

DineEquity, Inc
Form 10-K
March 04, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from _____ to _____

Commission File Number 001-15283

DineEquity, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

95-3038279
(I.R.S. Employer
Identification No.)

450 North Brand Boulevard, Glendale, California
(Address of principal executive offices)

91203-2306
(Zip Code)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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DINEEQUITY, INC. AND SUBSIDIARIES

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2009

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PART I

Item 1. Business

Company Overview

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

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

We have a 52/53 week fiscal year that ends on the Sunday nearest to December 31 of each year. For convenience, we refer to all fiscal years as ending on December 31 and all fiscal quarters as ending on March 31, June 30 and September 30 of the respective fiscal year. There were 53 weeks in our 2009 fiscal year, which ended on January 3, 2010; the 2008 and 2007 fiscal years ended on December 28, 2008 and December 30, 2007, respectively, and each contained 52 weeks.

Background

The first International House of Pancakes® ("IHOP") restaurant opened in 1958 in Toluca Lake, California. Since that time, the Company or its predecessors have engaged in the development, operation and franchising of IHOP restaurants. In November 2007, we completed the acquisition of Applebee's International, Inc. ("Applebee's"). We currently own, operate and franchise two restaurant concepts in the casual dining and family dining categories: Applebee's Neighborhood Grill and Bar® and IHOP. References herein to Applebee's and IHOP restaurants are to these two restaurant concepts, and, unless the context reflects otherwise, whether operated by franchisees, area licensees or the Company. Retail sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company. With over 3,400 franchised or company-operated restaurants combined, we are the largest full-service restaurant company in the world.

This Annual Report on Form 10-K should be read in conjunction with the cautionary statements on page 28 under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward Looking Statements."

Financial Information about Industry Segments

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

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Applebee's

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

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

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

IHOP

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

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

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

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

Financial information for our four operating segments for the last three fiscal years is set forth in Note 22, Segment Reporting, of the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K. Revenue derived from all foreign countries, in the aggregate, comprises less than 5% of total consolidated revenue.

Restaurant Concepts

Applebee's

We develop, franchise and operate restaurants in the bar and grill segment of the casual dining category of the restaurant industry under the name "Applebee's Neighborhood Grill & Bar." With 2,008 system-wide restaurants as of December 31, 2009, Applebee's Neighborhood Grill & Bar is the largest casual dining concept in the world, in terms of number of restaurants and market share. As of December 31, 2009, franchisees operated 1,609 of these restaurants and 399 restaurants were

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

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

Franchising

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

Prior to the opening of each new Applebee's restaurant, the franchisee and the Company enter into a separate franchise agreement for that restaurant. Our standard Applebee's franchise agreement provides for an initial term of 20 years and permits renewal for up to an additional 20 years upon payment of an additional franchise fee. Our current standard Applebee's franchise arrangement calls for an initial franchisee fee of \$35,000 and a royalty fee equal to 4% of the restaurant's monthly net sales. We have agreements with a majority of our franchisees for Applebee's restaurants opened before January 1, 2000, which provide for royalty rates of 4% and extend the initial term of the franchise agreements until 2020. The terms, royalties and advertising fees under a limited number of franchise agreements and other franchise fees under older development agreements vary from the currently offered arrangements.

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

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

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

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

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International Franchising

We continue to pursue franchising of the Applebee's concept as the primary method of international expansion. To this end we seek qualified franchisees that possess the resources needed to open multiple restaurants in each territory and are familiar with the specific local business environment in which they propose to develop and operate Applebee's restaurants. We currently are focusing on international franchising primarily in Canada, Mexico, Central and South America, and the Mediterranean/Middle East. We currently have 31 international franchisees. As of December 31, 2009, these franchisees operated 139 Applebee's restaurants. During 2009, 15 new international franchise restaurants were opened while four international franchise restaurants were closed. The success of further international expansion will depend on, among other things, local acceptance of the Applebee's concept and menu offerings and our ability to attract qualified franchisees and operating personnel. Our franchisees must comply with the regulatory requirements of the local jurisdictions.

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

Franchise Operations

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

We maintain a Franchise Business Council which provides input about operations, marketing, product development and other aspects of restaurants for the purpose of improving the franchise system. As of December 31, 2009, the Franchise Business Council consisted of eight franchisee representatives and three members of our senior management team. One franchisee representative, the founder of Applebee's, is a member for life. The other franchisee representatives are elected by franchisees to staggered two-year terms. The Franchise Business Council is also responsible for the appointment of members to advisory committees related to marketing, restaurant operations, information technology and product development.

Company-Operated Restaurants

Historically, company-operated Applebee's restaurants have been clustered in targeted markets to increase consumer awareness and convenience and enable us to take advantage of operational, distribution and advertising efficiencies. We plan to continue to execute our strategy, initiated in 2008, of transitioning to an approximately 98% franchised system. The timing of completing this transition is subject to numerous variables, including qualifications of the prospective buyers, the economic climate in general and credit markets in particular, and the attainment of satisfactory valuations for each transaction.

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

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

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

Restaurant Development

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

Future Restaurant Development

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

In 2010, we expect franchisees to open a total of approximately 30 new Applebee's franchise restaurants. We currently do not plan to open any domestic company-operated restaurants. The following table represents Applebee's restaurant development commitments for 2010 and 2011. We have disclosed development commitments for only a two-year period as the Applebee's development agreements generally provide for a series of two-year development commitments after the initial development period.

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

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

Composition of Franchise System

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

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

(a)

Percentages may not add due to rounding.

