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DineEquity, Inc  
Form 10-K  
February 26, 2014

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

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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, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-15283

DineEquity, Inc.

(Exact name of registrant as specified in its charter)

Delaware

95-3038279

(State or other jurisdiction  
of incorporation or organization)

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

450 North Brand Boulevard, Glendale, California

91203-2306

(Address of principal executive offices)

(Zip Code)

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

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

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

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

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

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

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

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

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
		(Do not check if a smaller reporting company)	

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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 30, 2013: \$1,126.8 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 21, 2014
Common Stock, \$.01 par value	19,045,042

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on Wednesday, May 28, 2014 (the "2014 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, 2013  
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## PART I

### Item 1. Business

DineEquity, Inc., together with its subsidiaries (referred to as the “Company,” “we,” “our” and “us,”), owns, franchises and operates two restaurant concepts: Applebee's Neighborhood Grill & Bar® (“Applebee’s”), in the bar and grill segment within the casual dining category of the restaurant industry, and International House of Pancakes® (“IHOP”), in the family dining category of the restaurant industry. References herein to Applebee's and IHOP restaurants are to these two restaurant concepts, whether operated by franchisees, area licensees or by us. As of December 31, 2013, 99% of our 3,631 restaurants across both brands were franchised. We believe this highly franchised business model requires less capital investment and general and administrative overhead, generates higher gross profit margins and reduces the volatility of free cash flow performance, as compared to owning a significant number of company-operated restaurants. We use our 33 core company-operated restaurants primarily to test new remodel programs, operating procedures, products, technology, cooking platforms and service models.

We generate revenue from four reporting segments, comprised of:

- Franchise operations - primarily royalties, fees and other income from 1,988 Applebee’s franchised restaurants and 1,607 IHOP franchised and area licensed restaurants;

- Rental operations - primarily rental income derived from lease or sublease agreements covering 723 IHOP franchised restaurants and one Applebee’s franchised restaurant;

- Company restaurant operations - retail sales from 23 Applebee’s company-operated restaurants and 13 IHOP company-operated restaurants; and

- Financing operations - primarily interest income from approximately \$120 million of receivables for equipment leases and franchise fee notes generally associated with IHOP franchised restaurants developed before 2003.

Most of our revenue is derived from domestic operations within these four reporting segments, with approximately 88% of our total 2013 revenues being generated from our franchise and rental operations. Revenue derived from all foreign country operations comprised less than 3% of total consolidated revenue for the year ended December 31, 2013. At December 31, 2013, there were no long-lived assets located in foreign countries. See Note 17, Segment Reporting, of the Notes to the Consolidated Financial Statements included in this report for further segment information.

This report should be read in conjunction with the cautionary statements under “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Cautionary Statement Regarding Forward-Looking Statements.”

#### Our Key Strategies

Our business strategies are based on the following key elements:

- Optimize organization capability;

- Drive profitable organic growth; and

- Reduce costs for both ourselves and our franchisees.

We have a differentiated approach to brand management that centers on the strategic combination of marketing, menu, operations and restaurant remodel initiatives that we believe creates a unique and relevant connection with our customers. Additionally, our shared services operating platform allows our senior management to focus on key factors that drive the business while leveraging the resources and expertise of our scalable, centralized support structure. We believe this closely integrated approach strengthens brand performance and enables growth.

#### Our History

The first IHOP restaurant opened in 1958 in Toluca Lake, California. Since that time, the Company and its predecessors have engaged in the development, franchising and operation of IHOP restaurants. Prior to 2003, new IHOP restaurants were generally developed by us, and we were involved in all aspects of the construction and financing of the restaurants. We 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, we 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. We refer to this method of operation as our “Previous IHOP Business Model,” which accounts for most of the activity in our rental and financing segments.



For most IHOP restaurants opened after 2003, the franchisee is primarily responsible for the development and financing of the restaurant. In general, we no longer provide any financing with respect to the franchise fee, restaurant site or equipment. 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. We refer to this method of operation as our “Current IHOP Business Model.”

The first restaurant in what became the Applebee’s chain opened in 1980 in Decatur, Georgia. In November 2007, we completed the acquisition of Applebee’s International, Inc., which comprised 1,455 franchised restaurants and 510 company-operated restaurants at the time of the acquisition. Over the next five years, we refranchised nearly 480 of the Applebee’s company-operated restaurants and realized our goal of becoming 99% franchised in each brand in October 2012.

#### Restaurant Concepts

##### Applebee's

We franchise, own and operate Applebee’s restaurants in the bar and grill segment within the casual dining category of the restaurant industry. Each Applebee’s restaurant is designed as an attractive, friendly establishment featuring high quality, moderately-priced food, alcoholic and non-alcoholic beverage items, table service and a comfortable neighborhood atmosphere. Applebee’s restaurants offer a diverse menu of fresh, flavorful and fun-to-eat food at a great value. The menu features a broad selection of signature dishes and traditional entrées, as well as appetizers, salads, sandwiches, specialty drinks and desserts. Over the past several years we have distinguished the Applebee’s brand with several industry firsts. Our signature “2 for \$20” menu, a value proposition first introduced in 2009, continues to resonate with our guests and has been imitated by many of our competitors. The innovative “Unbelievably Great Tasting & Under 550 Calories<sup>TM</sup>” menu provides our guests with great tasting, generous portions that support their health and nutritional goals. Each of these platforms is refreshed regularly throughout the year with new menu choices to give customers new reasons to come to Applebee’s every day.

As of December 31, 2013, 61 franchise groups operated 1,988 Applebee’s franchise restaurants while we operated 23 restaurants in the Kansas City, Missouri area. These restaurants were located in 49 states within the United States, in one United States territory and in 15 countries outside of the United States. Applebee’s was the largest casual dining concept in the United States in terms of 2012 system-wide sales<sup>(1)</sup>.

##### IHOP

We franchise, own and operate restaurants in the family dining category of the restaurant industry under the names IHOP and International House of Pancakes. IHOP restaurants feature full table service and high quality, moderately priced food and beverage offerings in an attractive and comfortable family atmosphere. Although the restaurants are best known for their award-winning pancakes, omelets and other breakfast specialties, IHOP restaurants also offer a variety of lunch, dinner and snack items. IHOP restaurants are open throughout the day and evening hours. Over half of our IHOP restaurants operate 24 hours a day, seven days a week and approximately 200 additional restaurants operate 24 hours a day for some portion of the week. In June 2013, we launched a newly designed IHOP menu with three primary objectives: (i) simplify the ordering process with a new layout; (ii) reduce the overall number of menu items over time to lessen complexity; and (iii) introduce new menu offerings and categories.

As of December 31, 2013, 348 franchise groups operated 1,607 IHOP franchise restaurants, while we operated 10 restaurants in the Cincinnati, Ohio area. The IHOP restaurants were located in all 50 states within the United States, in the District of Columbia, in two United States territories and in eight countries outside of the United States. IHOP was the largest family dining concept in the United States in terms of 2012 system-wide sales<sup>(1)</sup>.

In addition, from time to time we may also operate, on a temporary basis until refranchised, IHOP restaurants that we re-acquire for a variety of reasons from IHOP franchisees. There were three such restaurants included as company-operated restaurants as of December 31, 2013.

See Item 2, Properties, for the geographic location of all Applebee’s and IHOP restaurants.

<sup>(1)</sup> Source: Nation's Restaurant News, "Special Report: Top 100," June 24, 2013.

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## Franchising

### Franchisee Relationships

We highly value good franchisor/franchisee relations and strive to maintain positive working relationships with our franchisees. For several years, IHOP and Applebee's franchisees have operated their own representative advisory groups. These groups provide a forum for franchisees to share demonstrated best practices, offer counsel and review successful strategies, while working side-by-side with management of the Applebee's and IHOP brands. Applebee's sponsors its Franchise Business Council ("FBC"), which consists 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, while the other franchisee representatives are elected by our franchisees. IHOP sponsors its Franchise Leadership Council ("FLC"), an elected and appointed body of IHOP franchisees formed to advise and assist senior management with respect to a broad range of matters relating to the operation of IHOP restaurants.

We have expanded the ways in which our management collaborates with the FLC and FBC by establishing several cross-brand committees. FBC committees focus on franchise marketing, information technology, operations and back-of-the-restaurant innovation, while FLC committees focus on marketing, menu, information technology and innovation.

### Franchise Agreements and Fees

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

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

Under the Current IHOP Business Model, a potential franchisee first enters into either a single-restaurant development agreement or a multi-restaurant development agreement with us and, upon completion of a prescribed approval procedure, is primarily responsible for the development and financing of one or more new IHOP franchised restaurants.

The revenues we receive from a typical franchise development arrangement under the Current IHOP Business Model include (a) a development fee equal to \$20,000 for each IHOP restaurant that the franchisee contracts to develop upon execution of a multi-restaurant development agreement; (b) a franchise fee equal to (i) \$50,000 for a restaurant developed under a single-restaurant development agreement or (ii) \$40,000 (against which the \$20,000 development fee will be credited) for each restaurant developed under a multi-restaurant 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 principal terms of the franchise agreements entered into under the Previous IHOP Business Model and the Current IHOP 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, lease or sublease rents for the restaurant property and building, and interest income from any franchise fee notes and equipment leases.



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.

#### Advertising Fees

We currently require domestic franchisees of Applebee's restaurants to contribute 3.25% of their gross sales to a national advertising fund and to spend at least 0.5% 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. For the year ended December 31, 2013, approximately 4.75% of Applebee's company restaurant sales was allocated for marketing activities. This amount includes contributions to the national advertising fund, which develops and funds the national promotions and the development of television and radio commercials and print advertising materials. We focus the remainder of our company-operated restaurant marketing expenditures on local marketing in the Kansas City area.

IHOP franchisees and company-operated restaurants allocate a percentage of their sales to local advertising cooperatives and a national advertising fund. The IHOP 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 is typically used to cover the cost of local media purchases and other local advertising expenses incurred by a local advertising cooperative, and (ii) a national advertising fee equal to 1.0% of weekly gross sales under the franchise agreement. Area licensees are generally required to pay lesser amounts toward advertising.

The local IHOP advertising cooperatives have historically used advertising fees for various local marketing programs. The national marketing fund is primarily used for buying media and national advertising and also for the production of advertising. The national marketing fund is also used to defray certain expenses associated with our marketing and advertising functions. Beginning in 2005, and every year thereafter, we 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.

Franchise fees designated for IHOP's national advertising fund and local marketing and advertising cooperatives are recognized as revenue and expense of franchise operations. However, because we have less contractual control over Applebee's advertising expenditures, Applebee's national advertising fund activity is considered to be an agency relationship and therefore is not recognized as franchise revenue and expense.

#### IHOP Area License Agreements

We have entered into two long-term area license agreements for IHOP restaurants covering the state of Florida and certain counties in the state of Georgia, and the province of British Columbia, Canada. The area license agreements provide the licensees with the right to develop and franchise new IHOP restaurants in their respective territories and provide for royalties ranging from 1.0% to 2.0% of gross sales and advertising fees ranging from 0.25% to approximately 2.0% of gross sales. We also derive revenues from the sale of proprietary products to these area licensees and, in certain instances, to their sub-franchisees. Revenues from our area licensees are included in franchise operations revenues for segment reporting purposes.

As of December 31, 2013, the area licensee for the state of Florida and certain counties in Georgia operated or sub-franchised a total of 154 IHOP restaurants. The area licensee for the province of British Columbia, Canada operated or sub-franchised a total of 14 IHOP restaurants. The area license for British Columbia expires in 2026. The area license for Florida and Georgia expires in 2102.

#### Other Franchise-related Revenues and Fees

Approximately 85% of franchise segment revenue for the year ended December 31, 2013 consisted of Applebee's and IHOP royalties and IHOP advertising revenue. Most of the remaining 15% consisted of sales of proprietary products (primarily IHOP pancake and waffle dry-mixes), franchise termination, transfer and extension fees, software maintenance and support fees and licensing fees from third-party retail sales of IHOP-branded products. Depending on circumstances, early termination of a franchise agreement may result in our being entitled to termination fees; however, not all franchise restaurant closures necessarily result in our receipt of termination fees.

#### International Franchising

We continue to pursue international franchising of the Applebee's and the IHOP concepts. 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 our restaurants. We work

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

The success of further international expansion will depend on, among other things, local acceptance of the Applebee's and IHOP concepts 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.

#### Domestic and International Franchise Restaurant Development

Each franchisee is responsible for selecting the site for each new restaurant. 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 may make available to franchisees demographic and other studies. 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.

As of December 31, 2013, we had 84 development agreements with 30 Applebee's franchise groups in place covering the entire United States (except Hawaii and our company-operated market) and 11 development agreements with 11 franchise groups calling for restaurant development in foreign countries. Applebee's development agreements generally provide for a series of two-year development commitments after the initial development period. The Applebee's development agreements in place call for the opening of a combined total of 105 domestic restaurants and 16 international restaurants in 2014 and 2015.

As of December 31, 2013, we had signed commitments and options from IHOP franchisees to build 263 IHOP restaurants over the next 16 years, comprised of four restaurants under single restaurant or non-traditional development agreements, 146 restaurants under domestic multi-restaurant development agreements and 81 restaurants under international development agreements. The signed agreements include options to build an additional 32 restaurants over the next 13 years.

During 2014, we expect our franchisees to open a total of between 40 to 50 new IHOP restaurants and a total of between 40 to 50 new Applebee's restaurants, primarily in the domestic market.

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

#### Franchise Operations

We continuously monitor franchise restaurant operations. Company and third-party representatives make both scheduled and unannounced inspections of franchised 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. Due to cultural and regulatory differences, we may have different requirements for restaurants opened outside of the United States. We also monitor the financial health of our franchisees through business and financial reviews.

