DineEquity, Inc
Form 10-Q
May 02, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-15283

DineEquity, Inc.
(Exact name of registrant as specified in its charter)

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

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

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 x No o

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 x No o

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 definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

Class	Outstanding as of April 26, 2013
Common Stock, $0.01 par value	19,352,009

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.
DineEquity, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$117,382	$64,537
Receivables, net	81,587	128,610
Prepaid income taxes	—	16,080
Prepaid gift cards	41,410	50,242
Deferred income taxes	20,048	21,772
Other current assets	8,050	13,214
Total current assets	268,477	294,455
Long-term receivables	208,322	212,269
Property and equipment, net	289,723	294,375
Goodwill	697,470	697,470
Other intangible assets, net	803,067	806,093
Other assets, net	110,601	110,738
Total assets	$2,377,660	$2,415,400
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$4,720	$7,420
Accounts payable	32,197	30,751
Gift card liability	107,358	161,689
Accrued employee compensation and benefits	10,954	22,435
Accrued interest payable	31,580	13,236
Current maturities of capital lease and financing obligations	11,246	10,878
Other accrued expenses	28,294	21,351
Total current liabilities	226,349	267,760
Long-term debt, less current maturities	1,204,422	1,202,063
Capital lease obligations, less current maturities	121,482	124,375
Financing obligations, less current maturities	52,010	52,049
Deferred income taxes	352,195	362,171
Other liabilities	100,203	98,177
Total liabilities	2,056,661	2,106,595
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value, shares: 40,000,000 authorized; March 31, 2013 - 25,359,057 issued, 19,352,128 outstanding; December 31, 2012 - 25,362,946 issued, 19,197,899 outstanding	254	254
Additional paid-in-capital	267,038	264,342
Retained earnings	325,761	322,045
Accumulated other comprehensive loss	(156)	(152)
	(271,898)	(277,684)

Treasury stock, at cost; shares: March 31, 2013 - 6,006,929; December 31, 2012 - 6,165,047		
Total stockholders’ equity	320,999	308,805
Total liabilities and stockholders’ equity	$2,377,660	$2,415,400

See the accompanying Notes to Consolidated Financial Statements.

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DineEquity, Inc. and Subsidiaries
Consolidated Statements of Income and Comprehensive Income
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31, 2013	2012
Segment Revenues:		
Franchise and restaurant revenues	$128,329	$209,294
Rental revenues	31,003	32,005
Financing revenues	3,837	4,283
Total segment revenues	163,169	245,582
Segment Expenses:		
Franchise and restaurant expenses	44,476	111,815
Rental expenses	24,269	24,537
Financing expenses	—	655
Total segment expenses	68,745	137,007
Gross segment profit	94,424	108,575
General and administrative expenses	34,032	39,632
Interest expense	25,295	30,221
Amortization of intangible assets	3,071	3,075
Impairment and closure charges	838	722
Loss on extinguishment of debt	20	2,611
Debt modification costs	1,296	—
Gain on disposition of assets	(318)	(16,733)
Income before income taxes	30,190	49,047
Income tax provision	(11,951)	(17,703)
Net income	18,239	31,344
Other comprehensive (loss) income, net of tax:		
Adjustment to unrealized loss on available-for-sale investments	—	140
Foreign currency translation adjustment	(4)	2
Total comprehensive income	$18,235	$31,486
Net income available to common stockholders:		
Net income	$18,239	$31,344
Less: Net income allocated to unvested participating restricted stock	(329)	(796)
Less: Accretion of Series B Convertible Preferred Stock	—	(668)
Net income available to common stockholders	$17,910	$29,880
Net income available to common stockholders per share:		
Basic	$0.95	$1.69
Diluted	$0.93	$1.64
Weighted average shares outstanding:		
Basic	18,911	17,682
Diluted	19,193	18,651
Dividends declared per common share	$0.75	—
Dividends paid per common share	$0.75	—

See the accompanying Notes to Consolidated Financial Statements.

