

DENNYS CORP  
Form 10-Q  
October 27, 2014

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

FORM 10-Q

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

For the Quarterly Period Ended September 24, 2014

Commission File Number 0-18051

DENNY'S CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

13-3487402

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

203 East Main Street  
Spartanburg, South Carolina 29319-0001  
(Address of principal executive offices)  
(Zip Code)

(864) 597-8000  
(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 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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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

As of October 23, 2014, 84,727,048 shares of the registrant's common stock, par value \$.01 per share, were outstanding.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Denny's Corporation and Subsidiaries  
Condensed Consolidated Balance Sheets  
(Unaudited)

	September 24, 2014	December 25, 2013
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$1,450	\$2,943
Receivables	14,759	17,321
Inventories	2,743	2,881
Current deferred tax asset	22,021	23,264
Prepaid and other current assets	6,329	7,417
Total current assets	47,302	53,826
Property, net of accumulated depreciation of \$253,252 and \$255,966, respectively	109,268	105,620
Goodwill	31,451	31,451
Intangible assets, net	46,683	47,925
Deferred financing costs, net	1,734	2,097
Noncurrent deferred tax asset	21,604	28,290
Other noncurrent assets	26,237	26,568
Total assets	\$284,279	\$295,777
Liabilities		
Current liabilities:		
Current maturities of long-term debt	\$3,750	\$3,000
Current maturities of capital lease obligations	3,802	4,150
Accounts payable	16,408	14,237
Other current liabilities	50,220	52,698
Total current liabilities	74,180	74,085
Long-term liabilities:		
Long-term debt, less current maturities	148,750	150,000
Capital lease obligations, less current maturities	15,422	15,923
Liability for insurance claims, less current portion	17,748	18,249
Other noncurrent liabilities and deferred credits	25,752	29,089
Total long-term liabilities	207,672	213,261
Total liabilities	281,852	287,346
Commitments and contingencies		
Shareholders' equity		
Common stock \$0.01 par value; shares authorized - 135,000; September 24, 2014: 105,498 shares issued and 84,845 shares outstanding; December 25, 2013: 105,014 shares issued and 89,232 shares outstanding	\$1,055	\$1,050
Paid-in capital	570,705	567,505

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Deficit	(447,899	) (470,946	)
Accumulated other comprehensive loss, net of tax	(17,138	) (16,842	)
Shareholders' equity before treasury stock	106,723	80,767	
Treasury stock, at cost, 20,653 and 15,782 shares, respectively	(104,296	) (72,336	)
Total shareholders' equity	2,427	8,431	
Total liabilities and shareholders' equity	\$284,279	\$295,777	
See accompanying notes			

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Denny's Corporation and Subsidiaries  
Condensed Consolidated Statements of Income  
(Unaudited)

	Quarter Ended		Three Quarters Ended	
	September 24, 2014	September 25, 2013	September 24, 2014	September 25, 2013
	(In thousands, except per share amounts)			
Revenue:				
Company restaurant sales	\$82,827	\$83,371	\$243,269	\$247,242
Franchise and license revenue	34,205	33,904	100,297	101,094
Total operating revenue	117,032	117,275	343,566	348,336
Costs of company restaurant sales:				
Product costs	21,364	21,722	63,274	64,270
Payroll and benefits	32,507	33,746	97,584	98,512
Occupancy	5,418	5,598	15,445	16,339
Other operating expenses	12,514	12,022	35,322	34,538
Total costs of company restaurant sales	71,803	73,088	211,625	213,659
Costs of franchise and license revenue	11,309	11,599	32,639	34,586
General and administrative expenses	13,439	13,704	41,623	42,948
Depreciation and amortization	5,185	5,198	15,704	15,774
Operating (gains), losses and other charges, net	587	161	1,049	1,779
Total operating costs and expenses, net	102,323	103,750	302,640	308,746
Operating income	14,709	13,525	40,926	39,590
Interest expense, net	2,284	2,452	6,880	7,800
Other nonoperating (income) expense, net	(33)	(276)	(465)	1,056
Net income before income taxes	12,458	11,349	34,511	30,734
Provision for income taxes	4,115	4,318	11,464	10,424
Net income	\$8,343	\$7,031	\$23,047	\$20,310
Basic net income per share	\$0.10	\$0.08	\$0.27	\$0.22
Diluted net income per share	\$0.10	\$0.08	\$0.26	\$0.22
Basic weighted average shares outstanding	85,061	90,035	86,882	91,348
Diluted weighted average shares outstanding	86,983	91,967	88,844	93,377