#### Composition of Franchise Systems

As of December 31, 2013, there were 36 Applebee's franchisees that owned a total of 1,838 domestic Applebee's franchise restaurants. The number of domestic restaurants held by an individual franchisee ranged from one restaurant to 448 restaurants. As of December 31, 2013, there were 25 franchisees that owned a total of 150 international Applebee's franchise restaurants. The number of international restaurants held by an individual franchisee ranged from one restaurant to 21 restaurants. Our five largest Applebee's franchisees own 47% of the total 1,988 Applebee's franchise restaurants.

As of December 31, 2013, there were 333 franchisees that owned a total of 1,551 domestic IHOP franchise restaurants, including 153 franchisees that each own one franchise restaurant. The largest individual IHOP franchisee owned 154 domestic restaurants. As of December 31, 2013, there were 14 franchisees and one area licensee that owned a total of 56 international IHOP franchise restaurants. The number of international restaurants held by an individual franchisee ranged from one restaurant to 14 restaurants. Our five largest IHOP franchisees own 24% of the total 1,607 IHOP franchise restaurants.

Company-Operated Restaurants

As of December 31, 2013, we operated 23 Applebee's restaurants located in the Kansas City, Missouri market area and 10 IHOP restaurants located in the Cincinnati, Ohio market area. We operate these restaurants primarily to test new remodel programs, operating procedures, products, technology, cooking platforms and service models and accordingly, we do not anticipate these restaurants will generate a significant amount of profit or loss in any given period. Additionally, from time to time, we have reacquired IHOP restaurants from IHOP franchisees for a variety of reasons. In most cases we have been able to

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quickly rebrand these restaurants to new franchisees. Where that is not the case, we typically operate the reacquired restaurants until they can be rebranded. These temporarily reacquired restaurants may require investments in remodeling and rehabilitation before they can be rebranded. As a result, our reacquired restaurants may incur operating losses for some period of time. At December 31, 2013, we operated three such reacquired IHOP restaurants.

#### Supply Chain

In February 2009, Centralized Supply Chain Services, LLC (“CSCS” or the “Co-op”), an independent cooperative entity, was formed by us and franchisees of Applebee's and IHOP domestic restaurants who have chosen to join the Co-op. CSCS has been appointed 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. We (as operator of 36 company restaurants) are a member of CSCS and have committed to purchase substantially all goods, equipment and distribution services for company-operated restaurants through the CSCS supply chain program. As of December 31, 2013, 100% of Applebee's franchise restaurants and 99% of IHOP franchise restaurants were members of CSCS. 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. We do not control CSCS but do have contractual rights associated with supplier certification, quality assurance and protection of our intellectual property. The operations of CSCS are funded by a separately stated administrative fee added to one or more products purchased by operators.

We believe the larger scale provided by combining the supply chain requirements of both brands provides continuing cost savings and efficiencies while helping to ensure compliance with our quality and safety standards.

#### Industry Overview and Competition

Applebee's and IHOP are among the numerous restaurant chains and independent restaurants competing in the restaurant industry in the United States. The restaurant industry is generally categorized into segments by price point ranges, the types of food and beverages offered and the types of service available to customers. These segments include, among others, fast food or quick service restaurants (“QSR”), fast-casual dining, family dining, casual dining and fine dining. Casual dining restaurants offer full table service and typically have bars or serve liquor, wine and beer, while 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.

Applebee's competes in the casual dining segment against national and multi-state restaurant chains such as Chili's, T.G.I. Friday's, Olive Garden, Red Lobster and Buffalo Wild Wings, among others, as well as fast-casual restaurant chains. In addition, there are many independent restaurants across the country in the casual dining segment. Amongst our competitors, Applebee's is the largest casual dining concept in the United States in terms of 2012 system-wide sales<sup>(1)</sup>.

IHOP competes in the family dining segment against national and multi-state restaurant chains such as Denny's, Cracker Barrel Old Country Store and Bob Evans Restaurants. IHOP also faces competition from QSR restaurant chains and fast-casual restaurant chains that serve breakfast. In addition, there are many independent restaurants and diners across the country in the family dining segment. Amongst our competitors, IHOP is the largest family dining concept in the United States in terms of 2012 system-wide sales<sup>(1)</sup>.

The restaurant industry 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 commercial real estate is also very competitive. We and our franchisees compete with other restaurant chains and retail businesses for suitable sites for the development of new restaurants. We also compete against other franchisors both within and outside the restaurant industry for new franchise developers. For further information regarding competition, see Item 1A, Risk Factors.

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<sup>(1)</sup> Source: Nation's Restaurant News, "Special Report: Top 100," June 24, 2013.

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### Trademarks and Service Marks

We and our affiliates have registered certain trademarks and service marks with the United States Patent and Trademark Office and various international jurisdictions, including “DineEquity®” and “Great Franchisees. Great Brands.®” We own trademarks and service marks used in the Applebee's system, including “Applebee's®,” “Applebee's Neighborhood Grill & Bar®” and variations of each. In addition, we own trademarks and service marks used in the IHOP system, including “IHOP®,” “International House of Pancakes®” and variations of each.

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

### Information Technology

We utilize programmed point of sale systems, kitchen data management, and back-of-the house systems for accounting and inventory management in our company restaurants. In addition, we are developing several consumer-facing technology initiatives focused on improving our customers' experience. Sales and product mix information is transmitted to our restaurant support centers on a daily basis and this information supports our operations and marketing initiatives. We mitigate the potential impact from operational interruption of our information technology systems through a disaster recovery plan that is updated on a regular basis. We believe that technology is and will continue to be a key component of our long-term plans and are committed to providing system stability and targeted innovation. Our use of technology, particularly in terms of managing electronic payments and confidential information, also represents security and operational risks that we must manage and may result in additional costs incurred.

We accept credit cards, third party gift cards, and branded gift cards as payment in our restaurants. We submit our systems to regular audit and review, as required by Payment Card Industry Standards, including periodic scanning of our networks to check for vulnerability. In addition, we participate in annual audits of our financial and human resources systems to verify that measures are in place to protect our employees' personally identifiable information.

As a franchisor, we are not responsible for ensuring that our franchisees maintain compliance; however, we regularly encourage them to take similar steps to maintain compliance and to mitigate risk. For further information regarding Information Technology, see Item 1A, Risk Factors.

### Research and Development

We do not engage in any material amount of research and development activity from a financial perspective. We do engage in ongoing culinary development and testing, in addition to consumer research into customers' preferences and opinions as well as overall industry trends; however, these activities are generally not considered research and development as determined under United States generally accepted accounting principles (“U.S. GAAP”).

### Seasonality

We do not consider our operations to be seasonal to any material degree. We do experience a slight increase in the first quarter due to redemptions of gift cards sold during the December holiday season. Over the past five years, 26% of our annual system-wide sales (retail sales reported to us by our franchisees plus sales at our company-operated restaurants) occurred in the first quarter. Sales at restaurants owned by franchisees are not attributable to the Company.

### Government Regulation

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



State laws that regulate the offer and sale of franchises and the franchisor-franchisee relationship presently exist in a number of states and some of these laws require registration of the franchise offering with the state authorities. Those states that regulate the franchise relationship generally require that the franchisor deal with its franchisees in good faith, prohibit interference with the right of free association among franchisees, limit the imposition of unreasonable standards of performance on a franchisee and regulate discrimination against franchisees with respect to charges, royalty fees or other fees. Although such laws may restrict a franchisor in the termination and/or non-renewal of a franchise agreement by, for example, requiring

"good cause" to exist as a basis for the termination and/or non-renewal, advance notice to the franchisee of the termination or non-renewal, an opportunity to cure a default and a repurchase of inventory or other compensation upon termination, these provisions have not historically had a significant effect on our franchise operations. Each restaurant is subject to licensing and regulation by a number of governmental authorities, which may include liquor license authorities (primarily in the case of Applebee's restaurants), health, sanitation, safety, fire, building and other agencies in the state or municipality in which the restaurant is located. We are also subject to new laws and regulations, which vary from jurisdiction to jurisdiction, relating to nutritional content and menu labeling. 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 both our own and our franchisees' relationships with our respective employees. These include such matters as minimum wage requirements, overtime and other working conditions. Significant additional government-imposed increases in minimum wages, paid leaves of absence, mandated health benefits or increased tax reporting and tax payment requirements with respect to employees who receive gratuities could be detrimental to the economic viability of our restaurants.

In March 2010, President Obama signed the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010. The legislation is far-reaching and is intended to expand access to health insurance coverage over time by adjusting the eligibility thresholds for most state Medicaid programs and providing certain other individuals and small businesses with tax credits to subsidize a portion of the cost of health insurance coverage. The legislation includes a requirement that most individuals obtain health insurance coverage beginning in 2014 and a requirement that certain large employers offer coverage to their employees or pay a financial penalty. We expect that our health insurance coverage expenses, and the health insurance coverage expenses of our franchisees, will increase over the long term as a result of this legislation, and any such increases could adversely affect our business, cash flows, financial condition and results of operations.

In recent years, there has been an increased legislative, regulatory and consumer focus at the federal, state and municipal levels on the food industry including nutrition and advertising practices. Restaurants operating in the quick-service and fast-casual segments have been a particular focus. In addition to the United States Food and Drug Administration's proposed menu labeling requirements for restaurants, a number of other jurisdictions around the United States have adopted regulations requiring that chain restaurants include calorie information on their menus or make other nutritional information available. Initiatives in the area of nutrition disclosure or advertising, such as requirements to provide information about the nutritional content of our food, may result in increased costs of compliance with the requirements and may also change customer buying habits in a way that adversely impacts our sales. For further information regarding governmental regulation, see Item 1A, Risk Factors.

#### Environmental Matters

We are subject to federal and state environmental regulations, but historically these have not had a material effect on our operations. 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. For further information regarding environmental matters, see Item 1A, Risk Factors.

#### Employees

At December 31, 2013, we had approximately 2,530 employees, of whom approximately 500 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. Our franchisees are independent business owners, so their employees are not included in our employee count.

#### Corporate Information

We were incorporated under the laws of the State of Delaware in 1976 with the name IHOP Corp. In November 2007, we completed the acquisition of Applebee's, which became a wholly-owned subsidiary of the Company. Effective June 2, 2008, we changed our name to DineEquity, Inc. Our principal executive offices are located at 450 North Brand Boulevard, Glendale, California 91203-2306 and our telephone number is (818) 240-6055. Our Internet address is [www.dineequity.com](http://www.dineequity.com). Our common stock is listed on the New York Stock Exchange ("NYSE") and trades under the ticker symbol "DIN."

We have a 52/53 week fiscal year ending 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 interim fiscal quarters as ending on March 31, June 30 and September 30 of

the respective fiscal year. There were 52 weeks in our 2013, 2012 and 2011 fiscal years, which ended on December 29, 2013, December 30, 2012, and January 1, 2012, respectively.

#### Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports filed with or furnished to United States Securities and Exchange Commission (the "SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge through our website as soon as reasonably practicable after electronically filing such material with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding our filings at [www.sec.gov](http://www.sec.gov). In addition, the public may read and copy the materials we file with the SEC at the SEC's Public Reference Room at 100 F. Street, NE, Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The above references to our website and the SEC's website do not constitute incorporation by reference of the information contained on those websites and should not be considered part of this document.

#### Item 1A. Risk Factors.

##### General

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

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

Our business is affected by general economic conditions that are largely out of our control. Our business is dependent to a significant extent on national, regional and local economic conditions, and, to a lesser extent, on global economic conditions, particularly those conditions affecting the demographics of the guests that frequently patronize Applebee's or IHOP restaurants. If our customers' disposable income available for discretionary spending is reduced (because of circumstances such as job losses, credit constraints, higher housing costs, increased tax rates, energy costs, interest rates or other costs) or if the perceived wealth of customers decreases (because of circumstances such as lower residential real estate values, increased foreclosure rates, increased tax rates or other economic disruptions), our business could experience lower sales and customer traffic as potential customers choose lower-cost alternatives (such as quick-service restaurants or fast casual dining) or choose alternatives to dining out. Any decreases in customer traffic or average value per transaction due to these or other reasons could:

- reduce gross sales at franchise restaurants, resulting in lower royalty and other payments from franchisees,
- reduce the profitability of franchise restaurants, potentially impacting the ability of franchisees to make royalty payments when they are due and to develop new restaurants as may be required in their respective development agreements, and
- negatively impact the financial performance of our company-operated restaurants.

Our level of indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under our debt. As of December 31, 2013, we had \$1.2 billion of outstanding Senior Notes and Term Loans. In addition, we had approximately \$0.2 billion in financing and capital lease obligations as of December 31, 2013. Our level of indebtedness could have important consequences to our financial health. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our debt;
- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- require us to dedicate a substantial portion of our cash flow from operations to debt service, thereby reducing the availability of our cash flow to pay dividends to our stockholders, repurchase shares of our common stock, fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that are not as highly leveraged;
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds; and

result in an event of default if we fail to satisfy our obligations under our debt or fail to comply with the financial and other restrictive covenants contained in our debt documents, which event of default could result in all of our debt becoming immediately due and payable and could permit certain of our lenders to foreclose on our assets securing such debt.

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

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

Declines in our financial performance could result in impairment charges in future periods. United States generally accepted accounting principles (“U.S. GAAP”) require annual (or more frequently if events or changes in circumstances warrant) impairment tests of goodwill, intangible assets and other long-lived assets. Generally speaking, if the carrying value of the asset is in excess of the estimated fair value of the asset, the carrying value will be adjusted to fair value through an impairment charge. Fair values of goodwill and intangible assets are primarily estimated using discounted cash flows based on five-year forecasts of financial results that incorporate assumptions as to same-restaurant sales trends, future development plans and brand-enhancing initiatives, among other things. Fair values of long-lived tangible assets are primarily estimated using discounted cash flows over the estimated useful lives of the assets. Significant underachievement of forecasted results could reduce the estimated fair value of these assets below the carrying value, requiring non-cash impairment charges to reduce the carrying value of the asset. As of December 31, 2013, our total stockholders' equity was \$315.2 million. A significant impairment write-down of goodwill, intangible assets or long-lived assets in the future could result in a deficit balance in stockholders' equity. While such a deficit balance would not create an event 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.