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DineEquity, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2013	2012
Cash flows from operating activities:		
Net income	$18,239	$31,344
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	8,836	10,463
Non-cash interest expense	1,503	1,529
Loss on extinguishment of debt	20	2,611
Impairment and closure charges	840	445
Deferred income taxes	(8,253)	(9,626)
Non-cash stock-based compensation expense	3,189	3,789
Tax benefit from stock-based compensation	2,228	4,000
Excess tax benefit from share-based compensation	(966)	(2,421)
Gain on disposition of assets	(318)	(16,733)
Other	2,228	(353)
Changes in operating assets and liabilities:		
Receivables	47,216	35,545
Current income tax receivables and payables	16,528	23,724
Other current assets	16,678	173
Accounts payable	1,659	1,660
Accrued employee compensation and benefits	(11,482)	(8,594)
Gift card liability	(54,332)	(54,801)
Other accrued expenses	27,413	21,938
Cash flows provided by operating activities	71,226	44,693
Cash flows from investing activities:		
Additions to property and equipment	(1,495)	(4,150)
Proceeds from sale of property and equipment and assets held for sale	—	21,390
Principal receipts from notes, equipment contracts and other long-term receivables	3,810	3,437
Other	68	699
Cash flows provided by investing activities	2,383	21,376
Cash flows from financing activities:		
Repayment of long-term debt (including premiums)	(1,200)	(76,037)
Principal payments on capital lease and financing obligations	(2,483)	(3,007)
Payment of debt modification costs	(1,282)	—
Dividends paid on common stock	(14,512)	—
Repurchase of restricted stock	(2,590)	(859)
Proceeds from stock options exercised	3,018	2,045
Excess tax benefit from share-based compensation	966	2,421
Change in restricted cash	(2,681)	(2,639)
Cash flows used in financing activities	(20,764)	(78,076)
Net change in cash and cash equivalents	52,845	(12,007)
Cash and cash equivalents at beginning of period	64,537	60,691
Cash and cash equivalents at end of period	$117,382	$48,684

Supplemental disclosures:		
Interest paid in cash	$9,030	$14,777
Income taxes paid in cash	$912	$1,545

See the accompanying Notes to Consolidated Financial Statements.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. General

The accompanying unaudited consolidated financial statements of DineEquity, Inc. (the "Company") have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2013.

The consolidated balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

2. Basis of Presentation

The Company's fiscal quarters end on the Sunday closest to the last day of each quarter. For convenience, the fiscal quarters of each year are reported as ending on March 31, June 30, September 30 and December 31. The first fiscal quarter of 2013 ended on March 31, 2013; the first fiscal quarter of 2012 ended on April 1, 2012.

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

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

3. Accounting Policies

Accounting Standards Adopted in the Current Fiscal Year

In July 2012, the Financial Accounting Standards Board ("FASB") issued ASU No. 2012-02, Intangibles - Testing Indefinite Lived Intangibles for Impairment ("ASU 2012-02"). ASU 2012-02 allows an entity the option to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test on indefinite-lived intangibles. An entity electing to perform a qualitative assessment is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on the qualitative assessment, that it is more likely than not that the asset is impaired. The adoption of ASU 2012-02 as of January 1, 2013 did not have any impact on the Company’s consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-06, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (“ASU 2013-06”). The amendments in ASU 2013-06 do not change the current requirements for reporting net income or other comprehensive income. However, the amendments require disclosure of amounts reclassified out of accumulated other comprehensive income in their entirety, by component, on the face of the statement of operations or in the notes thereto. Amounts that are not required to be reclassified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. The adoption of ASU 2013-06 as of January 1, 2013 did not have any impact on the Company's consolidated financial statements or disclosures therein because the Company had no material amount of reclassifications.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

Newly Issued Accounting Standards Not Yet Adopted

In February 2013, the FASB issued ASU No. 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (“ASU 2013-04”). The amendments in ASU 2013-04 requires an entity to measure obligations resulting from joint and several liability arrangements as the amount the entity agreed to pay on the basis of the arrangement among its co-obligors plus the amount an entity expects to pay on behalf of co-obligors. ASU 2013-04 also requires an entity to disclose the nature, amount and other information about each obligation or group of similar obligations. The Company will be required to adopt these amendments effective January 1, 2014, and is currently evaluating the potential impact, if any, on its consolidated financial statements.

