

# FORM 10-Q

## U.S. SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

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

For the quarterly period ended September 28, 2019  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-35258

### DUNKIN' BRANDS GROUP, INC.

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-4145825**  
(I.R.S. Employer  
Identification No.)

**130 Royall Street**  
**Canton, Massachusetts 02021**  
(Address of principal executive offices) (zip code)

**(781) 737-3000**  
(Registrants' telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	DNKN	Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of November 1, 2019, 82,843,010 shares of common stock of the registrant were outstanding.

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**Part I. Financial Information**
**Item 1. Financial Statements and Supplementary Data**
**DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES**
**Consolidated Balance Sheets**  
**(In thousands, except share data)**  
**(Unaudited)**

	September 28, 2019	December 29, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 523,374	517,594
Restricted cash	93,868	79,008
Accounts receivable, net of allowance for doubtful accounts of \$5,528 and \$3,584 as of September 28, 2019 and December 29, 2018, respectively	82,427	75,963
Notes and other receivables, net of allowance for doubtful accounts of \$757 and \$884 as of September 28, 2019 and December 29, 2018, respectively	36,299	64,412
Prepaid income taxes	17,737	27,005
Prepaid expenses and other current assets	45,344	49,491
Total current assets	799,049	813,473
Property, equipment, and software, net of accumulated depreciation of \$168,364 and \$147,550 as of September 28, 2019 and December 29, 2018, respectively	218,530	209,202
Operating lease assets	375,650	—
Equity method investments	146,072	146,395
Goodwill	888,280	888,265
Other intangible assets, net of accumulated amortization of \$249,247 and \$265,762 as of September 28, 2019 and December 29, 2018, respectively	1,307,315	1,334,767
Other assets	67,285	64,479
Total assets	\$ 3,802,181	3,456,581
<b>Liabilities and Stockholders' Deficit</b>		
Current liabilities:		
Current portion of long-term debt	\$ 31,150	31,650
Operating lease liabilities	35,822	—
Accounts payable	69,741	80,037
Deferred revenue	41,229	38,541
Other current liabilities	314,586	389,353
Total current liabilities	492,528	539,581
Long-term debt, net	3,010,785	3,010,626
Operating lease liabilities	384,671	—
Deferred revenue	321,328	331,980
Deferred income taxes, net	195,532	204,027
Other long-term liabilities	18,196	83,164
Total long-term liabilities	3,930,512	3,629,797
Commitments and contingencies (note 9)		
Stockholders' deficit:		
Preferred stock, \$0.001 par value; 25,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 475,000,000 shares authorized; 82,883,411 shares issued and 82,821,829 shares outstanding as of September 28, 2019; 82,587,373 shares issued and 82,560,596 shares outstanding as of December 29, 2018	83	82
Additional paid-in capital	586,613	642,017
Treasury stock, at cost; 61,582 shares and 26,777 shares as of September 28, 2019 and December 29, 2018, respectively	(3,291)	(1,060)
Accumulated deficit	(1,179,502)	(1,338,709)
Accumulated other comprehensive loss	(24,762)	(15,127)
Total stockholders' deficit	(620,859)	(712,797)
Total liabilities and stockholders' deficit	\$ 3,802,181	3,456,581

See accompanying notes to unaudited consolidated financial statements.

**DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
(In thousands, except per share data)  
(Unaudited)

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Revenues:</b>				
Franchise fees and royalty income	\$ 157,224	151,991	454,810	435,740
Advertising fees and related income	128,675	132,471	375,132	375,017
Rental income	31,984	27,547	92,691	79,425
Sales of ice cream and other products	24,409	24,867	72,400	74,784
Other revenues	13,590	13,135	39,277	37,027
Total revenues	<u>355,882</u>	<u>350,011</u>	<u>1,034,310</u>	<u>1,001,993</u>
<b>Operating costs and expenses:</b>				
Occupancy expenses—franchised restaurants	19,823	14,765	58,995	43,059
Cost of ice cream and other products	21,066	21,311	59,724	60,956
Advertising expenses	130,846	133,732	379,898	378,283
General and administrative expenses, net	60,333	63,997	176,458	183,122
Depreciation	4,584	4,937	13,916	15,095
Amortization of other intangible assets	4,599	5,230	13,858	15,912
Long-lived asset impairment charges	36	55	361	1,209
Total operating costs and expenses	<u>241,287</u>	<u>244,027</u>	<u>703,210</u>	<u>697,636</u>
Net income of equity method investments	6,667	5,787	13,324	11,665
Other operating income (loss), net	81	(179)	943	(749)
Operating income	<u>121,343</u>	<u>111,592</u>	<u>345,367</u>	<u>315,273</u>
<b>Other income (expense), net:</b>				
Interest income	2,996	1,930	7,906	5,088
Interest expense	(31,787)	(31,932)	(96,758)	(96,947)
Loss on debt extinguishment	—	—	(13,076)	—
Other loss, net	(258)	(101)	(308)	(700)
Total other expense, net	<u>(29,049)</u>	<u>(30,103)</u>	<u>(102,236)</u>	<u>(92,559)</u>
Income before income taxes	92,294	81,489	243,131	222,714
Provision for income taxes	19,929	15,422	58,821	45,997
Net income	<u>\$ 72,365</u>	<u>66,067</u>	<u>184,310</u>	<u>176,717</u>
<b>Earnings per share:</b>				
Common—basic	\$ 0.87	0.80	2.23	2.10
Common—diluted	0.86	0.79	2.20	2.07

See accompanying notes to unaudited consolidated financial statements.

**DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
**(In thousands)**  
**(Unaudited)**

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net income	\$ 72,365	66,067	184,310	176,717
Other comprehensive income (loss), net:				
Effect of foreign currency translation, net of deferred tax benefit of \$47 and \$17 for the three months ended September 28, 2019 and September 29, 2018, respectively, and \$39 and \$63 for the nine months ended September 28, 2019 and September 29, 2018, respectively.	(5,457)	(412)	(9,470)	(6,156)
Other, net	(34)	46	(165)	616
Total other comprehensive loss, net	(5,491)	(366)	(9,635)	(5,540)
Comprehensive income	\$ 66,874	65,701	174,675	171,177

*See accompanying notes to unaudited consolidated financial statements.*

**DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Deficit**  
**For the Three Months Ended September 28, 2019 and September 29, 2018**  
**(In thousands)**  
**(Unaudited)**

	<b>Stockholders' Deficit</b>						
	<b>Common stock</b>		<b>Additional paid-in capital</b>	<b>Treasury stock, at cost</b>	<b>Accumulated deficit</b>	<b>Accumulated other comprehensive loss</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>					
Balance at June 29, 2019	82,817	\$ 83	603,868	(3,291)	(1,238,190)	(19,271)	(656,801)
Net income	—	—	—	—	72,365	—	72,365
Other comprehensive loss, net	—	—	—	—	—	(5,491)	(5,491)
Exercise of stock options	239	—	11,158	—	—	—	11,158
Dividends paid on common stock (\$0.3750 per share)	—	—	(31,042)	—	—	—	(31,042)
Share-based compensation expense	7	—	3,777	—	—	—	3,777
Repurchases of common stock	—	—	—	(14,673)	—	—	(14,673)
Retirement of treasury stock	(180)	—	(1,246)	14,673	(13,427)	—	—
Other	—	—	98	—	(250)	—	(152)
Balance at September 28, 2019	<u>82,883</u>	<u>\$ 83</u>	<u>586,613</u>	<u>(3,291)</u>	<u>(1,179,502)</u>	<u>(24,762)</u>	<u>(620,859)</u>
Balance at June 30, 2018	82,920	\$ 83	511,379	(1,060)	(1,313,498)	(14,709)	(817,805)
Net income	—	—	—	—	66,067	—	66,067
Other comprehensive loss, net	—	—	—	—	—	(366)	(366)
Exercise of stock options	1,086	1	41,223	—	—	—	41,224
Dividends paid on common stock (\$0.3475 per share)	—	—	(28,596)	—	—	—	(28,596)
Share-based compensation expense	4	—	3,913	—	—	—	3,913
Accelerated share repurchases of common stock	—	—	130,000	(130,000)	—	—	—
Retirement of treasury stock	(1,692)	(2)	(12,484)	130,000	(117,514)	—	—
Other	1	—	70	—	(65)	—	5
Balance at September 29, 2018	<u>82,319</u>	<u>\$ 82</u>	<u>645,505</u>	<u>(1,060)</u>	<u>(1,365,010)</u>	<u>(15,075)</u>	<u>(735,558)</u>

See accompanying notes to unaudited consolidated financial statements.

**DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Deficit**  
**For the Nine Months Ended September 28, 2019 and September 29, 2018**  
**(In thousands)**  
**(Unaudited)**

	<b>Stockholders' Deficit</b>						
	<b>Common stock</b>		<b>Additional paid-in capital</b>	<b>Treasury stock, at cost</b>	<b>Accumulated deficit</b>	<b>Accumulated other comprehensive loss</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>					
Balance at December 29, 2018	82,437	\$ 82	642,017	(1,060)	(1,338,709)	(15,127)	(712,797)
Net income	—	—	—	—	184,310	—	184,310
Other comprehensive loss, net	—	—	—	—	—	(9,635)	(9,635)
Exercise of stock options	596	1	27,902	—	—	—	27,903
Dividends paid on common stock (\$1.1250 per share)	—	—	(93,027)	—	—	—	(93,027)
Share-based compensation expense	154	—	11,073	—	—	—	11,073
Repurchases of common stock	—	—	—	(24,802)	—	—	(24,802)
Retirement of treasury stock	(315)	—	(2,205)	24,802	(22,597)	—	—
Other	11	—	853	(2,231)	(2,506)	—	(3,884)
Balance at September 28, 2019	<u>82,883</u>	<u>\$ 83</u>	<u>586,613</u>	<u>(3,291)</u>	<u>(1,179,502)</u>	<u>(24,762)</u>	<u>(620,859)</u>
Balance at December 30, 2017	90,254	\$ 90	724,114	(1,060)	(968,148)	(9,535)	(254,539)
Net income	—	—	—	—	176,717	—	176,717
Other comprehensive loss, net	—	—	—	—	—	(5,540)	(5,540)
Exercise of stock options	2,174	2	71,655	—	—	—	71,657
Dividends paid on common stock (\$1.0425 per share)	—	—	(86,035)	—	—	—	(86,035)
Share-based compensation expense	46	—	10,862	—	—	—	10,862
Accelerated share repurchases of common stock	—	—	—	(650,368)	—	—	(650,368)
Retirement of treasury stock	(10,171)	(10)	(77,730)	650,368	(572,628)	—	—
Other	16	—	2,639	—	(951)	—	1,688
Balance at September 29, 2018	<u>82,319</u>	<u>\$ 82</u>	<u>645,505</u>	<u>(1,060)</u>	<u>(1,365,010)</u>	<u>(15,075)</u>	<u>(735,558)</u>

See accompanying notes to unaudited consolidated financial statements.

**DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
(In thousands)  
(Unaudited)

	Nine months ended	
	September 28, 2019	September 29, 2018
Cash flows from operating activities:		
Net income	\$ 184,310	176,717
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,698	33,856
Amortization of debt issuance costs	3,759	3,761
Loss on debt extinguishment	13,076	—
Deferred income taxes	(8,419)	(13,984)
Provision for bad debt	1,452	340
Share-based compensation expense	11,073	10,862
Net income of equity method investments	(13,324)	(11,665)
Dividends received from equity method investments	4,367	4,509
Other, net	(702)	1,548
Change in operating assets and liabilities:		
Accounts, notes, and other receivables, net	20,104	(12,504)
Prepaid income taxes, net	9,332	1,156
Prepaid expenses and other current assets	(532)	(137)
Accounts payable	(10,151)	2,324
Other current liabilities	(75,858)	(58,390)
Deferred revenue	(7,984)	(8,302)
Other, net	(4,422)	(3,562)
Net cash provided by operating activities	<u>157,779</u>	<u>126,529</u>
Cash flows from investing activities:		
Additions to property, equipment, and software	(26,515)	(41,450)
Other, net	1,118	20
Net cash used in investing activities	<u>(25,397)</u>	<u>(41,430)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	1,700,000	—
Repayment of long-term debt	(1,699,237)	(23,688)
Payment of debt issuance and other debt-related costs	(17,937)	—
Dividends paid on common stock	(93,027)	(86,035)
Repurchases of common stock, including accelerated share repurchases	(24,802)	(650,368)
Exercise of stock options	27,903	71,657
Other, net	(4,779)	(1,101)
Net cash used in financing activities	<u>(111,879)</u>	<u>(689,535)</u>
Effect of exchange rates on cash, cash equivalents, and restricted cash	(208)	(350)
Increase (decrease) in cash, cash equivalents, and restricted cash	20,295	(604,786)
Cash, cash equivalents, and restricted cash, beginning of period	598,321	1,114,099
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 618,616</u>	<u>509,313</u>
Supplemental cash flow information:		
Cash paid for income taxes	\$ 58,179	59,245
Cash paid for interest	93,384	96,290
Noncash investing activities:		
Property, equipment, and software included in accounts payable and other current liabilities	3,588	2,865
Purchase of property, equipment, and software in exchange for note payable	—	1,500
Noncash operating activities:		
Leased assets obtained in exchange for operating lease liabilities, net	10,438	—

See accompanying notes to unaudited consolidated financial statements.



**DUNKIN' BRANDS GROUP, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**(1) Description of business and organization**

Dunkin' Brands Group, Inc. ("DBGI"), together with its consolidated subsidiaries, is one of the world's leading franchisors of restaurants serving coffee and baked goods, as well as ice cream, within the quick service restaurant segment of the restaurant industry. We franchise and license a system of both traditional and nontraditional quick service restaurants. Through our Dunkin' brand, we franchise restaurants featuring coffee, espresso, donuts, bagels, breakfast sandwiches, and related products. Additionally, we license Dunkin' brand products sold in certain retail outlets such as retail packaged coffee, Dunkin' K-Cup® pods, and ready-to-drink bottled iced coffee. Through our Baskin-Robbins brand, we franchise restaurants featuring ice cream, frozen beverages, and related products. Additionally, we distribute Baskin-Robbins ice cream products to certain international markets for sale in Baskin-Robbins restaurants and certain retail outlets.

Throughout these unaudited consolidated financial statements, "Dunkin' Brands," "the Company," "we," "us," "our," and "management" refer to DBGI and its consolidated subsidiaries taken as a whole.

**(2) Summary of significant accounting policies**

***(a) Unaudited consolidated financial statements***

The consolidated balance sheet as of September 28, 2019, the consolidated statements of operations, comprehensive income, and stockholders' deficit for the three and nine months ended September 28, 2019 and September 29, 2018, and the consolidated statements of cash flows for the nine months ended September 28, 2019 and September 29, 2018 are unaudited.