Many factors, including those over which we have no control, affect the trading volatility and price of our stock. Many factors, in addition to our operating results, may have an impact on the trading volatility and price of our common stock. These factors include general economic and market conditions, publicity regarding us, our competitors, or the restaurant industry generally, changes in financial estimates by securities analysts, changes in financial or tax reporting and accounting principles or practices, trading activity in our common stock, and the impact of our capital allocation initiatives, including any future stock repurchase programs or dividend declarations. A number of these factors are outside of our control, and any failure to meet market expectations whether for sales growth rates, earnings per share or other metrics could cause our share price to decline.

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

The restaurant industry is highly competitive, and that competition could lower our revenues, margins and market share. The performance of individual restaurants may be adversely affected by factors such as traffic patterns, demographics and the type, number and location of competing restaurants. The restaurant industry is highly competitive with respect to price, service, location, personnel and the type and quality of food. Each Applebee's and IHOP restaurant competes directly and indirectly with a large number of national and regional restaurant chains, as well as independent businesses. The trend toward convergence in grocery, deli, and restaurant services, as well as the continued expansion of restaurants into the breakfast daypart, may increase the number and variety of Applebee's and IHOP restaurants' competitors. In addition to the prevailing baseline level of competition, major market players in non-competing industries may choose to enter the food services market which could decrease the market share of Applebee's and IHOP in each of their respective categories. 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 our franchisees 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 other restaurant chains, as well as substantial price discounting, and are likely to face such competition in the future. The future success of new products, initiatives and overall strategies is highly 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 franchise payments received from our franchisees and the revenues generated by our company-owned restaurants.

Our business strategy may not achieve anticipated results. We expect to continue to apply a business strategy that includes, among other things, (i) operation of a 99% franchised restaurant system; (ii) the maintenance of a purchasing cooperative that procures products and services for our Applebee's and IHOP restaurants; (iii) the possible introduction of new restaurant concepts; and (iv) the continued implementation of a shared service model across the brands for various functions, including legal, human resources, communications, quality assurance, information technology, finance and centers of excellence in development and operations support. 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 one franchise system will be suitable or will achieve results similar to the application of such business strategy to the other franchise system. The actual benefit from the refranchising of the Applebee's company-operated restaurants is uncertain and may be less than anticipated. In addition, our operational improvement, purchasing and other strategic initiatives may not be successful or achieve the desired results. In particular, there can be no assurance that the existing franchisees or prospective new franchisees will respond favorably to such initiatives.

Our performance is subject to risks associated with the restaurant industry. We derive a substantial portion of our revenues in the form of royalties based on a percentage of the net sales of our franchised restaurants. The sales and profitability of these restaurants and, in turn, payments from our franchisees may be negatively impacted by a number of factors, some of which are outside of our control. The most significant are:

- declines in comparable-restaurant sales growth rates due to: (i) failing to meet customers' expectations for food quality and taste or to innovate new menu items to retain the existing customer base and attract new customers;
- (ii) competitive intrusions in our markets; (iii) opening new restaurants that cannibalize the sales of existing restaurants; (iv) failure of national or local marketing to be effective; (v) weakening national, regional and local economic conditions; and (vi) natural or man-made disasters or adverse weather conditions.
- negative trends in operating expenses such as: (i) increases in food costs including rising commodity costs;
- (ii) increases in labor costs including increases mandated by minimum wage and other employment laws, immigration reform, the potential impact of union organizing efforts, increases due to tight labor market conditions and the Patient Protection and Affordable Care Act; and (iii) increases in other operating costs including advertising, utilities, lease-related expenses and credit card processing fees;
- the inability to open new restaurants that achieve and sustain acceptable sales volumes;
- the inability to increase menu pricing to offset increased operating expenses;
- failure to effectively manage further penetration into mature markets;
- negative trends in the availability of credit and in expenses such as interest rates and the cost of construction materials that will affect our ability or our franchisees' ability to maintain and refurbish existing restaurants;
- the inability to manage our company-owned restaurants due to unanticipated changes in, or availability of, qualified restaurant management, staff and other personnel; and
- 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.



A lack of availability of suitable locations for new restaurants or a decline in the quality of the locations of our current restaurants may adversely affect our sales and results of operations. The success of our restaurants depends in large part on their locations. As demographic and economic patterns change, current locations may not continue to be attractive or profitable. Potential declines in neighborhoods where our restaurants are located or adverse economic conditions in areas surrounding those neighborhoods could result in reduced sales in those locations. In addition, desirable locations for new restaurant openings or for the relocation of existing restaurants may not be available at an acceptable cost when we identify a particular opportunity for a new restaurant or relocation. Additionally, restaurant revitalization initiatives may not be completed as and when projected and may not produce the results we expect.

A failure to address cost pressures, including rising costs for labor, food commodities and utilities used by our and our franchisees' restaurants, and a failure of the Co-op to effectively deliver cost management activities and achieve economies of scale in purchasing, may compress our franchisees' operating margins and adversely affect our and our franchisees' business results. Our and our franchisees' business results depend highly on the ability to anticipate and react to changes in the availability and pricing of food commodities, utilities, and other related costs over which we may have little control. Operating margins for our and our franchisees' restaurants are subject to increases in labor costs mandated by health care laws, employment laws, immigration reform, union organizing efforts and labor market conditions. In addition, our and our franchisees' operating margins are subject to changes in the pricing and availability of beef, pork, eggs, cheese, coffee and produce. We attempt to leverage our size to achieve economies of scale in purchasing through the Co-op, but there can be no assurances that we can always do so effectively. We are subject to the general risks of inflation. Restaurant operating margins are also affected by fluctuations in the price of utilities such as electricity and natural gas, whether as a result of inflation or otherwise, on which the restaurants depend for their energy supply. Our inability to anticipate and respond effectively to any of these cost pressures could have an adverse effect on our business results.

We may experience shortages or interruptions in the supply or delivery of food and other products from third parties or in the availability of utilities. Our franchised and company-operated restaurants are dependent on frequent deliveries of fresh produce, food, beverage and other products. This subjects us to the risk of shortages or interruptions in food and beverage supplies which may result from a variety of causes including, but not limited to, shortages due to adverse weather, labor unrest, political unrest, terrorism, outbreaks of food-borne illness, disruption of operation of production facilities, the financial difficulties, including bankruptcy, of our suppliers 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 payments we receive from our franchisees or our pancake and waffle dry mix distributors or the profits generated by our company-operated restaurants. In addition, interruptions to the availability of gas, electric, water or other utilities may adversely affect our operations.

A failure to develop and implement innovative marketing and guest relationship initiatives, ineffective or improper use of social media or other marketing initiatives, and increased advertising and marketing costs, could adversely affect our business results. If our competitors increase their spending on advertising and promotions, if our advertising, media or marketing expenses increase, or if our advertising and promotions become less effective than those of our competitors, we could experience a material adverse effect on our business results. A failure to sufficiently innovate, develop guest relationship initiatives, or maintain adequate and effective advertising could inhibit our ability to maintain brand relevance and drive increased sales.

As part of our marketing efforts, we rely on search engine marketing and social media platforms to attract and retain guests. These efforts may not be successful, resulting in expenses incurred without the benefit of higher revenues or increased employee engagement. In addition, a variety of risks are associated with the use of social media, including the improper disclosure of proprietary information, negative comments about our brands, exposure of personally identifiable information, fraud, or out-of-date information. The inappropriate use of social media vehicles by our franchisees, guests or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation. These efforts may not be successful, and pose a variety of other risks, as discussed below under the heading: "We rely heavily on information technology in our operations, and insufficient guest or employee facing technology, or any material failure, inadequacy, interruption or breach of security of any of our technology,

could harm our ability to effectively operate our business.”

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

We face a variety of risks associated with doing business with franchisees and vendors in foreign markets. Our expansion into international markets could create risks to our brands and reputation. We believe that we have selected high-caliber international franchisees with significant experience in restaurant operations. However, the ultimate success and quality of any franchise restaurant rests with the franchisee. If the franchisee does not successfully operate its restaurants in a manner consistent with our standards, or customers have negative experiences due to issues with food quality or operational execution, our brand values could suffer, which could have an adverse effect on our business.

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

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

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

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

We and our franchisees are subject to a variety of litigation. We and our franchisees are subject to complaints or litigation from guests alleging illness, injury or other food quality, food safety, health or operational concerns. We and our franchisees are also subject to "dram shop" laws in some states pursuant to which we and our franchisees may be subject to liability in connection with personal injuries or property damages incurred in connection with wrongfully serving alcoholic beverages to an intoxicated person. We may also initiate legal proceedings against franchisees for breach of the terms of their franchise agreements, including underreporting of sales, failure to operate restaurants according to standard operating procedures and payment defaults. Such claims may reduce the ability of our

franchisees to make payments to us and the profits generated by our company-operated restaurants. 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.

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. We regard our service marks and trademarks related to our restaurant businesses as having significant value and being important to our marketing efforts. To protect our restaurants and services from infringement, we rely on contracts, copyrights, patents, trademarks, service marks and other common law rights, such as trade secret and unfair competition laws. We have registered certain trademarks and service marks in the United States and foreign jurisdictions; however, effective intellectual property protection may not be available in every country in which we have or intend to open or franchise a restaurant. Although we

believe we have taken appropriate measures to protect our intellectual property, there can be no assurance that these protections will be adequate.

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

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

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

Our failure or the failure of our franchisees to comply with federal, state and local governmental regulations may subject us to losses and harm our brands. We are subject to the Fair Labor Standards Act (which governs such matters as minimum wages, overtime and other working conditions), along with the Americans with Disabilities Act, the Immigration Reform and Control Act of 1986, various family leave mandates and a variety of other laws enacted, or rules and regulations promulgated by federal, state and local governmental authorities that govern these and other employment matters, including tip credits, working conditions, safety standards and immigration status. We expect increases in payroll expenses as a result of federal and state mandated increases in the minimum wage, and although such increases are not expected to be material, we cannot assure you that there will not be material increases in the future. Enactment and enforcement of various federal, state and local laws, rules and regulations on immigration and labor organizations may adversely impact the availability and costs of labor for our restaurants in a particular area or across the United States. Other labor shortages or increased team member turnover could also increase labor costs. In addition, our vendors may be affected by higher minimum wage standards or availability of labor, which may increase the price of goods and services they supply to us. We continue to review the Patient Protection and Affordable Care Act and regulations issued related thereto to evaluate the potential impact of this new law on our business, and to accommodate various parts of the law as they take effect. There are no assurances that a combination of cost management and price increases can accommodate all of the costs associated with compliance.

We are subject to extensive federal, state and local governmental regulations, including those relating to the food safety and inspection and the preparation and sale of food and alcoholic beverages. Disruptions within any government agencies could impact the U.S. food industry which may have an adverse affect on our business. We are

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

In addition, we are subject to laws and regulations, which vary from jurisdiction to jurisdiction, relating to nutritional content and menu labeling. Compliance with these laws and regulations may lead to increased costs and operational complexity

and may increase our exposure to governmental investigations or litigation. In connection with the continued operation or remodeling of certain restaurants, we or our franchisees may be required to expend funds to meet federal, state and local and foreign regulations. The inability to obtain or maintain such licenses or publicity resulting from actual or alleged violations of such laws could have an adverse effect on our results of operations.

Finally, we are subject to federal regulation and certain state laws which govern the offer and sale of franchises. Many state franchise laws contain provisions that supersede the terms of franchise agreements, including provisions concerning the termination or non-renewal of a franchise. Some state franchise laws require that certain materials be registered before franchises can be offered or sold in that state. The failure to obtain or retain licenses or approvals to sell franchises could adversely affect us and the franchisees. Changes in, and the cost of compliance with, government regulations could have a material effect on operations.

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

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

We cannot assure that the development and construction of franchised restaurants will be completed, or that any such development will be completed in a timely manner. We cannot assure that present or future development plans 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 ability or sufficient access to financial resources necessary to open and operate the restaurants required by their agreements. It cannot be assured that franchisees will successfully participate in our strategic initiatives or operate their restaurants in a manner consistent with our concepts and standards.

Approximately 99% of our restaurants are owned and operated by our franchisees and, as a result, we are highly dependent upon our franchisees. We have significantly increased the percentage of restaurants owned and operated by our franchisees. As a result, we expect to receive less revenue from company restaurant sales and any increase in general and administrative expenses may have a greater impact on our financial condition and business results. While our franchise agreements are designed to maintain brand consistency, this increase in the franchised-operated restaurants reduces our direct day-to-day control over these restaurants and may expose us to risks not otherwise encountered if we maintained ownership and control of the restaurants. These risks include franchisee defaults on their obligations to us arising from financial or other difficulties encountered by them, such as payments to us or maintenance and improvement obligations; limitations on enforcement of franchise obligations due to bankruptcy or insolvency proceedings; unwillingness of franchisees to support our marketing programs and strategic initiatives; inability to participate in business strategy changes due to financial constraints; inability to meet rent obligations on leases on which we retain contingent liability; failure to operate restaurants in accordance with required standards; failure to report sales information accurately; efforts by one or more large franchisees or an organized franchise



association to cause poor franchise relations; and failure to comply with food quality and preparation requirements subjecting us to potential losses even when we are not legally liable for a franchisee's actions or failure to act. Although we believe that our current relationships with our franchisees are generally good, there can be no assurance that we will maintain strong franchise relationships. Our dependence on franchisees could adversely affect us, our reputation and our brands, and could adversely affect our business, financial condition and results of operations.

