DineEquity, Inc
Form 10-Q
April 30, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from to

Commission File Number 001-15283

DineEquity, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**95-3038279**
(State or other jurisdiction of incorporation or	(I.R.S. Employer Identification No.)

organization)

450 North Brand Boulevard,	
Glendale, California	**91203-1903**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

Class	**Outstanding as of April 24, 2009**
Common Stock, $.01 par value	17,579,736

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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 amounts)

	March 31, 2009	December 31, 2008
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 97,456	$ 114,443
Restricted cash	100,528	83,355
Short-term investments, at market value	278	276
Receivables, net	80,988	117,930
Inventories	10,997	10,959
Prepaid income taxes		15,734
Prepaid expenses	15,906	17,067
Deferred income taxes	27,917	27,504
Assets held for sale	8,714	11,861
Total current assets	342,784	399,129
Non-current restricted cash	51,882	53,395
Restricted assets related to captive insurance subsidiary	5,500	5,573
Long-term receivables	271,832	277,106
Property and equipment, net	809,004	824,482
Goodwill	697,470	697,470
Other intangible assets, net	952,758	956,036
Other assets, net	142,910	148,026
Total assets	$ 3,274,140	$ 3,361,217
Liabilities and Stockholders Equity		
Current liabilities:		
Current maturities of long-term debt	$ 17,550	$ 15,000
Accounts payable	48,844	48,983
Accrued employee compensation and benefits	43,862	44,299
Deferred revenue	52,067	95,532
Accrued financing costs	20,000	20,071
Other accrued expenses	71,095	55,249
Accrued interest payable	4,470	3,580
Total current liabilities	257,888	282,714
Long-term debt, less current maturities	1,763,057	1,853,367

Financing obligations, less current maturities	312,719	318,651
Capital lease obligations, less current maturities	159,415	161,310
Deferred income taxes	395,966	395,448
Other liabilities	119,405	119,910
Total liabilities	3,008,450	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 March 31, 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 March 31, 2009 and December 31, 2008	37,892	37,332
Common stock, $.01 par value, 40,000,000 shares authorized; March 31, 2009: 23,797,265 shares issued and 17,581,699 shares outstanding; December 31, 2008: 23,696,950 shares issued and 17,466,355 shares outstanding	238	237
Additional paid-in-capital	166,039	165,315
Retained earnings	177,641	145,810
Accumulated other comprehensive loss	(27,420)	(29,408)
Treasury stock, at cost (6,215,566 shares and 6,230,595 shares at March 31, 2009 and December 31, 2008, respectively)	(275,750)	(276,519)
Total stockholders equity	78,640	42,767
Total liabilities and stockholders equity	$ 3,274,140	$ 3,361,217

See the accompanying Notes to Consolidated Financial Statements.

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DINEEQUITY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2009	**2008**
Revenues		
Franchise revenues	$ 98,210	$ 89,934
Company restaurant sales	238,205	311,922
Rental income	33,709	32,965
Financing revenues	4,113	7,968
Total revenues	374,237	442,789
Costs and Expenses		
Franchise expenses	28,298	23,377
Company restaurant expenses	200,415	276,575
Rental expenses	24,542	24,709
Financing expenses	7	3,339
General and administrative expenses	47,159	47,604
Interest expense	48,532	50,647
Amortization of intangible assets	3,019	2,899
Gain on extinguishment of debt	(26,354)	
Gain on disposition of assets	(5,137)	(178)
Other income, net	(128)	(1,521)
Total costs and expenses	320,353	427,451
Income before income taxes	53,884	15,338
Provision for income taxes	16,743	1,484
Net income	$ 37,141	$ 13,854
Net income	$ 37,141	$ 13,854
Less: Series A preferred stock dividends	(4,750)	(4,750)
Less: Accretion of Series B preferred stock	(560)	(521)
Less: Net income allocated to unvested participating restricted stock	(1,203)	(248)
Net income available to common stockholders	$ 30,628	$ 8,335
Net income available to common stockholders per share		
Basic	$ 1.82	$ 0.50
Diluted	$ 1.80	$ 0.50
Weighted average shares outstanding		
Basic	16,842	16,703
Diluted	17,394	16,781
Dividends declared per common share	$	$ 0.25
Dividends paid per common share	$	$ 0.25

See the accompanying Notes to Consolidated Financial Statements.