The accompanying unaudited consolidated financial statements include the accounts of DBGI and its consolidated subsidiaries and have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements. All significant transactions and balances between subsidiaries and affiliates have been eliminated in consolidation. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements in accordance with U.S. GAAP have been recorded. Such adjustments consisted only of normal recurring items. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 29, 2018, included in the Company's Annual Report on Form 10-K.

***(b) Fiscal year***

The Company operates and reports financial information on a 52- or 53-week year on a 13-week quarter basis with the fiscal year ending on the last Saturday in December and fiscal quarters ending on the 13th Saturday of each quarter (or 14th Saturday when applicable with respect to the fourth fiscal quarter). The data periods contained within the three- and nine-month periods ended September 28, 2019 and September 29, 2018 reflect the results of operations for the 13-week and 39-week periods ended on those dates. Operating results for the three- and nine-month periods ended September 28, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 28, 2019.

***(c) Cash, cash equivalents, and restricted cash***

In accordance with the Company's securitized financing facility, certain cash accounts have been established in the name of Citibank, N.A. (the "Trustee") for the benefit of the Trustee and the noteholders, and are restricted in their use. The Company holds restricted cash which primarily represents (i) cash collections held by the Trustee, (ii) interest, principal, and commitment fee reserves held by the Trustee related to the Company's notes (see [note 4](#)), and (iii) real estate reserves used to pay real estate obligations.

Cash, cash equivalents, and restricted cash within the consolidated balance sheets that are included in the consolidated statements of cash flows as of September 28, 2019 and December 29, 2018 were as follows (in thousands):

	September 28, 2019	December 29, 2018
Cash and cash equivalents	\$ 523,374	517,594
Restricted cash	93,868	79,008
Restricted cash, included in Other assets	1,374	1,719
Total cash, cash equivalents, and restricted cash	<u>\$ 618,616</u>	<u>598,321</u>

**(d) Fair value of financial instruments**

Financial assets and liabilities are categorized, based on the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to the quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. Observable market data, when available, is required to be used in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities measured at fair value on a recurring basis as of September 28, 2019 and December 29, 2018 are summarized as follows (in thousands):

	September 28, 2019		December 29, 2018	
	Significant other observable inputs (Level 2)	Total	Significant other observable inputs (Level 2)	Total
<b>Assets:</b>				
Company-owned life insurance	\$ 11,553	11,553	9,906	9,906
Total assets	<u>\$ 11,553</u>	<u>11,553</u>	<u>9,906</u>	<u>9,906</u>
<b>Liabilities:</b>				
Deferred compensation liabilities	\$ 7,260	7,260	9,759	9,759
Total liabilities	<u>\$ 7,260</u>	<u>7,260</u>	<u>9,759</u>	<u>9,759</u>

The deferred compensation liabilities relate to the Dunkin' Brands, Inc. non-qualified deferred compensation plans ("NQDC Plans"), which allow for pre-tax deferral of compensation for certain qualifying employees and directors. Changes in the fair value of the deferred compensation liabilities are derived using quoted prices in active markets of the asset selections made by the participants. The deferred compensation liabilities are classified within Level 2, as defined under U.S. GAAP, because their inputs are derived principally from observable market data by correlation to hypothetical investments. The Company holds company-owned life insurance policies to offset the Company's liabilities under the NQDC Plans. The changes in the fair value of any company-owned life insurance policies are derived using determinable cash surrender value. As such, the company-owned life insurance policies are classified within Level 2, as defined under U.S. GAAP.

The carrying value and estimated fair value of total long-term debt as of September 28, 2019 and December 29, 2018 were as follows (in thousands):

	September 28, 2019		December 29, 2018	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<b>Financial liabilities</b>				
Total long-term debt	\$ 3,041,935	3,195,860	3,042,276	3,011,843

The estimated fair value of our long-term debt is estimated primarily based on current market rates for debt with similar terms and remaining maturities or current midpoint prices for our long-term debt. Judgment is required to develop these estimates. As such, the estimated fair value of long-term debt is classified within Level 2, as defined under U.S. GAAP.

**(e) Concentration of credit risk**

The Company is subject to credit risk through its accounts receivable consisting primarily of amounts due from franchisees and licensees for franchise fees, royalty income, advertising fees, and sales of ice cream and other products. In addition, we have

note and lease receivables from certain of our franchisees and licensees. The financial condition of these franchisees and licensees is largely dependent upon the underlying business trends of our brands and market conditions within the quick service restaurant industry. This concentration of credit risk is mitigated, in part, by the large number of franchisees and licensees of each brand and the short-term nature of the franchise and license fee and lease receivables. As of September 28, 2019 and December 29, 2018, one master licensee, including its majority-owned subsidiaries, accounted for approximately 18% and 11%, respectively, of total accounts and notes receivable. No individual franchisee or master licensee accounted for more than 10% of total revenues for any of the three- and nine-month periods ended September 28, 2019 and September 29, 2018.

#### *(f) Recent accounting pronouncements*

##### **Recently adopted accounting pronouncements**

In fiscal year 2019, the Company adopted new guidance for lease accounting, which replaces existing lease accounting guidance. The Company adopted this new guidance in fiscal year 2019 using the modified retrospective transition method and elected the option to not restate comparative periods in the year of adoption, including amounts as of December 29, 2018 and for the three and nine months ended September 29, 2018 included herein.

As a result of adopting this new guidance on the first day of fiscal year 2019, substantially all of the Company's operating lease commitments were subject to the new guidance and were recognized as operating lease assets and liabilities, initially measured as the present value of future lease payments for the remaining lease term discounted using the Company's incremental borrowing rate based on the remaining lease term as of the adoption date. The Company recognized operating lease assets and liabilities of \$388.8 million and \$435.1 million, respectively, as of the first day of fiscal year 2019. The difference between the assets and liabilities is attributable to the reclassification of certain existing lease-related assets and liabilities as an adjustment to the right-of-use assets. Finance leases, previously known as capital leases, were not impacted by the adoption of the new guidance, as finance lease liabilities and the corresponding assets were recorded on the consolidated balance sheet under the previous guidance. The accounting guidance for lessors remained largely unchanged from previous guidance, with the exception of the presentation of certain lease costs that the Company passes through to lessees, including but not limited to, property taxes, insurance, and maintenance. These costs are generally paid by the Company and reimbursed by the lessee. Historically, these costs have been recorded on a net basis in the consolidated statements of operations, but are now presented on a gross basis upon adoption of the new guidance. The adoption of the new guidance resulted in the recognition of additional rental income and occupancy expenses—franchised restaurants of \$4.7 million and \$14.1 million related to these lease costs during the three and nine months ended September 28, 2019, respectively.

The effects of the changes made to the Company's condensed consolidated balance sheet as of December 30, 2018 for the adoption of the new lease guidance were as follows (in thousands):

	<b>Balance at December 29, 2018</b>	<b>Adjustments due to adoption of the new lease guidance</b>	<b>Balance at December 30, 2018</b>
<b>Assets</b>			
Current assets:			
Prepaid expenses and other current assets	\$ 49,491	(4,720)	44,771
Operating lease assets	—	388,811	388,811
Other intangible assets, net	1,334,767	(13,598)	1,321,169
Other assets	64,479	(961)	63,518
<b>Liabilities and Stockholders' Deficit</b>			
Current liabilities:			
Operating lease liabilities	—	33,822	33,822
Operating lease liabilities	—	401,249	401,249
Other long-term liabilities <sup>(a)</sup>	83,164	(65,539)	17,625

(a) Other long-term liabilities at December 29, 2018 reflects certain reclassifications to conform to current period presentation as discussed below.

The adoption of the new guidance had no impact on net cash flows from operating, investing, or financing activities and had no impact on compliance with debt agreements.

The Company elected the package of practical expedients permitted under the new guidance, which among other things, allowed the Company to continue utilizing historical classification of leases. However, the Company did not adopt the hindsight practical expedient, and therefore continued to utilize lease terms determined under previous lease guidance. See [note 12](#) for additional information regarding our lease arrangements and the Company's updated lease accounting policies.

In conjunction with the adoption of this new lease guidance and to conform to the current period presentation, the Company revised the presentation of certain lease liabilities within the consolidated balance sheets. Other current liabilities and other long-term liabilities totaling \$0.5 million and \$4.6 million as of December 29, 2018 were reclassified to current and long-term deferred revenue, respectively. Amounts separately presented as unfavorable operating leases acquired of \$8.2 million as of December 29, 2018 were reclassified to other long-term liabilities. Additionally, amounts separately presented as current capital lease obligations and long-term capital lease obligations of \$0.5 million and \$7.0 million as of December 29, 2018 were reclassified to other current liabilities and other long-term liabilities, respectively. There was no impact to total current liabilities and total long-term liabilities as a result of these reclassifications.

***(g) Subsequent events***

Subsequent events have been evaluated through the date these consolidated financial statements were filed.

### (3) Revenue recognition

#### (a) Disaggregation of revenue

Revenues are disaggregated by timing of revenue recognition related to contracts with customers (“ASC 606”) and reconciled to reportable segment revenues as follows (in thousands):

	Three months ended September 28, 2019							
	Dunkin' U.S.	Baskin-Robbins U.S.	Dunkin' International	Baskin-Robbins International	U.S. Advertising Funds	Total reportable segment revenues	Other <sup>(a)</sup>	Total revenues
<b>Revenues recognized under ASC 606</b>								
<b>Revenues recognized over time:</b>								
Royalty income	\$ 130,993	8,973	5,769	2,197	—	147,932	5,288	153,220
Franchise fees	3,675	374	792	165	—	5,006	(1,002)	4,004
Advertising fees and related income	—	—	—	—	122,819	122,819	1,412	124,231
Other revenues	624	2,962	120	9	—	3,715	9,196	12,911
<b>Total revenues recognized over time</b>	<b>135,292</b>	<b>12,309</b>	<b>6,681</b>	<b>2,371</b>	<b>122,819</b>	<b>279,472</b>	<b>14,894</b>	<b>294,366</b>
<b>Revenues recognized at a point in time:</b>								
Sales of ice cream and other products	—	1,021	—	28,459	—	29,480	(5,071)	24,409
Other revenues	288	52	68	(37)	—	371	308	679
<b>Total revenues recognized at a point in time</b>	<b>288</b>	<b>1,073</b>	<b>68</b>	<b>28,422</b>	<b>—</b>	<b>29,851</b>	<b>(4,763)</b>	<b>25,088</b>
<b>Total revenues recognized under ASC 606</b>	<b>135,580</b>	<b>13,382</b>	<b>6,749</b>	<b>30,793</b>	<b>122,819</b>	<b>309,323</b>	<b>10,131</b>	<b>319,454</b>
<b>Revenues not subject to ASC 606</b>								
Advertising fees and related income	—	—	—	—	—	—	4,444	4,444
Rental income	30,824	942	—	218	—	31,984	—	31,984
<b>Total revenues not subject to ASC 606</b>	<b>30,824</b>	<b>942</b>	<b>—</b>	<b>218</b>	<b>—</b>	<b>31,984</b>	<b>4,444</b>	<b>36,428</b>
<b>Total revenues</b>	<b>\$ 166,404</b>	<b>14,324</b>	<b>6,749</b>	<b>31,011</b>	<b>122,819</b>	<b>341,307</b>	<b>14,575</b>	<b>355,882</b>

(a) Revenues reported as “Other” include revenues earned through certain licensing revenues, revenues generated from online training programs for franchisees, advertising fees and related income from international advertising funds, and breakage and other revenue related to the gift card program, all of which are not allocated to a specific segment. Additionally, the allocation of royalty income from sales of ice cream and other products and certain franchisee incentives are reported as “Other.”

## Three months ended September 29, 2018

	Dunkin' U.S.	Baskin-Robbins U.S.	Dunkin' International	Baskin-Robbins International	U.S. Advertising Funds	Total reportable segment revenues	Other <sup>(a)</sup>	Total revenues
<b>Revenues recognized under ASC 606</b>								
<b>Revenues recognized over time:</b>								
Royalty income	\$ 124,805	8,626	5,192	2,140	—	140,763	4,812	145,575
Franchise fees	4,840	319	1,054	203	—	6,416	—	6,416
Advertising fees and related income	—	—	—	—	118,208	118,208	8,312	126,520
Other revenues	597	2,994	3	7	—	3,601	8,754	12,355
Total revenues recognized over time	130,242	11,939	6,249	2,350	118,208	268,988	21,878	290,866
<b>Revenues recognized at a point in time:</b>								
Sales of ice cream and other products	—	906	—	28,625	—	29,531	(4,664)	24,867
Other revenues	405	63	7	45	—	520	260	780
Total revenues recognized at a point in time	405	969	7	28,670	—	30,051	(4,404)	25,647
Total revenues recognized under ASC 606	130,647	12,908	6,256	31,020	118,208	299,039	17,474	316,513
<b>Revenues not subject to ASC 606</b>								
Advertising fees and related income	—	—	—	—	—	—	5,951	5,951
Rental income	26,637	773	—	137	—	27,547	—	27,547
Total revenues not subject to ASC 606	26,637	773	—	137	—	27,547	5,951	33,498
Total revenues	\$ 157,284	13,681	6,256	31,157	118,208	326,586	23,425	350,011

(a) Revenues reported as “Other” include revenues earned through certain licensing revenues, revenues generated from online training programs for franchisees, advertising fees and related income from international advertising funds, and breakage and other revenue related to the gift card program, all of which are not allocated to a specific segment. Additionally, the allocation of royalty income from sales of ice cream and other products is reported as “Other.”

## Nine months ended September 28, 2019

	Dunkin' U.S.	Baskin-Robbins U.S.	Dunkin' International	Baskin-Robbins International	U.S. Advertising Funds	Total reportable segment revenues	Other <sup>(a)</sup>	Total revenues
<b>Revenues recognized under ASC 606</b>								
<b>Revenues recognized over time:</b>								
Royalty income	\$ 379,772	23,904	17,078	6,055	—	426,809	12,524	439,333
Franchise fees	10,719	1,030	3,687	1,043	—	16,479	(1,002)	15,477
Advertising fees and related income	—	—	—	—	355,049	355,049	3,984	359,033
Other revenues	1,918	8,125	124	9	—	10,176	26,813	36,989
<b>Total revenues recognized over time</b>	<b>392,409</b>	<b>33,059</b>	<b>20,889</b>	<b>7,107</b>	<b>355,049</b>	<b>808,513</b>	<b>42,319</b>	<b>850,832</b>
<b>Revenues recognized at a point in time:</b>								
Sales of ice cream and other products	—	2,772	—	81,531	—	84,303	(11,903)	72,400
Other revenues	1,154	183	181	(24)	—	1,494	794	2,288
<b>Total revenues recognized at a point in time</b>	<b>1,154</b>	<b>2,955</b>	<b>181</b>	<b>81,507</b>	<b>—</b>	<b>85,797</b>	<b>(11,109)</b>	<b>74,688</b>
<b>Total revenues recognized under ASC 606</b>	<b>393,563</b>	<b>36,014</b>	<b>21,070</b>	<b>88,614</b>	<b>355,049</b>	<b>894,310</b>	<b>31,210</b>	<b>925,520</b>
<b>Revenues not subject to ASC 606</b>								
Advertising fees and related income	—	—	—	—	—	—	16,099	16,099
Rental income	89,163	2,875	—	653	—	92,691	—	92,691
<b>Total revenues not subject to ASC 606</b>	<b>89,163</b>	<b>2,875</b>	<b>—</b>	<b>653</b>	<b>—</b>	<b>92,691</b>	<b>16,099</b>	<b>108,790</b>
<b>Total revenues</b>	<b>\$ 482,726</b>	<b>38,889</b>	<b>21,070</b>	<b>89,267</b>	<b>355,049</b>	<b>987,001</b>	<b>47,309</b>	<b>1,034,310</b>

(a) Revenues reported as “Other” include revenues earned through certain licensing revenues, revenues generated from online training programs for franchisees, advertising fees and related income from international advertising funds, and breakage and other revenue related to the gift card program, all of which are not allocated to a specific segment. Additionally, the allocation of royalty income from sales of ice cream and other products and certain franchisee incentives are reported as “Other.”

