



# STAYING TRUE

*results • growth • innovation • culture*

APPLEBEE'S INTERNATIONAL, INC. 2004 Annual Report & Form 10-K

## SELECTED FINANCIAL DATA

The following table sets forth for the periods and the dates indicated our selected financial data. The fiscal year ended December 31, 2000 contained 53 weeks, and all other periods presented contained 52 weeks. The following should be read in conjunction with the Consolidated Financial Statements and Notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” presented in our Form 10-K.

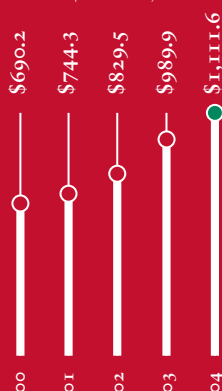
*in thousands, except per share amounts*

	Fiscal Year Ended				
	Dec. 26, 2004	Dec. 28, 2003 <sup>(1)</sup>	Dec. 29, 2002 <sup>(1)</sup>	Dec. 30, 2001 <sup>(1)(2)</sup>	Dec. 31, 2000 <sup>(1)(2)</sup>
<b>Statement of Earnings Data:</b>					
Company restaurant sales	\$ 976,798	\$ 867,158	\$ 724,616	\$ 651,119	\$ 605,414
Franchise royalties and fees	121,221	109,604	102,180	93,225	84,738
Other franchise income	13,615	13,147	2,688	—	—
<b>Total operating revenues</b>	<b>\$1,111,634</b>	<b>\$ 989,909</b>	<b>\$ 829,484</b>	<b>\$ 744,344</b>	<b>\$ 690,152</b>
Operating earnings	\$ 165,280	\$ 152,677	\$ 126,590	\$ 110,681	\$ 106,984
Net earnings	\$ 110,865	\$ 94,349	\$ 80,527	\$ 63,298	\$ 63,020
Basic net earnings per share	\$ 1.36	\$ 1.14	\$ 0.97	\$ 0.76	\$ 0.71
Diluted net earnings per share	\$ 1.33	\$ 1.10	\$ 0.94	\$ 0.74	\$ 0.71
Dividends declared per share	\$ 0.06	\$ 0.05	\$ 0.04	\$ 0.04	\$ 0.03
Basic weighted average shares outstanding	81,528	82,944	83,407	83,268	88,261
Diluted weighted average shares outstanding	83,600	85,409	85,382	85,316	88,755
<b>Balance Sheet Data (at end of fiscal year):</b>					
Total assets	\$ 754,431	\$ 651,078	\$ 573,647	\$ 506,036	\$ 475,932
Long-term debt, including current portion	\$ 35,694	\$ 20,862	\$ 52,563	\$ 74,568	\$ 91,355
Stockholders’ equity	\$ 496,727	\$ 453,143	\$ 385,201	\$ 320,303	\$ 277,941

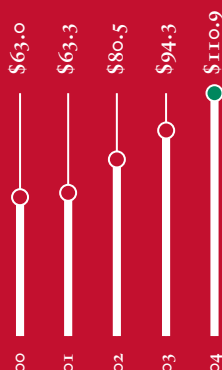
<sup>(1)</sup> Fiscal years 2003 and 2002 have been restated from amounts previously reported to reflect certain adjustments as discussed in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Restatement of Financial Statements” and Note 22 to the consolidated financial statements. Conforming adjustments have been made to previously audited fiscal year 2001 and 2000 selected financial data. Total assets and stockholders’ equity as of the beginning of fiscal year 2000 reflect a cumulative impact of \$3,736,000 and \$3,636,000, respectively, resulting from the restatement.

<sup>(2)</sup> Beginning in 2002, we ceased amortization of goodwill in accordance with Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangibles.”

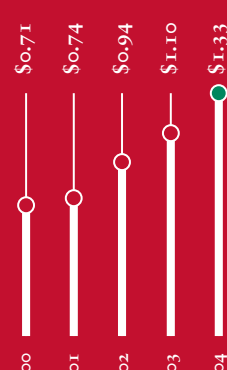
**TOTAL OPERATING REVENUES**  
(in millions)



**NET EARNINGS**  
(in millions)



**DILUTED NET EARNINGS PER SHARE**



**ABOUT THE COVER:** At Applebee’s, we truly believe that growth is not simply about building more restaurants ... but building lives and families and neighborhoods. Our vision is to create an American icon that dominates domestic markets and spans the globe.

In the midst of industry and competitive challenges, Applebee's is staying true to what we do – *building momentum* with a *singular focus* on the successful Applebee's brand and optimizing the proven growth strategies we have in place.

