DENNYS CORP
Form 10-K
February 25, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 26, 2018
¨ 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 0-18051
DENNY'S CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	13-3487402
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
203 East Main Street, Spartanburg, South Carolina	29319-9966
(Address of principal executive offices)	(Zip Code)

(864) 597-8000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
$.01 Par Value, Common Stock	The Nasdaq Stock Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
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 þ No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	o	Non-accelerated filer	o	Smaller reporting company	o	Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was approximately $829.7 million as of June 27, 2018, the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sales price of the registrant's common stock on that date of $16.09 per share and, for purposes of this computation only, the assumption that all of the registrant's directors, executive officers and beneficial owners of 10% or more of the registrant's common stock are affiliates.

As of February 20, 2019, 61,680,873 shares of the registrant's common stock, $.01 par value per share, were outstanding.

Documents incorporated by reference:

Portions of the registrant's definitive Proxy Statement for the 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

The forward-looking statements included in the "Business," "Risk Factors," "Legal Proceedings," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk" sections and elsewhere herein, which reflect our best judgment based on factors currently known, involve risks and uncertainties. Words such as "expect," "anticipate," "believe," "intend," "plan," "hope," and variations of such words similar expressions are intended to identify such forward-looking statements. Such statements speak only as to the date thereof. Except as may be required by law, we expressly disclaim any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Form 10-K or to reflect the occurrence of unanticipated events. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors including, but not limited to, the factors discussed in such sections and, in particular, those set forth in the cautionary statements contained in "Risk Factors." The forward-looking information we have provided in this Form 10-K pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 should be evaluated in the context of these factors.

PART I

Item 1. Business

Description of Business

Denny's Corporation (Denny's), a Delaware corporation, is one of America's largest franchised full-service restaurant chains based on the number of restaurants. Denny's, through its wholly-owned subsidiary, Denny's, Inc., owns and operates the Denny's brand. At December 26, 2018, the Denny's brand consisted of 1,709 franchised, licensed and company operated restaurants around the world with combined sales of $2.9 billion, including 1,578 restaurants in the United States and 131 international locations. As of December 26, 2018, 1,536 of our restaurants were franchised or licensed, representing 90% of the total restaurants, and 173 were company operated.

Denny's is known as America's Diner, or in the case of our international locations, "the local diner." Open 24/7 in most locations, we provide our guests quality food that emphasizes everyday value and new products through our compelling limited time only offerings, delivered in a warm, friendly "come as you are" atmosphere. Denny's has been serving guests for 65 years and is best known for its breakfast fare, which is available around the clock. The Build Your Own Grand Slam, one of our most popular menu items, traces its origin back to the Original Grand Slam which was first introduced in 1977. In addition to our breakfast-all-day items, Denny's offers a wide selection of lunch and dinner items including burgers, sandwiches, salads and skillet entrées, along with an assortment of beverages, appetizers and desserts.

In 2018, Denny's average annual restaurant sales were $2.3 million for company restaurants and $1.6 million for domestic franchised restaurants. At our company restaurants, the guest check average was $10.38 with an approximate average of 4,300 guests served per week. Because our restaurants are open 24 hours, we have four dayparts (breakfast, lunch, dinner and late night), accounting for 26%, 35%, 21% and 18%, respectively, of average daily sales at company restaurants. Due to the launch of Denny's On Demand in May 2017, average off-premise sales across all dayparts grew from 6.6% of total sales in December 2016 to 11.7% of total sales in December 2018. Weekends have traditionally been the most popular time for guests to visit our restaurants. In 2018, 36% of an average week of sales at company restaurants occurred from Friday late night through Sunday lunch.

References to "Denny's," the "Company," "we," "us," and "our" in this Form 10-K are references to Denny's Corporation and subsidiaries. Financial information about our operations, including our revenues and net income for the fiscal years ended
December 26, 2018, December 27, 2017, and December 28, 2016, and our total assets as of December 26, 2018 and December 27, 2017, is included in our Consolidated Financial Statements set forth in Part II, Item 8 of this report.

Restaurant Development

Franchising

Our criteria to become a Denny's franchisee include minimum liquidity and net worth requirements and appropriate operational experience. We believe that Denny's is an attractive financial proposition for current and potential franchisees and that our fee structure is competitive with other full-service brands. Traditional twenty-year Denny's franchise agreements have an initial fee of up to $30,000 and a royalty payment of up to 4.5% of gross sales. Additionally, our franchisees are required to contribute up to 3.25% of gross sales for marketing and may make additional advertising contributions as part of a local marketing co-operative. Franchise agreements for nontraditional locations, such as university campuses, may contain higher royalty and lower advertising contribution rates than the traditional franchise agreements. Our domestic royalty rate averaged approximately 4.17% during 2018.

We work closely with our franchisees to plan and execute many aspects of the business. The Denny's Franchisee Association ("DFA") was created to promote communication among our franchisees and between the Company and our franchise community. DFA board members and Company management primarily work together through Brand Advisory Councils relating to Development, Marketing, Operations and Technology matters, as well as through a Supply Chain Oversight Committee for procurement and distribution matters.

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Site Selection

The success of any restaurant is significantly influenced by its location. Our development team works closely with franchisees and real estate brokers to identify sites which meet specific standards. Sites are evaluated on the basis of a variety of factors, including but not limited to:

- demographics;
- traffic patterns;
- visibility;
- building constraints;
- competition;
- environmental restrictions; and
- proximity to high-traffic consumer activities.

Domestic Development

To accelerate the growth of the brand in specific under-penetrated markets, we offer certain incentive programs. These programs provide significant incentives for franchisees to develop locations in areas where Denny's does not have the top market share. The benefits to franchisees include reduced franchise fees, lower royalties for a limited time period and credits towards certain development services, such as training fees.

In addition to these incentive programs, we plan to increase our domestic development pipeline by approximately 40 to 70 restaurants through our recently announced refranchising and development strategy. These commitments will be attached to the sale of between 90 and 125 company operated restaurants which we expect to complete over the next 12 to 15 months. While we anticipate the majority of the restaurants to be opened under these agreements, generally as scheduled, from time to time some of our franchisees' ability to grow and meet their development commitments may be hampered by the economy, the lending environment or other circumstances.

International Development

In addition to the development agreements signed for domestic restaurants, as of December 26, 2018, we had the potential to develop over 85 international franchised restaurants with our current development partners in various countries including Aruba, Canada, Central America, Mexico, the Philippines and the United Kingdom. These development commitments include our recently announced enhanced development agreements with Canada and the Philippines. The majority of these restaurants are expected to open over the next ten years. During 2018, we opened nine international franchised locations, including three in Canada, two in the Philippines and one each in Honduras, Mexico, Puerto Rico and the United Kingdom.

During 2019, we expect to open a total of 35 to 45 restaurants in domestic and international markets, resulting in approximately flat net restaurant growth.

Franchise Focused Business Model

Through our development and refranchising efforts we have achieved a restaurant portfolio mix of 90% franchised and 10% company operated. The majority of our future restaurant openings and growth of the brand will come primarily from the development of franchised restaurants. The following table summarizes the changes in the number of company restaurants and franchised and licensed restaurants during the past five years (excluding relocations):

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	2018	2017	2016	2015	2014
Company restaurants, beginning of period	178	169	164	161	163
Units opened	1	3	1	3	1
Units acquired from franchisees	6	10	10	3	—
Units sold to franchisees	(8)	(4)	(6)	(1)	—
Units closed	(4)	—	—	(2)	(3)
End of period	173	178	169	164	161
Franchised and licensed restaurants, beginning of period	1,557	1,564	1,546	1,541	1,537
Units opened	29	36	49	42	37
Units purchased from Company	8	4	6	1	—
Units acquired by Company	(6)	(10)	(10)	(3)	—
Units closed	(52)	(37)	(27)	(35)	(33)
End of period	1,536	1,557	1,564	1,546	1,541
Total restaurants, end of period	1,709	1,735	1,733	1,710	1,702

The table below sets forth information regarding the distribution of single-store and multi-store franchisees as of December 26, 2018:

Number of Restaurants Owned	Franchisees	Percentage of Franchisees	Restaurants	Percentage of Restaurants
One	84	34.1 %	84	5.5 %
Two to five	92	37.4 %	255	16.6 %
Six to ten	35	14.2 %	268	17.4 %
Eleven to fifteen	12	4.9 %	149	9.7 %
Sixteen to thirty	13	5.3 %	277	18.0 %
Thirty-one and over	10	4.1 %	503	32.8 %
Total	246	100.0 %	1,536	100.0 %

Restaurant Operations

We believe that the consistent and reliable execution of basic restaurant operations in each Denny’s restaurant, whether it is company or franchised, is critical to our success. To meet and exceed our guests’ expectations, we require both our company and our franchised restaurants to maintain the same strict brand standards. These standards relate to the preparation and efficient serving of quality food and the maintenance, repair and cleanliness of each restaurant.

We devote significant effort to ensuring all restaurants offer quality food served by friendly, knowledgeable and attentive employees in a clean and well-maintained restaurant. We seek to ensure that our company restaurants meet our high standards through a network of Directors of Company Operations, Company District Managers and restaurant level managers, all of whom spend the majority of their time in the restaurants. A network of Regional Directors of Franchise Operations and Franchise Business Coaches provide oversight of our franchised restaurants to ensure compliance with brand standards, promote operational excellence and provide general support to our franchisees.

A principal feature of our restaurant operations is the consistent focus on improving operations at the restaurant level. Our Pride Review Program, executed by the Franchise Business Coaches and District Managers, is designed to continuously improve the execution of our brand standards and shift management at each company and franchised restaurant. In addition, Denny’s maintains training programs for hourly employees and restaurant management. Hourly employee training programs (including online learning) are position-specific and focus on skills and tasks necessary to successfully fulfill the responsibilities assigned to them, while continually enhancing guest satisfaction. Denny’s Manager In Training (“MIT”) program provides managers with the knowledge and leadership skills needed to successfully operate a Denny’s restaurant. The MIT program is required for all new managers of company restaurants and is also available to Denny’s franchisees to train their managers.

Product Development and Marketing

Menu Offerings

The Denny's menu offers a large selection of high-quality, reasonably priced products designed to appeal to all types of guests. We offer a wide variety of entrées for breakfast, lunch, dinner and late night dining, in addition to appetizers, desserts and beverages. Most Denny's restaurants offer special items for children and seniors at reduced prices. Our "America's Diner" brand positioning, which provides the promise of Everyday Value with craveable, indulgent products served in a friendly and welcoming atmosphere, establishes the framework for our primary marketing strategies. These strategies focus on optimizing our product offering to further align with consumer needs, which includes enhancing our core "breakfast all day" platform while providing everyday affordability, primarily through our $2 $4 $6 $8 Value Menu® and delivering compelling core menu and limited-time-only products.

Product Development

Denny's is a consumer-driven brand focusing on hospitality, menu choices and the overall guest experience. Our Product Development team works closely with consumer insights obtained through primary and secondary qualitative and quantitative studies. Input and ideas from our franchisees, vendors and operators are also integrated into this process. These insights form the strategic foundation for menu architecture, pricing, promotion and advertising. Before a new menu item can be brought to market, it is rigorously tested against consumer expectations, standards of culinary discipline, food science and technology, nutritional analysis, financial benefit and operational execution. This testing process ensures that new menu items are not only appealing, competitive, profitable and marketable, but can be prepared and delivered with excellence in our restaurants.

The added value of these insights and strategic understandings also assists our Restaurant Operations and Information Technology staff in the evaluation and development of new restaurant processes and upgraded restaurant equipment that may enhance our speed of service, food quality and order accuracy.

We continually evolve our menu through new additions, deletions or improvements to meet the needs of a changing consumer and market place.

Product Sources and Availability

Our Purchasing department administers programs for the procurement of food and non-food products. Our franchisees also purchase food and non-food products directly from our vendors under these programs. Our centralized purchasing program is designed to ensure uniform product quality as well as to minimize food, beverage and supply costs. The size of our brand provides significant purchasing power, which often enables us to obtain products at favorable prices from nationally recognized suppliers.

While our Purchasing department negotiates contracts for nearly all products used in our restaurants, the majority of such products are purchased and distributed through McLane Company, Inc. ("McLane") under a long-term distribution contract. McLane distributes restaurant products and supplies to the Denny's system from approximately 200 vendors, representing approximately 90% of our restaurant product and supply purchases. We believe that satisfactory alternative sources of supplies are generally available for all of the items regularly used by our restaurants. We have not experienced any material shortages of food, equipment, or other products which are necessary to our restaurant operations.

Marketing and Advertising

Our Marketing team employs integrated marketing and advertising strategies that promote the Denny’s brand. Brand and communications strategy, advertising, brand engagement, broadcast media, social media, digital media, menu management, product innovation and development, consumer insights, multicultural marketing, public relations, reputation management, customer relationship management, field marketing and national/local promotions and partnerships all fall under the marketing umbrella.

We focus our marketing campaigns on amplifying Denny’s brand strengths as America’s Diner, promoting the various breakfast, lunch, dinner and late night menu offerings in addition to both value and premium limited time only offerings, and promoting the convenience of online ordering and payment for pick-up or delivery. Denny’s deploys comprehensive marketing strategies on a national level and through local co-operatives, targeting customers through network, cable and local television, radio, online, digital, social, outdoor and print media.

Information Technology

The mission of our Information Technology department is to align our technology strategy in support of our business strategies. We focus on leveraging technology to drive efficiencies, simplify and standardize operations, and streamline the guest experience. We also deliver solutions that support financial and regulatory needs in addition to necessary business improvements.