Concentration of Applebee's franchised restaurants in a limited number of franchisees subjects us to greater credit risk. As of December 31, 2013, Applebee's franchisees operated 1,988 Applebee's restaurants in the United States, comprising 99% of the total Applebee's restaurants in the United States. Of those restaurants, the ten largest Applebee's franchisees owned 1,255 restaurants, representing 63% of all franchised Applebee's restaurants in the United States. The largest Applebee's franchisee owned 448 restaurants, representing 23% 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. Development rights for Applebee's restaurants are also concentrated among a limited number of existing franchisees. If any of these existing franchisees experience financial difficulties, future development of Applebee's restaurants may be materially adversely affected.

We are subject to credit risk from our IHOP franchisees operating under our Previous Business Model, and a default by these franchisees may negatively affect our cash flows. Of the 1,439 IHOP restaurants subject to franchise agreements as of December 31, 2013, over half operate under the Previous Business Model. The Company was involved in all aspects of the development and financing of the IHOP restaurants established prior to 2003. Under the Previous Business Model, the Company typically identified and leased or purchased the restaurant sites, built and equipped the restaurants and then franchised them to franchisees. In addition, IHOP typically financed as much as 80% of the franchise fee for periods ranging from five to eight years and leased the restaurant and equipment to the franchisee over a 25-year period. Therefore, in addition to franchise fees and royalties, the revenues received from an IHOP franchisee operating under the Previous Business Model include, among other things, lease or sublease rents for the restaurant property building, rent under an equipment lease and interest income from the financing arrangements for the unpaid portion of the franchise fee under the franchise notes. If any of these IHOP franchisees were to default on their payment obligations to us, we may be unable to collect the amounts owed under the building property lease/sublease agreement and our notes and equipment contract receivables, as well as outstanding franchise royalties. The additional amounts owed to us by each of these IHOP franchisees subject us to greater credit risk and defaults by IHOP franchisees operating under our Previous Business Model and may negatively affect our cash flows.

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

Franchisees may breach the terms of their franchise agreements in a manner that adversely affects our brands. Franchisees are required to conform to specified product quality standards and other requirements pursuant to their franchise agreements in order to protect our brands and to optimize restaurant performance. However,

franchisees may receive through the supply chain or produce sub-standard food or beverage products, which may adversely impact the reputation of our brands. Franchisees may also breach the standards set forth in their respective franchise agreements.

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

Accordingly, in cases in which a franchisee experiences increased insurance premiums or must pay claims out-of-pocket, the franchisee may not have the funds necessary to make franchise payments to us.

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

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

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

The inability of franchisees to fund capital expenditures may adversely impact future growth. Our business strategy includes the periodic updating of Applebee's and IHOP restaurant locations through new remodel programs and other operational changes. The success of our 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.

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

have a material adverse effect on the Applebee's or IHOP intellectual property.

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

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

As part of our marketing efforts, we rely on search engine marketing and social media platforms to attract and retain guests. These efforts may not be successful, and pose a variety of other risks, as discussed above under the heading: “A failure to develop and implement innovative marketing and guest relationship initiatives, ineffective or improper use of social media or other marketing initiatives, and increased advertising and marketing costs, could adversely affect our results of operations.”

The occurrence of cyber incidents, or a deficiency in our cybersecurity, could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information, and/or damage to our employee and business relationships, all of which could subject us to loss and harm our brands. A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity, or availability of our information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data, or steal confidential information about our customers, franchisees, vendors and employees. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. Our three primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our relationship with our tenants, and private data exposure. In addition to maintaining insurance coverage to address cyber incidents, we also have implemented processes, procedures and controls to help mitigate these risks. However, these measures, as well as our increased awareness of a risk of a cyber incident, do not guarantee that our reputation and financial results will not be negatively impacted by such an incident.

Our use of personally identifiable information is regulated by foreign, federal and state laws, as well as by certain third-party agreements. If our security and information systems are compromised or if our employees or franchisees fail to comply with these laws and regulations, and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation and could disrupt our operations and result in costly litigation, judgments, or 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 those laws and regulations.

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

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

Retail brand development initiatives could negatively impact our IHOP brand. Our business expansion into retail product licensing could create new risks to our IHOP brand and reputation. During 2011, IHOP launched a line of premium frozen breakfast entrées and pancake syrups in retail outlets. We believe that this new retail product offering is a growth opportunity that allows our brand to reach additional customers more often. If customers have negative perceptions or experiences with our retail products, our brand value could suffer which could have an adverse effect on our business.

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

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

Item 1B. Unresolved Staff Comments.

None.



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Item 2. Properties.

The table below shows the location and ownership type of Applebee's and IHOP restaurants as of December 31, 2013:

	Applebee's			IHOP			Area License	Total
	Franchise	Company	Total	Franchise	Company			
United States								
Alabama	30	—	30	21	—	—		21
Alaska	2	—	2	4	—	—		4
Arizona	27	—	27	40	—	—		40
Arkansas	11	—	11	15	—	—		15
California	117	—	117	229	—	—		229
Colorado	25	—	25	31	—	—		31
Connecticut	7	—	7	7	—	—		7
Delaware	12	—	12	7	—	—		7
District of Columbia	—	—	—	2	—	—		2
Florida	108	—	108	—	—	150	* 150	
Georgia	68	—	68	76	—	4	* 80	
Hawaii	—	—	—	6	—	—		6
Idaho	12	—	12	8	—	—		8
Illinois	47	—	47	52	1	—		53
Indiana	66	—	66	23	—	—		23
Iowa	27	—	27	9	—	—		9
Kansas	24	10	34	21	1	—		22
Kentucky	37	—	37	7	1	—		8
Louisiana	18	—	18	30	—	—		30
Maine	12	—	12	1	—	—		1
Maryland	26	—	26	38	—	—		38
Massachusetts	28	—	28	20	—	—		20
Michigan	86	—	86	21	—	—		21
Minnesota	58	—	58	12	—	—		12
Mississippi	21	—	21	11	—	—		11
Missouri	45	13	58	27	—	—		27
Montana	8	—	8	5	—	—		5
Nebraska	19	—	19	5	—	—		5
Nevada	14	—	14	24	—	—		24
New Hampshire	14	—	14	4	—	—		4
New Jersey	57	—	57	40	—	—		40
New Mexico	18	—	18	20	—	—		20
New York	113	—	113	57	—	—		57
North Carolina	58	—	58	51	—	—		51
North Dakota	12	—	12	2	—	—		2
Ohio	93	—	93	22	9	—		31
Oklahoma	23	—	23	28	—	—		28
Oregon	21	—	21	7	—	—		7
Pennsylvania	77	—	77	17	—	—		17
Rhode Island	8	—	8	3	—	—		3
South Carolina	40	—	40	29	—	—		29
South Dakota	6	—	6	5	—	—		5
Tennessee	42	—	42	36	—	—		36
Texas	101	—	101	188	—	—		188

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Utah	16	—	16	19	—	—	19
Vermont	3	—	3	1	—	—	1
Virginia	73	—	73	60	—	—	60
Washington	42	—	42	32	—	—	32
West Virginia	17	—	17	7	—	—	7
Wisconsin	44	—	44	14	1	—	15
Wyoming	5	—	5	3	—	—	3
Total Domestic	1,838	23	1,861	1,397	13	154	1,564

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	Applebee's			IHOP			Total
	Franchise	Company	Total	Franchise	Company	Area License	
International							
Brazil	13	—	13	—	—	—	—
Canada	18	—	18	7	—	14	* 21
Chile	4	—	4	—	—	—	—
Costa Rica	3	—	3	—	—	—	—
Dominican Republic	1	—	1	1	—	—	1
Egypt	1	—	1	—	—	—	—
Guatemala	3	—	3	2	—	—	2
Honduras	5	—	5	—	—	—	—
Jordan	1	—	1	—	—	—	—
Kuwait	5	—	5	2	—	—	2
Lebanon	1	—	1	—	—	—	—
Mexico	65	—	65	20	—	—	20
Philippines	—	—	—	3	—	—	3
Puerto Rico	4	—	4	2	—	—	2
Qatar	6	—	6	—	—	—	—
Saudi Arabia	15	—	15	1	—	—	1
Singapore	—	—	—	—	—	—	—
St. Croix, Virgin Islands	—	—	—	1	—	—	1
United Arab Emirates	5	—	5	3	—	—	3
Total International	150	—	150	42	—	14	56
Totals	1,988	23	2,011	1,439	13	168	1,620

\* of these restaurants 62 in Florida, 4 in Georgia and 12 in Canada have been sub-licensed by the area licensee

As of December 31, 2013, we operated 23 Applebee's restaurants and 13 IHOP restaurants. Our intention is to continue to operate the 23 Applebee's restaurants in the Kansas City, Missouri market and 10 IHOP restaurants in the Cincinnati, Ohio market. Of these restaurants, we leased the building for five sites, owned the building and leased the land for 11 sites, owned the land and building for two sites and leased the land and building for 18 sites. We are temporarily operating the remaining three IHOP company-operated restaurants until they are refranchised.

Of the 1,439 IHOP restaurants operated by franchisees, 61 were located on sites owned by us, 662 were located on sites leased by us from third parties and 716 were located on sites owned or leased by franchisees. All of the IHOP restaurants operated by area licensees and 1,987 of the franchisee-operated Applebee's restaurants were located on sites owned or leased by the area licensees or the franchisees. We owned one site on which a franchisee-operated Applebee's restaurant was located.

Leases of IHOP restaurants generally provide for an initial term of 20 to 25 years, with most having one or more five-year renewal options. Leases of Applebee's restaurants generally have an initial term of 10 to 20 years, with renewal terms of five to 20 years. In addition, a substantial number 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 substantially all IHOP franchised restaurants developed by us under our Previous Business Model are subleased to the franchisees, IHOP has the ability to regain possession of the

subleased restaurant if the franchisee defaults in the payment of rent or other terms of the sublease.

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

## Item 3. Legal Proceedings.

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

## Item 4. Mine Safety Disclosure.

Not Applicable.

## PART II

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

## Market Information

Our common stock is traded on the NYSE under the symbol "DIN". The following table sets forth the high and low sales prices of our common stock on the NYSE for each quarter of 2013 and 2012.

Quarter	Fiscal Year 2013		Fiscal Year 2012	
	High	Low	High	Low
First	\$78.39	\$65.44	\$54.74	\$40.28
Second	\$74.96	\$66.39	\$53.90	\$41.63
Third	\$72.49	\$64.44	\$57.40	\$41.49
Fourth	\$85.74	\$65.96	\$68.47	\$55.51

## Holders

The number of stockholders of record and beneficial owners of our common stock as of February 7, 2014 was estimated to be 7,500.

## Dividends

We did not pay dividends on our common stock during the year ended December 31, 2012. During the year ended December 31, 2013, we paid dividends on our common stock as follows:

Year ended December 31, 2013	Declaration date	Payment date	Dividend per share	Total <sup>(1)</sup> (In millions)
First quarter	February 26, 2013	March 29, 2013	\$0.75	\$14.6
Second quarter	May 14, 2013	June 28, 2013	0.75	14.4
Third quarter	August 2, 2013	September 27, 2013	0.75	14.3
Fourth quarter	October 3, 2013	December 27, 2013	0.75	14.3
Total			\$3.00	\$57.6

(1) Includes dividend equivalents paid on restricted stock units

On February 25, 2014, our Board of Directors approved payment of a cash dividend of \$0.75 per share of common stock, payable at the close of business on March 28, 2014 to the stockholders of record as of the close of business on

March 14, 2014.

Under our Credit Agreement and the Indenture under which our Senior Notes were issued, we are limited as to the total amount of restricted payments, including dividends on common stock, that may be made (see “Management's Discussion and Analysis of Financial Condition and Results of Operations - Restricted Payments”). At December 31, 2013, the limitation on future restricted payments was approximately \$89 million under the Credit Agreement and approximately \$112 million under the Indenture.

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## Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2013, 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	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	775,059	\$42.09	1,192,180
Equity compensation plans not approved by security holders	—	—	—
Total	775,059	\$42.09	1,192,180

The number of securities remaining available for future issuance represents shares under our 2011 Stock Incentive Plan. Please refer to Note 13, Stock-Based Incentive Plans, in the Notes to the Consolidated Financial Statements for a description of the Plan.

## Issuer Purchases of Equity Securities

Under our Credit Agreement and the Indenture under which our Senior Notes were issued, we are limited as to the total amount of restricted payments, including repurchases of common stock, that may be made (see “Management's Discussion and Analysis of Financial Condition and Results of Operations - Restricted Payments”). At December 31, 2013, the limitation on future restricted payments was approximately \$89 million under the Credit Agreement and approximately \$112 million under the Indenture.

## Purchases of Equity Securities by the Company

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (b)	Approximate dollar value of shares that may yet be purchased under the plans or programs (b)
September 30, 2013 – October 27, 2013 <sup>(a)</sup>	553	\$69.50	—	\$75,300,000
October 28, 2013 – November 24, 2013 <sup>(a)</sup>	930	\$82.14	—	\$75,300,000
November 25, 2013 – December 29, 2013	60,318	\$83.47	60,318	\$70,300,000
Total	61,801	\$83.32	60,318	\$70,300,000

<sup>(a)</sup> These amounts represent shares owned and tendered by employees to satisfy tax withholding obligations on the vesting of restricted stock awards.