Nine months ended September 29, 2018

	Dunkin' U.S.	Baskin-Robbins U.S.	Dunkin' International	Baskin-Robbins International	U.S. Advertising Funds	Total reportable segment revenues	Other <sup>(a)</sup>	Total revenues
<b>Revenues recognized under ASC 606</b>								
<b>Revenues recognized over time:</b>								
Royalty income	\$ 360,859	24,040	14,862	5,837	—	405,598	12,222	417,820
Franchise fees	14,312	911	2,037	660	—	17,920	—	17,920
Advertising fees and related income	—	—	—	—	341,549	341,549	17,062	358,611
Other revenues	1,720	8,400	5	8	—	10,133	24,877	35,010
<b>Total revenues recognized over time</b>	<b>376,891</b>	<b>33,351</b>	<b>16,904</b>	<b>6,505</b>	<b>341,549</b>	<b>775,200</b>	<b>54,161</b>	<b>829,361</b>
<b>Revenues recognized at a point in time:</b>								
Sales of ice cream and other products	—	2,426	—	84,006	—	86,432	(11,648)	74,784
Other revenues	960	213	(25)	164	—	1,312	705	2,017
<b>Total revenues recognized at a point in time</b>	<b>960</b>	<b>2,639</b>	<b>(25)</b>	<b>84,170</b>	<b>—</b>	<b>87,744</b>	<b>(10,943)</b>	<b>76,801</b>
<b>Total revenues recognized under ASC 606</b>	<b>377,851</b>	<b>35,990</b>	<b>16,879</b>	<b>90,675</b>	<b>341,549</b>	<b>862,944</b>	<b>43,218</b>	<b>906,162</b>
<b>Revenues not subject to ASC 606</b>								
Advertising fees and related income	—	—	—	—	—	—	16,406	16,406
Rental income	76,734	2,303	—	388	—	79,425	—	79,425
<b>Total revenues not subject to ASC 606</b>	<b>76,734</b>	<b>2,303</b>	<b>—</b>	<b>388</b>	<b>—</b>	<b>79,425</b>	<b>16,406</b>	<b>95,831</b>
<b>Total revenues</b>	<b>\$ 454,585</b>	<b>38,293</b>	<b>16,879</b>	<b>91,063</b>	<b>341,549</b>	<b>942,369</b>	<b>59,624</b>	<b>1,001,993</b>

(a) Revenues reported as “Other” include revenues earned through certain licensing revenues, revenues generated from online training programs for franchisees, advertising fees and related income from international advertising funds, and breakage and other revenue related to the gift card program, all of which are not allocated to a specific segment. Additionally, the allocation of royalty income from sales of ice cream and other products is reported as “Other.”



**(b) Contract balances**

Information about receivables and deferred revenue subject to ASC 606 is as follows (in thousands):

	September 28, 2019	December 29, 2018	Balance Sheet Classification
Receivables	\$ 96,954	81,609	Accounts receivable, net, Notes and other receivables, net, and Other assets
<b>Deferred revenue:</b>			
Current	\$ 29,046	24,002	Deferred revenue—current
Long-term	316,809	327,333	Deferred revenue—long term
Total	<u>\$ 345,855</u>	<u>351,335</u>	

Receivables relate primarily to payments due for royalties, franchise fees, advertising fees, sales of ice cream and other products, and licensing fees. Deferred revenue primarily represents the Company's remaining performance obligations under its franchise and license agreements for which consideration has been received or is receivable, and is generally recognized on a straight-line basis over the remaining term of the related agreement.

The decrease in the deferred revenue balance as of September 28, 2019 was primarily driven by \$21.8 million of revenues recognized that were included in the deferred revenue balance as of December 29, 2018, as well as franchisee incentives provided during fiscal year 2019, offset by cash payments received or due in advance of satisfying our performance obligations.

As of September 28, 2019 and December 29, 2018, there were no contract assets from contracts with customers.

**(c) Transaction price allocated to remaining performance obligations**

Estimated revenue expected to be recognized in the future related to performance obligations that are either unsatisfied or partially satisfied at September 28, 2019 is as follows (in thousands):

<b>Fiscal year:</b>	
2019 <sup>(a)</sup>	\$ 8,389
2020	22,802
2021	19,024
2022	19,004
2023	18,977
Thereafter	222,802
Total	<u>\$ 310,998</u>

<sup>(a)</sup> Represents the estimate for remainder of fiscal year 2019 which excludes the nine months ended September 28, 2019.

The estimated revenue in the table above does not contemplate future franchise renewals or new franchise agreements for restaurants for which a franchise agreement or store development agreement does not exist at September 28, 2019. Additionally, the table above excludes \$57.5 million of consideration allocated to restaurants that were not yet open at September 28, 2019. The Company has applied the sales-based royalty exemption which permits exclusion of variable consideration in the form of sales-based royalties from the disclosure of remaining performance obligations in the table above.

**(4) Debt**

Debt at September 28, 2019 and December 29, 2018 consisted of the following (in thousands):

	September 28, 2019	December 29, 2018
2015 Class A-2-II Notes	\$ —	1,684,375
2017 Class A-2-I Notes	589,500	594,000
2017 Class A-2-II Notes	786,000	792,000
2019 Class A-2-I Notes	598,500	—
2019 Class A-2-II Notes	399,000	—
2019 Class A-2-III Notes	698,250	—
Other	1,288	1,400
Debt issuance costs, net of amortization	(30,603)	(29,499)
<b>Total long-term debt, net</b>	<b>3,041,935</b>	<b>3,042,276</b>
Less current portion of long-term debt	31,150	31,650
<b>Long-term debt, net</b>	<b>\$ 3,010,785</b>	<b>3,010,626</b>

In April 2019, DB Master Finance LLC (the “Master Issuer”), a limited-purpose, bankruptcy-remote, wholly-owned indirect subsidiary of DBGI, issued Series 2019-1 3.787% Fixed Rate Senior Secured Notes, Class A-2-I (the “2019 Class A-2-I Notes”) with an initial principal amount of \$600.0 million, Series 2019-1 4.021% Fixed Rate Senior Secured Notes, Class A-2-II (the “2019 Class A-2-II Notes”) with an initial principal amount of \$400.0 million, and Series 2019-1 4.352% Fixed Rate Senior Secured Notes, Class A-2-III (the “2019 Class A-2-III Notes”) and together with the 2019 Class A-2-I Notes and 2019 Class A-2-II Notes, the “2019 Class A-2 Notes”) with an initial principal amount of \$700.0 million. In addition, the Master Issuer issued Series 2019-1 Variable Funding Senior Secured Notes, Class A-1 (the “2019 Variable Funding Notes”) and, together with the 2019 Class A-2 Notes, the “2019 Notes”), which allow for the issuance of up to \$150.0 million of 2019 Variable Funding Notes and certain other credit instruments, including letters of credit. The proceeds received from the issuance of the 2019 Class A-2 Notes were used to repay the remaining \$1.68 billion outstanding on the Series 2015-1 3.980% Fixed Rate Senior Secured Notes, Class A-2-II (the “2015 Class A-2-II Notes”) and to pay related transaction fees and expenses. In connection with the issuance of the 2019 Variable Funding Notes, the Master Issuer terminated the commitments with respect to its existing Series 2017-1 Variable Funding Senior Secured Notes, Class A-1 (the “2017 Variable Funding Notes”).

The Company's outstanding debt as of September 28, 2019 also consisted of Series 2017-1 3.629% Fixed Rate Senior Secured Notes, Class A-2-I (the “2017 Class A-2-I Notes”), and Series 2017-1 4.030% Fixed Rate Senior Secured Notes, Class A-2-II (the “2017 Class A-2-II Notes”) and, together with the 2017 Class A-2-I Notes, the “2017 Class A-2 Notes”) issued by the Master Issuer.

The 2017 Class A-2 Notes and 2019 Notes were each issued in a securitization transaction pursuant to which most of the Company's domestic and certain of its foreign revenue-generating assets, consisting principally of franchise-related agreements, real estate assets, and intellectual property and license agreements for the use of intellectual property, are held by the Master Issuer and certain other limited-purpose, bankruptcy-remote, wholly-owned indirect subsidiaries of the Company that act as guarantors of the 2017 Class A-2 Notes and 2019 Notes and that have pledged substantially all of their assets to secure the 2017 Class A-2 Notes and 2019 Notes.

The 2017 Class A-2 Notes and 2019 Notes were issued pursuant to a base indenture and related supplemental indentures (collectively, the “Indenture”) under which the Master Issuer may issue multiple series of notes. The legal final maturity date of the 2017 Class A-2 Notes and 2019 Class A-2 Notes is November 2047 and May 2049, respectively, but it is anticipated that, unless earlier prepaid to the extent permitted under the Indenture, the 2017 Class A-2-I Notes will be repaid by November 2024, the 2017 Class A-2-II Notes will be repaid by November 2027, the 2019 Class A-2-I Notes will be repaid by February 2024, the 2019 Class A-2-II Notes will be repaid by May 2026, and the 2019 Class A-2-III Notes will be repaid by May 2029 (the “Anticipated Repayment Dates”). If the 2017 Class A-2 Notes or the 2019 Class A-2 Notes have not been repaid or refinanced by their respective Anticipated Repayment Dates, a rapid amortization event will occur in which residual net cash flows of the Master Issuer, after making certain required payments, will be applied to the outstanding principal of the 2017 Class A-2 Notes and the 2019 Class A-2 Notes. Various other events, including failure to maintain a minimum ratio of net cash flows to debt service (“DSCR”), may also cause a rapid amortization event. Borrowings under the 2017 Class A-2-I Notes, 2017 Class A-2-II Notes, 2019 Class A-2-I Notes, 2019 Class A-2-II Notes, and 2019 Class A-2-III Notes bear interest at fixed

rates equal to 3.629%, 4.030%, 3.787%, 4.021%, and 4.352%, respectively. If the 2017 Class A-2 Notes or the 2019 Class A-2 Notes are not repaid or refinanced prior to their respective Anticipated Repayment Dates, incremental interest will accrue. Principal payments are required to be made on the 2017 Class A-2-I Notes, 2017 Class A-2-II Notes, 2019 Class A-2-I Notes, 2019 Class A-2-II Notes, and 2019 Class A-2-III Notes equal to \$6.0 million, \$8.0 million, \$6.0 million, \$4.0 million, and \$7.0 million, respectively, per calendar year, payable in quarterly installments. No principal payments are required if a specified leverage ratio, which is a measure of outstanding debt to earnings before interest, taxes, depreciation, and amortization, adjusted for certain items (as specified in the Indenture), is less than or equal to 5.0 to 1.0. Other events and transactions, such as certain asset sales and receipt of various insurance or indemnification proceeds, may trigger additional mandatory prepayments.

It is anticipated that the principal and interest on the 2019 Variable Funding Notes will be repaid in full on or prior to August 2024, subject to two additional one-year extensions. Borrowings under the 2019 Variable Funding Notes bear interest at a rate equal to a LIBOR rate plus 1.50%, or the lenders' commercial paper funding rate plus 1.50%. If the 2019 Variable Funding Notes are not repaid prior to August 2024 or prior to the end of the extension period, if applicable, incremental interest will accrue. In addition, the Company is required to pay a 1.50% fee for letters of credit amounts outstanding and a commitment fee on the unused portion of the 2019 Variable Funding Notes which ranges from 0.50% to 1.00% based on utilization.

During the nine months ended September 28, 2019, as a result of the repayment of the remaining \$1.68 billion of principal outstanding on the 2015 Class A-2-II Notes, the Company recorded a loss on debt extinguishment of \$13.1 million, consisting of a write-off of the remaining debt issuance costs related to the 2015 Class A-2-II Notes.

Total debt issuance costs incurred and capitalized in connection with the issuance of the 2019 Notes were \$17.9 million. The effective interest rate, including the amortization of debt issuance costs, was 3.8%, 4.2%, 3.9%, 4.2%, and 4.5% for the 2017 Class A-2-I Notes, 2017 Class A-2-II Notes, 2019 Class A-2-I Notes, 2019 Class A-2-II Notes, and 2019 Class A-2-III Notes, respectively, as of September 28, 2019.

As of September 28, 2019, \$33.1 million of letters of credit were outstanding against the 2019 Variable Funding Notes and as of December 29, 2018, \$32.4 million of letters of credit were outstanding against the 2017 Variable Funding Notes, which related primarily to interest reserves required under the base indenture and related supplemental indentures. There were no amounts drawn down on these letters of credit as of September 28, 2019 or December 29, 2018.

The 2017 Class A-2 Notes and 2019 Notes are subject to a series of covenants and restrictions customary for transactions of this type, including (i) that the Master Issuer maintains specified reserve accounts to be used to make required payments in respect of the 2017 Class A-2 Notes and 2019 Notes, (ii) provisions relating to optional and mandatory prepayments, including mandatory prepayments in the event of a change of control as defined in the Indenture and the related payment of specified amounts, including specified make-whole payments in the case of the 2017 Class A-2 Notes and 2019 Notes under certain circumstances, (iii) certain indemnification payments in the event, among other things, the assets pledged as collateral for the 2017 Class A-2 Notes and 2019 Notes are in stated ways defective or ineffective, and (iv) covenants relating to recordkeeping, access to information, and similar matters. As noted above, the 2017 Class A-2 Notes and 2019 Notes are also subject to customary rapid amortization events provided for in the Indenture, including events tied to failure to maintain stated DSCR, failure to maintain an aggregate level of Dunkin' U.S. retail sales on certain measurement dates, certain manager termination events, an event of default, and the failure to repay or refinance the 2017 Class A-2 Notes or the 2019 Notes on the applicable Anticipated Repayment Dates. The 2017 Class A-2 Notes and 2019 Notes are also subject to certain customary events of default, including events relating to non-payment of required interest, principal, or other amounts due on or with respect to the 2017 Class A-2 Notes and 2019 Notes, failure to comply with covenants within certain time frames, certain bankruptcy events, breaches of specified representations and warranties, failure of security interests to be effective, and certain judgments.

