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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from to

Commission File Number 001-15283

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

Delaware (State or other jurisdiction of incorporation or organization)	**95-3038279** (I.R.S. Employer Identification No.)
450 North Brand Boulevard, Glendale, California (Address of principal executive offices)	**91203-1903** (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 ☒ 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 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 ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

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 July 24, 2009
Common Stock, $.01 par value	17,597,734

DINEEQUITY, INC. AND SUBSIDIARIES

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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)

	June 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 80,370	$ 114,443
Restricted cash	68,514	83,355
Short-term investments, at market value	279	276
Receivables, net	81,595	117,930
Inventories	11,839	10,959
Prepaid income taxes	—	15,734
Prepaid expenses	16,660	17,067
Deferred income taxes	27,249	27,504
Assets held for sale	6,326	11,861
Total current assets	292,832	399,129
Non-current restricted cash	50,937	53,395
Restricted assets related to captive insurance subsidiary	4,590	5,573
Long-term receivables	268,037	277,106
Property and equipment, net	805,137	824,482
Goodwill	697,470	697,470
Other intangible assets, net	949,507	956,036
Other assets, net	139,423	148,026
Total assets	$ 3,207,933	$ 3,361,217
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$ 20,100	$ 15,000
Accounts payable	33,527	48,983
Accrued employee compensation and benefits	31,682	44,299
Deferred revenue	50,278	95,532
Accrued financing costs	—	20,071
Other accrued expenses	63,473	55,249
Accrued interest payable	3,391	3,580
Total current liabilities	202,451	282,714
Long-term debt, less current maturities	1,718,473	1,853,367
Financing obligations, less current maturities	318,938	318,651
Capital lease obligations, less current maturities	157,470	161,310
Deferred income taxes	402,832	395,448
Other liabilities	117,488	119,910
Total liabilities	2,917,652	3,131,400
Commitments and contingencies		
Preferred stock, Series A, $1 par value, 220,000 shares authorized; 190,000 shares issued and outstanding as of June 30, 2009 and December 31, 2008	187,050	187,050
Stockholders' equity:		
Convertible preferred stock, Series B, at accreted value, 10,000,000 shares authorized; 35,000 shares issued and outstanding at June 30, 2009 and December 31, 2008	38,461	37,332
Common stock, $.01 par value, 40,000,000 shares authorized; June 30, 2009: 23,810,117 shares issued and 17,594,551 shares outstanding; December 31, 2008: 23,696,950 shares issued and 17,466,355 shares outstanding	238	237
Additional paid-in-capital	168,435	165,315
Retained earnings	197,136	145,810
Accumulated other comprehensive loss	(25,289)	(29,408)
Treasury stock, at cost (June 30, 2009: 6,215,566 shares; December 31, 2008: 6,230,595 shares)	(275,750)	(276,519)
Total stockholders' equity	103,231	42,767
Total liabilities and stockholders' equity	$ 3,207,933	$ 3,361,217

See the accompanying Notes to Consolidated Financial Statements.

DINEEQUITY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Revenues				
Franchise revenues	$ 90,514	$ 87,421	$ 188,724	$ 177,355
Company restaurant sales	222,268	296,496	461,792	608,418
Rental revenues	32,544	32,568	66,253	65,533
Financing revenues	4,324	7,648	8,437	15,616
Total revenues	349,650	424,133	725,206	866,922
Costs and Expenses				
Franchise expenses	23,736	22,384	52,034	45,761
Company restaurant expenses	192,181	259,742	394,037	536,317
Rental expenses	24,275	24,561	48,817	49,270
Financing expenses	339	2,548	346	5,887
General and administrative expenses	33,959	49,230	81,118	96,834
Interest expense	45,970	51,561	94,380	102,208
Impairment and closure charges	2,352	41,203	2,001	41,432
Amortization of intangible assets	3,018	3,080	6,037	5,979
Gain on extinguishment of debt	(12,449)	—	(38,803)	—
(Gain) loss on disposition of assets	(5)	20	(5,142)	(158)
Other (income) expense, net	(94)	26	129	(1,724)
Total costs and expenses	313,282	454,355	634,954	881,806
Income (loss) before income taxes	36,368	(30,222)	90,252	(14,884)
(Provision) benefit for income taxes	(11,554)	10,837	(28,297)	9,353
Net income (loss)	$ 24,814	$ (19,385)	$ 61,955	$ (5,531)
Net income (loss)	$ 24,814	$ (19,385)	$ 61,955	$ (5,531)
Less: Series A preferred stock dividends	(4,750)	(4,750)	(9,500)	(9,500)
Less: Accretion of Series B preferred stock	(569)	(535)	(1,129)	(1,056)
Less: Net (income) loss allocated to unvested participating restricted stock	(719)	930	(1,916)	539
Net income (loss) available to common stockholders	$ 18,776	$ (23,740)	$ 49,410	$ (15,548)
Net income (loss) available to common stockholders per share				
Basic	$ 1.11	$ (1.42)	$ 2.93	$ (0.93)
Diluted	$ 1.09	$ (1.42)	$ 2.87	$ (0.93)
Weighted average shares outstanding				
Basic	16,929	16,768	16,886	16,735
Diluted	17,845	16,768	17,625	16,735
Dividends declared per common share	$ —	$ 0.25	$ —	$ 0.50
Dividends paid per common share	$ —	$ 0.25	$ —	$ 0.50

See the accompanying Notes to Consolidated Financial Statements.

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DINEEQUITY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2009	**2008**
Cash flows from operating activities		
Net income (loss)	$ 61,955	$ (5,531)
Adjustments to reconcile net income (loss) to cash flows provided by operating activities		
Depreciation and amortization	51,662	55,369
Gain on extinguishment of debt	(38,803)	—
Impairment and closure charges	2,001	41,432
Deferred income taxes	4,845	(38,420)
Stock-based compensation expense	5,277	7,057
Tax benefit from stock-based compensation	376	945
Excess tax benefit from stock options exercised	(41)	(315)
Gain on disposition of assets	(5,142)	(158)
Changes in operating assets and liabilities		
Receivables	35,384	28,336
Inventories	(1,009)	(43)
Prepaid expenses	6,070	26,090
Accounts payable	(13,931)	(27,007)
Accrued employee compensation and benefits	(12,617)	(10,586)
Deferred revenues	(45,254)	(33,632)
Other accrued expenses	14,328	12,439
Other	(3,620)	840
Cash flows provided by operating activities	61,481	56,816
Cash flows from investing activities		
Additions to property and equipment	(5,899)	(23,216)
Reductions (additions) to long-term receivables	1,029	(1,573)
Payment of accrued acquisition costs	—	(10,063)
Collateral released by captive insurance subsidiary	983	3,823
Proceeds from sale of property and equipment and assets held for sale	11,260	11,930
Principal receipts from notes and equipment contracts receivable	8,206	7,871
Other	(87)	478
Cash flows provided by (used in) investing activities	15,492	(10,750)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	10,000	—
Proceeds from financing obligations	—	333,617
Repayment of long-term debt	(101,701)	(312,800)
Principal payments on capital lease and financing obligations	(7,047)	(3,167)
Dividends paid	(9,500)	(15,115)
Payment of preferred stock issuance costs	—	(1,500)
Repurchase of restricted stock	(287)	(380)
Reissuance of treasury stock	—	1,135
Proceeds from stock options exercised	308	989
Excess tax benefit from stock options exercised	41	315
Payment of accrued debt issuance costs	(20,030)	(24,299)
Payment of early debt extinguishment costs	(123)	—
Restricted cash related to securitization	17,293	(13,666)
Cash flows used in financing activities	(111,046)	(34,871)
Net change in cash and cash equivalents	(34,073)	11,195
Cash and cash equivalents at beginning of year	114,443	26,838
Cash and cash equivalents at end of period	$ 80,370	$ 38,033
Supplemental disclosures		
Interest paid	$ 84,677	$ 100,924
Income taxes paid	$ 12,598	$ 12,514

See the accompanying Notes to Consolidated Financial Statements.

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 U.S. 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. Operating results for the three-month and six-month periods ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The consolidated balance sheet at December 31, 2008 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, 2008.

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 are reported as ending on March 31, June 30, September 30 and December 31. The first and second fiscal quarters of 2009 ended March 29 and June 28, respectively; the first and second fiscal quarters of 2008 ended March 30 and June 29, respectively.

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries that are consolidated in accordance with U.S. GAAP. All intercompany balances and transactions have been eliminated in consolidation. However, the subsidiaries have not guaranteed the obligations of the Company, and the assets of the subsidiaries generally are not available to pay creditors of the Company. Also, the Company has not guaranteed the obligations of the subsidiaries, and the assets of the Company generally are not available to pay creditors of the subsidiaries.

The preparation of financial statements in conformity with U.S. GAAP requires the Company's management to make estimates and assumptions 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. Subsequent events have been evaluated through July 30, 2009, the date the financial statements are considered issued.

Reclassifications

Certain reclassifications have been made to prior year information to conform to the current year presentation. The most significant reclassification relates to certain operations acquired with Applebee's International, Inc. ("Applebee's"), a wholly-owned subsidiary of the Company, that were previously reported as discontinued operations. The losses from discontinued operations of $114,000 and $202,000, respectively, for the three- and six-month periods ended June 30, 2008, previously reported as a single net line item have been reclassified as follows:

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
	(In thousands)	
Company restaurant expenses	$ 19	$ 48
Loss on disposition of assets	49	8
Impairment and closure charges	123	277
Income (loss) before income taxes	(191)	(333)
Benefit for income taxes	77	131
Net income (loss)	$ (114)	$ (202)

These reclassifications had no effect on the net income or financial position previously reported.

3. Accounting Policies

Recently Adopted Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"). In February 2008, the FASB issued FASB Staff Position ("FSP") No. 157-2, *Effective Date of FASB Statement No. 157*, which delayed for one year the applicability of SFAS 157's fair-value measurements to certain nonfinancial assets and liabilities. The Company adopted the requirements of SFAS 157 that had been deferred under FSP 157-2 on January 1, 2009. The adoption did not have a material impact on the Company's financial condition, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Company adopted SFAS 141(R) on January 1, 2009 and will apply the provisions of this statement prospectively.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). This statement requires companies to provide enhanced disclosures about (a) how and why they use derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations, and (c) how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows. The Company adopted the new disclosure requirements on January 1, 2009. As SFAS 161 does not change current accounting practice, there was no impact of the adoption to the Company's results of operations and financial condition..

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other applicable accounting literature. The Company adopted FSP FAS 142-3 on January 1, 2009 and will apply the provisions of this statement prospectively to intangible assets acquired after the effective date.

In June 2008, the FASB issued FSP EITF Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP EITF 03-6-1"). FSP EITF 03-6-1 requires unvested share-based payment awards that contain rights to receive non-forfeitable dividends or dividend equivalents to be included in the two-class method of computing earnings per share as described in SFAS No. 128, *Earnings per Share*. The Company retroactively adopted FSP EITF 03-6-1 on January 1, 2009. The impact of the adoption on earnings per share as previously reported for the three- and six-month periods ended June 30, 2008 was not material.

In April 2009, the FASB issued FSP FAS 157-4, FSP FAS 115-2 and FAS 124-2, and FSP FAS 107-1 and APB 28-1, to address concerns regarding (1) determining whether a market is not active and a transaction is not orderly, (2) recognition and presentation of other-than-temporary impairments and (3) interim disclosures of fair values of financial instruments, respectively. The Company adopted these FSPs effective April 1, 2009. There was no impact of the adoption on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165*, Subsequent Events* ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted SFAS 165 effective April 1, 2009. There was no impact of the adoption on the Company's consolidated financial statements.

New Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 166*, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* ("SFAS 166"). SFAS 166 clarifies that the objective of paragraph 9 of Statement 140 is to determine whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control over transferred financial assets; limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset; and removes the concept of a qualifying special-purpose entity. The Company will be required to adopt SFAS 166 effective January 1, 2010, and is currently evaluating the potential impact, if any, of SFAS 166 on its consolidated financial statements.

3. Accounting Policies, continued

In June 2009, the FASB issued SFAS No. 167*, Amendments to FASB Interpretation No. 46(R)* (“SFAS 167”). SFAS 167 amends existing U.S. GAAP with respect to the consolidation of variable interest entities (“VIEs”). Among other things, SFAS 167 (i) amends existing guidance for determining whether an entity is a VIE; (ii) requires ongoing reassessments of whether an entity is the primary beneficiary of a VIE; and (iii) requires enhanced disclosures about an entity’s involvement in a VIE. The Company will be required to adopt SFAS 167 effective January 1, 2010, and is currently evaluating the potential impact, if any, of SFAS 167 on its consolidated financial statements.

In June 2009 the FASB issued statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.* This statement replaces Statement No. 162 and establishes the *FASB Accounting Standards Codification*™ (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. This statement becomes effective for the Company for the third fiscal quarter of 2009. The Company does not expect that the adoption of this statement will have a material effect on the Company’s financial statements.

4. Impairment and Closure Charges

The Company assesses long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. For the six months ended June 30, 2009, the Company recognized impairment charges of $1.9 million and closure charges of $0.1 million. The charges related primarily to leasehold improvements and related assets of one IHOP restaurant closed during the period and an additional write-down to the estimated sales value, based on a current letter of intent, of one Applebee’s restaurant that had been closed in a prior period and was included in assets held for sale.

In May 2008, the Company entered into sale-leaseback transactions related to 181 parcels of real estate (land, buildings and improvements). Due to continuing involvement of the Company with the subject properties, the transaction was recorded under the financing method in accordance with U.S. GAAP covering sale-leaseback transactions involving real estate. The proceeds received by the Company from this transaction established the fair value of the properties, which was less than the net book value of the real estate assets by approximately $41 million. Accordingly, the Company has recognized an impairment loss of that amount in the Consolidated Statement of Operations for the three-month and six-month periods ended June 30, 2008.

5. Assets Held for Sale

The Company classifies assets as held for sale and ceases the depreciation and amortization of the assets when there is a plan for disposal of the assets and those assets meet the held for sale criteria as defined in applicable U.S. GAAP. The balance of assets held for sale at December 31, 2008 of $11.9 million was primarily comprised of seven Applebee’s company-operated restaurants in New Mexico expected to be franchised, four parcels of land previously acquired and held for future development, and property and equipment from closed stores.

The sale of five of the seven restaurants in New Mexico was completed in the first fiscal quarter of 2009. During the second fiscal quarter of 2009 the Company sold certain property and equipment associated with closed restaurants and recognized an additional impairment on a previously closed restaurant as discussed in Note 4, Impairment and Closure Charges. The balance of assets held for sale at June 30, 2009 of $6.3 million was primarily comprised of two Applebee’s company-operated restaurants in New Mexico expected to be franchised (see Note 18, Subsequent Events), four parcels of land previously acquired and held for future development, and property and equipment from closed restaurants.

The following table summarizes the changes in the balance of assets held for sale during 2009:

	(In millions)
Balance December 31, 2008	$ 11.9
Assets sold	(4.7)
Impairment charges	(1.0)
Assets reclassified to held for sale	0.1
Balance June 30, 2009	$ 6.3

6. Long-Term Debt

Long-term debt consists of the following components:

	June 30, 2009 (unaudited)	December 31, 2008
	(In millions)	
Series 2007-1 Class A-2-II-A Fixed Rate Term Senior Notes due December 2037, at a fixed rate of 7.1767% (inclusive of an insurance premium of 0.75%)	$ 600.7	$ 640.6
Series 2007-1 Class A-2-II-X Fixed Rate Term Senior Notes due December 2037, at a fixed rate of 7.0588%	506.2	604.3
Series 2007-1 Class M-1 Fixed Rate Term Subordinated Notes due December 2037, at a fixed rate of 8.4044%	111.5	119.0
Series 2007-1 Class A-1 Variable Funding Senior Notes, final maturity date December 2037, at a rate of 2.98% and 3.86% as of June 30, 2009 and December 31, 2008, respectively	100.0	100.0
Series 2007-1 Fixed Rate Notes due March 2037, at a fixed rate of 5.744% (inclusive of an insurance premium of 0.60%)	175.0	175.0
Series 2007-2 Variable Funding Notes, final maturity date March 2037, at a rate of 0.46% and 2.1% as of June 30, 2009 and December 31, 2008, respectively	25.0	15.0
Series 2007-3 Fixed Rate Term Notes due December 2037, at a fixed rate of 7.0588%	245.0	245.0
Discount on Fixed Rate Notes	(24.8)	(30.5)
Total debt	1,738.6	1,868.4
Less current maturities	(20.1)	(15.0)
Long-term debt	$ 1,718.5	$ 1,853.4

For a complete description of the respective instruments, refer to Note 10 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

During the six months ended June 30, 2009, the Company retired Series 2007-1 Class A-2-II-X Fixed Rate Term Senior Notes due December 2037 with a face amount of $94.0 million and Series 2007-1 Class A-2-II-A Fixed Rate Term Senior Notes due December 2037 with a face amount of $35.2 million for cash payments totaling $85.4 million. The Company recognized a gain on extinguishment of this debt of $38.8 million after the write-off of the discount and deferred financing costs related to the debt retired.