See accompanying notes

Denny's Corporation and Subsidiaries  
 Condensed Consolidated Statements of Comprehensive Income  
 (Unaudited)

	Quarter Ended September 24, 2014	September 25, 2013	Three Quarters Ended September 24, 2014	September 25, 2013
	(In thousands)			
Net income	\$8,343	\$7,031	\$23,047	\$20,310
Other comprehensive income (loss), net of tax:				
Minimum pension liability adjustment, net of tax expense of \$90, \$162, \$271 141 and \$487		251	422	752
Recognition of unrealized gain (loss) on hedge transaction, net of tax expense (benefit) of \$103, \$(459), \$(460) and \$1,063	159	(708	) (718	) 1,640
Other comprehensive income (loss)	300	(457	) (296	) 2,392
Total comprehensive income	\$8,643	\$6,574	\$22,751	\$22,702

See accompanying notes

Denny's Corporation and Subsidiaries  
Condensed Consolidated Statement of Shareholders' Equity  
(Unaudited)

	Common Stock		Treasury Stock		Paid-in Capital	(Deficit)	Accumulated Other Comprehensive Loss, Net	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
	(In thousands)							
Balance, December 25, 2013	105,014	\$ 1,050	(15,782)	\$(72,336)	\$ 567,505	\$(470,946)	\$ (16,842)	\$ 8,431
Net income	—	—	—	—	—	23,047	—	23,047
Other comprehensive loss	—	—	—	—	—	—	(296)	(296)
Share-based compensation on equity classified awards	—	—	—	—	1,608	—	—	1,608
Purchase of treasury stock	—	—	(4,871)	(31,960)	—	—	—	(31,960)
Issuance of common stock for share-based compensation	151	2	—	—	(2)	—	—	—
Exercise of common stock options	333	3	—	—	967	—	—	970
Tax benefit from share-based compensation	—	—	—	—	627	—	—	627
Balance, September 24, 2014	105,498	\$ 1,055	(20,653)	\$(104,296)	\$ 570,705	\$(447,899)	\$ (17,138)	\$ 2,427

See accompanying notes



Denny's Corporation and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	Three Quarters Ended	
	September 24, 2014	September 25, 2013
	(In thousands)	
Cash flows from operating activities:		
Net income	\$23,047	\$20,310
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	15,704	15,774
Operating (gains), losses and other charges, net	1,049	1,779
Amortization of deferred financing costs	362	376
(Gain) loss on early extinguishments of debt	(54	) 1,798
Loss on change in the fair value of interest rate caps	11	28
Deferred income tax expense	8,118	8,241
Share-based compensation	2,993	3,434
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Receivables	2,325	3,519
Inventories	138	—
Other current assets	1,089	2,291
Other assets	(1,668	) (1,399
Increase (decrease) in liabilities:		
Accounts payable	1,797	(3,461
Accrued salaries and vacations	(620	) (3,089
Accrued taxes	1,753	1,823
Other accrued liabilities	(5,437	) (4,015
Other noncurrent liabilities and deferred credits	(2,366	) (2,693
Net cash flows provided by operating activities	48,241	44,716
Cash flows from investing activities:		
Capital expenditures	(17,880	) (9,461
Acquisition of restaurant and real estate	—	(3,980
Proceeds from disposition of property	61	1,591
Collections on notes receivable	1,788	3,653
Issuance of notes receivable	(1,167	) (1,232
Net cash flows used in investing activities	(17,198	) (9,429
Cash flows from financing activities:		
Net revolver borrowings under new credit agreement	1,750	97,000
Term loan borrowings under new credit agreement	—	60,000
Long-term debt payments	(5,340	) (174,820
Proceeds from exercise of stock options	970	2,077
Tax withholding on share-based payments	(419	) (464
Tax benefit (expense) for share-based compensation	627	(204
Debt transaction costs	—	(366
Deferred financing costs	—	(1,372
Purchase of treasury stock	(32,073	) (21,952
Net bank overdrafts	1,949	(2,421