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

Menu

Applebee's restaurants offer a diverse menu of high quality, moderately-priced food and beverage items consisting of traditional favorites and signature dishes. The restaurants feature a broad selection of entrees as well as appetizers, salads, sandwiches, specialty drinks and desserts. All Applebee's restaurants offer beer, wine, liquor and premium specialty drinks.

During 2004, Applebee's began a five-year exclusive strategic alliance with Weight Watchers International, Inc. to offer Weight Watchers® branded menu items to our guests. At the conclusion of the exclusive agreement the parties entered into a new, non-exclusive endorsement agreement which became effective in January 5, 2009. Under the new agreement, Applebee's and participating franchisees pay Weight Watchers a royalty equal to 2.5% of the proceeds from the sale of Weight Watchers endorsed items on the Applebee's menu. The initial term of the agreement was for one year and has been extended through at least December 2010.

Marketing and Advertising

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

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which develops and funds the national promotions and the development of television and radio commercials and print advertising materials. We focus the remainder of our company-operated restaurant marketing expenditures on local marketing in areas with company-operated restaurants.

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

Supply Chain

Maintaining high food quality, system-wide consistency and availability is the central focus of our supply chain program. We establish quality standards for products used in the restaurants, and we maintain a list of approved suppliers and distributors from which we and our franchisees must select. We periodically review the quality of the products served in our domestic restaurants in an effort to ensure compliance with these standards. Due to cultural and regulatory differences, we may have different requirements for restaurants opened outside of the United States. In February 2009, we announced the formation of Centralized Supply Chain Services, LLC ("CSCS" or the "Co-op"), an independent purchasing cooperative, to manage procurement activities for domestic Applebee's and IHOP restaurants choosing to join the cooperative (see "Purchasing Cooperative" below).

Purchasing Cooperative

In February 2009, CSCS, an independent cooperative entity, was formed to operate as a purchasing cooperative for the operators of Applebee's and IHOP domestic restaurants. The Company has appointed CSCS as the sole authorized purchasing organization and purchasing agent for goods, equipment and distribution services for Applebee's and IHOP restaurants in the United States. The Company (as a restaurant operator) is a member of CSCS and has committed to purchase substantially all goods, equipment and distribution services for company-operated restaurants through the CSCS supply chain program. CSCS combines the purchasing volume for goods, equipment and distribution services within and across the Applebee's and IHOP concepts. Its mission is to achieve for its members the benefit of continuously available goods, equipment and distribution services in adequate quantities at the lowest possible sustainable prices. The operations of CSCS are funded by a separately stated administrative fee added to a product (or set of products) purchased by operators. As of December 31, 2009, 100% of Applebee's franchise restaurants and over 95% of IHOP franchise restaurants are members of CSCS.

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

IHOP

We develop, franchise and operate restaurants in the family dining category of the restaurant industry under the names "IHOP" and "International House of Pancakes." As of December 31, 2009, there were a total of 1,456 IHOP restaurants of which 1,279 were subject to franchise agreements, 164 were subject to area license agreements and 13 were company-operated restaurants. Franchisees and area licensees are independent third parties who are licensed by us to operate their restaurants using our trademarks, operating systems and methods and offer a broad range of entrees, appetizers, desserts and non-alcoholic beverages specified by IHOP, including our award-winning pancakes. We own and

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

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

Franchising

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

Current Business Model

Under our Current Business Model, a potential franchisee first negotiates and enters into a single-store development agreement or a multi-store development agreement with the Company and, upon completion of a prescribed approval procedure, is primarily responsible for the development and financing of one or more new IHOP franchised restaurants. In general, we do not provide any financing with respect to the franchise fee or otherwise under the Current Business Model. The franchise developer uses its own capital and financial resources along with third-party financial sources arranged for by the franchise developer to purchase or lease a restaurant site, build and equip the business and fund its working capital needs. The principal terms of the franchise agreements entered into under the Previous Business Model and the Current Business Model, including the franchise royalties and the franchise advertising fees, are substantially the same except with respect to the terms relating to the franchise fee. Of the 1,443 IHOP restaurants subject to franchise and area license agreements as of December 31, 2009, a total of 347 operate under the Current Business Model.

The revenues received by the Company from a typical franchise development arrangement under the Current Business Model include (a) (i) a location fee equal to \$15,000 upon execution of a single-store development agreement or (ii) a development fee equal to \$20,000 for each IHOP restaurant that the franchisee contracts to develop upon execution of a multi-store development agreement; (b) a franchise fee equal to (i) \$50,000 (against which the \$15,000 location fee will be credited) for a restaurant developed under a single-store development agreement or (ii) \$40,000 (against which the \$20,000 development fee will be credited) for each restaurant developed under a multi-store development agreement, in each case paid upon execution of the franchise agreement; (c) franchise royalties equal to 4.5% of weekly gross sales; (d) revenue from the sale of pancake and waffle dry-mixes; and (e) franchise advertising fees. The franchise agreements generally provide for advertising fees comprised of (i) a local advertising fee generally equal to 2.0% of weekly gross sales under the franchise agreement, which was typically used to cover the cost of local media purchases and other local advertising expenses incurred by a local advertising cooperative, and (ii) a national advertising fee

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equal to 1.0% of weekly gross sales under the franchise agreement. Area licensees are generally required to pay lesser amounts toward advertising. Beginning in 2005, the Company and the IHOP franchisees agreed to reallocate portions of the local advertising fees to purchase national broadcast, syndication and cable television time in order to reach our target audience more frequently and more cost effectively (see "Marketing and Advertising").

