first dividend the Board of Directors has declared since the first quarter of 2020.

Dividends

Dividends declared and paid per share for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Dividends declared per common share	\$ —	\$ —	\$ —	\$ 0.76
Dividends paid per common share	\$ —	\$ —	\$ —	\$ 1.45

Stock Repurchases

We did not repurchase any shares of common stock during three and nine months ended September 30, 2021. We did not repurchase any shares during the three months ended September 30, 2020 and repurchased 459,899 shares during the nine months ended September 30, 2020. As of September 30, 2021, cumulative repurchases of stock total 1,697,597 shares at a cost of \$129.8 million, with \$70.2 million remaining for repurchase under the 2019 Repurchase Program.

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 third quarter of 2021.

Cash Flows

In summary, our cash flows for the nine months ended September 30, 2021 and September 30, 2020 were as follows:

	Nine months ended September 30,		Variance
	2021	2020	
	(In millions)		
Net cash provided by operating activities	\$ 145.6	\$ 36.7	\$ 108.9
Net cash provided by investing activities	7.5	5.3	2.2
Net cash (used in) provided by financing activities	(223.8)	175.1	(398.9)
Net (decrease) increase in cash, cash equivalents and restricted cash	\$ (70.8)	\$ 217.1	\$ (287.9)

Operating Activities

Cash provided by operating activities increased \$108.9 million during the nine months ended September 30, 2021 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 closure and impairment charges, depreciation, deferred taxes and stock-based compensation) increased \$13.6 million from 2020. This was primarily due to an increase in gross profit, partially offset by an increase in G&A expenses, and the recognition of excess tax benefits on stock-based compensation, each of which was discussed in preceding sections of the MD&A. Net changes in working capital provided cash of \$43.8 million during the nine months ended September 30, 2021 compared to using cash of \$51.5 million during the same period of the prior year, a favorable change of \$95.3 million. The

favorable change in working capital was primarily due to an increase in cash from trade receivables, a favorable change in taxes payable, an increase in accrued employee compensation and benefits and the timing of marketing disbursements. As discussed under “*Update on COVID-19 Pandemic Actions*,” during the first nine months ended September 30, 2020, we allowed our Applebee’s and IHOP franchisees to defer approximately \$58 million of payments for royalty, advertising and other fees, adversely impacting our net change in working capital for that period. During the nine months ended September 30, 2021, we collected approximately \$29 million in repayments of those deferrals. Taxes had a negative impact on cash from operating activities during the nine months ended September 30, 2020 due to the non-deductibility of certain impairment charges recorded in that period.

Investing Activities

Investing activities provided net cash of \$7.5 million for the nine months ended September 30, 2021. Principal receipts from notes, equipment contracts and other long-term receivables of \$14.8 million and proceeds from asset sales of \$0.9 million were partially offset by capital expenditures of \$7.9 million. Investing activities provided net cash of \$5.3 million for the nine months ended September 30, 2020. The variance between the two periods primarily was due to decreases in capital expenditures and loans to franchisees during the nine months ended September 30, 2021 compared to the same period of the prior year.

Financing Activities

Financing activities used net cash of \$223.8 million for the nine months ended September 30, 2021. As discussed above under “*Use of Credit Facilities*,” we repaid \$220.0 million borrowed from our Credit Facility. We also made payments totaling \$17.5 million on long-term debt and capital lease obligations and paid \$9.8 million for taxes withheld for vesting of restricted stock units. We had a net cash inflow of approximately \$23.5 million related to equity compensation awards.

Financing activities provided net cash of \$175.1 million for the nine months ended September 30, 2020, primarily due to borrowing of \$220.0 million from our Credit Facility to increase our financial flexibility in light of current market conditions and uncertainty due to the COVID-19 outbreak. We also had a net cash inflow of approximately \$17.9 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.

Cash and Cash Equivalents

Our total cash balances as of September 30, 2021 and December 31, 2020 were as follows:

	<u>September 30, 2021</u>		<u>December 31, 2020</u>
	(In millions)		
Cash and cash equivalents	\$ 304.2	\$	383.4
Restricted cash, current	64.7		39.9
Restricted cash, non-current	16.4		32.8
Total	<u>\$ 385.3</u>	<u>\$</u>	<u>456.1</u>

Cash and cash equivalents include \$50.7 million and \$71.6 million of cash held for gift card programs and advertising funds as of September 30, 2021 and December 31, 2020, respectively. The decrease in cash and cash equivalents between December 31, 2020 and September 30, 2021 was due to the repayment of \$220.0 million discussed above under “*Use of Credit Facilities*,” offset by cash provided by operating activities during the nine months ended September 30, 2021.

We believe that our unrestricted cash and cash equivalents on hand, cash flow from operations, and the \$221.7 million of borrowing capacity available under our Credit Facility 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, payment of cash dividends on 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,		Variance
	2021	2020	
	(In millions)		
Cash flows provided by operating activities	\$ 145.6	\$ 36.7	\$ 108.9
Receipts from notes and equipment contracts receivable	8.4	8.0	0.4
Additions to property and equipment	(7.9)	(9.1)	1.2
Adjusted free cash flow	\$ 146.1	\$ 35.6	\$ 110.5

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, 2021.

Contractual Obligations and Commitments

As discussed above, in March 2021, we repaid \$220 million of borrowings outstanding under our Credit Facility. Other than this transaction, 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, 2020.

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, 2020. During the nine months ended September 30, 2021, there were no significant changes in our critical accounting policies or in our critical accounting estimates.

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, 2020 took place during the nine months ended September 30, 2021:

Interest Rate Risk

We are only exposed to interest rate risk on borrowings we make under our Credit Facility, borrowings from which are subject to variable interest rates. As of September 30, 2021, we have no borrowings outstanding under the Credit Facility and currently are not exposed to interest rate risk.

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.

There are no material changes from the risk factors set forth under Item 1A of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**Purchases of Equity Securities by the Company**

Period	Total number of shares purchased (a)	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)
July 5, 2021 - August 1, 2021	946	\$ 83.27	—	\$ 70,200,000
August 2, 2021 - August 29, 2021	533	73.69	—	\$ 70,200,000
August 30, 2021 - October 3, 2021	283	79.28	—	\$ 70,200,000
	<u>1,762</u>	<u>\$ 79.73</u>	<u>—</u>	<u>\$ 70,200,000</u>

(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 and the applicable individual award agreements under which the shares were issued 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.

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

I, John W. Peyton, 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: 4th day of November, 2021

/s/ John W. Peyton

John W. Peyton
Chief Executive Officer
(Principal Executive Officer)

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

I, Vance Y. Chang, 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: 4th day of November, 2021

/s/ Vance Y. Chang

Vance Y. Chang
Chief Financial Officer
(Principal Financial Officer)

**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, 2021, as filed with the Securities and Exchange Commission on the 4th day of November, 2021 (the "Report"), John W. Peyton, 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: 4th day of November, 2021

/s/ John W. Peyton
John W. Peyton
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.

**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, 2021, as filed with the Securities and Exchange Commission on the 4th day of November, 2021 (the "Report"), Vance Y. Chang, 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: 4th day of November, 2021

/s/ Vance Y. Chang
Vance Y. Chang
Chief Financial Officer
(Principal Financial Officer)

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. 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.