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Net cash flows used in financing activities	(32,536	) (42,522	)
Decrease in cash and cash equivalents	(1,493	) (7,235	)
Cash and cash equivalents at beginning of period	2,943	13,565	
Cash and cash equivalents at end of period	\$1,450	\$6,330	

See accompanying notes

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Denny's Corporation and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

Note 1. Introduction and Basis of Presentation

Denny's Corporation, or Denny's, is one of America's largest full-service restaurant chains based on number of restaurants. At September 24, 2014, the Denny's brand consisted of 1,689 restaurants, 1,529 of which were franchised/licensed restaurants and 160 of which were company operated.

Our unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Therefore, certain information and notes normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. In our opinion, all adjustments considered necessary for a fair presentation of the interim periods presented have been included. Such adjustments are of a normal and recurring nature. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

These interim condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 25, 2013 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the fiscal year ended December 25, 2013. The results of operations for the interim periods presented are not necessarily indicative of the results for the entire fiscal year ending December 31, 2014.

Note 2. Summary of Significant Accounting Policies

Accounting Standards to be Adopted

Discontinued Operations

ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity"

In April 2014, the FASB issued ASU 2014-08, which raises the threshold for a disposal to qualify as a discontinued operation and modifies the related disclosure requirements. Under the new guidance, only disposals resulting in a strategic shift that will have a major effect on an entity's operations and financial results will be reported as discontinued operations. ASU 2014-08 also removes the requirement that an entity not have any significant continuing involvement in the operations of the component after disposal to qualify for reporting of the disposal as a discontinued operation. The guidance is effective for annual and interim periods beginning after December 15, 2014 (our fiscal 2015), with early adoption permitted for any disposal transaction not previously reported. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

Revenue Recognition

ASU 2014-09, "Revenue from Contracts with Customers"

In May 2014, the FASB issued ASU 2014-09, which clarifies the principles used to recognize revenue for all entities. The new guidance requires companies to recognize revenue when it transfers goods or service to a customer in an

amount that reflects the consideration to which a company expects to be entitled. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2016 (our fiscal 2017). The guidance allows for either a "full retrospective" adoption or a "modified retrospective" adoption, however early adoption is not permitted. We are currently evaluating the adoption methods and the impact the adoption of this guidance will have on our consolidated financial statements.

## Going Concern

## ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern"

In August 2014, the FASB issued ASU 2014-15, which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. ASU 2014-15 is effective for annual and interim periods beginning after December 15, 2016 (our fiscal 2017) with early adoption permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

We reviewed all other newly issued accounting pronouncements and concluded that they are either not applicable to our business or are not expected to have a material effect on the financial statements as a result of future adoption.

## Note 3. Receivables

Receivables were comprised of the following:

	September 24, 2014	December 25, 2013
	(In thousands)	
Current assets:		
Receivables:		
Trade accounts receivable from franchisees	\$9,886	\$10,072
Notes receivable from franchisees	1,563	1,800
Vendor receivables	1,141	2,516
Credit card receivables	1,004	2,162
Other	1,454	1,002
Allowance for doubtful accounts	(289)	(231)
Total current receivables, net	\$14,759	\$17,321
Noncurrent assets (included as a component of other noncurrent assets):		
Notes receivable from franchisees	\$382	\$766

## Note 4. Goodwill and Other Intangible Assets

Goodwill had a carrying value of \$31.5 million as of September 24, 2014 and December 25, 2013.