We rely on information technology systems in all aspects of our operations. At the restaurant level, systems include point-of-sale platforms along with systems and tools for kitchen operations, labor scheduling, inventory management, cash management and credit card transaction processing. Our technology platform includes industry-standard market solutions as well as proprietary software and integration yielding tools and information managers need to run efficient and effective restaurants. We invest in new technologies and R&D efforts to improve operations and enhance the guest experience through innovative solutions like online ordering and payment for pick-up and delivery.

At the corporate level, we have a robust Enterprise Resource Planning (ERP) platform that supports finance, accounting, human resources and payroll functions. Our ERP is a cloud-based market solution, enabling us to take advantage of continual software improvements aligned with industry best practices. We also have systems that consolidate and report on data from our franchised and company restaurants, including transaction-level detail. In 2018, we continued to invest in technology to improve reporting and analytics as well as to optimize business processes. These systems are collectively supported by an enterprise network that facilitates seamless connectivity for applications and data throughout our business infrastructure.

Our information technology systems have been designed to protect against unauthorized access and data loss. We are continuously focused on enhancing our cybersecurity capabilities. We are required to maintain the highest level of Payment Card Industry (PCI) Data Security Standard (DSS) compliance and protect critical and sensitive data for our employees, customers, and the Company. These standards are set by a consortium of major credit card companies and require certain levels of system security and procedures to protect our customers' credit card and other personal information. We have deployed payment technologies that are EMV (Europay, Mastercard, Visa) certified, and we employ point-to-point encryption to ensure no credit card data is stored within our restaurants. Further, we monitor franchisees' compliance with PCI standards.

See "Risk Factors" for further information regarding Information Technology.

Brand Protection, Quality & Regulatory Compliance

Denny's will only serve our guests food that is safe, wholesome and meets our quality standards. Our systems, from "farm to fork," are based on Hazard Analysis and Critical Control Points ("HACCP"), whereby we prevent, eliminate or reduce hazards to a safe level to protect the health of our employees and guests. To ensure this basic expectation of our guests, Denny's also has risk-based systems in place to validate only approved vendors and distributors which meet and follow our product specifications and food handling procedures. Vendors, distributors and restaurant employees follow regulatory requirements (federal, state and local), industry "best practices" and Denny's Brand Standards.

The Current Good Manufacturing Practice, Hazard Analysis, and Risk-based Preventive Controls for Human Food regulation (referred to as the Preventive Controls for Human Food Regulation) is intended to ensure safe manufacturing/processing, packing and holding of food products for human consumption in the United States. The regulation requires that certain activities must be completed by a "preventive controls qualified individual" who has "successfully completed training in the development and application of risk-based preventive controls." Our Chief Food Safety Officer and our Food Safety and Quality Assurance teams have all been certified.

We use multiple approaches to ensure food safety and quality generally including quarterly third-party unannounced restaurant inspections (utilizing Denny's Brand Protection Reviews), health department reviews, guest complaints and employee/manager training in their respective roles. It is a brand standard that all regulatory reviews/inspections be submitted to the Brand Protection, Quality & Regulatory Compliance department within 24 hours. We follow-up on all inspections received and assist operations personnel, facilities personnel and franchisees, where applicable, to bring resolution to regulatory issues or concerns. If operational brand standard expectations are not met, a remediation process is immediately initiated. Our Food Safety/HACCP program uses nationally recognized food safety training courses and American National Standards Institute accredited certification programs.

All Denny's restaurants are required to have a person certified in food protection on duty for all hours of operation. Our Food Safety/HACCP program has been recognized nationally by regulatory departments, the restaurant industry and our peers. We continuously work toward improving our processes and procedures. We are advocates for the advancement of food safety within the industry's organizations, such as the National Council of Chain Restaurants ("NCCR"), NCCR Food Safety Task Force, the National Restaurant Association ("NRA") (member of the Steering Committee for the October 2018 - October 2020 term) and the NRA's Quality Assurance Executive Study Group.

Seasonality

Restaurant sales are generally higher in the second and third calendar quarters (April through September) than in the first and fourth calendar quarters (October through March). Additionally, severe weather, storms and similar conditions may impact sales volumes seasonally in some operating regions.

Trademarks and Service Marks

Through our wholly-owned subsidiaries, we have certain trademarks and service marks registered with the United States Patent and Trademark Office and in international jurisdictions, including "Denny's®," "Grand Slam®," and "$2 $4 $6 $8 Value Menu®." We consider our trademarks and service marks important to the identification of our restaurants and believe they are of material importance to the conduct of our business. In addition, we have registered various domain names on the internet that incorporate certain of our trademarks and service marks. We believe these domain name registrations are an integral part of our identity. From time to time, we may resort to legal measures to defend and protect the use of our intellectual property. Generally, with appropriate renewal and use, the registration of our service marks and trademarks will continue indefinitely.

Competition

The restaurant industry is highly competitive. Restaurants compete on the basis of name recognition and advertising; the price, quality, variety and perceived value of their food offerings; the quality and speed of their guest service; the location and attractiveness of their facilities; and the convenience of to-go ordering and delivery options.

Denny's direct competition in the full-service category includes a collection of national and regional chains, as well as thousands of independent operators. We also compete with quick service restaurants as they attempt to upgrade their menus with premium sandwiches, entrée salads, new breakfast offerings and extended hours.

We believe that Denny's has a number of competitive strengths, including strong brand recognition, well-located restaurants and market penetration. We benefit from economies of scale in a variety of areas, including advertising, purchasing and distribution. Additionally, we believe that Denny's has competitive strengths in the value, variety and quality of our food products, and in the quality and training of our employees. See "Risk Factors" for additional factors relating to our competition in the restaurant industry.

Economic, Market and Other Conditions

The restaurant industry is affected by many factors, including changes in national, regional and local economic conditions affecting consumer spending; the political environment (including acts of war and terrorism); changes in customer travel patterns including changes in the price of gasoline; changes in socio-demographic characteristics of areas where restaurants are located; changes in consumer tastes and preferences; food safety and health concerns; outbreaks of flu viruses (such as avian flu) or other diseases; increases in the number of restaurants; and unfavorable trends affecting restaurant operations, such as rising wage rates, health care costs, utilities expenses and unfavorable weather. See "Risk Factors" for additional information.

Government Regulations

We and our franchisees are subject to local, state, federal and international laws and regulations governing various aspects of the restaurant business, such as compliance with various minimum wage, overtime, health care, food safety, citizenship, and fair labor standards. We are subject to a variety of federal, state, and international laws governing franchise sales and the franchise relationship.

We believe we are in material compliance with applicable laws and regulations, but we cannot predict the effect on operations of the enactment of additional regulations in the future.

See "Risk Factors" for a discussion of risks related to governmental regulation of our business.

Executive Officers of the Registrant

The following table sets forth information with respect to each executive officer of both Denny's Corporation and Denny's Inc.:

Name	Age	Positions
Christopher D. Bode	56	Senior Vice President and Chief Operating Officer
John W. Dillon	47	Senior Vice President and Chief Brand Officer
Stephen C. Dunn	54	Senior Vice President and Chief Global Development Officer
Timothy E. Flemming	58	Senior Vice President, General Counsel and Chief Legal Officer
Michael L. Furlow	61	Senior Vice President and Chief Information Officer
John C. Miller	63	Chief Executive Officer and President
Jill A. Van Pelt	50	Senior Vice President and Chief People Officer
Robert P. Verostek	47	Senior Vice President, Finance
F. Mark Wolfinger	63	Executive Vice President, Chief Administrative Officer and Chief Financial Officer

Mr. Bode has been Senior Vice President and Chief Operating Officer since October 2014. He previously served as Senior Vice President, Operations from January 2013 to October 2014, as Divisional Vice President, Franchise Operations from January 2012 to January 2013 and as Vice President, Operations Initiatives from March 2011 to January 2012.

Mr. Dillon has been Senior Vice President and Chief Brand Officer since December 2018. He previously served as Senior Vice President and Chief Marketing Officer from October 2014 to December 2018, as Vice President, Brand and Field Marketing from June 2013 to October 2014 and as Vice President, Marketing from July 2008 to June 2013.

Mr. Dunn has been Senior Vice President and Chief Global Development Officer since July 2015. He previously served as Senior Vice President, Global Development from April 2011 to July 2015 and Vice President, Company and Franchise Development from September 2005 to April 2011.

Mr. Flemming has been Senior Vice President, General Counsel and Chief Legal Officer since March 2009. He previously served as Vice President, General Counsel and Chief Legal Officer from June 2008 to March 2009.

Mr. Furlow has been Senior Vice President and Chief Information Officer since April 2017. Prior to joining the Company, he served as Chief Information Officer and Senior Vice President of IT at Red Robin Gourmet Burgers, Inc. from October 2015 to April 2017 and Chief Information Officer and Senior Vice President of IT of CEC Entertainment, Inc. (an operator and franchisor of Chuck E. Cheese's and Peter Piper Pizza) from May 2011 to February 2015.

Mr. Miller has been Chief Executive Officer and President since February 2011. Prior to joining the Company, he served as Chief Executive Officer and President of Taco Bueno Restaurants, Inc. (an operator and franchisor of quick service Mexican eateries) from 2005 to February 2011.

Ms. Van Pelt has been Senior Vice President and Chief People Officer since October 2014. She previously served as Vice President, Human Resources from October 2008 to October 2014.

Mr. Verostek has been Senior Vice President, Finance since October 2016. He previously served as Vice President, Financial Planning & Analysis and Investor Relations from January 2012 to October 2016.

Mr. Wolfinger has been Executive Vice President and Chief Administrative Officer since April 2008 and Chief Financial Officer since September 2005. He previously served as Executive Vice President, Growth Initiatives from October 2006 to April 2008.

Employees

At December 26, 2018, we had approximately 9,000 employees, of whom approximately 8,600 were restaurant employees, approximately 100 were field support employees and approximately 300 were corporate personnel. None of our employees are subject to collective bargaining agreements. Many of our restaurant employees work part-time, and all are paid at or above minimum wage levels. As is characteristic of the restaurant industry, we experience a high level of turnover among our restaurant employees. We have experienced no significant work stoppages, and we consider relations with our employees to be satisfactory.

The staff for a typical restaurant consists of one General Manager, two or three Restaurant Managers and approximately 45 hourly employees. The Chief Operating Officer, along with the VP of Franchise Operations, the Sr. Director of Franchise Operations, the VP of Training, the VP of Operations Services and the Sr. Director of Company Operations, establish the strategic direction and key initiatives for the Operations Teams. In addition, we employ two Directors of Company Operations, four Regional Directors of Franchise Operations and a team of Company District Managers and Franchise Business Coaches to guide and support the franchisees and in-restaurant teams. The duties of the Directors of Operations, District Managers and Franchise Business Coaches include regular restaurant visits and inspections, as well as frequent interactions with our franchisees, employees and guests, which ensure the ongoing adherence to our standards of quality, service, cleanliness, value and hospitality.

Available Information

We make available free of charge through our website at investor.dennys.com (in the SEC Filings section) copies of materials that we file with, or furnish to, the Securities and Exchange Commission (“SEC”), including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC. The SEC also maintains an internet website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. In addition, we have made available on our website (in the Corporate Governance - Code of Conduct section) our code of ethics entitled “Denny’s Code of Conduct” which is applicable to the Company’s Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and Corporate Controller, all other executive officers and key financial and accounting personnel as well as each salaried employee of the Company.

We will post on our website any amendments to, or waivers from, a provision of the Denny’s Code of Conduct that applies to the Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and Corporate Controller or persons performing similar functions, and that relates to (i) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; (ii) full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the SEC and in other public communications made by us; (iii) compliance with applicable governmental laws, rules and regulations; (iv) the prompt internal reporting of violations of Denny’s Code of Conduct to an appropriate person or persons identified in the code; or (v) accountability to adherence to the code.

Item 1A. Risk Factors

Various risks and uncertainties could affect our business. Any of the risk factors described below or elsewhere in this report or our other filings with the SEC could have a material and adverse impact on our business, financial condition and results of operations. In any such event, the trading price of our common stock could decline. It is not possible to predict or identify all risk factors. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations.

A decline in general economic conditions could adversely affect our financial results.

Consumer spending habits, including discretionary spending on dining at restaurants such as ours, are affected by many factors including:

- prevailing economic conditions, including interest rates;
- energy costs, especially gasoline prices;
- levels of employment;
- salaries and wage rates, including tax rates; and
- consumer confidence.

Weakness or uncertainty regarding the United States economy, as a result of reactions to consumer credit availability, increasing energy prices, inflation, increasing interest rates, unemployment, war, terrorist activity or other unforeseen events could adversely affect consumer spending habits, which may result in lower restaurant sales.

The restaurant business is highly competitive, and if we are unable to compete effectively, our business will be adversely affected.

Each of our restaurants competes with a wide variety of restaurants ranging from national and regional restaurant chains to locally owned restaurants. The following are important aspects of competition:

- restaurant location;
- advantageous commercial real estate suitable for restaurants;
- number and location of competing restaurants;
- attractiveness and repair and maintenance of facilities;
- ability to develop and support evolving technology to deliver a consistent and compelling guest experience;
- food quality, new product development and value;
- dietary trends, including nutritional content;
- training, courtesy and hospitality standards;
- ability to attract and retain high quality staff;
- quality and speed of service; and
- the effectiveness of marketing and advertising programs, including the effective use of social media platforms and digital marketing initiatives

The returns and profitability of our restaurants may be negatively impacted by a number of factors, including those described below.