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DINEEQUITY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2009	**2008**
Cash flows from operating activities		
Net income	$ 37,141	$ 13,854
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	26,114	28,783
Gain on extinguishment of debt	(26,354)	
Deferred income taxes	(1,320)	(4,898)
Stock-based compensation expense	3,198	3,072
Tax benefit from stock-based compensation	317	984
Excess tax benefit from stock options exercised		(251)
Gain on disposition of assets	(5,137)	(178)
Changes in operating assets and liabilities		
Receivables	36,603	28,171
Inventories	(167)	75
Prepaid expenses	10,680	2,661
Accounts payable	1,256	(23,999)
Accrued employee compensation and benefits	(437)	(3,423)
Deferred revenues	(43,465)	(32,086)
Other accrued expenses	20,958	(4,937)
Other	(1,718)	2,134
Cash flows provided by operating activities	57,669	9,962
Cash flows from investing activities		
Additions to property and equipment	(3,162)	(18,102)
Reductions (additions) to long-term receivables	948	(1,390)
Payment of accrued acquisition costs		(10,001)
Collateral released by captive insurance subsidiary	74	2,680
Proceeds from sale of property and equipment	8,834	30
Principal receipts from notes and equipment contracts receivable	4,505	4,219
Reductions of assets held for sale		12,386
Other	(40)	(37)
Cash flows provided by (used in) investing activities	11,159	(10,215)
Cash flows from financing activities		
Repayment of long-term debt	(61,605)	
Principal payments on capital lease and financing obligations	(3,467)	(1,391)
Dividends paid	(4,750)	(6,012)
Payment of preferred stock issuance costs		(1,500)
Reissuance of treasury stock		1,148

Repurchase of restricted stock	(264)	(92)
Proceeds from stock options exercised		664
Excess tax benefit from stock options exercised		251
Payment of accrued debt issuance costs	(63)	(2,845)
Restricted cash related to securitization	(15,666)	16,276
Cash flows (used in) provided by financing activities	(85,815)	6,499
Net change in cash and cash equivalents	(16,987)	6,246
Cash and cash equivalents at beginning of year	114,443	26,838
Cash and cash equivalents at end of period	$ 97,456	$ 33,084
Supplemental disclosures		
Interest paid	$ 42,422	$ 55,084
Income taxes paid	$ 753	$ 1,111

See the accompanying Notes to Consolidated Financial Statements.

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DINEEQUITY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

The accompanying unaudited consolidated financial statements of DineEquity, Inc. (the Company) have been prepared in accordance with 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 period ended March 31, 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 fiscal quarters presented herein ended March 29, 2009 and March 30, 2008, 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, 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.

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. The loss from discontinued operations of $88,000 previously reported as a single net line item the first fiscal quarter of 2008 has been reclassified as follows:

		Amount (In thousands)
Company restaurant expenses	$	29
Gain on disposition of assets		(41)
Other (income) expense		154
Income (loss) before income taxes		(142)
Benefit (provision) for income taxes		54
Net income (loss)	$	(88)

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

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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 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 on the Company s consolidated financial statements.

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 fiscal quarter ended March 31, 2008 was not material.

In January 2009, the FASB issued FSP EITF Issue No. 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20* (FSP EITF 99-20-1). FSP EITF 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, to achieve more consistent determination of whether an other-than-temporary impairment has occurred. FSP EITF 99-20-1 also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The Company adopted FSP EITF 99-20-1 effective January 1, 2009. There was no impact of the adoption on the Company s consolidated financial statements.