Previous Business Model

IHOP franchised restaurants established prior to 2003 under our Previous Business Model were generally developed by the Company. The Company was involved in all aspects of the development and financing of the restaurants. Under the Previous Business Model, the Company typically identified and leased or purchased the restaurant sites for new company-developed IHOP restaurants, built and equipped the restaurants and then franchised them to franchisees. In addition, IHOP typically financed as much as 80% of the franchise fee for periods ranging from five to eight years and leased the restaurant and equipment to the franchisee over a 25-year period. Of the 1,443 IHOP restaurants subject to franchise and area license agreements as of December 31, 2009, a total of 1,096 operate under the Previous Business Model.

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

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

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

Area License Agreements and International Franchise Agreements

We have entered into three long-term area license agreements covering the state of Florida and certain counties in the state of Georgia and the province of British Columbia, Canada. As of December 31, 2009, the area licensees for the state of Florida and certain counties in Georgia operated or sub-franchised a total of 152 IHOP restaurants, and the area licensees for the province of British Columbia, Canada operated or sub-franchised a total of 12 IHOP restaurants. The area license agreements provide for royalties ranging from 0.5% to 2.0% of gross sales and advertising fees equal to 0.25% of gross sales. The area license agreements provide the licensees with the right to develop new IHOP restaurants in their respective territories. We also derive revenues from the sale of proprietary products to these area licensees and in certain instances their sub-franchisees. We treat the revenues from our area licensees as franchise operations revenues for financial reporting purposes.

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Franchise Operations

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

We highly value good franchisor/franchisee relations and strive to maintain positive working relationships with our franchisees. We sponsor the IHOP Franchise Board of Advisors, an elected body of IHOP franchisees formed to advise and assist IHOP management with respect to a broad range of matters relating to the operation of IHOP restaurants. The group meets with IHOP management at least three times a year to discuss operational issues, marketing matters, development and construction issues, information technology and many other topics. In February 2009, we announced the formation of CSCS, an independent purchasing cooperative to manage all procurement activities for domestic Applebee's and IHOP restaurants choosing to join the cooperative (see "Purchasing Cooperative" on page 9).

Company-Operated Restaurants

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

We utilize the company-operated restaurants in the Cincinnati market to facilitate the testing of new building types and remodel designs, new products and equipment, new operational procedures, and new marketing, brand and design elements.

Restaurant Development

The Current Business Model relies on franchisees to obtain their own financing to develop IHOP restaurants. We review and approve the franchisees' proposed sites but do not contribute capital or become the franchisees' landlord. Under the Current Business Model, substantially all new IHOP restaurants are financed and developed by franchisees or area licensees. In 2009, our franchisees and area licensees financed and developed 75 new restaurants and we developed one company-operated IHOP Café restaurant. We currently do not intend to build additional traditional IHOP restaurants in the Cincinnati market.

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

Future Restaurant Development

In 2009, IHOP entered into 13 franchise development agreements. As of December 31, 2009, we had signed commitments from franchisees to build 254 IHOP restaurants over the next eight years plus

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

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

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

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

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

Composition of Franchise System

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

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

(a) Percentages may not add due to rounding.

Menu

The IHOP menu offers a large selection of high-quality, moderately priced products designed to appeal to a broad base of customers. These include a wide variety of pancakes, waffles, omelets and breakfast specialties, chicken, steak, sandwiches, salads and lunch and dinner specialties. Most IHOP restaurants offer special items for children and seniors at reduced prices. In recognition of local tastes, IHOP restaurants typically offer a few regional specialties that complement the IHOP core menu. Our Food and Beverage Innovation Department works together with franchisees and our Marketing

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Department to develop new menu and promotion ideas. These new items are thoroughly evaluated in our test kitchen and in limited regional tests with consumers, including operational tests, before being introduced throughout the system through core menu updates. The purpose of adding new items and improving existing items is to broaden the appeal of our food to our guests and continually give them new reasons to return to our restaurants. These efforts are based on consumer research, feedback and benchmarking, which help to identify opportunities to improve existing items as well as for developing new items.

Marketing and Advertising

IHOP franchisees and company-operated restaurants contribute a percentage of their sales to local advertising cooperatives and a national advertising fund. The franchise agreements provide for advertising fees comprised of (i) a local advertising fee equal to 2.0% of weekly gross sales, which is used to cover the cost of local media purchases and (ii) a national advertising fee equal to 1.0% of weekly gross sales. Area licensees are generally required to pay lesser amounts toward advertising.

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

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

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

Supply Chain

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

Industry Overview and Competition

The Applebee's and IHOP restaurant chains are among the numerous restaurant chains and independent restaurants competing in the \$550 billion-plus consumer food service market in the United States. The restaurant business is generally categorized into segments by price point ranges, the types of food and beverages offered and the types of service available to consumers. These segments include, among others, fast food or quick service restaurants ("QSR"), family dining, casual dining and fine dining. Each of these segments can be broken down further into the type of food served by the

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restaurant. For example, the QSR category includes sandwich chains, hamburger chains and other chains.

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

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

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

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

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

Trademarks and Service Marks

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

Seasonal Operations

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

Government Regulation

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

State laws that regulate the offer and sale of franchises and the franchisor-franchisee relationship presently exist in a number of states. State laws that regulate the offer and sale of franchises require

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

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

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

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

Environmental Matters

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

Employees

At December 31, 2009, we employed approximately 22,900 employees, of whom approximately 650 were full-time, non-restaurant, corporate personnel. Our employees are not presently represented by any collective bargaining agreements and we have never experienced a work stoppage. We believe our relations with employees are good.

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Item 1A. Risk Factors.