Other intangible assets were comprised of the following:

	September 24, 2014		December 25, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Intangible assets with indefinite lives:				
Trade names	\$44,061	\$—	\$44,055	\$—
Liquor licenses	126	—	126	—
Intangible assets with definite lives:				
Franchise and license agreements	22,406	21,146	31,248	29,007
Reacquired franchise rights	1,857	621	1,857	354
Intangible assets	\$68,450	\$21,767	\$77,286	\$29,361

The \$8.8 million decrease in franchise and license agreements primarily resulted from the removal of fully amortized agreements.

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## Note 5. Operating (Gains), Losses and Other Charges, Net

Operating (gains), losses and other charges, net are comprised of the following:

	Quarter Ended		Three Quarters Ended	
	September 24, 2014	September 25, 2013	September 24, 2014	September 25, 2013
	(In thousands)			
(Gains) losses on sales of assets and other, net	\$ (33	) \$ (68	) \$ (74	) \$ (83
Restructuring charges and exit costs	300	229	775	1,005
Impairment charges	320	—	348	857
Operating (gains), losses and other charges, net	\$ 587	\$ 161	\$ 1,049	\$ 1,779

Restructuring charges and exit costs were comprised of the following:

	Quarter Ended		Three Quarters Ended	
	September 24, 2014	September 25, 2013	September 24, 2014	September 25, 2013
	(In thousands)			
Exit costs	\$ 291	\$ 198	\$ 380	\$ 435
Severance and other restructuring charges	9	31	395	570
Total restructuring charges and exit costs	\$ 300	\$ 229	\$ 775	\$ 1,005

The components of the change in accrued exit cost liabilities are as follows:

	(In thousands)
Balance, December 25, 2013	\$ 3,149
Exit costs (1)	380
Payments, net of sublease receipts	(1,050
Reclassification of certain lease assets and liabilities, net	) (95
Interest accretion	) 141
Balance, September 24, 2014	2,525
Less current portion included in other current liabilities	914
Long-term portion included in other noncurrent liabilities	\$ 1,611

(1) Included as a component of operating (gains), losses and other charges, net.

Impairment charges of \$0.3 million for the three quarters ended September 24, 2014 resulted primarily from the impairment of an underperforming unit. Impairment charges of \$0.9 million for the three quarters ended September 25, 2013 resulted primarily from the impairment of two units identified as assets held for sale.

## Note 6. Fair Value of Financial Instruments

## Fair Value of Assets and Liabilities Measured on a Recurring and Nonrecurring Basis

Financial assets and liabilities measured at fair value on a recurring basis are summarized below:

	Total	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique
(In thousands)					
Fair value measurements as of September 24, 2014:					
Deferred compensation plan investments (1)	\$8,880	\$ 8,880	\$—	\$—	market approach
Interest rate swaps (2)	1,854	—	1,854	—	income approach
Interest rate caps (2)	0	—	0	—	income approach
Total	\$10,734	\$ 8,880	\$1,854	\$—	
Fair value measurements as of December 25, 2013:					
Deferred compensation plan investments (1)	\$8,168	\$ 8,168	\$—	\$—	market approach
Interest rate swaps (2)	3,032	—	3,032	—	income approach
Interest rate caps (2)	11	—	11	—	income approach
Total	\$11,211	\$ 8,168	\$3,043	\$—	

(1) The fair values of our deferred compensation plan investments are based on the closing market prices of the participants' elected investments.

(2) The fair values of our interest rate swaps and interest rate caps are based upon Level 2 inputs, which include valuation models as reported by our counterparties. The key inputs for the valuation models are quoted market prices, interest rates and forward yield curves. See Note 7 for details on the interest rate swaps and interest rate caps.

