PEABODY ENERGY CORP
Form 10-Q
November 05, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from __________ to __________

Commission File Number: 1-16463

PEABODY ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-4004153**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
701 Market Street, St. Louis, Missouri	**63101-1826**
(Address of principal executive offices)	(Zip Code)

(314) 342-3400

(Registrant s telephone number, including area code)

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

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

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

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

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

There were 269,637,635 shares of common stock with a par value of $0.01 per share outstanding at October 29, 2010.

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PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in millions, except per share data)			
Revenues				
Sales	$ 1,663.4	$ 1,537.0	$ 4,618.3	$ 4,023.5
Other revenues	201.3	130.0	423.4	434.7
Total revenues	1,864.7	1,667.0	5,041.7	4,458.2
Costs and expenses				
Operating costs and expenses	1,243.3	1,262.5	3,526.7	3,313.1
Depreciation, depletion and amortization	116.7	108.0	327.3	305.5
Asset retirement obligation expense	9.9	12.8	30.3	31.8
Selling and administrative expenses	54.1	54.2	163.6	145.9
Other operating (income) loss:				
Net gain on disposal or exchange of assets	(6.7)	(2.8)	(15.4)	(16.2)
(Income) loss from equity affiliates	2.7	12.0	(2.1)	22.7
Operating profit	444.7	220.3	1,011.3	655.4
Interest expense	62.2	52.3	170.1	151.6
Interest income	(2.8)	(2.2)	(5.4)	(6.2)
Income from continuing operations before income taxes	385.3	170.2	846.6	510.0
Income tax provision	147.7	57.0	257.2	165.6
Income from continuing operations, net of income taxes	237.6	113.2	589.4	344.4
Income (loss) from discontinued operations, net of income taxes	(1.3)	(2.4)	(2.2)	23.6
Net income	236.3	110.8	587.2	368.0
Less: Net income attributable to noncontrolling interests	12.2	4.0	23.2	12.0
Net income attributable to common stockholders	$ 224.1	$ 106.8	$ 564.0	$ 356.0
Income From Continuing Operations				
Basic earnings per share	$ 0.84	$ 0.41	$ 2.11	$ 1.24
Diluted earnings per share	$ 0.83	$ 0.41	$ 2.09	$ 1.23

Net Income Attributable to Common Stockholders				
Basic earnings per share	$ 0.84	$ 0.40	$ 2.10	$ 1.33
Diluted earnings per share	$ 0.83	$ 0.40	$ 2.08	$ 1.32
Dividends declared per share	$ 0.07	$ 0.06	$ 0.21	$ 0.18

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2010	December 31, 2009
	(Amounts in millions, except per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,367.5	$ 988.8
Accounts receivable, net of allowance for doubtful accounts of $26.5 at September 30, 2010 and $18.3 at December 31, 2009	583.3	303.0
Inventories	396.3	325.1
Assets from coal trading activities, net	170.5	276.8
Deferred income taxes	66.2	40.0
Other current assets	331.6	255.3
Total current assets	2,915.4	2,189.0
Property, plant, equipment and mine development		
Land and coal interests	7,586.7	7,557.3
Buildings and improvements	986.7	908.0
Machinery and equipment	1,560.0	1,391.2
Less: accumulated depreciation, depletion and amortization	(2,914.3)	(2,595.0)
Property, plant, equipment and mine development, net	7,219.1	7,261.5
Investments and other assets	838.1	504.8
Total assets	$ 10,972.6	$ 9,955.3
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 41.5	$ 14.1
Liabilities from coal trading activities, net	51.9	110.6
Accounts payable and accrued expenses	1,317.9	1,187.7
Total current liabilities	1,411.3	1,312.4
Long-term debt, less current maturities	2,714.6	2,738.2
Deferred income taxes	547.9	299.1
Asset retirement obligations	452.5	452.1
Accrued postretirement benefit costs	907.7	914.1
Other noncurrent liabilities	459.7	483.5
Total liabilities	6,493.7	6,199.4
Stockholders equity		

Preferred Stock $0.01 per share par value; 10.0 shares authorized, no shares issued or outstanding as of September 30, 2010 or December 31, 2009			
Series A Junior Participating Preferred Stock 1.5 shares authorized, no shares issued or outstanding as of September 30, 2010 or December 31, 2009			
Perpetual Preferred Stock 0.8 shares authorized, no shares issued or outstanding as of September 30, 2010 or December 31, 2009			
Series Common Stock $0.01 per share par value; 40.0 shares authorized, no shares issued or outstanding as of September 30, 2010 or December 31, 2009			
Common Stock $0.01 per share par value; 800.0 shares authorized, 278.4 shares issued and 269.6 shares outstanding as of September 30, 2010 and 276.8 shares issued and 268.2 shares outstanding as of December 31, 2009	2.8		2.8
Additional paid-in capital	2,109.5		2,067.7
Retained earnings	2,691.3		2,183.8
Accumulated other comprehensive loss	(20.4)		(183.5)
Treasury shares, at cost: 8.8 shares as of September 30, 2010 and 8.6 shares as of December 31, 2009	(329.5)		(321.1)
Peabody Energy Corporation s stockholders equity	4,453.7		3,749.7
Noncontrolling interests	25.2		6.2
Total stockholders equity	4,478.9		3,755.9
Total liabilities and stockholders equity	$ 10,972.6	$	9,955.3

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2010	2009
	(Dollars in millions)	
Cash Flows From Operating Activities		
Net income	$ 587.2	$ 368.0
(Income) loss from discontinued operations, net of income taxes	2.2	(23.6)
Income from continuing operations, net of income taxes	589.4	344.4
Adjustments to reconcile income from continuing operations, net of income taxes to net cash provided by operating activities:		
Depreciation, depletion and amortization	327.3	305.5
Deferred income taxes	178.6	99.6
Share-based compensation	30.1	28.0
Net gain on disposal or exchange of assets	(15.4)	(16.2)
(Income) loss from equity affiliates	(2.1)	22.7
Changes in current assets and liabilities:		
Accounts receivable, including securitization	(278.9)	43.5
Inventories	(71.2)	(81.0)
Net assets from coal trading activities	(0.8)	68.8
Other current assets	19.4	15.3
Accounts payable and accrued expenses	108.5	(146.5)
Asset retirement obligations	20.3	23.2
Workers compensation obligations	5.6	2.0
Accrued postretirement benefit costs	18.4	5.1
Contributions to pension plans	(23.9)	(37.7)
Other, net	(10.2)	(3.2)
Net cash provided by continuing operations	895.1	673.5
Net cash used in discontinued operations	(11.3)	(6.2)
Net cash provided by operating activities	883.8	667.3
Cash Flows From Investing Activities		
Additions to property, plant, equipment and mine development	(291.3)	(143.9)
Investment in Prairie State Energy Campus	(52.5)	(41.6)
Federal coal lease expenditures		(123.6)
Proceeds from disposal of assets, net of notes receivable	9.7	47.5
Investments in equity affiliates and joint ventures	(18.8)	(10.0)
Investments in debt and equity securities	(73.6)	
Proceeds from sale of debt securities	10.6	
Other, net	(7.4)	(4.9)
Net cash used in investing activities	(423.3)	(276.5)
Cash Flows From Financing Activities		

Proceeds from long-term debt		1,150.0		
Payments of long-term debt		(1,148.5)		(11.4)
Dividends paid		(56.5)		(48.1)
Payment of debt issuance costs		(32.2)		
Proceeds from stock options exercised		5.9		1.1
Other, net		(0.5)		8.7
Net cash used in financing activities		(81.8)		(49.7)
Net change in cash and cash equivalents		378.7		341.1
Cash and cash equivalents at beginning of period		988.8		449.7
Cash and cash equivalents at end of period	$	1,367.5	$	790.8

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Peabody Energy Corporation s Stockholders Equity						
	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Stockholders Equity
	(Dollars in millions)						
December 31, 2009	$ 2.8	$ 2,067.7	$ (321.1)	$ 2,183.8	$ (183.5)	$ 6.2	$ 3,755.9
Comprehensive income:							
Net income				564.0		23.2	587.2
Increase in fair value of cash flow hedges (net of $94.0 tax benefit)					135.9		135.9
Postretirement plans and workers compensation obligations (net of $18.5 tax provision)					27.2		27.2
Comprehensive income				564.0	163.1	23.2	750.3
Dividends paid				(56.5)			(56.5)
Share-based compensation		30.1					30.1
Stock options exercised		5.9					5.9
Employee stock purchases		5.8					5.8
Shares relinquished			(8.4)				(8.4)
Distributions to noncontrolling interests						(4.2)	(4.2)
September 30, 2010	$ 2.8	$ 2,109.5	$ (329.5)	$ 2,691.3	$ (20.4)	$ 25.2	$ 4,478.9

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The condensed consolidated financial statements include the accounts of Peabody Energy Corporation (the Company) and its affiliates. All intercompany transactions, profits and balances have been eliminated in consolidation.

The accompanying condensed consolidated financial statements as of September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009, and the notes thereto, are unaudited. However, in the opinion of management, these financial statements reflect all normal, recurring adjustments necessary for a fair presentation of the results of the periods presented. The balance sheet information as of December 31, 2009 has been derived from the Company s audited consolidated balance sheet. The results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for future quarters or for the year ending December 31, 2010.

The Company classifies items within discontinued operations in the unaudited condensed consolidated statements of operations when the operations and cash flows of a particular component (defined as operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity) of the Company have been (or will be) eliminated from the ongoing operations of the Company as a result of a disposal transaction, and the Company will no longer have any significant continuing involvement in the operations of that component. See Note 3 for additional details related to discontinued operations.

Certain amounts in prior periods have been reclassified to conform with the current year presentations with no effect on previously reported net income or stockholders equity.

(2) Newly Adopted Accounting Standards and Accounting Standards Not Yet Implemented

In January 2010, the Financial Accounting Standards Board (FASB) issued accounting guidance that requires new fair value disclosures, including significant transfers in and out of Level 1 and Level 2 fair-value measurements and a description of the reasons for the transfers. In addition, the guidance requires new disclosures regarding activity in Level 3 fair value measurements, including a gross basis reconciliation. The new disclosure requirements became effective for interim and annual periods beginning January 1, 2010, except for the disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010 (January 1, 2011 for the Company). While the adoption of the guidance had an impact on the Company s disclosures, it did not affect the Company s results of operations, financial condition or cash flows. Further, the adoption of the gross presentation of Level 3 activity will also impact the Company s disclosures, but will not affect its results of operations, financial condition or cash flows.

In June 2009, the FASB issued accounting guidance on consolidations which clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. The guidance also requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity, and additional disclosures about a company s involvement in variable interest entities and any associated changes in risk exposure. The guidance became effective January 1, 2010, at which time there was no impact on the Company s results of operations, financial condition or cash flows. The Company will continue monitoring and assessing its business ventures in accordance with the guidance.

In June 2009, the FASB issued accounting guidance that seeks to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. The guidance, which became effective January 1, 2010, had an impact on the Company s disclosures for its accounts receivable securitization program, but did not affect the Company s results of operations, financial condition or cash flows.

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Discontinued Operations

Discontinued operations reflect the spin off of Patriot Coal Corporation (Patriot) and operations recently divested, as well as certain non-strategic mining assets held for sale where the Company has committed to the divestiture of such assets.

Revenues resulting from discontinued operations (including assets held for sale) were $17.0 million and $88.6 million for the three months ended September 30, 2010 and 2009, respectively, and $61.7 million and $243.4 million for the nine months ended September 30, 2010 and 2009, respectively. Income (loss) before income taxes from discontinued operations reflects losses of $2.1 million and $5.1 million for the three months ended September 30, 2010 and 2009, respectively; a loss of $3.5 million for the nine months ended September 30, 2010 and income of $37.6 million for the nine months ended September 30, 2009. The income for the nine months ended September 30, 2009 related primarily to a coal excise tax refund. The income tax benefit resulting from discontinued operations was $0.8 million and $2.7 million for the three months ended September 30, 2010 and 2009 respectively; a benefit of $1.3 million for the nine months ended September 30, 2010 and a provision of $14.0 million for the nine months ended September 30, 2009.

Total assets related to discontinued operations were $21.5 million and $40.6 million as of September 30, 2010 and December 31, 2009, respectively. Total liabilities associated with discontinued operations were $23.4 million and $47.1 million as of September 30, 2010 and December 31, 2009, respectively.

(4) Assets and Liabilities from Coal Trading Activities

The fair value of assets and liabilities from coal trading activities is set forth below:

	September 30, 2010		December 31, 2009	
	(Dollars in millions)			
	Gross Basis	Net Basis	Gross Basis	Net Basis
Assets from coal trading activities	$ 588.1	$ 170.5	$ 949.8	$ 276.8
Liabilities from coal trading activities	(464.8)	(51.9)	(779.3)	(110.6)
Subtotal	123.3	118.6	170.5	166.2
Net margin held [1]	(4.7)		(4.3)	
Net fair value of coal trading positions	$ 118.6	$ 118.6	$ 166.2	$ 166.2

(1) Represents margin held from counterparties of $4.8 million net of margin posted with counterparties of $0.1 million at September 30, 2010; and margin held from

counterparties of $22.4 million net of margin posted with counterparties of $18.1 million at December 31, 2009.

As of September 30, 2010, forward contracts made up 43% and 37% of the Company s trading assets and liabilities, respectively; financial swaps represent most of the remaining balances. The net fair value of coal trading positions designated as cash flow hedges of anticipated future sales was an asset of $17.7 million and $93.0 million as of September 30, 2010 and December 31, 2009, respectively.

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PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2010, the time of the estimated future realization of the value of the Company s trading portfolio was as follows:

Year of Expiration	Percentage of Portfolio Total
2010	13%
2011	61%
2012	24%
2013	2%
	100%

At September 30, 2010, 51% of the Company s credit exposure related to coal trading activities with investment grade counterparties and 49% with non-investment grade counterparties. See Note 12 for more information regarding the Company s coal trading activities.

(5) Inventories

Inventories consisted of the following:

	September 30, 2010	December 31, 2009
	(Dollars in millions)	
Materials and supplies	$ 94.3	$ 106.5
Raw coal	74.8	80.5
Saleable coal	227.2	138.1
Total	$ 396.3	$ 325.1

The current year increase in saleable coal was driven by increases at certain of the Company s Australian mines mostly due to timing of shipments.

(6) Income Taxes

The income tax provision differed from the United States (U.S.) federal statutory rate as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Federal statutory provision	$ 134.9	$ 59.6	$ 296.3	$ 178.5
Excess depletion	(25.8)	(1.1)	(44.4)	(35.9)
Foreign earnings provision differential	(29.8)	(26.7)	(57.1)	(50.4)
Foreign earnings repatriation	84.5		84.5	
Remeasurement of foreign income tax accounts	42.7	22.3	28.8	69.1
State income taxes, net of U.S. federal tax benefit	2.1	3.0	7.0	5.0
General business tax credits	(5.6)	0.3	(13.1)	(10.0)
Changes in valuation allowance for AMT credits	(63.7)	3.0	(45.6)	9.5
Changes in tax reserves	2.2	1.3	(4.9)	4.4

Other, net	6.2	(4.7)	5.7	(4.6)
Total provision	$ 147.7	$ 57.0	$ 257.2	$ 165.6

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PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the quarter ended September 30, 2010, the Company recorded tax expense of $84.5 million related to certain earnings of non-U.S. subsidiaries as a result of the Company s intention to repatriate those earnings in the fourth quarter of 2010.

The Company evaluated and assessed the expected utilization of tax credits, future taxable income projections, available tax strategies and the overall deferred tax position to determine the appropriate amount and timing of valuation allowance adjustments. This comprehensive assessment resulted in the removal of valuation allowances totaling $69.3 million during the quarter ended September 30, 2010, of which $63.7 million related to alternative minimum tax credits and $5.6 million related to expected realization of general business credits.

As a result of the completion of the Internal Revenue Service (IRS) examination of the 2005 federal income tax year, the Company reduced its gross unrecognized tax benefits by $15.2 million, which is reflected as a benefit in the income tax provision for the nine months ended September 30, 2010. The Company and the IRS did not reach an agreement on the adjustment of interest income accrued by a foreign subsidiary through the alternative dispute resolution program (Fast Track Settlement) for the 2006 federal income tax year. The Company and the IRS are proceeding with the formal IRS appeals process to resolve the remaining issue, which could take one to two years to complete.

(7) Long-Term Debt

The Company s total indebtedness as of September 30, 2010 and December 31, 2009 consisted of the following:

	September 30, 2010	December 31, 2009
	(Dollars in millions)	
Term Loan	$ 500.0	$ 490.3
6.875% Senior Notes due March 2013		650.0
5.875% Senior Notes due March 2016	218.1	218.1
7.375% Senior Notes due November 2016	650.0	650.0
6.5% Senior Notes due September 2020	650.0	
7.875% Senior Notes due November 2026	247.2	247.1
6.34% Series B Bonds due December 2014	15.0	15.0
6.84% Series C Bonds due December 2016	33.0	33.0
Convertible Junior Subordinated Debentures due 2066	372.8	371.5
Capital lease obligations	66.6	67.5
Fair value hedge adjustment	2.4	8.4
Other	1.0	1.4
Total	$ 2,756.1	$ 2,752.3

Credit Facility

On June 18, 2010 the Company entered into an unsecured credit agreement (the Credit Agreement) which established a $2.0 billion credit facility (the Credit Facility) and replaced the Company s third amended and restated credit agreement dated as of September 15, 2006. The Credit Agreement provides for a $1.5 billion revolving credit facility (the Revolver) and a $500.0 million term loan facility (the Term Loan). The Company has the option to request an increase in the capacity of the Credit Facility, provided the aggregate increase for the Revolver and Term Loan does not exceed $250.0 million, the minimum amount of the increase is $25.0 million, and certain other conditions are met under the Credit Agreement. The Revolver also includes a swingline sub-facility under which up to $50.0 million is available for same-day borrowings. The Revolver commitments and the Term Loan under the Credit Facility will mature on June 18, 2015.

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PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Revolver replaced the Company s previous $1.8 billion revolving credit facility and the Term Loan replaced the Company s previous term loan facility (the previous term loan had a balance of $490.3 million at the time of replacement and at December 31, 2009). The Company recorded $21.9 million in deferred financing costs, which are being amortized to interest expense over the five year term of the Credit Facility. The Company also recorded refinancing charges of $9.3 million, which is classified as interest expense in the unaudited condensed consolidated statements of operations. The $500.0 million of proceeds from the Term Loan was used to repay the $490.3 million balance due on the Company s previous term loan facility.

All borrowings under the Credit Agreement (other than swingline borrowings and borrowings denominated in currencies other than U.S. dollars) bear interest, at the Company s option, at either a base rate or a eurocurrency rate , as defined in the Credit Agreement, plus in each case, a rate adjustment based on the Company s leverage ratio, as defined in the Credit Agreement, ranging from 2.50% to 1.25% per year for borrowings bearing interest at the base rate and from 3.50% to 2.25% per year for borrowings bearing interest at the eurocurrency rate (such rate added to the eurocurrency rate, the Eurocurrency Margin). Swingline borrowings bear interest at a BBA LIBOR rate equal to the rate at which deposits in U.S. dollars for a one month term are offered in the interbank eurodollar market, as determined by the administrative agent, plus the Eurocurrency Margin. Borrowings denominated in currencies other than U.S. dollars will bear interest at the eurocurrency rate plus the Eurocurrency Margin.

The Company pays a usage-dependent commitment fee under the Revolver, which is dependent upon the Company s leverage ratio, as defined in the Credit Agreement, and ranges from 0.500% to 0.375% of the available unused commitment. Swingline loans are not considered usage of the revolving credit facility for purposes of calculating the commitment fee. The fee accrues quarterly in arrears.

In addition, the Company pays a letter of credit fee calculated at a rate dependent on the Company s leverage ratio, as defined in the Credit Agreement, ranging from 3.50% to 2.25% per year of the undrawn amount of each letter of credit and a fronting fee equal to 0.125% per year of the face amount of each letter of credit. These fees are payable quarterly in arrears.

The $500.0 million Term Loan is subject to quarterly repayment of 1.25% per quarter commencing on December 31, 2010, with the final payment of all amounts outstanding (including accrued interest) being due on June 18, 2015.

Under the Credit Agreement, the Company must comply with certain financial covenants on a quarterly basis including a minimum interest coverage ratio and a maximum leverage ratio. The Credit Agreement also includes various affirmative and negative covenants that place limitations on the Company s ability to incur debt; make loans, investments, advances and acquisitions; sell assets; make redemptions and repurchase of capital stock; engage in mergers or consolidations; engage in affiliate transactions; and restrict distributions from subsidiaries. When in compliance with the financial covenants and customary default provisions, the Company is not restricted in its ability to pay dividends, sell assets and make redemptions and repurchase capital stock.

Nearly all of the Company s direct and indirect domestic subsidiaries guarantee all loans under the Credit Agreement. Certain of the Company s foreign subsidiaries also, to the extent permitted by applicable law and existing contractual obligations, will be guarantors of loans made to one of the Company s Dutch subsidiaries.

As of September 30, 2010, the Company had $240.7 million of letters of credit outstanding under the Revolver, with a remaining borrowing capacity of $1.3 billion.

The interest rate payable on the Revolver and the Term Loan was LIBOR plus 2.50%, or 2.76%, at September 30, 2010.

PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6.5% Senior Notes

On August 25, 2010, the Company completed a $650.0 million offering of 6.5% 10-year Senior Notes due September 2020 (the Notes). The Notes are senior unsecured obligations and rank senior in right of payment to any subordinated indebtedness; equally in right of payment with any senior indebtedness; effectively junior in right of payment to the Company s future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and effectively junior to all the indebtedness and other liabilities of its subsidiaries that do not guarantee the Notes. Interest payments are scheduled to occur on March 15 and September 15 of each year, commencing on March 15, 2011.

The Notes are jointly and severally guaranteed by nearly all of the Company s domestic subsidiaries, as defined in the note indenture. The note indenture contains covenants that, among other things, limit the Company s ability to create liens and enter into sale and lease-back transactions. The Notes are redeemable at a redemption price equal to 100% of the principal amount of the Notes being redeemed plus a make-whole premium and any accrued unpaid interest to the redemption date.

The Company used the net proceeds of $641.9 million from the issuance of the Notes, after deducting underwriting discounts and expenses, and cash on hand to extinguish its previously outstanding $650.0 million aggregate principal 6.875% Senior Notes formerly due in March 2013 (the 2013 Notes). All of the 2013 Notes were either tendered or redeemed as of September 30, 2010. The Company recognized debt extinguishment costs of $8.4 million, which is classified as interest expense in the unaudited condensed consolidated statements of operations. The issuance of the Notes and the extinguishment of the 2013 Notes allowed the Company to extend the maturity of its senior indebtedness and lower the coupon rate.

Other Long-Term Debt

There were no other significant changes to the Company s long-term debt since December 31, 2009.

(8) Comprehensive Income

The following table sets forth the after-tax components of comprehensive income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Net income	$ 236.3	$ 110.8	$ 587.2	$ 368.0
Increase in fair value of cash flow hedges, net of income taxes	268.1	82.3	135.9	321.2
Amortization of actuarial loss and prior service cost associated with postretirement plans and workers compensation obligations, net of income taxes	11.2	3.5	27.2	1.4
Comprehensive income	$ 515.6	$ 196.6	$ 750.3	$ 690.6

Comprehensive income differs from net income by the amount of unrealized gain or loss resulting from valuation changes of the Company s cash flow hedges (which include fuel and explosives hedges, currency forwards, traded coal index contracts and interest rate swaps) and the change in actuarial loss and prior service cost during the periods. The values of the Company s cash flow hedging instruments can be affected by changes in interest rates, crude oil, diesel fuel, natural gas and coal prices and the U.S. dollar/Australian dollar exchange rate. The change in the value of the cash flow hedges during the nine months ended September 30, 2010 was primarily due to the strengthening of the Australian dollar against the U.S. dollar.

PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Earnings per Share (EPS)

The Company uses the two-class method to compute basic and diluted EPS for all periods presented. The following illustrates the earnings allocation method utilized in the calculation of basic and diluted EPS.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In millions, except per share amounts)			
EPS numerator:				
Income from continuing operations, net of income taxes	$ 237.6	$ 113.2	$ 589.4	$ 344.4
Less: Net income attributable to noncontrolling interests	12.2	4.0	23.2	12.0
Income from continuing operations attributable to common stockholders before allocation of earnings to participating securities	225.4	109.2	566.2	332.4
Less: Earnings allocated to participating securities	(1.7)	(0.7)	(4.1)	(2.3)
Income from continuing operations attributable to common stockholders [1]	223.7	108.5	562.1	330.1
Income (loss) from discontinued operations, net of income taxes	(1.3)	(2.4)	(2.2)	23.6
Net income attributable to common stockholders [1]	$ 222.4	$ 106.1	$ 559.9	$ 353.7
Weighted average shares outstanding basic	267.1	265.7	266.7	265.4
Dilutive impact of share-based compensation	1.5	1.6	1.7	1.9
Weighted average shares outstanding diluted [2]	268.6	267.3	268.4	267.3
Basic EPS attributable to common stockholders:				
Income from continuing operations	$ 0.84	$ 0.41	$ 2.11	$ 1.24
Income (loss) from discontinued operations		(0.01)	(0.01)	0.09
Net income	$ 0.84	$ 0.40	$ 2.10	$ 1.33
Diluted EPS attributable to common stockholders:				
Income from continuing operations	$ 0.83	$ 0.41	$ 2.09	$ 1.23
Income (loss) from discontinued operations		(0.01)	(0.01)	0.09
Net income	$ 0.83	$ 0.40	$ 2.08	$ 1.32

(1) The reallocation adjustment for participating securities to arrive at the numerator used to calculate diluted EPS was less than $0.1 million for the periods presented.

(2) Weighted average shares outstanding excludes anti-dilutive shares that were less than 0.1 million for the three and nine months ended September 30, 2010 and 0.1 million for the three months ended September 30, 2009 and 0.3 million for the nine months ended September 30, 2009.

(10) Pension and Postretirement Benefit Costs

Net periodic pension costs included the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Service cost for benefits earned	$ 0.4	$ 0.4	$ 1.2	$ 1.1
Interest cost on projected benefit obligation	12.6	12.8	37.8	38.4
Expected return on plan assets	(14.6)	(15.2)	(43.8)	(45.6)
Amortization of prior service cost and actuarial loss	5.8	0.8	17.5	2.5
Net periodic pension costs (benefit)	$ 4.2	$ (1.2)	$ 12.7	$ (3.6)

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net periodic postretirement benefit costs included the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Service cost for benefits earned	$ 3.5	$ 2.7	$ 9.7	$ 7.9
Interest cost on accumulated postretirement benefit obligation	14.7	13.8	43.8	41.3
Amortization of prior service cost and actuarial loss	7.3	4.0	21.0	11.8
Net periodic postretirement benefit costs	$ 25.5	$ 20.5	$ 74.5	$ 61.0

During the nine months ended September 30, 2010, the Company made discretionary contributions of approximately $22 million to its defined benefit pension plans. The Company expects to make additional discretionary contributions to such plans of approximately $3 million during 2010. Total minimum and discretionary contributions in 2010 are currently expected to be approximately $28 million.

In March 2010, President Obama signed into law comprehensive health care reform legislation under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (the Acts). Based on its analyses to date, the Company does not currently believe the Acts will result in a remeasurement of the Company s postretirement health care liabilities. It will continue to assess the accounting implications of the Acts as related regulations and interpretations of the Acts become available. The extent of the impact cannot be actuarially determined until related regulations are promulgated and additional interpretations of the Acts become available. Provisions within the Acts for which financial impacts to the Company s postretirement health care liabilities are possible, but not currently determinable, include application of the excise tax on high-cost employer coverage. The Company does not expect the other provisions of the Acts to materially impact its postretirement health care liabilities or results of operations. The Acts also impact active employees through various changes and/or expansions of healthcare benefits and coverage. While the Company will continue to monitor and assess the effect of the Acts on its active employee population, the Company cannot reasonably predict at this time what the amount of any additional cost may be.

(11) Segment Information

The Company reports its operations primarily through the following reportable operating segments: Western U.S. Mining, Midwestern U.S. Mining, Australian Mining, Trading and Brokerage and Corporate and Other. The Company s chief operating decision maker uses Adjusted EBITDA as the primary measure of segment profit and loss. The Company defines Adjusted EBITDA as income from continuing operations before deducting net interest expense, income taxes, asset retirement obligation expense and depreciation, depletion and amortization.

PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Operating segment results for the three and nine months ended September 30, 2010 and 2009 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Revenues:				
Western U.S. Mining	$ 707.4	$ 683.6	$ 2,021.6	$ 1,972.8
Midwestern U.S. Mining	317.1	327.5	949.8	978.0
Australian Mining	733.4	537.3	1,777.3	1,206.6
Trading and Brokerage	101.8	112.9	273.7	284.8
Corporate and Other	5.0	5.7	19.3	16.0
Total	$ 1,864.7	$ 1,667.0	$ 5,041.7	$ 4,458.2
Adjusted EBITDA:				
Western U.S. Mining	$ 215.7	$ 208.6	$ 630.9	$ 543.9
Midwestern U.S. Mining	77.2	67.0	222.7	207.4
Australian Mining	323.2	108.2	670.1	319.1
Trading and Brokerage	44.3	44.2	91.0	145.2
Corporate and Other	(89.1)	(86.9)	(245.8)	(222.9)
Total	$ 571.3	$ 341.1	$ 1,368.9	$ 992.7

A reconciliation of Adjusted EBITDA to consolidated income from continuing operations follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Total Adjusted EBITDA	$ 571.3	$ 341.1	$ 1,368.9	$ 992.7
Depreciation, depletion and amortization	116.7	108.0	327.3	305.5
Asset retirement obligation expense	9.9	12.8	30.3	31.8
Interest expense	62.2	52.3	170.1	151.6
Interest income	(2.8)	(2.2)	(5.4)	(6.2)
Income tax provision	147.7	57.0	257.2	165.6
Income from continuing operations, net of income taxes	$ 237.6	$ 113.2	$ 589.4	$ 344.4

(12) Risk Management and Fair Value Measurements

Risk Management — Non Coal Trading

The Company is exposed to various types of risk in the normal course of business, including fluctuations in commodity prices, interest rates and foreign currency exchange rates. These risks are actively monitored in an effort to ensure compliance with the risk management policies of the Company. In most cases, commodity price risk (excluding coal trading activities) related to the sale of coal is mitigated through the use of long-term, fixed-price contracts rather than financial instruments.

PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interest Rate Swaps. The Company is exposed to interest rate risk on its fixed rate and variable rate long-term debt. From time to time, the Company manages the interest rate risk associated with the fair value of its fixed rate borrowings using fixed-to-floating interest rate swaps to effectively convert a portion of the underlying cash flows on the debt into variable rate cash flows. The Company designates these swaps as fair value hedges, with the objective of hedging against changes in the fair value of the fixed rate debt that result from market interest rate changes. From time to time, the interest rate risk associated with the Company s variable rate borrowings is managed using floating-to-fixed interest rate swaps. The Company designates these swaps as cash flow hedges, with the objective of reducing the variability of cash flows associated with market interest rate changes. As of September 30, 2010, the Company had no interest rate swaps in place.

Foreign Currency Hedges. The Company is exposed to foreign currency exchange rate risk on Australian dollar expenditures made in its Australian Mining segment. This risk is managed by entering into forward contracts and options that the Company designates as cash flow hedges, with the objective of reducing the variability of cash flows associated with forecasted Australian dollar expenditures. As of September 30, 2010, the Company had only forward contracts in place.

Diesel Fuel and Explosives Hedges. The Company is exposed to commodity price risk associated with diesel fuel and explosives in the U.S. and Australia. This risk is managed through the use of cost pass-through contracts and derivatives, primarily swaps. The Company has generally designated the swap contracts as cash flow hedges, with the objective of reducing the variability of cash flows associated with the forecasted purchase of diesel fuel and explosives. In Australia, the explosives costs and a portion of the diesel fuel costs are not hedged and they are usually included in the fees paid to the Company s contract miners.

Notional Amounts and Fair Value. The following summarizes the Company s foreign currency and commodity positions at September 30, 2010:

	Notional Amount by Year of Maturity						
	Total	**2010**	**2011**	**2012**	**2013**	**2014**	**2015 and thereafter**
Foreign Currency							
A$:US$ hedge contracts (A$ millions)	$4,510.6	$446.1	$1,461.2	$1,340.2	$841.6	$421.5	$
Commodity Contracts							
Diesel fuel hedge contracts (million gallons)	211.4	20.0	89.5	76.2	25.7		
U.S. explosives hedge contracts (million MMBtu)	0.7	0.7					

	Account Classification by			
	Cash flow hedge	**Fair value hedge**	**Economic hedge**	**Fair Value Asset (Liability) (Dollars in millions)**

Foreign Currency				
A$:US$ hedge contracts (A$ millions)	$4,510.6	$	$	$ 457.0
Commodity Contracts				
Diesel fuel hedge contracts (million gallons)	211.4			$ (2.4)
U.S. explosives hedge contracts (million MMBtu)	0.7			$ (2.1)

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PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Hedge Ineffectiveness. The Company assesses both at inception and at least quarterly thereafter, whether the derivatives used in hedging activities are highly effective at offsetting the changes in the anticipated cash flows of the hedged item. The effective portion of the change in the fair value is recorded as a separate component of stockholders equity until the hedged transaction impacts reported earnings, at which time gains and losses are reclassified to the consolidated statements of operations at the time of the recognition of the underlying hedged item. The ineffective portion of the derivative s change in fair value is recorded in the consolidated statements of operations. In addition, if the hedging relationship ceases to be highly effective, or it becomes probable that a forecasted transaction is no longer expected to occur, gains and losses on the derivative are recorded to the consolidated statements of operations.

A measure of ineffectiveness is inherent in hedging future diesel fuel purchases with derivative positions based on crude oil and refined petroleum products as a result of location differences.

The Company s derivative positions for the hedging of future explosives purchases are based on natural gas, which is the primary price component of explosives. However, a small measure of ineffectiveness exists as the contractual purchase price includes manufacturing fees that are subject to periodic adjustments. In addition, other fees, such as transportation surcharges, can result in ineffectiveness, but have historically changed infrequently and comprise a small portion of the total explosives cost.

With respect to the interest rate swaps, there was no hedge ineffectiveness recognized in the unaudited condensed consolidated statements of operations during the three or nine months ended September 30, 2010 and 2009.

The tables below show the classification and amounts of pre-tax gains and losses related to the Company s non-trading hedges during the three and nine months ended September 30, 2010 and 2009:

		Three Months Ended September 30, 2010			
Financial Instrument	**Income Statement Classification Gains (Losses) - Realized**	**Gain (loss) recognized in income on non-designated derivatives**	**Gain (loss) recognized in other comprehensive income on derivative (effective portion)**	**Gain (loss) reclassified from other comprehensive income into income (effective portion)**	**Gain (loss) reclassified from other comprehensive income into income (ineffective portion)**
		(Dollars in millions)			
Diesel fuel hedge contracts:					
- Cash flow hedges	Operating costs and expenses	$	$ 22.3	$ (10.9)	$ 0.7
Explosives cash flow hedge contracts:					
- Cash flow hedges	Operating costs and expenses		(1.1)	(2.5)	
Foreign currency cash flow hedge contracts	Operating costs and expenses		434.7	38.5	
Total		$	$ 455.9	$ 25.1	$ 0.7

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PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial Instrument	Income Statement Classification Gains (Losses) - Realized	Three Months Ended September 30, 2009 Gain (loss) recognized in income on non designated derivatives [1]	Gain (loss) recognized in other comprehensive income on derivative (effective portion)	Gain (loss) reclassified from other comprehensive income into income (effective portion)	Gain (loss) reclassified from other comprehensive income into income (ineffective portion)
			(Dollars in millions)		
Interest rate swaps:					
- Cash flow hedges	Interest expense	$	$ (1.2)	$ (3.4)	$
Diesel fuel hedge contracts:					
- Cash flow hedges	Operating costs and expenses		(5.7)	(20.0)	1.0
- Economic hedges	Operating costs and expenses	(0.4)			
Explosives cash flow hedge contracts:					
- Cash flow hedges	Operating costs and expenses		2.2	(1.6)	
- Economic hedges	Operating costs and expenses	(1.3)			
Foreign currency cash flow hedge contracts	Operating costs and expenses		151.9	5.6	
Total		$ (1.7)	$ 147.2	$ (19.4)	$ 1.0

(1) Amounts relate to derivatives that were de-designated and settled in 2009.

	Income Statement Classification	Nine Months Ended September 30, 2010 Gain (loss) recognized in income on non designated	Gain (loss) recognized in other comprehensive	Gain (loss) reclassified from other comprehensive	Gain (loss) reclassified from other comprehensive income

Financial Instrument	Gains (Losses) - Realized	derivatives (2)	income on derivative (effective portion)	income into income (effective portion)	into income (ineffective portion)
			(Dollars in millions)		
Interest rate swaps:					
- Cash flow hedges	Interest expense	$ (8.5)	$ 0.8	$ (0.5)	$
Diesel fuel hedge contracts:					
- Cash flow hedges	Operating costs and expenses		(7.5)	(27.3)	
Explosives cash flow hedge contracts:					
- Cash flow hedges	Operating costs and expenses		(4.7)	(7.4)	
Foreign currency cash flow hedge contracts	Operating costs and expenses		355.3	104.4	
Total		$ (8.5)	$ 343.9	$ 69.2	$

(2) Amounts relate to swaps that were de-designated and terminated in conjunction with the refinancing of the Company s previous credit facility.

		Nine Months Ended September 30, 2009			
Financial Instrument	Income Statement Classification Gains (Losses) - Realized	Gain (loss) recognized in income on non designated derivatives (1)	Gain (loss) recognized in other comprehensive income on derivative (effective portion)	Gain (loss) reclassified from other comprehensive income into income (effective portion)	Gain (loss) reclassified from other comprehensive income into income (ineffective portion)
			(Dollars in millions)		
Interest rate swaps:					
- Cash flow hedges	Interest expense	$	$ (1.1)	$ (9.7)	$
Diesel fuel hedge contracts:					
- Cash flow hedges	Operating costs and expenses		35.6	(72.7)	1.2
- Economic hedges	Operating costs and expenses	(1.1)			

Explosives cash flow hedge contracts:					
- Cash flow hedges	Operating costs and expenses		(2.0)	(11.9)	
- Economic hedges	Operating costs and expenses	(2.1)			
Foreign currency cash flow hedge contracts	Operating costs and expenses		402.4	(54.0)	
Total		$ (3.2)	$ 434.9	$ (148.3)	$ 1.2

(1) Amounts relate to derivatives that were de-designated and settled in 2009.

PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The classification and amount of derivatives presented on a gross basis as of September 30, 2010 and December 31, 2009 are as follows:

Financial Instrument	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities
	Fair Value as of September 30, 2010 (Dollars in millions)			
Diesel fuel cash flow hedge contracts	$ 8.1	$ 11.6	$ 20.7	$ 1.4
Explosives cash flow hedge contracts			2.1	
Foreign currency cash flow hedge contracts	208.2	248.8		
Total	$ 216.3	$ 260.4	$ 22.8	$ 1.4

Financial Instrument	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities
	Fair Value as of December 31, 2009 (Dollars in millions)			
Interest rate swaps:				
- Fair value hedges	$	$ 1.5	$	$
- Cash flow hedges				9.8
Diesel fuel cash flow hedge contracts	6.7	18.0	31.3	15.6
Explosives cash flow hedge contracts	0.1		4.9	
Foreign currency cash flow hedge contracts	110.6	100.2	1.6	3.1
Total	$ 117.4	$ 119.7	$ 37.8	$ 28.5

After netting by counterparty where permitted, the fair values of the respective derivatives are reflected in Other current assets, Investments and other assets, Accounts payable and accrued expenses, and Other noncurrent liabilities in the condensed consolidated balance sheets.

The Company elected the trading exemption under U.S. generally accepted accounting principles (GAAP) for its coal trading transactions which allows for reduced disclosure since it is the Company s policy to include these instruments as a part of its trading book. For further information, see Risk Management Coal Trading below.

Risk Management Coal Trading

The Company engages in trading activities which include over-the-counter direct and brokered trading of coal and the related ocean freight along with the related fuel commodities (coal trading), some of which is subsequently exchange-cleared and some of which is bilaterally-cleared. Except those for which the Company has elected to apply a normal purchases and normal sales exception, derivative coal trading contracts are accounted for on a fair value basis. For derivative trading contracts, the Company establishes fair values using bid/ask price quotations or other market assessments obtained from multiple, independent third-party brokers to value its trading positions from the over-the-counter market. Prices from these sources are then averaged to obtain trading position values. While the Company does not anticipate any decrease in the number of third-party brokers or market liquidity, such events could erode the quality of market information and therefore negatively impact the Company s ability to value its market positions. For its exchange-cleared positions, the Company utilizes exchange-published settlement prices. See Note 4 for information related to the maturity and valuation of the Company s trading portfolio.

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PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Trading revenues are recorded in Other revenues in the unaudited condensed consolidated statements of operations and include realized and unrealized gains and losses on derivative instruments, including those under the normal purchases and normal sales exception. The tables below show the trading revenues during the three and nine months ended September 30, 2010 and 2009:

Trading Revenue by Type of Instrument	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(Dollars in millions)			
Commodity swaps and options	$ 38.9	$ 52.6	$ 29.5	$ 138.6
Physical commodity purchase / sale contracts	23.2	11.9	141.5	69.3
Total trading revenue	$ 62.1	$ 64.5	$ 171.0	$ 207.9

Hedge Ineffectiveness. In some instances, the Company has designated an existing coal trading derivative as a hedge and, thus, the derivative has a non-zero fair value at hedge inception. The off-market nature of these derivatives, which is best described as an embedded financing element within the derivative, is a source of ineffectiveness. In other instances, the Company uses a coal trading derivative that settles at a different time or has a different location basis than the occurrence of the cash flow being hedged. The time and location basis differences yield ineffectiveness to the extent the periodic changes in the fair value of the derivatives exceed the changes in the hedged item. The ineffective portion of the derivative s change in fair value is recorded in the consolidated statements of operations.