During the six months ended June 30, 2009, the Company received proceeds from disposition of assets and release of certain reserve funds totaling $8.8 million. As required by the terms of the Applebee's securitization agreements, these funds were used to retire Series 2007-1 Class A-2-II-X Fixed Rate Term Senior Notes and Series 2007-1 Class A-2-II-A Fixed Rate Term Senior Notes at face values of $4.1 million and $4.7 million, respectively.

In January 2009, the Company began making scheduled monthly payments on the Series 2007-1 Class M-1 Fixed Rate Term Subordinated Notes due December 2037. Scheduled payments totaled $7.5 million during the six months ended June 30, 2009.

7. Financing Obligations

As of June 30, 2009, 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 2009	$ 15.8
2010	32.0
2011	32.3
2012	32.4
2013	32.4
Thereafter	453.8
Total minimum lease payments	598.7
Less interest	(271.6)
Total financing obligations	327.1
Less current portion(1)	(8.2)
Long-term financing obligations	$ 318.9

(1) Included in other accrued expenses on the consolidated balance sheet.

8. Segments

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

As of June 30, 2009, the franchise operations segment consists of (i) 1,591 restaurants operated by Applebee's franchisees in the United States, 14 countries outside the United States and one U.S. territory and (ii) 1,410 restaurants operated by IHOP franchisees and area licensees in the United States, Canada and Mexico. Franchise operations revenue consists primarily of franchise royalty revenues, sales of proprietary products, certain franchise advertising fees and the portion of the franchise fees allocated to intellectual property. Franchise operations expenses include advertising expense, the cost of proprietary products, pre-opening training expenses and costs related to intellectual property provided to certain franchisees.

As of June 30, 2009, the company restaurant operations segment consists of 400 company-operated Applebee's restaurants in the United States, one company-operated Applebee's restaurant in China and 11 company-operated IHOP restaurants. Company restaurant sales are retail sales at company-operated restaurants. Company restaurant expenses are operating expenses at company-operated restaurants and include food, labor, benefits, utilities, rent and other restaurant operating costs.

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

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

8. Segments, continued

Information on segments is as follows:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(In millions)			
Revenues from external customers				
Franchise operations	$ 90.5	$ 87.4	$ 188.7	$ 177.4
Company restaurants	222.3	296.5	461.8	608.4
Rental operations	32.5	32.6	66.3	65.5
Financing operations	4.3	7.6	8.4	15.6
Total	$ 349.6	$ 424.1	$ 725.2	$ 866.9
Interest expense				
Company restaurants	$ 0.2	$ 0.3	$ 0.5	$ 0.5
Rental operations	4.9	5.0	9.9	10.2
Corporate	46.0	51.6	94.4	102.2
Total	$ 51.1	$ 56.9	$ 104.8	$ 112.9
Depreciation and amortization (1)				
Franchise operations	$ 2.5	$ 2.5	$ 5.0	$ 5.0
Company restaurants	7.5	8.5	14.8	20.2
Rental operations	2.9	3.0	5.8	6.0
Corporate	3.3	2.8	6.8	5.2
Total	$ 16.2	$ 16.8	$ 32.4	$ 36.4
Income (loss) before income taxes				
Franchise operations	$ 66.8	$ 65.0	$ 136.7	$ 131.6
Company restaurants	30.1	36.8	67.8	72.1
Rental operations	8.3	8.0	17.4	16.3
Financing operations	4.0	5.1	8.1	9.7
Corporate	(72.8)	(145.1)	(139.7)	(244.6)
Total	$ 36.4	$ (30.2)	$ 90.3	$ (14.9)

(1) Excludes amortization included in interest expense

9. Income Taxes

The Company or one of its subsidiaries files Federal income tax returns and income tax returns in various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to Federal, state or non-U.S. income tax examinations by tax authorities for years before 2004 for Federal returns and years before 2000 for other jurisdictions.

At June 30, 2009, the Company had a liability for unrecognized tax benefits including potential interest and penalties, net of related tax benefit, totaling $18.4 million, of which approximately $1.9 million is expected to be paid within one year. 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.

The total unrecognized tax benefit as of June 30, 2009 and December 31, 2008 was $12.4 million and $18.6 million, respectively, excluding interest, penalties and related income tax benefits. The decrease was due primarily to settlements with taxing authorities resulting in a decrease in unrecognized tax benefits related to prior year positions. The entire $12.4 million will be included in the Company's effective income tax rate if recognized. The Company estimates the unrecognized tax benefits may decrease over the upcoming 12 months by an amount up to $1.5 million related to settlements with taxing authorities and the lapse of the statute of limitations.

As of June 30, 2009, the accrued interest and penalties were $13.4 million and $2.0 million, respectively, excluding any related income tax benefits. As of December 31, 2008, the accrued interest and penalties were $13.7 million and $2.9 million, respectively, excluding any related income tax benefits. The decrease of $0.3 million of accrued interest is primarily related to the decrease of unrecognized tax benefits due to settlements with taxing authorities, partially offset by the accrual of interest during the six months ended June 30, 2009. The Company recognizes interest accrued related to unrecognized tax benefits and penalties as a component of income tax expense which is recognized in the Consolidated Statements of Operations.

The Company has various state net operating loss carryovers representing $1.5 million of state taxes as of December 31, 2008. The net operating loss carryovers will expire, if unused, during the period from 2009 through 2027.

9. Income Taxes, continued

The effective tax rate for the provision recognized was 31.4% for the six-month period ended June 30, 2009. The effective tax rate for the provision recognized is lower than the federal statutory rate of 35% primarily due to tax credits, partially offset by state income taxes. The tax credits are primarily FICA tip and other compensation-related tax credits associated with Applebee's company-owned restaurant operations.

10. Stock-Based Compensation

From time to time, the Company grants stock options and restricted stock to officers, directors and employees of the Company under the 2001 Stock Incentive Plan (the "2001 Plan") and the 2005 Stock Incentive Plan for Non-Employee Directors (the "2005 Plan"). The stock options generally vest over a three-year period and have a maturity of ten years from the issuance date. Option exercise prices equal the closing price of the common stock on the New York Stock Exchange on the date of grant. Restricted stock provides for the issuance of shares of the Company's common stock at no cost to the holder and vests over terms determined by the Compensation Committee of the Company's Board of Directors, generally three years. The restricted stock generally vests only if the employee is actively employed by the Company on the vesting date, and unvested restricted shares are forfeited upon either termination, retirement before age 65, death or disability, unless the Compensation Committee of the Company's Board of Directors determines otherwise. When vested options and restricted stock are issued, the Company generally issues new shares from its authorized but unissued share pool or utilizes treasury stock.

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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In millions)			
Total Stock-Based Compensation:				
Pre-tax compensation expense	$ 2.1	$ 4.0	$ 5.3	$ 7.1
Tax provision (benefit)	(0.7)	(4.2)	(1.7)	(4.5)
Total stock-based compensation expense, net of tax	$ 1.4	$ (0.2)	$ 3.6	$ 2.6

As of June 30, 2009, $11.1 million and $8.0 million (including estimated forfeitures) of total unrecognized compensation cost related to restricted stock and stock options, respectively, is expected to be recognized over a weighted average period of 1.85 years for restricted stock and 2.48 years for stock options.

The estimated fair values of the options granted year-to-date in 2009 were calculated using a Black-Scholes option pricing model. The following summarizes the assumptions used in the Black-Scholes model:

Risk-free interest rate	1.93%
Weighted average historical volatility	72.1%
Dividend yield	—
Expected years until exercise	5.0
Forfeitures	11.0%
Weighted average fair value of options granted	$ 4.61

10. Stock-Based Compensation, continued

Option activity under the Company's stock option plan as of June 30, 2009, and changes during the six-month period then ended were as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2008	933,939	$ 36.37		
Granted	961,750	$ 7.57		
Exercised	(14,500)	$ 21.82		
Expired	(14,666)	$ 41.90		
Forfeited	(169,074)	$ 22.93		
Outstanding at June 30, 2009	1,697,449	$ 21.47	8.19	$ 21,861,000
Vested at June 30, 2009 and Expected to Vest	1,444,505	$ 22.56	7.97	$ 17,532,000
Exercisable at June 30, 2009	511,082	$ 38.62	5.19	$ 662,000

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the second quarter of 2009 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 June 30, 2009. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock and the number of in-the-money options.

A summary of restricted stock activity for the six months ended June 30, 2009 is presented below:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2008	671,480	$ 45.07
Granted	215,825	$ 9.08
Released	(110,999)	$ 48.83
Forfeited	(80,133)	$ 32.61
Nonvested at June 30, 2009	696,173	$ 37.74

11. Other Comprehensive Income

The components of comprehensive income, net of taxes, are as follows:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(In millions)			
Net income (loss)	$ 24.8	$ (19.4)	$ 62.0	$ (5.5)
Other comprehensive income, net of tax:				
Interest rate swap	2.1	2.0	4.1	3.7
Temporary decline in available-for-sale securities	—	(0.3)	—	(0.3)
Total comprehensive income (loss)	$ 26.9	$ (17.7)	$ 66.1	$ (2.1)

The amount of income tax benefit allocated to the interest rate swap was $1.3 million and $2.1 million for the three months ended June 30, 2009 and 2008, respectively. The amount of income tax benefit allocated to the interest rate swap was $2.7 million and $2.3 million for the six months ended June 30, 2009 and 2008, respectively. The amount of income tax benefit allocated to the temporary decline in securities was $0.2 million for the three and six months ended June 30, 2008.

11. Other Comprehensive Income, continued

The accumulated comprehensive loss of $25.3 million (net of tax) as of June 30, 2009 is comprised of $24.9 million related to a terminated interest rate swap and $0.4 million related to a temporary decline in available-for-sale securities. The accumulated comprehensive loss of $29.4 million (net of tax) as of December 31, 2008 is comprised of $29.0 million related to a terminated interest rate swap and $0.4 million related to a temporary decline in available-for-sale securities.

12. Net Income (Loss) Per Share

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
	(In thousands, except per share data)	
Numerator for basic and dilutive income—per common share:		
Net income (loss)	$ 24,814	$ (19,385)
Less: Series A Preferred Stock dividends	(4,750)	(4,750)
Less: Accretion of Series B Preferred Stock	(569)	(535)
Less: Net (income) loss allocated to unvested participating restricted stock	(719)	930
Net income (loss) available to common stockholders— basic	18,776	(23,740)
Effect of unvested participating restricted stock in two-class calculation	36	—
Accretion of Series B Preferred Stock*	569	—
Net income (loss) available to common stockholders— diluted	$ 19,381	$ (23,740)
Denominator:		
Weighted average outstanding shares of common stock	16,929	16,768
Dilutive effect of:		
Stock options *	363	—
Convertible Series B Preferred Stock *	553	—
Common stock and common stock equivalents	17,845	16,768
Net income (loss) per common share:		
Basic	$ 1.11	$ (1.42)
Diluted	$ 1.09	$ (1.42)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(In thousands, except per share data)	
Numerator for basic and dilutive income—per common share:		
Net income (loss)	$ 61,955	$ (5,531)
Less: Series A Preferred Stock dividends	(9,500)	(9,500)
Less: Accretion of Series B Preferred Stock	(1,129)	(1,056)
Less: Net (income) loss allocated to unvested participating restricted stock	(1,916)	539
Net income (loss) available to common stockholders— basic	49,410	(15,548)
Effect of unvested participating restricted stock in two-class calculation	77	—
Accretion of Series B Preferred Stock*	1,129	—
Net income (loss) available to common stockholders— diluted	$ 50,616	$ (15,548)
Denominator:		
Weighted average outstanding shares of common stock	16,886	16,735
Dilutive effect of:		
Stock options *	184	—
Convertible Series B Preferred Stock *	555	—
Common stock and common stock equivalents	17,625	16,735
Net income (loss) per common share:		
Basic	$ 2.93	$ (0.93)
Diluted	$ 2.87	$ (0.93)

* The effect of adding shares from the assumed exercise of stock options and conversion of Series B Convertible Preferred stock to the denominator and the related add-back of the dividends on Series B Convertible Preferred stock to the numerator is anti-dilutive for the three months and six months ended June 30, 2008.

13. Fair Value Measurements

The Company has one type of financial instrument that is measured on a recurring basis at fair value as defined by SFAS No. 157, investments held by Applebee's captive insurance subsidiary. None of the Company's non-financial assets or non-financial liabilities must be measured at fair value on a recurring basis. The Company has not elected to use fair value measurement on any assets or liabilities as provided by SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities—Including an amendment of FASB Statement No. 115*.

SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists; therefore requiring an entity to develop its own assumptions.

The fair value of the investments held by the captive insurance company at June 30, 2009 and December 31, 2008 was $4.6 million and $5.6 million, respectively, and was determined based on Level 3 inputs using a risk-adjusted discounted cash flow model under the income approach. The cost basis of the investment was $5.0 million and $6.0 million, respectively, with a temporary impairment of $0.4 million recorded as a component of accumulated other comprehensive income. There was no gain or loss, realized or unrealized, during the three months and six months ended June 30, 2009.

14. Fair Value of Financial Instruments

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

The fair values of non-current financial liabilities are shown in the following table.

	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Long-term debt, less current maturities	$ 1,718.5	$ 1,408.0	$ 1,853.4	$ 1,177.2
Series A Preferred Stock	$ 187.1	$ 160.2	$ 187.1	$ 131.2

At June 30, 2009 and December 31, 2008, the fair value of the non-current financial liabilities was determined based on Level 3 inputs using a risk-adjusted discounted cash flow model under the income approach. The change in fair value as of June 30, 2009, compared to the fair value as of December 31, 2008 was due a change in the discount rate assumption utilized in the risk-adjusted discounted cash flow model.

15. Consolidation of Variable Interest Entities

In December 2003, the FASB issued FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* ("FIN 46(R)"), to clarify the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to certain entities, called variable interest entities ("VIEs"), in which equity investors do not have the characteristics of a controlling interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. Under FIN 46(R), an enterprise that absorbs a majority of the VIE's expected losses, receives a majority of the VIE's expected residual returns, or both, is considered to be the primary beneficiary of the VIE and must consolidate the entity in its financial statements.

In February 2009, the Company and owners of Applebee's and IHOP franchise restaurants formed Centralized Supply Chain Services, LLC ("CSCS" or the "Co-op") to manage procurement activities for the Applebee's and IHOP restaurants choosing to join the Co-op. CSCS meets the definition of a VIE under FIN 46(R). Under the terms of the Co-op agreements, each member restaurant belonging to CSCS has equal and identical ownership rights and obligations. IHOP franchise restaurants to which the Company has provided financial support in the form of loans to purchase franchises and equipment are considered de facto agents of the Company for purposes of determining the primary beneficiary of the VIE. Company-owned Applebee's and IHOP restaurants, in addition to the IHOP franchise restaurants deemed de facto agents, comprised only 33.6% of the CSCS membership as of the date of determination of the primary beneficiary of the VIE. Accordingly, the Company is not considered to be the primary beneficiary of the VIE and therefore does not consolidate the results of CSCS.

Under the Co-op agreements, the Company is obligated to make a one-time payment to CSCS for start-up costs of $6.3 million, $3.5 million of which has been paid as of June 30, 2009, with payments of $2.0 million and $0.8 million due in July 2009 and January 2010, respectively. The Company is not obligated to provide any support to the Co-op under any explicit or implied agreement beyond this $6.3 million.

The Co-op does not purchase items on behalf of member restaurants; rather, it facilitates purchasing agreements and distribution arrangements between suppliers and member restaurants. Because of this, it is anticipated that CSCS will acquire a minimal amount of assets and incur a minimal amount of liabilities. Each member restaurant is responsible for only the goods and services it chooses to purchase and bears no responsibility or risk of loss for goods and services purchased by other member restaurants. Based on these facts, the Company believes its maximum estimated loss related to its membership in the Co-op is de minimis.

16. Commitments and Contingencies

Litigation, Claims and Disputes

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

Gerald Fast v. Applebee's

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

In cases of this type, conditional certification of the plaintiff class is granted under a lenient standard. On January 15, 2009, the Company filed a motion seeking to have the class de-certified and the plaintiffs filed a motion for summary judgment, both of which are pending before the court. The Company believes it has strong defenses supporting the de-certification of the class, as well as strong defenses to the substantive claims asserted, and intends to vigorously defend this case. Trial is currently set for September 8, 2009, in Jefferson City, Missouri. An estimate of the possible loss, if any, or the range of the loss cannot be made and, therefore, the Company has not accrued a loss contingency related to this matter.

Lease Guarantees

As of June 30, 2009, 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 $123.8 million. This amount represents the maximum potential liability of 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 2009 through 2044. In the event of default, the indemnity and default clauses in our sale or assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of June 30, 2009.