### (5) Other current liabilities

Other current liabilities consisted of the following (in thousands):

	September 28, 2019	December 29, 2018
Gift card/certificate liability	\$ 173,063	239,531
Accrued payroll and benefits	29,728	26,544
Accrued interest	13,454	13,274
Accrued advertising expenses	59,747	52,536
Franchisee profit-sharing liability	8,729	13,764
Other	29,865	43,704
<b>Total other current liabilities</b>	<b>\$ 314,586</b>	<b>389,353</b>

The franchisee profit-sharing liability represents amounts owed to franchisees from the net profits primarily on the sale of Dunkin' K-Cup® pods, retail packaged coffee, and ready-to-drink bottled iced coffee in certain retail outlets.

### (6) Segment information

The Company is strategically aligned into two global brands, Dunkin' and Baskin-Robbins, which are further segregated between U.S. operations and international operations. Additionally, the Company administers and directs the development of all advertising and promotional programs in the U.S. As such, the Company has determined that it has five reportable segments: Dunkin' U.S., Dunkin' International, Baskin-Robbins U.S., Baskin-Robbins International, and U.S. Advertising Funds. Dunkin' U.S., Baskin-Robbins U.S., and Dunkin' International primarily derive their revenues through royalty income and franchise fees. Baskin-Robbins U.S. also derives revenue through license fees from a third-party license agreement and rental income. Dunkin' U.S. also derives revenue through rental income. Baskin-Robbins International primarily derives its revenues from sales of ice cream products, as well as royalty income, franchise fees, and license fees. U.S. Advertising Funds primarily derive revenues through continuing advertising fees from Dunkin' and Baskin-Robbins franchisees. The operating results of each segment are regularly reviewed and evaluated separately by the Company's senior management, which includes, but is not limited to, the chief executive officer. Senior management primarily evaluates the performance of its segments and allocates resources to them based on operating income adjusted for amortization of intangible assets, long-lived asset impairment charges, and certain non-recurring, infrequent or unusual charges, which does not reflect the allocation of any corporate charges. This profitability measure is referred to as segment profit. When senior management reviews a balance sheet, it is at a consolidated level. The accounting policies applicable to each segment are generally consistent with those used in the consolidated financial statements.

Revenues for all operating segments include only transactions with unaffiliated customers and include no intersegment revenues. Revenues reported as "Other" include revenues earned through certain licensing arrangements with third parties in which our brand names are used, including the licensing fees earned from the Dunkin' K-Cup® pod licensing agreement and sales of Dunkin' branded ready-to-drink bottled iced coffee and retail packaged coffee, revenues generated from online training programs for franchisees, certain franchisee incentives, advertising fees and related income from international advertising funds, and breakage and other revenue related to the gift card program, all of which are not allocated to a specific segment. Revenues by segment were as follows (in thousands):

	Revenues			
	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Dunkin' U.S.	\$ 166,404	157,284	482,726	454,585
Dunkin' International	6,749	6,256	21,070	16,879
Baskin-Robbins U.S.	14,324	13,681	38,889	38,293
Baskin-Robbins International	31,011	31,157	89,267	91,063
U.S. Advertising Funds	122,819	118,208	355,049	341,549
<b>Total reportable segment revenues</b>	<b>341,307</b>	<b>326,586</b>	<b>987,001</b>	<b>942,369</b>
Other	14,575	23,425	47,309	59,624
<b>Total revenues</b>	<b>\$ 355,882</b>	<b>350,011</b>	<b>1,034,310</b>	<b>1,001,993</b>

Amounts included in “Corporate and other” in the segment profit table below include corporate overhead costs, such as payroll and related benefit costs and professional services, net of “Other” revenues reported above. Segment profit by segment was as follows (in thousands):

	Segment profit			
	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Dunkin’ U.S.	\$ 127,755	121,667	365,888	346,292
Dunkin’ International	4,898	4,549	15,213	11,258
Baskin-Robbins U.S.	9,711	10,183	26,110	28,040
Baskin-Robbins International	13,028	12,009	32,919	30,976
U.S. Advertising Funds	—	—	—	—
Total reportable segments	155,392	148,408	440,130	416,566
Corporate and other	(29,414)	(31,531)	(80,544)	(84,172)
Interest expense, net	(28,791)	(30,002)	(88,852)	(91,859)
Amortization of other intangible assets	(4,599)	(5,230)	(13,858)	(15,912)
Long-lived asset impairment charges	(36)	(55)	(361)	(1,209)
Loss on debt extinguishment	—	—	(13,076)	—
Other loss, net	(258)	(101)	(308)	(700)
Income before income taxes	\$ 92,294	81,489	243,131	222,714

Net income of equity method investments is included in segment profit for the Dunkin’ International and Baskin-Robbins International reportable segments. Amounts reported as “Other” in the segment profit table below include the reduction in depreciation and amortization, net of tax, reported by our equity method investees as a result of previously recorded impairment charges. Net income of equity method investments by reportable segment was as follows (in thousands):

	Net income (loss) of equity method investments			
	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Dunkin’ International	\$ 168	85	189	(299)
Baskin-Robbins International	5,841	4,863	11,175	9,516
Total reportable segments	6,009	4,948	11,364	9,217
Other	658	839	1,960	2,448
Total net income of equity method investments	\$ 6,667	5,787	13,324	11,665

## (7) Stockholders’ deficit

### (a) Treasury stock

During the nine months ended September 28, 2019, the Company repurchased a total of 314,758 shares of common stock in the open market for total consideration of \$24.8 million.

The Company accounts for treasury stock under the cost method based on the cost of the shares on the dates of repurchase plus any direct costs incurred. During the nine months ended September 28, 2019, the Company retired 314,758 shares of treasury stock repurchased in the open market. The repurchase and retirement of these shares of treasury stock resulted in a decrease in additional paid-in capital of \$2.2 million and an increase in accumulated deficit of \$22.6 million.

### (b) Equity incentive plans

During the nine months ended September 28, 2019, the Company granted stock options to purchase 619,306 shares of common stock and 78,738 restricted stock units (“RSUs”) to certain employees and members of our board of directors. The stock options vest in equal annual amounts over a four-year period subsequent to the grant date, and have a maximum contractual term of seven years. The stock options were granted with a weighted-average exercise price of \$72.28 per share and had a weighted-average grant-date fair value of \$12.54 per share. The RSUs granted to employees and members of our board of

directors generally vest in equal annual amounts over a three-year period and a one-year period, respectively, subsequent to the grant date and had a weighted-average grant-date fair value of \$71.84 per unit.

In addition, the Company granted 47,431 performance stock units (“PSUs”) to certain employees during the nine months ended September 28, 2019. These PSUs are generally eligible to cliff-vest approximately three years from the grant date. Of the total PSUs granted, 20,681 PSUs are subject to a service condition and a market vesting condition linked to the level of total shareholder return received by the Company’s stockholders during the performance period measured against the companies in the S&P 500 Composite Index (“TSR PSUs”). The remaining 26,750 PSUs granted are subject to a service condition and a performance vesting condition based on the level of adjusted operating income growth achieved over the performance period (“AOI PSUs”). The maximum vesting percentage that could be realized for each of the TSR PSUs and the AOI PSUs is 200% based on the level of performance achieved for the respective awards. All of the PSUs are also subject to a one-year post-vesting holding period. The TSR PSUs were valued based on a Monte Carlo simulation model to reflect the impact of the total shareholder return market condition, resulting in a weighted-average grant-date fair value of \$86.97 per unit. The probability of satisfying a market condition is considered in the estimation of the grant-date fair value for TSR PSUs and the compensation cost is not reversed if the market condition is not achieved, provided the requisite service has been provided. The AOI PSUs had a weighted-average grant-date fair value of \$69.19 per unit. Total compensation cost for the AOI PSUs is determined based on the most likely outcome of the performance condition and the number of awards expected to vest based on the outcome.

During the nine months ended September 28, 2019, contingently issuable restricted shares granted in fiscal year 2014 realized a 52.2% vesting percentage based upon level of performance achieved against the market vesting condition, and 78,300 restricted shares vested.

Total compensation expense related to all share-based awards was \$3.8 million and \$3.9 million for the three months ended September 28, 2019 and September 29, 2018, respectively, and \$11.1 million and \$10.9 million for the nine months ended September 28, 2019 and September 29, 2018, respectively, and was included in general and administrative expenses, net in the consolidated statements of operations.

**(c) Accumulated other comprehensive loss**

The changes in the components of accumulated other comprehensive loss were as follows (in thousands):

	Effect of foreign currency translation	Other	Accumulated other comprehensive loss
Balance as of December 29, 2018	\$ (14,307)	(820)	(15,127)
Other comprehensive loss, net	(9,470)	(165)	(9,635)
Balance as of September 28, 2019	\$ (23,777)	(985)	(24,762)

**(d) Dividends**

The Company paid a quarterly dividend of \$0.3750 per share of common stock on March 20, 2019, June 12, 2019, and September 12, 2019, each totaling approximately \$31.0 million. On October 31, 2019, the Company announced that its board of directors approved the next quarterly dividend of \$0.3750 per share of common stock payable December 11, 2019 to stockholders of record as of the close of business on December 2, 2019.

## (8) Earnings per share

The computation of basic and diluted earnings per share of common stock is as follows (in thousands, except for share and per share data):

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net income—basic and diluted	\$ 72,365	66,067	184,310	176,717
Weighted-average number of shares of common stock:				
Common—basic	82,887,259	82,770,757	82,762,120	84,030,391
Common—diluted	83,867,413	84,107,840	83,665,397	85,366,264
Earnings per share of common stock:				
Common—basic	\$ 0.87	0.80	2.23	2.10
Common—diluted	0.86	0.79	2.20	2.07

The weighted-average number of shares of common stock in the common diluted earnings per share calculation includes the dilutive effect of 980,154 and 1,337,083 equity awards for the three months ended September 28, 2019 and September 29, 2018, respectively, and includes the dilutive effect of 903,277 and 1,335,873 equity awards for the nine months ended September 28, 2019 and September 29, 2018, respectively, using the treasury stock method. The weighted-average number of shares of common stock in the common diluted earnings per share calculation for all periods excludes all contingently issuable equity awards for which the contingent vesting criteria were not yet met as of the fiscal period end. As of September 28, 2019 and September 29, 2018, there were 35,804 and 189,077 shares, respectively, related to equity awards that were contingently issuable and for which the contingent vesting criteria were not yet met as of the fiscal period end. Additionally, the weighted-average number of shares of common stock in the common diluted earnings per share calculation excludes 628,783 and 22,289 equity awards for the three months ended September 28, 2019 and September 29, 2018, respectively, and 652,228 and 962,547 equity awards for the nine months ended September 28, 2019 and September 29, 2018, respectively, as they would be antidilutive.

## (9) Commitments and contingencies

### (a) Supply chain commitments

The Company has various supply chain agreements that provide for purchase commitments, the majority of which result in the Company being contingently liable upon early termination of the agreement. As of September 28, 2019 and December 29, 2018, the Company was contingently liable under such supply chain agreements for approximately \$106.9 million and \$119.4 million, respectively. For certain supply chain commitments, as product is purchased by the Company's franchisees over the term of the agreement, the amount of the guarantee is reduced. The Company assesses the risk of performing under each of these purchase agreements on a quarterly basis, and, based on various factors including internal forecasts, prior history, and ability to extend contract terms, we accrued an inconsequential amount of reserves related to supply chain commitments as of September 28, 2019 and December 29, 2018.

### (b) Letters of credit

As of September 28, 2019 and December 29, 2018, the Company had standby letters of credit outstanding for a total of \$33.1 million and \$32.4 million, respectively. There were no amounts drawn down on these letters of credit.

### (c) Legal matters

The Company is engaged in several matters of litigation arising in the ordinary course of its business as a franchisor. Such matters include disputes related to compliance with the terms of franchise and development agreements, including claims or threats of claims of breach of contract, negligence, and other alleged violations by the Company. As of September 28, 2019 and December 29, 2018, an inconsequential amount was accrued related to outstanding litigation.

**(10) Related-party transactions**

The Company recognized revenues from its equity method investees, consisting of royalty income and sales of ice cream and other products, as follows (in thousands):

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
B-R 31 Ice Cream Company., Ltd.	\$ 396	603	1,259	1,574
BR-Korea Co., Ltd.	1,296	1,277	3,670	3,404
Palm Oasis Ventures Pty. Ltd.	1,370	1,856	2,883	3,329
	<u>\$ 3,062</u>	<u>3,736</u>	<u>7,812</u>	<u>8,307</u>

As of September 28, 2019 and December 29, 2018, the Company had \$3.7 million and \$5.5 million, respectively, of receivables from its equity method investees, which were recorded in accounts receivable, net of allowance for doubtful accounts, in the consolidated balance sheets.

The Company made net payments to its equity method investees totaling approximately \$1.3 million and \$0.9 million during the three months ended September 28, 2019 and September 29, 2018, respectively, and \$3.1 million and \$2.8 million for the nine months ended September 28, 2019 and September 29, 2018, respectively, primarily for the purchase of ice cream products.



## (11) Advertising funds

Assets and liabilities of the advertising funds, which are restricted in their use, included in the consolidated balance sheets were as follows (in thousands):

	September 28, 2019	December 29, 2018
Accounts receivable, net	\$ 21,696	19,501
Notes and other receivables, net	900	16,050
Prepaid income taxes	90	11
Prepaid expenses and other current assets	10,251	14,978
Total current assets	32,937	50,540
Property, equipment, and software, net	16,175	15,187
Operating lease assets	4,386	—
Other assets	1,181	1,255
Total assets	\$ 54,679	66,982
Operating lease liabilities—current	\$ 1,891	—
Accounts payable	55,041	60,302
Deferred revenue—current <sup>(a)</sup>	(743)	(743)
Other current liabilities	51,006	43,198
Total current liabilities	107,195	102,757
Operating lease liabilities—long-term	2,217	—
Deferred revenue—long-term <sup>(a)</sup>	(6,218)	(6,775)
Other long-term liabilities	—	15
Total liabilities	\$ 103,194	95,997

(a) Amounts represent franchisee incentives that have been deferred and are being recognized over the terms of the respective franchise agreements.

## (12) Leases

The Company is party as a lessor and/or lessee to various leases for property, including land and buildings, as well as leases for office equipment and automobiles.

We determine if an arrangement is a lease at inception or modification of a contract, and classify each lease as either an operating or finance lease at commencement. The Company only reassesses lease classification subsequent to commencement upon a change to the expected lease term or the contract being modified. Finance and operating lease assets represent the Company's right to use an underlying asset as lessee for the lease term, and lease obligations represent the Company's obligation to make lease payments arising from the lease. These assets and obligations are recognized at the lease commencement date based on the present value of lease payments, net of incentives, over the lease term. Generally, the Company's lease contracts do not provide a readily determinable implicit rate and, therefore, the Company uses an estimated incremental borrowing rate as of the lease commencement date in determining the present value of lease payments. The estimate of the incremental borrowing rate reflects considerations such as market rates for the Company's outstanding collateralized debt, interpolations of rates for leases with terms that differ from the outstanding debt, and market rates for debt of companies with similar credit ratings. The lease asset also reflects any prepaid rent, initial direct costs incurred, and lease incentives received. The Company's lease terms, as both lessee and lessor, include option periods to extend or terminate the lease when it is reasonably certain that those options will be exercised, which are generally through the end of the related franchise agreement term.