Nonperformance and Credit Risk

The fair value of the Company s assets and liabilities reflects adjustments for nonperformance and credit risk. The concentration of nonperformance and credit risk is substantially with electric utilities, energy producers and energy marketers. The Company s policy is to independently evaluate each customer s creditworthiness prior to entering into transactions and to regularly monitor the credit extended. If the Company engages in a transaction with a counterparty that does not meet its credit standards, the Company seeks to protect its position by requiring the counterparty to provide an appropriate credit enhancement. Also, when appropriate (as determined by its credit management function), the Company has taken steps to reduce its exposure to customers or counterparties whose credit has deteriorated and who may pose a higher risk of failure to perform under their contractual obligations. These steps include obtaining letters of credit or cash collateral (margin), requiring prepayments for shipments or the creation of customer trust accounts held for the Company s benefit to serve as collateral in the event of a failure to pay or perform. To reduce its credit exposure related to trading and brokerage activities, the Company seeks to enter into netting agreements with counterparties that permit the Company to offset receivables and payables with such counterparties and, to the extent required, will post or receive margin amounts associated with exchange-cleared positions.

The Company conducts its hedging activities related to foreign currency, interest rate, and fuel and explosives exposures with a variety of highly-rated commercial banks and closely monitors counterparty creditworthiness.

Certain of the Company s derivative trading instruments require the parties to provide additional performance assurances whenever a material adverse event jeopardizes one party s ability to perform under the instrument. If the Company were to sustain a material adverse event (using commercially reasonable standards), the counterparties could request collateralization on derivative trading instruments in net liability positions which, based on an aggregate fair value at September 30, 2010 and December 31, 2009, would have amounted to collateral postings of approximately $47 million and $84 million, respectively, to its counterparties.

PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Certain of the Company s other derivative trading instruments require the parties to provide additional performance assurances whenever a credit downgrade occurs below a certain level as specified in each underlying contract. The terms of such derivative trading instruments typically require additional collateralization, which is commensurate with the severity of the credit downgrade. If a credit downgrade were to occur below contractually specified levels, the Company s additional collateral requirements owed to its counterparties would have been zero at September 30, 2010 and approximately $16 million at December 31, 2009 based on the aggregate fair value of all derivative trading instruments with such features that are in a net liability position. No collateral was posted as of September 30, 2010 while $0.8 million was posted at December 31, 2009.

The Company is required to post collateral on its net liability positions with an exchange, which was $0.1 million as of September 30, 2010 and $18.1 million as of December 31, 2009. In addition, the Company had posted $21.7 million and $29.7 million of collateral to meet the requirements of the respective exchanges at September 30, 2010 and December 31, 2009, respectively (reflected in Other current assets).

Fair Value Measurements

The Company uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. These levels include: Level 1, inputs are quoted prices in active markets for the identical assets or liabilities; Level 2, inputs other than quoted prices included in Level 1 that are directly or indirectly observable through market-corroborated inputs; and Level 3, inputs are unobservable, or observable but cannot be market-corroborated, requiring the Company to make assumptions about pricing by market participants.

The following tables set forth the hierarchy of the Company s net financial asset (liability) positions for which fair value is measured on a recurring basis:

	September 30, 2010			
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment in debt securities	$ 18.9	$	$	$ 18.9
Commodity swaps and options coal trading activities	(4.4)	73.4		69.0
Commodity swaps and options diesel fuel		(2.4)		(2.4)
Commodity swaps and options explosives		(2.1)		(2.1)
Physical commodity purchase/sale contracts coal trading activities		33.4	16.2	49.6
Foreign currency hedge contracts		457.0		457.0
Total net financial assets	$ 14.5	$ 559.3	$ 16.2	$ 590.0

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Commodity swaps and options coal trading activities	$ (1.7)	$ 80.7	$	$ 79.0
Commodity swaps and options diesel fuel		(22.2)		(22.2)
Commodity swaps and options explosives		(4.8)		(4.8)
Physical commodity purchase/sale contracts coal trading activities		70.2	17.0	87.2
Interest rate swaps		(8.3)		(8.3)

Foreign currency hedge contracts		206.1		206.1
Total net financial assets (liabilities)	$ (1.7)	$ 321.7	$ 17.0	$ 337.0

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For Level 1 and 2 financial assets and liabilities, the Company utilizes both direct and indirect observable price quotes, including interest rate yield curves, exchange indices, broker quotes, published indices, and other market quotes. Below is a summary of the Company s valuation techniques for Level 1 and 2 financial assets and liabilities:

Investment in debt securities: valued based on quoted prices in active markets (Level 1).

Commodity swaps and options coal trading activities: generally valued based on unadjusted quoted prices in active markets (Level 1) or a valuation that is corroborated by the use of market-based pricing (Level 2).

Commodity swaps and options other than coal: generally valued based on a valuation that is corroborated by the use of market-based pricing (Level 2).

Physical commodity purchase/sale contracts coal trading activities: purchases and sales at locations with significant market activity corroborated by market-based information (Level 2).

Interest rate swaps: valued based on modeling observable market data and corroborated with statements from counterparties (Level 2).

Foreign currency hedge contracts: valued utilizing inputs obtained in quoted public markets (Level 2).

Commodity swaps and options and physical commodity purchase/sale contracts transacted in less liquid markets or contracts, such as long-term arrangements with limited price availability were classified in Level 3. These instruments or contracts are valued based on quoted inputs from brokers or counterparties, or reflect methodologies that consider historical relationships among similar commodities to derive the Company s best estimate of fair value. The Company has consistently applied these valuation techniques in all periods presented, and believes it has obtained the most accurate information available for the types of derivative contracts held.

The Company did not have any transfers between Level 1 and Level 2 during the three or nine months ended September 30, 2010. The Company s policy is to value all transfers between levels using the beginning of period valuation. This represents a change in policy from those in effect at December 31, 2009. Previously, the end of the period values were used for transfers into Level 3 and beginning of period values for transfers out of Level 3.

The following table summarizes the changes in the Company s recurring Level 3 net financial assets (liabilities):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Beginning of period	$ 13.8	$ 2.4	$ 17.0	$ 37.8
Total gains or losses (realized/unrealized):				
Included in earnings	2.1	(3.2)	(0.6)	(16.9)
Included in other comprehensive income	0.2	2.8	0.3	(8.3)
Purchases, issuances and settlements	(0.7)	(4.3)	(1.4)	(5.6)
Transfers in (out)	0.8	6.5	0.9	(2.8)
End of period	$ 16.2	$ 4.2	$ 16.2	$ 4.2

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PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the changes in unrealized gains (losses) relating to Level 3 net financial assets still held at the end of the period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in millions)			
Changes in unrealized gains (losses) [1]	$ 1.2	$ (2.9)	$ 3.5	$ (2.3)

[1] Within the unaudited condensed consolidated statements of operations for the periods presented, unrealized gains and losses from Level 3 items are combined with unrealized gains and losses on positions classified in Level 1 or 2, as well as other positions that have been realized during the applicable periods.

Fair Value Other Financial Instruments

The following methods and assumptions were used by the Company in estimating fair values for other financial instruments as of September 30, 2010 and December 31, 2009:

Cash and cash equivalents, accounts receivable, including accounts receivable within the Company s securitization program, and accounts payable and accrued expenses have carrying values which approximate fair value due to the short maturity or the financial nature of these instruments.

Investments and other assets in the condensed consolidated balance sheet includes the Company s investments in debt and equity securities related to the Company s pro-rata share of funding in the Newcastle Coal Infrastructure Group (NCIG). The investments are recorded at cost, which approximate fair value. See Note 13 to the Company s unaudited condensed consolidated financial statements for additional information related to NCIG.

Long-term debt fair value estimates are based on observed prices for securities with an active trading market when available, and otherwise on estimated borrowing rates to discount the cash flows to their present value. The carrying amounts of the 7.875% Senior Notes due 2026 and the Convertible Junior Subordinated Debentures due 2066 are net of the respective unamortized note discounts.

The carrying amounts and estimated fair values of the Company s debt are summarized as follows:

	September 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in millions)			
Long-term debt	$ 2,756.1	$ 2,955.3	$ 2,752.3	$ 2,828.8

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Commitments and Contingencies

Commitments

As of September 30, 2010, purchase commitments for capital expenditures were $74.4 million.

The Company controls a 17.7% interest in NCIG, a coal transloading facility in Newcastle, Australia that is backed by take or pay agreements. The total loading capacity for stage one is 33 million tons per year, of which the Company s share is 5.8 millions tons. In the second quarter of 2010, stage one of construction was substantially completed and operations commenced. NCIG is currently operating at a reduced rate as part of its ramp-up to full capability, which is anticipated to occur by mid-2011. Phase one of stage two construction has been approved and is under way. When complete, it is expected to provide the Company with approximately 2 million tons of additional annual throughput capacity beginning in mid-year 2012. Financing for phase one of stage two of construction closed in the third quarter of 2010 with the Company providing its pro-rata share of funding of $59.7 million Australian dollars ($54.8 million U.S. dollars) where the Company received underlying debt and equity securities of NCIG for its contributions. Subsequent to the funding, the Company sold a portion of the debt securities for $10.6 million.

A subsidiary of the Company owns a 5.06% undivided interest in the Prairie State Energy Campus (Prairie State), a 1,600 megawatt coal-fuel electricity generation project currently under construction. The Company invested $52.5 million during the nine months ended September 30, 2010 representing its 5.06% share of the construction costs. Included in Investments and other assets in the condensed consolidated balance sheets as of September 30, 2010 and December 31, 2009, are costs of $179.1 million and $126.6 million, respectively. The Company s share of total construction costs for Prairie State is expected to be approximately $250 million.

The Company is an equity partner in GreenGen, a partnership to fund the construction in China of a near-zero emissions coal-fueled power plant with carbon capture and storage. During the nine months ended September 30, 2010, the Company spent $3.1 million representing its 6.0% share of the construction costs, which is reflected as capitalized development costs as part of Investments and other assets in the condensed consolidated balance sheet. There were no expenditures for GreenGen for 2009. The Company s share of total construction costs for GreenGen is expected to be approximately $60 million U.S. dollars.

Contingencies

From time to time, the Company or its subsidiaries are involved in legal proceedings arising in the ordinary course of business or related to indemnities or historical operations. The Company believes it has recorded adequate reserves for these liabilities and that there is no individual case pending that is likely to have a material adverse effect on the Company s financial condition, results of operations or cash flows. The Company discusses its significant legal proceedings below.

PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Litigation Relating to Continuing Operations

Navajo Nation Litigation. On June 18, 1999, the Navajo Nation served three of the Company s subsidiaries, including Peabody Western Coal Company (Peabody Western), with a complaint that had been filed in the U.S. District Court for the District of Columbia. The Navajo Nation alleged 16 claims, including Civil Racketeer Influenced and Corrupt Organizations Act (RICO) violations and fraud. On April 12, 2010, the Navajo Nation filed an amended complaint to substantially narrow the scope of the Navajo Nation s claims by removing the RICO allegations but leaving the other 12 common law tort and contractual claims. The complaint alleges that the defendants jointly participated in unlawful activity to obtain favorable coal lease amendments. The plaintiff is seeking various remedies including actual damages of at least $600 million, punitive damages of at least $1 billion, a determination that Peabody Western s two coal leases terminated due to Peabody Western s breach of these leases and a reformation of these leases to adjust the royalty rate to 20%. The court has allowed the Hopi Tribe to intervene in this lawsuit and the Hopi Tribe is also seeking unspecified actual damages, punitive damages and reformation of its coal lease. One of the Company s subsidiaries named as a defendant is now a subsidiary of Patriot. However, the Company is responsible for this litigation under the Separation Agreement entered into with Patriot in connection with the spin-off. The U.S. Supreme Court has ruled against the Navajo Nation in a related case against the U.S. government, and remanded that case to the lower court to dismiss the complaint. The U.S. Supreme Court said that none of the sources relied on by the Navajo Nation provided a basis for its breach-of-trust lawsuit against the U.S. government, which undermines some of the claims the Navajo Nation asserts in its litigation against the Company.

In October 2010, the Company and the other defendants settled the Hopi claims and those claims have been dismissed by the court. The court ordered the Navajo Nation and the defendants to mediate the case.

The outcome of this litigation is subject to numerous uncertainties. Based on the Company s evaluation of the issues and their potential impact, the amount of any future loss cannot be reasonably estimated. However, based on current information, the Company believes this matter is likely to be resolved without a material adverse effect on the Company s financial condition, results of operations or cash flows.

Gulf Power Company Litigation. On June 22, 2006, Gulf Power Company (Gulf Power) filed a breach of contract lawsuit against a Company subsidiary in the U.S. District Court, Northern District of Florida, contesting the force majeure declaration by the Company s subsidiary under a coal supply agreement with Gulf Power and seeking damages for alleged past and future tonnage shortfalls of nearly five million tons under the agreement, which expired on December 31, 2007. Gulf Power filed a motion for partial summary judgment on liability, and the Company subsidiary filed a motion for summary judgment seeking complete dismissal. On June 30, 2009, the court granted Gulf Power s motion for partial summary judgment and denied the Company subsidiary s motion for summary judgment. The damages portion of the trial was held in February 2010. On September 30, 2010, the court entered its order on damages, awarding Gulf Power zero dollars in damages and the Company its costs to defend the lawsuit. The Company is also seeking its reasonable attorney s fees incurred since October 15, 2008. On November 1, 2010, Gulf Power filed a motion to alter or amend the judgement, contesting the trial court s damages order.

The outcome of this litigation is subject to numerous uncertainties. Based on the Company s evaluation of the issues and their potential impact, the amount of any future loss cannot reasonably be estimated. However, based on current information, the Company believes this matter is likely to be resolved without a material adverse effect on its financial condition, results of operations or cash flows.

Claims and Litigation Relating to Indemnities or Historical Operations

Oklahoma Lead Litigation. Gold Fields Mining, LLC (Gold Fields) is a dormant, non-coal producing entity that was previously managed and owned by Hanson PLC, the Company s predecessor owner. In a February 1997 spin-off, Hanson PLC transferred ownership of Gold Fields to the Company, despite the fact that Gold Fields had no ongoing operations and the Company had no prior involvement in its past operations. Gold Fields is currently one of the Company s subsidiaries. The Company indemnified TXU Group with respect to certain claims relating to a former affiliate of Gold Fields. A predecessor of Gold Fields formerly operated two lead mills near Picher, Oklahoma prior to the 1950s and mined, in accordance with lease agreements and permits, approximately 0.15% of the total amount of the crude ore mined in the county.

PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Gold Fields and several other companies are defendants in two property damage lawsuits arising from past operations near Picher, Oklahoma. The plaintiffs are seeking compensatory damages for diminution in property values and punitive damages. These cases were originally filed as putative class actions, but the court has denied class certification and the cases were subsequently amended to include a number of individual plaintiffs. In December 2003, the Quapaw Indian tribe and certain Quapaw land owners filed a lawsuit against Gold Fields, five other companies and the U.S. The plaintiffs are seeking compensatory and punitive damages based on a variety of theories. In December 2007, the court dismissed the tribe s medical monitoring claim. In July 2008, the court dismissed the tribe s claim for interim and lost use damages under the Comprehensive Environmental Response, Compensation and Liability Act without prejudice to refile at the point the U.S. Environmental Protection Agency (EPA) selects a final remedy for the site. Gold Fields has filed a third-party complaint against the U.S. and other parties. In February 2005, the state of Oklahoma on behalf of itself and several other parties sent a notice to Gold Fields and other companies regarding a possible natural resources damage claim. All of the lawsuits are pending in the U.S. District Court for the Northern District of Oklahoma.

In October 2010, the Company settled the Quapaw Indian tribe claims, and those claims have been dismissed by the court.

The outcome of litigation and these claims are subject to numerous uncertainties. Based on the Company s evaluation of the issues and their potential impact, the amount of any future loss cannot be reasonably estimated. However, based on current information, the Company believes this matter is likely to be resolved without a material adverse effect on its financial condition, results of operations or cash flows.

Environmental Claims and Litigation

Environmental claims have been asserted against Gold Fields related to activities of Gold Fields or a former affiliate. Gold Fields or the former affiliate has been named a potentially responsible party (PRP) at five national priority list sites based on the Superfund Amendments and Reauthorization Act of 1986. Claims were asserted at 13 additional sites, bringing the total to 18, which have since been reduced to 11 by completion of work, transfer or regulatory inactivity. The number of PRP sites in and of itself is not a relevant measure of liability because the nature and extent of environmental concerns varies by site, as does the estimated share of responsibility for Gold Fields or the former affiliate. Undiscounted liabilities for environmental cleanup-related costs for all of the sites noted above were $47.5 million as of September 30, 2010 and $49.5 million as of December 31, 2009, $5.3 million and $7.9 million of which was reflected as a current liability, respectively. These amounts represent those costs that the Company believes are probable and reasonably estimable. In June 2005, Gold Fields and other PRPs received a letter from the U.S. Department of Justice alleging that the PRP s mining operations caused the EPA to incur approximately $125 million in residential yard remediation costs at Picher, Oklahoma and will cause the EPA to incur additional remediation costs relating to historical mining sites. In June 2008, Gold Fields and other PRPs received letters from the U.S. Department of Justice and the EPA re-initiating settlement negotiations. Gold Fields continues to participate in the settlement discussions. Gold Fields believes it has meritorious defenses to these claims.

Gold Fields is involved in other litigation in the Picher area, and the Company indemnified TXU Group with respect to a defendant as is more fully discussed under the Oklahoma Lead Litigation caption above. Gold Fields has also been contacted by the state of Kansas (Kansas Department of Health and Environment) and is in negotiations for final resolution of natural resource damages claims at two sites. Significant uncertainty exists as to whether claims will be pursued against Gold Fields in all cases, and where they are pursued, the amount of the eventual costs and liabilities, which could be greater or less than the liabilities recorded in the condensed consolidated balance sheets. Based on the Company s evaluation of the issues and their potential impact, the total amount of any future loss cannot be reasonably estimated. However, based on current information, the Company believes these claims and litigation are likely to be resolved without a material adverse effect on its financial condition, results of operations or cash flows.

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PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Comer, et al v. Murphy Oil Co., et al. In April 2006, residents and owners of land and property along the Mississippi Gulf coast filed a purported class action lawsuit in the U.S. District Court in the Southern District of Mississippi against more than 45 oil, chemical, utility and coal companies, including the Company. The plaintiffs alleged that defendants greenhouse gas emissions were a proximate and direct cause of the increase in the destructive capacity of Hurricane Katrina, and sought damages based on several legal theories. The defendants filed motions to dismiss on the grounds of lack of personal and subject matter jurisdiction. In August 2007, the court granted defendants motion to dismiss for lack of subject matter jurisdiction finding that plaintiffs claims are barred by the political question doctrine and for lack of standing. In October 2009, a three-judge panel of the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) reversed in part the decision of the trial court, holding that the plaintiffs had standing to assert their public and private nuisance, trespass and negligence claims. The court held that plaintiffs did not satisfy the prudential standing requirement for their unjust enrichment, fraudulent misrepresentation and civil conspiracy claims and dismissed those claims and ordered that the case be remanded to the district court for further proceedings. In March 2010, the Fifth Circuit vacated the panel opinion and ordered a hearing en banc before the full Fifth Circuit to consider plaintiffs appeal. After the en banc court was properly constituted, a recusal by one of the judges resulted in the en banc court losing its quorum. On May 28, 2010, the Fifth Circuit issued an order indicating that the court had no authority to reinstate the panel decision and directing the clerk to dismiss the appeal. Plaintiffs have filed a Petition for Mandamus with the United States Supreme Court. The Company believes that this lawsuit is without merit and intends to defend against and oppose it vigorously, but cannot predict its outcome. Based on the Company s evaluation of the issues and their potential impact, the amount of any future loss cannot be reasonably estimated. However, based on current information, the Company believes this matter is likely to be resolved without a material adverse effect on its financial condition, results of operations or cash flows.

Native Village of Kivalina and City of Kivalina v. ExxonMobil Corporation, et al. In February 2008, the Native Village of Kivalina and the City of Kivalina filed a lawsuit in the U.S. District Court for the Northern District of California against the Company, several owners of electricity generating facilities and several oil companies. The plaintiffs are the governing bodies of a village in Alaska that they contend is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for nuisance, and allege that the defendants have acted in concert and are jointly and severally liable for the plaintiffs damages. The suit seeks damages for lost property values and for the cost of relocating the village. The defendants filed motions to dismiss on the grounds of lack of personal and subject matter jurisdiction. In June 2009, the court granted defendants motion to dismiss for lack of subject matter jurisdiction finding that plaintiffs federal claim for nuisance is barred by the political question doctrine and for lack of standing. The plaintiffs are appealing the court s dismissal to the U.S. Court of Appeals for the Ninth Circuit. The plaintiffs and the defendants have filed their briefs with the court.

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North Carolina

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North Dakota

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Ohio

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Oklahoma

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Oregon

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Pennsylvania

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Rhode Island

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South Carolina

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South Dakota

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West Virginia

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Wyoming

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Canada

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Chile

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Costa Rica

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Curacao N.V.

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Dominican Republic

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El Salvador

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Mexico

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New Zealand

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Puerto Rico

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12

12

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12

12

Total

161

1,541

1,702

163

1,537

1,700

14

Of the total 1,702 restaurants in the Denny's brand, our interest in restaurant properties consists of the following:

	Company Restaurants	Franchised Restaurants	Total
Owned properties	35	56	91
Leased properties	126	294	420
	161	350	511

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 38 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 10 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.

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"). The following table lists the high and low sales prices of the Common Stock for each quarter of fiscal years 2014 and 2013, according to NASDAQ.