General economic conditions that are largely out of our control could adversely affect the Company's business, results of operations, liquidity and capital resources. Our business is dependent to a significant extent on national, regional and local economic conditions, and, to a lesser extent, on global economic conditions, particularly those conditions affecting the demographics that frequently patronize Applebee's or IHOP restaurants. If our customers' disposable income available for discretionary spending is reduced (because of circumstances such as job losses, credit constraints and higher housing, taxes, energy, interest or other costs) or where the perceived wealth of customers has decreased (because of circumstances such as lower residential real estate values, increased foreclosure rates, increased tax rates or other economic disruptions), our business could experience lower sales and customer traffic as potential customers choose lower-cost alternatives (such as quick-service restaurants or fast casual dining) or choose alternatives to dining out. Any resulting decreases in customer traffic or average value per transaction will negatively impact the financial performance of Applebee's or IHOP company-operated restaurants, as reduced gross sales result in downward pressure on margins and profitability. These factors could also reduce gross sales at franchise restaurants, resulting in lower royalty payments from franchisees, and reduce profitability of franchise restaurants, potentially impacting the ability of franchisees to make royalty payments as they become due. Reduction in cash flows from either company-operated or franchised restaurants could have a material adverse effect on the Company's liquidity and capital resources.

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

reduced funds available for capital expenditures, acquisitions and other purposes;

increased our vulnerability to adverse economic and industry conditions;

limited our ability to obtain additional financing; and

limited our ability to apply proceeds from a securities offering or asset sale to purposes other than the repayment of debt.

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

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

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

Declines in our financial performance could result in additional impairment charges in future periods. U.S. generally accepted accounting principles require annual (or more frequently if events or changes in circumstances warrant) impairment tests of goodwill, intangible assets and other long-lived assets. Generally speaking, if the carrying value of the asset is in excess of the estimated fair value of the asset, the carrying value will be adjusted to fair value through an impairment charge. Fair values are primarily estimated using discounted cash flows based on five-year forecasts of financial results that incorporate assumptions as to same-store sales trends, future development plans and brand-enhancing initiatives, among other things. Significant underachievement of forecasted results could reduce the estimated fair value of these assets below the carrying value, requiring non-cash impairment charges to reduce the carrying value of the asset. As of December 31, 2009 our total stockholders' equity was \$69.9 million. A significant impairment writedown of goodwill, intangible assets or long-lived assets in the future could result in a deficit balance in stockholders' equity. While such a deficit balance would not create an incident of default in any of our contractual agreements, the negative perception of such a deficit could have an adverse effect on our stock price and could impair our ability to obtain new financing, or refinance existing indebtedness on commercially reasonable terms or at all.

The restaurant industry is highly competitive, and that competition could lower our revenues, margins and market share. The performance of individual restaurants may be adversely affected by factors such as traffic patterns, demographics and the type, number and location of competing restaurants. The restaurant industry is highly competitive with respect to price, service, location, personnel and the type and quality of food. Each Applebee's and IHOP restaurant competes directly and indirectly with a large number of national and regional restaurant chains, as well as similar styles of businesses. The trend toward convergence in grocery, deli, and restaurant services may increase the number and variety of Applebee's and IHOP restaurants' competitors. In addition to the prevailing baseline level of competition, major market players in non-competing industries may choose to enter the food services market. Such increased competition could have a material adverse effect on the financial condition and results of operations of Applebee's or IHOP restaurants in affected markets. Applebee's and IHOP restaurants also compete with other restaurant chains for qualified management and staff, and we compete with other restaurant chains for available locations for new restaurants. Applebee's and IHOP restaurants also face competition from the introduction of new products and menu items by competitors, as well as substantial price discounting, and are likely to face such competition in the future. Although we may implement a number of business strategies, the future success of new products, initiatives and overall strategies is highly difficult to predict and will be influenced by competitive product offerings, pricing and promotions offered by competitors. Our ability to differentiate the Applebee's and IHOP brands from their competitors, which is in part limited by the advertising monies available to us and by consumer perception, cannot be assured. These factors could reduce the gross sales or profitability at Applebee's or IHOP restaurants, which would reduce the

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revenues generated by company-owned restaurants and the franchise payments received from franchisees.

Our business strategy may not achieve the anticipated results. We expect to continue to apply a new business strategy that includes, among other things, (i) the franchising of more than 90% of the Applebee's company-operated restaurants, (ii) specific changes in the manner in which our Applebee's and IHOP businesses are managed and serviced, such as the February 2009 establishment of a purchasing cooperative, and the procurement of products and services from such purchasing cooperative, (iii) the possible introduction of new restaurant concepts and (iv) more generally, improvements to the overall performance of the Applebee's business by applying some of the strategies we previously applied to the IHOP restaurant business. However, the Applebee's business is different in many respects from the IHOP business. In particular, the Applebee's restaurants are part of the casual dining segment of the restaurant industry whereas the IHOP restaurants are part of the family dining segment, and the Applebee's business is larger, distributed differently across the United States and appeals to a somewhat different segment of the consumer market. Therefore, there can be no assurance that the business strategy we apply to the Applebee's business will be suitable or will achieve similar results to the application of such business strategy to the IHOP system. In particular, the franchising of Applebee's company-operated restaurants may not improve the performance of such restaurants and may not reduce the capital expenditures to the extent we anticipate or result in the other intended benefits of the strategy. The actual benefit from the franchising of the Applebee's company-operated restaurants is uncertain and may be less than anticipated.