*Staying True*

*To Our Shareholders:*

## How You Achieve Growth Is as Important as the Growth Itself

Fiscal 2004 was a successful year for Applebee's on many fronts, although the year ended on a somewhat softer note with a slowdown in sales throughout the casual dining industry. As a result, we were disappointed to fall short of the lofty goals we had set for ourselves. That said, we expanded our market share with strong growth in system-wide sales, comparable sales and guest traffic by focusing on improving our operations and optimizing our key strategies.

Staying true to our vision, to our guiding principles and to our strategies, we continued to deliver strong results.

### *Staying True to* Our Track Record of Delivering Consistent Results

Financial measures reflect our solid performance last year in spite of a tough business climate. Total system-wide sales for Applebee's International, including both company and franchise restaurant

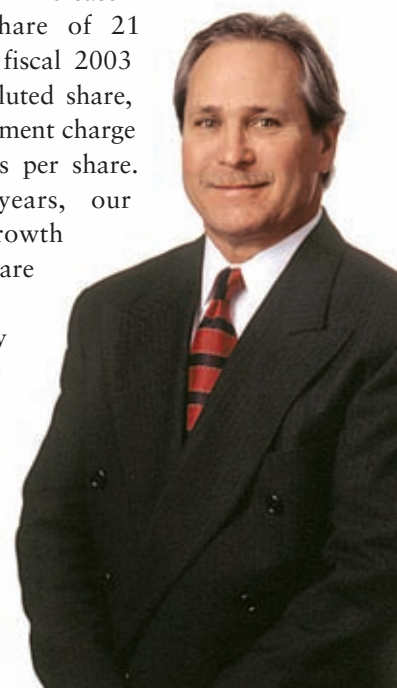
sales, rose 10.7 percent for the fiscal year ended December 26, 2004. Total sales for company restaurants grew 12.6 percent to \$976.8 million for the year, with total operating revenues increasing 12.3 percent to \$1.1 billion.

The company's net earnings for fiscal 2004 were a record \$110.9 million, or \$1.33 per diluted share. This represents an increase in diluted earnings per share of 21 percent as compared to fiscal 2003 earnings of \$1.10 per diluted share, which included an impairment charge of approximately 6 cents per share. Over the past five years, our compounded annual growth rate in earnings per share exceeds 18 percent.

Return on equity, already among the highest in the industry, exceeded 23 percent for the year.

Last year, our comparable sales and traffic

**LLOYD L. HILL**  
Chairman of the Board and  
Chief Executive Officer





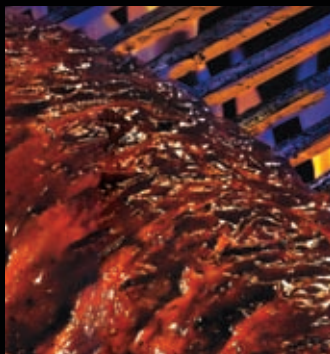
# RESULTS

*staying true to our track record of delivering consistent results*

As the biggest brand in casual dining, Applebee's is shifting greater emphasis to national advertising.

## SIZE AND SCALE

As the undisputed leader in casual dining, Applebee's seeks strategic opportunities to leverage its size and scale to improve performance. Our formidable purchasing power, for instance, enables us to cost-effectively source top-quality baby back ribs from as far away as Denmark.



## INTERNAL PROCESSES

In our pursuit of flawless execution, we use advanced technology and carefully controlled practices to improve performance in our restaurants – such as our innovative Kitchen Display System that is helping to significantly boost guest satisfaction and reduce table turn times.



STAYING TRUE TO THE SOUND, PROVEN STRATEGIES WE HAVE IN PLACE, APPLEBEE'S SEEKS CONTINUED MOMENTUM AND GROWTH BY ELEVATING OUR PERFORMANCE WITH **relentless execution.**

*Shown right:* Our overarching, long-term growth strategies are captured in the strategic wheel, which defines our promise to our guests and our associates, and our goals to help us deliver on that promise.



## Staying True

growth again substantially exceeded the casual dining industry average as measured by Knapp-Track.™ System-wide comparable sales, which compare restaurants open for at least 18 months, rose 4.8 percent in 2004 – three percentage points greater than the average for the rest of the industry and our highest annual rate of growth since 1993. Through year-end, we have achieved 26 consecutive quarters, or six and a half years, of comparable sales growth. Comparable sales at franchised restaurants increased 5.2 percent, while company restaurants posted comparable sales gains of 3.8 percent in 2004.

Guest traffic is another key barometer of success in casual dining. Traffic growth measures reach and frequency, or simply put, attracting more guests, more often. Guest traffic in our company restaurants increased 2.0 to 2.5 percent in 2004 as we also outpaced the industry average on this critical measure.