17. Preferred Stock

The Certificate of Designations of the Powers, Preferences and Relative, Participating, Optional and Other Special Rights, and Qualifications, Limitations, and Restrictions Thereof of Series A Perpetual Preferred Stock (the "Certificate of Designations") requires that upon the occurrence of a Change of Control, unless prohibited by applicable law, the Company shall redeem all then outstanding shares of the Series A Perpetual Preferred Stock for cash at a redemption price per share corresponding to the timing of such Change of Control, as specified in the Certificate of Designations. U.S. GAAP requires preferred securities that are redeemable for cash or other assets to be classified outside of permanent equity if they are redeemable upon the occurrence of an event that is not solely within the control of the issuer. Accordingly, the Series A Perpetual Preferred Stock is not included as a component of Stockholders' Equity in the accompanying Consolidated Balance Sheets.

18. Subsequent Event

On July 1, 2009, the Company completed the sale of two Applebee's company-operated restaurants in New Mexico. As discussed in Note 5, Assets Held For Sale, these restaurants were reported as part of Assets Held for Sale in the Consolidated Balance Sheet as of June 30, 2009. The Company received after-tax proceeds from this sale of approximately $5 million.

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

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements in certain circumstances. This report contains statements that involve expectations, plans or intentions (such as those relating to future business or financial results, new features or services, or management strategies). These statements are forward-looking and are subject to risks and uncertainties, so actual results may vary materially from those expressed or implied by any forward-looking statements. You can identify these forward-looking statements by words such as "may," "will," "should," "expect," "anticipate," "believe," "estimate," "intend," "plan," and other similar expressions. You should consider our forward-looking statements in light of the risks discussed under the heading "Risk Factors" in our most recent Annual Report on Form 10-K, 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 U.S. Securities and Exchange Commission. We assume no obligation to update any forward-looking statements.

Overview

The following discussion and analysis provides information we believe is relevant to an assessment and understanding of our consolidated results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and the notes thereto included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. Except where the context indicates otherwise, the words "we," "us," "our" and the "Company" refer to DineEquity, Inc., together with its subsidiaries that are consolidated in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

The Company was incorporated under the laws of the State of Delaware in 1976. The first International House of Pancakes ("IHOP") restaurant opened in 1958 in Toluca Lake, California. Shortly thereafter the Company's predecessor began developing and franchising additional restaurants. In November 2007, the Company completed the acquisition of Applebee's International, Inc. ("Applebee's"), which became a wholly-owned subsidiary of the Company. We own and operate two restaurant concepts in the casual dining and family dining categories of the food service industry: Applebee's Neighborhood Grill and Bar® and IHOP. References herein to Applebee's and IHOP restaurants are to these two restaurant concepts, whether operated by franchisees or the Company. References herein to "system sales" include retail sales at restaurants that are owned by franchisees and area licensees and are not attributable to the Company. With more than 3,400 franchised or owned-and-operated restaurants combined, we are the largest full-service restaurant company in the world.

Restaurant Concepts

Applebee's

We franchise and operate restaurants in the bar and grill segment of the casual dining industry under the name "Applebee's Neighborhood Grill & Bar®." With 1,992 system-wide restaurants as of June 30, 2009, Applebee's Neighborhood Grill & Bar is one of the largest casual dining concepts in the world, in terms of number of restaurants and market share.

Generally, Applebee's franchise arrangements consist of a development agreement and separate franchise agreements for each franchised restaurant. Development agreements grant to the franchise developer the exclusive right to develop Applebee's restaurants in a designated geographic area over a specified period of time. The term of a domestic development agreement is generally 20 years. The development agreement typically provides 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 development schedule, the Company and the franchisee generally agree upon supplemental development schedules providing for the development of additional Applebee's restaurants in the franchise developer's exclusive territory.

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

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

Since the completion of the Applebee's acquisition on November 29, 2007, we have been pursuing a strategy which contemplates transitioning from our current 80% franchised system to an approximately 98% franchised system. Between November

29, 2007 and June 30, 2009 we have franchised 108 company-owned restaurants in the California, Nevada, Delaware, Texas and New Mexico markets. This heavily franchised business model is expected to require less capital investment and reduce the volatility of cash flow performance over time. A range of factors including the overall market for restaurant franchises, the availability of financing, and the financial and operating performance of Applebee's company-owned restaurants can impact the likelihood and timing of the completion of this strategy as well as the ultimate proceeds the Company will receive from franchising the company-operated restaurants. The Company continues to monitor these factors and to assess their impact on possible franchise transactions. The Company may choose to suspend or revise its franchising strategy if it does not believe that conditions will lead to satisfactory proceeds from the sale of its company-operated restaurants.

IHOP

Under our current business model (the "Current Business Model"), which was adopted in January 2003, a potential franchisee first negotiates and enters into a single store development agreement or a multi-store development agreement with the Company and, upon completion of a prescribed approval procedure, is primarily responsible for the development and financing of one or more new IHOP franchised restaurants. In general, we do not provide any financing with respect to the franchise fee or otherwise. The franchise developer uses its own capital and financial resources along with third party financial sources to purchase or lease a restaurant site, build and equip the business and fund its working capital needs. The principal terms of the franchise agreements entered into under the Company's business model prior to 2003 (the "Previous Business Model") and the Current Business Model, including the franchise royalties and the franchise advertising fees, are substantially the same except with respect to the terms relating to the franchise fee.

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

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

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

The franchise agreements generally provide for advertising fees comprised of (i) a local advertising fee generally equal to 2.0% of weekly gross sales under the franchise agreement, which was usually collected by us and then 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. Beginning in 2005, the Company and the IHOP franchisees agreed to reallocate portions of the local advertising fees to purchase national broadcast, syndication and cable television time in order to reach our target audience more frequently and more cost effectively. 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.

The following table summarizes Applebee's restaurant development and franchising activity:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(unaudited)			
Applebee's Restaurant Development Activity				
Beginning of period	1,992	1,986	2,004	1,976
New openings				
Company-developed	—	—	—	1
Franchisee-developed	5	11	10	27
Total new openings	5	11	10	28
Closings				
Company	—	(2)	—	(3)
Franchise	(5)	(2)	(22)	(8)
End of period	1,992	1,993	1,992	1,993
Summary-end of period				
Franchise	1,591	1,484	1,591	1,484
Company	401	509	401	509
Total	1,992	1,993	1,992	1,993
Restaurant Franchising Activity				
Domestic franchisee-developed	2	6	7	17
International franchisee-developed	3	5	3	10
Refranchised	—	—	5	—
Total restaurants franchised	5	11	15	27
Closings				
Domestic franchisee	(2)	(2)	(18)	(7)
International franchisee	(3)	—	(4)	(1)
Total franchise closings	(5)	(2)	(22)	(8)
Net addition (reduction)	—	9	(7)	19

The increase in Applebee's franchise closings in 2009 was due primarily to the closing of seven restaurants after the franchise agreements were terminated due to nonpayment of royalties and advertising fees. The Company expects up to four of the seven restaurants to re-open under new ownership in 2009. In addition, six of the restaurants closed in 2009 were originally planned to be closed in 2008.

The following table represents Applebee's restaurant development commitments for 2009 and 2010. We have disclosed development commitments for only a two-year period as the Applebee's development agreements generally provide for a series of two-year development commitments after the initial development period.

	Contractual Opening of Restaurants by Year	
	2009	2010
Domestic development agreements	19	15
International development agreements	23	18
	42	33

In 2009, we expect franchisees to open a total of 29 to 36 new Applebee's restaurants including 17 to 21 domestic franchise restaurants and 12 to 15 international franchise restaurants. We do not currently plan to open any domestic company-operated restaurants. The actual number of openings may differ from our expectations due to various factors, including economic conditions, operating performance of existing restaurants, franchisee access to capital, and the impact of currency fluctuations on our international franchisees. The timing of new restaurant openings may also be affected by various factors including weather-related and other construction delays and difficulties in obtaining regulatory approvals.

The following table summarizes IHOP restaurant development and franchising activity:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(unaudited)			
IHOP Restaurant Development Activity				
Beginning of period	1,402	1,353	1,396	1,344
New openings				
Company-developed	—	—	—	—
Franchisee-developed	20	14	31	25
Area license	3	1	3	1
Total new openings	23	15	34	26
Closings				
Company	—	(1)	—	(1)
Franchise	(3)	(4)	(7)	(6)
Area license	(1)	(2)	(2)	(2)
End of period	1,421	1,361	1,421	1,361
Summary-end of period				
Franchise	1,249	1,195	1,249	1,195
Company	11	10	11	10
Area license	161	156	161	156
Total	1,421	1,361	1,421	1,361
Restaurant Franchising Activity				
Domestic franchisee-developed	17	13	28	24
International franchisee-developed	3	1	3	1
Refranchised	1	5	1	9
Total restaurants franchised	21	19	32	34
Closings				
Domestic franchisee	(3)	(3)	(7)	(5)
International franchisee	—	(1)	—	(1)
Total franchise closings	(3)	(4)	(7)	(6)
Reacquired by the Company	—	(6)	(1)	(9)
Net addition	18	9	24	19

As of December 31, 2008, we had signed commitments from franchisees to build 307 IHOP restaurants over the next nine years plus options for an additional 111 restaurants, comprised as follows:

	Number of Signed Agreements at 12/31/08	Contractual Openings of Restaurants by Year: 2009	2010	2011	2012 and thereafter	Total
Single-store development agreements	18	12	5	1	—	18
Multi-store development agreements	80	74	55	43	165	337
International development agreements	7	8	6	5	44	63
	105	94	66	49	209	418

In 2009, a total of 65 to 75 new IHOP restaurants are expected to open, consisting of 55 to 60 franchise restaurants, three to five area license restaurants in Florida and seven to ten restaurants outside the U.S. or in non-traditional channels. The actual number of openings in any period may differ from the number of signed commitments. Historically, the actual number of restaurants developed in a particular year has been less than the total number committed to be developed due to various factors including weather-related delays, other construction delays, difficulties in obtaining timely regulatory approvals and various economic factors, including operating performance of existing restaurants and franchisee access to capital financing.

Restaurant Data

The following table sets forth, for the three-month and six-month periods ended June 30, 2009 and 2008, 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 year. "Effective restaurants" are the number of restaurants in a given period, adjusted to account for restaurants open for only a portion of the period. Information is presented for all effective restaurants in the IHOP and Applebee's systems, which includes restaurants owned by the Company, as well as those owned by franchisees and area licensees. 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, as well as rental payments under leases that are usually 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(unaudited)			
Applebee's Restaurant Data				
Effective restaurants(a)				
Franchise	1,589	1,480	1,590	1,474
Company	401	510	403	510
Total	1,990	1,990	1,993	1,984
System-wide(b)				
Sales percentage change(c)	(4.2)%	0.3%	(3.4)%	1.6%
Domestic same-store sales percentage change(d)	(4.3)%	(1.7)%	(3.6)%	(0.6)%
Franchise(b)(e)				
Sales percentage change(c)(g)	3.1%	0.8%	3.9%	1.7%
Same-store sales percentage change(d)	(4.2)%	(1.8)%	(3.5)%	(0.9)%
Average weekly domestic unit sales (in thousands)	$ 46.6	$ 48.5	$ 48.0	$ 49.7
Company				
Sales percentage change(c)(g)	(25.4)%	(1.0)%	(24.5)%	1.1%
Same-store sales percentage change(d)	(4.8)%	(1.5)%	(4.0)%	0.3%
Average weekly domestic unit sales (in thousands)	$ 41.9	$ 44.2	$ 43.3	$ 45.3

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(unaudited)			
IHOP Restaurant Data				
Effective restaurants(a)				
Franchise	1,235	1,185	1,230	1,180
Company	11	10	11	10
Area license	160	158	159	157
Total	1,406	1,353	1,400	1,347
System-wide(b)				
Sales percentage change(c)	3.6%	6.3%	4.6%	7.1%
Domestic same-store sales percentage change(d)	(0.6)%	2.6%	0.7%	3.2%
Franchise(b)(e)				
Sales percentage change(c)	3.9%	6.9%	5.1%	7.7%
Same-store sales percentage change(d)	(0.6)%	2.6%	0.7%	3.2%
Average weekly unit sales (in thousands)	$ 35.2	$ 35.3	$ 35.8	$ 35.5
Company(f)	n.m.	n.m.	n.m.	n.m.
Area License(h)				
Sales percentage change(c)	0.9%	2.2%	(0.3)%	2.7%

(a) "Effective restaurants" are the number of restaurants 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 IHOP and Applebee's systems, which includes restaurants owned by the Company as well as those owned by franchisees and area licensees.

(b) "System-wide sales" are retail sales at IHOP and Applebee's restaurants operated by franchisees and IHOP restaurants operated by 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.

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

(d) "Same-store sales percentage change" reflects the percentage change in sales, in any given fiscal period compared to the prior fiscal period, for 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 store closures, the restaurants open throughout both fiscal periods being compared may be different from period to period. Same-store sales percentage change does not include data on IHOP restaurants located in Florida.

(e) IHOP franchise restaurant sales were $564.3 million and $543.2 million for the three months ended June 30, 2009 and 2008, respectively, and $1,146.3 million and $1,090.4 million for the six months ended June 30, 2009 and 2008, respectively. Applebee's franchise restaurant sales were $886.4 million and $859.7 million for the three months ended June 30, 2009 and 2008, respectively, and $1,826.3 million and $1,757.5 million for the six months ended June 30, 2009 and 2008, respectively.

(f) Sales percentage change and same-store sales percentage change for IHOP company-operated restaurants are not meaningful due to the relatively small number and test-market nature of the restaurants, along with the periodic inclusion of restaurants reacquired from franchisees that are temporarily operated by the Company.

(g) The sales percentage change for Applebee's franchise and company-operated restaurants is impacted by the franchising of 103 company-operated restaurants during 2008 and five company-operated restaurants in 2009.

(h) Sales at IHOP area license restaurants were $54.4 million and $53.9 million for the three months ended June 30, 2009 and 2008, respectively, and $110.9 million and $111.3 million for the six months ended June 30, 2009 and 2008, respectively.

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

Global Economic Contraction

Beginning in 2008 and continuing into 2009, economic conditions in both the U.S. and worldwide have experienced a downturn due to the compounded effects of the subprime lending crisis, the credit market liquidity crisis, and the collateral effects of each on the finance and banking industries. In addition, volatile energy costs, concerns about inflation and deflation, slower economic activity, softness in both the commercial and residential real estate markets, decreased consumer confidence, reduced corporate profits and capital spending and rising unemployment have combined to create generally adverse business conditions for most industries and sectors. While the liquidity crisis and its effects on the finance and banking industries have mitigated somewhat, we believe financial market volatility, rising unemployment, increasing foreclosures and lower valuations for residential real estate will continue to put pressure on consumer spending. These conditions make it challenging for us to accurately forecast and plan future business activities as the reduction in disposable income for discretionary spending could cause our customers to change historic purchasing behavior and choose lower-cost dining options or alternatives to dining out.

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

- lower profitability and cash flows from company-operated restaurants;
- reduced payments from franchisees due to both a lower sales base on which royalties and other payments are calculated and possible impairment of the ability of franchisees to make payments when due as a result of the economic effects cited above on their businesses;
- availability of financing for franchisees to fulfill their new restaurant development commitments;
- credit availability for potential purchasers of Applebee’s company-operated restaurants;
- lower proceeds from the franchising of Applebee’s company-operated restaurants due to both lower restaurant sales and profitability and/or inability to consummate transactions at all; and
- lower estimated fair values for goodwill, intangible assets and long-lived assets resulting in future non-cash impairment charges.

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

Securitized Debt and Related Interest Expense

Certain of our subsidiaries incurred a substantial amount of indebtedness to finance the Applebee’s acquisition. As a result, our interest expense has increased significantly from that reported prior to the acquisition and is expected to remain as one of the largest components of costs and expenses in the future until such time that debt balances are repaid or otherwise retired. We estimate the interest expense for fiscal 2009 will be approximately $185 million to $195 million, which includes approximately $40 million of non-cash interest charges.

Significant Gains and Charges

There were several significant gains and charges affecting the comparisons with previously reported results. In the six months ended June 30, 2009, we recognized a gain on extinguishment of debt of $38.8 million, a gain on disposition of assets of $5.1 million and impairment and closure charges of $2.0 million. In the comparable period of 2008, we recognized impairment and closure charges of $41.4 million and a gain on disposition of assets of $0.2 million. These transactions are discussed in further detail under paragraphs captioned “Impairment and Closure Charges,” “Gain on Extinguishment of Debt” and “Gain on Disposition of Assets.”

We expect to continue to dedicate a portion of excess cash flow towards opportunistic debt retirement. Since the fair value of our debt is currently less than its carrying value and is likely to remain less than carrying value for the foreseeable future, it is reasonably possible that extinguishments of debt repurchased on the open market will result in gains in future periods.