Food service businesses and the performance of our individual restaurants may be materially and adversely affected by factors such as:

- consumer preferences, including nutritional and dietary concerns;
- consumer spending habits;
- global, national, regional and local economic conditions;
- demographic trends;
- traffic patterns;
- the type, number and location of competing restaurants; and
- the ability to renew leased properties on commercially acceptable terms, if at all.

Dependence on frequent deliveries of fresh produce and other food products subjects food service businesses to the risk that shortages or interruptions in supply caused by adverse weather, food safety warnings, animal disease outbreak or other conditions beyond our control could adversely affect the availability, quality and cost of ingredients. Our inability to effectively manage supply chain risk could increase our costs and limit the availability of products critical to our restaurant operations.

In addition, the food service industry in general, and our results of operations and financial condition in particular, may be adversely affected by unfavorable trends or developments such as:

- inflation;
- volatility in certain commodity markets;
- increased food costs;

- health concerns arising from food safety issues and other food-related pandemics, outbreaks of flu viruses, such as avian flu, or other diseases;
- increased energy costs;
- labor and employee benefits costs (including increases in minimum hourly wage, employment tax rates, health care costs and workers' compensation costs);
- regional weather conditions; and
- the availability of experienced management and hourly employees.

Operating results that are lower than our current estimates may cause us to incur impairment charges on certain long-lived assets and potentially close certain restaurants.

The financial performance of our franchisees can negatively impact our business.

As we are heavily franchised, our financial results are contingent upon the operational and financial success of our franchisees. We receive royalties, advertising contributions and, in some cases, lease payments from our franchisees. While our franchise agreements are designed to require our franchisees to maintain brand consistency, the significant percentage of franchise-operated restaurants may expose us to risks not otherwise encountered if we maintained ownership and control of the restaurants. If our franchisees do not successfully operate their restaurants in a manner consistent with our standards, or if customers have negative experiences due to issues with food quality or operational execution at our franchised locations, our brand could be harmed, which in turn could negatively impact our business. Additional risks include franchisee defaults on their obligations to us arising from financial or other difficulties encountered by them, such as the inability to pay financial obligations including royalties, rent on leases on which we retain contingent liability, and certain loans on which we have guarantees; limitations on enforcement of franchise obligations due to bankruptcy or insolvency proceedings; the inability to participate in business strategy changes due to financial constraints; and failure to operate restaurants in accordance with required standards, including food quality and safety. If a significant number of franchisees become financially distressed, it could harm our operating results. For 2018, our ten largest franchisees accounted for 30% of our franchise revenue. The balance of our franchise revenue is derived from the remaining 236 franchisees.

Our growth strategy depends on our ability and that of our franchisees to open new restaurants. Delays or failures in opening new restaurants could adversely affect our planned growth and operating results.

The development of new restaurants may be adversely affected by risks such as:

- inability to identify suitable franchisees;
- costs and availability of capital for the Company and/or franchisees;
- competition for restaurant sites;
- negotiation of favorable purchase or lease terms for restaurant sites;
- inability to obtain all required governmental approvals and permits;
- delays in completion of construction;
- challenge of identifying, recruiting and training qualified restaurant managers;
- developed restaurants not achieving the expected revenue or cash flow once opened;
- challenges specific to the growth of international operations that are different from domestic development; and
- general economic conditions.

Our recently announced refranchising and development strategy could impact the comparability of our financial results and will be contingent upon factors including the following:

- franchisee interest in acquiring company operated restaurants and access to capital;

- identification and qualification of potential new franchisees;
- our ability to successfully negotiate acceptable restaurant transaction prices;
- number and timing of restaurants sold to franchisees;
- historical financial performance of restaurants sold to franchisees, as well as those that will remain company operated restaurants; and
- our ability to rationalize certain business costs, including the nature, timing and extent thereof.

The locations where we have restaurants may cease to be attractive as demographic patterns change.

The success of our owned and franchised restaurants is significantly influenced by location. Current locations may not continue to be attractive as demographic patterns change. It is possible that the neighborhood or economic conditions where our restaurants are located could decline in the future, potentially resulting in reduced sales at those locations.

Our expansion into international markets may present increased risks due to lower customer awareness of our brand, our unfamiliarity with those markets and other factors.

The international markets in which our franchisees currently operate, and any additional markets our franchisees may enter outside of the United States, have many differences compared to our domestic markets. There may be lower consumer familiarity with the Denny's brand in these markets, as well as different competitive conditions, consumer tastes and economic, political and health conditions. Additionally, there are risks associated with sourcing quality ingredients and other commodities in a cost-effective and timely manner. As a result, our franchised international restaurants may take longer to reach expected sales and profit levels, or may never do so, thereby affecting the brand's overall growth and profitability. Building brand awareness may take longer than expected, which could negatively impact our profitability in those markets.
We are subject to governmental regulations in our international markets impacting the way we do business with our international franchisees. These include antitrust and tax requirements, anti-boycott regulations, import/export/customs and other international trade regulations, the USA Patriot Act and the Foreign Corrupt Practices Act. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could adversely impact our results of operations and financial condition.

Failure of computer systems, information technology, or the ability to provide a continuously secure network, could result in material harm to our reputation and business.

We and our franchisees rely heavily on computer systems and information technology to conduct our business and operate efficiently. We have instituted monitoring controls intended to protect our computer systems, our point-of-sale systems and our information technology platforms and networks against external threats. Those controls include an annual proactive risk assessment, advanced comprehensive analysis of data threats, identification of business email compromise and proper security awareness education. The Audit & Finance Committee of our Board of Directors has oversight responsibility related to our cybersecurity risk management programs and periodically reviews reports on cybersecurity metrics, data privacy and other information technology risks.

We receive and maintain certain personal information about our guests, employees and franchisees. Our use of this information is subject to federal and state regulations, as well as conditions included in certain third-party contracts. If our cybersecurity is compromised and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation, operations, results of operations and financial condition, and could result in litigation against us or the imposition of penalties. As privacy and information security laws and regulations change or cyber risks evolve, we may incur additional costs to ensure we remain compliant.

A material system failure or interruption, a breach in the security of our information technology systems caused by a cyber attack, or other failure to maintain a secure cyber network could result in reduced efficiency in our operations, loss or misappropriation of data, business interruptions, or could impact delivery of food to restaurants or financial functions such as vendor payment or employee payroll. We have disaster recovery and business continuity plans that are designed to anticipate and mitigate such failures, but it is possible that significant capital investment could be required to rectify these problems, or more likely that cash flows could be impacted, in the shorter term.

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Numerous government regulations impact our business, and our failure to comply with them could adversely affect our business.

We and our franchisees are subject to federal, state and local laws and regulations governing, among other things:

- preparation, labeling, advertising and sale of food;
- sanitation;
- health and fire safety;
- land use, sign restrictions and environmental matters;
- employee health care requirements, including the implementation and uncertain legal, regulatory and cost implications of the health care reform law;
- management and protection of the personnel data of our guests, employees and franchisees;
- payment card regulation and related industry rules;
- the sale of alcoholic beverages;
- hiring and employment practices, including minimum wage and tip credit laws and fair labor standards; and
- Americans with Disabilities Act.

A substantial number of our employees are paid the minimum wage. Accordingly, increases in the minimum wage or decreases in the allowable tip credit (which reduces wages deemed to be paid to tipped employees in certain states) increase our labor costs. We have attempted to offset increases in the minimum wage through pricing and various cost control efforts, however, there can be no assurance that we will be successful in these efforts in the future.

The operation of our franchisee system is also subject to regulations enacted by a number of states and rules promulgated by the Federal Trade Commission. Due to our international franchising, we are subject to governmental regulations throughout the world impacting the way we do business with our international franchisees. These include antitrust and tax requirements, anti-boycott regulations, import/export/customs and other international trade regulations, the USA Patriot Act and the Foreign Corrupt Practices Act. Additionally, given our significant concentration of restaurants in California, changes in regulations in that state could have a disproportionate impact on our operations. If we or our franchisees fail to comply with these laws and regulations, we or our franchisees could be subjected to restaurant closure, fines, penalties and litigation, which may be costly and could adversely affect our results of operations and financial condition. In addition, the future enactment of additional legislation regulating the franchise relationship could adversely affect our operations.

We have implemented various aspects of The Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act. However, the law or other related requirements may change. Additionally, the health care reform laws require restaurant companies such as ours to disclose calorie information on their menus effective May 4, 2018. We early adopted this requirement during 2015 and did not incur any material costs from compliance with this provision of the law.

We are also subject to federal, state and international laws regulating the offer and sale of franchises. Such laws impose registration and disclosure requirements on franchisors in the offer and sale of franchises, and may contain provisions that supersede the terms of franchise agreements, including limitations on the ability of franchisors to terminate franchises and alter franchise arrangements.

We are subject to federal, state and local environmental laws and regulations, but these rules have not historically had a material impact on our operations. However, we cannot predict the effect of possible future environmental legislation or regulations on our operations.

Litigation may adversely affect our business, financial condition and results of operations.

We are subject to the risk of, or are involved in from time to time, complaints or litigation brought by former, current or prospective employees, customers, franchisees, vendors, landlords, shareholders or others. We assess contingencies to determine the degree of probability and range of possible loss for potential accrual in our financial statements. An estimated loss contingency is accrued if it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Because lawsuits are inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. We regularly review contingencies to determine the adequacy of the accruals and related disclosures. However, the amount of ultimate loss may differ from these estimates. A judgment that is not covered by insurance or that is significantly in excess of our insurance coverage for any claims could materially adversely affect our financial condition or results of operations. In addition, regardless of whether any claims against us are valid or whether we are found to be liable, claims may be expensive to defend, and may divert management's attention away from operations and hurt our performance. Further, adverse publicity resulting from claims may harm our business or that of our franchisees.

Food safety and quality concerns may negatively impact our business and profitability.

Incidents or reports of food- or water-borne illness, or other food safety issues, food contamination or tampering, employee hygiene and cleanliness failures, improper employee conduct, or presence of communicable disease at our restaurants or suppliers could lead to product liability or other claims. Such incidents or reports could negatively affect our brand and reputation, and a decrease in customer traffic resulting from these reports could negatively impact our revenues and profits. Similar incidents or reports occurring at other restaurant brands unrelated to us could likewise create negative publicity, which could negatively impact consumer behavior towards us. In addition, if a regional or global health pandemic occurs, depending upon its location, duration and severity, our business could be severely affected.

We rely on our domestic and international vendors, as do our franchisees, to provide quality ingredients and to comply with applicable laws and industry standards. A failure of one of our domestic or international vendors to meet our quality standards, or meet domestic or international food industry standards, could result in a disruption in our supply chain and negatively impact our brand and our business and profitability. Our inability to manage an event such as a product recall or product related litigation could also cause our results to suffer.

Unfavorable publicity, or a failure to respond effectively to adverse publicity, could harm our brand's reputation.

Multi-unit food service businesses such as ours can be materially and adversely affected by widespread negative publicity of any type, including food safety, outbreak of flu viruses (such as avian flu) or other health concerns, criminal activity, guest discrimination, harassment, employee relations or other operating issues. The increasing use of social media platforms has increased the speed and scope of unfavorable publicity and could hinder our ability to quickly and effectively respond to such reports. Regardless of whether the allegations or complaints are accurate or valid, negative publicity relating to a particular restaurant or a limited number of restaurants could adversely affect public perception of the entire brand.

If we fail to recruit, develop and retain talented employees, our business could suffer.

Our future success significantly depends on the continued services and performance of our key management personnel. Our future performance will depend on our ability to attract, motivate and retain these and other key officers and key team members, particularly regional and area managers and restaurant general managers. Competition for these employees is intense.

If our internal controls are ineffective, we may not be able to accurately report our financial results or prevent fraud.

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. We maintain a documented system of internal controls which is reviewed and tested by the Company’s full time Internal Audit department. The Internal Audit department reports directly to the Audit and Finance Committee of the Board of Directors. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. A significant financial reporting failure or material weakness in internal control over financial reporting could cause a loss of investor confidence and decline in the market price of our common stock.

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

Many factors, including those over which we have no control, affect the trading price of our common stock.

Factors such as reports on the economy or the price of commodities, as well as negative or positive announcements by competitors, regardless of whether the report directly relates to our business, could have an impact on the trading price of our common stock. In addition to investor expectations about our prospects, trading activity in our common stock can reflect the portfolio strategies and investment allocation changes of institutional holders, as well as non-operating initiatives such as our share repurchase programs. Any failure to meet market expectations whether for same-store sales, restaurant unit growth, earnings per share or other metrics could cause our share price to decline.

Changes in the method used to determine LIBOR rates and the potential phasing out of LIBOR after 2021 may affect our financial results.

Borrowings under our credit facility bear interest at variable rates based on LIBOR. In addition, we have interest rate swaps designated as cash flow hedges of our exposure to variability in future cash flows attributable to payments of LIBOR due on forecasted notional debt obligations. LIBOR and certain other interest “benchmarks” may be subject to regulatory guidance and/or reform that could cause interest rates under our current or future debt agreements and interest rate swaps to perform differently than in the past or cause other unanticipated consequences. The United Kingdom’s Financial Conduct Authority, which regulates LIBOR, has announced that it intends to stop encouraging or requiring banks to submit rates for the calculation of LIBOR rates after 2021, and it is unclear if LIBOR will cease to exist or if new methods of calculating LIBOR will evolve. If LIBOR ceases to exist or if the methods of calculating LIBOR change from their current form, interest rates on our current or future debt obligations and interest rate swaps may be adversely affected.