Those assets and liabilities measured at fair value on a nonrecurring basis are summarized below:

	Significant Unobservable Inputs (Level 3)	Impairment Charges	Valuation Technique
Fair value measurements as of September 24, 2014:			
Assets held and used (1)	\$—	\$320	income approach



Fair value measurements as of December 25, 2013:

Assets held and used (1)	\$1,198	\$4,795	income approach
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As of both September 24, 2014 and December 25, 2013, impaired assets related to an underperforming restaurant were written down to their fair value. To determine fair value, we used the income approach, which assumes that (1) the future cash flows reflect current market expectations. These fair value measurements require significant judgment using Level 3 inputs, such as discounted cash flows from operations, which are not observable from the market, directly or indirectly.

#### Note 7. Long-Term Debt

Denny's Corporation and certain of its subsidiaries have a credit facility comprised of a senior secured term loan in an original principal amount of \$60 million and a \$190 million senior secured revolver (with a \$30 million letter of credit sublimit). As of September 24, 2014, we had outstanding term loan borrowings under the credit facility of \$55.5 million and outstanding letters of credit under the senior secured revolver of \$25.7 million. There were \$97.0 million of revolving loans outstanding at September 24, 2014. These balances resulted in availability of \$67.3 million under the revolving facility. The weighted-average interest rate under the term loan and on outstanding revolver loans was 2.16% and 2.17% as of September 24, 2014 and December 25, 2013, respectively.

The revolving credit facility includes an accordion feature that would allow us to increase the size of the revolver to \$240 million. A commitment fee of 0.35% is paid on the unused portion of the revolving credit facility. Borrowings under the credit facility bear a tiered interest rate based on the Company's consolidated leverage ratio and was initially set at LIBOR plus 200 basis points. The maturity date for the credit facility is April 24, 2018.

The credit facility is guaranteed by the Company and its material subsidiaries and is secured by substantially all of the assets of the Company and its subsidiaries, including the stock of the Company's subsidiaries. It includes negative covenants that are usual for facilities and transactions of this type. The credit facility also includes certain financial covenants with respect to a maximum consolidated leverage ratio, a minimum consolidated fixed charge coverage ratio and maximum capital expenditures.

The term loan under the credit facility requires amortization of the original term loan balance of 5% per year in the first two years (April 2013 through April 2015), 7.5% in the subsequent two years (April 2015 through April 2017) and 10% in the fifth year (April 2017 through April 2018) with the balance due at maturity. We are required to make certain mandatory prepayments under certain circumstances and have the option to make certain prepayments under the credit facility. The credit facility includes events of default (and related remedies, including acceleration and increased interest rates following an event of default) that are usual for facilities and transactions of this type. During the three quarters ended September 24, 2014, we paid \$2.3 million on the term loan under the credit facility.

#### Interest Rate Hedges

We have entered into interest rate hedges that cap the LIBOR rate on borrowings under our credit facility. The 200 basis point LIBOR cap applied to \$125 million of borrowings from April 14, 2013 through April 13, 2014 and applies to \$150 million of borrowings from April 14, 2014 through March 31, 2015.

We also have entered into interest rate swaps to hedge a portion of the cash flows of our floating rate debt from March 31, 2015 through March 29, 2018. We designated the interest rate swaps as cash flow hedges of our exposure to variability in future cash flows attributable to payments of LIBOR due on a related \$150 million notional debt obligation from March 31, 2015 through March 31, 2017 and a related \$140 million notional debt obligation from April 1, 2017 through March 29, 2018. Under the terms of the swaps, we will pay an average fixed rate of 3.12% on the notional amounts and receive payments from a counterparty based on the 30-day LIBOR rate. As of September 24, 2014, the fair value of the interest rate swaps was \$1.9 million, which is recorded as a component of other noncurrent assets on our Condensed Consolidated Balance Sheets. See Note 13 for the amounts recorded in accumulated other comprehensive loss related to the interest rate swaps.