Financial Statement Effect of Franchising Company-Operated Restaurants

We have franchised 108 Applebee's company-operated restaurants and plan to franchise a substantial majority of the remaining 401 company-operated Applebee's restaurants when such transactions make sense for the business. As mentioned above in Restaurant Concepts — Applebee's, the Company considers a range of factors that could impact the likelihood of future franchise sales and possible proceeds from such sales. The Company may suspend or delay its plans to sell company-operated Applebee's restaurants if it does not believe the sales proceeds would be satisfactory. If the number of company-operated restaurants declines, the amount of Company restaurant revenues and Company restaurant expenses in future periods will decline as well compared to amounts reported in previous periods. Franchise royalty revenues and expenses will likely increase as company-operated restaurants are franchised, although not in the same magnitude as the Company restaurant revenues decline as franchise royalties are based on a percentage of the franchisee's revenues. As a result, on a net basis, segment profit will likely decline.

Under the terms of our securitized debt agreements, all proceeds of asset dispositions must be used to retire debt on a pro-rata basis. Accordingly, franchising of additional Applebee's company-operated restaurants will result in reduction of long-term debt and a reduction of related interest expense.

Segments

We identify our segments based on the organizational units used by management to monitor performance and make operating decisions. The Company's revenues and expenses are recorded in four segments: franchise operations, company restaurant operations, rental operations, and financing operations.

The franchise operations segment consists of (i) restaurants operated by Applebee's franchisees in the United States, one U.S. territory and 14 countries outside the United States; and (ii) restaurants operated by IHOP franchisees and area licensees in the United States, Canada and Mexico. Franchise operations revenue consists primarily of franchise royalty revenues, sales of proprietary products, certain franchise advertising fees and the portion of the franchise fees allocated to intellectual property. Franchise operations expenses include advertising expense, the cost of proprietary products, pre-opening training expenses and costs related to intellectual property provided to certain franchisees.

The company restaurant operations segment consists of company-operated Applebee's and IHOP restaurants and, from time to time, IHOP restaurants reacquired from franchisees that are operated on a temporary basis. Company restaurant sales are retail sales at company-operated restaurants. Company restaurant expenses are operating expenses at company-operated restaurants and include food, labor, benefits, utilities, rent and other restaurant operating costs.

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

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

Comparison of the Three Months ended June 30, 2009 and 2008

Results of Operations

Key components of changes in our financial results for the three months ended June 30, 2009 compared to the comparable quarter of 2008 included:

- Revenues decreased $74.5 million, due to (a) lower company restaurant revenues resulting from the franchising of 108 company-operated Applebee's restaurants since the second quarter of 2008 and a 4.8% decrease in Applebee's company restaurant same-store sales; (b) lower financing revenues resulting from a decrease in sales of reacquired franchises and equipment; and (c) a 4.2% decrease in same-store sales for Applebee's domestic franchise restaurants and a 0.6% decrease in same-store sales for IHOP domestic franchise restaurants, partially offset by higher franchise revenues resulting from an increase in effective franchise units at both Applebee's and IHOP.

- Segment profit for the second quarter of 2009 decreased $5.7 million, comprised as follows:

Franchise operations	$	1.8
Company restaurant operations		(6.7)
Rental operations		0.3
Financing operations		(1.1)
Total segment profit	$	(5.7)

The decline was primarily due to the net effect of franchising 108 company-operated Applebee's restaurants since the second quarter of 2008 and a decline in IHOP and Applebee's same-store sales, partially offset by an increase in IHOP and Applebee's effective franchise units and margin improvements in Applebee's company-operated restaurants.

- Impairment and closure charges totaled $2.4 million for the second quarter of 2009 compared to $41.2 million for the second quarter of 2008.

- The Company recognized a gain on the extinguishment of debt of $12.4 million in the second quarter of 2009 from the repurchase of debt at a discount.

- General and administrative expenses decreased $15.3 million, due primarily to the franchising of 108 Applebee's company-operated restaurants, integration of Applebee's and IHOP administrative functions, cost reduction initiatives implemented in 2009, including the establishment of a purchasing co-operative in February 2009, and lower stock-based compensation.

- Interest expense was $5.6 million lower due to the early retirement of fixed rate debt and lower interest rates on the Company's variable rate lines of credit.

Franchise Operations

	Three Months Ended June 30,				Favorable (Unfavorable)	
	2009		2008		Variance	
			(In millions)			
Franchise Revenues						
Applebee's	$	37.9	$	37.7	$	0.2
IHOP		52.6		49.7		2.9
Total franchise revenues		90.5		87.4		3.1
Franchise Expenses						
Applebee's		0.4		0.6		0.2
IHOP		23.3		21.8		(1.5)
Total franchise expenses		23.7		22.4		(1.3)
Franchise Segment Profit						
Applebee's		37.5		37.1		0.4
IHOP		29.3		27.9		1.4
Total franchise segment profit	$	66.8	$	65.0	$	1.8

Consolidated franchise revenues grew by $3.1 million for the three-month period ended June 30, 2009 compared to the same period of the prior year.

The increase in Applebee's franchise revenue was primarily attributable to an increase in effective franchise restaurants of 109 units due to the franchising of 108 company-operated restaurants since the second quarter of 2008, partially offset by a 4.2% decline in same-store sales for Applebee's domestic franchise restaurants and a decrease in franchise fees from reduced restaurant openings.

The increase in IHOP franchise revenue was primarily attributable to an increase in effective franchise restaurants of 50 units and an increase in revenues from pancake mix sales and advertising, partially offset by a decrease of 0.6% in same-store sales for IHOP domestic franchise restaurants. Same-store sales declined as a higher average guest check was offset by a decline in guest traffic.

The Company believes that the decrease experienced in comparable guest traffic is reflective of the current adverse economic conditions affecting customers and impacting the restaurant industry as a whole.

The $1.5 million increase in IHOP franchise expenses is due to the costs of sales associated with the increased revenues from pancake mix sales and advertising along with a $0.5 million increase in bad debt expense due in part to bad debt recovery in 2008 that did not recur.

Company Restaurant Operations

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Favorable (Unfavorable) Variance
	(In millions)		
Company restaurant sales	$ 222.3	$ 296.5	$ (74.2)
Company restaurant expenses	192.2	259.7	67.5
Company restaurant segment profit	$ 30.1	$ 36.8	$ (6.7)

As of June 30, 2009 the substantial majority of Company restaurant operations are comprised of Applebee's 401 company-operated restaurants as compared to 11 company-operated IHOP restaurants. The impact of the IHOP restaurants on all comparisons of the three months ended June 30, 2009 with the same period of 2008 was negligible.

Company restaurant sales declined primarily due to a $74.5 million decline in Applebee's sales. Applebee's company restaurant sales declined $62.8 million due to the franchising of 108 restaurants since the second quarter of 2008. Restaurant sales also declined due to a 4.8% decrease in same-store sales driven mainly by a decline in guest traffic partially offset by a higher average guest check as the result of a 3.0% increase in effective pricing. The Company believes that the decrease experienced in comparable guest traffic is reflective of the current adverse economic conditions impacting customers.

Company restaurant expenses declined primarily due to a $68.0 million decline in Applebee's expenses. Applebee's company restaurant expenses declined $53.3 million due to the franchising of 108 restaurants since the second quarter of 2008. Applebee's company restaurant operating profit for the three months ended June 30, 2009 declined $6.5 million as the effect of franchising was partially offset by margin improvements of 1.3% as shown below.

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Favorable (Unfavorable) Variance
Food and beverage	26.4%	26.4%	0.0%
Labor	33.8%	35.1%	1.3%
Direct and occupancy	25.7%	25.7%	0.0%
Total Company Restaurant Expenses (a)	86.0%	87.3%	1.3%

(a) Percentages may not add due to rounding.

Total food and beverage costs as a percentage of company restaurant sales remained constant due to the impact of menu price increases offset by an unfavorable shift in menu mix and slightly higher commodity costs.

Total labor costs as a percentage of company restaurant sales decreased by 1.3%. Labor expenses improved primarily due to better utilization of management labor along with open positions, a reduction in management incentive expense due to nonrecurring retention costs in 2008 and lower incentive compensation in 2009 and favorable group insurance costs.

Direct and occupancy costs were unchanged as a percentage of company restaurant sales due primarily to lower natural gas rates and timing of local advertising expenses offset by unfavorable depreciation due to lower sales volume.

Rental Operations

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Favorable (Unfavorable) Variance
	(In millions)		
Rental revenues	$ 32.5	$ 32.6	$ (0.1)
Rental expenses	24.2	24.6	0.4
Rental operations segment profit	$ 8.3	$ 8.0	$ 0.3

Rental operations relate primarily to IHOP restaurants. Rental income includes revenue from operating leases, interest income from direct financing leases and sales of reacquired franchises and equipment. Rental expenses are costs of prime operating leases and interest expense on prime capital leases on franchisee-operated restaurants.

Rental operations profit increased by $0.3 million for the quarter ended June 30, 2009 compared to the same period of the prior year due to a slight decline in depreciation and interest expense.

Financing Operations

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Favorable (Unfavorable) Variance
	(In millions)		
Financing revenues	$ 4.3	$ 7.6	$ (3.3)
Financing expenses	0.3	2.5	2.2
Financing operations segment profit	$ 4.0	$ 5.1	$ (1.1)

All of our financing operations relate to IHOP restaurants. Financing revenues and expenses decreased by $3.3 million and $2.2 million, respectively. Franchise and equipment note interest revenue declined $0.4 million due to the ongoing reduction in note balances. In addition, there were revenues and expenses of $3.2 million and $2.5 million, respectively, in the second quarter of 2008 related to the sale of five restaurants.

General and Administrative Expenses

General and administrative expenses decreased by $15.3 million. Expense savings related to franchising of 108 Applebee's company-operated restaurants, integration of Applebee's and IHOP administrative functions, and cost reduction initiatives implemented in 2009, including the establishment of a purchasing co-operative in February 2009. Additionally, litigation settlement costs of $4.7 million and transition-related costs recorded in the second quarter of 2008 did not recur. These favorable items were offset by $3.0 million of development incentive credits related to the Applebee's support center received in the second quarter of 2008 that also did not recur.

Interest Expense

Interest expense decreased by $5.6 million primarily due to the early retirement of long-term debt over the past 12 months. Average long-term obligations (long-term debt, capital lease obligations and financing obligations) declined to $2.25 billion during the quarter ended June 30, 2009 from $2.45 billion during the quarter ended June 30, 2008. Additionally, the weighted average interest rate on variable debt declined to approximately 2.7% for the quarter ended June 30, 2009 from approximately 5.0% for the quarter ended June 30, 2008.

Impairment and Closure Charges

Impairment and closure charges were $2.4 million for the three-month period ended June 30, 2009, comprised of impairment charges of $2.0 million and closure charges of $0.4 million. The charges related primarily to leasehold improvements and related assets of one IHOP restaurant closed during the period and an additional write-down to the estimated sales value, based on a current letter of intent, of one Applebee's restaurant that had been closed in a prior period and was included in assets held for sale.

Impairment and closure charges were $41.2 million for the three-month period ended June 30, 2008. In June 2008, the Company entered into sale-leaseback transactions on 181 parcels of real estate comprising land, buildings and improvements. The net book value of the real estate exceeded the proceeds received by the amount of the recorded charge for impairment. All of the parcels involved in the transactions had been acquired in the November 29, 2007 acquisition of Applebee's and their estimated fair value was assigned as part of the purchase price allocation as of that date. The Company evaluated events subsequent to November 29, 2007 and noted a deterioration in both the domestic real estate and credit markets between the date of the purchase price allocation and the June 2008 date of the sale-leaseback transactions. In the absence of objective evidence to the contrary, the Company concluded that the estimated fair value of the real estate determined in purchase price allocation was reasonable and the decline in value related primarily to market events subsequent to the acquisition date value necessitating an impairment charge as opposed to an adjustment to the allocated purchase price.

Gain on Extinguishment of Debt

During the three months ended June 30, 2009, the Company retired Series 2007-1 Class A-2-II-X Fixed Rate Term Senior Notes due December 2037 with a face amount of $15.6 million and Series 2007-1 Class A-2-II-A Fixed Rate Term Senior Notes due December 2037 with a face amount of $35.2 million for cash payments totaling $36.3 million. The Company recognized a gain on extinguishment of this debt of $12.4 million after the write-off of the discount and deferred financing costs related to the debt retired.

Provision for Income Taxes

The effective tax rate for the provision recognized was 31.8% for the three-month period ended June 30, 2009. The effective tax rate recognized is lower than the federal statutory rate of 35% primarily due to tax credits, partially offset by state income taxes. The tax credits are primarily FICA tip and other compensation-related tax credits associated with Applebee's company-owned restaurant operations.

Comparison of the Six Months ended June 30, 2009 and 2008

Results of Operations

Key components of changes in our financial results for the six months ended June 30, 2009 compared to the comparable quarter of 2008 included:

- Revenues decreased $141.7 million due to (a) lower company restaurant revenues resulting from the franchising of 108 company-operated Applebee's restaurants since the second quarter of 2008 and a 4.0% decrease in Applebee's company restaurant same-store sales; (b) lower financing revenues resulting from a decrease in sales of reacquired franchises and equipment and (c) a 3.5% decrease in same-store sales for Applebee's domestic franchise restaurants. The revenue decreases were partially offset by higher franchise revenues resulting from a 0.7% increase in IHOP franchise same-store sales and an increase in effective franchise units at both Applebee's and IHOP.

- Segment profit for the first six months of 2009 increased $0.4 million, comprised as follows:

Franchise operations	$	5.1
Company restaurant operations		(4.3)
Rental operations		1.2
Financing operations		(1.6)
Total segment profit	$	0.4

  The increase was primarily due to an increase in IHOP and Applebee's effective franchise units, an increase in IHOP same-store sales and margin improvements in Applebee's company-operated restaurants partially offset by the net effect of franchising 108 company-operated Applebee's restaurants since the second quarter of 2008 and a decline in Applebee's same-store sales.

- Impairment and closure charges totaled $2.0 million for the first six months of 2009 compared to $41.4 million for the first six months of 2008.

- General and administrative expenses decreased $15.7 million due primarily to the franchising of 108 Applebee's company-operated restaurants, integration of Applebee's and IHOP administrative functions, cost reduction initiatives implemented in 2009 and lower stock-based compensation.

- The Company recognized gains on the extinguishment of debt and disposition of assets totaling $43.9 million in the first six months of 2009 related primarily to the repurchase of debt at a discount and the franchising of five company-operated Applebee's restaurants in the New Mexico market.

- Interest expense was $7.8 million lower due to the early retirement of fixed rate debt and lower interest rates on the Company's variable rate lines of credit.

Franchise Operations

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Favorable (Unfavorable) Variance
		(In millions)	
Franchise Revenues			
Applebee's	$ 80.4	$ 75.7	$ 4.7
IHOP	108.3	101.7	6.6
Total franchise revenues	188.7	177.4	11.3
Franchise Expenses			
Applebee's	3.8	1.0	(2.8)
IHOP	48.2	44.8	(3.4)
Total franchise expenses	52.0	45.8	(6.2)
Franchise Segment Profit			
Applebee's	76.6	74.7	1.9
IHOP	60.1	56.9	3.2
Total franchise segment profit	$ 136.7	$ 131.6	$ 5.1

Consolidated franchise revenues grew by $11.3 million for the six months ended June 30, 2009 compared to the same period of the prior year.

The increase in Applebee's franchise revenue was primarily attributable to (a) revenue from temporary liquor license agreements related to Applebee's company-operated restaurants in the Texas market which were franchised in October 2008; and (b) an increase in Applebee's effective franchise restaurants of 116 units due to the franchising of 108 company-operated restaurants since the second quarter of 2008 and new openings during 2008; partially offset by (c) a 3.5% decline in same-store sales for Applebee's domestic franchise restaurants and (d) a decrease in franchise fees from reduced restaurant openings.

The increase in IHOP franchise revenue was primarily attributable to (a) an increase of 0.7% in same-store sales for IHOP domestic franchise restaurants compared to the first six months of 2008, primarily due to a higher average guest check partially offset by a decrease in guest traffic; (b) an increase in IHOP effective franchise restaurants of 50 units due to new openings since June 30, 2008; and (c) an increase in revenues from pancake mix and advertising.

Consolidated franchise operations profit, which is franchise revenues less franchise expenses, increased by $5.1 million. The increase in Applebee's franchise expenses is primarily due to costs associated with the revenue from the temporary liquor license agreements that result in a relatively small profit margin. The increase in IHOP franchise expenses is due to the costs of sales associated with the increased revenues from pancake mix sales and advertising, in addition to an increase of $0.9 million in bad debt expense due in part to bad debt recovery in 2008 that did not recur.

Company Restaurant Operations

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Favorable (Unfavorable) Variance
		(In millions)	
Company restaurant sales	$ 461.8	$ 608.4	$ (146.6)
Company restaurant expenses	394.0	536.3	142.3
Company restaurant segment profit	$ 67.8	$ 72.1	$ (4.3)

As of June 30, 2009 the substantial majority of Company restaurant operations are comprised of Applebee's 401 company-operated restaurants as compared to 11 company-operated IHOP restaurants. The impact of the IHOP restaurants on all comparisons of the six months ended June 30, 2009 with the same period of 2008 was negligible.