Our indebtedness could have an adverse effect on our financial condition and operations.

As of December 26, 2018, we had total indebtedness of $317.1 million, including capital leases. Although we believe that our existing cash balances, funds from operations and amounts available under our credit facility will be adequate to cover our cash flow and liquidity needs, we could seek additional sources of funds, including incurring additional debt, to maintain sufficient cash flow to fund our ongoing operating needs, pay interest and scheduled debt amortization and fund anticipated capital expenditures. We have no material debt maturities scheduled until October 2022. The credit agreement governing most of our indebtedness contains various covenants that could have an adverse effect on our business by limiting our ability to take advantage of financing, merger, acquisition or other corporate opportunities and to fund our operations. Though we currently participate in a share repurchase program, it is subject to restrictions under our credit agreement and there can be no assurance that we will repurchase our common stock pursuant to the program. If we incur additional debt in the future, covenant limitations on our activities and risks associated with such increased debt levels generally could increase. If we are unable to satisfy or refinance our current debt as it comes due, we may default on our debt obligations and lenders could elect to declare all amounts outstanding to be immediately due and payable and terminate all commitments to extend further credit. For additional information concerning our indebtedness see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.”

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Most Denny's restaurants are free-standing facilities with property sizes averaging approximately one acre. The restaurant buildings average between 3,800 - 5,000 square feet, allowing them to accommodate an average of 110-170 guests. The number and location of our restaurants as of December 26, 2018 are presented below:

United States	Company	Franchised / Licensed	Total
Alabama	—	6	6
Alaska	—	2	2
Arizona	10	74	84
Arkansas	—	8	8
California	61	330	391
Colorado	—	19	19
Connecticut	—	11	11
Delaware	—	1	1
District of Columbia	—	2	2
Florida	19	112	131
Georgia	1	19	20
Hawaii	2	4	6
Idaho	—	10	10
Illinois	7	51	58
Indiana	—	36	36
Iowa	—	3	3
Kansas	—	8	8
Kentucky	1	14	15
Louisiana	1	4	5
Maine	—	5	5
Maryland	4	21	25
Massachusetts	2	4	6
Michigan	4	16	20
Minnesota	—	19	19
Mississippi	—	4	4
Missouri	4	34	38
Montana	—	4	4
Nebraska	—	3	3
Nevada	7	29	36
New Hampshire	2	—	2
New Jersey	—	8	8
New Mexico	—	29	29
New York	1	53	54
North Carolina	—	30	30
North Dakota	—	4	4
Ohio	4	37	41
Oklahoma	—	14	14
Oregon	—	23	23
Pennsylvania	13	26	39
Rhode Island	—	5	5
South Carolina	3	12	15
South Dakota	—	3	3
Tennessee	—	7	7
Texas	16	180	196
Utah	—	30	30
Vermont	2	—	2
Virginia	9	18	27

Washington	—	42	42
West Virginia	—	3	3
Wisconsin	—	24	24
Wyoming	—	4	4
Total Domestic	173	1,405	1,578

International	Company	Franchised / Licensed	Total
Canada	—	74	74
Costa Rica	—	3	3
El Salvador	—	1	1
Guam	—	2	2
Guatemala	—	1	1
Honduras	—	6	6
Mexico	—	11	11
New Zealand	—	7	7
Philippines	—	7	7
Puerto Rico	—	14	14
United Arab Emirates	—	3	3
United Kingdom	—	2	2
Total International	—	131	131
Total Domestic	173	1,405	1,578
Total	173	1,536	1,709

Of the total 1,709 restaurants in the Denny's brand, our interest in restaurant properties consists of the following:

	Company Restaurants	Franchised Restaurants	Total
Owned properties	36	55	91
Leased properties	137	188	325
	173	243	416

We have generally been able to renew our restaurant leases as they expire at then-current market rates. The remaining terms of leases range from less than one to approximately 44 years, including optional renewal periods. In addition to the restaurant properties, we own an 18-story, 187,000 square foot office building in Spartanburg, South Carolina, which serves as our corporate headquarters. Our corporate offices currently occupy 17 floors of the building, with a portion of the building leased to others.

See Note 12 to our Consolidated Financial Statements for information concerning encumbrances on substantially all of our properties.

Item 3. Legal Proceedings

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. We record legal settlement costs as other operating expenses in our Consolidated Statements of Income as those costs are incurred.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market Information

Our common stock is listed under the symbol "DENN" and trades on the NASDAQ Capital Market ("NASDAQ"). As of February 20, 2019, there were 61,680,873 shares of our common stock outstanding and approximately 11,765 record and beneficial holders of our common stock.

Dividends and Share Repurchases

Our credit facility allows for the payment of cash dividends and/or the repurchase of our common stock, subject to certain limitations and continued maintenance of all relevant covenants before and after any such payment of any dividend or stock purchase. An aggregate amount is available for such dividends or stock repurchases as follows:

- an amount not to exceed $50.0 million if the Consolidated Leverage Ratio (as defined in the credit agreement, as amended) is 3.5x or greater and an unlimited amount if the Consolidated Leverage Ratio is below 3.5x, provided that, in each case, at least $20.0 million of availability is maintained under the revolving credit facility after such payment; and
- an additional annual aggregate amount equal to $0.05 times the number of outstanding shares of our common stock, as of September 27, 2017, plus each additional share of our common stock that is issued after such date.

Though we have not historically paid cash dividends, we have in recent years undertaken share repurchases. The table below provides information concerning repurchases of shares of our common stock during the quarter ended December 26, 2018.

Period	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Programs (2)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Programs (2)
	(In thousands, except per share amounts)			
September 27, 2018 – October 24, 2018	318	$ 14.22	318	$ 154,378
October 25, 2018 – November 21, 2018	1,138 (3)	16.79 (3)	1,138 (3)	$ 128,511 (4)
November 22, 2018 – December 26, 2018	7	15.96	7	$ 128,392
Total	1,463	$ 16.22	1,463	

(1) Average price paid per share excludes commissions.

(2) On October 31, 2017, we announced that our Board of Directors approved a new share repurchase program, authorizing us to repurchase up to an additional $200 million of our common stock (in addition to prior authorizations). Such repurchases are to be made in a manner similar to, and will be in addition to, authorizations under the May 26, 2016 repurchase program. During the quarter ended December 26, 2018, we purchased 1,463,378 shares of our common stock for an aggregate consideration of approximately $23.8 million pursuant to

this share repurchase program.

(3) Includes the initial delivery of approximately 1.1 million shares of our common stock received under the variable term, capped accelerated share repurchase (the "ASR") agreement we entered into in November 2018 to repurchase an aggregate of $25 million of our common stock. These shares were recorded at the Hedge Period Reference Price, as defined by the ASR agreement, and represent the minimum shares to be delivered based on the cap price. The total aggregate number of shares of our common stock repurchased pursuant to the ASR agreement will be based generally on the average of the daily volume-weighted average prices of our common stock, less a fixed discount, over the term of the ASR agreement, subject to a minimum number of shares.

(4) Includes the full $25 million payment related to the ASR agreement, consisting of $18.2 million for the initial delivery of approximately 1.1 million shares of our common stock and $6.8 million for the equity forward contract related to the settlement of the ASR agreement.

Performance Graph

The following graph compares the cumulative total shareholders' return on our common stock for the five fiscal years ended December 26, 2018 (December 25, 2013 to December 26, 2018) against the cumulative total return of the Russell 2000® Index and a peer group. The graph and table assume that $100 was invested on December 25, 2013 (the last day of fiscal year 2013) in each of the Company's common stock, the Russell 2000® Index and the peer group and that all dividends were reinvested.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN
ASSUMES $100 INVESTED ON DECEMBER 25, 2013
ASSUMES DIVIDENDS REINVESTED
FISCAL YEAR ENDED DECEMBER 26, 2018

	Russell 2000® Index (1)	Peer Group (2)	Denny's Corporation
December 25, 2013	$100.00	$100.00	$ 100.00
December 31, 2014	$105.11	$115.98	$ 139.32
December 30, 2015	$101.69	$115.84	$ 135.00
December 28, 2016	$122.21	$137.39	$ 173.92
December 27, 2017	$140.41	$149.07	$ 181.08
December 26, 2018	$122.53	$149.98	$ 219.73

(1) The Russell 2000 Index is a broad equity market index of 2,000 companies that measures the performance of the small-cap segment of the U.S. equity universe. As of December 26, 2018, the weighted average market capitalization of companies within the index was approximately $2.0 billion with the median market capitalization being approximately $0.7 billion.

(2) The peer group consists of 16 public companies that operate in the restaurant industry. The peer group includes the following companies: BJ's Restaurants, Inc. (BJRI), Bloomin' Brands, Inc. (BLMN), Brinker International, Inc. (EAT), Chuy's Holdings, Inc. (CHUY), Cracker Barrel Old Country Store, Inc. (CBRL), DineEquity, Inc. (DIN), Darden Restaurants, Inc. (DRI), Dave & Buster's Entertainment, Inc. (PLAY), Del Frisco's Restaurant Group, Inc. (DFRG), J. Alexander's Holdings, Inc. (JAX), Kona Grill, Inc. (KONA), Red Robin Gourmet Burgers, Inc. (RRGB), Ruth's Hospitality Group, Inc. (RUTH), Texas Roadhouse, Inc. (TXRH), The Cheesecake Factory Incorporated (CAKE) and The ONE Group Hospitality, Inc. (STKS).

Item 6. Selected Financial Data

The following table provides selected financial data that was extracted or derived from our audited financial statements. The data set forth below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Consolidated Financial Statements and related notes included elsewhere in this report.

	Fiscal Year Ended December 26, 2018 (a)	December 27, 2017	December 28, 2016 (b)	December 30, 2015	December 31, 2014 (c)
	(In millions, except ratios and per share amounts)				
Statement of Income Data:					
Operating revenue	$630.2	$ 529.2	$ 506.9	$ 491.3	$ 472.3
Operating income	$73.6	$ 70.7	$ 47.0	$ 63.2	$ 57.3
Net income	$43.7	$ 39.6	$ 19.4	$ 36.0	$ 32.7
Basic net income per share:	$0.69	$ 0.58	$ 0.26	$ 0.44	$ 0.38
Diluted net income per share:	$0.67	$ 0.56	$ 0.25	$ 0.42	$ 0.37
Cash dividends per common share (d)	—	—	—	—	—
Balance Sheet Data (at end of period):					
Current assets (e)	$47.6	$ 41.3	$ 35.9	$ 36.4	$ 56.1
Working capital deficit (f)	$(47.1)	$ (53.6)	$ (57.5)	$ (65.1)	$ (24.3)
Net property and equipment	$140.0	$ 139.9	$ 133.1	$ 124.8	$ 109.8
Total assets	$335.3	$ 323.8	$ 306.2	$ 297.0	$ 289.9
Long-term debt and capital lease obligations, excluding current portion	$313.7	$ 286.1	$ 242.3	$ 212.5	$ 151.1

(a) During 2018, we adopted ASU 2014-09, which clarifies the principles used to recognize revenue. We elected to apply the modified retrospective method of adoption; therefore, results for reporting periods after December 28, 2017 are presented under the new guidance and prior period amounts have not been adjusted. The increase in operating revenue was primarily the result of recognizing advertising revenue on a gross basis versus recording it on a net basis as previously reported. See Note 3 to our Consolidated Financial Statements for details.

(b) During 2016, we completed the liquidation of the Advantica Pension Plan (the “Pension Plan”). Accordingly, we made a final contribution of $9.5 million to the Pension Plan and recognized a settlement loss of $24.3 million, reflecting the recognition of unamortized actuarial losses that were recorded in accumulated other comprehensive income.

(c) The fiscal year ended December 31, 2014 includes 53 weeks of operations compared with 52 weeks for all other years presented. We estimate that the additional operating week added approximately $10.7 million of operating revenue in 2014.

(d) Our credit facility allows for the payment of cash dividends and/or the purchase of our common stock subject to certain limitations. See Part II Item 5.

(e) During 2015, we early adopted ASU 2015-17, which simplifies the presentation of deferred taxes by requiring that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. We chose to prospectively apply the guidance. Therefore, as a result of our early adoption, all deferred taxes are reported as noncurrent in our Consolidated Balance Sheet as of December 30, 2015. Prior periods were not retrospectively adjusted.

(f) A negative working capital position is not unusual for a restaurant operating company.

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

The following discussion should be read in conjunction with "Selected Financial Data" and our Consolidated Financial Statements and the notes thereto.

Overview

Nature of Our Business

Denny's Corporation (Denny's) is one of America's largest franchised full-service restaurant chains based on the number of restaurants. Denny's, through its wholly-owned subsidiary, Denny's, Inc., owns and operates the Denny's brand. At December 26, 2018, the Denny's brand consisted of 1,709 franchised, licensed and company operated restaurants. Of this amount, 1,536 of our restaurants were franchised or licensed, representing 90% of the total restaurants, and 173 were company operated.