The Company reviewed all other newly issued accounting pronouncements and concluded that they either are not applicable to the Company or that no material effect is expected on the consolidated financial statements as a result of future adoption.

4. Long-Term Debt

Long-term debt consisted of the following components:

	March 31, 2013 (In millions)	December 31, 2012
Senior Secured Credit Facility, due October 2017, at a variable interest rate of 3.75% as of March 31, 2013 and 4.25% as of December 31, 2012	$470.8	$472.0
Senior Notes due October 2018, at a fixed rate of 9.5%	760.8	760.8
Discount	(22.5)	(23.3)
Total long-term debt	1,209.1	1,209.5
Less current maturities	(4.7)	(7.4)
Long-term debt, less current maturities	$1,204.4	$1,202.1

For a description of the respective instruments, refer to Note 8 of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Debt Modification Costs

On February 4, 2013, the Company entered into Amendment No. 2 ("Amendment No. 2") to the Credit Agreement dated October 8, 2010. For a description of Amendment No. 2, refer to Note 23 of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012. Fees of $1.3 million paid to third parties in connection with Amendment No. 2 were included as “Debt modification costs” in the Consolidated Statement of Income and Comprehensive Income for the three months ended March 31, 2013.

Loss on Extinguishment of Debt

During the three months ended March 31, 2013 and 2012, the Company recognized loss on extinguishment of debt as follows:

Quarter Ended	Instrument Repaid/Retired	Face Amount Repaid/Retired (In millions)	Cash Paid	Loss [1]

March 2013	Term Loans	$ 1.2	$ 1.2	$ 0.0
	Total 2013	$ 1.2	$ 1.2	$ 0.0
March 2012	Term Loans	$ 70.5	$ 70.5	$ 1.9
March 2012	Senior Notes	5.0	5.5	0.7
	Total 2012	$ 75.5	$ 76.0	$ 2.6

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

Compliance with Covenants and Restrictions

The Company was in compliance with all the covenants and restrictions related to its Senior Secured Credit Facility and Senior Notes as of March 31, 2013.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

5. Financing Obligations

As of March 31, 2013, future minimum lease payments under financing obligations during the initial terms of the leases related to sale-leaseback transactions are as follows:

Fiscal Years	(In millions)
Remainder of 2013	$4.5
2014	6.1
2015[1]	6.6
2016	6.1
2017	5.6
Thereafter	104.2
Total minimum lease payments	133.1
Less: interest	(81.0)
Total financing obligations	52.1
Less: current portion[2]	(0.1)
Long-term financing obligations	$52.0

(1) Due to the varying closing dates of the Company’s fiscal years, 13 monthly payments will be made in fiscal 2015.
(2) Included in “current maturities of capital lease and financing obligations” on the consolidated balance sheet.

6. Impairment and Closure Charges

The Company assesses tangible long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The following table summarizes the components of impairment and closure charges for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Impairment and closure charges:		
Impairment	$—	$0.3
Closure charges	0.8	0.4
Total impairment and closure charges	$0.8	$0.7

Closure charges for the three months ended March 31, 2013 totaled $0.8 million, primarily related to an increase in the reserve for certain IHOP restaurants closed in previous periods.

Impairment and closure charges for the three months ended March 31, 2012 totaled $0.7 million. The impairment charge related to a parcel of land previously intended for future restaurant development. The closure charges primarily related to several individually insignificant closures of restaurants.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

7. Income Taxes

The effective tax rate was 39.6% for the three months ended March 31, 2013 as compared to 36.1% for the three months ended March 31, 2012. The effective tax rate increased due to lower income tax credits, primarily FICA tip and other compensation-related tax credits as a result of the refranchising and sale of related assets of Applebee's company-operated restaurants in 2012, and an increase in unrecognized tax benefits.