Company restaurant sales declined primarily due to a $147.0 million decline in Applebee's sales. Applebee's company restaurant sales declined $127.4 million due to the franchising of 108 restaurants since the second quarter of 2008. Restaurant sales also declined due to a 4.0% decrease in same-store sales driven mainly by a decline in guest traffic partially offset by a higher average guest check as the result of a 3.1% increase in effective pricing. The Company believes that the decrease experienced in comparable guest traffic is reflective of the current adverse economic conditions impacting customers.

Company restaurant expenses declined primarily due to a $142.9 million decline in Applebee's expenses. Applebee's company restaurant expenses declined $111.8 million due to the franchising of 108 restaurants since the second quarter of 2008. Applebee's company restaurant operating profit for the six months ended June 30, 2009 declined $4.1 million as the unfavorable effect of franchising was partially offset by margin improvements of 3.0%, as shown below.

	Six Months Ended June 30,		Favorable (Unfavorable)
	2009	2008	Variance
Food and beverage	26.1%	26.8%	0.7%
Labor	33.5%	35.2%	1.7%
Direct and occupancy	25.3%	25.9%	0.6%
Total Cost of Company Restaurant Sales (a)	84.8%	87.8%	3.0%

(a) Percentages may not add due to rounding.

Total food and beverage costs as a percentage of company restaurant sales decreased by 0.7% due primarily to the impact of menu price increases and food cost improvement initiatives partially offset by slightly higher commodity costs.

Total labor costs as a percentage of company restaurant sales decreased by 1.7%. Labor expenses improved primarily due to the reduction in management incentive expense due to nonrecurring retention costs in 2008 and lower incentive compensation in 2009, more effective utilization of management and hourly staff, effective hourly wage rate management and favorable group insurance costs.

Direct and occupancy costs decreased as a percentage of company restaurant sales by 0.6% due primarily to the timing of local advertising expenses, lower natural gas rates and favorable straight-line rent adjustments due to 2008 purchase price allocation adjustments offset by unfavorable license expenses and insurance costs due to lower sales volumes.

The operating margin of 15.2% for the six months ended June 30, 2009 is not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The revenue component of the margin calculation is subject to seasonality for two primary reasons: gift card redemptions are historically at their highest level in the first quarter of any year and there are more holidays that dampen revenue in the second half of the year. As a result, margins in the first half of our fiscal year are typically higher than in the second half. Additionally, we expect advertising expenses will increase due to the timing of promotions during the rest of 2009. We expect the company restaurant operating margin for the year ended December 31, 2009 will range between 13.5% and 14.5%.

Rental Operations

	Six Months Ended June 30,		Favorable (Unfavorable)
	2009	2008	Variance
		(In millions)	
Rental revenues	$ 66.2	$ 65.5	$ 0.7
Rental expenses	48.8	49.3	0.5
Rental operations segment profit	$ 17.4	$ 16.2	$ 1.2

Rental operations relate primarily to IHOP restaurants. Rental income includes revenue from operating leases, interest income from direct financing leases and sales of reacquired franchises and equipment. Rental expenses are costs of prime operating leases and interest expense on prime capital leases on franchisee-operated restaurants.

Rental operations revenues increased by $0.7 million. The increase was primarily due to the increase in IHOP franchise retail sales on which rents are based. Rental operations profit increased by $1.2 million due to the revenue increase and a slight decline in depreciation and interest expense.

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Financing Operations

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Favorable (Unfavorable) Variance
	(In millions)		
Financing revenues	$ 8.4	$ 15.6	$ (7.2)
Financing expenses	0.3	5.9	5.6
Financing operations segment profit	$ 8.1	$ 9.7	$ (1.6)

All of our financing operations relate to IHOP restaurants. Financing revenues and expenses decreased by $7.2 million and $5.6 million, respectively. Franchise and equipment note interest revenue declined $0.9 million due to the ongoing reduction in note balances. In addition, there was minimal revenue or expense related to sales of one restaurant during the first six months of 2009 as compared with revenues and expenses of $6.3 million and $5.2 million, respectively, in the first six months of 2008 related to the sale of nine restaurants.

General and Administrative Expenses

General and administrative expenses decreased by $15.7 million. Expense savings related to franchising of Applebee's company-operated restaurants, integration of Applebee's and IHOP administrative functions, cost reduction initiatives implemented in 2009 and lower stock-based compensation expense. Additionally, transition-related costs recorded 2008 did not recur. These favorable items were offset by $3.0 million of development incentive credits related to the Applebee's support center received in 2008 that also did not recur.

Interest Expense

Interest expense decreased by $7.8 million. The decrease was primarily due to the retirement of long-term debt over the past 12 months. Average long-term obligations (long-term debt, capital lease obligations and financing obligations) declined to $2.30 billion for the six months ended June 30, 2009 from $2.45 billion during the six months ended June 30, 2008. Additionally, the weighted average interest rate on variable debt declined to approximately 3.1% for the six months ended June 30, 2009 from approximately 6.1% for the six months ended June 30, 2008.

Impairment and Closure Charges

Impairment and closure charges were $2.0 million for the six-month period ended June 30, 2009, comprised of net impairment charges of $1.9 million and closure charges of $0.1 million. The charges related primarily to leasehold improvements and related assets of one IHOP restaurant closed during the period and an additional write-down to the estimated sales value, based on a current letter of intent, of one Applebee's restaurant that had been closed in a prior period and was included in assets held for sale.

Impairment and closure charges were $41.4 million for the three-month period ended June 30, 2008, comprised of impairment charges of $41.2 million and closure charges of $0.2 million. In June 2008, the Company entered into sale-leaseback transactions on 181 parcels of real estate comprising land, buildings and improvements. The net book value of the real estate exceeded the proceeds received by the amount of the recorded charge for impairment. All of the parcels involved in the transactions had been acquired in the November 29, 2007 acquisition of Applebee's and their estimated fair value was assigned as part of the purchase price allocation as of that date. The Company evaluated events subsequent to November 29, 2007 and noted a deterioration in both the domestic real estate and credit markets between the date of the purchase price allocation and the June 2008 date of the sale-leaseback transactions. In the absence of objective evidence to the contrary, the Company concluded that the estimated fair value of the real estate determined in purchase price allocation was reasonable and the decline in value related primarily to market events subsequent to the acquisition date value necessitating an impairment charge as opposed to an adjustment to the allocated purchase price.

Gain on Extinguishment of Debt

During the six months ended June 30, 2009, the Company retired Series 2007-1 Class A-2-II-X Fixed Rate Term Senior Notes due December 2037 with a face amount of $94.0 million and Series 2007-1 Class A-2-II-A Fixed Rate Term Senior Notes due December 2037 with a face amount of $35.2 million for cash payments totaling $85.4 million. The Company recognized a gain on extinguishment of debt of $38.8 million after the write-off of the discount and deferred financing costs related to the debt retired.

Gain on Disposition of Assets

The Company recognized a gain on disposition of assets of $5.1 million for the six months ended June 30, 2009, primarily related to the franchising of five Applebee’s restaurants in the New Mexico market completed in February 2009.

Other Income and Expense

Other expense was $0.1 million for the six-month period ended June 30, 2009 compared to other income of $1.7 million for the same period of the prior year. The primary reason for the decrease is lower interest rates on lower balances of escrowed funds and certain restricted cash accounts.

Provision for Income Taxes

The effective tax rate for the provision recognized was 31.4% for the six months ended June 30, 2009. The effective tax rate is lower than the federal statutory rate of 35% primarily due to tax credits, partially offset by state income taxes. The tax credits are primarily FICA tip and other compensation-related tax credits associated with Applebee’s company-owned restaurant operations.

Liquidity and Capital Resources

Certain of our subsidiaries incurred approximately $2.3 billion of indebtedness in connection with our acquisition of Applebee’s in November 2007. We have reduced the securitized indebtedness by approximately $525 million as of June 30, 2009. A significant portion of that reduction was made with proceeds from sale-leaseback transactions that resulted in indebtedness reported as Financing Obligations in the Consolidated Balance Sheets, which balance (short and long term) was approximately $325 million as of June 30, 2009. The Company has retired approximately $190 million of the securitized indebtedness as a result of dedicating a portion of excess cash flow towards opportunistic debt retirement, proceeds generated from the sale of company-operated Applebee's restaurants, and scheduled payments on the Company's subordinated notes, with approximately $130 million of the retirement taking place in 2009. However, the remaining indebtedness continues to have a significant impact on the liquidity and capital resources of the Company. We expect to pay approximately $145 million to $155 million of interest in cash for the year ended December 31, 2009, in addition to dividends of $19.3 million on Series A Preferred Stock that was also issued in connection with the acquisition. This indebtedness limits our ability to obtain additional financing, due to explicit limitations in the Indenture under which the indebtedness was issued.

As described in Note 10 of Notes to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, the Fixed Rate Notes issued as part of the Applebee’s securitization transaction have a legal maturity of December 2037; however, the Indenture under which the Notes were issued includes provisions which may require the early repayment, in whole or in part, of the Notes which, if not met, would require the Company to use all or part of the excess cash flow that would otherwise be available for general business purposes to fund a reserve account for the Notes or to begin to pay down the Notes. The accelerated payment date for the Applebee’s Class A-2-II-A Fixed Rate Term Senior Notes, Class A-2-II-X Fixed Rate Term Senior Notes and Class M-1 Fixed Rate Term Subordinated Notes is December 2012. As of June 30, 2009, there was no early repayment date for the Notes triggered.

Debt Covenant Compliance

As part of the financing for the Applebee’s acquisition, certain subsidiaries of the Company completed two separate securitized debt offerings. These transactions consisted of an issuance of debt collateralized by Applebee’s restaurant assets (the “Applebee’s Notes”) and a separate issuance of debt collateralized by IHOP restaurant assets (the “IHOP Notes”). Previously, IHOP completed a $200 million securitized debt offering in March 2007, which is subject to the same debt covenants as IHOP’s November 2007 securitization. This securitized debt is subject to a series of covenants and restrictions which are customary for transactions of this type. As of June 30, 2009, approximately $1.8 billion of securitized debt is subject to these covenants and restrictions.

The most significant covenants related to the securitized debt require the maintenance of a consolidated leverage ratio and certain debt service coverage ratios. The consolidated leverage ratio is defined as the sum of: (i) all securitized debt (assuming all variable funding facilities are fully drawn); (ii) all other debt of the Company; and (iii) current monthly operating lease expense multiplied by 96, that sum divided by the sum of: (i) the Company’s EBITDA (as defined) for the preceding 12 months and (ii) annualized operating lease expense. Maximum ratios for this test are as follows:

	Applebee’s Notes	IHOP Notes
Through November 2009	7.75x	7.5x
Thereafter	7.25x	7.0x

Failure to remain under these maximums could result in required early amortization of outstanding principal amounts of the Applebee’s Notes or IHOP Notes. At June 30, 2009, the Company’s consolidated leverage ratio was 5.95x. If the EBITDA component of the calculation had been 25.6% lower, the Company would have exceeded the maximum ratio allowed for the IHOP notes. The Company’s consolidated leverage ratio was 6.8x at December 31, 2008.

The formulas for calculating the debt service coverage ratios ("DSCR") for each securitization are fairly complex with numerous defined terms. In concept, DSCR is the ratio of restaurant net cash flow (as defined) divided by total debt service payments, which include, among other things, interest payments, insurance premiums and administrative expenses. The minimum DSCR for the preceding three months is 1.85x. The consequences of falling below specified minimum three-month DSCRs vary depending upon the actual ratio achieved. Three-month DSCRs below 1.85x can trigger a Cash Trapping Event, a Rapid Amortization Event, or default as outlined in the table below. In a Cash Trapping Event the indenture trustee for the affected securitization is required to retain a certain percentage of cash flow (after all required payments have been made) in a restricted account. No principal amounts of debt are retired in a Cash Trapping Event. In a Rapid Amortization Event all excess cash flow (after all required payments have been made) is retained and used to retire principal amounts of debt. These events are triggered as follows:

	Applebee's Notes	IHOP Notes
Cash Trapping Event	Less than 1.85x: 25% of cash flow	Less than 1.85x: 40% of cash flow
Cash Trapping Event	Less than 1.75x: 50% of cash flow	Less than 1.65x: 80% of cash flow
Rapid Amortization Event	Less than 1.5x	Less than 1.5x
Default Event	Less than 1.2x	Less than 1.25x

There are also provisions for a one-time cure of either a Cash Trapping Event or a Rapid Amortization Event if the DSCR recovers to certain levels for three consecutive payment dates. A Rapid Amortization Event can also be triggered in other defined circumstances unrelated to the DSCR, including Applebee's failure to maintain a minimum level of system-wide sales. At June 30, 2009, the Applebee's three-month DSCR was 2.9x and the IHOP three-month DSCR was 3.4x. If the restaurant cash flow components of the calculation had been 36.0% and 45.8% lower for purposes of the Applebee's and IHOP calculations, respectively, the Company would have fallen below the 1.85x minimum threshold. At December 31, 2008, the Applebee's three-month DSCR was 2.0x and the IHOP three-month DSCR was 3.0x.

A second covenant test based on DSCR becomes effective under the Applebee's Notes beginning with the fiscal quarter commencing January 2010 and ending with the fiscal quarter commencing October 2012. This test is based on the same DSCR calculation described above but covering the preceding 12-month period as opposed to the preceding three-month period. A 12-month DSCR below the time-period specific minimum set forth below can trigger a Partial Amortization Event. In a Partial Amortization Event, the indenture trustee for the Applebee's securitization is required to retain an amount equal to the lesser of (i) the sum of $5,583,000 plus the shortfall, if any, in the retained amount from a preceding period under a Partial Amortization Event and (ii) the outstanding principal amount of the Applebee's Notes plus the shortfall, if any, from a preceding period under a Partial Amortization Event. All retained amounts are used to retire principal amounts of debt in order of seniority. The minimum 12-month DSCR is 2.20x and increases by 5 basis points each quarter, as follows:

Fiscal Quarter Commencing in:	Minimum Twelve-Month DCSR
January 2010	2.20x
April 2010	2.25x
July 2010	2.30x
October 2010	2.35x
January 2011	2.40x
April 2011	2.45x
July 2011	2.50x
October 2011	2.55x
January 2012	2.60x
April 2012	2.65x
July 2012	2.70x
October 2012	2.75x

The test of Applebee's 12-month DSCR set forth above is not required until the payment date occurring in January 2010 and will end with the payment date occurring in December 2012. If this test was currently required, the Applebee's 12-month DSCR as of June 30, 2009 was 2.78x.

Franchising of Applebee's Company-Operated Restaurants

Another impact of the Applebee's acquisition on our liquidity is the planned monetization of certain Applebee's assets. We are currently pursuing a strategy which contemplates transitioning from our current 80% franchised Applebee's system to an approximately 98% franchised Applebee's system, similar to IHOP's 99% franchised system. In order to accomplish this strategy, we plan to franchise substantially all of the company-operated Applebee's restaurants while retaining one company market in the Kansas City area. This heavily franchised business model is expected to require less capital investment and reduce the volatility of cash flow performance over time, while also providing cash proceeds from the franchising of the restaurants. If our strategy to transition to a 98% franchised system is delayed or suspended, or sales proceeds from franchising restaurants are less than anticipated, we believe that the company-operated Applebee's restaurants will continue to generate sufficient cash from operations to meet our obligations, such that we will not be compelled to franchise Applebee's company-operated restaurants at prices lower than we deem appropriate. Under the terms of the securitized debt agreements, all of the cash proceeds of asset dispositions must be used to retire long-term debt on a pro-rata basis.

There were no company-operated Applebee's restaurants franchised during the three months ended June 30, 2009. For the six months ended June 30, 2009, proceeds from all asset sales, including five Applebee's company-operated restaurants in the New Mexico market franchised during the first fiscal quarter of 2009, were $11.3 million. In July 2009, the sale of the remaining two restaurants in the New Mexico market closed with proceeds received of approximately $5.0 million.

Credit Facilities

Applebee's has a $100 million revolving credit facility, the Series 2007-1 Class A-1 Variable Funding Senior Notes (the "Applebee's VFN"). IHOP has a $25 million revolving credit facility, the Series 2007-2 Variable Funding Note, committed to by Calyon Americas (the "IHOP VFN"). During the second quarter of 2009, the Company borrowed $10 million under the IHOP VFN. At June 30, 2009, both revolving credit facilities have been fully utilized.

As disclosed in our Form 10-Q for the period ending September 30, 2008, the Company borrowed $35 million under the Applebee's VFN because of uncertainty as to our ability to continue to access the funds that was created by the September 2008 bankruptcy filing of Lehman Brothers Holdings Inc., the committed lender under the Applebee's VFN. This brought our total borrowings to the maximum of $100 million, which amount was outstanding at June 30, 2009. The $35 million has been used to purchase money market funds that are invested in U.S. government securities. The money market funds are considered cash equivalents. While there are no formal restrictions on the use of these funds, the Company's present intent is to hold them in reserve, effectively serving as an additional source of liquidity should the need arise, in lieu of seeking additional credit facilities.