Our revenues are derived primarily from two sales channels, which we operate as one segment: company restaurants and franchised and licensed restaurants. The primary sources of revenues are the sale of food and beverages at our company restaurants and the collection of royalties, advertising and fee income from restaurants operated by our franchisees under the Denny's name. Sales and customer traffic at both company and franchised restaurants are affected by the success of our marketing campaigns, new product introductions, product quality enhancements, customer service and menu pricing, as well as external factors including competition, economic conditions affecting consumer spending and changes in guests' tastes and preferences. Sales at company restaurants and royalty, advertising and fee income from franchised restaurants are also impacted by the opening of new restaurants, the closing of existing restaurants, the sale of company restaurants to franchisees and the acquisition of restaurants from franchisees.

Costs of company restaurant sales are exposed to volatility in two main areas: payroll and benefit costs and product costs. The volatility of payroll and benefit costs results primarily from changes in wage rates and increases in labor related expenses, such as medical benefit costs and workers' compensation costs. Additionally, changes in guest counts and investments in store-level labor impact payroll and benefit costs as a percentage of sales. Many of the products sold in our restaurants are affected by commodity pricing and are, therefore, subject to price volatility. This volatility is caused by factors that are fundamentally outside of our control and are often unpredictable. In general, we purchase food products based on market prices or we set firm prices in purchase agreements with our vendors. In an inflationary commodity environment, our ability to lock in prices on certain key commodities is imperative to controlling food costs. In addition, our continued success with menu management helps us offer menu items that provide a compelling value to our customers while maintaining attractive product costs and profitability.

Over the next several quarters, the Company intends to migrate from a 90% franchised business model to one that is between 95% and 97% franchised. The anticipated sale of between 90 and 125 company operated restaurants with attached development commitments will create an opportunity for development-focused franchisees to expand their businesses, while also attracting and welcoming new, well-capitalized franchisees. In addition to stimulating domestic restaurant development, this transition will yield a smaller portfolio of higher volume company operated restaurants in more desirable trade areas. The smaller number of company restaurants will require lower maintenance-related capital expenditures and general and administrative support costs. Further, reduced exposure to volatility in costs of company restaurant sales and greater stability in royalties and fees from restaurants operated by our franchisees are expected to enhance our quality of earnings.

2018 Summary of Operations

During 2018, we achieved domestic system-wide same-stores sales growth of 0.8%, comprised of a 1.8% increase at company restaurants and a 0.6% increase at domestic franchised restaurants, marking the eighth consecutive year of positive system-wide same-store sales.

A total of 203 remodels were completed during 2018, comprised of 193 at franchised restaurants and ten at company restaurants. These remodels were in our Heritage image, which we launched in late 2013. This updated look reflects a more contemporary diner feel to further reinforce our America's Diner positioning. By the end of 2019, we expect approximately 90% of the system will have been remodeled to the most current image.

Our current franchise agreement includes a royalty rate of up to 4.5%. Approximately 50% of our franchised restaurants were operating under this agreement as of December 26, 2018, and we expect approximately 60% to be operating under this agreement by the end of 2019. We anticipate that existing franchisees will elect to migrate to the new fee structure over the next decade as incentives under previous franchise agreements expire. Due to the long-term migration of existing franchisees, we will not see the full benefit of the higher royalty rate for some time. For 2018, our average domestic royalty rate was approximately 4.17%, compared to 4.14% for 2017 and 4.11% for 2016.

Growing the Brand

Over the last five years our growth initiatives have led to 202 new restaurant openings. During 2018, we opened 30 restaurants including nine international franchised locations with three in Canada, two in the Philippines and one each in Honduras, Mexico, Puerto Rico and the United Kingdom. Our goal is to increase net restaurant growth through both domestic and international avenues. Domestic growth will focus on markets in which we have modest penetration. Development agreements related to the sale of 90 to 125 of our company operated restaurants and recently announced enhanced development agreements in Canada and the Philippines are expected to stimulate domestic and international growth over the next several years.

Balancing the Use of Cash

We are focused on balancing the use of cash between reinvesting in our base of company restaurants, growing and strengthening the brand and returning cash to shareholders. During 2018, cash capital expenditures were $32.4 million, comprised of $22.0 million in capital expenditures and restaurant and real estate acquisition costs of $10.4 million. Cash flows for acquisitions included $8.1 million for the reacquisition of six franchised restaurants, $1.8 million for real estate and $0.5 million related to a prior year acquisition.

In November 2018, as part of our previously authorized share repurchase programs, we entered into a variable term, capped accelerated share repurchase (the “ASR”) agreement with MUFG Securities EMEA plc (“MUFG”) to repurchase an aggregate of $25 million of our common stock. Pursuant to the terms of the ASR agreement, we paid $25 million in cash, received approximately 1.1 million shares of our common stock (which represents the minimum shares to be delivered based on the cap price) and recorded $18.2 million of treasury stock related to these shares. The remaining balance of $6.8 million is included as additional paid-in capital in shareholders' equity as of December 26, 2018 as an equity forward contract. The total aggregate number of shares of our common stock repurchased pursuant to the ASR agreement will be based generally on the average of the daily volume-weighted average prices of our common stock, less a fixed discount, over the term of the ASR agreement, subject to a minimum number of shares.

During 2018, including shares repurchased under the ASR, we repurchased a total of 3.9 million shares of our common stock for $61.2 million. Since initiating our share repurchase programs in November 2010, we have repurchased a total of 47.1 million shares of our common stock for $416.8 million. As of December 26, 2018, there was $128.4 million remaining under the current repurchase program.

Factors Impacting Comparability

Transition to New Revenue Recognition Accounting Standard

Effective December 28, 2017, the first day of fiscal 2018, we adopted Accounting Standards Update 2014-09, “Revenue from Contracts with Customers (Topic 606),” and all subsequent ASUs that modified Topic 606 on a modified retrospective basis. Results for reporting periods beginning after December 28, 2017 are presented under Topic 606. Prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Topic 605 “Revenue Recognition.”

The adoption of Topic 606 did not impact the recognition of company restaurant sales or royalties from franchised restaurants. The most significant effects of the new guidance on the comparability of our results of operations between 2018, 2017 and 2016 include the following:

- Under Topic 606, advertising revenues and expenditures are recorded on a gross basis within the Consolidated Statements of Income. Under the previous guidance of Topic 605, we recorded franchise advertising expense net of contributions from franchisees to our advertising programs, including local co-operatives. While this change materially impacts the gross amount of reported franchise and license revenue and costs of franchise and license revenue, the impact is generally an offsetting increase to both revenue and expense with little, if any, impact on operating income and net income. Similarly, upon adoption, other franchise services fees are recorded on a gross basis within the Consolidated Statements of Income, whereas, under previous guidance, they were netted against the related expenses.

- Under Topic 606, recognition of initial franchise fees is deferred until the commencement date of the agreement and occurs over time based on the term of the underlying franchise agreement. In the event a franchise agreement is terminated, any remaining deferred fees are recognized in the period of termination. Under the previous guidance, initial franchise fees were recognized upon the opening of a franchise restaurant. The effect of the required deferral of initial franchise fees received in a given year is mitigated by the recognition of revenue from fees received in prior periods. Upon adoption, we recorded deferred franchise revenue of $21.0 million, and increases of $15.6 million to opening deficit and $5.4 million to deferred tax assets. The deferred franchise revenue will be amortized over the term of the individual franchise agreements.

- Under previous guidance, we recorded gift card breakage when the likelihood of redemption was remote. Breakage was recorded as a benefit to our advertising fund or reduction to other operating expenses, depending on where the gift cards were sold. Under Topic 606, gift card breakage is recognized proportionally as redemptions occur. Our gift card breakage primarily relates to cards sold by third parties. Breakage revenue related to third party sales is recorded as advertising revenue (included as a component of franchise and license revenue) with an offsetting amount recorded as advertising expense (included as a component of costs of franchise and license revenue).

Please refer to Note 3 to our Consolidated Financial Statements for further details of our adoption of Topic 606 and our policies for recognition of revenue from contracts with customers.

Other Factors Impacting Comparability:

For 2018, 2017 and 2016, in addition to impacts from the transition to the new revenue recognition accounting standard, the following items impacted the comparability of our results:

- Company restaurant sales have increased from $367.3 million in 2016 to $411.9 million in 2018, primarily as a result of an increase in equivalent units resulting from acquisitions of franchised restaurants and the increase in same-store sales.

- Royalty income, which is included as a component of franchise and license revenue, has increased from $98.4 million in 2016 to $101.6 million in 2018, primarily as a result of the increase in same-store sales and a higher average royalty rate.

- Occupancy revenues, included as a component of franchise and license revenue, result from leasing or subleasing restaurants to franchisees. When restaurants are sold and leased or subleased to franchisees, the occupancy costs related to these restaurants move from costs of company restaurant sales to costs of franchise and license revenue to match the related occupancy revenue. However, as a result of the upcoming adoption of ASU 2016-02, “Leases (Topic 842),” in fiscal 2019, we expect that there could be additional impacts to comparability as a result of restaurants being sold to franchisees as we migrate to a more franchised business model. Additionally, as leases or subleases with franchisees expire, franchise occupancy revenue and costs could decrease if franchisees enter into direct leases with landlords. Occupancy revenue has decreased from $38.5 million in 2016 to $32.0 million in 2018, primarily as a result of lease expirations. At the end of 2018, we had 243 franchised restaurants that are leased or subleased from Denny’s, compared to 294 at the end of 2016.

- During 2014, our Board of Directors approved the termination and liquidation of the Advantica Pension Plan (the “Pension Plan”). During 2016, we completed the liquidation of the Pension Plan. Accordingly, we made a final contribution of $9.5 million to the Pension Plan and recognized a pre-tax settlement loss of $24.3 million, reflecting the recognition of unamortized actuarial losses that were recorded in accumulated other comprehensive income.

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Statements of Income

	Fiscal Year Ended					
	December 26, 2018		December 27, 2017		December 28, 2016	
	(Dollars in thousands)					
Revenue:						
Company restaurant sales	$411,932	65.4 %	$390,352	73.8 %	$367,310	72.5 %
Franchise and license revenue	218,247	34.6 %	138,817	26.2 %	139,638	27.5 %
Total operating revenue	630,179	100.0%	529,169	100.0 %	506,948	100.0 %
Costs of company restaurant sales (a):						
Product costs	100,532	24.4 %	97,825	25.1 %	90,487	24.6 %
Payroll and benefits	164,314	39.9 %	153,037	39.2 %	142,823	38.9 %
Occupancy	23,228	5.6 %	20,802	5.3 %	19,557	5.3 %
Other operating expenses	60,708	14.7 %	53,049	13.6 %	49,229	13.4 %
Total costs of company restaurant sales	348,782	84.7 %	324,713	83.2 %	302,096	82.2 %
Costs of franchise and license revenue (a)	114,296	52.4 %	39,294	28.3 %	40,805	29.2 %
General and administrative expenses	63,828	10.1 %	66,415	12.6 %	67,960	13.4 %
Depreciation and amortization	27,039	4.3 %	23,720	4.5 %	22,178	4.4 %
Operating (gains), losses and other charges, net	2,620	0.4 %	4,329	0.8 %	26,910	5.3 %
Total operating costs and expenses, net	556,565	88.3 %	458,471	86.6 %	459,949	90.7 %
Operating income	73,614	11.7 %	70,698	13.4 %	46,999	9.3 %
Interest expense, net	20,745	3.3 %	15,640	3.0 %	12,232	2.4 %
Other nonoperating (income) expense, net	619	0.1 %	(1,743)	(0.3)%	(1,109)	(0.2)%
Net income before income taxes	52,250	8.3 %	56,801	10.7 %	35,876	7.1 %
Provision for income taxes	8,557	1.4 %	17,207	3.3 %	16,474	3.2 %
Net income	$43,693	6.9 %	$39,594	7.5 %	$19,402	3.8 %
Other Data:						
Company average unit sales	$2,300		$2,278		$2,254	
Franchise average unit sales	$1,615		$1,590		$1,563	
Company equivalent units (b)	179		171		163	
Franchise equivalent units (b)	1,538		1,556		1,556	
Company same-store sales increase (c)(d)	1.8 %		1.0 %		1.1 %	
Domestic franchised same-store sales increase (c)	0.6 %		1.1 %		0.8 %	

(a) Costs of company restaurant sales percentages are as a percentage of company restaurant sales. Costs of franchise and license revenue percentages are as a percentage of franchise and license revenue. All other percentages are as a percentage of total operating revenue.

(b) Equivalent units are calculated as the weighted average number of units outstanding during a defined time period.

(c) Same-store sales include sales from restaurants that were open the same period in the prior year.

(d) Prior year amounts have not been restated for 2018 comparable restaurants.

Unit Activity

	Fiscal Year Ended		
	December 26, 2018	December 27, 2017	December 28, 2016
Company restaurants, beginning of period	178	169	164
Units opened	1	3	1
Units acquired from franchisees	6	10	10
Units sold to franchisees	(8)	(4)	(6)
Units closed	(4)	—	—
End of period	173	178	169
Franchised and licensed restaurants, beginning of period	1,557	1,564	1,546
Units opened	29	36	49
Units purchased from Company	8	4	6
Units acquired by Company	(6)	(10)	(10)
Units closed	(52)	(37)	(27)
End of period	1,536	1,557	1,564
Total restaurants, end of period	1,709	1,735	1,733

Company Restaurant Operations

Company same-store sales increased 1.8% in 2018 and 1.0% in 2017 compared with the respective prior year. Company restaurant sales for 2018 increased $21.6 million, or 5.5%, primarily resulting from an eight equivalent unit increase in company restaurants and the increase in same-store sales. Company restaurant sales for 2017 increased $23.0 million, or 6.3%, primarily resulting from the increase in same-store sales and an eight equivalent unit increase in company restaurants.