As of December 31, 2009 we have franchised 110 of the Applebee's company-operated restaurants acquired on November 29, 2007. There can be no assurance that we will be able to complete the refranchising of a substantial majority of the remaining 399 company-operated restaurants on desirable terms or within the anticipated time frame. The anticipated proceeds from the refranchising of the company-operated restaurants are based on current market values, recent comparable transaction valuations, and a number of other assumptions. The franchising of Applebee's company-operated restaurants is not expected to be completed for several years. If market rents, comparable transaction valuations or other assumptions prove to be incorrect, the actual proceeds from the franchising of the company-operated restaurants may be different than anticipated. In addition, adverse economic, market or other conditions existing in the states in which company-operated real property is located may adversely affect our ability to execute the franchising transactions or to achieve the anticipated returns from such transactions. Market conditions may have changed at the time the franchising transactions occur. Finally, the operational improvement initiatives or purchasing initiatives may not be successful or achieve the desired results. In particular, there can be no assurance that the existing franchisees or prospective new franchisees will respond favorably to such initiatives.

Factors specific to the restaurant industry, some of which are outside of our control, may have a material adverse effect on our business. The sales and profitability of our restaurants and, in turn, payments from our franchisees may be negatively impacted by a number of factors, some of which are outside of our control. The most significant are:

declines in comparable store sales growth rates due to: (i) failing to meet customers' expectations for food quality and taste or to innovate new menu items to retain the existing customer base and attract new customers; (ii) competitive intrusions in our markets; (iii) opening new restaurants that cannibalize the sales of existing restaurants; (iv) failure of national or local marketing to be effective; (v) weakening national, regional and local economic conditions; and (vi) natural disasters or extreme weather conditions.

negative trends in operating expenses such as: (i) increases in food costs including rising commodity costs; (ii) increases in labor costs including increases mandated by minimum wage and other employment laws, immigration reform, the potential impact of union organizing

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efforts, increases due to tight labor market conditions and rising health care and workers compensation costs; and
(iii) increases in other operating costs including advertising, utilities, lease-related expenses and credit card processing fees;

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

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

failure to effectively manage further penetration into mature markets;

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

the inability to manage a large number of restaurants due to unanticipated changes in executive management, and availability of qualified restaurant management, staff and other personnel;

the inability to operate effectively in new and/or highly competitive geographic regions or local markets in which we or our franchisees have limited operating experience; and

the inability to manage a large number of restaurants in diverse geographic areas with a standardized operational and marketing approach.

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

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

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

We and our franchisees are subject to a variety of litigation risks that may negatively impact performance. We and our franchisees are subject to complaints or litigation from guests alleging illness, injury or other food quality, food safety, health or operational concerns. We and our franchisees are also subject to "dram shop" laws in some states pursuant to which we and our franchisees may be subject to liability in connection with personal injuries or property damages incurred in connection with wrongfully serving alcoholic beverages to an intoxicated person. We may also initiate legal proceedings against franchisees for breach of the terms of their franchise agreements. Such claims may reduce the profits generated by company-operated restaurants and the ability of franchisees to make payments to us. These claims may also reduce the ability of franchisees to enter into new franchise agreements with us. Although our franchise agreements require our franchisees to defend and indemnify us, we may be named as a defendant and sustain liability in legal proceedings against franchisees under the doctrines of vicarious liability, agency, negligence or otherwise.

Ownership of real property exposes us to potential environmental liabilities. The ownership of real property exposes us to potential environmental liabilities from U.S. Federal, state and local governmental authorities and private lawsuits by individuals or businesses. The potential environmental liabilities in connection with the ownership of real estate are highly uncertain. We currently do not have actual knowledge of any environmental liabilities that would have a material adverse effect on the Company. From time to time, we have experienced some non-material environmental liabilities resulting from environmental issues at our properties. While we are unaware of any material environmental liabilities, it is possible that material environmental liabilities relating to our properties may arise in the future.

Matters involving employees at certain company-operated restaurants expose us to potential liability. We are subject to U.S. Federal, state and local employment laws that expose us to potential liability if we are determined to have violated such employment laws. Failure to comply with Federal and state labor laws pertaining to minimum wage, overtime pay, meal and rest breaks, unemployment tax rates, workers' compensation rates, citizenship or residency requirements, child labor requirements, sales taxes and other employment-related matters may have a material adverse effect on our business or operations. In addition, employee claims based on, among other things, discrimination, harassment or wrongful termination may divert financial and management resources and adversely affect operations. The losses that may be incurred as a result of any violation of such employment laws are difficult to quantify.

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Our failure or the failure of our franchisees to comply with federal, state and local governmental regulations may subject us to losses and harm our brands. The restaurant industry is subject to extensive Federal, state and local governmental regulations, including those relating to the preparation and sale of food and alcoholic beverages and those relating to building and zoning requirements and employment. We are also subject to licensing and regulation by state and local departments relating to the service of alcoholic beverages, health, sanitation, fire and safety standards, and to laws governing relationships with employees, including minimum wage requirements, overtime, working conditions and citizenship requirements. We are also subject to laws and regulations, which vary from jurisdiction to jurisdiction, relating to nutritional content and menu labeling. Compliance with these laws and regulations may lead to increased costs and operational complexity and may increase our exposure to governmental investigations or litigation. In connection with the continued operation or remodeling of certain restaurants, we or our franchisees may be required to expend funds to meet Federal, state and local and foreign regulations. The ability to obtain or maintain such licenses or publicity resulting from actual or alleged violations of such laws could have an adverse effect on our results of operations. We are subject to federal regulation and certain state laws which govern the offer and sale of franchises. Many state franchise laws contain provisions that supersede the terms of franchise agreements, including provisions concerning the termination or non-renewal of a franchise. Some state franchise laws require that certain materials be registered before franchises can be offered or sold in that state. The failure to obtain or retain licenses or approvals to sell franchises could adversely affect us and the franchisees. Changes in, and the cost of compliance with, government regulations could have a material effect on operations.