	High	Low
2014		
First quarter	$7.49	$6.27
Second quarter	6.93	6.13
Third quarter	7.28	6.18
Fourth quarter	10.73	6.92
2013		
First quarter	$5.86	$4.68
Second quarter	6.24	5.27

Third quarter	6.37	5.41
Fourth quarter	7.51	6.01

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Stockholders

As of March 11, 2015, there were 84,853,855 shares of Common Stock outstanding and approximately 13,300 record and beneficial holders of 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 of $44.6 million is available for such dividends or stock repurchases as follows:

- not to exceed $40.0 million if the Consolidated Leverage Ratio (as defined in the Credit Agreement) is 2.0x or greater and unlimited if the Consolidated Leverage Ratio is below 2.0x, 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 Common Stock, as of March 27, 2013, 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 31, 2014.

Period	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Programs (2)	Maximum Number of Shares that May Yet be Purchased Under the Program (2)
	(In thousands, except per share amounts)			
September 25, 2014 – October 22, 2014	113	$7.31	113	4,234
October 23, 2014 – November 19, 2014	175	8.76	175	4,059
November 20, 2014 – December 31, 2014	170	9.79	170	3,889
Total	458	$8.79	458	

(1) Average price paid per share excludes commissions.

(2) On April 25, 2013, we announced that our Board of Directors had approved a new share repurchase program, authorizing us to repurchase up to an additional 10 million shares of our Common Stock (in addition to a previous 6 million share authorization completed in the third quarter of 2013). Such repurchases may take place from time to time on the open market (including in pre-arranged stock trading plans in accordance with the guidelines specified in Rule 10b5-1 under the Securities Exchange Act of 1934) or in privately negotiated transactions, subject to market and business conditions. During the quarter ended December 31, 2014, we purchased 457,600 shares of Common Stock for an aggregate consideration of approximately $4.0 million, pursuant to the share repurchase program.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information as of December 31, 2014 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	3,794,151	(1)	$3.17	3,028,426	(3)
Equity compensation plans not approved by security holders	200,000	(4)	3.89	827,589	(5)
Total	3,994,151		$3.26	3,856,015	

(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 Common Stock available for issuance as awards of stock options, restricted stock, restricted stock units, deferred stock units and performance awards under the 2012 Omnibus Plan.
(4) Includes shares of Common Stock issuable pursuant to the grant or exercise of employment inducement awards of stock options and restricted stock units granted outside of the Denny's Incentive Plans in accordance with NASDAQ Listing Rule 5635(c)(4).
(5) Includes shares of 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).

Performance Graph

The following graph compares the cumulative total stockholders' return on our Common Stock for the five fiscal years ended December 31, 2014 (December 30, 2009 to December 31, 2014) 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 30, 2009 (the last day of fiscal year 2009) 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 30, 2009
ASSUMES DIVIDENDS REINVESTED
FISCAL YEAR ENDED DECEMBER 31, 2014

	Russell 2000® Index (1)	Peer Group (2)	Denny's Corporation
December 30, 2009	$100.00	$100.00	$100.00
December 29, 2010	$126.30	$153.09	$158.82
December 28, 2011	$119.09	$190.28	$172.85
December 26, 2012	$137.84	$207.46	$217.65
December 25, 2013	$193.44	$334.40	$334.84
December 31, 2014	$203.33	$401.61	$466.52

(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 31, 2014, the weighted average market capitalization of companies within the index was approximately $1.9 billion with the median market capitalization being approximately $0.7 billion.

(2) The peer group consists of 20 public companies that operate in the restaurant industry. The peer group includes the following companies: Einstein Noah Restaurant Group, Inc. (BAGL) (through its last public trading day of November 4, 2014), BJ's Restaurants, Inc. (BJRI), Bob Evans Farms, Inc. (BOBE), Buffalo Wild Wings, Inc. (BWLD), The Cheesecake Factory Incorporated (CAKE), Cracker Barrel Old Country Store, Inc. (CBRL), Chipotle Mexican Grill, Inc. (CMG), DineEquity, Inc. (DIN), Dunkin' Brands Group, Inc. (DNKN), Domino’s Pizza, Inc. (DPZ), Brinker International, Inc. (EAT), Jack In The Box Inc. (JACK), Krispy Kreme Doughnuts, Inc. (KKD), Panera Bread Company (PNRA), Papa John’s International, Inc. (PZZA), Red Robin Gourmet Burgers, Inc. (RRGB), Ruby Tuesday, Inc. (RT), Sonic Corp. (SONC), Texas Roadhouse, Inc. (TXRH) and The Wendy’s Company (WEN).

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 31, 2014 (a)	December 25, 2013	December 26, 2012	December 28, 2011 (b)	December 29, 2010
	(In millions, except ratios and per share amounts)				
Statement of Income Data:					
Operating revenue	$472.3	$462.6	$488.4	$538.5	$548.5
Operating income	$57.3	$47.5	$56.4	$51.0	$55.2
Income from continuing operations	$32.7	$24.6	$22.3	$112.3	$22.7
Basic net income per share:	$0.38	$0.27	$0.23	$1.15	$0.23
Diluted net income per share:	$0.37	$0.26	$0.23	$1.13	$0.22
Cash dividends per common share (c)	—	—	—	—	—
Balance Sheet Data (at end of period):					
Current assets	$56.1	$53.8	$64.6	$61.3	$62.5
Working capital deficit (d)	$(24.3)	$(20.3)	$(27.2)	$(25.9)	$(27.8)
Net property and equipment	$109.8	$105.6	$107.0	$112.8	$129.5
Total assets	$289.9	$295.8	$324.9	$350.5	$311.2
Long-term debt and capital lease obligations, excluding current portion	$151.1	$165.9	$177.5	$211.3	$253.1

(a) The fiscal year ended December 31, 2014 includes 53 weeks of operations as 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.

(b) During 2011, we concluded that it was more likely than not that certain of our deferred tax assets would be utilized. As a result, we released the majority of our valuation allowance, recognizing a tax benefit of $89.1 million.

(c) Prior to the 2010 refinancing of our credit facility and repurchase and redemption of our public debt securities, distributions and dividends on Denny's Corporation's common equity securities were prohibited. Our current credit facility allows for the payment of cash dividends and/or the purchase of Common Stock subject to certain limitations. See Part II Item 5.

(d) 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. Denny’s, through its wholly-owned subsidiary, Denny’s, Inc., owns and operates the Denny’s brand. At December 31, 2014, the Denny’s brand consisted of 1,702 franchised, licensed and company operated restaurants. Of this amount, 1,541 of our restaurants were franchised or licensed, representing 91% of the total restaurants, and 161 were company operated.

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Our revenues are derived primarily from two sources: the sale of food and beverages at our company restaurants and the collection of royalties and fees 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, customer service and menu pricing, as well as external factors including competition, economic conditions affecting consumer spending and changes in guest tastes and preferences. Sales at company restaurants and royalty income from franchise restaurants are also impacted by the opening of new restaurants, the closing of existing restaurants and the sale of company restaurants to franchisees.

Our operating costs 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. Our ability to lock in prices on certain key commodities is imperative to control food costs in an environment in which many commodity prices are on the rise. In addition, our continued success with menu management helps us to offer menu items that provide a compelling value to our customers while maintaining consistent product costs and appropriate profitability.

2014 Summary of Operations

During 2014, we achieved domestic system-wide same-stores sales growth of 2.8%, comprised of a 4.2% increase at company restaurants and a 2.5% increase at domestic franchised restaurants. This growth represents the strongest annual same-store sales since 2004 for company restaurants and since 2006 for franchised restaurants. We have had positive system-wide same-store sales in 14 of the last 15 quarters. The system-wide same-store sales increases during 2014 included benefits from both product mix and price increases of around 2%. Company restaurant same-store sales also benefited from traffic increases primarily resulting from remodels.

We completed 171 remodels, comprised of 44 company restaurants and 127 franchised restaurants during 2014. Most of these remodels were in our new Heritage image, which we launched late in 2013. This updated look reflects a more contemporary diner feel to further reinforce our America's Diner positioning. During 2015, we will continue to accelerate the timing of remodels at company restaurants with a target of completing 45 to 50. Franchisees typically remodel their restaurants as required every seven years. We expect the number of remodels at franchised restaurants to be similar to the number remodeled in 2014.

We also implemented a new franchise agreement during 2014, which includes an increased royalty rate of 4.5% and a reduced advertising contribution of 3%, excluding any incentives. There were approximately 230 franchised restaurants operating under this agreement as of December 31, 2014 and we expect there to be 360 to 390 franchised restaurants operating under this agreement by the end of 2015. We anticipate that existing franchisees will elect to migrate to the new fee structure over the next decade as incentives under the previous franchise agreements expire. Due to the long-term migration of existing franchisees, we won’t see the full benefit from the higher royalty rate for some time. For 2014, our average royalty rate was approximately 3.98%.

Operating income increased $9.8 million to $57.3 million in 2014 from $47.5 million in 2013. Net income increased $8.2 million to $32.7 million, or $0.37 per diluted share, in 2014 compared to $24.6 million, or $0.26 per diluted share in 2013.

We had a 53 week year in 2014, which impacts the comparison of our financial information to the prior year periods. We estimate that the additional operating week added approximately $8.3 million of company restaurant sales and $2.4 million of franchise and license revenue and resulted in approximately $0.6 million of additional general and administrative expenses, $3.6 million of additional operating income and $2.2 million of additional net income.

Growing the Brand

Over the last five years our growth initiatives have led to 321 new restaurant openings. During 2014, we had net restaurant growth of two restaurants, with 38 openings and 36 closures. Our openings included the reopening of our Las Vegas Casino Royale location, six franchised international locations and three franchised nontraditional locations.

Our goal is to increase net restaurant growth through all avenues: domestic, international and nontraditional. Domestic growth will focus in markets where we have modest penetration. During 2014, we saw traction in under-penetrated areas such as Charlotte, Atlanta and New York, including our first restaurant in Manhattan. We anticipate continued growth in these areas.

Internationally, we are the largest U.S. based, full-service brand operating in Canada and expect additional growth in this country. During 2015, we anticipate the opening of our first restaurant in the United Arab Emirates. The franchise partner opening this restaurant plans to develop 30 new Denny’s restaurants in nine countries in the Middle East over the next ten years.

We opened our first nontraditional location under the new The Den® format located adjacent to San Diego State University in early 2015. We expect that future non-traditional restaurants will be in this new format and our other existing non-traditional locations will be converted to this new format over time.

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. As noted above, we are accelerating the timing of remodels at our company restaurants under our new Heritage image. During 2014, approximately $12.2 million of our $22.1 million of capital expenditures were from remodels.

During 2014, we repurchased 5.3 million shares of Common Stock for $36.0 million. Since initiating our share repurchase programs in November 2010, we have repurchased a total of 21.1 million shares of Common Stock for $108.3 million. As of December 31, 2014, there are 3.9 million shares remaining to be repurchased under the current repurchase program.

Factors impacting comparability

For 2014, 2013 and 2012, the following items impact the comparability of our results:

- Company restaurant sales have decreased from $353.7 million in 2012 to $334.7 million in 2014, primarily as a result of the sale of restaurants to franchisees in 2012.
- The decline in company restaurant revenues is partially offset by increased royalty income derived from the growth in the franchised restaurant base resulting from both traditional development and the sale of restaurants to franchisees. As a result, royalty income, which is included as a component of franchise and license revenue, has increased from $83.8 million in 2012 to $90.8 million in 2014.
- The resulting net reduction in total revenue related to the sale of restaurants is generally recovered by the benefits of a lower cost structure related to franchise and license revenues.
- Initial franchise fees, included as a component of franchise and license revenue, are generally recognized in the period in which a restaurant is sold to a franchisee or when a new restaurant is opened. These initial fees are completely dependent on the number of restaurants sold to or opened by franchisees during a particular period and, as a result, can cause fluctuations in our total franchise and license revenue from year to year.
- Occupancy revenues, also 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. As leases or subleases with franchisees end over time, franchise occupancy revenue and costs could decrease if franchisees enter into direct leases with landlords. At the end of 2014, we had 350 franchise restaurants that are leased or subleased from Denny’s.
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Our fiscal year ends on the last Wednesday in December. As a result, a fifty-third week is added to a fiscal year every five or six years. As noted above, the year ended December 31, 2014 includes 53 weeks of operations.

Statements of Income

	Fiscal Year Ended December 31, 2014 (Dollars in thousands)			December 25, 2013			December 26, 2012		
Revenue:									
Company restaurant sales	$334,684	70.9	%	$328,334	71.0	%	$353,710	72.4	%
Franchise and license revenue	137,611	29.1	%	134,259	29.0	%	134,653	27.6	%
Total operating revenue	472,295	100.0	%	462,593	100.0	%	488,363	100.0	%
Costs of company restaurant sales (a):									
Product costs	86,825	25.9	%	85,540	26.1	%	88,473	25.0	%
Payroll and benefits	133,280	39.8	%	131,305	40.0	%	141,303	39.9	%
Occupancy	20,845	6.2	%	21,519	6.6	%	23,405	6.6	%
Other operating expenses	47,858	14.3	%	45,192	13.8	%	49,025	13.9	%
Total costs of company restaurant sales	288,808	86.3	%	283,556	86.4	%	302,206	85.4	%
Costs of franchise and license revenue (a)	44,761	32.5	%	46,109	34.3	%	46,675	34.7	%
General and administrative expenses	58,907	12.5	%	56,835	12.3	%	60,307	12.3	%
Depreciation and amortization	21,218	4.5	%	21,501	4.6	%	22,304	4.6	%
Operating (gains), losses and other charges, net	1,270	0.3	%	7,071	1.5	%	482	0.1	%
Total operating costs and expenses, net	414,964	87.9	%	415,072	89.7	%	431,974	88.5	%
Operating income	57,331	12.1	%	47,521	10.3	%	56,389	11.5	%
Interest expense, net	9,182	1.9	%	10,282	2.2	%	13,369	2.7	%
Other nonoperating (income) expense, net	(612)	(0.1	)%	1,139	0.2	%	7,926	1.6	%
Net income before income taxes	48,761	10.3	%	36,100	7.8	%	35,094	7.2	%
Provision for income taxes	16,036	3.4	%	11,528	2.5	%	12,785	2.6	%
Net income	$32,725	6.9	%	$24,572	5.3	%	$22,309	4.6	%
Other Data:									
Company average unit sales	$2,100			$2,012			$1,936		
Franchise average unit sales	$1,506			$1,427			$1,410		
Company equivalent units (b)	159			163			183		
Franchise equivalent units (b)	1,534			1,525			1,501		
Company same-store sales increase (c)(d)	4.2	%		0.0	%		0.2	%	
Domestic franchised same-store sales increase (c)	2.5	%		0.6	%		1.7	%	

(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 2014 comparable restaurants.

Unit Activity

	Fiscal Year Ended December 31, 2014	December 25, 2013	December 26, 2012
Company restaurants, beginning of period	163	164	206
Units opened	1	—	1
Units acquired from franchisees	—	2	1
Units sold to franchisees	—	(2)	(36)
Units closed	(3)	(1)	(8)
End of period	161	163	164
Franchised and licensed restaurants, beginning of period	1,537	1,524	1,479
Units opened	37	46	39
Units purchased from Company	—	2	36
Units acquired by Company	—	(2)	(1)
Units closed	(33)	(33)	(29)
End of period	1,541	1,537	1,524
Total restaurants, end of period	1,702	1,700	1,688

Company Restaurant Operations

Company same-store sales increased 4.2% in 2014 and remained essentially flat in 2013, as compared with the respective prior year. Company restaurant sales for 2014 increased $6.4 million, or 1.9%, primarily resulting from the additional operating week and the increase in same-store sales. These increases were partially offset by a 4 equivalent unit decrease in company restaurants, which includes the temporary closure of our highest volume restaurant in Las Vegas, Nevada and temporary closures for remodeling restaurants. Company restaurant sales for 2013 decreased $25.4 million, or 7.2%, primarily resulting from a 20 equivalent unit decrease in company restaurants. The decrease in equivalent units reflects the impact of our refranchising program that was completed at the end of 2012.

Total costs of company restaurant sales as a percentage of company restaurant sales were 86.3% in 2014, 86.4% in 2013 and 85.4% in 2012.

Product costs were 25.9% in 2014, 26.1% in 2013 and 25.0% in 2012. The decrease in 2014 was primarily due to the leveraging effect of higher sales. The increase in 2013 was primarily due to the unfavorable impact of product mix as well as increased commodity costs.

Payroll and benefits were 39.8% in 2014, 40.0% in 2013 and 39.9% in 2012. The decrease in 2014 was primarily due to a 0.5 percentage point decrease in labor costs and a 0.3 percentage point decrease in workers' compensation costs, partially offset by a 0.3 percentage point increase in group insurance and a 0.3 percentage point increase in incentive compensation costs. The current year period included $0.6 million in unfavorable workers' compensation claims development, as compared to $2.0 million in unfavorable claims development in the prior year period. The increase in group insurance relates to the costs of implementing the Affordable Care Act during the current year period. The incentive compensation increase is primarily due to increased same-store sales performance. The slight increase in 2013 was primarily due to increased workers' compensation costs that were partially offset by decreased labor costs.

Occupancy costs were 6.2% in 2014, 6.6% in 2013 and 6.6% in 2012. The 2014 decrease is primarily related to an increase in the number of capital leases and a decrease in rent caused by certain lease amendments.

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

	Fiscal Year Ended December 31, 2014			December 25, 2013			December 26, 2012		
	(Dollars in thousands)								
Utilities	$13,915	4.2	%	$13,051	4.0	%	$14,358	4.1	%
Repairs and maintenance	5,971	1.8	%	5,943	1.8	%	6,259	1.8	%
Marketing	12,329	3.7	%	11,696	3.6	%	13,397	3.8	%
Legal	830	0.2	%	773	0.2	%	682	0.2	%
Other direct costs	14,813	4.4	%	13,729	4.2	%	14,329	4.1	%
Other operating expenses	$47,858	14.3	%	$45,192	13.8	%	$49,025	13.9	%

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 31, 2014			December 25, 2013			December 26, 2012		
	(Dollars in thousands)								
Royalties	$90,835	66.0	%	$85,508	63.7	%	$83,774	62.2	%
Initial fees	1,893	1.4	%	1,666	1.2	%	3,092	2.3	%
Occupancy revenue	44,883	32.6	%	47,085	35.1	%	47,787	35.5	%
Franchise and license revenue	$137,611	100.0	%	$134,259	100.0	%	$134,653	100.0	%
Occupancy costs	33,134	24.1	%	34,631	25.8	%	35,401	26.3	%
Other direct costs	11,627	8.4	%	11,478	8.5	%	11,274	8.4	%
Costs of franchise and license revenue	$44,761	32.5	%	$46,109	34.3	%	$46,675	34.7	%

Royalties increased by $5.3 million, or 6.2%, in 2014 primarily resulting from the additional operating week and a 2.5% increase in domestic same-store sales, as compared to 2013. In addition, there was a 9 equivalent unit increase in franchised and licensed restaurants, as compared to 2013, and an increase in royalties as certain restaurants moved to our new rate structure. Royalties increased by $1.7 million, or 2.1%, in 2013 primarily resulting from a 24 equivalent unit increase in franchised and licensed restaurants and a 0.6% increase in domestic same-store sales, as compared to 2012. The increase in equivalent units reflects the impact of our refranchising program that was completed at the end of 2012.

Initial fees increased by $0.2 million, or 13.6%, in 2014 primarily resulting from an increase in the number of assignments between franchisees. Initial fees decreased by $1.4 million, or 46.1%, in 2013 primarily resulting from fewer restaurants being opened by or sold to franchisees compared to the respective prior year period. Occupancy revenue decreased by $2.2 million, or 4.7%, in 2014 and by $0.7 million, or 1.5%, in 2013 primarily resulting from lease expirations.

Occupancy costs decreased by $1.5 million, or 4.3%, in 2014 and by $0.8 million, or 2.2%, in 2013 primarily resulting from lease expirations. Other direct costs increased by $0.1 million, or 1.3%, in 2014 and by $0.2 million, or 1.8%, in 2013. As a result, costs of franchise and license revenue decreased by $1.3 million, or 2.9%, in 2014 and by $0.6 million, or 1.2%, in 2013.

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 31, 2014	December 25, 2013	December 26, 2012
	(In thousands)		
Share-based compensation	$5,846	$4,852	$3,496
Other general and administrative expenses	53,061	51,983	56,811
Total general and administrative expenses	$58,907	$56,835	$60,307

General and administrative expenses increased by $2.1 million in 2014 primarily resulting from increases of $1.6 million in incentive compensation, $1.0 million in share-based compensation and the impact of an additional operating week, partially offset by a reduction in deferred compensation of $0.6 million. General and administrative expenses decreased by $3.5 million in 2013 primarily resulting from reductions in incentive compensation of $2.2 million, professional fees of $1.2 million and other general and administrative expense of $1.8 million, partially offset by an increase in share-based compensation of $1.4 million. The increases in share-based compensation over the past two years are primarily due to the total shareholder return performance of our stock as compared to that of our competitor peer group within our share-based award plans.

Depreciation and amortization is comprised of the following:

	Fiscal Year Ended		
	December 31, 2014	December 25, 2013	December 26, 2012
	(In thousands)		
Depreciation of property and equipment	$15,627	$15,062	$15,819
Amortization of capital lease assets	3,536	3,527	3,282
Amortization of intangible and other assets	2,055	2,912	3,203
Total depreciation and amortization expense	$21,218	$21,501	$22,304

The 2013 decrease in depreciation and amortization expense is due primarily to the sale of company restaurants to franchisees during fiscal 2012.