The total gross unrecognized tax benefit as of March 31, 2013 was $6.6 million, excluding interest, penalties and related tax benefits. The Company estimates the unrecognized tax benefits may decrease over the upcoming 12 months by an amount up to $5.2 million related to settlements with taxing authorities and the lapse of statutes of limitations. For the remaining liability, due to the uncertainties related to these tax matters, the Company is unable to make a reasonably reliable estimate when cash settlement with a taxing authority will occur.

As of March 31, 2013, the accrued interest and penalties were $2.6 million and $0.1 million, respectively, excluding any related income tax benefits. As of December 31, 2012, accrued interest and penalties were $1.4 million and $0.2 million, respectively, excluding any related income tax benefits. The increase of $1.2 million of accrued interest is primarily related to an increase in unrecognized tax benefits as a result of recent audits by taxing authorities. The Company recognizes interest accrued related to unrecognized tax benefits and penalties as a component of the income tax provision recognized in the Consolidated Statements of Income and Comprehensive Income.

The Company files federal income tax returns and the Company or one of its subsidiaries files income tax returns in various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to federal, state or non-United States tax examinations by tax authorities for years before 2008. The Internal Revenue Service is currently examining the Company's U.S. federal income tax return for the tax years 2008 to 2010. The examination is anticipated to be completed in 2013.

8. Stock-Based Compensation

From time to time, the Company has granted nonqualified stock options, restricted stock, cash-settled and stock-settled restricted stock units and performance units to officers, other employees and non-employee directors of the Company. Currently, the Company is authorized to grant nonqualified stock options, stock appreciation rights, restricted stock, cash-settled and stock-settled restricted stock units and performance units to officers, other employees and nonemployee directors under the DineEquity, Inc. 2011 Stock Incentive Plan (the “2011 Plan”). The 2011 Plan was approved by stockholders on May 17, 2011 and permits the issuance of up to 1,500,000 shares of the Company’s common stock. The 2011 Plan will expire in May 2021.

The nonqualified stock options generally vest ratably over a three-year period in one-third increments and have a term of ten years from the grant date. Option exercise prices equal the closing price of the Company’s common stock on the New York Stock Exchange on the date of grant. Restricted stock and restricted stock units are issued at no cost to the holder and vest over terms determined by the Compensation Committee of the Company’s Board of Directors, generally three years following the grant date.

The following table summarizes the components of the Company’s stock-based compensation expense included in general and administrative expenses in the consolidated financial statements:

	Three Months Ended March 31,	
	2013	2012

	(In millions)	
Total stock-based compensation:		
Equity classified awards	$3.2	$3.8
Liability classified awards	0.5	0.7
Total pretax compensation expense	3.7	4.5
Tax benefit	(1.4)	(1.7)
Total stock-based compensation expense, net of tax	$2.3	$2.8

As of March 31, 2013, total unrecognized compensation cost related to restricted stock and restricted stock units of $13.0 million and $8.2 million related to stock options is expected to be recognized over a weighted average period of approximately 1.8 years for restricted stock and restricted stock units and approximately 2.0 years for stock options.

DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

Equity Classified Awards - Stock Options

The estimated fair values of the stock options granted during the three months ended March 31, 2013 were calculated using a Black-Scholes option pricing model. The following summarizes the assumptions used in the Black-Scholes model:

Risk-free interest rate	0.78	%
Weighted average historical volatility	83.4	%
Dividend yield	4.15	%
Expected years until exercise	4.61	
Forfeitures	11.0	%
Weighted average fair value of options granted	$36.00	

Option balances as of March 31, 2013 and activity related to the Company's stock options during the three months then ended were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	958,246	$39.67		
Granted	81,328	72.28		
Exercised	(78,445)	38.48		
Outstanding at March 31, 2013	961,129	42.53	6.8	$25,500,000
Vested at March 31, 2013 and Expected to Vest	919,221	41.78	6.7	$25,100,000
Exercisable at March 31, 2013	679,959	$36.93	6.0	$21,700,000

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the closing stock price of the Company's common stock on the last trading day of the first quarter of 2013 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2013. The aggregate intrinsic value will change based on the fair market value of the Company's common stock and the number of in-the-money options.