We believe that our estimated cash flows from operations for 2014, combined with our capacity for additional borrowings under our credit facility, will enable us to meet our anticipated cash requirements and fund capital expenditures over the next twelve months.



## Note 8. Defined Benefit Plans

The components of net periodic benefit cost were as follows:

	Quarter Ended		Three Quarters Ended	
	September 24, 2014	September 25, 2013	September 24, 2014	September 25, 2013
	(In thousands)			
<b>Pension Plan:</b>				
Service cost	\$95	\$100	\$285	\$300
Interest cost	775	745	2,325	2,233
Expected return on plan assets (988	)	(1,122	)	(2,965
Amortization of net loss	231	413	693	1,240
Net periodic benefit cost	\$113	\$136	\$338	\$407
<b>Other Defined Benefit Plans:</b>				
Interest cost	\$31	\$28	\$93	\$84
Amortization of net loss	15	17	46	53
Settlement loss recognized	33	—	58	—
Net periodic benefit cost	\$79	\$45	\$197	\$137

We made contributions of \$2.5 million and \$2.8 million to our qualified pension plan during the three quarters ended September 24, 2014 and September 25, 2013, respectively. We made contributions of \$0.4 million and \$0.1 million to our other defined benefit plans during the three quarters ended September 24, 2014 and September 25, 2013, respectively. We expect to contribute less than \$0.1 million to our other defined benefit plans over the remainder of fiscal 2014.

Additional minimum pension liability of \$18.3 million and \$18.7 million is reported as a component of accumulated other comprehensive loss in the Condensed Consolidated Statement of Shareholders' Equity as of September 24, 2014 and December 25, 2013, respectively.

On September 17, 2014, our Board of Directors approved the termination of the Advantica Pension Plan as of December 31, 2014, effective upon confirmation of compliance with any requirements under the terms of our credit facility. See Note 15. We currently expect that termination of such plan will be completed by the end of fiscal 2015 or early 2016. Settlement gain or loss, if any, resulting from the termination will be recognized at that time. During fiscal 2015 or early 2016, we will be required to make contributions to the Advantica Pension Plan as a result of the termination, dependent upon market conditions and participant elections. We currently expect that these contributions will be between \$5 million and \$7 million.

## Note 9. Share-Based Compensation

Total share-based compensation cost included as a component of net income was as follows:

	Quarter Ended		Three Quarters Ended	
	September 24, 2014	September 25, 2013	September 24, 2014	September 25, 2013
	(In thousands)			
Stock options	\$—	\$136	\$52	\$433
Performance share awards	446	735	2,358	2,377
Restricted stock units for board members	203	182	583	624

Total share-based compensation	\$649	\$1,053	\$2,993	\$3,434
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### Stock Options

As of September 24, 2014, there was no unrecognized compensation cost related to unvested stock option awards outstanding.

### Performance Share Awards

In February 2014, we granted approximately 0.2 million performance shares and related performance-based target cash awards of \$2.2 million to certain employees. In April 2014, we granted less than 0.1 million performance shares and related performance-based target cash awards of \$0.3 million to additional employees under the same award plan. As these awards contain a market condition, a Monte Carlo valuation was used to determine the performance shares' grant date fair values of \$7.65 per share (February 2014) and \$6.80 per share (April 2014) and the payout probabilities of the target cash awards. The awards granted to our named executive officers also contain a performance condition based on certain operating measures for the fiscal year ended December 31, 2014. The performance period is the three year fiscal period beginning December 26, 2013 and ending December 28, 2016. The performance shares and cash awards will vest and be earned (from 0% to 200% of the target award for each such increment) at the end of the performance period based on the total shareholder return of our stock compared to the total shareholder returns of a group of peer companies.

During the three quarters ended September 24, 2014, we made payments of \$1.1 million in cash and issued 0.1 million shares of common stock related to performance share awards.