We record lease expense and lease income as lessee and lessor, respectively, on a straight-line basis over the lease term as noted above. In certain cases, the Company also has variable lease payments and receipts that are based on sales levels of our franchisees, in excess of stipulated amounts. The Company is generally obligated for the cost of property taxes, insurance, and maintenance relating to its leases, which are often variable lease payments. Such costs are typically charged to the sublessee based on the terms of the sublease agreements. These costs are presented on a gross basis in the consolidated statements of operations in rental income and occupancy expenses—franchised restaurants. Variable lease receipts and payments are included

in rental income and rent expense as they are earned and accrued, respectively. The Company accounts for the lease components and non-lease components, primarily maintenance, as a single lease component for new and modified leases under the new lease accounting guidance. Leases with an initial expected term of 12 months or less are not recorded in the consolidated balance sheets and the related lease expense is recognized on a straight-line basis over the lease term.

Included in the Company's consolidated balance sheets were the following amounts related to operating and finance lease assets and liabilities (in thousands):

	September 28, 2019	December 29, 2018	Consolidated balance sheet classification
<b>Assets:</b>			
Operating lease assets	\$ 375,650	—	Operating lease assets
Finance lease assets <sup>(a)</sup>	5,708	5,264	Property, equipment, and software, net
Total lease assets	<u>\$ 381,358</u>	<u>5,264</u>	
<b>Liabilities:</b>			
Current:			
Operating lease liabilities	\$ 35,822	—	Operating lease liabilities
Finance lease liabilities	587	476	Other current liabilities
Long-term:			
Operating lease liabilities	384,671	—	Operating lease liabilities
Finance lease liabilities	7,236	6,998	Other long-term liabilities
Total lease liabilities	<u>\$ 428,316</u>	<u>7,474</u>	

(a) Finance lease assets were recorded net of accumulated amortization of \$3.7 million and \$5.0 million as of September 28, 2019 and December 29, 2018, respectively.

The weighted-average remaining lease term and weighted-average discount rate for operating and finance leases as of September 28, 2019 were as follows:

	September 28, 2019
<b>Weighted-average remaining lease term:</b>	
Operating leases	12.0
Finance leases	11.5
<b>Weighted-average discount rate:</b>	
Operating leases	4.6%
Finance leases	20.4%

Lease costs and rental income for the three and nine months ended September 28, 2019 were as follows (in thousands):

	Three months ended September 28, 2019	Nine months ended September 28, 2019
<b>Finance lease cost:</b>		
Amortization of lease assets <sup>(a)</sup>	\$ 115	412
Interest on lease liabilities <sup>(b)</sup>	261	792
Total finance lease cost	\$ 376	1,204
<b>Operating lease cost<sup>(c)</sup></b>		
Operating lease cost <sup>(c)</sup>	\$ 14,950	44,293
Variable lease cost <sup>(c)</sup>	6,392	18,721
Short-term lease cost <sup>(c)</sup>	2,752	7,948
Rental income <sup>(d)</sup>	31,984	92,691

(a) Amortization of finance lease assets is included in depreciation in the consolidated statements of operations.

(b) Interest recognized on finance lease liabilities is included in interest expense in the consolidated statements of operations.

(c) Operating and variable lease costs associated with franchised locations are included in occupancy expenses—franchised restaurants in the consolidated statements of operations. Operating, variable, and short-term lease costs for all other leases, including corporate facilities, vehicles, and other non-franchised assets are included in general and administrative expenses, net, and advertising expenses in the consolidated statements of operations.

(d) Rental income in the consolidated statements of operations primarily consists of sublease income. Lease income relating to variable lease payments was \$13.2 million and \$36.4 million for the three and nine months ended September 28, 2019, respectively.

Cash paid for amounts included in the measurement of lease liabilities were as follows (in thousands):

	Three months ended September 28, 2019	Nine months ended September 28, 2019
Operating cash flows from operating leases	\$ 14,364	44,119
Operating cash flows from finance leases	261	792
Financing cash flows from finance leases	63	393

Future lease commitments to be paid and received by the Company as of September 28, 2019 were as follows (in thousands):

	Payments		Receipts	
	Finance leases	Operating leases	Subleases	Net leases
<b>Fiscal year:</b>				
2019 <sup>(a)</sup>	\$ 335	9,546	(13,716)	(3,835)
2020	1,693	58,243	(71,408)	(11,472)
2021	1,592	55,568	(68,091)	(10,931)
2022	1,522	52,729	(62,436)	(8,185)
2023	1,527	47,646	(53,809)	(4,636)
Thereafter	11,783	342,455	(322,529)	31,709
Total lease commitments	18,452	566,187	(591,989)	(7,350)
Less amount representing interest	10,629	145,694		
Present value of lease liabilities	\$ 7,823	420,493		

(a) Represents the remainder of fiscal year 2019 which excludes the nine months ended September 28, 2019.

As of September 28, 2019, the Company had certain executed real estate leases that had not yet commenced which are not reflected in the tables above. These leases are expected to commence between fiscal year 2019 and fiscal year 2025 with lease terms of 10 years to 20 years.

Future lease commitments to be paid and received by the Company as of December 29, 2018 were as follows (in thousands):

Fiscal year:	Payments		Receipts	Net leases
	Finance leases	Operating leases	Subleases	
2019	\$ 1,535	60,166	(72,751)	(11,050)
2020	1,327	58,389	(69,704)	(9,988)
2021	1,361	56,107	(66,154)	(8,686)
2022	1,398	51,968	(60,282)	(6,916)
2023	1,427	46,340	(51,532)	(3,765)
Thereafter	11,770	329,641	(304,954)	36,457
Total lease commitments	18,818	602,611	(625,377)	(3,948)
Less amount representing interest	11,344			
Present value of lease liabilities	\$ 7,474			

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

### **Forward-Looking Statements**

*Certain statements contained herein are not based on historical fact and are "forward-looking statements" within the meaning of the applicable securities laws and regulations. Generally, these statements can be identified by the use of words such as "anticipate," "believe," "could," "estimate," "expect," "feel," "forecast," "intend," "may," "plan," "potential," "project," "should," or "would," and similar expressions intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include all matters that are not historical facts.*

*By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. These risks and uncertainties include, but are not limited to: the ongoing level of profitability of franchisees and licensees; our franchisees' and licensees' ability to sustain same store sales growth; successful westward expansion; changes in working relationships with our franchisees and licensees and the actions of our franchisees and licensees; our master franchisees' relationships with sub-franchisees; the success of our investments in the Dunkin' U.S. Blueprint for Growth; the strength of our brand in the markets in which we compete; changes in competition within the quick service restaurant segment of the food industry; changes in consumer behavior resulting from changes in technologies or alternative methods of delivery; economic and political conditions in the countries where we operate; our substantial indebtedness; our ability to protect our intellectual property rights; consumer preferences, spending patterns and demographic trends; the impact of seasonal changes, including weather effects, on our business; the success of our growth strategy and international development; changes in commodity and food prices, particularly coffee, dairy products and sugar, and other operating costs; shortages of coffee; failure of our network and information technology systems; interruptions or shortages in the supply of products to our franchisees and licensees; the impact of food borne-illness or food safety issues or adverse public or media opinions regarding the health effects of consuming our products; our ability to collect royalty payments from our franchisees and licensees; uncertainties relating to litigation; the ability of our franchisees and licensees to open new restaurants and keep existing restaurants in operation; our ability to retain key personnel; any inability to protect consumer credit card data and catastrophic events.*

*Forward-looking statements reflect management's analysis as of the date of this quarterly report. Important factors that could cause actual results to differ materially from our expectations are more fully described in our other filings with the Securities and Exchange Commission, including under the section headed "Risk Factors" in our most recent annual report on Form 10-K. Except as required by applicable law, we do not undertake to publicly update or revise any of these forward-looking statements, whether as a result of new information, future events or otherwise.*

### **Introduction and overview**

We are one of the world's leading franchisors of quick service restaurants ("QSRs") serving hot and cold coffee and baked goods, as well as hard serve ice cream. We franchise restaurants under our Dunkin' and Baskin-Robbins brands. With more than 21,000 points of distribution in more than 60 countries worldwide, we believe that our portfolio has strong brand awareness in our key markets. QSR is a restaurant format characterized by counter or drive-thru ordering and limited or no table service. As of September 28, 2019, Dunkin' had 13,035 global points of distribution with restaurants in 43 U.S. states, the District of Columbia, and 40 foreign countries. Baskin-Robbins had 8,116 global points of distribution as of the same date, with restaurants in 44 U.S. states, the District of Columbia, Puerto Rico, and 51 foreign countries.

We are organized into five reporting segments: Dunkin' U.S., Dunkin' International, Baskin-Robbins U.S., Baskin-Robbins International, and U.S. Advertising Funds. We generate revenue from five primary sources: (i) royalty income and franchise fees associated with franchised restaurants, (ii) continuing advertising fees from Dunkin' and Baskin-Robbins franchisees and breakage and other revenue related to the gift card program, (iii) rental income from restaurant properties that we lease or sublease to franchisees, (iv) sales of ice cream and other products to franchisees in certain international markets, and (v) other income including fees for the licensing of our brands for products sold in certain retail outlets, the licensing of the rights to manufacture Baskin-Robbins ice cream products sold to U.S. franchisees, refranchising gains, and online training fees.

Franchisees fund the vast majority of the cost of new restaurant development. As a result, we are able to grow our system with lower capital requirements than many of our competitors. With no company-operated points of distribution as of September 28, 2019, we are less affected by store-level costs, profitability, and fluctuations in commodity costs than other QSR operators.

We operate and report financial information on a 52- or 53-week year on a 13-week quarter basis with the fiscal year ending on the last Saturday in December and fiscal quarters ending on the 13th Saturday of each quarter (or 14th Saturday when applicable with respect to the fourth fiscal quarter). The data periods contained within the three- and nine-month periods ended September 28, 2019 and September 29, 2018 reflect the results of operations for the 13-week and 39-week periods ended on

those dates. Operating results for the three- and nine-month periods ended September 28, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 28, 2019.

The Company adopted new lease guidance in the first quarter of fiscal year 2019 using the modified retrospective transition method, and elected the option to not restate comparative periods in the year of adoption, including amounts as of December 29, 2018 and for the three and nine months ended September 29, 2018 included herein. See [note 2\(f\)](#) to the unaudited consolidated financial statements included in Item 1 of Part I of this Form 10-Q.

### Selected operating and financial highlights

*Amounts and percentages may not recalculate due to rounding*

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Financial data (in thousands):</b>				
Total revenues	\$ 355,882	350,011	1,034,310	1,001,993
Operating income	121,343	111,592	345,367	315,273
Adjusted operating income	125,978	116,877	359,586	332,394
Net income	72,365	66,067	184,310	176,717
Adjusted net income	75,702	69,872	203,962	189,044
<b>Systemwide sales (in millions):</b>				
Dunkin' U.S.	\$ 2,365.9	2,266.9	6,874.8	6,558.4
Dunkin' International	210.9	194.9	609.4	568.6
Baskin-Robbins U.S.	186.3	180.6	499.6	501.0
Baskin-Robbins International	449.7	425.4	1,141.9	1,129.8
Total systemwide sales	\$ 3,212.9	3,067.8	9,125.7	8,757.8
Systemwide sales growth	4.7%	5.2%	4.2%	4.9%
<b>Comparable store sales growth:</b>				
Dunkin' U.S.	1.5%	1.3%	1.9%	0.8%
Dunkin' International	7.3%	2.5%	5.2%	2.6%
Baskin-Robbins U.S.	3.6%	1.8%	0.0%	0.1%
Baskin-Robbins International	3.0%	7.5%	1.6%	4.6%

Our financial results are largely driven by changes in systemwide sales, which include sales by all points of distribution, whether owned by our franchisees or joint ventures. While we do not record sales by franchisees or joint ventures as revenue, and such sales are not included in our consolidated financial statements, we believe that this operating measure is important in obtaining an understanding of our financial performance. We believe systemwide sales information aids in understanding how we derive royalty revenue and in evaluating our performance relative to competitors.

Comparable store sales growth for Dunkin' U.S. and Baskin-Robbins U.S. is calculated by including only sales from franchisee-operated restaurants that have been open at least 78 weeks and that have reported sales in the current and comparable prior year week. Comparable store sales growth for Dunkin' International and Baskin-Robbins International generally represents the growth in local currency average monthly sales for franchisee-operated restaurants, including joint ventures, that have been open at least 13 months and that have reported sales in the current and comparable prior year month.

Overall growth in systemwide sales of 4.7% and 4.2% for the three- and nine-month periods ended September 28, 2019 over the same periods in the prior fiscal year resulted from the following:

- Dunkin' U.S. systemwide sales growth of 4.4% and 4.8% for the three and nine months ended September 28, 2019, respectively, was primarily a result of 241 net new restaurants opened since September 29, 2018 and comparable store sales growth of 1.5% and 1.9%, respectively. The comparable store sales growth for the three and nine months ended September 28, 2019 was driven by increased average ticket, offset by a decline in traffic. The increase in average ticket was driven primarily by strategic pricing increases and favorable mix shift to premium-priced espresso and cold brew beverages.
- Dunkin' International systemwide sales growth of 8.2% and 7.2% for the three and nine months ended September 28, 2019, respectively, was driven by sales growth in the Middle East, Asia, Europe, South Korea, and Latin America. For the three months ended September 28, 2019, sales in South Korea, Latin America, and Europe were negatively impacted by unfavorable foreign exchange rates, while sales in Asia were positively impacted by favorable foreign exchange rates. For the nine months ended September 28, 2019, sales across all regions were negatively impacted by

unfavorable foreign exchange rates. On a constant currency basis, systemwide sales increased by approximately 11% for each of the three and nine months ended September 28, 2019. Dunkin' International comparable store sales growth of 7.3% and 5.2% for the three and nine months ended September 28, 2019, respectively, was due primarily to growth in the Middle East, South Korea, Latin America, Europe, and Asia.