Equity Classified Awards - Restricted Stock and Restricted Stock Units

Outstanding balances as of March 31, 2013 and activity related to restricted stock and restricted stock units for the three months then ended is as follows:

	Restricted Stock	Weighted Average Grant Date Fair Value	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2012	346,563	$44.74	33,242	$41.19
Granted	84,113	$72.18	14,379	$72.04
Conversion of cash-settled restricted stock units	—	—	37,184	$72.28
Released	(89,009)	$29.23	(39,000)	$54.66
Forfeited	(11,602)	$47.27	—	—

Outstanding at March 31, 2013	330,065	$55.77	45,805	$64.57

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

Liability Classified Awards - Restricted Stock Units

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2012	37,184	$66.13
Conversion to stock-settled restricted stock units	(37,184)	$72.28
Outstanding at March 31, 2013	—	—

The Company previously had issued shares of cash-settled restricted stock units to members of the Board of Directors. Originally these instruments were expected to be settled in cash and were recorded as liabilities based on the closing price of the Company’s common stock as of each period end. In February 2013, it was determined that these restricted stock units would be settled in shares of common stock and all outstanding restricted stock units were converted to equity classified awards. For the three months ended March 31, 2013 and 2012, $0.3 million and $0.3 million, respectively, were included in pretax stock-based compensation expense for the cash-settled restricted stock units. At December 31, 2012, liabilities of $2.4 million were included as other accrued expenses in the consolidated balance sheets.

Liability Classified Awards - Long-Term Incentive Awards
The Company has granted cash long-term incentive awards to certain employees ("LTIP awards"). Annual LTIP awards vest over a three-year period and are determined using a multiplier from 0% to 200% of the target award based on the total shareholder return of DineEquity, Inc. common stock compared to the total shareholder returns of a peer group of companies. Though LTIP awards are both denominated and paid only in cash, since the multiplier is based on the price of the Company's common stock, the awards are considered stock-based compensation in accordance with U.S. GAAP and are considered liability classified awards. For the three months ended March 31, 2013 and 2012, $0.2 million and $0.4 million, respectively, were included in stock-based compensation expense related to the LTIP awards. At March 31, 2013 and December 31, 2012, liabilities of $2.5 million and $4.5 million, respectively, were included as accrued employee compensation and benefits in the consolidated balance sheet.

9. Segments

The Company’s revenues and expenses are recorded in four segments: franchise operations, company restaurant operations, rental operations and financing operations.

As of March 31, 2013, the franchise operations segment consisted of (i) 2,008 restaurants operated by Applebee’s franchisees in the United States, one U.S. territory and 15 countries outside the United States; and (ii) 1,577 restaurants operated by IHOP franchisees and area licensees in the United States, two U.S. territories and seven countries outside the United States. Franchise operations revenue consists primarily of franchise royalty revenues, sales of proprietary products (primarily pancake and waffle dry mixes for the IHOP restaurants), IHOP franchise advertising fees and the portion of the franchise fees allocated to IHOP and Applebee's intellectual property. Franchise operations expenses include IHOP advertising expense, the cost of proprietary products, pre-opening training expenses and other franchise-related costs.

At March 31, 2013, the company restaurant operations segment consisted of 23 Applebee’s company-operated restaurants, 10 IHOP company-operated restaurants and two IHOP restaurants reacquired from franchisees and operated by IHOP on a temporary basis until refranchised, all located in the United States. Company restaurant sales are retail sales at company-operated restaurants. Company restaurant expenses are operating expenses at company-operated restaurants and include food, labor, utilities, rent and other restaurant operating costs.

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

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 refranchised IHOP restaurants and a portion of franchise fees for restaurants taken back from franchisees not allocated to IHOP intellectual property. Financing expenses are primarily the cost of restaurant equipment.