As of September 24, 2014, we had approximately \$4.6 million of unrecognized compensation cost related to all unvested performance share awards outstanding, which is expected to be recognized over a weighted average of 1.8 years.

### Restricted Stock Units for Board Members

During the three quarters ended September 24, 2014, we granted 0.1 million restricted stock units (which are equity classified) with a weighted average grant date fair value of \$6.56 per unit to non-employee members of our Board of Directors. A director may elect to convert these awards into shares of common stock either on a specific date in the future (while still serving as a member of our Board of Directors) or upon termination as a member of our Board of Directors. During the three quarters ended September 24, 2014, less than 0.1 million restricted stock units were converted into shares of common stock. As of September 24, 2014, we had approximately \$0.4 million of unrecognized compensation cost related to all unvested restricted stock unit awards outstanding, which is expected to be recognized over a weighted average of 0.6 years.

### Note 10. Income Taxes

The provision for income taxes was \$11.5 million and \$10.4 million for the three quarters ended September 24, 2014 and September 25, 2013, respectively. For the 2014 period, the difference in the overall effective rate from the U.S. Statutory rate was primarily due to the generation of employment tax credits and two discrete tax items. State job tax credits of \$0.3 million were claimed during 2014 for current year's hiring activity. State job tax credits of \$0.5 million were also claimed during the 2014 period resulting from the prior year's hiring activity. In addition, share-based compensation adjustments resulted in an out-of-period tax benefit of \$0.5 million. We do not believe the out-of-period adjustment was material to any prior or current year financial statements or on earnings trends.

For the 2013 period, the difference in the overall effective rate from the U.S. Statutory rate was due to state and foreign taxes, employment tax credits, and discrete tax items. The passage of the American Tax Payer Relief Act of

2012 resulted in deferred tax benefits of \$0.3 million related to work opportunity credits generated in 2012, which were allowed retroactively during 2013. In addition, state jobs tax credits of \$0.8 million were claimed during the 2013 period resulting from the prior year's hiring activity. A valuation allowance of \$0.5 million was recorded against certain state jobs tax credits during the 2013 period related to changes in California law enacted during the period.

## Note 11. Net Income Per Share

The amounts used for the basic and diluted net income per share calculation are summarized below:

	Quarter Ended		Three Quarters Ended	
	September 24, 2014	September 25, 2013	September 24, 2014	September 25, 2013
	(In thousands, except for per share amounts)			
Net income	\$8,343	\$7,031	\$23,047	\$20,310
Weighted average shares outstanding - basic	85,061	90,035	86,882	91,348
Effect of dilutive share-based compensation awards	1,922	1,932	1,962	2,029
Weighted average shares outstanding - diluted	86,983	91,967	88,844	93,377
Basic net income per share	\$0.10	\$0.08	\$0.27	\$0.22
Diluted net income per share	\$0.10	\$0.08	\$0.26	\$0.22
Anti-dilutive share-based compensation awards	252	331	549	331

## Note 12. Supplemental Cash Flow Information

	Three Quarters Ended	
	September 24, 2014	September 25, 2013
	(In thousands)	
Income taxes paid, net	\$3,070	\$1,831
Interest paid	\$6,145	\$7,121
Noncash investing and financing activities:		
Issuance of common stock, pursuant to share-based compensation plans	\$1,030	\$1,590
Execution of capital leases	\$2,489	\$4,038
Treasury stock payable	\$108	\$186

## Note 13. Shareholders' Equity

## Share Repurchase

Our credit facility permits the payment of cash dividends and the purchase of Denny's stock subject to certain limitations. In April 2013, we announced that our Board of Directors approved a share repurchase program authorizing us to repurchase up to an additional 10.0 million shares of our common stock (in addition to prior authorizations). Under this program, we may, from time to time, purchase shares in the open market (including pre-arranged stock trading plans in accordance with the guidelines specified in Rule 10b5-1 under the Securities Exchange Act of 1934) or in privately negotiated transactions, subject to market and business conditions. During the three quarters ended September 24, 2014, we repurchased 4.9 million shares of our common stock for approximately \$32.0 million. This brings the total amount repurchased under this program to 5.7 million shares of our common stock for approximately \$37.0 million, leaving 4.3 million shares that can be repurchased as of September 24, 2014. Repurchased shares are included as treasury stock in the Condensed Consolidated Balance Sheets and the Condensed Consolidated Statement of Shareholders' Equity.