- Baskin-Robbins U.S. systemwide sales growth of 3.1% for the three months ended September 28, 2019 was primarily a result of comparable store sales growth of 3.6%. The comparable store sales growth was driven by an increase in average ticket and flat traffic. Systemwide sales decline of 0.3% for the nine months ended September 28, 2019 was primarily a result of 16 net closings since September 29, 2018. Comparable store sales for the nine-month period were flat as an increase in average ticket was offset by a decline in traffic. The increases in average ticket for the three and nine months ended September 28, 2019 were driven primarily by strategic pricing increases.
- Baskin-Robbins International systemwide sales growth of 5.7% for the three months ended September 28, 2019 was driven by sales growth in Japan, the Middle East, Australia, and South Korea. Sales in South Korea were negatively impacted by unfavorable foreign exchange rates, while sales in Japan were positively impacted by favorable foreign exchange rates. Baskin-Robbins International systemwide sales growth of 1.1% for the nine months ended September 28, 2019 was driven by sales growth in South Korea, the Middle East, Australia, and Europe, offset by sales declines in Japan and Asia. Sales in South Korea, Asia, Australia, and Europe were negatively impacted by unfavorable foreign exchange rates, while sales in Japan were positively impacted by favorable foreign exchange rates. On a constant currency basis, systemwide sales increased by approximately 7% and 4% for the three and nine months ended September 28, 2019, respectively. Baskin-Robbins International comparable store sales growth of 3.0% and 1.6% for the three and nine months ended September 28, 2019, respectively, was driven primarily by growth in South Korea, offset by a decline in the Middle East. Comparable store sales grew in Japan for the three-month period while comparable store sales declined in Japan for the nine-month period.

Changes in systemwide sales are impacted, in part, by changes in the number of points of distribution. Points of distribution and net openings as of and for the three and nine months ended September 28, 2019 and September 29, 2018 were as follows:

	September 28, 2019		September 29, 2018	
<b>Points of distribution, at period end:</b>				
Dunkin' U.S.	9,554		9,313	
Dunkin' International	3,481		3,427	
Baskin-Robbins U.S.	2,542		2,558	
Baskin-Robbins International	5,574		5,466	
Consolidated global points of distribution	<u>21,151</u>		<u>20,764</u>	
	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
<b>Net openings (closings) during the period:</b>				
Dunkin' U.S.	55	52	135	172
Dunkin' International	23	12	29	30
Baskin-Robbins U.S.	(14)	(3)	(8)	(2)
Baskin-Robbins International	58	16	83	44
Consolidated global net openings	<u>122</u>	<u>77</u>	<u>239</u>	<u>244</u>

Total revenues for the three months ended September 28, 2019 increased \$5.9 million, or 1.7%, due primarily to an increase in franchise fees and royalty income, as well as an increase in rental income. The increase in franchise fees and royalty income was driven by Dunkin' U.S. systemwide sales growth, offset by franchisee incentives, including investments to support the Dunkin' U.S. Blueprint for Growth, that are being recognized over the remaining term of each respective franchise agreement. Offsetting these increases in revenues was a decrease in advertising fees and related income due primarily to a decrease in gift card program service fees as a result of additional fees in the prior year period to cover certain gift card program costs, offset by an increase in advertising fees as a result of systemwide sales growth.

Total revenues for the nine months ended September 28, 2019 increased \$32.3 million, or 3.2%, due primarily to increases in franchise fees and royalty income, rental income, and other revenues, offset by a decrease in sales of ice cream and other products. The increase in franchise fees and royalty income was a result of Dunkin' U.S. systemwide sales growth as well as additional deferred revenue recognized in the current year period upon closure of certain international markets, offset by

franchisee incentives, including investments to support the Dunkin' U.S. Blueprint for Growth, that are being recognized over the remaining term of each respective franchise agreement. The increase in other revenues was driven primarily by license fees related to Dunkin' K-Cup® pods and retail packaged coffee.

The increases in rental income for three and nine months ended September 28, 2019 were due primarily to the adoption of a new lease accounting standard in the first quarter of fiscal year 2019, which requires gross presentation of certain lease costs that the Company passes through to franchisees. See [note 2\(f\)](#) to the unaudited consolidated financial statements included herein for further disclosure of the impact of the new guidance.

Operating income and adjusted operating income for the three months ended September 28, 2019 increased \$9.8 million, or 8.7%, and \$9.1 million, or 7.8%, respectively, from the prior year period primarily as a result of the increase in royalty income, a decrease in general and administrative expenses, and an increase in net income from our South Korea joint venture, offset by the decrease in franchise fees.

Operating income and adjusted operating income for the nine months ended September 28, 2019 increased \$30.1 million, or 9.5%, and \$27.2 million, or 8.2%, respectively, from the prior year period primarily a result of the increases in royalty income and other revenues, as well as a decrease in general and administrative expenses, offset by decreases in rental margin and franchise fees. The decrease in rental margin was due primarily to amortization of certain lease intangible assets, previously recorded within amortization, now included within occupancy expenses—franchised restaurants in conjunction with the adoption of the new lease accounting standard in the first quarter of fiscal year 2019.

Net income and adjusted net income increased \$6.3 million, or 9.5%, and \$5.8 million, or 8.3%, respectively, for the three months ended September 28, 2019 compared to the prior year period primarily as a result of the increases in operating income and adjusted operating income, respectively, and an increase in interest income earned on our cash balances, offset by an increase in income tax expense. The increase in income tax expense was driven primarily by excess tax benefits from share-based compensation of \$1.8 million compared to \$7.4 million in the prior year period and the increase in income in the current year period, offset by the release of a valuation allowance recorded on foreign tax credit carryforwards of \$2.0 million in the current year period.

Net income and adjusted net income increased \$7.6 million, or 4.3%, and \$14.9 million, or 7.9%, respectively, for the nine months ended September 28, 2019 compared to the prior year period primarily as a result of the increases in operating income and adjusted operating income, respectively, and an increase in interest income earned on our cash balances, offset by an increase in income tax expense. Also offsetting these increases in net income was a \$13.1 million loss on debt extinguishment recorded in the current year period. The increase in income tax expense was driven primarily by excess tax benefits from share-based compensation of \$4.4 million for the nine months ended September 28, 2019 compared to \$16.4 million in the prior year period.

Adjusted operating income and adjusted net income are non-GAAP measures reflecting operating income and net income adjusted for amortization of intangible assets, long-lived asset impairment charges, and certain non-recurring, infrequent, or unusual charges, net of the tax impact of such adjustments in the case of adjusted net income. We use adjusted operating income and adjusted net income as key performance measures for the purpose of evaluating performance internally. We also believe adjusted operating income and adjusted net income provide our investors with useful information regarding our historical operating results. These non-GAAP measurements are not intended to replace the presentation of our financial results in accordance with GAAP. Use of the terms adjusted operating income and adjusted net income may differ from similar measures reported by other companies.



Adjusted operating income and adjusted net income are reconciled from operating income and net income, respectively, determined under GAAP as follows:

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
	(In thousands)			
Operating income	\$ 121,343	111,592	345,367	315,273
Adjustments:				
Amortization of other intangible assets	4,599	5,230	13,858	15,912
Long-lived asset impairment charges	36	55	361	1,209
Adjusted operating income	\$ 125,978	116,877	359,586	332,394
Net income	\$ 72,365	66,067	184,310	176,717
Adjustments:				
Amortization of other intangible assets	4,599	5,230	13,858	15,912
Long-lived asset impairment charges	36	55	361	1,209
Loss on debt extinguishment	—	—	13,076	—
Tax impact of adjustments <sup>(a)</sup>	(1,298)	(1,480)	(7,643)	(4,794)
Adjusted net income	\$ 75,702	69,872	203,962	189,044

(a) Tax impact of adjustments calculated at effective tax rate of 28%.

### Earnings per share

Earnings per share and diluted adjusted earnings per share were as follows:

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Earnings per share:				
Common—basic	\$ 0.87	0.80	2.23	2.10
Common—diluted	0.86	0.79	2.20	2.07
Diluted adjusted earnings per share	0.90	0.83	2.44	2.21

Diluted adjusted earnings per share is calculated using adjusted net income, as defined above, and diluted weighted-average shares outstanding. Diluted adjusted earnings per share is not a presentation made in accordance with GAAP, and our use of the term diluted adjusted earnings per share may vary from similar measures reported by others in our industry due to the potential differences in the method of calculation. Diluted adjusted earnings per share should not be considered as an alternative to earnings per share derived in accordance with GAAP. Diluted adjusted earnings per share has important limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Because of these limitations, we rely primarily on our GAAP results. However, we believe that presenting diluted adjusted earnings per share is appropriate to provide investors with useful information regarding our historical operating results.

The following table sets forth the computation of diluted adjusted earnings per share:

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
	(In thousands, except share and per share data)			
Adjusted net income	\$ 75,702	69,872	203,962	189,044
Weighted-average number of common shares—diluted	83,867,413	84,107,840	83,665,397	85,366,264
Diluted adjusted earnings per share	\$ 0.90	0.83	2.44	2.21

**Results of operations**
**Consolidated results of operations**

	Three months ended				Nine months ended			
	September 28, 2019	September 29, 2018	Increase (Decrease)		September 28, 2019	September 29, 2018	Increase (Decrease)	
			\$	%			\$	%
(In thousands, except percentages)								
Franchise fees and royalty income	\$ 157,224	151,991	5,233	3.4 %	\$ 454,810	435,740	19,070	4.4 %
Advertising fees and related income	128,675	132,471	(3,796)	(2.9)%	375,132	375,017	115	— %
Rental income	31,984	27,547	4,437	16.1 %	92,691	79,425	13,266	16.7 %
Sales of ice cream and other products	24,409	24,867	(458)	(1.8)%	72,400	74,784	(2,384)	(3.2)%
Other revenues	13,590	13,135	455	3.5 %	39,277	37,027	2,250	6.1 %
Total revenues	\$ 355,882	350,011	5,871	1.7 %	\$ 1,034,310	1,001,993	32,317	3.2 %

Total revenues for the three months ended September 28, 2019 increased \$5.9 million, or 1.7%, due primarily to an increase in franchise fees and royalty income, as well as an increase in rental income. The increase in franchise fees and royalty income was driven by Dunkin' U.S. systemwide sales growth, offset by franchisee incentives, including investments to support the Dunkin' U.S. Blueprint for Growth, that are being recognized over the remaining term of each respective franchise agreement. Offsetting these increases in revenues was a decrease in advertising fees and related income due primarily to a decrease in gift card program service fees as a result of additional fees in the prior year period to cover certain gift card program costs, offset by an increase in advertising fees as a result of systemwide sales growth.

Total revenues for the nine months ended September 28, 2019 increased \$32.3 million, or 3.2%, due primarily to increases in franchise fees and royalty income, rental income, and other revenues, offset by a decrease in sales of ice cream and other products. The increase in franchise fees and royalty income was primarily a result of Dunkin' U.S. systemwide sales growth, as well as additional deferred revenue recognized in the current year period upon closure of certain international markets, offset by franchisee incentives, including investments to support the Dunkin' U.S. Blueprint for Growth, that are being recognized over the remaining term of each respective franchise agreement. The increase in other revenues was driven primarily by license fees related to Dunkin' K-Cup® pods and retail packaged coffee.

The increases in rental income for the three and nine months ended September 28, 2019 were due primarily to the adoption of the new lease accounting standard in the first quarter of fiscal year 2019. See [note 2\(f\)](#) of the unaudited consolidated financial statements included herein for further disclosure of the impact of the new guidance.

	Three months ended				Nine months ended			
	September 28, 2019	September 29, 2018	Increase (Decrease)		September 28, 2019	September 29, 2018	Increase (Decrease)	
			\$	%			\$	%
(In thousands, except percentages)								
Occupancy expenses—franchised restaurants	\$ 19,823	14,765	5,058	34.3 %	\$ 58,995	43,059	15,936	37.0 %
Cost of ice cream and other products	21,066	21,311	(245)	(1.1)%	59,724	60,956	(1,232)	(2.0)%
Advertising expenses	130,846	133,732	(2,886)	(2.2)%	379,898	378,283	1,615	0.4 %
General and administrative expenses, net	60,333	63,997	(3,664)	(5.7)%	176,458	183,122	(6,664)	(3.6)%
Depreciation and amortization	9,183	10,167	(984)	(9.7)%	27,774	31,007	(3,233)	(10.4)%
Long-lived asset impairment charges	36	55	(19)	(34.5)%	361	1,209	(848)	(70.1)%
Total operating costs and expenses	\$ 241,287	244,027	(2,740)	(1.1)%	\$ 703,210	697,636	5,574	0.8 %
Net income of equity method investments	6,667	5,787	880	15.2 %	13,324	11,665	1,659	14.2 %
Other operating income (loss), net	81	(179)	260	n/m	943	(749)	1,692	n/m
Operating income	\$ 121,343	111,592	9,751	8.7 %	\$ 345,367	315,273	30,094	9.5 %

Occupancy expenses for franchised restaurants for the three and nine months ended September 28, 2019 increased \$5.1 million and \$15.9 million, respectively, resulting primarily from the adoption of the new lease accounting standard in the first quarter of fiscal year 2019. The new standard requires gross presentation of certain lease costs that the Company passes through to franchisees and also resulted in amortization of certain lease intangible assets, which were previously recorded within amortization of other intangible assets in the consolidated statements of operations, being recorded within occupancy expenses—franchised restaurants in the consolidated statements of operations in fiscal year 2019.

Net margin on ice cream and other products for the three and nine months ended September 28, 2019 decreased \$0.2 million, or 6.0%, and \$1.2 million, or 8.3%, respectively, due primarily to decreases in sales volume and increases in commodity costs.

Advertising expenses for the three months ended September 28, 2019 decreased \$2.9 million while advertising expenses for the nine months ended September 28, 2019 increased \$1.6 million. The fluctuations in advertising expenses were driven primarily by fluctuations in advertising fees and related income.

General and administrative expenses for the three and nine months ended September 28, 2019 decreased \$3.7 million and \$6.7 million, respectively, due primarily to expenses incurred in connection with our 2018 Global Convention held in the third quarter of fiscal year 2018, a decrease in legal expenses, including a recovery of fees in the third quarter of fiscal year 2019, a decrease in personnel costs, and expenses incurred in the third quarter of fiscal year 2018 to support the Dunkin' U.S. Blueprint for Growth investments, offset by an increase in costs incurred to support brand-building activities. Also offsetting the decreases in general and administrative expenses for the nine-month period were increases in professional fees and bad debt expense.

Depreciation and amortization for the three and nine months ended September 28, 2019 decreased \$1.0 million and \$3.2 million, respectively, resulting primarily from the adoption of the new lease accounting standard in the first quarter of fiscal year 2019, which resulted in amortization of certain lease intangible assets, which was previously recorded within amortization of other intangible assets in the consolidated statements of operations, being recorded within occupancy expenses—franchised

restaurants in the consolidated statements of operations in fiscal year 2019. Also contributing to the decreases in depreciation and amortization were decreases in depreciation as assets become fully depreciated.

Long-lived asset impairment charges for the three months ended September 28, 2019 remained consistent with prior year period. Long-lived asset impairment charges for the nine months ended September 28, 2019 decreased \$0.8 million. Long-lived asset impairment charges generally fluctuate based on the timing of lease terminations and the related write-off of favorable lease intangible assets and leasehold improvements.

Net income of equity method investments for the three and nine months ended September 28, 2019 increased \$0.9 million and \$1.7 million, respectively, primarily as a result of an increase in net income from our South Korea joint venture.

Other operating income (loss), net, which includes net gains and losses recognized in connection with the sale or disposal of property, equipment, and software, fluctuates based on the timing of such transactions.