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

	Fiscal Year Ended		
	December 31, 2014	December 25, 2013	December 26, 2012
	(In thousands)		
Gains on sales of assets and other, net	$(112)	$(66)	$(7,090)
Restructuring charges and exit costs	981	1,389	3,912
Impairment charges	401	5,748	3,660
Operating (gains), losses and other charges, net	$1,270	$7,071	$482

The gains recognized during 2012 primarily resulting from the sale of restaurant operations to franchisees and the sale of real estate.

Restructuring charges and exit costs were comprised of the following:

	Fiscal Year Ended December 31, 2014	December 25, 2013	December 26, 2012
	(In thousands)		
Exit costs	$335	$630	$1,926
Severance and other restructuring charges	646	759	1,986
Total restructuring and exit costs	$981	$1,389	$3,912

Severance and other restructuring charges for 2012 include charges related to the departure of the company's former Chief Operating Officer.

Impairment charges for 2014 resulted primarily from the impairment of an underperforming restaurant. Impairment charges for 2013 resulted primarily from the $4.8 million impairment of an underperforming restaurant and the impairment of two restaurants and real estate identified as assets held for sale. Impairment charges for 2012 resulted primarily from the impairment of seven restaurants identified as held for sale and the impairment of an underperforming restaurant.

Operating income was $57.3 million in 2014, $47.5 million in 2013 and $56.4 million in 2012.

Interest expense, net is comprised of the following:

	Fiscal Year Ended December 31, 2014	December 25, 2013	December 26, 2012
	(In thousands)		
Interest on credit facilities	$3,519	$4,067	$7,074
Interest on capital lease liabilities	3,319	3,708	3,580
Letters of credit and other fees	1,381	1,391	1,539
Interest income	(80)	(82)	(640)
Total cash interest	8,139	9,084	11,553
Amortization of deferred financing costs	483	497	775
Amortization of debt discount	—	—	137
Interest accretion on other liabilities	560	701	904
Total interest expense, net	$9,182	$10,282	$13,369

The decrease in interest expense resulted from a decrease in interest rates related to the 2013 refinancing of our credit facility, as well as debt reductions made during the years presented.

Other nonoperating (income) expense, net was income of $0.6 million for 2014, expense of $1.1 million for 2013 and expense of $7.9 million for 2012. The income for the 2014 period consisted primarily of $0.5 million of gains on deferred compensation plan investments. The expense for the 2013 period consisted primarily of $1.2 million in expenses and write-offs of deferred financing costs incurred related to our 2013 debt refinancing and $1.0 million of write-offs related to lease terminations and amendments, partially offset by $1.1 million of gains on deferred compensation plan investments. The expense for the 2012 period consisted primarily of expenses and write-offs of deferred financing costs and original issue discount incurred related to our 2012 debt refinancing.

The provision for income taxes was $16.0 million for 2014, $11.5 million for 2013 and $12.8 million for 2012. For the 2014 period, the difference in the overall effective rate from the U.S. statutory rate was primarily due to state and foreign taxes, the generation of employment tax credits and two discrete tax items. State job tax credits of $0.7 million were claimed during 2014 for current year’s hiring activity. State job tax credits of $0.5 million were also claimed during the 2014 period resulting from the prior year's hiring activity. In addition, share-based compensation adjustments resulted in an out-of-period tax benefit of $0.5 million. We do not believe the out-of-period adjustment was material to any prior or current year financial statements or on earnings trends.

For the 2013 period, the difference in the overall effective rate from the U.S. statutory rate was due to state and foreign taxes, employment tax credits and discrete tax items. The passage of the American Tax Payer Relief Act of 2012 resulted in deferred tax benefits of $0.3 million related to work opportunity credits generated in 2012, which were allowed retroactively. In addition, state job tax credits of $0.8 million were claimed during the 2013 period resulting from the prior year's hiring activity. A valuation allowance of $0.2 million was recorded against certain state jobs tax credits during the 2013 period related to changes in California law enacted during the period.

For the 2012 period, the difference in the overall effective tax rate from the U.S. statutory rate was due to state and foreign taxes and discrete tax items, including a $1.7 million out-of-period adjustment related to the reversal of a portion of the income tax benefit recorded in fourth quarter of 2011. We do not believe the out-of-period adjustment was material to any prior or current year financial statements or on earnings trends. In addition, a $1.6 million tax benefit was recorded in 2012 relating to additional state credits generated during 2012 from prior years' activity.

Net income was $32.7 million for 2014, $24.6 million for 2013 and $22.3 million for 2012.

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, debt repayments 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 31, 2014	December 25, 2013
	(In thousands)	
Net cash provided by operating activities	$74,911	$57,042
Net cash used in investing activities	(21,289)	(16,470)
Net cash used in financing activities	(53,491)	(51,194)
Net increase (decrease) in cash and cash equivalents	$131	$(10,622)

We believe that our estimated cash flows from operations for 2015, 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 $21.3 million for the year ended December 31, 2014. These cash flows include capital expenditures of $22.1 million and issuances of notes receivable of $1.6 million, partially offset by collections of notes receivable of $2.3 million and $0.1 million in proceeds from asset sales. Our principal capital requirements have been largely associated with the following:

	Fiscal Year Ended	
	December 31, 2014	December 25, 2013
	(In thousands)	
Facilities	$6,154	$4,961
New construction	187	505
Remodeling	12,184	8,671

Information technology	787	584
Other	2,764	2,097
Capital expenditures	$22,076	$16,818

Capital expenditures for fiscal 2015 are expected to be approximately $23-25 million, including 45-50 remodels anticipated to be completed at company restaurants.

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Cash flows used in financing activities were $53.5 million for the year ended December 31, 2014, which included stock repurchases of $36.1 million and a net decrease in long-term debt of $17.2 million.

Our working capital deficit was $24.3 million at December 31, 2014 compared with $20.3 million at December 25, 2013. The increase in working capital deficit is primarily related to the increase in incentive and share-based compensation accruals during the current year period. 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

Denny's Corporation and certain of its subsidiaries have a credit facility comprised of a senior secured term loan in an original principal amount of $60 million and a $190 million senior secured revolver (with a $30 million letter of credit sublimit). As of December 31, 2014, we had outstanding term loan borrowings under the credit facility of $54.8 million and outstanding letters of credit under the senior secured revolver of $25.7 million. There were $85.3 million in revolving loans outstanding at December 31, 2014. These balances resulted in availability of $79.0 million under the revolving facility. The weighted average interest rate under the term loan and on outstanding revolver loans was 2.17% as of December 31, 2014.

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

The credit facility is guaranteed by the Company and its material subsidiaries and is secured by substantially all of the assets of the Company and its subsidiaries, including the stock of the Company's subsidiaries. It includes negative covenants and restrictions (including limitation on additional borrowings, acquisitions, loans to franchisees, capital expenditures, lease commitments, stock repurchases and dividend payments) that are usual for facilities of this type. The credit facility also includes certain financial covenants with respect to a maximum consolidated leverage ratio, a minimum consolidated fixed charge coverage ratio and maximum capital expenditures.

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

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

We also have entered into interest rate swaps to hedge a portion of the cash flows of our floating rate debt from March 31, 2015 through March 29, 2018. During the quarter ended December 31, 2014, we determined that a portion of the underlying cash flows related to the swap were no longer probable of occurring over the term of the interest rate swap due to the probability of paying the debt down below the notional amount. As a result, we terminated an interest rate swap with a notional amount of $30 million.

We continue to designate the remaining interest rate swap as a cash flow hedge of our exposure to variability in future cash flows attributable to payments of LIBOR due on a related $120 million notional debt obligation from March 31, 2015 through March 29, 2018. Based on our consolidated leverage ratio in effect as of December 31, 2014, under the terms of the swap, we will pay an average fixed rate of 3.13% on the notional amount and receive payments from a counterparty based on the 30-day LIBOR rate.

Contractual Obligations

Our future contractual obligations and commitments at December 31, 2014 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	$140,000	$4,125	$10,125	$125,750	$—
Capital lease obligations (a)	32,993	6,451	10,528	6,708	9,306
Operating lease obligations	194,167	31,904	56,131	40,521	65,611
Interest obligations (a)	9,634	3,007	5,720	907	—
Pension and other defined contribution plan obligations (b)	224	224	—	—	—
Purchase obligations (c)	205,622	185,045	20,577	—	—
Total	$582,640	$230,756	$103,081	$173,886	$74,917

(a) Interest obligations represent payments related to our long-term debt outstanding at December 31, 2014. For long-term debt with variable rates, we have used the rate applicable at December 31, 2014 to project interest over the periods presented in the table above. The capital lease obligation amounts above are inclusive of interest.

(b) Pension and other defined contribution plan obligations are estimates based on facts and circumstances at December 31, 2014. Amounts cannot currently be estimated for more than one year. This amount does not consider the planned termination of the Advantica Pension Plan. During fiscal 2015 or early 2016, we will be required to make contributions to our qualified pension plan as a result of the planned termination. We currently estimate that these contributions will be between $6 million to $8 million. This estimate is based on expected interest rates, returns on plan assets and participant elections.

(c) 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.

Unrecognized tax benefits associated with uncertain income tax positions are not included in the contractual obligations table as these liabilities may increase or decrease over time as a result of tax examinations, and given the status of the examinations, we cannot reliably estimate the period of any cash settlement with the respective taxing authorities. At December 31, 2014, there were no unrecognized tax benefits associated with uncertain income tax positions, including potential interest and penalties.

Off-Balance Sheet Arrangements

Except for operating leases entered into 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, income taxes and share-based compensation. 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. 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 liability 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.

Restructuring and exit costs. Discounted liabilities for future lease costs of closed restaurants, net of the fair value of related subleases, are recorded when the restaurants are closed. All other costs related to closed restaurants are expensed as incurred. In assessing the discounted liabilities for future costs of obligations related to closed restaurants, we make assumptions regarding amounts of future subleases.

The most significant estimates included in our accrued exit costs liabilities relates to the timing and amount of estimated subleases. If any of the estimates or their related assumptions change in the future, we may be required to record additional exit costs or reduce exit costs previously recorded.

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.

Share-based compensation. Share-based compensation is estimated for equity awards at fair value at the grant date. The fair value of restricted stock units containing a market condition is determined using the Monte Carlo valuation method, which utilizes multiple input variables to determine the probability of the Company achieving the market condition. Changes in the subjective assumptions can materially affect the estimate of the fair value of share-based compensation and consequently, the related amount recognized in the Consolidated Statements of Income.

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 31, 2014, borrowings under our credit facility bore interest at variable rates based on LIBOR plus a spread of 200 basis points per annum. Through March 31, 2015, up to $150 million of the borrowings under our credit facility has a 200 basis point LIBOR point cap.

On March 31, 2015, our interest rate swap with a notional amount of $120 million goes into effect. Based on our consolidated leverage ratio in effect as of December 31, 2014, under the terms of the swap, we will pay an average fixed rate of 3.13% on the notional amount and receive payments from a counterparty based on the 30-day LIBOR rate, which will mitigate a portion of our exposure to variability in future cash flows attributes to payments of LIBOR. Based on the levels of borrowings under the credit facility at December 31, 2014, if interest rates changed by 100 basis points, our annual cash flow and income before taxes would change by approximately $0.5 million. This computation is determined by considering the impact of hypothetical interest rates on the credit facility at December 31, 2014, taking into consideration the interest rate cap and interest rate swap. However, the nature and amount of our borrowings may vary as a result of future business requirements, market conditions and other factors.

We also have exposure to interest rate risk related to our pension plan, other defined benefit plans and self-insurance liabilities. A 25 basis point increase or decrease in discount rate would increase or decrease our projected benefit obligation related to our pension plan by approximately $2.5 million and would impact the pension plan's net periodic benefit cost by approximately $0.1 million. The impact of a 25 basis point increase or decrease in discount rate would decrease or increase, respectively, our projected benefit obligation related to our other defined benefit plans by less than $0.1 million while the plans' net periodic benefit cost would remain flat. A 25 basis point increase or decrease in discount rate related to our self-insurance liabilities would result in a decrease or increase of $0.2 million, respectively.

Commodity Price Risk

We purchase certain food products, such as beef, poultry, pork, eggs and coffee, and utilities such as gas and electricity, which 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

A. Disclosure Controls and Procedures. As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) our management conducted an evaluation (under the supervision and with the participation of our President and Chief Executive Officer, John C. Miller, and our Executive Vice President, Chief Administrative Officer and Chief Financial Officer, F. Mark Wolfinger) as of the end of the period covered by this Annual Report on Form 10-K, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on that evaluation, Messrs. Miller and Wolfinger each concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act, (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and (ii) is accumulated and communicated to our management, including Messrs. Miller and Wolfinger, as appropriate to allow timely decisions regarding required disclosure.

B. Management’s Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is 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.

Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. Management’s assessment was based on criteria set forth in Internal Control - Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon this assessment, management concluded that, as of December 31, 2014, our internal control over financial reporting was effective, based upon those criteria.

The Company’s independent registered public accounting firm, KPMG LLP, has issued an attestation report on our internal control over financial reporting, which follows this report.

C. Changes in Internal Control Over Financial Reporting. There have been no 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 (our fourth fiscal quarter) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors
Denny's Corporation

We have audited Denny’s Corporation’s (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 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.

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.

In our opinion, Denny’s Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (1992) 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), the consolidated balance sheets of Denny’s Corporation and subsidiaries as of December 31, 2014 and December 25, 2013, and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the fiscal years in the three-year period ended December 31, 2014, and our report dated March 13, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Greenville, South Carolina
March 13, 2015

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 2015 Annual Meeting of the Shareholders (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 information required by this item is furnished by incorporation by reference to information under the caption “General—Equity Security Ownership” in the proxy statement and possibly elsewhere in the proxy statement (or will be filed by amendment to this report).

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, 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	By-Laws of Denny's Corporation, as effective as of May 23, 2013 (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K of Denny's Corporation filed with the Commission on June 7, 2013).
+*10.1	Form of stock option agreement to be used under the Denny's Corporation 2004 Omnibus Incentive Plan (incorporated by reference to Exhibit 99.2 to the Registration Statement on Form S-8 of Denny's Corporation (File No. 333-120093) filed with the Commission on October 29, 2004).
+*10.2	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).
+*10.3	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).
+*10.4	Employment Offer Letter dated July 19, 2010 between Denny's Corporation and Frances L. Allen (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 29, 2010).
+*10.5	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).
*10.6	Credit Agreement dated as of April 12, 2012 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 General Electric Capital Corporation, as Co-Syndication Agents, Cadence Bank and RBS Citizens, N.A., as Co-Documentation Agents, the other lenders party thereto, and Wells Fargo Securities, LLC, Regions Capital Markets, a Division of Regions Bank, and GE Capital Markets, Inc., as Joint Lead Arrangers and Joint Bookrunners (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 28, 2012).
*10.7	Guarantee and Collateral Agreement dated as of April 12, 2012 among Denny's, Inc., Denny's Realty, LLC, Denny's Corporation, DFO, LLC, the other subsidiaries of Parent from time to time party thereto and Wells Fargo Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 28, 2012).
*10.8	Amended and Restated Credit Agreement dated as of April 24, 2013 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 General Electric Capital Corporation, as Co-Syndication Agents, Cadence Bank N.A., Fifth Third Bank and RBS

	Citizens, N.A., as Co-Documentation Agents, and the other lenders party thereto, and Wells Fargo Securities, LLC, Regions Capital Markets and GE Capital Markets, Inc., as Joint Lead Arrangers and Joint Bookrunners (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 27, 2013).
*10.9	Amended and Restated Guarantee and Collateral Agreement dated as of April 24, 2013 among Denny's, Inc., Denny's Realty, LLC, Denny's Corporation, DFO, LLC, the other Subsidiaries of Parent from time to time party thereto, and Wells Fargo Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 27, 2013).

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Exhibit No.	Description
*10.10	First Amendment to Amended and Restated Credit Agreement dated as of October 14, 2014 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, and the Lenders (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 24, 2014).
+*10.11	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 25, 2013).
+*10.12	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).
+*10.13	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).
+*10.14	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).
+*10.15	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).
+*10.16	Form of the 2011 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 30, 2011).
+*10.17	Written Description of the Denny's 2011 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 30, 2011).
+*10.18	Form of the 2012 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 28, 2012).
+*10.19	Written Description of the Denny's 2012 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 28, 2012).
+*10.20	Form of the 2013 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 27, 2013).
+*10.21	Written Description of the Denny's 2013 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 27, 2013).
+*10.22	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).

Exhibit No.	Description
+*10.23	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).
+*10.24	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).
+*10.25	Form of Performance-Based Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.29 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 29, 2010).
+*10.26	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).
+10.27	Form of deferred stock unit award certificate to be used under the Denny's Corporation 2012 Omnibus Incentive Plan.
21.1	Subsidiaries of Denny's.
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.

^ In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Annual Report on Form 10-K shall be deemed "furnished" and not "filed."

DENNY'S CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors
Denny's Corporation

We have audited the accompanying consolidated balance sheets of Denny’s Corporation and subsidiaries as of December 31, 2014 and December 25, 2013, and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the fiscal years in the three-year period ended December 31, 2014. 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Denny’s Corporation and subsidiaries as of December 31, 2014 and December 25, 2013, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended December 31, 2014, 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), the Company’s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
Greenville, South Carolina
March 13, 2015

Denny’s Corporation and Subsidiaries
Consolidated Balance Sheets

	December 31, 2014	December 25, 2013
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$3,074	$2,943
Receivables	18,059	17,321
Inventories	2,952	2,881
Current deferred tax asset	24,310	23,264
Prepaid and other current assets	7,676	7,417
Total current assets	56,071	53,826
Property	109,777	105,620
Goodwill	31,451	31,451
Intangible assets, net	46,278	47,925
Deferred financing costs, net	1,614	2,097
Noncurrent deferred tax asset	19,252	28,290
Other noncurrent assets	25,415	26,568
Total assets	$289,858	$295,777
Liabilities		
Current liabilities:		
Current maturities of long-term debt	$4,125	$3,000
Current maturities of capital lease obligations	3,609	4,150
Accounts payable	13,250	14,237
Other current liabilities	59,432	52,698
Total current liabilities	80,416	74,085
Long-term liabilities:		
Long-term debt, less current maturities	135,875	150,000
Capital lease obligations, less current maturities	15,204	15,923
Liability for insurance claims, less current portion	18,005	18,249
Other noncurrent liabilities and deferred credits	38,775	29,089
Total long-term liabilities	207,859	213,261
Total liabilities	288,275	287,346
Commitments and contingencies		
Shareholders' equity		
Common stock $0.01 par value; shares authorized - 135,000; December 31, 2014: 105,818 shares issued and 84,707 shares outstanding; December 25, 2013: 105,014 shares issued and 89,232 shares outstanding;	1,058	1,050
Paid-in capital	571,674	567,505
Deficit	(438,221)	(470,946)
Accumulated other comprehensive loss, net of tax	(24,602)	(16,842)
Shareholders’ equity before treasury stock	109,909	80,767
Treasury stock, at cost, 21,111 and 15,782 shares, respectively	(108,326)	(72,336)
Total shareholders' equity	1,583	8,431
Total liabilities and shareholders' equity	$289,858	$295,777

See accompanying notes to consolidated financial statements.

Denny's Corporation and Subsidiaries
Consolidated Statements of Income

	Fiscal Year Ended		
	December 31, 2014	December 25, 2013	December 26, 2012
	(In thousands, except per share amounts)		
Revenue:			
Company restaurant sales	$334,684	$328,334	$353,710
Franchise and license revenue	137,611	134,259	134,653
Total operating revenue	472,295	462,593	488,363
Costs of company restaurant sales:			
Product costs	86,825	85,540	88,473
Payroll and benefits	133,280	131,305	141,303
Occupancy	20,845	21,519	23,405
Other operating expenses	47,858	45,192	49,025
Total costs of company restaurant sales	288,808	283,556	302,206
Costs of franchise and license revenue	44,761	46,109	46,675
General and administrative expenses	58,907	56,835	60,307
Depreciation and amortization	21,218	21,501	22,304
Operating (gains), losses and other charges, net	1,270	7,071	482
Total operating costs and expenses, net	414,964	415,072	431,974
Operating income	57,331	47,521	56,389
Interest expense, net	9,182	10,282	13,369
Other nonoperating (income) expense, net	(612)	1,139	7,926
Net income before income taxes	48,761	36,100	35,094
Provision for income taxes	16,036	11,528	12,785
Net income	$32,725	$24,572	$22,309
Basic net income per share	$0.38	$0.27	$0.23
Diluted net income per share	$0.37	$0.26	$0.23
Basic weighted average shares outstanding	86,323	90,829	94,949
Diluted weighted average shares outstanding	88,355	92,903	96,754

See accompanying notes to consolidated financial statements.

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Denny’s Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income

	Fiscal Year Ended		
	December 31, 2014	December 25, 2013	December 26, 2012
	(In thousands)		
Net income	$32,725	$24,572	$22,309
Other comprehensive (loss) income, net of tax:			
Minimum pension liability adjustment, net of tax (benefit) expense of $(4,019), $4,164 and $(191)	(6,304)	6,309	(186)
Recognition of unrealized (loss) gain on hedge transaction, net of tax (benefit) expense of $(933) and $1,184	(1,456)	1,848	—
Other comprehensive (loss) income	(7,760)	8,157	(186)
Total comprehensive income	$24,965	$32,729	$22,123

See accompanying notes to consolidated financial statements.