Information on segments for the three months ended March 31, 2013 and 2012 was as follows:

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Revenues from External Customers		
Franchise operations	$111.9	$108.4
Company restaurants	16.5	100.9
Rental operations	31.0	32.0
Financing operations	3.8	4.3
Total	$163.2	$245.6
Interest Expense		
Company restaurants	$0.1	$0.1
Rental operations	4.1	4.4
Corporate	25.3	30.2
Total	$29.5	$34.7
Depreciation and amortization		
Franchise operations	$2.8	$2.5
Company restaurants	0.5	2.4
Rental operations	3.4	3.5
Corporate	2.1	2.1
Total	$8.8	$10.5
Income (loss) before income taxes		
Franchise operations	$83.7	$80.8
Company restaurants	0.2	16.7
Rental operations	6.7	7.5
Financing operations	3.8	3.6
Corporate	(64.2)	(59.6)
Total	$30.2	$49.0

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

10. Net Income per Share

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

	Three Months Ended March 31, 2013	2012
	(In thousands, except per share data)	
Numerator for basic and dilutive income per common share:		
Net income	$ 18,239	$ 31,344
Less: Net income allocated to unvested participating restricted stock	(329)	(796)
Less: Accretion of Series B Convertible Preferred Stock	—	(668)
Net income available to common stockholders - basic	17,910	29,880
Effect of unvested participating restricted stock in two-class calculation	1	40
Accretion of Series B Convertible Preferred Stock	—	668
Net income available to common stockholders - diluted	$ 17,911	$ 30,588
Denominator:		
Weighted average outstanding shares of common stock - basic	18,911	17,682
Dilutive effect of:		
Stock options	282	316
Series B Convertible Preferred Stock	—	653
Weighted average outstanding shares of common stock - diluted	19,193	18,651
Net income per common share:		
Basic	$ 0.95	$ 1.69
Diluted	$ 0.93	$ 1.64

11. Fair Value Measurements

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

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

The fair values of non-current financial liabilities at March 31, 2013 and December 31, 2012, determined based on Level 2 inputs, were as follows:

	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Long-term debt, less current maturities	$1,204.4	$1,338.4	$1,202.1	$1,334.2

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12. Commitments and Contingencies

Litigation, Claims and Disputes

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

Lease Guarantees

In connection with the sale of Applebee’s restaurants or previous brands to franchisees and other parties, the Company has, in certain cases, guaranteed or had potential continuing liability for lease payments totaling $444.9 million as of March 31, 2013. This amount represents the maximum potential liability for future payments under these leases. These leases have been assigned to the buyers and expire at the end of the respective lease terms, which range from 2013 through 2048. In the event of default, the indemnity and default clauses in the sale or assignment agreements govern the Company's ability to pursue and recover damages incurred. No material liabilities have been recorded as of March 31, 2013.

Contingencies

In February 2013, an IHOP franchisee which owns and operates 19 restaurants located in the states of Illinois, Wisconsin and Missouri filed for bankruptcy protection. This franchisee currently is operating all of its restaurants in the normal course of business and is current on all financial obligations to the Company.

In April 2013, an Applebee's franchisee which owns and operates 33 restaurants located in the state of Illinois also filed for bankruptcy protection. In connection with the bankruptcy filing, this franchisee expects to close eight restaurants. This franchisee currently is operating its remaining restaurants in the normal course of business and is current on all financial obligations to the Company.

Based on currently available information, the Company cannot determine whether either of these bankruptcy proceedings will have a material adverse impact on its results of operations for the 2013 fiscal year or, if such material adverse impact were to occur, the magnitude of the impact.

13. Consolidating Financial Information

Certain of the Company's subsidiaries have guaranteed the Company's obligations under the Senior Secured Credit Facility. The following presents the condensed consolidating financial information separately for: (i) the parent Company, the issuer of the guaranteed obligations; (ii) the guarantor subsidiaries, on a combined basis, as specified in the Credit Agreement; (iii) the non-guarantor subsidiaries, on a combined basis; (iv) consolidating eliminations and reclassifications; and (v) DineEquity, Inc. and Subsidiaries on a consolidated basis.