The payments on the variable funding notes and certain of the term notes issued in connection with the Applebee's acquisition are insured under a financial guaranty insurance policy. If the insurance company were to become subject to insolvency or similar proceedings, an event of default would occur under the indenture pursuant to which the notes were issued, and the holders of the variable funding notes would no longer be required to fund draws on the facility. We have no reason to question the solvency of the insurance company that insures these payments, and its senior unsecured debt obligations are highly rated at the current time.

Our ability to pay the interest on our indebtedness, to make scheduled payments of principal and to fund planned capital expenditures will depend on future performance of our operations, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Based upon the current level of operations and our current expectations for future periods in light of the current economic environment, we presently anticipate that our cash and cash equivalents, which totalled $80.4 million as of June 30, 2009, together with expected cash flows from operations will be sufficient to meet our anticipated cash requirements for working capital, retirement of securitized debt, capital expenditures and other obligations for at least the next 12 months. Further, based on current projections we believe that we will remain in compliance with the debt covenants discussed above for at least the next 12 months. However, if we are not able to achieve forecasted revenue targets and operating improvements, this assessment would have to be reconsidered. Additionally, certain Applebee's Notes have accelerated payment dates of December 2012, and we will likely seek to refinance this debt if it has not been repaid prior to then. We may not be able to effect any future refinancing of our debt on commercially reasonable terms or at all.

In the event that we are unable to refinance the Applebee's securitization debt by December 2012, then Applebee's will have the ability to extend the scheduled payment date for six months. The interest rate on the Applebee's securitization debt will increase by 0.50%, and any unpaid amount will accrue interest at such increased rate.

Similarly, if we are unable to refinance the Series 2007-3 IHOP securitization debt by December 2012, then IHOP will have the ability to extend the scheduled repayment date for six months. The interest rate on the Series 2007-3 IHOP securitization debt will increase by 0.50%, and any unpaid amount will accrue interest at such increased rate. Further, if we are unable to refinance the Series 2007-1 IHOP securitization debt by March 2012, then IHOP will have the ability to extend the scheduled repayment date for up to two years with a 0.25% annual increase in the interest rate each year.

Prior to the expiration of such extension periods, we may seek to renegotiate the terms applicable to the repayment of principal under the relevant securitization program, raise capital or otherwise explore alternative measures to repay the securitization debt. In the event that we are unable to refinance the Applebee's or the IHOP securitization debt upon the expiration of the relevant extension period, a Rapid Amortization Event will occur under the applicable securitization program and funds will be deposited in the principal payment account for that program and used to repay principal of the applicable securitization debt.

Operating Activities

Cash provided by operating activities is primarily driven by revenues earned and collected from our franchisees, operating earnings from our company-operated restaurants and profit from our rental operations and financing operations. Franchise revenues consist of royalties, IHOP advertising fees and sales of proprietary products for IHOP which fluctuate with increases or decreases in franchise retail sales. Franchise retail sales are impacted by the development of IHOP and Applebee's restaurants by our franchisees and by fluctuations in same-store sales. Operating earnings from company-operated restaurants are impacted by many factors which include but are not limited to changes in traffic patterns, pricing activities and changes in operating expenses. Rental operations profit is rental income less rental expenses. Rental income includes revenues 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 franchisee-operated restaurants. Financing operations revenue consists of the portion of franchise fees not allocated to IHOP intellectual property, sales of equipment, as well as interest income from the financing of franchise fees and equipment leases. Financing expenses are primarily the cost of restaurant equipment.

Cash provided by operating activities increased to $61.5 million during the six months ended June 30, 2009 from $56.8 million in the same period in 2008, primarily due to an increase in net income of $67.5 million, partially offset by a decrease of $45.8 million in noncash adjustments (such as depreciation, impairment charges, gain on debt extinguishment and deferred taxes). The increase was primarily due to reductions in interest and general and administrative expenses. Additionally, changes in working capital used cash of $20.6 million in the six months ended June 30, 2009 compared to a $3.6 million use of working capital in 2008. The increase was due primarily to the timing of payments for advertising and retention bonuses. Another factor that impacts cash used or provided by working capital is the sale of gift cards. The revenue from gift cards is recognized as the card is redeemed, but cash, in most cases, has been received at the time of purchase, or shortly thereafter. In any given period, the timing of sales and redemptions of gift cards can either generate or use working capital.

Investing Activities

Net cash provided by investing activities of $15.5 million during the six months ended June 30, 2009 was primarily attributable to $11.3 million in proceeds from sales of property and equipment primarily related to the sale of five Applebee's company-operated restaurants and $8.2 million in principal receipts from notes and equipment contracts receivable, partially offset by $5.9 million in capital expenditures. The Company currently estimates that capital expenditures for fiscal 2009 will range from $13 million to $16 million. As discussed in Note 18 of Notes to Consolidated Financial Statements, in July 2009 the Company received proceeds of approximately $5 million from the sale of two Applebee's company-operated restaurants. The Company does not presently anticipate a significant amount of proceeds from additional sales of assets during the remainder of fiscal 2009.

Financing Activities

Financing activities used net cash of $111.0 million during the six months ended June 30, 2009. Cash used in financing activities primarily consisted of $101.7 million in repayments of long-term debt, payment of accrued debt issuance costs of $20.0 million, capital lease obligation and financing obligation repayments of $7.0 million and $9.5 million in dividend payments on Series A Preferred Stock. Of the long-term debt repayments, approximately $85.4 million was the early retirement of securitzation debt with excess cash, $7.5 million was scheduled repayments and $8.8 million related to redemptions with proceeds of asset dispositions and other items as required under the securitization agreements. Cash provided by financing activities comprised a decrease of $17.3 million in restricted cash related to the securitizations and a borrowing of $10.0 million from a revolving credit facility.

Dividends

We have accrued $4.75 million as dividends for the Series A Perpetual Preferred Stock as of June 30, 2009, included in other accrued expenses in the Consolidated Balance Sheet. The dividends were paid June 30, 2009, the second day of our fiscal third quarter. The accreted value of the Series B Convertible Preferred Stock increased by $1.1 million during the six months ended June 30, 2009.

In December 2008, the Board of Directors suspended the payment of the quarterly cash dividend to common stockholders for the foreseeable future as part of actions the Company is taking to maximize its financial flexibility. Future dividend declarations on the common shares may be made at the discretion of the Board of Directors after consideration of the Company's earnings, financial condition, cash requirements, future prospects and other factors.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenues and expenses in the reporting period. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. Accounting assumptions and estimates are inherently uncertain and actual results may differ materially from our estimates.

We believe the following critical accounting policies require us to make significant judgments and estimates in the preparation of our consolidated financial statements:

Purchase Price Allocation

The purchase price for acquisitions is allocated to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations* ("SFAS 141"). The determination of estimated fair values of identifiable intangible assets and certain tangible assets requires significant estimates and assumptions, including but not limited to, determining the estimated future cash flows, estimated useful lives of assets and appropriate discount rates. We believe the estimated fair values assigned to the Applebee's assets acquired and liabilities assumed are based on reasonable assumptions. However, the fair value estimates for the purchase price allocation may change during the allowable allocation period under SFAS 141, which is up to one year from the acquisition date, if additional information becomes available that would require changes to our estimates.

Long-Lived Assets

We assess long-lived and intangible assets with finite lives for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. We test impairment using historical cash flows and other relevant facts and circumstances as the primary basis for our estimates of future cash flows. We consider factors such as the number of years the restaurant has been operated by us, sales trends, cash flow trends, remaining lease life, and other factors which apply on a case-by-case basis. The analysis is performed at the individual restaurant level for indicators of permanent impairment. Recoverability of the restaurant's assets is measured by comparing the assets' carrying value to the undiscounted cash flows expected to be generated over the assets' remaining useful life or remaining lease term, whichever is less. If the total expected undiscounted future cash flows are less than the carrying amount of the assets, the carrying amount is written down to the estimated fair value, and a loss resulting from impairment is recognized by charging to earnings. This process requires the use of estimates and assumptions, which are subject to a high degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets.

Goodwill and Intangibles

Goodwill is recorded when the aggregate purchase price of an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Intangible assets resulting from the acquisition are accounted for using the purchase method of accounting and are estimated by management based on the fair value of the assets received. Identifiable intangible assets are comprised primarily of trademarks, trade names and franchise agreements. Identifiable assets are being amortized over the period of estimated benefit using the straight-line method and estimated useful lives. Goodwill and indefinite life intangible assets are not subject to amortization.

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), goodwill has been allocated to three reporting units, the IHOP franchised restaurants unit ("IHOP unit"), Applebee's company-operated restaurants unit ("Applebee's company unit") and Applebee's franchised restaurants unit ("Applebee's franchise unit"). The significant majority of the Company's goodwill resulted from the November 29, 2007 acquisition of Applebee's and has been allocated between the two Applebee's units. The Company tests goodwill and other indefinite life intangible assets for impairment on an annual basis in the fourth quarter. The impairment test of goodwill of the two Applebee's units was performed as of October 31, 2008. The impairment test of the goodwill of the IHOP unit was performed as of December 31, 2008, the date as of which the analysis has been performed in prior years. In addition to the annual test of impairment, goodwill must be evaluated more frequently if the Company believes indicators of impairment exist. Such indicators include, but are not limited to, events or circumstances such as a significant adverse change in the business climate, unanticipated competition, a loss of key personnel, adverse legal or regulatory developments, or a significant decline in the market price of the Company's common stock. The Company has evaluated the events and circumstances that took place during the six months ended June 30, 2009 and noted, among other things, that the same-store sales performance of IHOP and Applebee's restaurants is within the range of expectations for 2009 and that the Company's stock price has increased significantly since December 31, 2008. The Company took impairment writedowns on two properties in the second quarter of 2009. One property was a closed Applebee's facility held for sale. These impairments were evaluated and neither was considered a potential indicator of impairment of goodwill or other intangible assets. The Company noted no other indicators of impairment. Based on the evaluation, the Company has concluded that an interim test of goodwill for impairment is not required as of June 30, 2009.

In the process of the Company's annual impairment review, the Company primarily uses the income approach method of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies to determine the fair value of our intangible assets. Significant assumptions used to determine fair value under the discounted cash flows model include future trends in sales, operating expenses, overhead expenses, depreciation, capital expenditures, and changes in working capital along with an appropriate discount rate. Additional assumptions are made as to proceeds to be received from future franchising of company-operated restaurants. Step one of the impairment test compares the fair value of each of our reporting units to its carrying value. If the fair value is in excess of the carrying value, no impairment exists. If the step one test does indicate an impairment, step two must take place. Under step two, the fair value of the assets and liabilities of the reporting unit are estimated as if the reporting unit were acquired in a business combination. The excess of the fair value of the reporting unit over the carrying amounts assigned to its assets and liabilities is the implied fair value of the goodwill, to which the carrying value of the goodwill must be adjusted. The fair value of all reporting units is then compared to the current market value of the Company's common stock to determine if the fair values estimated in the impairment testing process are reasonable in light of the current market value.

Leases

Our restaurants are located on (i) sites owned by us, (ii) sites leased by us from third parties and (iii) sites owned or leased by franchisees. At the inception of the lease, each property is evaluated to determine whether the lease will be accounted for as an operating or capital lease in accordance with the provisions of Statement of Financial Accounting Standards No. 13, *Accounting for Leases* ("SFAS 13") and subsequent amendments.

The lease term used for straight-line rent expense is calculated from the date we obtain possession of the leased premises through the lease termination date. Prior to January 2, 2006, we capitalized rent expense from possession date through construction completion and reported the related asset in property and equipment. Capitalized rent was amortized through depreciation and amortization expense over the estimated useful life of the related assets limited to the lease term. Straight-line rent recorded during the preopening period (construction completion through restaurant open date) was recorded as expense. Commencing January 2, 2006, we expense rent from possession date through restaurant open date, in accordance with FASB Staff Position No. 13-1, *Accounting for Rental Costs Incurred during a Construction Period.* Once a restaurant opens for business, we record straight-line rent over the lease term plus contingent rent to the extent it exceeded the minimum rent obligation per the lease agreement. We use a consistent lease term when calculating depreciation of leasehold improvements, when determining straight-line rent expense and when determining classification of our leases as either operating or capital.

There is potential for variability in the rent holiday period, which begins on the possession date and ends on the restaurant open date, during which no cash rent payments are typically due under the terms of the lease. Factors that may affect the length of the rent holiday period generally relate to construction related delays. Extension of the rent holiday period due to delays in restaurant opening will result in greater preopening rent expense recognized during the rent holiday period and lesser occupancy expense during the rest of the lease term (post-opening).

For leases that contain rent escalations, we record the total rent payable during the lease term, as determined above, on the straight-line basis over the term of the lease (including the rent holiday period beginning upon our possession of the premises), and record the difference between the minimum rents paid and the straight-line rent as a lease obligation. Certain leases contain provisions that require additional rental payments based upon restaurant sales volume ("contingent rent"). Contingent rentals are accrued each period as the liabilities are incurred, in addition to the straight-line rent expense noted above.

Certain of our lease agreements contain tenant improvement allowances. For purposes of recognizing incentives, we amortize the incentives over the shorter of the estimated useful life or lease term. For tenant improvement allowances, we also record a deferred rent liability or an obligation in our non-current liabilities on the consolidated balance sheets.

Management makes judgments regarding the probable term for each restaurant property lease, which can impact the classification and accounting for a lease as capital or operating, the rent holiday and/or escalations in payment that are taken into consideration when calculating straight-line rent and the term over which leasehold improvements for each restaurant are amortized. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported if different assumed lease terms were used.

Insurance Reserves

We use estimates in the determination of the appropriate liabilities for general liability, workers' compensation and health insurance. The estimated liability is established based upon historical claims data and third-party actuarial estimates of settlement costs for incurred claims. Unanticipated changes in these factors may require us to revise our estimates. We periodically reassess our assumptions and judgments and make adjustments when significant facts and circumstances dictate. A change in any of the above estimates could impact our consolidated statements of earnings, and the related asset or liability recorded in our consolidated balance sheets would be adjusted accordingly. Historically, actual results have not been materially different than the estimates that are described above.

Stock-Based Compensation

We account for stock-based compensation in accordance with SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123(R)"). Accordingly, we measure stock-based compensation expense at the grant date, based on the fair value of the award, and recognize the expense over the employee's requisite service period using the straight-line method. Under SFAS 123(R), the fair value of each employee stock option and restricted stock award is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our share-based compensation. The Black-Scholes model meets the requirements of SFAS 123(R). The measurement of stock-based compensation expense is based on several criteria including, but not limited to, the valuation model used and associated input factors, such as expected term of the award, stock price volatility, risk free interest rate and forfeiture rate. These inputs are subjective and are determined using management's judgment. If differences arise between the assumptions used in determining stock-based compensation expense and the actual factors which become known over time, we may change the input factors used in determining future stock-based compensation expense. Any such changes could materially impact our operations in the period in which the changes are made and in subsequent periods.

Derivative Financial Instruments

In the normal course of business we utilize derivative instruments to manage our exposure to interest rate risks. We account for our derivative instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities-an amendment of FASB Statement No. 133* and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. The standard requires that all derivative instruments be recorded on the balance sheet at fair value and establishes criteria for designation and effectiveness of the hedging relationships.

We use derivative financial instruments primarily for purposes of hedging exposures to fluctuations in interest rates. All derivatives are recognized on the balance sheet at fair value. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income or loss and reclassified into earnings in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings (for example, in "interest expense" when the hedged transactions are interest cash flows associated with debt). The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in other income/expense in current earnings during the period of change.

At inception of the hedge, we choose the Hypothetical Derivative Method of effectiveness calculation, which we must use for the life of the contract and we will measure effectiveness quarterly. When hedge treatment is achieved under SFAS 133, the changes in fair values related to the effective portion of the derivatives are recorded in other comprehensive income or loss or in income/expense, depending on the designation of the derivative as a cash flow hedge. We obtain the values on a quarterly basis from the counterparty of the derivative contracts. The undesignated portion of the derivative contract is calculated and recorded in Company's Consolidated Statements of Operations at the end of each quarter until settled.

Fair Value Measurements

Effective January 1, 2008, the Company determines the fair market values of its financial assets and liabilities, as well as non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis, based on the fair value hierarchy established in SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). We measure our financial assets and liabilities using inputs from the following three levels of the fair value hierarchy. The three levels are as follows:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

- Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

- Level 3 includes unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing the asset or liability. We develop these inputs based on the best information available, including our own data.

For more information on the financial instruments the Company measures at fair value, see Note 13, Fair Value Measurements.

Income Taxes

We provide for income taxes based on our estimate of federal and state income tax liabilities. Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayers and respective governmental authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions. We review our tax positions quarterly and adjust the balances as new information becomes available.

We recognize deferred tax assets and liabilities using the enacted tax rates for the effect of temporary differences between the financial reporting basis and the tax basis of recorded assets and liabilities. Deferred tax accounting requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portions or all of the net deferred tax assets will not be realized. This test requires projection of our taxable income into future years to determine if there will be taxable income sufficient to realize the tax assets. The preparation of the projections requires considerable judgment and is subject to change to reflect future events and changes in the tax laws. When we establish or reduce the valuation allowance against our deferred tax assets, our income tax expense will increase or decrease, respectively, in the period such determination is made.