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Denny’s Corporation and Subsidiaries
Consolidated Statements of Shareholders’ Equity

	Common Stock		Treasury Stock		Paid-in		Accumulated Other Comprehensive Loss, Net	Total Shareholders’ Equity / (Deficit)
	Shares	Amount	Shares	Amount	Capital	(Deficit)		
	(In thousands)							
Balance, December 28, 2011	102,668	$1,027	(6,696)	$(25,459)	$557,396	$(517,827)	$ (24,813)	$ (9,676)
Net income	—	—	—	—	—	22,309	—	22,309
Other comprehensive loss	—	—	—	—	—	—	(186)	(186)
Share-based compensation on equity classified awards	—	—	—	—	2,082	—	—	2,082
Purchase of treasury stock	—	—	(4,839)	(22,179)	—	—	—	(22,179)
Issuance of common stock for share-based compensation	253	3	—	—	(3)	—	—	—
Exercise of common stock options	843	8	—	—	2,172	—	—	2,180
Tax benefit from share-based compensation	—	—	—	—	1,010	—	—	1,010
Balance, December 26, 2012	103,764	1,038	(11,535)	(47,638)	562,657	(495,518)	(24,999)	(4,460)
Net income	—	—	—	—	—	24,572	—	24,572
Other comprehensive income	—	—	—	—	—	—	8,157	8,157
Share-based compensation on equity classified awards	—	—	—	—	2,292	—	—	2,292
Purchase of treasury stock	—	—	(4,247)	(24,698)	—	—	—	(24,698)
Issuance of common stock for share-based compensation	351	3	—	—	(3)	—	—	—
Exercise of common stock options	899	9	—	—	2,946	—	—	2,955
Tax expense from share-based compensation	—	—	—	—	(387)	—	—	(387)
Balance, December 25, 2013	105,014	1,050	(15,782)	(72,336)	567,505	(470,946)	(16,842)	8,431
Net income	—	—	—	—	—	32,725	—	32,725
Other comprehensive loss	—	—	—	—	—	—	(7,760)	(7,760)
Share-based compensation on equity classified awards	—	—	—	—	2,345	—	—	2,345
Purchase of treasury stock	—	—	(5,329)	(35,990)	—	—	—	(35,990)
Issuance of common stock for share-based	151	1	—	—	(1)	—	—	—

compensation								
Exercise of common stock options	653	7	—	—	2,162	—	—	2,169
Tax expense from share-based compensation	—	—	—	—	(337)	—	—	(337)
Balance, December 31, 2014	105,818	$1,058	(21,111)	$(108,326)	$571,674	$(438,221)	$ (24,602)	$ 1,583

See accompanying notes to consolidated financial statements.

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Denny’s Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Fiscal Year Ended		
	December 31, 2014	December 25, 2013	December 26, 2012
	(In thousands)		
Cash flows from operating activities:			
Net income	$32,725	$24,572	$22,309
Adjustments to reconcile net income to cash flows provided by operating activities:			
Depreciation and amortization	21,218	21,501	22,304
Operating (gains), losses and other charges, net	1,270	7,071	482
Amortization of deferred financing costs	483	497	775
Amortization of debt discount	—	—	137
(Gain) loss on early extinguishments of debt	(33)	2,226	8,290
(Gain) loss on interest rate hedges	(11)	42	61
Deferred income tax expense	13,215	9,100	11,423
Reversal of tax valuation allowance	(270)	(420)	(661)
Share-based compensation	5,846	4,852	3,496
Changes in assets and liabilities:			
Decrease (increase) in assets:			
Receivables	(1,119)	116	(1,740)
Inventories	(71)	9	548
Other current assets	(259)	984	2,820
Other assets	(2,118)	(2,110)	(3,172)
Increase (decrease) in liabilities:			
Accounts payable	1,561	(5,520)	(1,217)
Accrued salaries and vacations	2,648	(2,545)	2,279
Accrued taxes	871	101	(747)
Other accrued liabilities	114	(746)	(4,420)
Other noncurrent liabilities and deferred credits	(1,159)	(2,688)	(3,763)
Net cash flows provided by operating activities	74,911	57,042	59,204
Cash flows from investing activities:			
Capital expenditures	(22,076)	(16,818)	(14,164)
Acquisition of restaurants and real estate	—	(3,980)	(1,422)
Proceeds from disposition of property	64	1,582	15,555
Collections on notes receivable	2,289	4,779	1,970
Issuance of notes receivable	(1,566)	(2,033)	(5,440)
Net cash flows used in investing activities	(21,289)	(16,470)	(3,501)
Cash flows from financing activities:			
Revolver borrowings	32,200	124,200	—
Revolver payments	(42,200)	(28,950)	—
Term loan borrowings	—	60,000	190,000
Long-term debt payments	(7,237)	(176,729)	(222,741)
Debt transaction costs	—	(366)	(1,097)
Deferred financing costs	—	(1,374)	(1,809)
Purchase of treasury stock	(36,058)	(25,039)	(21,618)
Proceeds from exercise of stock options	2,169	2,955	2,180

Tax withholding on share-based payments	(419)	(796)	(327)
Tax (expense) benefit for share-based compensation	(337)	(387)	1,010
Net bank overdrafts	(1,609)	(4,708)	(1,476)
Net cash flows used in financing activities	(53,491)	(51,194)	(55,878)
Increase (decrease) in cash and cash equivalents	131	(10,622)	(175)
Cash and cash equivalents at beginning of period	2,943	13,565	13,740
Cash and cash equivalents at end of period	$3,074	$2,943	$13,565

See accompanying notes to consolidated financial statements.

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Denny’s Corporation and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Introduction and Basis of Reporting

Denny’s Corporation, or Denny’s, is one of America’s largest franchised full-service restaurant chains based on number of restaurants. Denny’s restaurants are operated in all 50 states, the District of Columbia, two U.S. territories and nine foreign countries with principal concentrations in California (24% of total restaurants), Texas (11%) and Florida (8%).

At December 31, 2014, the Denny's brand consisted of 1,702 restaurants, 1,541 of which were franchised/licensed restaurants and 161 of which were company operated.

Note 2. Summary of Significant Accounting Policies

The following accounting policies significantly affect the preparation of our Consolidated Financial Statements:

Use of Estimates. In preparing our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles, management is required to make certain assumptions and estimates that affect reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingencies. In making these assumptions and estimates, management may from time to time seek advice and consider information provided by actuaries and other experts in a particular area. Actual amounts could differ materially from these estimates.

Consolidation Policy. Our Consolidated Financial Statements include the financial statements of Denny’s Corporation and its wholly-owned subsidiaries: Denny’s, Inc., DFO, LLC and Denny's Realty, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year. Our fiscal year ends on the last Wednesday in December. As a result, a fifty-third week is added to a fiscal year every five or six years. Fiscal 2014 included 53 weeks of operations, whereas 2013 and 2012 each included 52 weeks of operations.

Reclassifications. The prior year proceeds and repayments of the revolving credit facility have been reclassified in the Consolidated Statement of Cash Flows to conform to the current gross basis presentation.

Cash Equivalents and Short-term Investments. Our policy is to invest cash in excess of operating requirements in short-term highly liquid investments with an original maturity of three months or less, which we consider to be cash equivalents. Cash and cash equivalents include short-term investments of $5.0 million and $5.3 million at December 31, 2014 and December 25, 2013, respectively.

Receivables. Receivables, which are recorded at net realizable value, primarily consist of trade accounts receivables and financing receivables from franchisees (together “franchisee receivables”), vendor receivables and credit card receivables. Trade accounts receivables from franchisees consist of royalties, advertising and rent. Financing receivables from franchisees primarily consist of notes from franchisees related to the roll-out of new POS equipment. We accrue interest on notes receivable based on the contractual terms. The allowance for doubtful accounts is based on pre-defined criteria and management’s judgment of existing receivables. Receivables that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts.

Inventories. Inventories consist of food and beverages and are valued primarily at the lower of average cost (first-in, first-out) or market.

Property and Depreciation. Owned property is stated at cost. Property under capital leases is stated at the lesser of its fair value or the net present value of the related minimum lease payments at the lease inception. Maintenance and repairs are expensed as incurred. We depreciate owned property over its estimated useful life using the straight-line method. We amortize property held under capital leases (at capitalized value) over the lesser of its estimated useful life or the initial lease term. In certain situations, one or more option periods may be used in determining the depreciable life of certain leasehold improvements under operating lease agreements, if we deem that an economic penalty will be incurred and exercise of such option periods is reasonably assured. In either circumstance, our policy requires lease term consistency when calculating the depreciation period, in classifying the lease and in computing rent expense. Building assets are assigned estimated useful lives that range from five to 30 years. Equipment assets are assigned lives that range from two to ten years. Leasehold improvements are generally assigned lives between five and 15 years limited by the expected lease term.

Goodwill. Amounts recorded as goodwill primarily represent excess reorganization value recognized as a result of our 1998 bankruptcy. We record goodwill in connection with the acquisition of restaurants from franchisees. Likewise, upon the sale of restaurant operations to franchisees, goodwill is decremented. We test goodwill for impairment at each fiscal year end, and more frequently if circumstances indicate impairment may exist. Such indicators include, but are not limited to, a significant decline in our expected future cash flows; a significant adverse decline in our stock price; significantly adverse legal developments; and a significant change in the business climate.

Other Intangible Assets. Other intangible assets consist primarily of trade names, franchise and license agreements, and reacquired franchise rights. Trade names are considered indefinite-lived intangible assets and are not amortized. Franchise and license agreements and reacquired franchise rights are amortized using the straight-line basis over the term of the related agreement. We test trade name assets for impairment at each fiscal year end, and more frequently if circumstances indicate impairment may exist. We assess impairment of franchise and license agreements and reacquired franchise rights whenever changes or events indicate that the carrying value may not be recoverable. Costs incurred to renew or extend the term of recognized intangible assets are recorded in general and administrative expenses in our Consolidated Statements of Income.

Long-term Investments. Long-term investments include nonqualified deferred compensation plan assets held in a rabbi trust. Each plan participant's account is comprised of their contribution, our matching contribution and each participant's share of earnings or losses in the plan. The investments of the rabbi trust include debt and equity mutual funds. They are considered trading securities and are reported at fair value in other noncurrent assets with an offsetting liability included in other noncurrent liabilities and deferred credits in our Consolidated Balance Sheets. The realized and unrealized holding gains and losses related to the investments are recorded in other income (expense) with an offsetting amount recorded in general and administrative expenses related to the liability in our Consolidated Statements of Income. During 2014, 2013 and 2012, we incurred net gains of $0.5 million, $1.1 million and $0.7 million, respectively. The fair value of the deferred compensation plan investments were $9.3 million and $8.2 million at December 31, 2014 and December 25, 2013, respectively.

Deferred Financing Costs. Costs related to the issuance of debt are deferred and amortized as a component of interest expense using the effective interest method over the terms of the respective debt issuances.

Cash Overdrafts. There were no cash overdrafts at December 31, 2014. Accounts payable in our Consolidated Balance Sheets include cash overdrafts of $1.6 million at December 25, 2013. Changes in such amounts are reflected in cash flows from financing activities in the Consolidated Statements of Cash Flows.

Self-insurance liabilities. We record liabilities for insurance claims during periods in which we have been insured under large deductible programs or have been self-insured for our medical claims and workers’ compensation, general/product and automobile insurance liabilities. The liabilities for prior and current estimated incurred losses are discounted to their present value based on expected loss payment patterns determined by independent actuaries using our actual historical payments. These estimates include assumptions regarding claims frequency and severity as well as changes in our business environment, medical costs and the regulatory environment that could impact our overall self-insurance costs.

Total discounted workers’ compensation, general/product and automobile insurance liabilities at December 31, 2014 and December 25, 2013 were $23.1 million and $23.8 million, respectively, with each reflecting a 1.0% discount rate. The related undiscounted amounts at such dates were $23.7 million and $24.4 million, respectively.

Income Taxes. We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. A valuation allowance reduces our net deferred tax assets to the amount that is more likely than not to be realized. We make certain estimates and judgments in the calculation of our provision for incomes taxes, in the resulting tax liabilities, and in the recoverability of deferred tax assets.

Leases and Subleases. Our policy requires the use of a consistent lease term for (i) calculating the maximum depreciation period for related buildings and leasehold improvements; (ii) classifying the lease; and (iii) computing periodic rent expense increases where the lease terms include escalations in rent over the lease term. The lease term commences on the date we gain access to and control over the leased property. We account for rent escalations in leases on a straight-line basis over the expected lease term. Any rent holidays after lease commencement are recognized on a straight-line basis over the expected lease term, which includes the rent holiday period. Leasehold improvements that have been funded by lessors have historically been insignificant. Any leasehold improvements we make that are funded by lessor incentives or allowances under operating leases are recorded as leasehold improvement assets and amortized over the expected lease term. Such incentives are also recorded as deferred rent and amortized as reductions to lease expense over the expected lease term. We record contingent rent expense based on estimated sales for respective restaurants over the contingency period. Contingent rental income is recognized when earned.

Fair Value Measurements. The carrying amounts of cash and cash equivalents, accounts receivables, accounts payable and accrued expenses are deemed to approximate fair value due to the immediate or short-term maturity of these instruments. The fair value of notes receivable approximates the carrying value after consideration of recorded allowances and related risk-based interest rates. The liabilities under our credit facility are carried at historical cost. The estimated fair value (Level 2) of our senior secured term loan approximates its carrying value. The fair value of our long-term debt is determined based on market prices or, if market prices are not available, the present value of the underlying cash flows discounted at market rates.

Derivative Instruments. We use derivative financial instruments to manage our exposure to interest rate risk. We do not enter into derivative instruments for trading or speculative purposes. All derivatives are recognized on our Consolidated Balance Sheets at fair value based upon quoted market prices. Changes in the fair values of derivatives are recorded in earnings or other comprehensive income, based on whether the instrument is designated as a hedge transaction. Gains or losses on derivative instruments reported in other comprehensive income are classified to earnings in the period the hedged item affects earnings. If the underlying hedge transaction ceases to exist, any associated amounts reported in other comprehensive income are reclassified to earnings at that time. Any ineffectiveness is recognized in earnings in the current period. By entering into derivative instruments, we are exposed to counterparty credit risk. When the fair value of a derivative instrument is in an asset position, the counterparty has a liability to us, which creates credit risk for us. We manage our exposure to this risk by selecting counterparties with investment grade credit ratings and regularly monitoring our market position with each counterparty.

Contingencies and Litigation. We are subject to legal proceedings involving ordinary and routine claims incidental to our business, as well as legal proceedings that are nonroutine and include compensatory or punitive damage claims. Our ultimate legal and financial liability with respect to such matters cannot be estimated with certainty and requires the use of estimates in recording liabilities for potential litigation settlements. When the reasonable estimate is a range, the recorded loss will be the best estimate within the range. We record legal settlement costs as other operating expenses in our Consolidated Statements of Income as those costs are incurred.

Comprehensive Income. Comprehensive income includes net income and other comprehensive income items that are excluded from net income under U.S. generally accepted accounting principles. Other comprehensive income items include additional minimum pension liability adjustments and the effective unrealized portion of changes in the fair value of cash flow hedges.

Segment. Denny’s operates in only one segment. All significant revenues and pre-tax earnings relate to retail sales of food and beverages to the general public through either company or franchised restaurants.

Company Restaurant Sales. Company restaurant sales are recognized when food and beverage products are sold at company restaurants. We present company restaurant sales net of sales taxes.

Gift cards. We sell gift cards which have no stated expiration dates. We recognize revenue from gift cards when the gift card is redeemed by the customer or when we determine the likelihood of redemption is remote (gift card breakage). Breakage is based on our company-specific historical redemption patterns. We recognized $0.4 million, $0.3 million and $0.3 million in breakage on gift cards during 2014, 2013 and 2012, respectively. We believe that the amounts recognized for breakage have been and will continue to be insignificant.

Franchise and License Fees. We recognize initial franchise and license fees when all of the material obligations have been performed and conditions have been satisfied, typically when operations of a new franchised restaurant have commenced. Continuing fees, such as royalties and rents, are recorded as income. During 2014, 2013 and 2012, we recorded initial fees of $1.9 million, $1.6 million and $3.0 million, respectively, as a component of franchise and license revenue in our Consolidated Statements of Income. At December 31, 2014 and December 25, 2013, deferred fees were $1.6 million and $1.1 million, respectively, and are included in other accrued liabilities in the accompanying Consolidated Balance Sheets. For 2014, 2013 and 2012, our ten largest franchisees accounted for 32% of our franchise revenues.

Advertising Costs. We expense production costs for radio and television advertising in the year in which the commercials are initially aired. Advertising expense for 2014, 2013 and 2012 was $12.3 million, $11.7 million and $13.4 million, respectively, net of contributions from franchisees to our advertising programs, including local co-operatives, of $70.3 million, $66.6 million and $65.1 million, respectively. Advertising costs are recorded as a component of other operating expenses in our Consolidated Statements of Income.

Restructuring and exit costs. Restructuring and exit costs consist primarily of the costs of future obligations related to closed restaurants, severance and other restructuring charges for terminated employees, and are included as a component of operating (gains), losses and other charges, net in our Consolidated Statements of Income.

Discounted liabilities for future lease costs and the fair value of related subleases of closed restaurants are recorded when the restaurants are closed. All other costs related to closed restaurants are expensed as incurred. In assessing the discounted liabilities for future costs of obligations related to closed restaurants, we make assumptions regarding amounts of future assumed subleases. If these assumptions or their related estimates change in the future, we may be required to record additional exit costs or reduce exit costs previously recorded. Exit costs recorded for each of the periods presented include the effect of such changes in estimates.

We evaluate restaurant closures for potential disclosure as discontinued operations based on an assessment of several quantitative and qualitative factors, including the nature of the closure, revenue migration to other company and franchised restaurants and planned market development in the vicinity of the disposed restaurant.

Disposal or 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. These charges are included as a component of operating (gains), losses and other charges, net in our Consolidated Statements of Income.

Assets held for sale consist of real estate properties and/or restaurant operations that we expect to sell within the next year. The assets are reported at the lower of carrying amount or fair value less costs to sell. We cease recording depreciation on assets that are classified as held for sale. If the determination is made that we no longer expect to sell an asset within the next year, the asset is reclassified out of held for sale.

Gains on Sales of Restaurants Operations to Franchisees, Real Estate and Other Assets. Generally, gains on sales of restaurant operations to franchisees (which may include real estate), real estate properties and other assets are recognized when the sales are consummated and certain other gain recognition criteria are met. Total gains are included as a component of operating (gains), losses and other charges, net in our Consolidated Statements of Income.

Share-Based Compensation. Share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period. We estimate potential forfeitures of share-based awards and adjust the forfeiture rate over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Share-based compensation expense is included as a component of general and administrative expenses in our Consolidated Statements of Income. Any tax expense or benefit in excess of recognized compensation cost is reported as a financing activity on our Consolidated Statements of Cash

Flows.

Compensation expense for options is recognized on a straight-line basis over the requisite service period for the entire award. Generally, compensation expense related to restricted stock units, performance shares, performance units and board deferred stock units is based on the number of shares and units expected to vest, the period over which they are expected to vest and the fair market value of the common stock on the date of the grant. For restricted stock units and performance shares that contain a market condition, compensation expense is based on the Monte Carlo valuation method, which utilizes multiple input variables to determine the probability of the Company achieving the market condition and the fair value of the award. The amount of certain cash-settled awards is determined based on the date of payment. Therefore, compensation expense related to these cash-settled awards is adjusted to fair value at each balance sheet date.

Subsequent to the vesting period, earned stock-settled restricted stock units and performance shares (both of which are equity classified) are paid to the holder in shares of common stock, and the cash-settled restricted stock units and performance units (both of which are liability classified) are paid to the holder in cash, provided the holder is then still employed with Denny’s or an affiliate.

Earnings Per Share. Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares and potential common shares outstanding during the period.

Accounting Standards to be Adopted.