Each guarantor subsidiary is 100% owned by the Company at the date of each balance sheet presented. The notes are fully and unconditionally guaranteed on a joint and several basis by each guarantor subsidiary. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements.

DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

Supplemental Condensed Consolidating Balance Sheet
March 31, 2013
(In millions[1])

	Parent	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations and Reclassification	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$52.8	$63.7	$0.9	$—	$117.4
Receivables, net	3.3	86.2	0.1	(8.0)	81.6
Prepaid expenses and other current assets	165.4	49.5	—	(165.4)	49.5
Deferred income taxes	(1.8)	21.1	0.8	—	20.0
Assets held for sale	—	—	—	—	—
Intercompany	(382.5)	377.0	5.5	—	—
Total current assets	(162.9)	597.4	7.3	(173.4)	268.5
Long-term receivables	—	208.3	—	—	208.3
Property and equipment, net	23.1	265.7	0.9	—	289.7
Goodwill	—	697.5	—	—	697.5
Other intangible assets, net	—	803.1	—	—	803.1
Other assets, net	18.3	92.3	—	—	110.6
Investment in subsidiaries	1,697.6	—	—	(1,697.6)	—
Total assets	$1,576.1	$2,664.3	$8.3	$(1,871.0)	$2,377.7
Liabilities and Stockholders' Equity					
Current Liabilities					
Current maturities of long-term debt	$12.7	$—	$—	$(8.0)	$4.7
Accounts payable	1.9	30.3	—	—	32.2
Accrued employee compensation and benefits	5.5	5.4	—	—	11.0
Gift card liability	—	107.4	—	—	107.4
Other accrued expenses	22.5	213.9	0.1	(165.4)	71.1
Total current liabilities	42.7	357.0	0.1	(173.4)	226.3
Long-term debt	1,204.4	—	—	—	1,204.4
Financing obligations	—	52.0	—	—	52.0
Capital lease obligations	—	121.5	—	—	121.5
Deferred income taxes	2.1	350.4	(0.2)	—	352.2
Other liabilities	5.8	93.4	1.0	—	100.2
Total liabilities	1,255.0	974.3	0.9	(173.4)	2,056.7
Total stockholders' equity	321.2	1,690.0	7.4	(1,697.6)	321.0
Total liabilities and stockholders' equity	$1,576.1	$2,664.3	$8.3	$(1,871.0)	$2,377.7

[1] Supplemental statements presented in millions may not foot/crossfoot due to rounding from Consolidated Statements presented in thousands.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

Supplemental Condensed Consolidating Balance Sheet
December 31, 2012
(In millions[1])

	Parent	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations and Reclassification	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$9.9	$54.0	$0.6	$ —	$64.5
Receivables, net	2.8	133.7	0.1	(8.0)	128.6
Prepaid expenses and other current assets	151.3	64.6	—	(136.3)	79.5
Deferred income taxes	(3.2)	24.1	0.8	—	21.8
Intercompany	(394.9)	389.0	6.0	—	—
Total current assets	(234.1)	665.4	7.5	(144.3)	294.5
Long-term receivables	—	212.3	—	—	212.3
Property and equipment, net	23.2	270.2	0.9	—	294.4
Goodwill	—	697.5	—	—	697.5
Other intangible assets, net	—	806.1	—	—	806.1
Other assets, net	18.4	92.3	—	—	110.7
Investment in subsidiaries	1,697.6	—	—	(1,697.6)	—
Total assets	$1,505.1	$2,743.8	$8.5	$ (1,841.9)	$2,415.4
Liabilities and Stockholders' Equity					
Current Liabilities					
Current maturities of long-term debt	$15.4	$—	$—	$ (8.0)	$7.4
Accounts payable	1.4	29.3	0.1	—	30.8
Accrued employee compensation and benefits	9.4	13.0	—	—	22.4
Gift card liability	—	161.7	—	—	161.7
Other accrued expenses	(42.5)	223.8	0.5	(136.3)	45.5
Total current liabilities	(16.3)	427.8	0.6	(144.3)	267.8
Long-term debt	1,202.1	—	—	—	1,202.1
Financing obligations	—	52.0	—	—	52.0
Capital lease obligations	—	124.4	—	—	124.4
Deferred income taxes	4.7	357.7	(0.2)	—	362.2
Other liabilities	5.6	91.9	0.7	—	98.2
Total liabilities	1,196.1	1,053.8	1.1	(144.3)	2,106.6
Total stockholders' equity	309.0	1,690.0	7.4	(1,697.6)	308.8
Total liabilities and stockholders' equity	$1,505.1	$2,743.8	$8.5	$ (1,841.9)	$2,415.4