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

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

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

the availability of suitable locations and terms for potential development sites;

the ability of franchisees to fulfill their commitments to build new restaurants in the numbers and the time frame specified in their development agreements;

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

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delays in obtaining construction permits and in completion of construction;

developed properties not achieving desired revenue or cash flow levels once opened;

competition for suitable development sites;

changes in governmental rules, regulations, and interpretations (including interpretations of the requirements of the ADA);
and

general economic and business conditions.

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

The opening and success of Applebee's and IHOP restaurants depend on various factors, including the demand for Applebee's and IHOP restaurants and the selection of appropriate franchisee candidates, the availability of suitable sites, the negotiation of acceptable lease or purchase terms for new locations, costs of construction, permit issuance and regulatory compliance, the ability to meet construction schedules, the availability of financing and other capabilities of franchisees. There is no assurance that franchisees planning the opening of restaurants will have the business abilities or sufficient access to financial resources necessary to open the restaurants required by their agreements. It cannot be assured that franchisees will successfully participate in our strategic initiatives or operate their restaurants in a manner consistent with our concept and standards.

Concentration of Applebee's franchised restaurants in a limited number of franchisees subjects us to greater credit risk. As of December 31, 2009, Applebee's franchisees operated 1,470 Applebee's restaurants in the United States, which restaurants comprised 79% of the total Applebee's restaurants in the United States. As of December 31, 2009, the nine largest Applebee's franchisees owned 786 restaurants, representing 53% of all franchised Applebee's restaurants in the United States. The concentration of franchised restaurants in a limited number of franchisees subjects us to a potentially higher level of credit risk in respect of such franchisees because their financial obligations to us are greater as compared to those franchisees with fewer restaurants. The risk associated with these franchisees is also greater where franchisees are the sole or dominant franchisee for a particular region of the United States, as is the case for most domestic Applebee's franchised territories. In particular, if any of these franchisees experiences financial or other difficulties, the franchisee may default on its obligations under multiple franchise agreements including payments to us and the maintenance and improvement of its restaurants. If any of these franchisees are subject to bankruptcy or insolvency proceedings, a bankruptcy court may prevent the termination of the related franchise agreements and development Agreements. Any franchisee that is experiencing financial difficulties may also be unable to participate in implementing changes to our business strategy. Any franchisee that owns and operates a significant number of Applebee's restaurants and fails to comply with its other obligations under the franchise agreement, such as those relating to the quality and preparation of food and maintenance of restaurants, could cause significant harm to the Applebee's brand and subject us to claims by consumers even if we are not legally liable for the franchisee's actions or failure to act. The franchising of most the company-operated Applebee's restaurants that is part of our strategy is not expected to reduce the degrees of concentration of franchised Applebee's restaurants because the existing franchisees are the likely candidates to acquire company-operated restaurants. The concentration of the franchised Applebee's restaurants in a limited number of franchisees may also reduce our negotiating power with respect to the terms of sale of the company-operated Applebee's restaurants. Development rights for Applebee's restaurants are also concentrated among a limited number of existing franchisees. If any of these existing franchisees experience financial difficulties, future development of Applebee's restaurant may be materially adversely affected.

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

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

Franchisees are subject to potential losses that are not covered by insurance that may negatively impact their ability to make payments to us and perform other obligations under franchise agreements. Franchisees may have insufficient insurance coverage to cover all of the potential risks associated with the ownership and operation of their restaurants. A franchisee may have insufficient funds to cover unanticipated increases in insurance premiums or losses that are not covered by insurance. Certain extraordinary hazards may not be covered and insurance may not be available (or may be available only at prohibitively expensive rates) with respect to many other risks. Moreover, there is no assurance that any loss incurred will not exceed the limits on the policies obtained, or that payments on such policies will be received on a timely basis, or even if obtained on a timely basis, that such payments will prevent losses to such franchisee or enable timely franchise payments. Accordingly, in cases in which a franchisee experiences increased insurance premiums or must pay claims out-of-pocket, the franchisee may not have the funds necessary to pay franchise payments.

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

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

The inability of franchisees to fund capital expenditures may adversely impact future growth. Our business strategy includes revitalizing Applebee's store locations through a new remodel program and

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other operational changes. The success of that business strategy will depend to a significant extent on the ability of the franchisees to fund the necessary capital expenditures to aid the repositioning and re-energizing of the brand. Labor and material costs expended will vary by geographical location and are subject to general price increases. To the extent the franchisees are not able to fund the necessary capital expenditures, our business strategy may take longer to implement and may not be as successful as we expect, which could have a material adverse effect on our business.

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

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

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

In addition, even if the sublicensee product suppliers, manufacturers, distributors, or advertisers observe and maintain the quality and integrity of the intellectual property assets in accordance with the relevant sublicense agreement, any product manufactured by such suppliers may be subject to

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regulatory sanctions and other actions by third parties which can, in turn, negatively impact the perceived quality of our restaurants and the overall goodwill of our brands, regardless of the nature and type of product involved. Any such actions could have a material adverse effect on our business, by virtue of, among other things, reducing the public's acceptance of Applebee's or IHOP restaurants, thereby reducing restaurant revenues and corresponding franchise payments to us.

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

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

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

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

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

Total
Domestic

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

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

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

Leases of IHOP restaurants generally provide for an initial term of 20 to 25 years, with most having one or more five-year renewal options. Leases of Applebee's restaurants generally have an initial term of 10 to 20 years, with renewal terms of 5 to 20 years. In addition, a substantial portion of the leases for both IHOP and Applebee's restaurants include provisions calling for the periodic escalation of rents during the initial term and/or during renewal terms. The leases typically provide for payment of rents in an amount equal to the greater of a fixed amount or a specified percentage of gross sales and for payment of taxes, insurance premiums, maintenance expenses and certain other costs. Historically, it has been our practice to seek to extend, through negotiation, those leases that expire without renewal options. However, from time to time, we choose not to renew a lease or are unsuccessful in negotiating satisfactory renewal terms. When this occurs, the restaurant is closed and possession of the premises is returned to the landlord.