## Accumulated Other Comprehensive Loss

The components of the change in accumulated other comprehensive loss were as follows:

	Pensions	Derivatives	Accumulated Other Comprehensive Loss
	(In thousands)		
Balance as of December 25, 2013	\$(18,690	) \$1,848	\$(16,842 )
Amortization of net loss (1)	693	—	693
Net change in fair value of derivatives	—	(1,178	) (1,178 )
Income tax (expense) benefit related to items of other comprehensive income	(271	) 460	189
Balance as of September 24, 2014	\$(18,268	) \$1,130	\$(17,138 )

- (1) Before-tax amount that was reclassified from accumulated other comprehensive loss and included as a component of pension expense within general and administrative expenses in our Condensed Consolidated Statements of Income during the three quarters ended September 24, 2014. See Note 8 for additional details.

## Note 14. Commitments and Contingencies

We have guarantees related to certain franchisee leases and loans. Payments under these guarantees would result from the inability of a franchisee to fund required payments when due. Through September 24, 2014, no events had occurred that caused us to make payments under the guarantees. There were \$10.1 million and \$6.1 million of loans outstanding under these programs as of September 24, 2014 and December 25, 2013, respectively. As of September 24, 2014, the maximum amounts payable under the lease guarantee and loan guarantees were \$2.0 million and \$1.7 million, respectively. As a result of these guarantees, we have recorded liabilities of approximately \$0.1 million as of September 24, 2014 and December 25, 2013, which are included as a component of other noncurrent liabilities and deferred credits in our Condensed Consolidated Balance Sheets and other nonoperating expense in our Condensed Consolidated Statements of Income.

There are various claims and pending legal actions against or indirectly involving us, incidental to and arising out of the ordinary course of the business. In the opinion of management, based upon information currently available, the ultimate liability with respect to these proceedings and claims will not materially affect the Company's consolidated results of operations or financial position.

## Note 15. Subsequent Events

On October 14, 2014, we amended our credit facility to permit the planned termination of the Advantica Pension Plan and to modify certain financial covenants in connection therewith. See Note 8.

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

Forward-Looking Statements

The following discussion is intended to highlight significant changes in our financial position as of September 24, 2014 and results of operations for the quarter and three quarters ended September 24, 2014 compared to the quarter and three quarters ended September 25, 2013, respectively. This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations, which reflect our best judgment based on factors currently known and are intended to speak only as of the date such statements are made, involve risks, uncertainties, and other factors which may cause our actual performance to be materially different from the performance indicated or implied by such statements. Such factors include, among others: competitive pressures from within the restaurant industry; the level of success of our operating initiatives and advertising and promotional efforts; adverse publicity; changes in business strategy or development plans; terms and availability of capital; regional weather conditions; overall changes in the general economy (including with regard to energy costs), particularly at the retail level; political environment (including acts of war and terrorism); and other factors included in the discussion below, or in Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Part I. Item 1A. Risk Factors, contained in our Annual Report on Form 10-K for the year ended December 25, 2013.

Statements of Income

The following table contains information derived from our Condensed Consolidated Statements of Income expressed as a percentage of total operating revenues, except as noted below. Percentages may not add due to rounding.

	Quarter Ended		Three Quarters Ended	
	September 24, 2014	September 25, 2013	September 24, 2014	September 25, 2013
	(Dollars in thousands)			
Revenue:				
Company restaurant sales	\$82,827	70.8 %	\$83,371	71.1 %
			\$243,269	70.8