[1] Supplemental statements presented in millions may not foot/crossfoot due to rounding from Consolidated Statements presented in thousands.

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DineEquity, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)

Supplemental Condensed Consolidating Statement of Income and Comprehensive Income
For the Three Months Ended March 31, 2013
(In millions[1])

	Parent	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations and Reclassification	Consolidated
Revenues					
Franchise and restaurant revenues	$0.7	$127.3	$0.3	$—	$128.3
Rental revenues	—	31.0	—	—	31.0
Financing revenues	—	3.8	—	—	3.8
Total revenue	0.7	162.1	0.3	—	163.2
Franchise and restaurant expenses	0.8	43.6	—	—	44.5
Rental expenses	—	24.3	—	—	24.3
Financing expenses	—	—	—	—	—
General and administrative	9.2	24.5	0.3	—	34.0
Interest expense	25.0	0.3	—	—	25.3
Amortization of intangible assets	—	3.1	—	—	3.1
Impairment and closure	—	0.7	0.1	—	0.8
Gain on disposition of assets	—	(0.1)	(0.3)	—	(0.3)
Loss on extinguishment of debt	—	—	—	—	—
Debt modification costs	1.3	—	—	—	1.3
Intercompany dividend	(39.8)	—	—	39.8	—
Income (loss) before income taxes	4.2	65.7	0.1	(39.8)	30.2
Benefit (provision) for income taxes	14.1	(26.0)	—	—	(12.0)
Net (loss) income	$18.2	$39.7	$0.1	$(39.8)	$18.2
Total comprehensive income	$18.2	$39.7	$0.1	$(39.8)	$18.2

Supplemental Condensed Consolidating Statement of Income and Comprehensive Income
For the Three Months Ended March 31, 2012
(In millions[1])

	Parent	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations and Reclassification	Consolidated
Revenues					
Franchise and restaurant revenues	$0.6	$208.4	$0.3	$—	$209.3
Rental revenues	—	32.0	—	—	32.0
Financing revenues	—	4.3	—	—	4.3
Total revenue	0.6	244.7	0.3	—	245.6
Franchise and restaurant expenses	0.6	111.2	—	—	111.8

Rental expenses	—	24.5	—	—	24.5
Financing expenses	—	0.7	—	—	0.7
General and administrative	7.1	32.1	0.5	—	39.6
Interest expense	27.4	2.8	—	—	30.2
Amortization of intangible assets	—	3.1	—	—	3.1
Impairment and closure	—	0.4	0.3	—	0.7
Gain on disposition of assets	—	(16.4)	(0.3)	—	(16.7)
Loss on extinguishment of debt	2.6	—	—	—	2.6
Intercompany dividend	(54.1)	—	—	54.1	—
Income (loss) before income taxes	17.0	86.3	(0.2)	(54.1)	49.0
Benefit (provision) for income taxes	14.3	(32.0)	—	—	(17.7)
Net (loss) income	$31.3	$54.3	$(0.2)	$(54.1)	$31.3
Total comprehensive income	$31.3	$54.5	$(0.2)	$(54.1)	$31.5

(1) Supplemental statements presented in millions may not foot/crossfoot due to rounding from Consolidated Statements presented in thousands.