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

We currently lease our principal corporate offices and IHOP restaurant support center in Glendale, California, under a lease expiring in June 2020. The Applebee's restaurant support center is

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

Item 3. Legal Proceedings.

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

Gerald Fast v. Applebee's

The Company is currently defending a collective action filed under the Fair Labor Standards Act styled Gerald Fast v. Applebee's International, Inc., in which named plaintiffs claim that tipped workers in company restaurants perform excessive amounts of non-tipped work for which they should be compensated at the minimum wage. The court has conditionally certified a nationwide class of servers and bartenders who have worked in company-operated Applebee's restaurants since June 19, 2004. Unlike a class action, a collective action requires potential class members to "opt in" rather than "opt out." On February 12, 2008, 5,540 opt-in forms were filed with the court.

In cases of this type, conditional certification of the plaintiff class is granted under a lenient standard. On January 15, 2009, the Company filed a motion seeking to have the class de-certified and the plaintiffs filed a motion for summary judgment, both of which were denied by the court. The parties stipulated to a bench trial which was set to begin on September 8, 2009 in Jefferson City, Missouri. Just prior to trial, however, the court vacated the trial setting in order to submit key legal issues to the 8th Circuit for review on interlocutory appeal. Briefing on the issues for interlocutory appeal was completed by the parties on October 2, 2009.

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

Item 4. Reserved.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Market Information**

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

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

Holder

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

Dividends

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

The Company's most recent quarterly dividend of \$0.25 per common share was paid in December 2008. Effective December 11, 2008, the Company suspended the payment of its quarterly cash dividend to common shareholders for the foreseeable future in order to maximize the financial flexibility of the Company. Future dividend payments on the common shares may be resumed at the discretion of the Board of Directors after consideration of the Company's earnings, financial condition, cash requirements, future prospects and other factors.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2009, regarding shares outstanding and available for issuance under our existing equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,659,100	\$ 21.30	1,248,046
Equity compensation plans not approved by security holders			
Total	1,659,100	\$ 21.30	1,248,046

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

Issuer Purchases of Equity Securities

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

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

Table of Contents**Stock Performance Graph**

The graph below shows a comparison of the cumulative total shareholder return on our common stock with the cumulative total return on the Standard & Poor's 500 Composite Index and the Value-Line Restaurants Index ("Restaurant Index") over the five-year period ended December 31, 2009. The graph and table assume \$100 invested at the close of trading on the last day of trading in 2004 in our common stock and in each of the market indices, with reinvestment of all dividends. Stockholder returns over the indicated periods should not be considered indicative of future stock prices or stockholder returns.

**Comparison of Five-Year Cumulative Total Shareholder Return
DineEquity, Inc., Standard & Poor's 500 And Value Line Restaurant Index
(Performance Results Through December 31, 2009)**

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

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Item 6. Selected Financial Data.

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report on Form 10-K. The consolidated statement of operations and the consolidated balance sheet data for the years ended and as of December 31, 2009, 2008, 2007, 2006 and 2005 are derived from our audited consolidated financial statements.

	Fiscal Year Ended December 31,				
	2009	2008	2007(a)	2006	2005
	(In millions, except per share amounts)				
Revenues					
Franchise revenues	\$ 372.2	\$ 353.3	\$ 205.8	\$ 179.3	\$ 167.4
Company restaurant sales	890.0	1,103.2	125.9	13.6	14.0
Rental income	133.9	131.4	132.4	132.1	131.6
Financing revenues	17.9	25.7	20.5	24.6	35.0
Total revenues	1,414.0	1,613.6	484.6	349.6	348.0
Costs and expenses					
Franchise expenses	102.3	96.2	88.1	83.1	78.8
Company restaurant expenses	766.5	978.2	117.4	15.6	15.1
Rental expenses	97.3	98.1	98.4	97.9	98.4
Financing expenses	0.4	7.3	1.3	4.3	12.3
General and administrative expenses	158.5	182.3	81.6	63.5	58.8
Interest expense	186.5	203.2	28.7	7.9	8.3
Impairment and closure charges	105.1	240.6	4.4		0.9
Amortization of intangible assets	12.3	12.1	1.1		
(Gain) loss on extinguishment of debt	(45.7)	(15.2)	2.2		
Other (income) expense, net	(5.8)	(1.0)	2.0	4.4	4.6
Loss on derivative financial instrument			62.1		
Total costs and expenses	1,377.4	1,801.8	487.3	276.7	277.2
Income (loss) before income taxes	36.6	(188.2)	(2.7)	72.9	70.8
Provision (benefit) for income taxes	5.2	(33.7)	(2.2)	28.3	26.9
Net income (loss)	\$ 31.4	\$ (154.5)	\$ (0.5)	\$ 44.6	\$ 43.9
Net income (loss)	\$ 31.4	\$ (154.5)	\$ (0.5)	\$ 44.6	\$ 43.9
Less: Series A Preferred stock dividends	(19.5)	(19.0)	(1.5)		
Less: Accretion of Series B Preferred stock	(2.3)	(2.1)	(0.2)		
Less: Net (income) loss allocated to unvested participating restricted stock	(0.4)	6.4			
Net income (loss) available to common stockholders	\$ 9.2	\$ (169.2)	\$ (2.2)	\$ 44.6	\$ 43.9
Net income (loss) available to common stockholders per share:					
Basic	\$ 0.55	\$ (10.09)	\$ (0.13)	\$ 2.46	\$ 2.26