<sup>(b)</sup> On February 26, 2013, our Board of Directors approved a stock repurchase authorization of up to \$100 million of our common stock, replacing the previously announced \$45 million authorization. Repurchases are subject to prevailing market prices and may take place in open market transactions and in privately negotiated transactions, based on business, market, applicable legal requirements and other considerations. The program does not require the repurchase of a specific number of shares and may be terminated at any time.

Stock Performance Graph

The graph below shows a comparison of the cumulative total stockholder 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, 2013. The graph and table assume \$100 invested at the close of trading on the last day of trading in 2008 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 Stockholder Return

DineEquity, Inc., Standard & Poor's 500 And Value Line Restaurant Index  
(Performance Results Through December 31, 2013)

	2008	2009	2010	2011	2012	2013
DineEquity, Inc.	\$100.00	\$210.12	\$427.16	\$365.14	\$579.58	\$753.28
Standard & Poor's 500	100.00	126.46	145.51	148.58	172.35	228.18
Restaurant Index	100.00	128.10	178.27	235.12	247.64	328.57



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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 information and the consolidated balance sheet data for the years ended and as of December 31, 2013, 2012, 2011, 2010 and 2009 are derived from our audited consolidated financial statements.

	Fiscal Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In millions, except per share amounts and restaurant data)				
<b>Segment Revenues</b>					
Franchise and restaurant revenues (a)	\$502.6	\$712.5	\$929.5	\$1,192.7	\$1,263.0
Rental income	124.8	122.9	126.0	124.5	133.9
Financing revenues	13.1	14.5	19.7	16.4	17.9
Total revenues	640.5	849.9	1,075.2	1,333.6	1,414.8
<b>Segment Expenses</b>					
Franchise and restaurant expenses (a)	173.3	359.2	563.4	802.8	868.7
Rental expenses	97.3	97.2	98.2	99.0	100.2
Financing expenses	0.2	1.6	6.0	2.0	0.4
Total segment expenses	270.8	458.0	667.6	903.8	969.3
Gross segment profit	369.7	391.9	407.6	429.8	445.5
General and administrative expenses	143.6	163.2	155.8	160.3	157.7
Interest expense	100.3	114.3	132.7	171.5	186.3
Closure and impairment charges	1.8	4.2	29.9	4.3	105.6
Loss (gain) on extinguishment of debt and temporary equity	0.1	5.6	11.2	107.0	(45.7 )
Gain on disposition of assets (a)	(0.2 )	(102.6 )	(43.3 )	(13.5 )	(7.3 )
Other expense (b)	13.6	12.3	16.3	12.3	12.3
Income (loss) before income taxes	110.6	194.9	105.0	(12.1 )	36.6
Income tax (provision) benefit	(38.6 )	(67.2 )	(29.8 )	9.3	(5.2 )
Net income (loss)	72.0	127.7	75.2	(2.8 )	31.4
Less: Series A preferred stock dividends	—	—	—	(25.9 )	(19.5 )
Less: Accretion of Series B preferred stock	—	(2.5 )	(2.6 )	(2.5 )	(2.3 )
Less: Net (income) loss allocated to unvested participating restricted stock	(1.2 )	(2.7 )	(1.9 )	1.2	(0.4 )
Net income (loss) available to common stockholders	\$70.8	\$122.5	\$70.7	\$(30.0 )	\$9.2
Net income (loss) available to common stockholders per share:					
Basic	\$3.75	\$6.81	\$3.96	\$(1.74 )	\$0.55
Diluted	\$3.70	\$6.63	\$3.89	\$(1.74 )	\$0.55
Weighted average shares outstanding:					
Basic	18.9	18.0	17.8	17.2	16.9
Diluted	19.1	18.9	18.2	17.2	16.9
Dividends declared and paid per common share	\$3.00	\$—	\$—	\$—	\$—
Balance Sheet Data (end of year):					
Cash and cash equivalents	\$106.0	\$64.5	\$60.7	\$102.3	\$82.3
Restricted cash—short-term and long-term (c)	0.7	1.9	1.2	1.6	120.9
Property and equipment, net (a)	274.3	294.4	474.2	612.2	771.4
Total assets	2,404.6	2,415.4	2,614.3	2,856.6	3,100.9
Long-term debt, less current maturities	1,203.5	1,202.1	1,411.4	1,631.5	1,637.2

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Capital lease obligations, less current maturities	111.7	124.4	134.4	144.0	152.8	
Financing obligations, less current maturities	48.8	52.0	162.7	237.8	309.4	
Stockholders' equity	315.2	308.8	155.2	83.6	69.9	
Other Financial Data:						
Cash flows provided by operating activities	\$127.8	\$52.9	\$121.7	\$179.3	\$157.8	
Capital expenditures	7.0	17.0	26.3	18.7	15.4	
Domestic system-wide same-restaurant sales percentage change:						
Applebee's	(0.3	)% 1.2	% 2.0	% 0.3	% (4.5	)%
IHOP	2.4	% (1.6	)% (2.0	)% 0.0	% (0.8	)%
Total restaurants (end of year):						
Applebee's	2,011	2,034	2,019	2,010	2,008	
IHOP	1,620	1,581	1,550	1,504	1,456	
Total	3,631	3,615	3,569	3,514	3,464	

(a) We refranchised 376 Applebee's company-operated restaurants between 2009 and 2012.

(b) Includes \$12.3 in amortization of intangible assets in each year as well as \$1.3 and \$4.0 of debt modification costs in 2013 and 2011, respectively.

(c) Cash restrictions related to securitized debt were eliminated by a refinancing of long-term debt in 2010.

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

### Cautionary Statement Regarding Forward-Looking Statements

Statements contained in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors, which may cause actual results to be materially different from those expressed or implied in such statements. You can identify these forward-looking statements by words such as “may,” “will,” “should,” “expect,” “anticipate,” “believe,” “estimate,” “intend,” “plan” and other similar expressions. You should consider our forward-looking statements in light of the risks discussed under the heading “Risk Factors,” as well as our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this report and our other filings with the United States Securities and Exchange Commission. The forward-looking statements contained in this report are made as of the date hereof and the Company assumes no obligation to update or supplement any forward-looking statements. You should read the following Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this report.

### Business Overview

#### The Company

The first International House of Pancakes restaurant opened in 1958 in Toluca Lake, California. Shortly thereafter, the Company's predecessor began developing and franchising additional restaurants. The Company was incorporated under the laws of the State of Delaware in 1976 with the name IHOP Corp. In November 2007, the Company completed the acquisition of Applebee's International, Inc., which became a wholly-owned subsidiary of the Company. Effective June 2, 2008, the name of the Company was changed to DineEquity, Inc. (“DineEquity,” “we” or “our”). Through various subsidiaries (see Exhibit 21, Subsidiaries of DineEquity, Inc.) we own, franchise and operate two restaurant concepts: Applebee's Neighborhood Grill & Bar® (“Applebee®”), in the bar and grill segment within the casual dining category of the restaurant industry, and International House of Pancakes® (“IHOP®”), in the family dining category of the restaurant industry. References herein to Applebee's and IHOP restaurants are to these two restaurant concepts, whether operated by franchisees, area licensees or us.

Domestically, IHOP restaurants are located in all 50 states and the District of Columbia, while Applebee's restaurants are located in every state except Hawaii. Internationally, IHOP restaurants are located in two United States territories and eight foreign countries; Applebee's restaurants are located in one United States territory and 15 foreign countries. With over 3,600 restaurants combined, we believe we are the largest full-service restaurant company in the world.

#### Our Vision

To become the preferred franchisor of choice and deliver maximum franchisee and shareholder value.

#### Our Mission

To unite great franchisees, iconic brands and team members to create the world's leading restaurant company - one guest at a time. To achieve this mission, our strategies are designed to ensure strong brands; drive profitable, organic growth; identify and exploit complementary concepts and extensions; and create and monetize new value-added services.

#### 2013 Highlights

2013 marked our first full year of operation with both of our brands 99% franchised. We believe this highly franchised business model requires less capital investment and general and administrative overhead, generates higher gross profit margins and reduces the volatility of free cash flow performance, as compared to a model based on owning a significant number of company-operated restaurants.

On February 26, 2013, our Board of Directors approved a capital allocation strategy that contemplates the return of a significant portion of our free cash flow to our stockholders. The Board of Directors also approved a stock repurchase authorization of up to \$100 million of our common stock. Pursuant to this strategy, we returned cash of \$87.1 million to our stockholders in 2013 in the form of:

- Four quarterly dividends, each \$0.75 per share of our common stock, declared and paid totaling \$57.4 million, and

Repurchases of over 412,000 shares of our common stock totaling \$29.7 million, with authorization remaining to repurchase an additional \$70.3 million.

Other highlights of our fiscal 2013 performance include:

- Increased IHOP's domestic systemwide same-restaurant sales by 2.4% during 2013, the first full year of growth in domestic systemwide same-restaurant sales since fiscal 2008 and the highest yearly increase since 2006;
- Generated cash from operating activities of greater than \$100 million for the fourth time in the last five years;
- Opened 58 new restaurants worldwide by IHOP franchisees and area licensees and 26 new restaurants by Applebee's franchisees;
- Expanded our international footprint with restaurant openings by IHOP franchisees in the Philippines, Kuwait and the Kingdom of Saudi Arabia and by an Applebee's franchisee in Egypt and the Dominican Republic;
- Remodeled over 500 restaurants system-wide during 2013. Applebee's and its franchisees remodeled 289 restaurants during 2013, while IHOP and its franchisees remodeled 215 restaurants. Over the past three years, approximately 70% of Applebee's restaurants and 40% of IHOP restaurants have been remodeled; and
- Named to Fast Company's annual list of Most Innovative Companies, ranking number two in the category of "The World's Most Innovative Companies in Food."

#### Key Performance Indicators

In evaluating the performance of each dining concept, we consider the key performance indicators to be net franchise restaurant development and the percentage change in domestic system-wide same-restaurant sales. Since we are a 99% franchised company, expanding the number of franchise restaurants is an important driver of revenue growth. We currently do not plan to open any new Applebee's or IHOP company-operated restaurants. Revenue from our rental and financing operations, legacies from the Previous IHOP Business Model we operated under prior to 2003, is subject to progressive decline over time as interest-earning balances are repaid. Therefore, growth in both the number of franchise restaurants and sales at those restaurants will drive franchise revenues in the form of higher royalty revenues, additional franchise fees and, in the case of IHOP restaurants, sales of proprietary pancake and waffle dry mix.

An overview of our 2013 performance in these metrics is as follows:

	Applebee's	IHOP
Percentage (decrease) increase in domestic system-wide same-restaurant sales	(0.3)%	2.4%
Net franchise restaurant development <sup>(1)</sup>	(23)	38

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<sup>(1)</sup> Franchise and area license openings, net of closings

IHOP's increase of 2.4% in domestic system-wide restaurant sales for the year ended December 31, 2013 resulted from a higher average customer check partially offset by a decrease in customer traffic. The increase reflects sequential improvement throughout 2013, with a decrease of 0.5% in the first quarter of 2013 followed by increases of 1.9%, 3.6% and 4.5% in the second, third and fourth quarters, respectively. The increase in the fourth quarter was the largest since the first quarter of 2006. Applebee's decrease of 0.3% in domestic system-wide restaurant sales for the year ended December 31, 2013 resulted from a decrease in customer traffic partially offset by an increase in average customer check. The decrease was the first annual decline in domestic system-wide restaurant sales for Applebee's since 2009. With the decrease in 2013, Applebee's cumulative increase over the past four years is 3.2%.

Applebee's net restaurant development for the year ended December 31, 2013 was adversely impacted by restaurant closures during 2013. Applebee's franchisees opened 26 new franchise restaurants in 2013 but closed 49 restaurants. The largest single group of closures took place in the second quarter of 2013, when an Applebee's franchisee that owned and operated 33 restaurants located in Illinois filed for bankruptcy protection. As a result of those proceedings, 15 of the restaurants were sold in June 2013 to an affiliate of an existing franchisee and operated without interruption during the transition of ownership. The remaining 18 restaurants were closed. However, we did receive termination fees of \$3.8 million related to the closure of the 18 restaurants. We have entered into a development agreement with the new franchisee to open additional restaurants in Illinois in the future.

IHOP franchisees and area licensees opened 58 new franchise restaurants in 2013, with net restaurant development of 38 restaurants. The 2013 openings included three restaurants in the Philippines, the first IHOP franchise restaurants in the Asia Pacific region. Over the past five years, IHOP net restaurant development totaled 217, an annual growth

average of 43 restaurants per year.

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In evaluating the performance of the consolidated enterprise, we consider the key performance indicators to be consolidated cash flows from operating activities and consolidated free cash flow (cash from operations, plus receipts from notes, equipment contracts and other long-term receivables, minus capital expenditures, principal payments on capital leases and financing obligations and the mandatory annual repayment of 1% of the principal balance of our Term Loans).

Consolidated cash flows from operating activities and consolidated free cash flow for the years ended December 31, 2013 and 2012 were as follows:

	Year ended December 31,	
	2013	2012
	(In millions)	
Consolidated cash flows from operating activities	\$ 127.8	\$ 52.9
Consolidated free cash flow	\$ 120.1	\$ 29.9

The primary reasons for the increase in cash flows from operating activities were lower income tax payments, lower general and administrative expenses and lower interest costs for the year ended December 31, 2013 compared to the same period of 2012, partially offset by lower segment profit that resulted from the refranchising of Applebee's company-operated restaurants.

Additional information on each of these metrics is presented under the captions "Restaurant Data," "Company Restaurant Operations" and "Liquidity and Capital Resources" that follow.

#### Key Overall Strategies

##### DineEquity's Key Strategies

With the completion of our refranchising initiative, we are continuing with our efforts to drive stockholder and franchisee value. We have an ongoing program to leverage core competencies across the entire enterprise that is focused on three primary goals:

- Optimize organization capability;
- Drive profitable organic growth; and
- Reduce costs for both ourselves and our franchisees.