Total costs of company restaurant sales as a percentage of company restaurant sales were 84.7% in 2018, 83.2% in 2017 and 82.2% in 2016.

Product costs were 24.4% in 2018, 25.1% in 2017 and 24.6% in 2016. The decrease for 2018 was primarily due to leverage gained from increased pricing and lower commodity costs. The increase for 2017 was primarily due to higher commodity costs.

Payroll and benefits were 39.9% in 2018, 39.2% in 2017 and 38.9% in 2016. The increase in 2018 was primarily due to a 0.4 percentage point increase in labor costs due to minimum wage rate increases and a 0.3 percentage point increase in incentive compensation. The increase in 2017 was primarily due to a 0.8 percentage point increase in labor costs, partially offset by a 0.2 percentage point decrease in incentive compensation and a 0.2 percentage point decrease in workers' compensation costs.

Occupancy costs were 5.6% in 2018, 5.3% in 2017 and 5.3% in 2016. The 2018 increase is primarily related to a 0.3 percentage point increase in general liability costs, as 2018 included unfavorable claims development of $0.8 million and 2017 included favorable claims development of $0.4 million.

Other operating expenses were comprised of the following amounts and percentages of company restaurant sales:

Fiscal Year Ended

	December 26, 2018		December 27, 2017		December 28, 2016	
	(Dollars in thousands)					
Utilities	$14,347	3.5 %	$13,263	3.4 %	$12,426	3.4 %
Repairs and maintenance	7,761	1.9 %	6,738	1.7 %	6,406	1.7 %
Marketing	15,008	3.6 %	14,315	3.7 %	13,112	3.6 %
Other direct costs	23,592	5.7 %	18,733	4.8 %	17,285	4.7 %
Other operating expenses	$60,708	14.7%	$53,049	13.6%	$49,229	13.4%

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The increase in other direct costs for 2018 primarily resulted from higher third party delivery fees of $2.9 million related to increased delivery sales.

Franchise Operations

Franchise and license revenue and costs of franchise and license revenue were comprised of the following amounts and percentages of franchise and license revenue for the periods indicated:

	Fiscal Year Ended								
	December 26, 2018			December 27, 2017			December 28, 2016		
	(Dollars in thousands)								
Royalties	$101,557	46.5	%	$100,631	72.5	%	$98,416	70.5	%
Advertising revenue	78,308	35.9	%	—	—	%	—	—	%
Initial and other fees	6,422	2.9	%	2,466	1.8	%	2,717	1.9	%
Occupancy revenue	31,960	14.6	%	35,720	25.7	%	38,505	27.6	%
Franchise and license revenue	$218,247	100.0	%	$138,817	100.0	%	$139,638	100.0	%
Advertising costs	$78,309	35.9	%	$1,921	1.4	%	$1,860	1.3	%
Occupancy costs	$22,285	10.2	%	$25,466	18.3	%	$28,062	20.1	%
Other direct costs	13,702	6.3	%	11,907	8.6	%	10,883	7.8	%
Costs of franchise and license revenue	$114,296	52.4	%	$39,294	28.3	%	$40,805	29.2	%

Royalties increased by $0.9 million, or 0.9%, in 2018 primarily resulting from a higher average royalty rate as compared to 2017 and an increase in domestic same-store sales of 0.6%, partially offset by equivalent unit decreases in franchised and licensed restaurants. Royalties increased by $2.2 million, or 2.3%, in 2017 primarily resulting from a 1.1% increase in domestic same-store sales and a higher average royalty rate as compared to 2016. Equivalent units remained flat for 2017 as compared to 2016. The higher average royalty rates for both periods resulted as certain restaurants transitioned to a higher rate structure. The average domestic royalty rate was 4.17%, 4.14% and 4.11% for 2018, 2017 and 2016, respectively.

The 2018 increases in advertising revenue and initial and other fees primarily resulted from the implementation of Topic 606 related to revenue recognition. Advertising revenue and costs are now required to be presented on a gross basis, instead of a net basis as previously presented. We recognized additional franchise and license revenue of $1.5 million resulting from the timing of recognition of initial franchise fees under the new guidance. In addition, we recognized other franchise fees of $3.0 million resulting from the recording of other franchise service fees on a gross basis under the new guidance versus recording these amounts on a net basis as previously presented. Initial and other fees decreased by $0.3 million, or 9.2%, in 2017 as a higher number of restaurants were opened by franchisees during the prior year period. Occupancy revenue decreased by $3.8 million, or 10.5%, in 2018 and by $2.8 million, or 7.2%, in 2017 primarily resulting from lease expirations.

Costs of franchise and license revenue increased $75.0 million, or 190.9% in 2018. This increase was primarily related to the increase in advertising costs related to the implementation of Topic 606, as advertising revenue is no longer netted with advertising expense. Occupancy costs decreased by $3.2 million, or 12.5%, in 2018 and by $2.6 million, or 9.3%, in 2017 primarily resulting from scheduled lease expirations. Other direct costs increased by $1.8 million, or 15.1%, in 2018 primarily due to the implementation of Topic 606, as certain other franchise expenses are no longer netted with the related fees received from franchisees. Other direct costs increased by $1.0 million, or 9.4%, in 2017 due to increased franchise administrative costs. As a result, costs of franchise and license revenue as a percentage of franchise and license revenue increased to 52.4% for 2018 from 28.3% in 2017.

Other Operating Costs and Expenses

Other operating costs and expenses such as general and administrative expenses and depreciation and amortization expense relate to both company and franchise operations.

General and administrative expenses are comprised of the following:

	Fiscal Year Ended December 26, 2018	December 27, 2017	December 28, 2016
	(In thousands)		
Share-based compensation	$6,038	$ 8,541	$ 7,610
Other general and administrative expenses	57,790	57,874	60,350
Total general and administrative expenses	$63,828	$ 66,415	$ 67,960

General and administrative expenses decreased by $2.6 million in 2018 primarily resulting from a $2.5 million decrease in share-based compensation related to decreases in the expected performance of certain share-based compensation awards. Other general and administrative expenses decreased by $0.1 million as a $2.7 million decrease related to market valuation changes in our non-qualified deferred compensation plan liabilities was mostly offset by a $1.4 million increase in investments in personnel and a $1.0 million increase in incentive compensation. Offsetting losses on the underlying nonqualified deferred plan investments are included as a component of other non-operating income, net.

General and administrative expenses decreased by $1.5 million in 2017 primarily resulting from a $2.6 million decrease in incentive compensation and a $1.3 million reduction in professional fees. These decreases were partially offset by a $0.9 million increase in investments in personnel and a $0.8 million increase related to market valuation changes in our non-qualified deferred compensation plan liabilities. Share-based compensation increased by $0.9 million due in part to the cancellation and re-issuance of certain equity awards to non-employee members of our Board of Directors in the 2016 period. Additionally, share-based compensation was impacted by the election to account for forfeitures as they occur, which was effective beginning in fiscal 2017. There were no actual forfeitures during fiscal 2017.

Depreciation and amortization is comprised of the following:

	Fiscal Year Ended December 26, 2018	December 27, 2017	December 28, 2016
	(In thousands)		
Depreciation of property and equipment	$18,506	$ 17,121	$ 17,012
Amortization of capital lease assets	4,451	4,087	3,630
Amortization of intangible and other assets	4,082	2,512	1,536
Total depreciation and amortization expense	$27,039	$ 23,720	$ 22,178

The increases in depreciation of property and equipment and amortization of intangible and other assets are primarily the result of our acquisitions of franchised restaurants and investments in company unit remodels during the past three years.

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

	Fiscal Year Ended December 26, 2018	December 27, 2017	December 28, 2016
	(In thousands)		
Pension settlement loss	$—	$ —	$ 24,297

Software implementation costs	—	5,247	—
(Gains) losses on sales of assets and other, net	(513)	(1,729)	29
Restructuring charges and exit costs	1,575	485	1,486
Impairment charges	1,558	326	1,098
Operating (gains), losses and other charges, net	$2,620	$ 4,329	$ 26,910

Gains on sales of assets and other, net of $0.5 million for 2018 primarily related to $1.2 million of insurance settlement gains on fire-damaged and hurricane-damaged restaurants, partially offset by $0.7 million of losses on sales of company owned units to franchisees. See Note 4 to our Consolidated Financial Statements for details on refranchisings. Gains on the sales of assets and other, net of $1.7 million for 2017 primarily related to real estate sold to franchisees. Software implementation costs of $5.2 million for 2017 were the result of our investment in a new cloud-based Enterprise Resource Planning system. The pre-tax pension settlement loss of $24.3 million related to the completion of the liquidation of the Advantica Pension Plan during 2016. See Note 13 to our Consolidated Financial Statements set forth in Part II, Item 8 of this report for details on the Pension Plan liquidation.

Restructuring charges and exit costs were comprised of the following:

	Fiscal Year Ended		
	December 26, 2018	December 27, 2017	December 28, 2016
	(In thousands)		
Exit costs	$518	$ 385	$ 591
Severance and other restructuring charges	1,057	100	895
Total restructuring and exit costs	$1,575	$ 485	$ 1,486

The increase in severance and other restructuring charges for 2018 is primarily the result of positions eliminated as part of our refranchising and development strategy announced during the fourth quarter.

Impairment charges of $1.6 million for 2018 primarily related to the impairment of an underperforming unit. Impairment charges of $0.3 million for 2017 related to the relocation of two high-performing company restaurants due to the loss of property control. Impairment charges of $1.1 million for 2016 resulted primarily from the impairment of restaurants identified as assets held for sale.

Operating income was $73.6 million in 2018, $70.7 million in 2017 and $47.0 million in 2016.

Interest expense, net is comprised of the following:

	Fiscal Year Ended		
	December 26, 2018	December 27, 2017	December 28, 2016
	(In thousands)		
Interest on credit facilities	$11,792	$ 7,586	$ 4,606
Interest on interest rate swaps	307	73	789
Interest on capital lease liabilities	6,354	5,797	4,768
Letters of credit and other fees	1,288	1,216	1,185
Interest income	(146)	(106)	(116)
Total cash interest	19,595	14,566	11,232
Amortization of deferred financing costs	607	596	593
Interest accretion on other liabilities	543	478	407
Total interest expense, net	$20,745	$ 15,640	$ 12,232

Interest expense, net increased during 2018 and 2017 primarily due to increases in the balance of our credit facility and related interest rates, as well as an increase in capital leases.

Other nonoperating (income) expense, net was expense of $0.6 million for 2018, income of $1.7 million for 2017 and income of $1.1 million for 2016. The expense for 2018 was primarily the results of losses on deferred compensation plan investments, partially offset by gains on lease terminations. The income for 2017 and 2016 was primarily the result of gains on deferred compensation plan investments.

The provision for income taxes was $8.6 million for 2018, $17.2 million for 2017 and $16.5 million for 2016. The effective tax rate was 16.4% for 2018, 30.3% for 2017 and 45.9% for 2016. The 2018 rate was primarily impacted by the statutory tax rate reduction under the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). For 2018, the difference in the overall effective rate from the U.S. statutory rate was primarily due to state taxes and the generation of employment and foreign tax credits. In addition, the 2018 rate benefited $1.4 million related to share-based compensation.

For 2017, the difference in the overall effective rate from the U.S. statutory rate was primarily due to state taxes and the generation of employment and foreign tax credits. The 2017 rates also benefited $1.7 million from share-based compensation and $1.6 million from the revaluing of deferred tax assets and liabilities required under the Tax Act. Refer to Note 2 to our Consolidated Financial Statements set forth in Part II, Item 8 of this report for the impact of the adoption of ASU 2016-09.

For 2016, the difference in the overall effective rate from the U.S. statutory rate was primarily due to state taxes, the generation of employment tax credits, the Pension Plan liquidation, and foreign tax credits generated with the filings of federal amended tax returns. The 2016 rates were impacted by the recognition of a $2.1 million tax benefit related to the $24.3 million pre-tax settlement loss on the Pension Plan liquidation. This benefit was at a rate lower than the effective tax rate due to the previous recognition of an approximate $7.2 million tax benefit recognized with the reversal of our valuation allowance in 2011. In addition, we amended prior years’ U.S. tax returns in order to maximize a foreign tax credit in lieu of a foreign tax deduction, resulting in a net tax benefit of approximately $3.7 million during the year.

Net income was $43.7 million for 2018, $39.6 million for 2017 and $19.4 million for 2016.

Liquidity and Capital Resources

Summary of Cash Flows

Our primary sources of liquidity and capital resources are cash generated from operations and borrowings under our credit facility (as described below). Principal uses of cash are operating expenses, capital expenditures and the repurchase of shares of our common stock.

The following table presents a summary of our sources and uses of cash and cash equivalents for the periods indicated:

	Fiscal Year Ended		
	December 26, 2018	December 27, 2017	December 28, 2016
	(In thousands)		
Net cash provided by operating activities	$73,690	$ 78,269	$ 71,162
Net cash used in investing activities	(32,017)	(27,147)	(32,656)
Net cash used in financing activities	(41,630)	(48,731)	(37,585)
Increase in cash and cash equivalents	$43	$ 2,391	$ 921

Net cash flows provided by operating activities were $73.7 million for the year ended December 26, 2018 compared to $78.3 million for the year ended December 27, 2017. The decrease in cash flows provided by operating activities was primarily due to the timing of receiving credit card receivables. Net cash flows provided by operating activities were $78.3 million for the year ended December 27, 2017 compared to $71.2 million for the year ended December 28, 2016. The increase in cash flows provided by operating activities was primarily due to the funding of our pension liability during 2016, partially offset by increased interest and tax payments during 2017. We believe that our estimated cash flows from operations for 2019, 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.