New Accounting Pronouncements

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 will adopt the FSPs effective for the period ending June 30, 2009 but does not anticipate that adoption will result in a material effect on its consolidated results of operations

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4. 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 SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*. 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. The Company recognized a gain of approximately $5.4 million on the transaction. There were no other significant changes to assets held for sale. At March 31, 2009, the balance of assets held for sale was $8.7 million.

5. Long-Term Debt

Long-term debt consists of the following components:

	March 31, 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%)	$ 635.8	$ 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%	521.8	604.3
Series 2007-1 Class M-1 Fixed Rate Term Subordinated Notes due December 2037, at a fixed rate of 8.4044%	115.3	119.0
Series 2007-1 Class A-1 Variable Funding Senior Notes, final maturity date December 2037, at a rate of 3.22% and 3.86% as of March 31, 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 0.6% and 2.1% as of March 31, 2009 and December 31, 2008, respectively	15.0	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	(27.2)	(30.5)
Total debt	1,780.7	1,868.4
Less current maturities	(17.6)	(15.0)
Long-term debt	$ 1,763.1	$ 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.

In March 2009, the Company retired certain Series 2007-1 Class A-2-II-X Fixed Rate Term Senior Notes due December 2037 with a face amount of $78.4 million for a cash payment of $49.0 million. The Company recognized a gain on extinguishment of this debt of $26.4 million after the write-off of the discount and deferred financing costs related to the debt retired.

During the quarter ended March 31, 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 repayments on the Series 2007-1 Class M-1 Fixed Rate Term Subordinated Notes due December 2037. Scheduled repayments totaled $3.4 million during the first quarter of 2009.

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6. Financing Obligations

As of March 31, 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	$	23.0
2010		31.0
2011		31.4
2012		31.4
2013		31.5
Thereafter		439.2
Total minimum lease payments		587.5
Less interest		(267.0)
Total financing obligations		320.5
Less current portion(1)		(7.8)
Long-term financing obligations	$	312.7

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

7. Segments

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) 1,591 restaurants operated by Applebee s franchisees in the United States, 15 countries outside the United States and one U.S. territory and (ii) 1,390 restaurants operated by IHOP franchisees and area licensees in the United States, one U.S. territory, 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 400 company-operated Applebee s restaurants in the United States, one company-operated Applebee s restaurant in China and 12 company-operated IHOP restaurants, which include one restaurant reacquired from a franchisee that is being 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.

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7. Segments, continued

Information on segments is as follows:

	For the Three Months Ended March 31, 2009		2008
	(In millions)		
Revenues from External Customers			
Franchise operations	$	98.2	$ 89.9
Company restaurants		238.2	311.9
Rental operations		33.7	33.0
Financing operations		4.1	8.0
Total	$	374.2	$ 442.8
Interest Expense			
Company restaurants	$	0.1	$ 0.2
Rental operations		5.1	5.2
Financing operations			
Corporate		48.5	50.7
Total	$	53.7	$ 56.1
Depreciation and amortization			
Franchise operations	$	2.5	$ 2.5
Company restaurants		7.4	11.7
Rental operations		2.9	3.0
Corporate		3.4	2.3
Total	$	16.2	$ 19.5
Income (loss) before income taxes			
Franchise operations	$	70.0	$ 66.6
Company restaurants		37.8	35.3
Rental operations		9.2	8.3
Financing operations		4.1	4.6
Corporate		(67.2)	(99.5)
Total	$	53.9	$ 15.3

8. 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.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB No. 109* (FIN 48) on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a $0.7 million increase in the liability for unrecognized tax benefits, excluding related income tax benefits, which increase was accounted for as a reduction of retained earnings at January 1, 2007. At March 31, 2009, the Company had a liability for unrecognized tax benefits including potential interest and penalties, net of related tax benefit, totaling $22.2 million, of which approximately $3.0 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 March 31, 2009 and December 31, 2008 was $17.0 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 $17.0 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 $2.2 million related to settlements with taxing authorities and the lapse of the statute of limitations.