Our approach to brand management centers on a strategic combination of marketing, menu, operations and remodel initiatives that creates a distinctive and relevant connection with our customers. Additionally, our shared services operating platform allows our senior management to focus on key factors that drive the business while leveraging the resources and expertise of our scalable, centralized support structure. We believe this is a competitive point of difference. Together, this closely integrated approach is expected to strengthen brand performance and enable growth.

**Applebee's Key Strategies**

We continue to revitalize the Applebee's brand. Applebee's domestic system-wide same restaurant sales have increased in three of the past four years, with a cumulative increase of 3.2% over that time. We plan to grow by executing on the following key strategies: (i) drive profitable sales and traffic; (ii) invest in process and product innovation; (iii) transform the business; and (iv) improve franchisee margins and restaurant level economics.

#### Drive Profitable Sales and Traffic

Continued focus on meeting the consumer's need for value throughout 2013, with such promotions as the return of our successful "Sizzling Entrées" starting at \$9.99 nationwide, the return of our Fresh Flavors of the Season, and the rotation of new products into our "2 for \$20" offering. We ended the year with Spirited Cuisine featuring our new Chicken and Shrimp Tequila Tango, Marsala Shrimp Sirloin and highly popular new Brew Pub Pretzels & Beer Cheese Dip;

Increased our focus on lunch through improved lunch menu items supported by lunch-specific messaging on national television. We introduced a new Lunch Combos platform in May that allows guests to choose any two of a variety of

new sandwiches, soups, salads, and lunch entrées;

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Continued innovation of the menu. Since the acquisition in 2007, more than 90% of Applebee's menu now consists of either new offerings or improved offerings with high quality ingredients;

Continued our unique healthy food offerings by refreshing our "Under 550" calorie menu in January 2013 with Roma Pepper Chicken and Napa Chicken and Portobellos. Since its launch in 2011, our "Under 550" calorie menu combined with our Weight Watchers menu has established us as a category leader in providing healthy dining options to our guests;

Broadened our commitment to healthy dining by introducing a new Kids Menu featuring 10 new Kids Live Well-approved meals. The new menu, which has received very positive guest feedback, offers a variety of new entrées and sides that are both healthy and kid-approved. This allows parents to concentrate on engaging with their family knowing their growing kids can get a fun, healthy meal at Applebee's; and

Focused on late-night business through beverage and appetizer innovation and local restaurant marketing efforts.

#### Invest in Process and Product Innovation

We continue to invest in and drive innovation at Applebee's from both a product and process perspective. We maintain a significant test and implementation focus to both develop and discover new trends and opportunities within the casual dining segment and beyond. Our history of innovation is readily apparent in our continual evolution of limited-time product offerings as well as core menu items. We take a similar approach to evaluation of media strategies and consumer touch points.

#### Transform the Business

In June 2010, we rolled out "Connections," the new comprehensive restaurant revitalization program involving people, place and promotional aspects. The people aspect involves re-training and re-certification for kitchen staff and team members. The place aspect involves exterior and interior modifications to the restaurant to signal change. The promotional aspect involves a local public relations and marketing plan to re-connect with the neighborhood. Our franchisees have embraced this initiative and by year-end 2013, over 70% of the restaurants in the domestic system have been revitalized.

Along with our historical focus on food innovation, the completion of our refranchising transition in 2012 has allowed Applebee's to place additional focus on development and implementation of innovative technology solutions. We realize that customers' tastes are constantly changing and as a brand, Applebee's continues to learn and grow with our customers, evolving into a brand of the future.

#### Improve Franchisee Margins and Restaurant Level Economics

We have continued to build upon process and system improvements deployed in prior years by ongoing improvement efforts in operating metrics for our franchise partners. Our franchisees continue to reap the benefits of our supply chain co-op by leveraging our scale to manage through commodity cost inflation, which was also mitigated by the realignment of our distribution centers in 2010.

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

With our transition to a 99% franchised system, restaurant operating margin at the remaining 23 Applebee's company-operated restaurants is not significant to our results of operations. Given that the primary focus of these restaurants in the future will be to test new products and processes, their operating margin as a percentage of sales is

expected to decline. However, we will continue to invest in product and process innovation to help our franchisees maintain and improve their restaurant level economics for the overall financial well-being of the Applebee's system.

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.

#### IHOP's Key Strategies

To re-ignite growth we have been pursuing key initiatives within the three pillars of our strategic framework: (1) re-energize and grow the IHOP brand; (2) improve operations performance; and (3) optimize franchise development.

### Re-energize and Grow the IHOP Brand

To re-energize and grow the IHOP brand, we have continued our efforts to drive new and existing consumers to our restaurants by: 1) continuously strengthening our advertising message; 2) maximizing our media effectiveness across both traditional and new media outlets; and 3) transforming the IHOP menu to reflect evolving consumer tastes.

To ensure our advertisements resonate with consumers, we have continued to employ “Everything You Love About Breakfast” as our tagline and theme, leveraging our substantial brand equity in breakfast. We have further refined our message by incorporating in our advertising consumer testimonials that show a wide range of ages and demographics enjoying our freshly made items. These testimonials have been effective in reinforcing the welcoming environment at our restaurants.

While national advertising remains core to our strategy, we recognize that media consumption is evolving and we must reach consumers through a range of media channels to drive traffic to our restaurants. Gaining the attention of consumers in a highly competitive and diverse media market requires that we constantly update where and how we reach consumers. We continue to successfully build and increase consumer engagement with the IHOP brand in digital and social media, recognizing the importance of these channels to a significant segment of the population.

We continuously evolve our menu to deliver appealing items to our wide range of consumers presented in an easy-to-use style that is consistent with our brand message. Our new Brioche French Toast is a recent example that was met with high consumer interest. In addition, we recently launched the latest menu revision with a new layout that is easier to read and navigate. The new layout allows customers to more quickly identify their favorite choices, increasing guest satisfaction. Substantially all IHOP restaurants are using pollable point-of-sale systems to capture and report a broad range of sales and product mix data. This information is used by management to, among other things, gauge customer acceptance of menu items and the success of promotions and limited time offers.

### Improve Operations Performance

We constantly strive to improve every aspect of our restaurant operations. To enhance our guest-centric culture, and enable our franchisees to assess and improve their service and the condition of their restaurants, we continue to evolve how we interpret and implement changes to address feedback from our guests. We deploy a range of feedback mechanisms including national consumer tracking studies about our brand, a guest feedback tool, our “Voice of the Guest” program, as well as operational evaluations conducted by our own employees and operational assessments conducted by a third party service provider. Our field based operations team is trained to work with franchisees to use this data to enhance their restaurant operations. We believe this wide range of data enables us to clearly identify areas of opportunity. While results from our efforts have been positive, we recognize that operations excellence is a continually evolving process.

### Optimize Franchise Development and Franchise System Health

Under the Current Business Model, IHOP seeks to optimize franchise development by recruiting franchise developers within and outside the current system and working with these franchise developers in the site selection and building process. This strategy has proved successful as our franchisees have developed approximately 543 restaurants since the inception of the Current Business Model and our franchisees have a pipeline of 263 additional new restaurants committed, optioned or pending. The existing franchisee base accounts for most of these future development obligations. In 2013, an IHOP franchisee opened the first three IHOP restaurants in the Philippines, continuing to demonstrate the interest in the IHOP brand outside of North America. We continue to explore opportunities to grow in existing and new international markets.

In addition, we may take steps to consolidate and rehabilitate existing markets if we believe that doing so is advisable in order to fully realize development potential. We consistently monitor individual franchisee health and compliance with franchise agreements and we also may take steps to exercise our contractual rights within the franchise agreement in the event of noncompliance.

To positively impact the costs of IHOP franchisees, management works closely with CSCS, an independent cooperative entity, formed by us and franchisees of Applebee's and IHOP domestic restaurants. We recognize the importance of managing the costs of food and non-food items and believe the successful relationship among IHOP, its franchisees and CSCS presents an important differentiator.

However, 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

Same-restaurant Sales Trends

Applebee's domestic system-wide same-restaurant sales decreased 0.7% for the three months ended December 31, 2013 from the same period in 2012. For the full year ended December 31, 2013, Applebee's domestic system-wide same-restaurant sales decreased 0.3%, due to a decline in customer traffic partially offset by an increase in average customer check. The decrease was the first annual decline in domestic system-wide restaurant sales for Applebee's since 2009.

IHOP's domestic system-wide same-restaurant sales increased 4.5% for the three months ended December 31, 2013, IHOP's largest quarterly increase since the first quarter of 2006. For the full year ended December 31, 2013, IHOP's domestic system-wide same-restaurant sales increased 2.4% due to an increase in average customer check that was substantially larger than a decrease in customer traffic. We believe the increase in average customer check was due in part to the new IHOP menu launched in June 2013 which influenced customers' purchasing patterns and resulted in a favorable shift in product mix. Additionally, we believe the average customer check declined in 2012 because of strong consumer interest in promotional menu items, resulting in a lower base for comparison.

#### Same-restaurant Traffic

Both of our brands have generally experienced a decline in customer traffic in recent years including the year ended December 31, 2013. Based on data from Black Box Intelligence, a restaurant sales reporting firm, customer traffic declined in 2013 for the restaurant industry overall, as well as for the casual dining and family dining segments of the restaurant industry. In the short term, a decline in customer traffic may be offset by an increase in average customer check resulting from an increase in menu prices, a favorable change in product sales mix, or a combination thereof. A sustained decline in same-restaurant customer traffic that cannot be offset by an increase in average customer check could have an adverse effect on our business, results of operations and financial condition. We continue to evaluate and assess opportunities to drive same-restaurant sales and traffic

#### Franchisee Matters

We consistently monitor individual franchisee health. However, from time to time, some of our franchisees may experience financial difficulties, including bankruptcy, that may or may not relate to the financial performance of their franchised IHOP or Applebee's restaurants.

In February 2013, an IHOP franchisee and its affiliated entities which owned and operated 19 restaurants located in the states of Illinois, Wisconsin and Missouri filed for bankruptcy protection. As a result of an order issued by the bankruptcy court, two of the 19 restaurants were returned to us in the third quarter of 2013. A non-cash charge of \$0.5 million was recorded in the Consolidated Statement of Comprehensive Income against deferred rental revenue associated with the leases for those two restaurants. During the third quarter of 2013, we received favorable rulings from the bankruptcy court which, if upheld, would allow the transfer of the remaining 17 restaurants to another franchisee. These rulings have been appealed by the current franchisee and are presently subject to a continued stay order, pursuant to which the current franchisee is operating these restaurants only on a day-to-day basis and is continuing to make payments to us pursuant to the terms of the original franchise agreements. Accordingly, we are unable to determine the ultimate outcome of the bankruptcy proceedings at this time.

In an unrelated matter, in April 2013, an Applebee's franchisee which owned and operated 33 restaurants located in Illinois filed for bankruptcy protection. Pursuant to the bidding procedures approved by the bankruptcy court, 15 of the restaurants were sold in June 2013 to an affiliate of an existing franchisee and operated without interruption during the transition of ownership. The remaining 18 restaurants were closed in June 2013. We received approximately \$3.8 million in termination payments and other fees in connection with the closure of these restaurants. We also have entered into a development agreement with the franchisee that acquired the 15 restaurants to open additional restaurants in Illinois in the future.

## Restaurant Data

The following table sets forth, for each of the past three years, the number of “Effective Restaurants” in the Applebee’s and IHOP systems and information regarding the percentage change in sales at those restaurants compared to the same periods in the prior two years. Sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company. However, we believe that presentation of this information is useful in analyzing our revenues because franchisees and area licensees pay us royalties and advertising fees that are generally based on a percentage of their sales, and, where applicable, rental payments under leases that partially may be based on a percentage of their sales. Management also uses this information to make decisions about future plans for the development of additional restaurants as well as evaluation of current operations.

	Year Ended December 31,			
	2013	2012	2011	
<b>Applebee's Restaurant Data</b>				
Effective Restaurants: <sup>(a)</sup>				
Franchise	1,996	1,894	1,770	
Company	23	123	240	
Total	2,019	2,017	2,010	
System-wide: <sup>(b)</sup>				
Domestic sales percentage change <sup>(c)</sup>	0.3	% 1.7	% 2.6	%
Domestic same-restaurant sales percentage change <sup>(d)</sup>	(0.3	)% 1.2	% 2.0	%
Franchise: <sup>(b)(e)</sup>				
Domestic sales percentage change <sup>(c)</sup>	5.7	% 8.1	% 11.3	%
Domestic same-restaurant sales percentage change <sup>(d)</sup>	(0.3	)% 1.3	% 2.0	%
Domestic average weekly unit sales (in thousands)	\$46.5	\$46.6	\$46.4	
	Year Ended December 31,			
	2013	2012	2011	
<b>IHOP Restaurant Data</b>				
Effective Restaurants: <sup>(a)</sup>				
Franchise	1,414	1,379	1,343	
Area license	167	165	163	
Company	12	15	11	
Total	1,593	1,559	1,517	
System-wide: <sup>(b)</sup>				
Sales percentage change <sup>(c)</sup>	4.8	% 1.6	% 1.9	%
Domestic same-restaurant sales percentage change <sup>(d)</sup>	2.4	% (1.6	)% (2.0	)%
Franchise: <sup>(b)</sup>				
Sales percentage change <sup>(c)</sup>	4.8	% 1.3	% 1.7	%
Domestic same-restaurant sales percentage change <sup>(d)</sup>	2.4	% (1.6	)% (2.0	)%
Average weekly unit sales (in thousands)	\$34.7	\$34.0	\$34.4	
Area License: <sup>(b)</sup>				
IHOP sales percentage change <sup>(c)</sup>	6.3	% 2.7	% 2.9	%

“Effective Restaurants” are the weighted average number of restaurants open in a given fiscal period, adjusted to account for restaurants open for only a portion of the period. Information is presented for all Effective Restaurants in the Applebee’s and IHOP systems, which includes restaurants owned by the Company as well as those owned by franchisees and area licensees.