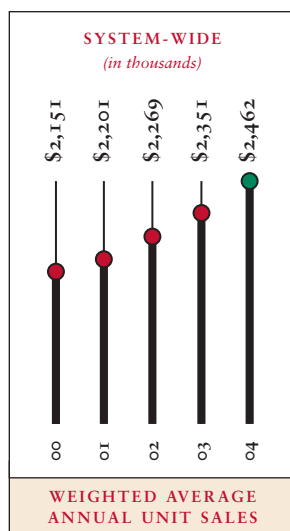
Applebee's strong balance sheet and substantial free cash flow provide the foundation and flexibility for increased company development, potential franchise acquisitions and continued stock repurchases. Our year-end debt to capitalization ratio was less than 7 percent, providing substantial borrowing capacity for our growth agenda. Cash flow from operations grew to \$191 million in 2004,

which was used to fund \$105 million of capital expenditures and the \$14 million acquisition of 10 franchise restaurants, as well as stock repurchases.

We repurchased nearly 4 million shares of our common stock during fiscal 2004 at an average price of \$24.97 for an aggregate cost of \$99.7 million. Over the last seven years, we have utilized our growing cash flow and strong balance sheet to repurchase 38 million shares totaling \$416.1 million at an average cost of less than \$11 per share.

During the year, our Board of Directors authorized additional stock repurchases of up to \$150 million beginning in 2005 and approved a written plan for repurchases of common stock in the open market in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934. This plan will allow us to repurchase shares during periods when we could not be in the marketplace because of internal blackout periods.

In May 2004, for the third time in four years, the company declared a three-for-two stock split in the form of a 50 percent stock dividend. In December, we declared an annual dividend of 6 cents per share, a 29 percent increase over the prior year's dividend of 5 cents per share (adjusted for the stock split), and the 15th consecutive annual dividend paid by the company.







OUR BELIEF IN THE UNTAPPED POTENTIAL OF THE APPLEBEE'S CONCEPT IS STRONGER THAN EVER WITH THE DOMESTIC DEVELOPMENT POTENTIAL NOW ESTIMATED TO BE AT LEAST **3,000 restaurants.**

*Shown left: Applebee's development momentum continues with at least 125 new restaurants expected to open in 2005, which will mark the 13th consecutive year of opening at least 100 units.*

*Staying True*

## *Staying True to* **Our Growth Strategies**

As we pursue continuing growth and maintaining our momentum, we are focused on two interrelated goals: superior restaurant execution and noticeably better people. We have sound, proven strategies in place, and we plan to stay the course – elevating our performance with the right people and relentless execution of our long-term strategies which are designed to clearly differentiate Applebee's, win customer preference and broaden the gap versus our competitors.

### *Strategic Wheel*

Achieving consistent results requires that we stay true to the sound strategies we have in place. First introduced in 2001 and since enhanced, our overarching strategies are captured in our strategic wheel – six focused strategies that are backed by specific initiatives and actions, and directed toward aggressive goals. Best Menu Choice, Best Service and Best Value represent our promise to our guests; Reduce Variability, Leverage Scale and Increase Unit Advantage represent the keys to helping us deliver on that promise.

### *Favorable Industry Trends*

Current industry and demographic trends support our expectations for continued, steady growth. According to the National Restaurant Association,

industry sales will experience the 14th consecutive year of real growth in 2005. Total industry sales are expected to increase 4.9 percent and reach a record \$476 billion, as American consumers spend nearly 47 percent of their food dollar away from home.

Through 2008, the casual dining category is expected to grow 5.7 percent annually, with the "varied menu" segment that includes Applebee's growing at a healthy 6.0 percent.

### *Continued Unit Growth*

At year-end, the Applebee's system had grown to 1,671 restaurants in 49 states and 12 foreign countries. Last year, we opened 109 restaurants, including 32 company and 77 franchised units – marking the 12th consecutive year in which we opened at least 100 new units. This track record of development, unprecedented in the casual dining industry, extends from 250 restaurants at the end of 1992 to approaching 1,700 currently. We expect to keep this record going with at least 125 new restaurants planned for 2005, including a minimum of 40 company units and 85 franchise units.

Based on our continued success in penetrating markets of various sizes, overall category growth and future consumer demand, we now believe the domestic potential of the Applebee's system to be at least 3,000 restaurants – a 30 percent increase over the potential we believed existed just a couple of years ago.

In addition, we believe there is the long-term potential for at least 1,000 restaurants internationally. At year-end, we had 58 restaurants operating

# GROWTH

*staying true to our growth strategies*



Applebee's popular Carside To Go™ initiative continues to win fans and has emerged as the fastest-growing area of our business.

## UPDATED EXTERIOR

Our attractive, new restaurant prototype features an updated, contemporary exterior that still retains the warm, welcoming appeal that has earned the loyalty of millions of guests and made Applebee's the undisputed leader in casual dining.