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Diluted \$ 0.55 \$ (10.09) \$ (0.13) \$ 2.43 \$ 2.24

Weighted average shares outstanding:

Basic 16.9 16.8 17.2 18.1 19.4

Diluted 16.9 16.8 17.2 18.3 19.6

Dividends declared per common share(b)

\$ 1.00 \$ 1.00 \$ 1.00 \$ 1.00

Dividends paid per common share(b)

\$ 1.00 \$ 1.00 \$ 1.00 \$ 1.00

Balance Sheet Data (end of year)

Cash and cash equivalents \$ 82.3 \$ 114.4 \$ 26.8 \$ 19.5 \$ 23.1

Restricted cash short-term 72.7 83.4 128.1

Restricted cash long-term 48.2 53.4 58.0

Property and equipment, net 771.4 824.5 1,139.6 309.7 318.0

Total assets 3,100.9 3,361.2 3,831.2 766.3 770.2

Long-term debt, net of current maturities 1,637.2 1,853.4 2,263.9 94.5 114.2

Financing obligations, net of current maturities 309.4 318.7

Capital lease obligations, net of current maturities 152.8 161.3 168.2 170.4 172.7

Stockholders' equity 69.9 42.8 209.4 289.2 293.8

(a)

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

(b)

Effective December 11, 2008, the Company has suspended payments of dividends to common stockholders for the foreseeable future.

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

Forward-Looking Statements

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

You should read the following Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this report.

The Company

The Company was incorporated under the laws of the State of Delaware in 1976 with the name IHOP Corp. Effective June 2, 2008, the name of the Company was changed to DineEquity, Inc. (the "Company," "we" or "our"). The first International House of Pancakes ("IHOP") restaurant opened in 1958 in Toluca Lake, California. Shortly thereafter we began developing and franchising additional restaurants. In November 2007, we completed the acquisition of Applebee's International, Inc. ("Applebee's") which became a wholly-owned subsidiary of the Company. Through various IHOP and Applebee's subsidiaries (see Exhibit 21, Subsidiaries of DineEquity, Inc.) we own and operate two restaurant concepts in the casual dining and family dining categories of the food service industry: Applebee's Neighborhood Grill and Bar® and IHOP. DineEquity, Inc. is the parent of the IHOP and Applebee's subsidiaries. References herein to Applebee's and IHOP restaurants are to these two restaurant concepts, whether operated by franchisees or the Company. Sales of restaurants that are owned by franchisees and area licensees are not attributable to the Company. With more than 3,400 restaurants combined, we are the largest full-service restaurant company in the world.

Key Overall Strategies

Applebee's Key Strategies

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

Drive Profitable Sales and Traffic

Continued to focus on value throughout 2009 through our "2 for \$20" offering, which emerged as one of the most recognized and regarded value propositions in casual dining;

Re-engineered our new product development process, rebuilding our innovation infrastructure and organizational capabilities;

Launched a new campaign featuring the tagline "There's no place like the neighborhood." The role of this advertising is to differentiate the brand through emotional storytelling while launching new product news, driving traffic and enhancing perceptions of the brand;

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Introduced a line of healthy food and beverage offerings through a totally integrated marketing communications approach, including network television, national visibility platform, local support, social media, website support and public relations; and

Developed a new menu design, engineered to increase profitability and make menu decisions easier for our guests. The new menu was implemented across the system in early 2010.

Improve margins and unit level economics

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

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

Transform the business

The Company remains committed to our strategy to franchise a substantial majority of the 399 company-operated restaurants to buyers who are financially qualified, share our vision for revitalizing the Applebee's brand, are willing to invest in the business, and have well-qualified management teams. We have the financial flexibility to meet our obligations without additional franchising transactions, so we will only pursue transactions that make economic sense. We anticipate it will take several years to be completed and will continue to focus on optimizing the performance of the business

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

IHOP's Key Strategies

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

Energize the IHOP Brand

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

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

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

Improve Operations Performance

We will continue to improve the operations of the restaurants. During 2003, we established an IHOP franchisee grading system to evaluate the operational standards of each of our restaurant units. This franchisee grading system is a comprehensive scorecard that covers mystery shop scores, operational assessment scores and health department ratings, among other things. By December 31, 2009, 90% of all franchisees had received grades of "A" or "B" for their restaurants. In addition, we intend to continue focusing on making exceptional service a priority for franchisees by providing tools for improved restaurant execution, while highlighting our motto "service as good as our pancakes." Substantially all IHOP restaurants are using pollable point-of-sale ("POS") systems to capture and report a broad range of sales and product mix data. This information is used by management to, among other things, gauge guest acceptance of menu items and the success of promotions and limited time offers.

Maximize Franchise Development

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

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

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

Economic Uncertainties

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

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

lower profitability and cash flows from company-operated restaurants;

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reduced cash flows from franchisees due to both a lower sales base on which royalties and other payments are calculated and possible impairment of the ability of franchisees to make payments when due as a result of the economic effects cited above on their businesses;

reduced availability of financing for franchisees to fulfill their new restaurant development commitments;

limited or lack of credit availability for potential purchasers of Applebee's company-operated restaurants;

lower proceeds from the franchising of Applebee's company-operated restaurants due to both lower restaurant sales and profitability and/or inability to consummate transactions at all; and

lower estimated fair values for goodwill, intangible assets and long-lived assets resulting in future non-cash impairment charges.

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

Fifty-Three Week Fiscal Year

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

Securitized Debt and Related Interest Expense

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

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Significant Gains and Charges

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