“System-wide sales” are retail sales at Applebee’s restaurants operated by franchisees and IHOP restaurants operated by franchisees and area licensees, as reported to the Company, in addition to retail sales at company-operated restaurants. Sales at restaurants that are owned by franchisees and area licensees are not attributable to the Company. Unaudited reported sales for Applebee's domestic franchise restaurants, IHOP franchise restaurants and IHOP area license restaurants for the years ended December 31, 2013, 2012 and 2011 were as follows:

Reported sales (unaudited)	Year Ended December 31,		
	2013	2012	2011
	(In millions)		
Applebee's franchise restaurant sales	\$4,474.7	\$4,234.9	\$3,916.4
IHOP franchise restaurant sales	\$2,553.9	\$2,437.2	\$2,405.3
IHOP area license restaurant sales	\$249.5	\$234.7	\$228.6

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

“Domestic same-restaurant sales percentage change” reflects the percentage change in sales in any given fiscal period, compared to the same weeks in the prior year, for domestic restaurants that have been operated throughout both fiscal periods that are being compared and have been open for at least 18 months. Because of new unit openings and restaurant closures, the domestic restaurants open throughout both fiscal periods being compared may be different from period to period. Domestic same-restaurant sales percentage change does not include data on IHOP area license restaurants.

The sales percentage change for Applebee's franchise and company-operated restaurants is impacted by the refranchising of 154 company-operated restaurants in 2012, 132 company-operated restaurants during 2011 and 83 company-operated restaurants during 2010.



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

	Year Ended December 31,					
	2013		2012		2011	
<b>Applebee's Restaurant Development Activity</b>						
Total restaurants, beginning of year	2,034		2,019		2,010	
New franchise openings	26		34		24	
Franchise closures	(49	)	(19	)	(15	)
Total restaurants, end of year	2,011		2,034		2,019	
Summary—end of year:						
Franchise	1,988		2,011		1,842	
Company	23		23		177	
Total	2,011		2,034		2,019	
Change over prior year	(1.1	)%	0.7	%	0.4	%
<b>Applebee's Franchise Restaurant Activity</b>						
New franchise openings:						
Domestic franchise openings	20		20		15	
International franchise openings	6		14		9	
Refranchised	—		154		132	
Total restaurants franchised	26		188		156	
Closings:						
Domestic franchise	(44	)	(6	)	(6	)
International franchise	(5	)	(13	)	(9	)
Total franchise closings	(49	)	(19	)	(15	)
Net franchise restaurant (reductions) additions	(23	)	169		141	
<b>IHOP Restaurant Development Activity</b>						
Total restaurants, beginning of year	1,581		1,550		1,504	
New openings:						
Franchise	54		47		52	
Area license	4		1		6	
Total new openings	58		48		58	
Closings:						
Franchise	(17	)	(14	)	(8	)
Area license	(2	)	(2	)	(4	)
Company	—		(1	)	—	
Total closings	(19	)	(17	)	(12	)
Total restaurants, end of year	1,620		1,581		1,550	
Summary—end of year:						
Franchise	1,439		1,404		1,369	
Area license	168		165		166	
Company	13		12		15	
Total	1,620		1,581		1,550	
Change over prior year	2.5	%	2.0	%	3.1	%
<b>IHOP Franchise Restaurant Activity</b>						
New franchise openings:						
Domestic franchise openings	42		39		45	
International franchise openings	11		8		7	
Area license	5		1		6	
Rehabilitated and refranchised	1		9		3	
Total restaurants franchised	59		57		61	
Closings:						

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Domestic franchise	(17	)	(15	)	(8	)
Area license	(2	)	(2	)	(4	)
Total franchise closings	(19	)	(17	)	(12	)
Reacquired by the Company	(2	)	(7	)	(7	)
Net franchise restaurant additions	38		33		42	

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## Comparison of the fiscal years ended December 31, 2013 and 2012

## SUMMARY

	Year ended December 31,		Favorable (Unfavorable) Variance		
	2013	2012	\$	% <sup>(1)</sup>	
	(In millions, except percentages)				
Revenue	\$ 640.5	\$ 849.9	\$ (209.4	) (24.6	)%
Segment profit	369.7	391.9	(22.2	) (5.7	)%
Segment profit as % of revenue	57.7	% 46.1	% —	11.6	%
General & administrative expenses	143.6	163.2	19.6	12.0	%
Interest expense	100.3	114.3	14.1	12.3	%
Gain on disposition of assets	(0.2	) (102.6	) (102.4	) (99.8	)%
Income tax provision	38.6	67.2	28.7	42.6	%
Effective tax rate	34.9	% 34.5	% —	(0.4	)%
Net income	\$ 72.0	\$ 127.7	\$ (55.6	) (43.6	)%

<sup>(1)</sup> Percentages calculated on actual amounts, not rounded amounts presented above

The completion of our transition to a 99% franchised company in October 2012 had a significant impact on the comparison of our results of operations for the year ended December 31, 2013 with the same period of the prior year. The most significant impact was the decline in revenues and segment profit from the Applebee's company-operated restaurants that were refranchised, partially offset by increased royalty revenues and franchise fees from the refranchised restaurants. While the total amount of segment profit declined, segment profit as a percentage of total revenue improved because royalty revenues and franchise fees produce a higher gross margin than do revenues from company-operated restaurants.

A significant portion of the decline in general and administrative (“G&A”) expenses for the year ended December 31, 2013 was due to the elimination and realignment of administrative functions associated with company-operated restaurants, as well as to the full-year effect of our staff reduction initiative implemented in the latter half of 2012. Additionally, G&A expenses for the year ended December 31, 2012 included a \$9.1 million charge related to settlement of litigation that commenced prior to our acquisition of Applebee's. Interest expense declined, in large part, due to repayment of debt with proceeds from the sale of assets of company-operated restaurants that were refranchised.

## REVENUE

	Year ended December 31,		Favorable (Unfavorable) Variance		
	2013	2012	\$	% <sup>(1)</sup>	
	(In millions, except percentages)				
Franchise	\$ 439.2	\$ 421.4	\$ 17.8	4.2	%
Company	63.4	291.1	(227.7	) (78.2	)%
Rental	124.8	122.9	1.9	1.6	%
Financing	13.1	14.5	(1.4	) (9.5	)%
Total revenue	\$ 640.5	\$ 849.9	\$ (209.4	) (24.6	)%

<sup>(1)</sup> Percentages calculated on actual amounts, not rounded amounts presented above

The decrease in total revenue was primarily due to the refranchising of Applebee's company-operated restaurants in 2012, partially offset by higher franchise royalty revenues resulting from the increase in the number of Applebee's and IHOP franchise restaurants. Additionally, in 2013 we received a total of \$7.8 million in termination, transfer and extension fees related to Applebee's restaurants compared to a total of \$4.4 million in such fees in 2012.

## SEGMENT PROFIT (LOSS)

	Year ended December 31,		Favorable (Unfavorable) Variance		
	2013	2012	\$	% <sup>(1)</sup>	
	(In millions, except percentages)				
Franchise operations	\$329.5	\$311.5	\$18.0	5.8	%
Company restaurant operations	(0.2	) 41.8	(42.0	) (100.4	)%
Rental operations	27.5	25.7	1.8	6.9	%
Financing operations	12.9	12.9	0.0	—	%
Total	\$369.7	\$391.9	\$(22.2	) (5.7	)%

<sup>(1)</sup> Percentages calculated on actual amounts, not rounded amounts presented above

The decline in segment profit for the year ended December 31, 2013 compared to the prior year was primarily due to the impact of the refranchising of Applebee's company-operated restaurants, completed in 2012, on the company restaurant segment. This was partially offset by an increase in the number of Applebee's and IHOP franchise restaurants, a \$3.4 million increase in termination, transfer and extension fees related to Applebee's restaurants and a 2.4% increase in IHOP domestic same-restaurant sales. Nearly 90% of our segment profit now comes from our franchise operations. We operate our company restaurants primarily to test new remodel programs, operating procedures, products, technology, cooking platforms and service models and, accordingly, we do not anticipate these restaurants will generate a significant amount of segment profit or loss in the foreseeable future.

## Franchise Operations

	Year ended December 31,		Favorable (Unfavorable) Variance		
	2013	2012	\$	% <sup>(2)</sup>	
	(In millions, except percentages and number of restaurants)				
Effective Franchise Restaurants: <sup>(1)</sup>					
Applebee's	1,996	1,894	102	5.4	%
IHOP	1,581	1,544	37	2.4	%
Franchise Revenues:					
Applebee's	\$199.2	\$185.9	\$13.3	7.2	%
IHOP	160.5	159.1	1.4	0.8	%
IHOP advertising	79.5	76.4	3.1	3.9	%
Total franchise revenues	439.2	421.4	17.8	4.2	%
Franchise Expenses:					
Applebee's	5.7	5.5	(0.2	) (4.1	)%
IHOP	24.5	28.0	3.5	12.5	%
IHOP advertising	79.5	76.4	(3.1	) (3.9	)%
Total franchise expenses	109.7	109.9	0.2	0.2	%
Franchise Segment Profit:					
Applebee's	193.5	180.4	13.1	7.3	%
IHOP	136.0	131.1	4.9	3.7	%
Total franchise segment profit	\$329.5	\$311.5	\$18.0	5.8	%
Segment profit as % of revenue <sup>(2)</sup>	75.0	% 73.9	%		

(1) Effective Franchise Restaurants are the weighted average number of franchise restaurants open in a given fiscal period, adjusted to account for franchise restaurants open for only a portion of the period.

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

The increase in Applebee's franchise revenue was attributable to higher royalty revenue resulting from a 5.4% increase in the number of Effective Franchise Restaurants and to termination fees associated with the closure of certain Applebee's franchise restaurants. These favorable changes were partially offset by a decrease in fees associated with franchisee-to-franchisee sales of Applebee's franchise restaurants and 0.3% decrease in Applebee's domestic same-restaurant sales.

Applebee's Effective Franchise Restaurants increased by 102 due to the full-year effect in 2013 of refranchising 154 Applebee's company-operated restaurants during 2012 (17 in the first quarter, 98 in the third quarter and 39 in the fourth quarter), partially offset by a net decrease of 23 restaurants during 2013. Approximately \$9.2 million of the revenue increase was attributable to the refranchised restaurants. Termination fees increased \$5.4 million in 2013 compared to the prior year, primarily due to the closure of 18 Applebee's restaurants as discussed under "Significant Known Events, Trends or Uncertainties Impacting or Expected to Impact Comparisons of Reported or Future Results - Franchisee Matters" above. Transfer and extension fees associated with franchisee-to-franchisee sales of Applebee's franchise restaurants decreased \$2.0 million in 2013 compared to the prior year, due to a decrease in the amount of transfer activity.

In 2013 we received a total of \$7.8 million in termination, transfer and extension fees related to Applebee's restaurants compared to a total of \$4.4 million in such fees in 2012. Termination, transfer and extension fees, by nature, are unpredictable and variable in any given year; we do not consider the 2013 variances in these fees compared to the prior year to be indicative of any trend. Further, we do not anticipate the total of such fees that may be received in 2014 will be of the same magnitude as those received in either 2013 or 2012.

The increase in IHOP franchise revenue (other than advertising) was primarily attributable to a 2.4% increase in the number of Effective Franchise Restaurants due to development as well as to an increase of 2.4% in IHOP domestic franchise same-restaurant sales. IHOP added a net total of 38 franchise and area license restaurants during 2013 due to development. These favorable changes were partially offset by a \$2.9 million decrease in sales of pancake and waffle dry mix.

The decrease in IHOP franchise expenses (other than advertising) was primarily due to lower purchase volumes of pancake and waffle dry mix, partially offset by a \$0.9 million increase in bad debt expense. The increase in bad debt expense in 2013 was primarily due to a \$0.5 million recovery in 2012 of a receivable previously written off that reduced the comparative 2012 expense.

IHOP's total franchise expenses are substantially higher than Applebee's due to advertising expenses. Franchise fees designated for IHOP's national advertising fund and local marketing and advertising cooperatives are recognized as revenue and expense of franchise operations. However, due to our having less contractual control over Applebee's advertising expenditures, that activity is considered to be an agency relationship and therefore is not recognized as franchise revenue and expense. The increases in IHOP advertising revenue and expense in 2013 compared to the prior year were due to the increases in Effective Franchise Restaurants and the increases in domestic franchise same-restaurant sales that also impacted IHOP franchise revenue as noted above.

The increase in franchise segment profit for the year ended December 31, 2013 compared to the prior year was primarily due to an increase in Applebee's Effective Franchise Restaurants because of the refranchising in 2012 of company-operated restaurants, a net increase in franchise termination, transfer and extension fees, an increase in IHOP's Effective Franchise Restaurants due to new restaurant development and an increase of 2.4% in IHOP domestic franchise same-restaurant sales.

#### Company Restaurant Operations

	Year ended December 31,		Favorable (Unfavorable) Variance		
	2013	2012	\$	% <sup>(2)</sup>	
(In millions, except percentages and number of restaurants)					
Effective Company Restaurants: <sup>(1)</sup>					
Applebee's	23	123	(100	) (81.3	)%
IHOP	12	15	(3	) (20.0	)%
Company restaurant sales	\$63.4	\$291.1	\$(227.7	) (78.2	)%
Company restaurant expenses	63.6	249.3	185.7	74.5	%
Company restaurant segment profit	\$(0.2	) \$41.8	\$(42.0	) (100.4	)%

Segment profit as % of revenue <sup>(2)</sup> (0.2 )% 14.4 %

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<sup>(1)</sup> Effective Company Restaurants are the weighted average number of company restaurants open in a given fiscal period, adjusted to account for company restaurants open for only a portion of the period.