Discontinued Operations

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

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

Revenue Recognition

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

In May 2014, the FASB issued ASU 2014-09, which clarifies the principles used to recognize revenue for all entities. The new guidance requires companies to recognize revenue when it transfers goods or service to a customer in an amount that reflects the consideration to which a company expects to be entitled. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2016 (our fiscal 2017). The guidance allows for either a "full retrospective" adoption or a "modified retrospective" adoption, however early adoption is not permitted. We are currently evaluating the adoption methods and the impact the adoption of this guidance will have on our consolidated financial statements, however we do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

Share-Based Compensation

ASU 2014-12, "Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force)"

In June 2014, the FASB issued ASU No. 2014-12, which clarifies the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. ASI 2014-12 is effective for annual and interim periods beginning after December 15, 2015 (our fiscal 2016) with early adoption permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements,

Going Concern

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

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

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

Note 3. Receivables

Receivables, net were comprised of the following:

	December 31, 2014	December 25, 2013
	(In thousands)	
Current assets:		
Receivables:		
Trade accounts receivable from franchisees	$10,929	$10,072
Notes receivable from franchisees and third parties	1,419	1,800
Vendor receivables	2,534	2,516
Credit card receivables	1,661	2,162
Other	1,816	1,002
Allowance for doubtful accounts	(300)	(231)
Total current receivables, net	$18,059	$17,321
Noncurrent assets (included as a component of other noncurrent assets):		
Notes receivable from franchisees	$425	$766

Note 4. Property, Net

Property, net consisted of the following:

	December 31, 2014	December 25, 2013
	(In thousands)	
Land	$27,198	$27,198
Buildings and leasehold improvements	233,339	229,918
Other property and equipment	77,493	75,740
Total property owned	338,030	332,856
Less accumulated depreciation	241,678	241,257
Property owned, net	96,352	91,599
Buildings, vehicles and other equipment held under capital leases	26,836	28,730
Less accumulated amortization	13,411	14,709
Property held under capital leases, net	13,425	14,021
Total property, net	$109,777	$105,620

The following table reflects the property assets, included in the table above, which were leased to franchisees:

	December 31, 2014	December 25, 2013
	(In thousands)	
Land	$14,977	$14,977
Buildings and leasehold improvements	63,098	64,458
Total property owned, leased to franchisees	78,075	79,435
Less accumulated depreciation	53,994	54,473
Property owned, leased to franchisees, net	24,081	24,962
Buildings held under capital leases, leased to franchisees	7,251	10,206
Less accumulated amortization	5,208	7,345
Property held under capital leases, leased to franchisees, net	2,043	2,861
Total property leased to franchisees, net	$26,124	$27,823

Depreciation expense, including amortization of property under capital leases, for 2014, 2013 and 2012 was $19.2 million, $18.6 million and $19.1 million, respectively. Substantially all owned property is pledged as collateral for our Credit Facility. See Note 10.

Note 5. Goodwill and Other Intangible Assets

The following table reflects the changes in carrying amounts of goodwill:

	December 31, 2014	December 25, 2013
	(In thousands)	
Balance, beginning of year	$31,451	$31,430
Additions related to acquisitions	—	28
Write-offs and reclassifications associated with sale of restaurants	—	(7)
Balance, end of year	$31,451	$31,451

Other intangible assets were comprised of the following:

	December 31, 2014		December 25, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Intangible assets with indefinite lives:				
Trade names	$44,065	$—	$44,055	$—
Liquor licenses	126	—	126	—
Intangible assets with definite lives:				
Franchise and license agreements	22,366	21,426	31,248	29,007
Reacquired franchise rights	1,857	710	1,857	354
Intangible assets	$68,414	$22,136	$77,286	$29,361

The $8.9 million decrease in franchise and license agreements primarily resulted from the removal of fully amortized agreements. The amortization expense for definite-lived intangibles and other assets for 2014, 2013 and 2012 was $2.1 million, $2.9 million and $3.2 million, respectively.

Estimated amortization expense for intangible assets with definite lives in the next five years is as follows:

	(In thousands)
2015	$1,072
2016	400
2017	119
2018	52
2019	52

We performed an annual impairment test as of December 31, 2014 and determined that none of the recorded goodwill or other intangible assets with indefinite lives were impaired.

Note 6. Other Current Liabilities

Other current liabilities consisted of the following:

	December 31, 2014	December 25, 2013
	(In thousands)	
Accrued salaries and vacation	$23,928	$18,810
Accrued insurance, primarily current portion of liability for insurance claims	6,340	7,519
Accrued taxes	7,129	6,258
Accrued advertising	8,027	6,791
Gift cards	4,017	4,057
Other	9,991	9,263
Other current liabilities	59,432	52,698

Note 7. Operating (Gains), Losses and Other Charges, Net

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

	Fiscal Year Ended December 31, 2014	December 25, 2013	December 26, 2012
	(In thousands)		
Gains on sales of assets and other, net	$(112)	$(66)	$(7,090)
Restructuring charges and exit costs	981	1,389	3,912
Impairment charges	401	5,748	3,660
Operating (gains), losses and other charges, net	$1,270	$7,071	$482

Restructuring charges and exit costs were comprised of the following:

	Fiscal Year Ended December 31, 2014	December 25, 2013	December 26, 2012
	(In thousands)		
Exit costs	$335	$630	$1,926
Severance and other restructuring charges	646	759	1,986
Total restructuring charges and exit costs	$981	$1,389	$3,912

Severance and other restructuring charges of $2.0 million for 2012 includes charges related to the departure of the Company's former Chief Operating Officer.

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

	December 31, 2014	December 25, 2013
	(In thousands)	
Balance, beginning of year	$3,149	$4,061
Exit costs (1)	335	630
Payments, net of sublease receipts	(1,426)	(1,726)
Reclassification of certain lease liabilities, net	(95)	(69)
Interest accretion	179	253
Balance, end of year	2,142	3,149
Less current portion included in other current liabilities	483	1,260
Long-term portion included in other noncurrent liabilities	$1,659	$1,889

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

Estimated net cash payments related to exit cost liabilities in the next five years are as follows:

	(In thousands)
2015	$596
2016	346
2017	289
2018	301
2019	272
Thereafter	901
Total	2,705
Less imputed interest	563
Present value of exit cost liabilities	$2,142

The present value of exit cost liabilities is net of $2.4 million of existing sublease arrangements and $1.4 million related to properties for which we assume we will enter into sublease agreements in the future. See Note 8 for a schedule of future minimum lease commitments and amounts to be received as lessor or sub-lessor for both open and closed restaurants.

Impairment charges of $0.4 million for the year ended December 31, 2014 resulted primarily from the impairment of an underperforming restaurant. Impairment charges of $5.7 million for the year ended December 25, 2013 resulted primarily from the $4.8 million impairment of an underperforming restaurant and the $0.8 million impairment of restaurants and a piece of real estate identified as assets held for sale. Impairment charges of $3.7 million for the year ended December 26, 2012 resulted primarily from the impairment of seven restaurants identified as held for sale and the impairment of an underperforming restaurant.

Note 8. Leases

Our operations utilize property, facilities and equipment leased from others. Buildings and facilities are primarily used for restaurants and support facilities. Many of our restaurants are operated under lease arrangements which generally provide for a fixed basic rent, and, in many instances, contingent rent based on a percentage of gross revenues. Initial terms of land and restaurant building leases generally range from 10 to 15 years, exclusive of options to renew, which are typically for five year periods. Leases of other equipment consist primarily of restaurant equipment, computer systems and vehicles.

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Minimum future lease commitments and amounts to be received as lessor or sublessor under non-cancelable leases, including leases for both open and closed restaurants, at December 31, 2014 were as follows:

	Commitments		Lease Receipts
	Capital	Operating	Operating
	(In thousands)		
2015	$6,451	$31,904	$30,610
2016	5,561	29,473	28,546
2017	4,967	26,658	26,531
2018	3,738	22,376	23,072
2019	2,970	18,145	19,062
Thereafter	9,306	65,611	97,165
Total	32,993	$194,167	$224,986
Less imputed interest	14,180		
Present value of capital lease obligations	$18,813		

Rent expense is a component of both occupancy expense and costs of franchise and license revenue in our Consolidated Statements of Income. Lease and sublease rental income is a component of franchise and license revenue in our Consolidated Statements of Income. Rental expense and income were comprised of the following:

	Fiscal Year Ended		
	December 31, 2014	December 25, 2013	December 26, 2012
	(In thousands)		
Rental expense:			
Base rents	$33,402	$35,667	$38,326
Contingent rents	5,535	5,412	5,762
Total rental expense	$38,937	$41,079	$44,088
Rental income:			
Base rents	$33,926	$36,183	$37,363
Contingent rents	4,608	4,389	3,871
Total rental income	$38,534	$40,572	$41,234

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Note 9. Fair Value of Financial Instruments

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

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

	Total	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique
	(In thousands)				
Fair value measurements as of December 31, 2014:					
Deferred compensation plan investments (1)	$9,295	$ 9,295	$—	$—	market approach
Interest rate swaps (2)	642	—	642	—	income approach
Interest rate caps (2)	$0	$ —	$0	$—	income approach
Total	$9,937	$ 9,295	$642	$—	
Fair value measurements as of December 25, 2013:					
Deferred compensation plan investments (1)	$8,168	$ 8,168	$—	$—	market approach
Interest rate swaps (2)	$3,032	$ —	$3,032	$—	income approach
Interest rate caps (2)	$11	$ —	$11	$—	income approach
Total	$11,211	$ 8,168	$3,043	$—	

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

(2) The fair values of our interest rate swaps and interest rate caps are based upon Level 2 inputs, which include valuation models as reported by our counterparties. The key inputs for the valuation models are quoted market prices, interest rates and forward yield curves. See Note 10 for details on the interest rate swaps and interest rate caps.

See Note 11 for the disclosures related to the fair value of our pension plan assets.

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

	Significant Unobservable Inputs (Level 3)	Impairment Charges	Valuation Technique
Fair value measurements as of December 31, 2014:			

Assets held and used (1)	$—	$320	income approach
Fair value measurements as of December 25, 2013:			
Assets held and used (1)	$1,198	$4,795	income approach

(1) As of both December 31, 2014 and December 25, 2013, impaired assets related to an underperforming restaurant were written down to their fair value. To determine fair value, we used the income approach, which assumes that the future cash flows reflect current market expectations. These fair value measurements require significant judgment using Level 3 inputs, such as discounted cash flows from operations, which are not observable from the market, directly or indirectly.

Note 10. Long-Term Debt

Long-term debt consisted of the following:

	December 31, 2014	December 25, 2013
	(In thousands)	
Revolving loans due April 24, 2018	$85,250	$95,250
Term loans due April 24, 2018	54,750	57,750
Capital lease obligations	18,813	20,073
Total long-term debt	158,813	173,073
Less current maturities	7,734	7,150
Noncurrent portion of long-term debt	$151,079	$165,923

Aggregate annual maturities of long-term debt, excluding capital lease obligations (see Note 8), at December 31, 2014 are as follows:

	(In thousands)
2015	$4,125
2016	4,500
2017	5,625
2018	125,750
2019	—
Thereafter	—
Total long-term debt, excluding capital lease obligations	$140,000

Denny's Corporation and certain of its subsidiaries have a credit facility comprised of a senior secured term loan in an original principal amount of $60 million and a $190 million senior secured revolver (with a $30 million letter of credit sublimit). As of December 31, 2014, we had outstanding term loan borrowings under the credit facility of $54.8 million and outstanding letters of credit under the senior secured revolver of $25.7 million. There were $85.3 million of revolving loans outstanding at December 31, 2014. These balances resulted in availability of $79.0 million under the revolving facility. The weighted average interest rate under the term loan and on outstanding revolver loans was 2.17%, as of both December 31, 2014 and December 25, 2013.

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

The credit facility is guaranteed by the Company and its material subsidiaries and is secured by substantially all of the assets of the Company and its subsidiaries, including the stock of the Company's subsidiaries. It includes negative covenants and restrictions (including limitation on additional borrowings, acquisitions, loans to franchisees, capital expenditures, lease commitments, stock repurchases and dividend payments) that are usual for facilities of this type. The credit facility also includes certain financial covenants with respect to a maximum consolidated leverage ratio, a minimum consolidated fixed charge coverage ratio and maximum capital expenditures.

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

During the year ended December 31, 2014, we paid $3.0 million on the term loan under the credit facility.

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

We also have entered into interest rate swaps to hedge a portion of the cash flows of our floating rate debt from March 31, 2015 through March 29, 2018. During the quarter ended December 31, 2014, we determined that a portion of the underlying cash flows related to the swap were no longer probable of occurring over the term of the interest rate swap due to the probability of paying the debt down below the notional amount. As a result, we terminated an interest rate swap with a notional amount of $30 million.

We continue to designate the remaining interest rate swap as a cash flow hedge of our exposure to variability in future cash flows attributable to payments of LIBOR due on a related $120 million notional debt obligation from March 31, 2015 through March 29, 2018. Based on our consolidated leverage ratio in effect as of December 31, 2014, under the terms of the swap, we will pay an average fixed rate of 3.13% on the notional amount and receive payments from a counterparty based on the 30-day LIBOR rate. As of December 31, 2014, the fair value of the interest rate swap was $0.6 million, which is recorded as a component of other noncurrent assets on our Consolidated Balance Sheets. See Note 15 for the amounts recorded in accumulated other comprehensive loss related to the interest rate swap.

We believe that our estimated cash flows from operations for 2015, combined with our capacity for additional borrowings under our credit facility, will enable us to meet our anticipated cash requirements and fund capital expenditures over the next twelve months.

Note 11. Employee Benefit Plans

We maintain several defined benefit plans which cover a substantial number of employees. Benefits are based upon each employee’s years of service and average salary. Our funding policy is based on the minimum amount required under the Employee Retirement Income Security Act of 1974. Our pension plan was closed to new qualifying participants as of December 31, 1999. Benefits ceased to accrue for pension plan participants as of December 31, 2004. We also maintain defined contribution plans.

On September 17, 2014, our Board of Directors approved the termination of the Advantica Pension Plan as of December 31, 2014, effective upon confirmation of compliance with any requirements under the terms of our credit facility. We currently expect that termination of such plan will be completed by the end of fiscal 2015 or early 2016. Settlement gain or loss, if any, resulting from the termination will be recognized at that time. See the "Contributions and Expected Future Benefit Payments" section below for details on the expected impact of the termination.

Defined Benefit Plans

The obligations and funded status for our pension plan and other defined benefit plans were as follows:

	Pension Plan		Other Defined Benefit Plans	
	December 31, 2014	December 25, 2013	December 31, 2014	December 25, 2013
	(In thousands)			
Change in Benefit Obligation:				
Benefit obligation at beginning of year	$64,391	$73,926	$2,716	$2,837
Service cost	380	400	—	—
Interest cost	3,099	2,977	123	111
Actuarial losses (gains)	12,313	(7,836)	298	(37)
Benefits paid	(5,975)	(5,076)	(195)	(195)
Settlements	—	—	(229)	—
Benefit obligation at end of year	$74,208	$64,391	$2,713	$2,716
Accumulated benefit obligation	$74,208	$64,391	$2,713	$2,716
Change in Plan Assets:				
Fair value of plan assets at beginning of year	$61,094	$58,006	$—	$—
Actual return on plan assets	5,201	5,364	—	—
Employer contributions	2,500	2,800	424	195
Benefits paid	(5,975)	(5,076)	(195)	(195)
Settlements	—	—	(229)	—
Fair value of plan assets at end of year	$62,820	$61,094	$—	$—
Funded status	$(11,388)	$(3,297)	$(2,713)	$(2,716)

The amounts recognized in the Consolidated Balance Sheets were as follows:

	Pension Plan		Other Defined Benefit Plans	
	December 31, 2014	December 25, 2013	December 31, 2014	December 25, 2013
	(In thousands)			
Other current liabilities	$—	$—	$(224)	$(451)
Other noncurrent liabilities and deferred credits	(11,388)	(3,297)	(2,489)	(2,265)
Net amount recognized	$(11,388)	$(3,297)	$(2,713)	$(2,716)

The amounts recognized in accumulated other comprehensive income, that have not yet been recognized as a component of net periodic benefit cost, were as follows:

	Pension Plan		Other Defined Benefit Plans	
	December 31, 2014	December 25, 2013	December 31, 2014	December 25, 2013
	(In thousands)			
Unamortized actuarial losses, net	$(27,574)	(17,433)	(1,081)	(899)

Before considering the potential termination of our qualified pension plan, during fiscal 2015, $1.7 million and less than $0.1 million of accumulated other comprehensive income will be recognized related to the pension plan and other defined benefit plans, respectively.

The components of the change in unamortized actuarial losses, net, included in accumulated other comprehensive loss were as follows:

	Fiscal Year Ended December 31, 2014 (In thousands)	December 25, 2013
Pension Plan:		
Balance, beginning of year	$(17,433)	$(27,798)
Benefit obligation actuarial (loss) gain	(12,313)	7,836
Net gain	1,248	876
Amortization of net loss	924	1,653
Balance, end of year	$(27,574)	$(17,433)
Other Defined Benefit Plans:		
Balance, beginning of year	$(899)	$(1,007)
Benefit obligation actuarial (loss) gain	(298)	37
Amortization of net loss	66	71
Settlement loss recognized	50	—
Balance, end of year	$(1,081)	$(899)

Minimum pension liability adjustments, net of tax for 2014, 2013 and 2012 were an addition of $6.3 million, a reduction of $6.3 million and an addition of $0.2 million, respectively.

Total minimum pension liability adjustments of $25.0 million (net of a tax benefit of $3.7 million) and $18.7 million (including tax expense of $0.4 million) are included as a component of accumulated other comprehensive loss, net in our Consolidated Statements of Shareholders' Equity for the years ended December 31, 2014 and December 25, 2013, respectively.

The components of net periodic benefit cost were as follows:

	Fiscal Year Ended December 31, 2014 (In thousands)	December 25, 2013	December 26, 2012
Pension Plan:			
Service cost	$380	$400	$380
Interest cost	3,099	2,977	3,200
Expected return on plan assets	(3,953)	(4,488)	(4,057)
Amortization of net loss	924	1,653	1,763
Net periodic benefit cost	$450	$542	$1,286
Other comprehensive loss (income)	$10,141	$(10,364)	$202
Other Defined Benefit Plans:			
Interest cost	$123	$111	$116
Amortization of net loss	66	71	52
Settlement loss recognized	50	—	—
Net periodic benefit cost	$239	$182	$168
Other comprehensive loss (income)	$182	$(109)	$175

Net pension and other defined benefit plan costs (including premiums paid to the Pension Benefit Guaranty Corporation) for 2014, 2013 and 2012 were $0.7 million, $0.7 million and $1.5 million, respectively.

Assumptions

Because our pension plan was closed to new qualifying participants as of December 31, 1999 and benefits ceased to accrue for Pension Plan participants as of December 31, 2004, an assumed rate of increase in compensation levels was not applicable for 2014, 2013 or 2012.

	December 31, 2014		December 25, 2013		December 26, 2012	
Assumptions used to determine benefit obligations:						
Discount rate	4.12	%	4.98	%		
Assumptions used to determine net periodic pension cost:						
Discount rate	4.98	%	4.18	%	4.59	%
Rate of increase in compensation levels	N/A		N/A		N/A	
Expected long-term rate of return on assets	6.50	%	7.75	%	7.75	%

In determining the expected long-term rate of return on assets, we evaluated our asset class return expectations, as well as long-term historical asset class returns. Projected returns are based on broad equity and bond indices. Additionally, we considered our historical compounded returns, which have been in excess of our forward-looking return expectations. In determining the discount rate, we have considered long-term bond indices of bonds having similar timing and amounts of cash flows as our estimated defined benefit payments. We use a yield curve based on high quality, long-term corporate bonds to calculate the single equivalent discount rate that results in the same present value as the sum of each of the plan's estimated benefit payments discounted at their respective spot rates.

Plan Assets

The investment policy of our pension plan is based on an evaluation of our ability and willingness to assume investment risk in light of the financial and benefit-related goals objectives deemed to be prudent by the fiduciaries of our pension plan assets. These objectives include, but are not limited to, earning a rate of return over time to satisfy the benefit obligation, managing funded status volatility and maintaining sufficient liquidity. As of December 31, 2014, the strategic target asset allocation is 75% fixed income securities (diversified between corporate and government holdings and generally long duration) and 25% equity securities (diversified between domestic and international holdings).

We review the strategic asset allocation periodically to determine the appropriate balance between cost and risk, taking into account the regulatory funding requirements and the nature of our pension plan's liabilities. We monitor the competitive performance versus market benchmarks and rebalance to target allocations if necessary on a quarterly basis.

The fair values of our pension plan assets were as follows:

	Fair Value Measurements as of December 31, 2014			
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Cash equivalents	$1,812	$1,812	$—	$—
Equity securities:				
U.S. large-cap (a)	7,154	7,154	—	—
U.S. mid-cap (b)	2,182	2,182	—	—
U.S. small-cap (c)	506	506	—	—
International large-cap	4,185	4,185	—	—
Fixed income securities:				
U.S. Treasuries	5,202	5,202	—	—
Corporate bonds (d)	40,226	40,226	—	—
Other types of investments:				
Commingled funds (e)	1,553	—	1,553	—
Total	$62,820	$61,267	$1,553	$—

(a) The majority of this category represents a fund with the objective of approximating the return of the S&P 500 Index. The remaining securities include both a large-value fund and a large-growth fund investing in diverse industries.

(b) This category includes both a mid-growth fund with the objective of outperforming the Russell Mid Cap Growth Index and a mid-value fund investing in diverse industries.

(c) This category includes both a small-value fund and a small-growth fund investing in diverse industries.

(d) This category includes intermediate and long-term investment grade bonds from diverse industries.

(e) This category represents a fund of well diversified mutual funds with the objective of providing a low-volatility means to access equity-like returns.

Asset Category	Fair Value Measurements as of December 25, 2013 Total	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Cash equivalents	$1,785	$1,785	$—	$—
Equity securities:				
U.S. large-cap (a)	9,880	9,880	—	—
U.S. mid-cap (b)	2,467	2,467	—	—
U.S. small-cap (c)	615	615	—	—
International large-cap	6,200	6,200	—	—
Fixed income securities:				
U.S. Treasuries	4,245	4,245	—	—
Corporate bonds (d)	33,310	33,310	—	—
Other types of investments:				
Commingled funds (e)	2,592	—	2,592	—
Total	$61,094	$58,502	$2,592	$—

(a) The majority of this category represents a fund with the objective of approximating the return of the S&P 500 Index. The remaining securities include both a large-value fund and a large-growth fund investing in diverse industries.
(b) This category includes both a mid-growth fund with the objective of outperforming the Russell Mid Cap Growth Index and a mid-value fund investing in diverse industries.
(c) This category includes both a small-value fund and a small-growth fund investing in diverse industries.
(d) This category includes intermediate and long-term investment grade bonds from diverse industries.
(e) This category represents a fund of well diversified mutual funds with the objective of providing a low-volatility means to access equity-like returns.