Net cash flows used in investing activities were $32.0 million for the year ended December 26, 2018. These cash flows are primarily comprised of capital expenditures of $22.0 million and acquisitions of restaurants and real estate of $10.4 million. Cash flows for acquisitions include $8.1 million for the reacquisition of six franchised restaurants, $1.8 million for real estate and $0.5 million related to a prior year acquisition. Net cash flows used in investing activities were $27.1 million for the year ended December 27, 2017. These cash flows are primarily comprised of capital expenditures of $18.8 million and acquisitions of restaurants and real estate of $12.4 million. Net cash flows used in investing activities were $32.7 million for the year ended December 28, 2016. These cash flows are primarily comprised of capital expenditures of $19.7 million and restaurant acquisition costs of $14.3 million.

Our principal capital requirements have been largely associated with the following:

	Fiscal Year Ended		
	December 26, 2018	December 27, 2017	December 28, 2016
	(In thousands)		
Facilities	$9,613	$ 7,144	$ 7,365
New construction	3,186	6,115	3,347
Remodeling	4,525	2,270	6,374
Information technology	1,930	1,470	1,299
Other	2,771	1,812	1,364
Capital expenditures (excluding acquisitions)	$22,025	$ 18,811	$ 19,749

Capital expenditures for fiscal 2019 are expected to be between $35 million and $40 million, including between $20 million and $25 million of real estate acquisitions through like-kind exchanges.

Cash flows used in financing activities were $41.6 million for the year ended December 26, 2018, which included stock repurchases of $61.2 million and the purchase of a $6.8 million equity forward contract related to the 2018 ASR agreement, partially offset by net long-term debt borrowings of $24.3 million. Cash flows used in financing activities were $48.7 million for the year ended December 27, 2017, which included stock repurchases of $83.1 million, partially offset by net long-term debt borrowings of $37.2 million. Cash flows used in financing activities were $37.6 million for the year ended December 28, 2016, which included stock repurchases of $51.6 million and the purchase of a $6.9 million equity forward contract related to the 2016 ASR agreement, partially offset by net long-term debt borrowings of $20.3 million.

Our working capital deficit was $47.1 million at December 26, 2018 compared with $53.6 million at December 27, 2017. The decrease in working capital deficit was primarily related to the timing of payments impacting receivable and payable balances. We are able to operate with a substantial working capital deficit because (1) restaurant operations and most food service operations are conducted primarily on a cash and cash equivalent basis with a low level of accounts receivable, (2) rapid turnover allows a limited investment in inventories and (3) accounts payable for food, beverages and supplies usually become due after the receipt of cash from the related sales.

Credit Facility

As of December 26, 2018, we had outstanding revolver loans of $286.5 million and outstanding letters of credit under the senior secured revolver of $19.8 million. These balances resulted in availability of $93.7 million under the credit facility. The credit facility includes an accordion feature that would allow us to increase the size of the revolver to $450 million. Prior to considering the impact of our interest rate swaps, described below, the weighted-average interest rate on outstanding revolver loans was 4.43% as of December 26, 2018. Taking into consideration the interest rate swaps, the weighted-average interest rate of outstanding revolver loans was 4.48% as of December 26, 2018.

A commitment fee, which is based on our consolidated leverage ratio, is paid on the unused portion of the credit facility and was 0.30% as of December 26, 2018. Borrowings under the credit facility bear a tiered interest rate, also based on our leverage ratio, and was set at LIBOR plus 200 basis points as of December 26, 2018. The maturity date for the credit facility is October 26, 2022.

The credit facility is available for working capital, capital expenditures and other general corporate purposes. The credit facility is guaranteed by Denny's and its material subsidiaries and is secured by assets of Denny's and its subsidiaries, including the stock of its subsidiaries (other than our insurance captive subsidiary). 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 and a minimum consolidated fixed charge coverage ratio. We were in compliance with all financial covenants as of December 26, 2018.

Interest Rate Hedges

We have interest rate swaps to hedge a portion of the forecasted cash flows of our floating rate debt. See Part II Item 7A. Quantitative and Qualitative Disclosures About Market Risk for details on our interest rate swaps.

Contractual Obligations

Our future contractual obligations and commitments at December 26, 2018 consisted of the following:

	Payments Due by Period				
	Total	Less than 1 Year	1-2 Years	3-4 Years	5 Years and Thereafter
	(In thousands)				
Long-term debt	$286,500	$—	$—	$286,500	$ —
Capital lease obligations (a)	73,386	9,271	16,674	13,771	33,670
Operating lease obligations	136,512	23,504	37,477	26,527	49,004
Interest obligations (a)	49,200	12,835	25,670	10,695	—
Defined benefit plan obligations	2,500	584	499	693	724
Purchase obligations (b)	202,165	202,165	—	—	—
Unrecognized tax benefits (c)	2,940	2,940	—	—	—
Total	$753,203	$251,299	$80,320	$338,186	$ 83,398

(a) Interest obligations represent payments related to our long-term debt outstanding at December 26, 2018. For long-term debt with variable rates, we have used the rate applicable at December 26, 2018 to project interest over the periods presented in the table above, taking into consideration the impact of the interest rate swaps for the applicable periods. The capital lease obligation amounts above are inclusive of interest.

(b) Purchase obligations include amounts payable under purchase contracts for food and non-food products. Many of these agreements do not obligate us to purchase any specific volumes and include provisions that would allow us to cancel such agreements with appropriate notice. For agreements with cancellation provisions, amounts included in the table above represent our estimate of purchase obligations during the periods presented if we were to cancel these contracts with appropriate notice.

(c) Unrecognized tax benefits are related to uncertain tax positions. As we are not able to reasonably estimate the timing or amount of these payments, the related balances have not been reflected in the "Payments Due by Period" section of the table.

Off-Balance Sheet Arrangements

Except for operating leases entered into during the normal course of business, we do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. 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. On an ongoing basis, we evaluate our estimates, including those related to self-insurance liabilities, impairment of long-lived assets, restructuring and exit costs and income taxes. We base our estimates on historical experience and on various other assumptions 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 that are not readily apparent from other sources.

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.

Our significant accounting policies, including the critical accounting policies listed below, are fully described in Note 2 to our Consolidated Financial Statements included in Part II, Item 8 of this report. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Consolidated Financial Statements:

Self-insurance liabilities. We are self-insured for a portion of our losses related to certain medical plans, workers' compensation, general, product and automobile insurance liability. In estimating these liabilities, we utilize independent actuarial estimates of expected losses, which are based on statistical analysis of historical data. Our estimates of expected losses are adjusted over time based on changes to the actual costs of the underlying claims, which could result in additional expense or reversal of expense previously recorded.

Impairment of long-lived assets. We evaluate our long-lived assets for impairment at the restaurant level on a quarterly basis, when assets are identified as held for sale or whenever changes or events indicate that the carrying value may not be recoverable. For assets identified as held for sale, we use the market approach and consider proceeds from similar asset sales. We assess impairment of restaurant-level assets based on the operating cash flows of the restaurant, expected proceeds from the sale of assets and our plans for restaurant closings. Generally, all restaurants with negative cash flows from operations for the most recent twelve months at each quarter end are included in our assessment. For underperforming assets, we use the income approach to determine both the recoverability and estimated fair value of the assets. To estimate future cash flows, we make certain assumptions about expected future operating performance, such as revenue growth, operating margins, risk-adjusted discount rates, and future economic and market conditions. If the long-lived assets of a restaurant are not recoverable based upon estimated future, undiscounted cash flows, we write the assets down to their fair value. If these estimates or their related assumptions change in the future, we may be required to record additional impairment charges.

Income taxes. We make certain estimates and judgments in the calculation of our provision for income taxes, in the resulting tax liabilities, and in the recoverability of deferred tax assets. We record valuation allowances against our deferred tax assets, when necessary. Realization of deferred tax assets is dependent on future taxable earnings and is therefore uncertain. We assess the likelihood that our deferred tax assets in each of the jurisdictions in which we operate will be recovered from future taxable income. Deferred tax assets do not include future tax benefits that we deem likely not to be realized.

We record a liability for unrecognized tax benefits resulting from tax positions taken, or expected to be taken, in an income tax return. We recognize any interest and penalties related to unrecognized tax benefits in income tax expense. Assessment of uncertain tax positions requires judgments relating to the amounts, timing and likelihood of resolution.

Recent Accounting Pronouncements

See the Accounting Standards to be Adopted section of Note 2 to our Consolidated Financial Statements included in Part II, Item 8 of this report for further details of recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We have exposure to interest rate risk related to certain instruments entered into for other than trading purposes. Specifically, as of December 26, 2018, borrowings under our credit facility bore interest at variable rates based on LIBOR plus a spread of 200 basis points per annum.

We have interest rate swaps to hedge a portion of the forecasted cash flows of our floating rate debt. We designated these interest rate swaps as cash flow hedges of our exposure to variability in future cash flows attributable to payments of LIBOR due on forecasted notional debt obligations. Under the interest rate swaps, we pay a fixed rate on the notional amount in addition to the current interest rate as determined by our consolidated leverage ratio in effect at the time. A summary of our interest rate swaps as of December 26, 2018 is as follows:

Trade Date	Effective Date	Maturity Date	Notional Amount (In thousands)		Fixed Rate
March 20, 2015	March 29, 2018	March 31, 2025	$ 120,000		2.44%
October 1, 2015	March 29, 2018	March 31, 2026	50,000		2.46%
February 15, 2018	March 31, 2020	December 31, 2033	80,000	(1)	3.19%

(1) The notional amount of the swaps entered into on February 15, 2018 increases annually beginning September 30, 2020 until they reach the maximum notional amount of $425.0 million on September 28, 2029.

As of December 26, 2018, the fair value of the interest rate swaps was a net liability of $4.5 million, which is comprised of assets of $1.8 million recorded as a component of other noncurrent assets and liabilities of $6.2 million recorded as a component of other noncurrent liabilities in our Consolidated Balance Sheets.

As of December 26, 2018, the interest rate swaps effectively increased our ratio of fixed rate debt from approximately 10% of total debt to approximately 63% of total debt. We expect to reclassify approximately $0.2 million from accumulated other comprehensive loss related to our interest rate swaps during the next twelve months. This amount will be included as a component of interest expense in our Consolidated Statements of Income. See Note 12 to our Consolidated Financial Statements included in Part II, Item 8 of this report for additional details.
Based on the levels of borrowings under the credit facility at December 26, 2018, if interest rates changed by 100 basis points, our annual cash flow and income before taxes would change by approximately $1.2 million. This computation is determined by considering the impact of hypothetical interest rates on the credit facility at December 26, 2018, taking into consideration the interest rate swaps that will be in effect during the annual period. However, the nature and amount of our borrowings may vary as a result of future business requirements, market conditions and other factors.

Commodity Price Risk

We purchase certain food products, such as beef, poultry, pork, eggs and coffee, and utilities such as gas and electricity, that are affected by commodity pricing and are, therefore, subject to price volatility caused by weather, production problems, delivery difficulties and other factors that are outside our control and which are generally unpredictable. Changes in commodity prices affect us and our competitors generally and often simultaneously. In general, we purchase food products and utilities based upon market prices established with vendors. Although many of the items purchased are subject to changes in commodity prices, the majority of our purchasing arrangements are structured to contain features that minimize price volatility by establishing fixed pricing and/or price ceilings and floors. We use these types of purchase arrangements to control costs as an alternative to using financial instruments to hedge commodity prices. In many cases, we believe we will be able to address commodity cost increases which are significant and appear to be long-term in nature by adjusting our menu pricing or changing our product delivery strategy. However, competitive circumstances could limit such actions and, in those circumstances, increases in commodity prices could lower our margins. Because of the often short-term nature of commodity pricing aberrations and our ability to change menu pricing or product delivery strategies in response to commodity price increases, we believe that the impact of commodity price risk is not significant.

We have established a process to identify, control and manage market risks which may arise from changes in interest rates, commodity prices and other relevant rates and prices. We do not use derivative instruments for trading purposes.

Item 8. Financial Statements and Supplementary Data

See Index to Financial Statements which appears on page F-1 herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive and financial officers, including the Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), evaluated the effectiveness of our design and operation of our disclosure controls and procedures pursuant to and as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report.

Based on their assessment as of December 26, 2018, our CEO and CFO have concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

During the first quarter of 2018, we implemented new controls in connection with our adoption of the Accounting Standards Updates related to Topic 606, Revenue from Contracts with Customers. There were no significant changes to our internal control over financial reporting due to the adoption of the new standards.

There were no other changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) of the Exchange Act that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 26, 2018 based on the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 26, 2018.

The effectiveness of our internal control over financial reporting as of December 26, 2018 has also been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report that appears herein.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Denny's Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Denny's Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 26, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 26, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 26, 2018 and December 27, 2017, the related consolidated statements of income, comprehensive income, shareholders' deficit, and cash flows for each of the years in the three-year period ended December 26, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated February 25, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (Item 9A). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Greenville, South Carolina
February 25, 2019

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item with respect to our executive officers and directors; compliance by our directors, executive officers and certain beneficial owners of our common stock with Section 16(a) of the Exchange Act; the committees of our Board of Directors; our Audit Committee Financial Expert; and our Code of Ethics is furnished by incorporation by reference to information under the captions entitled "General-Equity Security Ownership," "Election of Directors," "Executive Compensation," "Section 16(a) Beneficial Ownership Reporting Compliance," "Related Party Transactions" and "Code of Ethics" in the proxy statement (to be filed hereafter) in connection with Denny's Corporation's 2019 Annual Meeting of Stockholders (the "proxy statement") and possibly elsewhere in the proxy statement (or will be filed by amendment to this report). Additional information required by this item related to our executive officers appears in Item 1 of Part I of this report under the caption "Executive Officers of the Registrant."