Tax contingency reserves result from our estimates of potential liabilities resulting from differences between actual and audited results. We usually file our income tax returns several months after our fiscal year end. All tax returns are subject to audit by federal and state governments, usually years after the returns are filed, and could be subject to differing interpretation of the tax laws. Changes in the tax contingency reserves result from resolution of audits of prior year filings, the expiration of the statute of limitations, changes in tax laws and current year estimates for asserted and unasserted items. Inherent uncertainties exist in estimates of tax contingencies due to changes in tax law, both legislated and concluded through the various jurisdictions' tax court systems. Significant changes in our estimates could materially affect our reported results.

Under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109* ("FIN 48"), tax positions that previously failed to meet the more-likely-than-not threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. We are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various tax jurisdictions. The application is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or to reverse previously recorded tax liabilities.

Recently Adopted Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"). In February 2008, the FASB issued FASB Staff Position ("FSP") No. 157-2, *Effective Date of FASB Statement No. 157*, which delayed for one year the applicability of SFAS 157's fair-value measurements to certain nonfinancial assets and liabilities. The Company adopted the requirements of SFAS 157 that had been deferred under FSP 157-2 on January 1, 2009. The adoption did not have a material impact on our financial condition, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Company adopted SFAS 141(R) on January 1, 2009 and will apply the provisions of this statement prospectively.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). This statement requires companies to provide enhanced disclosures about (a) how and why they use derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations, and (c) how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows. The Company adopted the new disclosure requirements on January 1, 2009. As SFAS 161 does not change current accounting practice, there was no impact of the adoption to the Company's results of operations and financial condition..

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other applicable accounting literature. The Company adopted FSP FAS 142-3 on January 1, 2009 and will apply the provisions of this statement prospectively to intangible assets acquired after the effective date.

In June 2008, the FASB issued FSP EITF Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP EITF 03-6-1"). FSP EITF 03-6-1 requires unvested share-based payment awards that contain rights to receive non-forfeitable dividends or dividend equivalents to be included in the two-class method of computing earnings per share as described in SFAS No. 128, *Earnings per Share*. The Company retroactively adopted FSP EITF 03-

6-1 on January 1, 2009. The impact of the adoption on earnings per share as previously reported for the three- and six-month periods ended June 30, 2008 was not material.

In April 2009, the FASB issued FSP FAS 157-4, FSP FAS 115-2 and FAS 124-2, and FSP FAS 107-1 and APB 28-1, to address concerns regarding (1) determining whether a market is not active and a transaction is not orderly, (2) recognition and presentation of other-than-temporary impairments and (3) interim disclosures of fair values of financial instruments, respectively. The FSPs will be effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted these FSPs effective April 1, 2009. There was no impact of the adoption on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165*, Subsequent Events* ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted SFAS 165 effective April 1, 2009. There was no impact of the adoption on the Company's consolidated financial statements.

New Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 166*, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140* ("SFAS 166"). SFAS 166 clarifies that the objective of paragraph 9 of Statement 140 is to determine whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control over transferred financial assets; limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset; and removes the concept of a qualifying special-purpose entity. The Company will be required to adopt SFAS 166 effective January 1, 2010, and is currently evaluating the potential impact, if any, of SFAS 166 on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167*, Amendments to FASB Interpretation No. 46(R)* ("SFAS 167"). SFAS 167 amends existing U.S. GAAP with respect to the consolidation of variable interest entities ("VIEs"). Among other things, SFAS 167 (i) amends existing guidance for determining whether an entity is a VIE; (ii) requires ongoing reassessments of whether an entity is the primary beneficiary of a VIE; and (iii) requires enhanced disclosures about an entity's involvement in a VIE. The Company will be required to adopt SFAS 167 effective January 1, 2010, and is currently evaluating the potential impact, if any, of SFAS 167 on its consolidated financial statements.

In June 2009 the FASB issued statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.* This statement replaces Statement No.162 and establishes the *FASB Accounting Standards Codification*™ (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. This statement becomes effective for the Company for the third fiscal quarter of 2009. The Company does not expect that the adoption of this statement will have a material effect on the Company's financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There were no material changes from the information contained in the Company's Annual Report on Form 10-K as of December 31, 2008.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures.

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

Changes in Internal Control Over Financial Reporting.

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

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Gerald Fast v. Applebee's

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

In cases of this type, conditional certification of the plaintiff class is granted under a lenient standard. On January 15, 2009, the Company filed a motion seeking to have the class de-certified and the plaintiffs filed a motion for summary judgment, both of which are pending before the court. The Company believes it has strong defenses supporting the de-certification of the class, as well as strong defenses to the substantive claims asserted, and intends to vigorously defend this case. Trial is currently set for September 8, 2009, in Jefferson City, Missouri. An estimate of the possible loss, if any, or the range of the loss cannot be made and, therefore, the Company has not accrued a loss contingency related to this matter.

Item 1A. Risk Factors.

There were no material changes from the information contained in the Company's Annual Report on Form 10-K as of December 31, 2008.

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

(a) - (c) Not applicable.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

The Annual Meeting of Stockholders (the "Meeting") was held on May 12, 2009. Stockholders voted in person or by proxy for the following purposes:

(i) Stockholders voted to elect the following directors, by the votes indicated:

	Votes For	Votes Against or Withheld
H. Fredrick Christie	16,115,089	173,991
Richard J. Dahl	16,194,652	94,428
Patrick W. Rose	15,819,959	469,121

The following directors continued in office after the Meeting: Frank Edelstein, Gilbert T. Ray, Caroline Nahas, Howard Berk, Michael S. Gordon, Larry Alan Kay and Julia A. Stewart.

(ii) Stockholders voted to approve and ratify the appointment of Ernst & Young LLP, as the Company's independent registered public accounting firm for the year ending December 31, 2009. 16,266,453 shares were voted in favor of this proposal, 18,137 shares were voted against, there were 4,356 abstentions, and 134 broker non-votes.

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Item 5. Other Information.

None.

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Item 6. Exhibits.

3.1	Restated Certificate of Incorporation of DineEquity, Inc. (Exhibit 3.1 to DineEquity, Inc.'s Form 8-K filed June 2, 2008 is incorporated herein by reference).
3.2	Amended Bylaws of DineEquity, Inc. (Exhibit 3.2 to DineEquity, Inc.'s Form 8-K filed June 2, 2008 is incorporated herein by reference).
10.1	Employment Agreement between DineEquity, Inc. and Jean Birch dated June 22, 2009.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

DineEquity, Inc.
(Registrant)

July 30, 2009 (Date)	BY:	/s/ JULIA A. STEWART Julia A. Stewart *Chairman and Chief Executive Officer* *(Principal Executive Officer)*
July 30, 2009 (Date)		/s/ JOHN F. TIERNEY John F. Tierney *Chief Financial Officer* *(Principal Financial Officer)*
July 30, 2009 (Date)		/s/ GREGGORY KALVIN Greggory Kalvin *Vice President, Corporate Controller* *(Principal Accounting Officer)*

Exhibit 10.1

EMPLOYMENT AGREEMENT

This Employment Agreement (“Agreement”) is dated as of June 22, 2009 by and between DineEquity, Inc. f/k/a IHOP Corp., a Delaware corporation (the **“Company”**), and Jean Birch (the **“Executive”**).

WHEREAS, the Company believes it to be in its best interest to provide for continuity of management and to provide protection for its valuable trade secrets and confidential information; and

WHEREAS, the Company desires to employ the Executive and the Executive is willing to render services to the Company on the terms and conditions with respect to such employment hereinafter set forth.

NOW, THEREFORE, in consideration of premises and the mutual terms and conditions hereof, the Company and the Executive hereby agree as follows:

1. **Employment.** The Company hereby employs the Executive and the Executive hereby accepts employment with the Company upon the terms and conditions hereinafter set forth.

2. **Exclusive Services.** The Executive shall devote all necessary working time, ability and attention to the business of the Company during the term of this Agreement and shall not, directly or indirectly, render any material services to any business, corporation, or organization whether for compensation or otherwise, without the prior knowledge and written consent of the Board of Directors of the Company (hereinafter referred to as the “Board”). During the Employment Period, the Executive may (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive’s responsibilities as an employee of the Company in accordance with this Agreement and any service on public company boards of directors is approved in advance by the Board. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the effective date of this Agreement, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the effective date of this Agreement shall not thereafter be deemed to interfere with the performance of the Executive’s responsibilities to the Company.

3. **Duties.** The Executive is hereby employed as the President of the Company’s IHOP Business Unit and shall render services at the principal business offices of the Company, as such may be located from time to time, unless otherwise agreed in writing between the Board and the Executive. The Executive shall have such authority and shall perform such duties as are described in Exhibit A attached hereto.

4. **Term.** This Agreement shall have an initial term of three (3) years commencing as of June 22, 2009. This Agreement will automatically renew at the end of the initial term and at the end of each subsequent term, for a subsequent term of one (1) year unless either party gives written notice of non-renewal to the other at least ninety (90) days prior to the expiration of

the then current term. Such notice may be given for any or no reason. This Agreement is subject to earlier termination as hereinafter provided.

5. **Compensation.** As compensation for services rendered under this Agreement, the Executive shall be entitled to receive the following:

a. **Base Salary.** The executive shall be paid a base salary of at least $435,000 per year, payable in 24 equal semi-monthly installments during the term of this Agreement, prorated for any partial employment month. Such base salary (**"Base Salary")** shall be reviewed by the Compensation Committee of the Board (the "Compensation Committee") no less frequently than annually. The Base Salary may be increased by the Compensation Committee in its discretion, subject to ratification by the Board. The Base Salary may not be decreased, except in the event of an across the board salary reduction approved by the Board affecting employees of the Company at the Chief Officer Level (as defined in Section 6(a), below).

b. **Additional Compensation.** The Executive shall be paid such additional compensation and bonuses as may be determined and authorized in the discretion of the Compensation Committee, subject to ratification by the Board. The Executive's target bonus, to be payable under the Company's annual incentive plan, shall be 75% of the Executive's Base Salary.

6. **Benefits.** In addition to the compensation to be paid to the Executive pursuant to Section 5 hereof, the Executive shall further be entitled to receive the following:

a. **Participation in Employee Plans.** The Executive shall be entitled to participate in any health, disability, group term life insurance plan, any pension, retirement, or profit sharing plan, any executive bonus plan, long term incentive plan, deferred compensation plan or any other perquisites and fringe benefits that may be extended generally from time to time to employees of the Company at the Chief Officer Level. For purposes of this Agreement, employees of the Company at the **"Chief Officer Level"** shall mean the CEO, the Chief Financial Officer, the Chief Restaurant Support Officer and such other employees of the Company as may from time to time be designated as being at the Chief Officer Level by the Board.

b. **Vacation.** The Executive shall be entitled to vacation as in accordance with the Company's Vacation Policy for Restaurant Support Center and Field Office Employees.

c. **Equity Awards.** The Executive shall be entitled to equity-based compensation awards that may be extended generally from time to time to employees of the Company at the Chief Officer Level, as approved by the Compensation Committee or the Board, subject to the terms and conditions of the respective equity-based compensation plans and award agreements and the provisions of this Agreement.

7. **Reimbursement of Expenses.** Subject to such rules and procedures as from time to time are specified by the Company, the Company shall reimburse the Executive on a monthly

basis for reasonable business expenses incurred in the performance of the Executive's duties under this Agreement.

8. **Confidentiality/Trade Secrets.** The Executive acknowledges that the Executive's position with the Company is one of the highest trust and confidence both by reason of the Executive's position and by reason of the Executive's access to and contact with the trade secrets and confidential and proprietary business information of the Company. Both during the term of this Agreement and thereafter, the Executive covenants and agrees as follows:

a. The Executive shall use best efforts and exercise reasonable diligence to protect and safeguard the trade secrets and confidential and proprietary information of the Company, including but not limited to any non-public strategies, business plans, marketing and advertising plans, the identity of its customers and suppliers, its arrangements with customers and suppliers, and its technical and financial data, records, compilations of information, processes, recipes and specifications relating to its customers, suppliers, products and services;

b. The Executive shall not disclose any of such trade secrets and confidential and proprietary information, except as may be required in the course of the Executive's employment with the Company or by law; and

c. The Executive shall not use, directly or indirectly, for the Executive's own benefit or for the benefit of another, any of such trade secrets and confidential and proprietary information.

All original and any copies of files, records, documents, emails, drawings, specifications, memoranda, notes, or other documents relating to the business of the Company, including printed, electronic or digital copies thereof, whether prepared by the Executive or otherwise coming into the Executive's possession, shall be the exclusive property of the Company and shall be delivered to the Company and not retained by the Executive upon termination of the Executive's employment for any reason whatsoever or at any other time upon request of the Company's General Counsel or the Board.

9. **Discoveries.** The Executive covenants and agrees to fully inform the Company of and disclose to the Company all inventions, designs, improvements, discoveries, and processes **("Discoveries")** that the Executive has now or may hereafter have during the Executive's employment with the Company and that pertain or relate to the business of the Company, including but not limited to the operation and franchising of restaurants, or to any experimental work, products, services, or processes of the Company in progress or planned for the future, whether conceived by the Executive alone or with others, and whether or not conceived during regular working hours or in conjunction with the use of any Company assets. All such Discoveries shall be the exclusive property of the Company whether or not patent or trademark applications are filed thereon. The Executive shall assist the Company, at any time during or after the Executive's employment, in obtaining patents on all such Discoveries deemed patentable by the Company and shall execute all documents and do all things necessary to obtain letters patent, vest the Company with full and exclusive title thereto, and protect the same against infringement by others, all at the expense of the Company.

10. **Non-Competition.** The Executive covenants and agrees that during the period of the Executive's employment, the Executive shall not, without the prior written consent of the CEO or the Board, directly or indirectly, as an employee, employer, consultant, agent, principal, partner, shareholder, corporate officer, director, or through any other kind of ownership (other than ownership of securities of publicly held corporations of which the Executive owns less than five percent 5% of any class of outstanding securities) or in any other representative or individual capacity, engage in or render any services to any business in North America engaged in the casual dining restaurant industry, the family dining restaurant industry, or in any other segment of the restaurant industry in which the Company or any subsidiary of the Company may become involved after the date hereof and prior to the date of termination of the Executive's employment. For purposes of this Agreement "casual dining restaurant industry" consists of "sit down table service" restaurants serving alcoholic beverages, with a per guest average guest check within the United States of under $20.00 (adjusted upward each year to recognize Company menu price increases). For purposes of this Agreement "family dining restaurant industry" consists of "sit down table service" restaurants, with a per guest average guest check within the United States of under $15.00 (adjusted upward each year to recognize Company menu price increases).

11. **Nonsolicitation.** The Executive agrees that during the period of the Executive's employment, and for a period of 24 months following the effective date of the termination of the Executive's employment for any reason prior to a Change in Control and 24 months following the effective date of the termination after a Change in Control, the Executive will not, either directly or indirectly, for the Executive or for any third party, except as otherwise agreed to in writing by the then CEO, solicit, induce, recruit, or cause any other person who is then employed by the Company to terminate his/her employment for the purpose of joining, associating, or becoming employed with any business or activity that is engaged in the casual dining restaurant industry, the family dining restaurant industry or any other segment of the restaurant industry in which the Company may become involved after the date hereof and prior to the date of any termination of employment.

12. **Remedies for Breach of Covenants of the Executive.**

a. The Company and the Executive specifically acknowledge and agree that the foregoing covenants of the Executive in Sections 8, 9, 10 and 11 are reasonable in content and scope and are given by the Executive for adequate consideration. The Company and the Executive further acknowledge and agree that, if any court of competent jurisdiction or other appropriate authority shall disagree with the parties' foregoing agreement as to reasonableness, then such court or other authority shall reform or otherwise the foregoing covenants as reason dictates.

b. The covenants set forth in Sections 8, 9, and 11 of this Agreement, as provided in Section 13 or 14, shall continue to be binding upon the Executive, notwithstanding the termination of the Executive's employment with the Company for any reason whatsoever. Such covenants shall be deemed and construed as separate agreements independent of any other provisions of this Agreement and any other agreement between the Company and the Executive. The existence of any claim or cause of action by the Executive against the Company, unless predicated on this Agreement, shall not constitute a defense to the enforcement by the Company of any or all such covenants. It is expressly agreed that the remedy at law for the breach of any such covenant is inadequate and injunctive relief and specific performance shall be available to prevent the breach or any threatened breach thereof.

c. If the Executive breaches any of the covenants set forth in Sections 8, 9, 10 and 11 of this Agreement, the Executive shall reimburse the Company for (i) any equity-based compensation received by the Executive from the Company during the twelve (12) month period preceding the breach, and (ii) any profits realized from the sale of securities of the Company during such twelve (12) month period.