As of March 31, 2009, the accrued interest and penalties were $14.1 million and $2.4 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 increase of $0.4 million of accrued interest is primarily related to the accrual of interest during the three months ended March 31, 2009. The Company recognizes interest

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accrued related to unrecognized tax benefits and penalties as a component of income tax expense which is recognized in the Consolidated Statements of Income.

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.

The Company has recorded a deferred tax asset related to a change in the enacted tax law for the state of Michigan. The Company cannot assert on a more than likely basis that the asset will be realized. Therefore, a valuation allowance of $7.0 million has been recorded to offset the entire asset. Of the $7.0 million, $0.7 million was recorded in the year ended December 31, 2007 and $6.3 million was recorded as part of the purchase price allocation of Applebee s.

The effective tax rate for the provision recognized was 31.1% for the three-month period March 31, 2009. The effective tax rate for the provision recognized is lower than the federal statutory rate of 35% for the three-month period ended March 31, 2009 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.

9. 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 generally vests over terms determined by the Compensation Committee of the Company s Board of Directors. 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 March 31, 2009	Three Months Ended March 31, 2008
	(In millions)	
Total Stock-Based Compensation:		
Pre-tax compensation expense	$ 3.2	$ 3.1
Tax benefit	(1.0)	(0.3)
Total stock-based compensation expense, net of tax	$ 2.2	$ 2.8

As of March 31, 2009, $13.2 million and $8.7 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 2.04 years for restricted stock and 2.68 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		1.87%
Weighted average historical volatility		71.6%
Dividend yield		
Expected years until exercise		5.0
Forfeitures		7.02%
Weighted average fair value of options granted	$	3.37

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Option activity under the Company s stock option plan as of March 31, 2009, and changes during the three-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	868,250	$	5.64			
Exercised						
Expired	(12,000)	$	43.46			
Forfeited	(146,599)	$	25.60			
Outstanding at March 31, 2009	1,643,590	$	21.05	8.33	$	5,531,000
Vested at March 31, 2009 and Expected to Vest	1,485,868	$	21.74	8.19	$	4,792,000
Exercisable at March 31, 2009	512,082	$	37.79	5.33	$	

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 first 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 at March 31, 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 three months ended March 31, 2009 is presented below:

	Shares		Weighted Average Grant Date Fair Value
Nonvested at December 31, 2008	671,480	$	45.07
Granted	181,700	$	5.58
Released	(108,849)	$	48.84
Forfeited	(45,728)	$	30.60
Nonvested at March 31, 2009	698,603	$	35.16

10. Other Comprehensive Income

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

	Three Months Ended March 31,			
		2009		2008
	(In millions)			
Net income	$	37.1	$	13.9
Other comprehensive income (net of tax):				
Interest rate swap		2.0		1.7
Total comprehensive income	$	39.1	$	15.6

The amount of income tax benefit allocated to the interest rate swap was $1.4 million and $0.2 million for the three months ended March 31, 2009 and 2008, respectively.

The accumulated comprehensive loss of $27.4 million (net of tax) as of March 31, 2009 is comprised of $27.0 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.

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11. Net Income Per Share

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

	Three Months Ended March 31, 2009	2008
	(In thousands, except per share data)	
Numerator for basic and dilutive income per common share:		
Net income	$ 37,141	$ 13,854
Less: Series A Preferred Stock dividends	(4,750)	(4,750)
Less: Accretion of Series B Preferred Stock	(560)	(521)
Less: Net income allocated to unvested participating restricted stock	(1,203)	(248)
Net income available to common stockholders basic	30,628	8,335
Effect of unvested participating restricted stock in two-class calculation	36	
Accretion of Series B Preferred Stock*	560	
Net income available to common stockholders diluted	$ 31,224	$ 8,335
Denominator:		