Item 11. Executive Compensation

The information required by this item is furnished by incorporation by reference to information under the captions entitled "Executive Compensation" and "Election of Directors" in the proxy statement and possibly elsewhere in the proxy statement (or will be filed by amendment to this report).

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The security ownership of certain beneficial owners information required by this item is furnished by incorporation by reference to information under the caption "Equity Security Ownership" in the proxy statement and possibly elsewhere in the proxy statement (or will be filed by amendment to this report).

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 26, 2018 with respect to our compensation plans under which equity securities of Denny's Corporation are authorized for issuance.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Weighted average exercise price of outstanding options, warrants and rights (2)	Number of securities remaining available for future issuance under equity compensation plans	
Equity compensation plans approved by security holders	4,112,605	(1)	$ 3.02	3,565,335	(3)
Equity compensation plans not approved by security holders	—		—	704,166	(4)
Total	4,112,605		$ 3.02	4,269,501	

(1)

Includes shares issuable in connection with our outstanding stock options, performance share awards and restricted stock units awards.

(2) Includes the weighted-average exercise price of stock options only.

(3) Includes shares of our common stock available for issuance as awards of stock options, restricted stock, restricted stock units, deferred stock units and performance awards under the Denny's Corporation 2017 Omnibus Incentive Plan.

(4) Includes shares of our common stock available for issuance as awards of stock options and restricted stock units outside of the Denny's Incentive Plans in accordance with NASDAQ Listing Rule 5635(c)(4).

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is furnished by incorporation by reference to information under the captions “Related Party Transactions” and “Election of Directors” in the proxy statement and possibly elsewhere in the proxy statement (or will be filed by amendment to this report).

Item 14. Principal Accounting Fees and Services

The information required by this item is furnished by incorporation by reference to information under the caption entitled “Selection of Independent Registered Public Accounting Firm” in the proxy statement and possibly elsewhere in the proxy statement (or will be filed by amendment to this report).

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements: See the Index to Financial Statements which appears on page F-1 hereof.

(a)(2) Financial Statement Schedules: No schedules are filed herewith because of the absence of conditions under which they are required or because the information called for is in our Consolidated Financial Statements or notes thereto appearing elsewhere herein.

(a)(3) Exhibits: Certain of the exhibits to this Report, indicated by an asterisk, are hereby incorporated by reference from other documents on file with the Commission with which they are electronically filed, under File No. 001-18051, to be a part hereof as of their respective dates.

Exhibit No.	Description
*3.1	Restated Certificate of Incorporation of Denny's Corporation dated March 3, 2003, as amended by Certificate of Amendment to Restated Certificate of Incorporation to Increase Authorized Capitalization dated August 25, 2004 (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 29, 2004).
*3.2	Amended and Restated By-laws of Denny's Corporation, amended and restated as of November 7, 2018 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of Denny's Corporation filed with the Commission on November 13, 2018).
+*10.1	Form of deferred stock unit award certificate to be used under the Denny's Corporation 2004 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.27 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 29, 2004).
+*10.2	Employment Offer Letter dated August 16, 2005 between Denny's Corporation and F. Mark Wolfinger (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 28, 2005).
+*10.3	Employment Offer Letter dated January 6, 2011 between Denny's Corporation and John C. Miller (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 30, 2011).
*10.4	Third Amended and Restated Credit Agreement dated as of October 26, 2017 among Denny's, Inc., as the Borrower, Denny's Corporation, as Parent, and Certain Subsidiaries of Parent, as Guarantors, Wells Fargo Bank, National Association, as Administrative Agent and L/C Issuer, Regions Bank and Citizens Bank, National Association, as Co-Syndication Agents, Cadence Bank, N.A. and Fifth Third Bank, as Co-Documentation Agents, and The Other Lenders Party Hereto, Wells Fargo Securities, LLC, Regions Capital Markets, a Division of Regions Bank and Citizens Bank, National Association, as Joint Lead Arrangers and Joint Bookrunners (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of Denny's Corporation filed with the Commission on October 31, 2017).
*10.5	Third Amended and Restated Guarantee and Collateral Agreement dated as of October 26, 2017 among Denny's, Inc., Denny's Realty, LLC, Denny's Corporation, DFO, LLC, the other Subsidiaries of Parent from time to time party hereto, and Wells Fargo Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K of Denny's Corporation filed with the Commission on October 31, 2017).
*10.6	First Amendment to Third Amended and Restated Credit Agreement dated June 26, 2018 among Denny's Inc., as the Borrower, Denny's Corporation, as Parent, and each of the Subsidiaries of Parent party thereto, as Guarantors, and Wells Fargo Bank, National Association, as Administrative Agent on behalf of the Lenders (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 26, 2018).
+*10.7	Denny's Corporation Amended and Restated Executive and Key Employee Severance Pay Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 26, 2018).

+*10.8	Denny's Inc. Deferred Compensation Plan, as amended and restated effective March 1, 2017 (incorporated by reference to Exhibit 99.1 to the Registration Statement on Form S-8 of Denny's Corporation (Commission File No. 333-216655) filed with the Commission on March 13, 2017).
+*10.9	Denny's Corporation 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 99.1 to the Registration Statement on Form S-8 of Denny's Corporation (Commission File No. 333-217843) filed with the Commission on May 10, 2017).

Exhibit No.	Description
+*10.10	Denny's Corporation 2012 Omnibus Incentive Plan (incorporated by reference to Appendix A of the Definitive Proxy Statement of Denny's Corporation filed with the Commission on April 5, 2012).
+*10.11	Denny's Corporation 2008 Omnibus Incentive Plan (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of Denny's Corporation filed with the Commission on May 27, 2008).
+*10.12	Amendment to the Denny's Corporation 2008 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended April 1, 2009).
+*10.13	Denny's Corporation Amended and Restated 2004 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended June 25, 2008).
+*10.14	Form of the 2014 Long-Term Performance Incentive Program Performance Shares and Target Cash Opportunity Award Certificate (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 26, 2014).
+*10.15	Written Description of the Denny's 2014 Long-Term Performance Incentive Program (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 26, 2014).
+*10.16	Form of Long-Term Incentive Program Award Certificate (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended April 1, 2015).
+*10.17	Form of the Written Description of the Denny’s Long-Term Incentive Program (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny’s Corporation for the quarter ended April 1, 2015).
+*10.18	Form of Stock Option Award Agreement (incorporated by reference to Exhibit 10.28 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 29, 2010).
+*10.19	Denny's Corporate Incentive Plan (incorporated by reference to Exhibit 10.30 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 30, 2009).
+10.20	Form of deferred stock unit award certificate to be used under the Denny's Corporation 2012 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.27 to the Annual Report on From 10-K of Denny's Corporation for the year ended December 31, 2014).
+10.21	Form of deferred stock unit award certificate to be used under the Denny’s Corporation 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K of Denny’s Corporation for the year ended December 27, 2017).
+*10.22	2018 Long-Term Incentive Program Performance Share Unit Award Certificate (Executive Officers) (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 28, 2018).

+*10.23	2018 Long-Term Incentive Program Performance Share Unit Award Certificate (Executive Officers with Special Retirement Vesting) (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 28, 2018).

Exhibit No.	Description
+*10.24	Summary of Non-Employee Director Compensation as of November 9, 2017 (incorporated by reference to Exhibit 10.29 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 27, 2017).
21.1	Subsidiaries of Denny's Corporation.
23.1	Consent of KPMG LLP.
31.1	Certification of John C. Miller, President and Chief Executive Officer of Denny's Corporation, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of F. Mark Wolfinger, Executive Vice President, Chief Administrative Officer and Chief Financial Officer of Denny's Corporation, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Statement of John C. Miller, President and Chief Executive Officer of Denny's Corporation, and F. Mark Wolfinger, Executive Vice President, Chief Administrative Officer and Chief Financial Officer of Denny's Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

+Denotes management contracts or compensatory plans or arrangements.
* Incorporated by reference.

Item 16. Form 10-K Summary

None.

DENNY'S CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Denny's Corporation.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Denny's Corporation and subsidiaries (the Company) as of December 26, 2018 and December 27, 2017, the related consolidated statements of income, comprehensive income, shareholders' deficit, and cash flows for each of the years in the three-year period ended December 26, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 26, 2018 and December 27, 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 26, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 26, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 25, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenue from contracts with customers effective December 28, 2017 due to the adoption of Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)" and all subsequent ASUs that modified Topic 606.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2003.

Greenville, South Carolina
February 25, 2019

Denny's Corporation and Subsidiaries
Consolidated Balance Sheets

	December 26, 2018	December 27, 2017
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 5,026	$ 4,983
Investments	1,709	—
Receivables, net	26,283	21,384
Inventories	2,993	3,134
Assets held for sale	723	—
Prepaid and other current assets	10,866	11,788
Total current assets	47,600	41,289
Property, net	140,004	139,856
Goodwill	39,781	38,269
Intangible assets, net	59,067	57,109
Deferred financing costs, net	2,335	2,942
Deferred income taxes	17,333	16,945
Other noncurrent assets	29,229	27,372
Total assets	$ 335,349	$ 323,782
Liabilities		
Current liabilities:		
Current maturities of capital lease obligations	3,410	3,168
Accounts payable	29,527	32,487
Other current liabilities	61,790	59,246
Total current liabilities	94,727	94,901
Long-term liabilities:		
Long-term debt, less current maturities	286,500	259,000
Capital lease obligations, less current maturities	27,181	27,054
Liability for insurance claims, less current portion	12,199	12,236
Other noncurrent liabilities	48,087	27,951
Total long-term liabilities	373,967	326,241
Total liabilities	468,694	421,142
Commitments and contingencies		
Shareholders' equity (deficit)		
Common stock $0.01 par value; shares authorized - 135,000; December 26, 2018: 108,585 shares issued and 61,533 shares outstanding; December 27, 2017: 107,740 shares issued and 64,589 shares outstanding	1,086	1,077
Paid-in capital	592,944	594,166
Deficit	(306,414)	(334,661)
Accumulated other comprehensive loss, net of tax	(4,146)	(2,316)
Shareholders' equity before treasury stock	283,470	258,266
Treasury stock, at cost, 47,052 and 43,151 shares, respectively	(416,815)	(355,626)
Total shareholders' deficit	(133,345)	(97,360)
Total liabilities and shareholders' deficit	$ 335,349	$ 323,782

See accompanying notes to consolidated financial statements.

Denny's Corporation and Subsidiaries
Consolidated Statements of Income

	Fiscal Year Ended		
	December 26, 2018	December 27, 2017	December 28, 2016
	(In thousands, except per share amounts)		
Revenue:			
Company restaurant sales	$411,932	$ 390,352	$ 367,310
Franchise and license revenue	218,247	138,817	139,638
Total operating revenue	630,179	529,169	506,948
Costs of company restaurant sales:			
Product costs	100,532	97,825	90,487
Payroll and benefits	164,314	153,037	142,823
Occupancy	23,228	20,802	19,557
Other operating expenses	60,708	53,049	49,229
Total costs of company restaurant sales	348,782	324,713	302,096
Costs of franchise and license revenue	114,296	39,294	40,805
General and administrative expenses	63,828	66,415	67,960
Depreciation and amortization	27,039	23,720	22,178
Operating (gains), losses and other charges, net	2,620	4,329	26,910
Total operating costs and expenses, net	556,565	458,471	459,949
Operating income	73,614	70,698	46,999
Interest expense, net	20,745	15,640	12,232
Other nonoperating expense (income), net	619	(1,743)	(1,109)
Net income before income taxes	52,250	56,801	35,876
Provision for income taxes	8,557	17,207	16,474
Net income	$43,693	$ 39,594	$ 19,402
Basic net income per share	$0.69	$ 0.58	$ 0.26
Diluted net income per share	$0.67	$ 0.56	$ 0.25
Basic weighted average shares outstanding	63,364	68,077	75,325
Diluted weighted average shares outstanding	65,562	70,403	77,206

See accompanying notes to consolidated financial statements.

Denny's Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

	Fiscal Year Ended		
	December 26, 2018	December 27, 2017	December 28, 2016
	(In thousands)		
Net income	$43,693	$ 39,594	$ 19,402
Other comprehensive (loss) income, net of tax:			
Minimum pension liability adjustment, net of tax of $53, $(22) and $2,148	155	(37)	21,819
Recognition of unrealized (loss) gain on hedge transactions, net of tax of $(303), $(559) and $353	(1,985)	(872)	551
Other comprehensive (loss) income	(1,830)	(909)	22,370
Total comprehensive income	$41,863	$ 38,685	$ 41,772

See accompanying notes to consolidated financial statements.

Denny's Corporation and Subsidiaries
Consolidated Statements of Shareholders' Deficit

Common Stock		Treasury Stock		Paid-in		Accumulated Other Comprehensive	Total Shareholders' Equity /
Shares	Amount	Shares	Amount	Capital	(Deficit)	Loss, Net	(Deficit)