13. **Termination.** This Agreement (other than Sections 8, 9, and 11, as provided in Section 13 or 14, which shall survive any termination hereof for any reason, including the expiration hereof due to non-renewal (an "Expiration")) may be terminated as follows:

a. The Company may terminate this Agreement and the Executive's employment hereunder at any time, with or without Cause, upon written notice to the Executive. The Executive may terminate this Agreement and the Executive's employment hereunder, at any time, with or without Good Reason.

b. In the event of termination by the Company without Cause or by the Executive for Good Reason, (i) the effective date thereof shall be stated in a written notice to the Executive from the Board, which shall not be earlier than 30 days from the date such written notice is delivered to the Executive, (ii) the Executive shall be entitled to receive all Severance Payments under Section 13(f), (iii) any unvested stock options, stock appreciation rights, and any other equity-based awards subject to service or time vesting conditions held by the Executive that would have vested during the twelve (12) month period following the Executive's termination will vest as of the day immediately preceding the effective date of termination, (iv) any unvested equity-based awards subject to any performance-based vesting conditions held by the Executive will vest on a pro rata basis, based on the number of days of the Executive's employment during the applicable performance period, as of the day immediately preceding the effective date of termination and shall be paid based on actual performance during the applicable performance period through the date of the Executive's termination of employment, and (v) any stock options or stock appreciation rights held by the Executive shall remain exercisable until the earlier of 24 months after the date of termination or their original expiration date.

c. In the event of termination by the Company with Cause, the Executive shall be entitled to receive only the Executive's salary through such date of termination, the reimbursement of properly documented reasonable business expenses incurred through such date of termination, and any bonus amounts as may be payable pursuant to the terms of any written plans in which the Executive was a participant immediately prior to the effective date of the termination. The Executive shall also be entitled to exercise the Executive's rights under COBRA at the Executive's expense.

d. The following shall constitute "Cause":

(i) The willful failure by the Executive to substantially perform the Executive's duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board, which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties; or

(ii) The Executive's willful misconduct that is demonstrably and materially injurious to the Company, monetarily or otherwise; or

(iii) The Executive's commission of such acts of dishonesty, fraud, misrepresentation or other acts of moral turpitude as would prevent the effective performance of the Executive's duties; or

(iv) The Executive's conviction or plea of no contest to a felony or a crime of moral turpitude.

For purposes of this subsection d., no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without the reasonable belief that the Executive's action or omission was in the best interest of the Company. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of a majority of the non-employee members of the Board at a meeting of such members (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before such members of the Board), finding that the Executive has engaged in the conduct set forth above in this subsection d. and specifying the particulars thereof in detail.

e. The Executive shall have "Good Reason" to effect a termination in the event that the Company (i) breaches its obligations to pay any salary, benefit or bonus due hereunder, or (ii) requires the Executive to relocate more than 50 miles from the Company's headquarters [or other current location if not now located at headquarters], (iii) assigns to the Executive any duties inconsistent with the Executive's position with the Company or significantly and adversely alters the nature or status of the Executive's responsibilities or the conditions of the Executive's employment, or (iv) reduces the Executive's base salary and/or bonus opportunity, except for across-the-board reductions similarly affecting all management personnel of the Company and all management personnel of any corporation or other entity which is in control of the Company; and in the event of any of (i), (ii), (iii) or (iv), the Executive has given written notice to the Board as to the details of the basis for such Good Reason within thirty (30) days following the date on which the Executive alleges the event giving rise to such Good Reason occurred, the Company has failed to provide a reasonable cure within thirty (30) days after its receipt of such notice and the effective date of the termination for Good Reason occurs within 180 days after the initial existence of the facts or circumstances constituting Good Reason. In the event of a termination by the Executive with Good Reason, the Executive will be entitled to all Severance Payments under Section 13(f).

f. The "Severance Payments" consist of the following and, subject to subsection h. of Section 20, shall be paid as follows: (i) an amount paid on the tenth business day following the effective date of such termination in one lump sum equal to one (1) times the sum of (A) the Executive's annual Base Salary, at the then current effective annual rate, plus (B) the average of the Executive's actual bonus attributable to each of the preceding three (3) fiscal years; (ii) the reimbursement of properly documented reasonable business expenses incurred through the date of termination which shall be paid on the tenth business day following the effective date of such termination; and (iii) the payment by the Company of premiums on behalf of the Executive, for coverage substantially similar to that provided under the Company's health, disability and group term life insurance plans, at the same cost to the Executive as was effective immediately prior to termination, and for so long as the Executive elects to continue such coverage up to a 12 month period. To the extent that substantially similar health and welfare benefits become available to the Executive from a subsequent employer, the Company will set off against the benefits payable hereunder any benefits received by the Executive from any other source. The Executive agrees to notify the Company within 30 days after substantially similar health and welfare benefits become available to her from a subsequent employer.

g. In the event of any termination of the Executive other than by the Executive for Good Reason or by the Company without Cause, participation by the Executive in all compensation and benefit plans of the Company will cease upon the effective termination date and all unvested bonuses, equity awards and other like items will immediately lapse. In the event of any termination of the Executive, all amounts owed by the Executive to the Company for any reasons whatsoever will become immediately due and payable and the Company will transfer to the Executive any term life insurance policy maintained by the Company for the Executive's benefit.

14. **Termination After Change in Control.** If within 24 months following a Change in Control, as defined below, the employment of the Executive is terminated by the Company without Cause or by the Executive for Good Reason then the provisions of Section 13 shall not apply and the following shall occur:

a. Subject to subsection h. of Section 20, on the tenth business day following the effective date of such termination, the Executive shall receive the following: (i) a lump sum payment equal to two (2) times the sum of (A) the Executive's Base Salary in effect immediately prior to the change in control, plus (B) the average of the Executive's actual bonus attributable to each of the preceding three (3) fiscal years; and (ii) an amount paid in one lump sum equal to the Executive's prorated bonus for the then current fiscal year based on actual performance prior to the date of termination.

b. The Company shall pay premiums on behalf of the Executive, for coverage substantially similar to that provided under the Company's health, disability and group term life insurance plans, at the same cost to the Executive as was effective immediately prior to termination, and for so long as the Executive elects to continue such coverage up to a 24 month period. To the extent that substantially similar health and welfare benefits become available to the Executive from a subsequent employer, the Company will set off against the benefits payable hereunder any benefits received by the Executive from any other source.

c. Any unvested stock options, stock appreciation rights, and other equity-based awards held by the Executive will vest as of the day immediately preceding the effective date of termination, all unvested Restricted Share awards held by the Executive will vest as of the day immediately preceding the effective date of termination and all restrictions will immediately be removed and deemed to have been satisfied, and any stock options or stock appreciation rights held by the Executive shall remain exercisable until the earlier of 24 months after the date of termination or their original expiration date.

d. The Executive shall be bound by the nonsolicitation provisions of Section 11, which shall remain in full force and effect for a period of 24 months following the effective date of Executive's termination.

15. **Definition of Change in Control**. A **"Change in Control"** shall be deemed to have occurred if:

a. any "person," as such term is used in Sections 13(d) and 14(d) of the "Exchange Act (other than the Company; any trustee or other fiduciary holding securities under an employee benefit plan of the Company; or any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of Stock of the Company) is or becomes after the Effective Date the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its affiliates) representing 40% or more of the combined voting power of the Company's then outstanding securities; or

b. during any period of two consecutive years (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in subsections a., c. or d. of this Section 15 whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof; or

c. the consummation of a merger or consolidation of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least 75% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires more than 50% of the combined voting power of the Company's then outstanding securities; or

d. the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets;

provided, that with respect to any non-qualified deferred compensation that becomes payable on account of the Change in Control, the transaction or event described in subsection a., b., c. or d. also constitutes a "change in control event," as defined in Treasury Regulation §1.409A-3(i)(5) if required in order for the payment not to violate Section 409A of the Code..

16. **Parachute Payment Matters.**

Notwithstanding any other provision of this Agreement, if by reason of Section 280G of the Code any payment or benefit received or to be received by the Executive in connection with a Change in Control or the termination of the Executive's employment (whether payable pursuant to the terms of this Agreement ("Contract Payments") or any other plan, arrangements or agreement with the Company or an Affiliate (as defined below) (collectively with the Contract Payments, "Total Payments")) would not be deductible (in whole or part) by the Company, an Affiliate or other person making such payment or providing such benefit, then the Contract Payments shall be reduced and, if Contract Payments are reduced to zero, other Total Payments shall be reduced until no portion of the Total Payments is not deductible by reason of Section 280G of the Code, provided, however, that no such reduction shall be made unless the net after-tax benefit received by the Executive after such reduction would exceed the net after-tax benefit received by the Executive if no such reduction was made. The foregoing determination and all determinations under this Section 16 shall be made by the Accountants (as defined below). For purposes of this section, "net after-tax benefit" shall mean (i) the Total Payments that would constitute "parachute payments" within the meaning of Section 280G of the Code, less (ii) the amount of all federal, state and local income taxes payable with respect to such payments calculated at the maximum marginal income tax rate for each year in which the foregoing shall be paid to the Executive (based on the rate in effect for such year as set forth in the Code as in effect at the time of the first payment of the foregoing), less (iii) the amount of excise taxes imposed with respect to the payments and benefits described in (i) above by Section 4999 of the Code. For purposes of the foregoing determinations, (a) no portion of the Total Payments the receipt or enjoyment of which the Executive shall have effectively waived in writing prior to the date of payment of any Contract Payment shall be taken into account; (b) no portion of the Total Payments shall be taken into account which in the opinion of the Accountants does not constitute a "parachute payment" within the meaning of Section 280G(b)(2) of the Code (without regard to subsection (A)(ii) thereof); (c) the Contract Payments (and, thereafter, other Total Payments) shall be reduced only to the extent necessary so that the Total Payments in their entirety constitute reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code, in the opinion of the Accountants; and (d) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Accountants in accordance with the principles of Sections 280G(d)(3) and (4) of the Code. For purposes of this Section 16, the term

"Affiliate" means the Company's successors, any Person whose actions result in a Change in Control or any company affiliated (or which, as a result of the completion of the transactions causing a Change in Control shall become affiliated) with the Company within the meaning of Section 1504 of the Code and "Accountants" shall mean the Company's independent certified public accountants serving immediately prior to the Change in Control, unless the Accountants are also serving as accountant or auditor for the individual, entity or group effecting the Change in Control, in which case the Company shall appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accountants hereunder). For purposes of making the determinations and calculations required herein, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code, provided that the Accountant's determinations must be made on the basis of "substantial authority" (within the meaning of Section 6662 of the Code). All fees and expenses of the Accountants shall be borne solely by the Company.

17. **Arbitration of Disputes.**

a. Any dispute or claim arising out of or relating to this Agreement or any termination of the Executive's employment, other than with respect to Sections 8 through 12, shall be settled by final and binding arbitration in the greater Los Angeles metropolitan area in accordance with the Commercial Arbitration rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

b. Except as provided by applicable law, the fees and expenses of the arbitration panel shall be shared equally by the Executive and the Company.

c. Except as provided by applicable law, the prevailing party in any arbitration brought hereunder shall be entitled to an award of its costs (including expenses and attorneys' fees), incurred in such arbitration.

18. **No Mitigation.** The Executive shall have no duty to attempt to mitigate the level of benefits payable by the Company to the Executive hereunder, by seeking other employment or otherwise. To the extent that substantially similar health and welfare benefits become available to the Executive from a subsequent employer, the Company will discontinue the Executive's coverage; otherwise, the Company shall not be entitled to set off against the amounts payable hereunder any amounts received by the Executive from any other source, including any subsequent employer.

19. **Notices.** Any notices to be given hereunder by either party to the other may be effected either by personal delivery in writing or by mail, registered or certified, postage prepaid, with return receipt requested. Mailed notices shall be addressed as follows:

a. If to the Company:

DineEquity, Inc.
450 N. Brand Boulevard
Glendale, CA 91410
Attn: General Counsel

b. If to the Executive:

Ms. Jean M. Birch
1128 King Mark Drive
Lewisville, TX 75056

Either party may change its address for notice by giving notice in accordance with the terms of this Section 18.

20. **General Provisions.**

a. **Law Governing.** This Agreement shall be governed by and construed in accordance with the laws of the State of California.

b. **Invalid Provisions.** If any provision of this Agreement is held to be illegal, invalid, or unenforceable, then such provision shall be fully severable and this Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part hereof; and the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance herefrom. Furthermore, in lieu of such illegal, invalid, or unenforceable provision there shall be added automatically as a part of this Agreement a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible and still be legal, valid or enforceable.

c. **Entire Agreement.** This Agreement sets forth the entire understanding of the parties and supersedes all prior agreements or understandings, whether written or oral, with respect to the subject matter hereof and all agreements, acknowledgments, designations and directions of the Executive made or given under any Company policy statement or benefit program. No terms, conditions, warranties, other than those contained herein, and no amendments or modifications hereto shall be binding unless made in writing and signed by the parties hereto.

d. **Binding Effect.** This Agreement shall extend to and be binding upon and inure to the benefit to the parties hereto, their respective heirs, representatives, successors and assigns. This Agreement may not be assigned by the Executive, but may be assigned by the Company to any person or entity that succeeds to the ownership or operation of the business in which the Executive is primarily employed by the Company.

e. **Waiver.** The waiver by either party hereto of a breach of any term or provision of this Agreement shall not operate or be construed as a waiver of a subsequent breach of the same provision by any party or of the breach of any other term or provision of this Agreement.

f. **Titles.** Titles of the paragraphs herein are used solely for convenience and shall not be used for interpretation or construing any work, clause, paragraph, or provision of this Agreement.

g. **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but which together shall constitute one and the same instrument.

h. **Compliance with IRC Section 409A.** The following provisions shall apply to this Agreement with respect to Section 409A of the Code:

(i) The lump sum cash severances payments which are payable under clause (i) of subsection f. of Section 14 and under subsection a. of Section 14 are intended to satisfy the short-term deferral exemption under Treasury Regulation Section 1.409A-1(b)(4) and shall be made not later than the last day of the applicable two and one-half month period with respect to such payment, within the meaning of Treasury Regulation Section 1.409A-1(b)(4).

(ii) If any provision of this Agreement (or of any award of compensation, including equity compensation or benefits) would cause Executive to incur any additional tax or interest under Section 409A of the Code or any regulations or Treasury guidance promulgated thereunder, the Company shall, after consulting with Executive, reform such provision to comply with Section 409A of the Code, provided that the Company agrees to maintain, to the maximum extent practicable, the original intent and economic benefit Executive of the applicable provision without violating the provisions of Section 409A of the Code.

(iii) Notwithstanding any provision to the contrary in this subsection h., if Executive is deemed on the Termination Date to be a “specified employee” within the meaning of that term under Section 409A(a)(2)(B) of the Code, then with regard to any payment or the provision of any benefit that is required to be delayed in compliance with section 409A(a)(2)(B) of the Code such payment or benefit shall not be made or provided (subject to the last sentence hereof) prior to the earlier of (A) the expiration of the six (6)-month period measured from the date of the Executive’s “separation from service” (as such term is defined under Section 409A of the Code) or (B) the date of the Executive’s death (the “Delay Period”). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this section (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed Executive in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein. Notwithstanding the foregoing, to the extent that the foregoing applies to the provision of any ongoing welfare benefits to Executive that would not be required to be delayed if the premiums therefore were paid by Executive, Executive shall pay the full cost of premiums for such welfare benefits during the Delay Period and the Company shall pay Executive an amount equal to the amount of such premiums paid by Executive during the Delay Period promptly after its conclusion.

IN WITNESS WHEREOF, the Company and the Executive have executed this Agreement as of the date and year first above written.

THIS AGREEMENT CONTAINS AN ARBITRATION CLAUSE.

EXECUTIVE:	**DineEquity, Inc.:**
/s/ Jean M. Birch	By: /s/ Julia A. Stewart
Jean M. Birch	Julia A. Stewart, CEO

Exhibit A — Executive's Authorities and Duties

During the Employment Period, the Executive shall serve as President, IHOP Business Unit, reporting directly to the DineEquity, Inc. CEO, with duties, authorities and responsibilities commensurate with such title and office.

Exhibit 31.1

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

I, Julia A. Stewart, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DineEquity, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2009

/s/ JULIA A. STEWART

Julia A. Stewart
Chairman and Chief Executive Officer

Exhibit 31.2

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

I, John F. Tierney, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DineEquity, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2009

/s/ JOHN F. TIERNEY

John F. Tierney
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of DineEquity, Inc. (the "Company") for the quarter ended June 30, 2009, as filed with the Securities and Exchange Commission on July 30, 2009, (the "Report"), Julia A. Stewart, as Chairman and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of her knowledge, that,:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 30, 2009

/s/ JULIA A. STEWART

Julia A. Stewart
Chairman and Chief Executive Officer

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

Exhibit 32.2

Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of DineEquity, Inc. (the "Company") for the quarter ended June 30, 2009, as filed with the Securities and Exchange Commission on July 30, 2009, (the "Report"), John F. Tierney, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that,:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 30, 2009

/s/ JOHN F. TIERNEY

JOHN F. TIERNEY
Chief Financial Officer
(Principal Financial Officer)

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