	Three months ended				Nine months ended			
	September 28, 2019	September 29, 2018	Increase (Decrease)		September 28, 2019	September 29, 2018	Increase (Decrease)	
			\$	%			\$	%
(In thousands, except percentages)								
Interest expense, net	\$ 28,791	30,002	(1,211)	(4.0)%	\$ 88,852	91,859	(3,007)	(3.3)%
Loss on debt extinguishment	—	—	—	n/m	13,076	—	13,076	n/m
Other loss, net	258	101	157	155.4%	308	700	(392)	(56.0)%
Total other expense, net	\$ 29,049	30,103	(1,054)	(3.5)%	\$ 102,236	92,559	9,677	10.5%

Net interest expense for the three and nine months ended September 28, 2019 decreased \$1.2 million and \$3.0 million, respectively, driven primarily by increases in interest income earned on our cash balances, as well as increases in interest capitalized during the acquisition period of certain capital assets, offset by the impact of a securitization refinancing transaction completed during the second quarter of fiscal year 2019, resulting in increased interest expense due to an increase in the weighted-average interest rate.

The loss on debt extinguishment of \$13.1 million for the nine months ended September 28, 2019 was due to the write-off of debt issuance costs in conjunction with the securitization refinancing transaction completed during the second quarter of fiscal year 2019.

The fluctuation in other loss, net, for the three and nine months ended September 28, 2019 resulted primarily from net foreign exchange gains and losses driven primarily by fluctuations in the U.S. dollar against foreign currencies.

	Three months ended		Nine months ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
	(In thousands, except percentages)			
Income before income taxes	\$ 92,294	81,489	243,131	222,714
Provision for income taxes	19,929	15,422	58,821	45,997
Effective tax rate	21.6%	18.9%	24.2%	20.7%

The increase in the effective tax rate for the three months ended September 28, 2019 was driven primarily by excess tax benefits from share-based compensation of \$1.8 million for the three months ended September 28, 2019 compared to \$7.4 million in the prior year period, offset by the release of a valuation allowance recorded on foreign tax credit carryforwards of \$2.0 million in the current year period.

The increase in the effective tax rate for the nine months ended September 28, 2019 was driven primarily by excess tax benefits from share-based compensation of \$4.4 million for the nine months ended September 28, 2019 compared to \$16.4 million in the prior year period, offset by the release of a valuation allowance recorded on foreign tax credit carryforwards of \$2.0 million in the current year period.

### Operating segments

We operate five reportable operating segments: Dunkin' U.S., Dunkin' International, Baskin-Robbins U.S., Baskin-Robbins International, and U.S. Advertising Funds. We evaluate the performance of our segments and allocate resources to them based on operating income adjusted for amortization of intangible assets, long-lived asset impairment charges, and certain non-recurring, infrequent or unusual charges, which does not reflect the allocation of any corporate charges. This profitability measure is referred to as segment profit. Segment profit for the Dunkin' International and Baskin-Robbins International segments includes net income of equity method investments, except for other-than-temporary impairment charges and the related reduction in depreciation, net of tax, on the underlying long-lived assets.

For reconciliations to total revenues and income before income taxes, see [note 6](#) to the unaudited consolidated financial statements included herein. Revenues for all segments include only transactions with unaffiliated customers and include no intersegment revenues. Revenues not included in segment revenues include revenue earned through certain licensing arrangements with third parties in which our brand names are used, revenue generated from online training programs for franchisees, and breakage and other revenue related to the gift card program, all of which are not allocated to a specific segment. Additionally, allocation of the consideration from sales of ice cream and other products to royalty income as consideration for the use of the franchise license and certain franchisee incentives are not reflected within segment revenues, but have no impact to total revenues for any segment.

#### Dunkin' U.S.

	Three months ended				Nine months ended			
	September 28, 2019	September 29, 2018	Increase (Decrease)		September 28, 2019	September 29, 2018	Increase (Decrease)	
			\$	%			\$	%
(In thousands, except percentages)								
Royalty income	\$ 130,993	124,805	6,188	5.0 %	\$ 379,772	360,859	18,913	5.2 %
Franchise fees	3,675	4,840	(1,165)	(24.1)%	10,719	14,312	(3,593)	(25.1)%
Rental income	30,824	26,637	4,187	15.7 %	89,163	76,734	12,429	16.2 %
Other revenues	912	1,002	(90)	(9.0)%	3,072	2,680	392	14.6 %
Total revenues	\$ 166,404	157,284	9,120	5.8 %	\$ 482,726	454,585	28,141	6.2 %
Segment profit	\$ 127,755	121,667	6,088	5.0 %	\$ 365,888	346,292	19,596	5.7 %

Dunkin' U.S. revenues for the three and nine months ended September 28, 2019 increased \$9.1 million and \$28.1 million, respectively, due primarily to increases in royalty income driven by systemwide sales growth, as well as increases in rental income. These increases in revenues were offset by decreases in franchise fees due primarily to franchisee incentives provided as part of the investments to support the Dunkin' U.S. Blueprint for Growth that are being recognized over the remaining term of each respective franchise agreement. The increases in rental income resulted primarily from the adoption of the new lease accounting standard in the first quarter of fiscal year 2019. See [note 2\(f\)](#) to the unaudited consolidated financial statements included herein for further disclosure of the impact of the new guidance.

Dunkin' U.S. segment profit for the three and nine months ended September 28, 2019 increased \$6.1 million and \$19.6 million, respectively, driven primarily by the increases in royalty income, as well as decreases in general and administrative expenses due primarily to expenses incurred in fiscal year 2018 to support the Dunkin' U.S. Blueprint for Growth investments and decreases in personnel costs, offset by decreases in franchise fees and rental margin. The decreases in rental margin were due primarily to amortization of certain lease intangible assets, previously recorded within amortization, now included within occupancy expenses—franchised restaurants in conjunction with the adoption of the new lease accounting standard in the first quarter of fiscal year 2019.

*Dunkin' International*

	Three months ended				Nine months ended			
	September 28, 2019	September 29, 2018	Increase (Decrease)		September 28, 2019	September 29, 2018	Increase (Decrease)	
			\$	%			\$	%
(In thousands, except percentages)								
Royalty income	\$ 5,769	5,192	577	11.1 %	\$ 17,078	14,862	2,216	14.9%
Franchise fees	792	1,054	(262)	(24.9)%	3,687	2,037	1,650	81.0%
Other revenues	188	10	178	1,780.0 %	305	(20)	325	n/m
Total revenues	\$ 6,749	6,256	493	7.9 %	\$ 21,070	16,879	4,191	24.8%
Segment profit	\$ 4,898	4,549	349	7.7 %	\$ 15,213	11,258	3,955	35.1%

Dunkin' International revenues for the three months ended September 28, 2019 increased \$0.5 million primarily as a result of an increase in royalty income driven by systemwide sales growth, as well as an increase in other revenues, offset by a decrease in franchise fees due primarily to additional deferred revenue recognized in the prior year period upon closure of certain international markets.

Dunkin' International revenues for the nine months ended September 28, 2019 increased \$4.2 million primarily as a result of an increase in royalty income driven by systemwide sales growth and a recovery of prior period royalties, as well as an increase in franchise fees due primarily to additional deferred revenue recognized in the current year period upon closure of certain international markets.

Segment profit for Dunkin' International for the three and nine months ended September 28, 2019 increased \$0.3 million and \$4.0 million, respectively, primarily as a result of the increases in revenues, offset by an increase in general and administrative expenses. Also contributing to the increase in segment profit for the nine-month period was favorable results from our South Korea joint venture compared to the prior year period.

*Baskin-Robbins U.S.*

	Three months ended				Nine months ended			
	September 28, 2019	September 29, 2018	Increase (Decrease)		September 28, 2019	September 29, 2018	Increase (Decrease)	
			\$	%			\$	%
(In thousands, except percentages)								
Royalty income	\$ 8,973	8,626	347	4.0 %	\$ 23,904	24,040	(136)	(0.6)%
Franchise fees	374	319	55	17.2 %	1,030	911	119	13.1 %
Rental income	942	773	169	21.9 %	2,875	2,303	572	24.8 %
Sales of ice cream and other products	1,021	906	115	12.7 %	2,772	2,426	346	14.3 %
Other revenues	3,014	3,057	(43)	(1.4)%	8,308	8,613	(305)	(3.5)%
Total revenues	\$ 14,324	13,681	643	4.7 %	\$ 38,889	38,293	596	1.6 %
Segment profit	\$ 9,711	10,183	(472)	(4.6)%	\$ 26,110	28,040	(1,930)	(6.9)%

Baskin-Robbins U.S. revenues for the three months ended September 28, 2019 increased \$0.6 million due primarily to increases in royalty income driven by systemwide sales growth, rental income, and sales of ice cream and other products.

Baskin-Robbins U.S. revenues for the nine months ended September 28, 2019 increased \$0.6 million due primarily to increases in rental income and sales of ice cream and other products, offset by a decrease in other revenues.

The increases in rental income for the three and nine months ended September 28, 2019 resulted primarily from the adoption of the new lease accounting standard in the first quarter of fiscal year 2019. See [note 2\(f\)](#) to the unaudited consolidated financial statements included herein for further disclosure of the impact of the new guidance.

Baskin-Robbins U.S. segment profit for the three months ended September 28, 2019 decreased \$0.5 million primarily as a result of an increase in general and administrative expenses driven by costs incurred in the current year period to support brand-building activities, offset by the increase in royalty income.

Baskin-Robbins U.S. segment profit for the nine months ended September 28, 2019 decreased \$1.9 million primarily as a result of an increase in general and administrative expenses driven by costs incurred in the current year period to support brand-building activities and an increase in bad debt expense, as well as the decreases in other revenues and royalty income.

*Baskin-Robbins International*

	Three months ended				Nine months ended			
	September 28, 2019	September 29, 2018	Increase (Decrease)		September 28, 2019	September 29, 2018	Increase (Decrease)	
			\$	%			\$	%
(In thousands, except percentages)								
Royalty income	\$ 2,197	2,140	57	2.7 %	\$ 6,055	5,837	218	3.7 %
Franchise fees	165	203	(38)	(18.7)%	1,043	660	383	58.0 %
Rental income	218	137	81	59.1 %	653	388	265	68.3 %
Sales of ice cream and other products	28,459	28,625	(166)	(0.6)%	81,531	84,006	(2,475)	(2.9)%
Other revenues	(28)	52	(80)	(153.8)%	(15)	172	(187)	(108.7)%
Total revenues	\$ 31,011	31,157	(146)	(0.5)%	\$ 89,267	91,063	(1,796)	(2.0)%
Segment profit	\$ 13,028	12,009	1,019	8.5 %	\$ 32,919	30,976	1,943	6.3 %

Baskin-Robbins International revenues for the three and nine months ended September 28, 2019 decreased \$0.1 million and \$1.8 million, respectively, due primarily to decreases in sales of ice cream and other products. Offsetting this decrease in revenues for the nine-month period were increases in franchise fees, rental income, and royalty income. The increase in franchise fees was due primarily to additional deferred revenue recognized in the current period upon closure of certain international markets. The increase in rental income for the nine months ended September 28, 2019 resulted primarily from the adoption of the new lease accounting standard in the first quarter of fiscal year 2019. See [note 2\(f\)](#) to the unaudited consolidated financial statements included herein for further disclosure of the impact of the new guidance.

Baskin-Robbins International segment profit for the three and nine months ended September 28, 2019 increased \$1.0 million and \$1.9 million, respectively, primarily as a result of increases in net income from our South Korea and Japan joint ventures, as well as increases in net margin on ice cream, offset by increases in general and administrative expenses. Also contributing to the increase in segment profit for the nine-month period were the increases in franchise fees and royalty income. The increase in net margin on ice cream for the three-month period was driven primarily by product mix and pricing. The increase in net margin on ice cream for the nine-month period was driven primarily by a decrease in product cost, product mix, and favorable foreign exchange rates, offset by a decrease in sales volume.

*U.S. Advertising Funds*

	Three months ended				Nine months ended			
	September 28, 2019	September 29, 2018	Increase (Decrease)		September 28, 2019	September 29, 2018	Increase (Decrease)	
			\$	%			\$	%
(In thousands, except percentages)								
Advertising fees and related income	\$ 122,819	118,208	4,611	3.9%	\$ 355,049	341,549	13,500	4.0%
Total revenues	\$ 122,819	118,208	4,611	3.9%	\$ 355,049	341,549	13,500	4.0%
Segment profit	\$ —	—	—	—%	\$ —	—	—	—%

U.S. Advertising Funds revenues for the three and nine months ended September 28, 2019 increased \$4.6 million, or 3.9%, and \$13.5 million, or 4.0%, respectively, compared to the prior year periods driven primarily by Dunkin' U.S. systemwide sales growth. Expenses for the U.S. Advertising Funds were equivalent to revenues in each period, resulting in no segment profit.

**Liquidity and capital resources**

As of September 28, 2019, we held \$523.4 million of cash and cash equivalents and \$93.9 million of short-term restricted cash that was restricted under our securitized financing facility. Included in cash and cash equivalents is \$179.3 million of cash held for advertising funds and reserved for gift card/certificate programs. In addition, as of September 28, 2019, we had a borrowing capacity of \$116.9 million under our \$150.0 million 2019 Variable Funding Notes (as defined below).

**Operating, investing, and financing cash flows**

Net cash provided by operating activities was \$157.8 million for the nine months ended September 28, 2019, as compared to \$126.5 million in the prior year period. The \$31.3 million increase in operating cash inflows was driven primarily by an

increase in pre-tax net income related to operating activities, excluding non-cash items, as well as decreases in cash paid for interest on our long-term debt and incentive compensation payments, offset by various changes in working capital.

Net cash used in investing activities was \$25.4 million for the nine months ended September 28, 2019, as compared to \$41.4 million in the prior year period. The \$16.0 million decrease in investing cash outflows was driven primarily by a decrease in capital expenditures of \$14.9 million, due primarily to higher investments in technology infrastructure to support the Dunkin' U.S. Blueprint for Growth in the prior year period.

Net cash used in financing activities was \$111.9 million for the nine months ended September 28, 2019, as compared to \$689.5 million in the prior year period. The \$577.7 million decrease in financing cash outflows was driven primarily by incremental cash used in the prior year period for repurchases of common stock of \$625.6 million, as well as the favorable impact of debt-related activities of \$6.5 million compared to the prior year period. Offsetting these decreases in financing cash outflows was incremental cash generated from the exercise of stock options in the prior year period of \$43.8 million, as well as increases in quarterly dividends of \$7.0 million and cash used to settle tax withholding obligations upon vesting of certain equity awards of \$3.7 million. The favorable impact of debt-related activities was driven by proceeds from the issuance of long-term debt, net of debt repayment and payment of debt issuance and other debt-related costs.