<sup>(2)</sup> Percentages calculated on actual amounts, not rounded amounts presented above.

As of December 31, 2013, company restaurant operations comprised 23 Applebee's company-operated restaurants and 10 IHOP company-operated restaurants. We operate these restaurants primarily to test new remodel programs, operating procedures, products, technology, cooking platforms and service models. Additionally, from time to time we may also operate

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restaurants reacquired from IHOP franchisees on a temporary basis until those restaurants are refranchised. There were three such temporarily operated IHOP restaurants at December 31, 2013. Applebee's Effective Company Restaurants for the year ended December 31, 2012 include the 154 restaurants refranchised as noted under "Franchise Operations" above for the period of time they were operated as company restaurants.

Company restaurant sales and expenses for the year ended December 31, 2013 decreased \$224.0 million and \$184.2 million, respectively, because of the refranchising of 154 Applebee's company-operated restaurants in 2012.

#### Rental Operations

	Year ended December 31,		Favorable (Unfavorable) Variance		
	2013	2012	\$	% <sup>(1)</sup>	
	(In millions, except percentages)				
Rental revenues	\$124.8	\$122.9	\$1.9	1.6	%
Rental expenses	97.3	97.2	(0.1)	(0.1)	)%
Rental operations segment profit	\$27.5	\$25.7	\$1.8	6.9	%
Segment profit as % of revenue <sup>(1)</sup>	22.0	% 20.9	%		

<sup>(1)</sup> Percentages calculated on actual amounts, not rounded amounts presented above

Rental operations relate primarily to IHOP franchise restaurants that were developed under the Previous IHOP Business Model described under Item 1. - Business. Rental income includes revenue from operating leases and interest income from direct financing leases. Rental expenses are costs of prime operating leases and interest expense on prime capital leases on certain franchise restaurants.

Rental revenue for the year ended December 31, 2013 increased due to a \$3.0 million increase in contractual and contingent rent, partially offset by a \$0.7 million decline in interest income as direct financing leases are repaid and a \$0.7 million increase in the write-off of deferred lease revenue associated with franchise restaurants whose lease agreements were prematurely terminated. Rental expenses for the year ended December 31, 2013 increased slightly as a \$1.3 million increase in contractual and contingent prime rent costs were substantially offset by a decrease in interest on capital lease obligations. The increase in rental segment profit for the year ended December 31, 2013 was primarily due to the increase in contractual and contingent rent and the net favorable change in interest revenue and expense, partially offset by the increase in write-offs of deferred lease revenue associated with franchise restaurants whose lease agreements were prematurely terminated.

#### Financing Operations

	Year ended December 31,		Favorable (Unfavorable) Variance		
	2013	2012	\$	% <sup>(1)</sup>	
	(In millions, except percentages)				
Financing revenues	\$13.1	\$14.5	\$(1.4)	(9.5)	)%
Financing expenses	0.2	1.6	1.4	84.9	%
Financing operations segment profit	\$12.9	\$12.9	\$0.0	—	%
Segment profit as % of revenue <sup>(1)</sup>	98.1	% 88.8	%		

<sup>(1)</sup> Percentages calculated on actual amounts, not rounded amounts presented above

Financing operations relate primarily to IHOP franchise restaurants that were developed under the Previous IHOP Business Model described under Item 1. - Business. Financing operations revenue primarily consists of interest income from the financing of franchise fees and equipment leases, as well as sales of equipment associated with IHOP restaurants reacquired by us. Financing expenses are primarily the cost of restaurant equipment sold associated with reacquired IHOP restaurants.

The decrease in financing revenue for the year ended December 31, 2013 was due to a \$1.0 million decrease in interest revenue resulting from the progressive decline in note balances due to repayments and less sales activity related to IHOP restaurants reacquired from franchisees. The decrease in financing expenses for the year ended December 31, 2013 was due to less sales activity related to IHOP restaurants reacquired from franchisees. Sales of equipment associated with reacquired IHOP restaurants are, by nature, unpredictable and variable in any given year.

## OTHER EXPENSE AND INCOME ITEMS

	Year ended December 31,		Favorable (Unfavorable) Variance		
	2013	2012	\$	%	
	(In millions, except percentages)				
General and administrative expenses	\$143.6	\$163.2	\$19.6	12.0	%
Interest expense	100.3	114.3	14.1	12.3	%
Amortization of intangible assets	12.3	12.3	0.0	0.1	%
Closure and impairment charges	1.8	4.2	2.4	57.0	%
Loss on extinguishment of debt	0.1	5.6	5.5	99.0	%
Debt modification costs	1.3	—	(1.3	)	n.m.
Gain on disposition of assets	(0.2	) (102.6	) (102.4	) (99.8	)%
Provision for income taxes	38.6	67.2	28.7	42.6	%

## General and Administrative Expenses

The \$19.6 million decrease in G&A expenses for the year ended December 31, 2013 compared to the same period of the prior year was primarily due to compensation costs that were lower by approximately \$11.6 million and to a \$9.1 million charge recorded in 2012 related to settlement of litigation that commenced prior to our acquisition of Applebee's. These favorable variances were partially offset by a \$1.2 million increase in consumer research costs.

The decline in compensation costs was primarily due to: (i) lower salaries and benefits resulting from the refranchising of Applebee's company-operated restaurants and from the full-year effect of restructuring initiatives announced in the third quarter of 2012; (ii) lower stock-based compensation costs and (iii) lower severance costs, partially offset by higher bonus expenses and higher expenses for outsourced services.

## Interest Expense

Interest expense for the year ended December 31, 2013 decreased by \$14.1 million compared to the same period of the prior year primarily due to a reduction of outstanding debt balances. Average interest-bearing debt outstanding (our Term Loans, Senior Notes and financing obligations) during the year ended December 31, 2013 was approximately \$200 million lower than the same period of the prior year. Additionally, the 50-basis-point-decline in the variable interest rate on our Term Loans from 4.25% to 3.75% as a result of a debt modification in February 2013 (see "Liquidity and Capital Resources - Credit Agreement Amendments") contributed to the decrease in interest expense.

## Amortization of Intangible Assets

Amortization of intangible assets relates to intangible assets arising from the November 2007 acquisition of Applebee's, primarily franchising rights. Absent any impairment, the annual amount of amortization expense will begin to decline in 2015 as intangible assets with shorter lives become fully amortized.

## Closure and Impairment Charges

Closure and impairment charges for the years ended December 31, 2013 and 2012 were as follows:

	Year Ended December 31,	
	2013	2012
	(In millions)	
Closure charges	\$1.0	\$2.3
Long-lived tangible asset impairment	0.8	1.9

Total closure and impairment charges	\$1.8	\$4.2
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On a regular basis, we assess whether events or changes in circumstances have occurred that potentially indicate the carrying value of tangible long-lived assets, primarily assets related to company-operated restaurants, may not be recoverable. Recoverability of a restaurant's assets is measured by comparing the assets' carrying value to the undiscounted future cash

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flows expected to be generated over the assets' remaining useful lives or remaining lease terms, whichever is less. If the total expected undiscounted future cash flows are less than the carrying amount of the assets, this may be an indicator of impairment. If it is decided that there has been an impairment, the carrying amount of the asset is written down to the estimated fair value. The fair value is primarily determined by discounting the future cash flows based on our cost of capital.

Closure charges for the year ended December 31, 2013 primarily related to adjustments to the estimated reserve for closed IHOP and Applebee's restaurants. Long-lived tangible asset impairment charges for the year ended December 31, 2013 related to three Applebee's company-operated restaurants in the Kansas City, Missouri area. We evaluated the causal factors of all impairments of long-lived assets as they were recorded during 2013 and concluded they were based on factors specific to each asset and not potential indicators of an impairment of other long-lived assets.

Closure charges for the year ended December 31, 2012 primarily related to equipment at one franchise restaurant whose lease agreement was prematurely terminated and the restaurant closed, as well as adjustments to the reserve for previously closed surplus IHOP properties. Impairment charges for the year ended December 31, 2012 primarily related to equipment at five IHOP franchise restaurants whose lease agreements were prematurely terminated and the restaurants subsequently refranchised.

See "Critical Accounting Policies and Estimates - Goodwill and Intangibles" for a description of our policy with respect to the review for impairments of goodwill and indefinite life intangible assets. In carrying out that policy, we noted no indicators of impairment on an interim basis and no impairments as the result of performing our annual test for impairment during the fiscal years ended 2013 and 2012.

#### Loss on Extinguishment of Debt

Retired/Repaid <sup>(1)</sup>	Instrument	Face Amount		Cash Paid
		Retired/Repaid	Retired/Repaid	
(In millions)				
Term Loans		\$4.8	\$4.8	\$ 0.1
Loss on extinguishment of debt, 2013		\$4.8	\$4.8	\$ 0.1
Term Loans		\$210.5	\$210.5	\$ 4.9
Senior Notes		5.0	5.5	0.7
Loss on extinguishment of debt, 2012		\$215.5	\$216.0	\$ 5.6

(1) For a description of the respective instruments, refer to Note 7 of the Notes to Consolidated Financial Statements.

(2) Including proportional write-off of the discount and deferred financing costs related to the debt retired.

The loss on extinguishment of debt for the year ended December 31, 2013, decreased compared to the prior year because of a decrease in the face amount of debt retired. There were no premiums paid to extinguish debt for the year ended December 31, 2013. We paid a total premium of \$0.5 million to repurchase Senior Notes during the year ended December 31, 2012.

#### Debt Modification Costs

On February 4, 2013, we entered into Amendment No. 2 ("Amendment No. 2") to the Credit Agreement dated October 8, 2010. The key provisions of Amendment No. 2 are discussed under "Liquidity and Capital Resources - February 2013 Amendment to Credit Agreement." Fees paid to third parties of \$1.3 million in connection with Amendment No. 2 were included as "Debt modification costs" in the Consolidated Statement of Comprehensive Income for the year ended December 31, 2013.

Gain on Disposition of Assets

There were no individually significant dispositions of assets during the year ended December 31, 2013. During the year ended December 31, 2012, we completed the refranchising and sale of related restaurant assets of 154 Applebee's company-operated restaurants, comprised as follows: 17 restaurants in a six-state market area geographically centered around Memphis, Tennessee; 33 restaurants located primarily in Missouri and Indiana; 65 restaurants located in Michigan and 39 restaurants located in Virginia.

With the completion in October 2012 of our strategy to rebrand the substantial majority of Applebee's company-operated restaurants, we do not expect significant gains or losses on dispositions of assets for the foreseeable future.

#### Income Tax Provision

We recorded a tax provision of \$38.6 million in 2013 as compared to a tax provision of \$67.2 million in 2012. The change was primarily due to the decrease in our pretax book income. The 2013 effective tax rate of 34.9% applied to pretax book income was lower than the statutory Federal tax rate of 35% primarily related to the release of valuation allowances for various state net operating loss carryovers.

As of each reporting date, management considers new evidence, both positive and negative, that could impact its estimate with regards to future realization of deferred tax assets. As of December 31, 2013, because we implemented a tax planning strategy that was prudent and feasible in the current year, management determined that sufficient positive evidence existed as of December 31, 2013, to conclude that it was more likely than not that additional deferred taxes of \$3.0 million were realizable, and therefore, reduced the valuation allowance.

#### Comparison of the fiscal years ended December 31, 2012 and 2011

##### SUMMARY

	Year ended December 31,		Favorable (Unfavorable) Variance		
	2012	2011	\$	% <sup>(1)</sup>	
	(In millions, except percentages)				
Revenue	\$ 849.9	\$ 1,075.2	\$ (225.3 )	(24.6 )	%
Segment profit	391.9	407.6	(15.7 )	(3.9 )	%
Segment profit as % of revenue	46.1	% 37.9	% —	21.6	%
General & administrative expenses	163.2	155.8	(7.4 )	(4.7 )	%
Interest expense	114.3	132.7	18.4	13.8	%
Impairment and closure charges	4.2	29.9	25.7	85.9	%
Gain on disposition of assets	(102.6 )	(43.3 )	59.3	(137.2 )	%
Income tax provision	67.2	29.8	(37.4 )	(125.6 )	%
Effective tax rate	34.5	% 28.4	% (6.1 )	(21.5 )	%
Net income	\$ 127.7	\$ 75.2	\$ 52.5	69.8	%

<sup>(1)</sup> Percentages calculated on actual amounts, not rounded amounts presented above

Our 2012 financial results compared to 2011 were significantly impacted by:

- The successful rebranding of 154 Applebee's company-operated restaurants during 2012 that resulted in increased gains on the disposition of the restaurants partially offset by lower segment profit;

- Lower impairment and closure charges due to non-recurring costs of \$27.5 million related to the 2011 termination of the sublease of Applebee's Restaurant Support Center;

- Lower interest expense due to the ongoing early retirement of debt with both proceeds from the asset dispositions and excess cash flow;

- G&A expenses increased \$7.4 million, primarily due to a \$9.1 million charge for settling certain litigation that commenced prior to our 2007 acquisition of Applebee's; and

- An increased effective tax rate. The 2011 effective tax rate was lower than the statutory Federal tax rate of 35% primarily due to tax credits, changes in tax rates and the release of liabilities for unrecognized tax benefits. The tax benefits are primarily FICA tip and other compensation-related credits associated with Applebee's company-operated

restaurants. As company-operated restaurants are refranchised the amount of these credits declines.



REVENUE

Year ended December 31,		Favorable
2012	2011	(Unfavorable) Variance