Following is a description of the valuation methodologies used for assets measured at fair value.

- Equity Securities and Fixed Income Securities: Valued at the net asset value ("NAV") of shares held by the pension plan at year-end. The NAV is a quoted price in an active market.
- Cash Equivalents and Commingled Funds: Valuation determined by the trustee of the money market funds and commingled funds based on the fair value of the underlying securities within the fund, which represent the NAV, a practical expedient to fair value, of the units held by the pension plan at year-end.

Contributions and Expected Future Benefit Payments

We made contributions of $2.5 million and $2.8 million to our qualified pension plan during the years ended December 31, 2014 and December 25, 2013, respectively. We made contributions of $0.4 million and $0.2 million to our other defined benefit plans during the years ended December 31, 2014 and December 25, 2013, respectively. During fiscal 2015 or early 2016, we will be required to make contributions to the Advantica Pension Plan as a result of the planned termination. We currently estimate that these contributions will be between $6 million and $8 million. This estimate is based on expected interest rates, returns on plan assets and participant elections. We expect to contribute $0.2 million to our other defined benefit plans during 2015. Before considering the potential termination of our qualified pension plan, benefits expected to be paid for each of the next five years and in the aggregate for the five fiscal years from 2020 through 2024 are as follows:

	Pension Plan	Other Defined Benefit Plans
	(In thousands)	
2015	$3,608	$224
2016	3,530	280
2017	3,480	232
2018	3,529	236
2019	3,627	420
2020 through 2024	20,548	1,169

Defined Contribution Plans

Eligible employees can elect to contribute up to 25% of their compensation to our 401(k) plan. As a result of certain IRS limitations, participation in a non-qualified deferred compensation plan is offered to certain employees. Under this deferred compensation plan, participants are allowed to defer up to 50% of their annual salary and up to 100% of their incentive compensation. Under both plans, we make matching contributions of up to 3% of compensation. Participants in the deferred compensation plan are eligible to participate in the 401(k) plan; however, due to the above referenced IRS limitations, they are not eligible to receive the matching contributions under the 401(k) plan. Under these plans, we made contributions of $1.4 million, $1.4 million and $1.3 million for 2014, 2013 and 2012, respectively.

Note 12. Share-Based Compensation

Share-Based Compensation Plans

We maintain three share-based compensation plans under which stock options and other awards granted to our employees and directors are outstanding. Currently, the Denny's Corporation 2012 Omnibus Incentive Plan (the "2012 Omnibus Plan") is used to grant share-based compensation to selected employees, officers and directors of Denny’s and its affiliates. However, we reserve the right to pay discretionary bonuses, or other types of compensation, outside of this plan. At December 31, 2014, there were 3.0 million shares available for grant under the 2012 Omnibus Plan. In addition, we have 0.8 million shares available to be issued outside of the 2012 Omnibus Plan pursuant to the grant or exercise of employment inducement awards of stock options and restricted stock units in accordance with NASDAQ Listing Rule 5635(c)(4).

Share-Based Compensation Expense

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

	Fiscal Year Ended		
	December 31, 2014	December 25, 2013	December 26, 2012
	(In thousands)		
Stock options	$52	$558	$909
Performance share awards	5,009	3,488	2,050
Restricted stock units for board members	785	806	537
Total share-based compensation	$5,846	$4,852	$3,496

Stock Options

Options granted to date generally vest evenly over 3 years, have a 10-year contractual life and are issued at the market value at the date of grant.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2014:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
	(In thousands)			(In thousands)
Outstanding, beginning of year	2,191	$3.28		
Exercised	(653)	$3.32		
Outstanding, end of year	1,538	$3.26	4.28	$10,841
Exercisable, end of year	1,538	$3.26	4.28	$10,841

The aggregate intrinsic value represents the difference between the market price of our stock on December 31, 2014 and the exercise price, multiplied by the number of options that have an exercise price that is less than the market price of our stock. The aggregate intrinsic value of the options exercised was $3.0 million, $2.6 million and $1.7 million during the years ended December 31, 2014, December 25, 2013 and December 26, 2012, respectively.

There were no options granted during the years ended December 31, 2014, December 25, 2013 and December 26, 2012. As of December 31, 2014, there was no unrecognized compensation cost related to unvested stock option awards outstanding.

Restricted Stock Units

We primarily grant restricted stock units containing a market condition based on the total shareholder return of our stock compared with the returns of a group of peer companies. The number of shares that are ultimately released is dependent upon the level of obtainment of the market condition. The following table summarizes information about restricted stock units activity:

	Fiscal Year Ended December 31, 2014		December 25, 2013		December 26, 2012	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
	(In thousands, except per share amounts)					
Outstanding, beginning of year	832	$6.55	933	$4.30	1,276	$3.19
Granted	285	$7.51	331	$8.05	397	$6.05
Released	(182)	$4.74	(430)	$2.83	(445)	$3.28
Forfeited	(90)	$7.22	(2)	$4.63	(295)	$3.37
Outstanding, end of year	845	$7.20	832	$6.55	933	$4.30
Nonvested, end of year	548	$7.82	661	$7.05	804	$4.56

The fair value of shares released during the years ended December 31, 2014, December 25, 2013 and December 26, 2012, were $1.4 million, $2.7 million and $1.4 million, respectively.

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

During the years ended December 31, 2014, December 25, 2013 and December 26, 2012, we made payments of $1.1 million, $1.2 million and $1.0 million in cash, respectively and issued shares of 0.1 million, 0.3 million and 0.2 million, respectively related to restricted stock units.

As of December 31, 2014 and December 25, 2013, we had accrued compensation of $2.5 million and $0.7 million, respectively, included as a component of other current liabilities and $2.5 million and $1.9 million, respectively, included as a component of other noncurrent liabilities in our Consolidated Balance Sheets (based on the fair value of the related shares for the liability classified units as of the respective balance sheet dates). As of December 31, 2014, we had $4.6 million of unrecognized compensation cost related to unvested restricted stock unit awards granted, which is expected to be recognized over a weighted average of 1.7 years.

Board Deferred Stock Units

During the year ended December 31, 2014, we granted 0.1 million deferred stock units (which are equity classified) with a weighted average grant date fair value of $6.57 per unit to non-employee members of our Board of Directors. A director may elect to convert these awards into shares of common stock either on a specific date in the future (while still serving as a member of the Board of Directors) or upon termination as a member of the Board of Directors. During the year ended December 31, 2014, less than 0.1 million deferred stock units were converted into shares of common stock. As of December 31, 2014, we had approximately $0.2 million of unrecognized compensation cost related to all unvested deferred stock unit awards outstanding, which is expected to be recognized over a weighted average of 0.3 years.

Note 13. Income Taxes

The provisions for income taxes were as follows:

	Fiscal Year Ended December 31, 2014 (In thousands)	December 25, 2013	December 26, 2012
Current:			
Federal	$377	$428	$875
State and local	1,818	1,548	382
Foreign	896	872	766
Deferred:			
Federal	13,269	9,285	9,683
State and local	(54)	(185)	1,740
Release of valuation allowance	(270)	(420)	(661)

Total provision for income taxes	$16,036	$11,528	$12,785

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The reconciliation of income taxes at the U.S. federal statutory tax rate to our effective tax rate was as follows:

	December 31, 2014		December 25, 2013		December 26, 2012	
Statutory provision rate	35	%	35	%	35	%
State and local taxes, net of federal income tax benefit	3		5		4	
Foreign taxes, net of federal income tax benefit	1		1		1	
Wage addback on income tax credits earned	2		3		2	
General business credits generated	(6	)	(10	)	(7	)
Other	(1	)	(1	)	3	
Release of valuation allowance	(1	)	(1	)	(2	)
Effective tax rate	33	%	32	%	36	%

During 2014, we recorded a benefit of $0.3 million related to changes in the valuation allowance. For the 2014 period, the difference in the overall effective rate from the U.S. statutory rate was primarily due to state and foreign taxes, the generation of employment tax credits and two discrete tax items. State job tax credits of $0.7 million were claimed during 2014 for current year’s hiring activity. State job tax credits of $0.5 million were also claimed during the 2014 period resulting from the prior year's hiring activity. In addition, share-based compensation adjustments resulted in an out-of-period tax benefit of $0.5 million. We do not believe the out-of-period adjustment was material to any prior or current year financial statements or on earnings trends.

During 2013, we recorded a benefit of $0.4 million related to changes in the valuation allowance. For the 2013 period, the difference in the overall effective rate from the U.S. statutory rate was due to state and foreign taxes, employment tax credits and discrete tax items. The passage of the American Tax Payer Relief Act of 2012 resulted in deferred tax benefits of $0.3 million related to work opportunity credits generated in 2012, which were allowed retroactively. In addition, state job tax credits of $0.8 million were claimed during the 2013 period resulting from the prior year's hiring activity. A valuation allowance of $0.2 million was recorded against certain state jobs tax credits during the 2013 period related to changes in California law enacted during the period.

During 2012, we recorded a benefit of $0.7 million related to changes in the valuation allowance. For the 2012 period, the difference in the overall effective rate from the U.S. statutory rate was due to state and foreign taxes and discrete tax items, including a $1.7 million out-of-period adjustment related to the reversal of a portion of the income tax benefit recorded in fourth quarter of 2011. This out-of-period adjustment was not material to any prior or current year financial statements or on earnings trends. In addition, a $1.6 million tax benefit was recorded in 2012 relating to additional state credits generated during 2012 from prior years' activity.

The following table represents the approximate tax effect of each significant type of temporary difference that resulted in deferred income tax assets or liabilities.

	December 31, 2014	December 25, 2013
	(In thousands)	
Deferred tax assets:		
Self-insurance accruals	$9,063	$9,457
Capitalized leases	2,103	2,365
Accrued exit cost	1,031	1,485
Fixed assets	5,426	10,430
Pension, other retirement and compensation plans	16,527	11,237
Other accruals	2,526	885
Alternative minimum tax credit carryforwards	7,811	10,344
General business credit carryforwards - state and federal	22,089	29,490
Net operating loss carryforwards - state	12,368	12,976
Total deferred tax assets before valuation allowance	78,944	88,669
Less: valuation allowance	(12,481)	(12,751)
Total deferred tax assets	66,463	75,918
Deferred tax liabilities:		
Intangible assets	(22,474)	(22,950)
Deferred finance costs	(177)	(230)
Interest rate swap	(250)	(1,184)
Total deferred tax liabilities	(22,901)	(24,364)
Net deferred tax asset	$43,562	$51,554
Net deferred tax assets are classified as follows:		
Current	$24,310	$23,264
Noncurrent	19,252	28,290
Total	$43,562	$51,554

At December 31, 2014, we had available, on a consolidated basis, federal general business credit carryforwards of approximately $24.7 million, most of which expire between 2027 and 2034, and alternative minimum tax ("AMT") credit carryforwards of approximately $7.8 million, which never expire. We also had available AMT net operating loss ("AMT NOL") carryforwards of approximately $28.0 million, which expire in 2024 and 2030. Approximately $5.3 million of general business credit carryforwards are unrecognized in the schedule above and on our Consolidated Balance Sheets as a result of the application of ASC Paragraph 718-740-25-10, which delays their recognition in paid-in capital until they reduce taxes payable.

It is more likely than not that we will be able to utilize our credit carryforwards prior to expiration. In addition, it is more likely than not we will be able to utilize all of our existing temporary differences and a portion of our state tax net operating losses and state tax credit carryforwards prior to their expiration.

Of the valuation allowance remaining, approximately $2.0 million, if released, will be credited directly to paid-in capital.

The South Carolina net operating loss carryforwards represent 78% of the total state net operating loss carryforwards.

Prior to 2005, Denny's had ownership changes within the meaning of Section 382 of the Internal Revenue Code. In general, Section 382 places annual limitations on the use of certain tax attributes, such as AMT NOL and tax credit carryforwards, in existence at the ownership change date. It is our position that any pre-2005 AMT NOL and tax credits can be utilized as of December 31, 2014. The occurrence of an additional ownership change could limit our ability to utilize our current income tax credits generated after 2004.

There were no unrecognized tax benefits associated with uncertain income tax positions as of December 31, 2014 and December 25, 2013. We do not expect the unrecognized tax benefits to increase over the next twelve months. As of and for the years ended December 31, 2014 and December 25, 2013, there were no related interest and penalties recognized in our Consolidated Balance Sheets and Consolidated Statements of Income.

We file income tax returns in the U.S. federal jurisdictions and various state jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2010. We remain subject to examination for U.S. federal taxes for 2011-2014 and in the following major state jurisdictions: California (2010-2014), Florida (2011-2014) and Texas (2012-2014).

Note 14. Net Income Per Share

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

	Fiscal Year Ended		
	December 31, 2014	December 25, 2013	December 26, 2012
	(In thousands, except per share amounts)		
Net income	$32,725	$24,572	$22,309
Weighted average shares outstanding - basic	86,323	90,829	94,949
Effect of dilutive share-based compensation awards	2,032	2,074	1,805
Weighted average shares outstanding - diluted	88,355	92,903	96,754
Basic net income per share	$0.38	$0.27	$0.23
Diluted net income per share	$0.37	$0.26	$0.23
Anti-dilutive share-based compensation awards	218	331	748

Note 15. Shareholders' Equity

Share Repurchases

Our credit facility permits the payment of cash dividends and the purchase of Denny’s stock subject to certain limitations. Over the past several years, our Board of Directors has approved share repurchase programs authorizing us to repurchase up to a set amount of shares of our Common Stock. Under the programs, we may, from time to time, purchase shares in the open market (including pre-arranged stock trading plans in accordance with guidelines specified in Rule 10b5-1 under the Securities Exchange Act of 1934) or in privately negotiated transactions, subject to market and business conditions.

During 2013 and 2012, the Board approved share repurchase programs for 10.0 million and 6.0 million, respectively. During 2014, 2013 and 2012, we repurchased 5.3 million, 4.2 million and 4.8 million shares for a total of $36.0 million, $24.7 million and $22.2 million, respectively, thus completing the 2012 repurchase program. As of December 31, 2014, there are 3.9 million shares remaining to be repurchased under the 2013 repurchase program.

Repurchased shares are included as treasury stock in the Consolidated Balance Sheets and the Consolidated Statements of Shareholders' Equity.

Accumulated Other Comprehensive Loss

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

	Pensions	Derivatives	Accumulated Other Comprehensive Loss
	(In thousands)		
Balance as of December 28, 2011	$(24,813)	$—	$(24,813)
Benefit obligation actuarial loss	(4,802)	—	(4,802)
Net gain	2,610	—	2,610
Amortization of net loss	1,815	—	1,815
Income tax benefit	191	—	191
Balance as of December 26, 2012	$(24,999)	$—	$(24,999)
Benefit obligation actuarial gain	7,873	—	7,873
Net gain	876	—	876
Amortization of net loss	1,724	—	1,724
Net change in fair value of derivatives	—	3,032	3,032
Income tax expense	(4,164)	(1,184)	(5,348)
Balance as of December 25, 2013	$(18,690)	$1,848	$(16,842)
Benefit obligation actuarial loss	(12,611)	—	(12,611)
Net gain	1,248	—	1,248
Amortization of net loss	990	—	990
Settlement loss recognized	50	—	50
Net change in fair value of derivatives	—	(2,389)	(2,389)
Income tax benefit	4,019	933	4,952
Balance as of December 31, 2014	$(24,994)	$392	$(24,602)

During the years ended December 31, 2014, December 25, 2013 and December 26, 2012, before-tax amortization of net losses of $1.0 million, $1.7 million and $1.8 million, respectively, were reclassified from accumulated other comprehensive loss and included as a component of pension expense within general and administrative expenses in our Consolidated Statements of Income. The tax effect of the reclassifications was expense of $0.4 million, $0.7 million and $0.7 million, respectively. See Note 11 for additional details.

Note 16. Commitments and Contingencies

We have guarantees related to certain franchisee leases and loans. Payments under these guarantees would result from the inability of a franchisee to fund required payments when due. Through December 31, 2014, no events had occurred that caused us to make payments under the guarantees. There were $9.8 million and $6.1 million of loans outstanding under these programs as of December 31, 2014 and December 25, 2013, respectively. As of December 31, 2014, the maximum amounts payable under the lease guarantee and loan guarantees were $2.0 million and $1.7 million, respectively. As a result of these guarantees, we have recorded liabilities of approximately $0.1 million as of December 31, 2014 and December 25, 2013, which are included as a component of other noncurrent liabilities and deferred credits in our Condensed Consolidated Balance Sheets and other nonoperating expense in our Condensed Consolidated Statements of Income.

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

We have 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. Our future commitments for both company and franchised restaurants at December 31, 2014 under these contracts consist of the following:

	Purchase Obligations (In thousands)
Payments due by period:	
Less than 1 year	$185,045
1-2 years	20,577
3-4 years	—
5 years and thereafter	—
Total	$205,622

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. We would likely take delivery of goods under such circumstances.

Note 17. Supplemental Cash Flow Information

	Fiscal Year Ended		
	December 31, 2014	December 25, 2013	December 26, 2012
	(In thousands)		
Income taxes paid, net	$3,802	$2,777	$2,034
Interest paid	$8,170	$9,336	$12,918
Noncash investing and financing activities:			
Notes received in connection with disposition of property	$—	$—	$290
Accrued purchase of property	$635	$1,575	$1,570
Issuance of common stock, pursuant to share-based compensation plans	$1,030	$1,937	$1,151
Execution of capital leases	$3,300	$5,663	$2,643
Treasury stock payable	$152	$220	$560

Note 18. Related Party Transactions

In prior years, including 2012, we sold company restaurants to franchisees that are former employees, including former officers. There were no such sales during 2014 or 2013. We received cash proceeds of $0.5 million and recognized a loss of $0.2 million from these related party sales during 2012. In relation to these sales, we may enter into leases or subleases with the franchisees at normal market rates.

Note 19. Quarterly Data (Unaudited)

The results for each quarter include all adjustments which, in our opinion, are necessary for a fair presentation of the results for interim periods. All adjustments are of a normal and recurring nature.

Selected consolidated financial data for each quarter of fiscal 2014 and 2013 are set forth below:

	Fiscal Year Ended December 31, 2014			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
Company restaurant sales	$79,304	$81,138	$82,827	$91,415
Franchise and licensing revenue	32,616	33,476	34,205	37,314
Total operating revenue	111,920	114,614	117,032	128,729
Total operating costs and expenses	100,648	99,669	102,323	112,324
Operating income	$11,272	$14,945	$14,709	$16,405
Net income	$6,431	$8,273	$8,343	$9,678
Basic net income per share (a)	$0.07	$0.10	$0.10	$0.11
Diluted net income per share (a)	$0.07	$0.09	$0.10	$0.11

(a) Per share amounts do not necessarily sum to the total year amounts due to changes in shares outstanding and rounding.

	Fiscal Year Ended December 25, 2013			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
Company restaurant sales	$81,030	$82,841	$83,371	$81,092
Franchise and licensing revenue	33,460	33,730	33,904	33,165
Total operating revenue	114,490	116,571	117,275	114,257
Total operating costs and expenses	101,039	103,957	103,750	106,326
Operating income	$13,451	$12,614	$13,525	$7,931
Net income	$7,081	$6,198	$7,031	$4,262
Basic net income per share (a)	$0.08	$0.07	$0.08	$0.05
Diluted net income per share (a)	$0.07	$0.07	$0.08	$0.05

(a) Per share amounts do not necessarily sum to the total year amounts due to changes in shares outstanding and rounding.

The fluctuation in net income during the fourth quarter of 2013 relates primarily to the impairment of an underperforming restaurant.

Note 20. Subsequent Events

We performed an evaluation of subsequent events and determined that no events required disclosure.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 13, 2015

	DENNY'S CORPORATION
BY:	/s/ F. Mark Wolfinger F. Mark Wolfinger Executive Vice President, Chief Administrative Officer and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John C. Miller (John C. Miller)	Chief Executive Officer, President and Director (Principal Executive Officer)	March 13, 2015
/s/ F. Mark Wolfinger (F. Mark Wolfinger)	Executive Vice President, Chief Administrative Officer, Chief Financial Officer and Director (Principal Financial Officer)	March 13, 2015
/s/ Jay C. Gilmore (Jay C. Gilmore)	Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)	March 13, 2015
/s/ Debra Smithart-Oglesby (Debra Smithart-Oglesby)	Director and Chair of the Board of Directors	March 13, 2015
/s/ Gregg. R. Dedrick (Gregg R. Dedrick)	Director	March 13, 2015
/s/ José M. Gutiérrez (José M. Gutiérrez)	Director	March 13, 2015
/s/ George W. Haywood (George W. Haywood)	Director	March 13, 2015
/s/ Brenda J. Lauderback (Brenda J. Lauderback)	Director	March 13, 2015
/s/ Robert E. Marks (Robert E. Marks)	Director	March 13, 2015

/s/ Louis P. Neeb (Louis P. Neeb)	Director	March 13, 2015
/s/ Donald C. Robinson (Donald C. Robinson)	Director	March 13, 2015
/s/ Laysha Ward (Laysha Ward)	Director	March 13, 2015