**Adjusted operating and investing cash flow**

Net cash flows from operating and investing activities for the nine months ended September 28, 2019 and September 29, 2018 included net cash outflows of \$28.0 million and \$43.6 million, respectively, in cash held for advertising funds and reserved for gift card/certificate programs. Excluding cash held for advertising funds and reserved for gift card/certificate programs, we generated \$160.4 million and \$128.7 million of adjusted operating and investing cash flow during the nine months ended September 28, 2019 and September 29, 2018, respectively. The increase in adjusted operating and investing cash flow was driven primarily by an increase in pre-tax net income related to operating activities, excluding non-cash items, the decrease in capital expenditures, and the decreases in cash paid for interest on our long-term debt and incentive compensation payments, offset by other changes in working capital.

Adjusted operating and investing cash flow is a non-GAAP measure reflecting net cash provided by operating and investing activities, excluding the cash flows related to advertising funds and gift card/certificate programs. We use adjusted operating and investing cash flow as a key liquidity measure for the purpose of evaluating our ability to generate cash. We also believe adjusted operating and investing cash flow provides our investors with useful information regarding our historical cash flow results. This non-GAAP measurement is not intended to replace the presentation of our financial results in accordance with GAAP, and adjusted operating and investing cash flow does not represent residual cash flows available for discretionary expenditures. Use of the term adjusted operating and investing cash flow may differ from similar measures reported by other companies.

Adjusted operating and investing cash flow is reconciled from net cash provided by operating activities determined under GAAP as follows (in thousands):

	Nine months ended	
	September 28, 2019	September 29, 2018
Net cash provided by operating activities	\$ 157,779	126,529
Plus: Decrease in cash held for advertising funds and gift card/certificate programs	27,985	43,575
Less: Net cash used in investing activities	(25,397)	(41,430)
Adjusted operating and investing cash flow	<u>\$ 160,367</u>	<u>128,674</u>

**Borrowing capacity**

As of September 28, 2019, our securitized financing facility included original borrowings of approximately \$1.40 billion, \$1.70 billion, and \$150.0 million related to the 2017 Class A-2 Notes (as defined below), 2019 Class A-2 Notes (as defined below), and the 2019 Variable Funding Notes (as defined below), respectively. As of September 28, 2019, there was approximately \$3.07 billion of total principal outstanding on the 2017 Class A-2 Notes and 2019 Class A-2 Notes, while there was \$116.9 million in available commitments under the 2019 Variable Funding Notes as \$33.1 million of letters of credit were outstanding.

In April 2019, DB Master Finance LLC (the "Master Issuer"), a limited-purpose, bankruptcy-remote, wholly-owned indirect subsidiary of Dunkin' Brands Group, Inc., issued Series 2019-1 3.787% Fixed Rate Senior Secured Notes, Class A-2-I (the "2019 Class A-2-I Notes") with an initial principal amount of \$600.0 million, Series 2019-1 4.021% Fixed Rate Senior Secured Notes, Class A-2-II (the "2019 Class A-2-II Notes") with an initial principal amount of \$400.0 million, and Series 2019-1 4.352% Fixed Rate Senior Secured Notes, Class A-2-III (the "2019 Class A-2-III Notes", and together with the 2019 Class A-2-



I Notes and 2019 Class A-2-II Notes, the “2019 Class A-2 Notes”) with an initial principal amount of \$700.0 million. In addition, the Master Issuer issued Series 2019-1 Variable Funding Senior Secured Notes, Class A-1 (the “2019 Variable Funding Notes” and, together with the 2019 Class A-2 Notes, the “2019 Notes”), which allow for the issuance of up to \$150.0 million of 2019 Variable Funding Notes and certain other credit instruments, including letters of credit.

The proceeds received from the issuance of the 2019 Notes were used to repay the remaining \$1.68 billion outstanding on the Series 2015-1 3.980% Fixed Rate Senior Secured Notes, Class A-2-II (the “2015 Class A-2-II Notes”), and to pay related transaction fees and expenses. In connection with the issuance of the 2019 Variable Funding Notes, the Master Issuer terminated the commitments with respect to its existing Series 2017-1 Variable Funding Senior Secured Notes, Class A-1 (the “2017 Variable Funding Notes”).

The 2017 Class A-2 Notes and 2019 Notes were each issued in a securitization transaction pursuant to which most of the Company’s domestic and certain of its foreign revenue-generating assets, consisting principally of franchise-related agreements, real estate assets, and intellectual property and license agreements for the use of intellectual property, are held by the Master Issuer and certain other limited-purpose, bankruptcy-remote, wholly-owned indirect subsidiaries of the Company that act as guarantors of the 2017 Class A-2 Notes and 2019 Notes and that have pledged substantially all of their assets to secure the 2017 Class A-2 Notes and 2019 Notes.

The 2017 Class A-2 Notes and 2019 Notes were issued pursuant to a base indenture and related supplemental indentures (collectively, the “Indenture”) under which the Master Issuer may issue multiple series of notes. The legal final maturity date of the 2017 Class A-2 Notes and 2019 Class A-2 Notes is in November 2047 and May 2049, respectively, but it is anticipated that, unless earlier prepaid to the extent permitted under the Indenture, the Series 2017-1 3.629% Fixed Rate Senior Secured Notes, Class A-2-I (the “2017 Class A-2-I Notes”) will be repaid by November 2024, the Series 2017-1 4.030% Fixed Rate Senior Secured Notes, Class A-2-II (the “2017 Class A-2-II Notes” and, together with the 2017 Class A-2-I Notes, the “2017 Class A-2 Notes”) will be repaid by November 2027, the 2019 Class A-2-I Notes will be repaid by February 2024, the 2019 Class A-2-II Notes will be repaid by May 2026, and the 2019 Class A-2-III Notes will be repaid by May 2029 (the “Anticipated Repayment Dates”). Principal amortization payments equal to \$31 million per calendar year, payable quarterly, are collectively required to be made on the 2017 Class A-2 and 2019 Class A-2 through the Anticipated Repayment Dates. No principal payments are required if a specified leverage ratio, which is a measure of outstanding debt to earnings before interest, taxes, depreciation, and amortization, adjusted for certain items (as specified in the Indenture), is less than or equal to 5.0 to 1.0. If the 2017 Class A-2 Notes or the 2019 Class A-2 Notes have not been repaid or refinanced by their respective Anticipated Repayment Dates, a rapid amortization event will occur in which residual net cash flows of the Master Issuer, after making certain required payments, will be applied to the outstanding principal of the 2017 Class A-2 Notes and the 2019 Class A-2 Notes. Various other events, including failure to maintain a minimum ratio of net cash flows to debt service (“DSCR”), may also cause a rapid amortization event.

It is anticipated that the principal and interest on the 2019 Variable Funding Notes will be repaid in full on or prior to August 2024, subject to two additional one-year extensions. Borrowings under the 2019 Variable Funding Notes bear interest at a rate equal to a LIBOR rate plus 1.50%, or the lenders' commercial paper funding rate plus 1.50%. If the 2019 Variable Funding Notes are not repaid prior to August 2024 or prior to the end of the extension period, if applicable, incremental interest will accrue. In addition, the Company is required to pay a 1.50% fee for letters of credit amounts outstanding and a commitment fee on the unused portion of the 2019 Variable Funding Notes which ranges from 0.50% to 1.00% based on utilization.

In order to assess our current debt levels, including servicing our long-term debt, and our ability to take on additional borrowings, we monitor a leverage ratio of our long-term debt, net of cash (“Net Debt”), to adjusted earnings before interest, taxes, depreciation, and amortization (“Adjusted EBITDA”). This leverage ratio, and the related Net Debt and Adjusted EBITDA measures used to compute it, are non-GAAP measures, and our use of the terms Net Debt and Adjusted EBITDA may vary from other companies, including those in our industry, due to the potential inconsistencies in the method of calculation and differences due to items subject to interpretation. Net Debt reflects the gross principal amount outstanding under our securitized financing facility, notes payable, and finance lease obligations, less short-term cash, cash equivalents, and restricted cash, excluding cash reserved for gift card/certificate programs. Adjusted EBITDA is defined in our securitized financing facility as net income before interest, taxes, depreciation and amortization, and impairment charges, as adjusted for certain items that are summarized in the table below. Net Debt should not be considered as an alternative to debt, total liabilities, or any other obligations derived in accordance with GAAP. Adjusted EBITDA should not be considered as an alternative to net income, operating income, or any other performance measures derived in accordance with GAAP, as a measure of operating performance, or as an alternative to cash flows as a measure of liquidity. Net Debt, Adjusted EBITDA, and the related leverage ratio have important limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. However, we believe that presenting Net Debt, Adjusted EBITDA, and the related leverage ratio are appropriate to provide additional information to investors to demonstrate our current debt levels and ability to take on additional borrowings.

As of September 28, 2019, we had a Net Debt to Adjusted EBITDA ratio of 5.0 to 1.0. The following is a reconciliation of our Net Debt and Adjusted EBITDA to the corresponding GAAP measures as of and for the twelve months ended September 28, 2019, respectively (in thousands):

	<b>September 28, 2019</b>
Principal outstanding under 2017 Class A-2 Notes	\$ 1,375,500
Principal outstanding under 2019 Class A-2 Notes	1,695,750
Other notes payable	1,288
Total finance lease obligations	7,823
Less: cash and cash equivalents	(523,374)
Less: restricted cash, current	(93,868)
Plus: cash held for gift card/certificate programs	138,906
Net Debt	<u>\$ 2,602,025</u>
	<b>Twelve months ended</b>
	<b>September 28, 2019</b>
Net income	\$ 237,499
Interest expense	128,559
Income tax expense	72,119
Depreciation and amortization <sup>(a)</sup>	37,812
Impairment charges	800
EBITDA	<u>476,789</u>
Adjustments:	
Share-based compensation expense <sup>(a)</sup>	13,693
Loss on debt extinguishment	13,076
Increase in deferred revenue related to franchise and licensing agreements <sup>(b)</sup>	(1,304)
Other <sup>(c)</sup>	22,221
Total adjustments	<u>47,686</u>
Adjusted EBITDA	<u>\$ 524,475</u>

(a) Amounts exclude depreciation and share-based compensation of \$5.1 million and \$1.4 million, respectively, related to U.S. Advertising Funds.

(b) Amount excludes incentives paid to franchisees, primarily related to the Dunkin' U.S. Blueprint for Growth.

(c) Represents costs and fees associated with various franchisee-related investments, including investments in the Dunkin' U.S. Blueprint for Growth, bank fees, legal reserves, and other non-cash gains and losses.

Based upon our current level of operations and anticipated growth, we believe that the cash generated from our operations and amounts available under our 2019 Variable Funding Notes will be adequate to meet our anticipated debt service requirements, capital expenditures, and working capital needs for at least the next twelve months. We believe that we will be able to meet these obligations even if we experience no growth in sales or profits. There can be no assurance, however, that our business will generate sufficient cash flows from operations or that future borrowings will be available under our 2019 Variable Funding Notes or otherwise to enable us to service our indebtedness, including our securitized financing facility, or to make anticipated capital expenditures. Our future operating performance and our ability to service, extend, or refinance the securitized financing facility will be subject to future economic conditions and to financial, business, and other factors, many of which are beyond our control.

### Recently Issued Accounting Standards

See [note 2\(f\)](#) and [note 12](#) to the unaudited consolidated financial statements included in Item 1 of Part I of this Form 10-Q, for a detailed description of recent accounting pronouncements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the foreign exchange or interest rate risks discussed in Part II, Item 7A "Quantitative and Qualitative Disclosures about Market Risk" included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2018.

**Item 4. Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 28, 2019. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 28, 2019, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

During the nine-month period ended September 28, 2019, we adopted new guidance for lease accounting. We implemented internal controls to ensure we adequately evaluated leasing arrangements and properly assessed the impact of the new guidance to facilitate the adoption. Additionally, we implemented new business processes, internal controls, and modified information technology systems to assist in the ongoing application of the new guidance.

**Part II. Other Information****Item 1. Legal Proceedings**

We are engaged in several matters of litigation arising in the ordinary course of our business as a franchisor. Such matters include disputes related to compliance with the terms of franchise and development agreements, including claims or threats of claims of breach of contract, negligence, and other alleged violations by us.

**Item 1A. Risk Factors.**

There have been no material changes from the risk factors disclosed in Part I, Item 1A “Risk Factors” included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2018.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table contains information regarding purchases of our common stock made during the quarter ended September 28, 2019 by or on behalf of Dunkin’ Brands Group, Inc. or any “affiliated purchaser,” as defined by Rule 10b-18(a)(3) of the Securities Exchange Act of 1934:

Period	Issuer Purchases of Equity Securities			Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs <sup>(1)</sup>
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	
06/30/19 - 07/27/19	—	\$ —	—	\$ 209,868,900
07/28/19 - 08/31/19	180,021	81.51	180,021	195,195,400
09/01/19 - 09/28/19	—	—	—	195,195,400
<b>Total</b>	<b>180,021</b>	<b>\$ 81.51</b>	<b>180,021</b>	

- (1) On May 16, 2018, our board of directors authorized a new share repurchase program for up to an aggregate of \$250.0 million of our outstanding common stock. This repurchase authorization is valid for a period of two years. Under the program, purchases may be made in the open market or in privately negotiated transactions from time to time subject to market conditions.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) Exhibits:

- [31.1](#) [Principal Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [31.2](#) [Principal Financial Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [32.1](#) [Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- [32.2](#) [Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

Ex. 101.INS XBRL Instance Document - the instant document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

Ex. 101.SCH Inline XBRL Taxonomy Extension Schema Document

Ex. 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document

Ex. 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document

Ex. 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document

Ex. 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document

Ex. 104.Cover Page Interactive Data File (embedded within the Inline XBRL document)

**SIGNATURES**

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

**DUNKIN' BRANDS GROUP, INC.**

Date: November 6, 2019

By:

/s/ Katherine Jaspon

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Katherine Jaspon  
Chief Financial Officer  
Principal Financial and Accounting Officer

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER, DUNKIN' BRANDS GROUP, INC.

I, David Hoffmann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dunkin' Brands Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 6, 2019

Date

/s/ David Hoffmann

David Hoffmann  
Chief Executive Officer

## CERTIFICATION OF CHIEF FINANCIAL OFFICER, DUNKIN' BRANDS GROUP, INC.

I, Katherine Jaspon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dunkin' Brands Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 6, 2019

Date

/s/ Katherine Jaspon

Katherine Jaspon  
Chief Financial Officer



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Dunkin' Brands Group, Inc. (the "Company") on Form 10-Q for the period ended September 28, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, David Hoffmann, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David Hoffmann

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David Hoffmann  
Chief Executive Officer

Dated: November 6, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Dunkin' Brands Group, Inc. and will be retained by Dunkin' Brands Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Dunkin' Brands Group, Inc. (the "Company") on Form 10-Q for the period ended September 28, 2019, as filed with the Securities and Exchange Commission (the "Report"), I, Katherine Jaspon, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Katherine Jaspon

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Katherine Jaspon  
Chief Financial Officer

Dated: November 6, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Dunkin' Brands Group, Inc. and will be retained by Dunkin' Brands Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.