## GRILL AND BAR

Many guests find Applebee's is a great place to enjoy an alcoholic beverage with their meal or at the bar. Our two largest sellers are beer and our signature Perfect Margarita™, the best margarita this side of the border. During 2004, alcoholic beverages accounted for 12.3 percent of company sales.







WITH CONSISTENT RESULTS DRIVEN BY OUR UNIQUE BUSINESS MODEL, APPLEBEE'S HAS ACHIEVED SALES AND EARNINGS INCREASES FOR **15 consecutive years** SINCE BECOMING A PUBLIC COMPANY IN 1989.

*Shown left:* Our unwavering dedication to great food and fun times appeals to guests of every age and helps drive consistent growth year after year.

## *Staying True*

outside of the United States, concentrated in Canada, Latin America and the Mediterranean/Middle East.

### *Franchise Business Model*

Our business model is unique in casual dining, relying on a predominant balance of franchise operations. At year-end, 48 domestic franchise groups operated a total of 1,189 restaurants, averaging 25 units per group. Additionally, 22 international franchise groups were operating 58 restaurants outside of the United States. This franchise strategy gives Applebee's an annuity stream of highly profitable franchise income, a base for rapid system expansion and heightened brand awareness, and significant buying power and economies of scale.

Our model focuses on multi-unit operators with similar values and financial strength. Five Applebee's franchisees rank among the top 25 restaurant franchisees in the country according to *Restaurant Finance Monitor 200*, a ranking based on annual revenues.

### *Franchise Acquisitions*

In conjunction with our aggressive development plans, we continually evaluate and manage our mix of company and franchise restaurants throughout the system. Using our strong balance sheet and free cash flow, we continue to acquire franchise operations

that offer growth potential together with geographic and operational synergies. At year-end, company-owned operations represented 25 percent of our system, and we anticipate that this mix could shift to as much as one-third company and two-thirds franchised as we acquire additional operations over the next three to five years.

In 2004, we completed the acquisition of 10 Applebee's restaurants in southern California for \$13.8 million. While addressing our ongoing growth strategy, this acquisition also supports our long-term effort to more aggressively penetrate the southern California market using a combination of both company and franchise resources.

### *Leveraging Our Size and Scale*

Growth is about more than just getting bigger, it's about getting better. For us, that translates into executing consistently at a high level and using our industry-leading scale to build greater consumer awareness and to drive increased sales and repeat visits.

Measured by system-wide sales, Applebee's ranks as the ninth largest restaurant chain in America, according to *Nation's Restaurant News*. Within the casual dining segment, we hold the No. 1 position in number of units, sales and market share. Within the full-service, varied menu segment, we continue to achieve steady gains in market share, climbing from 10.0 percent in 2000 to 11.2 percent at year-end 2003 according to the most recent data available



OUR WEIGHT WATCHERS® MENU, COMBINING HEALTHIER CHOICES WITH THE ROBUST FLAVOR GUESTS HAVE COME TO EXPECT FROM APPLEBEE'S, IS **broadening our appeal** TO NEW CUSTOMERS.

*Shown right:* The flavor-packed Tango Chicken Sandwich is among the latest additions to our Weight Watchers® menu line-up of appetizers, entrees and desserts.



## Staying True

from Technomic. As the largest brand in casual dining, we have a unique opportunity to leverage our brand, system size and scale to fuel future growth.

### Increased National Advertising

The casual dining category has entered an era of big brands capable of using national media to boost consumer awareness and preference and to gain market share. Recognizing this opportunity, beginning in 2005 we are shifting our emphasis to greater levels of national versus local advertising. In support of this strategy, we are increasing the required contribution to the national advertising fund by 0.5 percent to 2.75 percent of sales for both company and franchise restaurants. At the same time, the amount required to be spent locally will decrease by 0.5 percent to 1.0 percent of sales. For 2005, we expect the system-wide marketing spend to approximate \$165 million, with \$121 million directed to national advertising and \$44 million toward local marketing efforts.

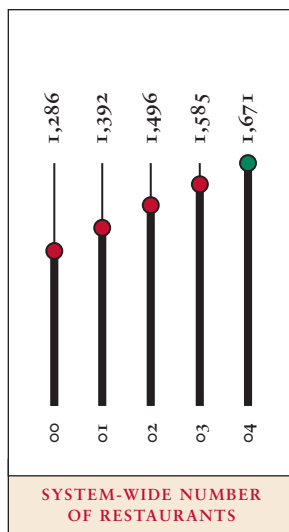
The resulting increase of more than 30 percent in our national advertising budget will enable us to convey sustained multiple messages to our guests, including our branded campaign events, Carside To Go™, our partnership with Weight Watchers® and

our neighborhood branding messages. Targeted programming will deliver the right message to the right audience through the right medium – using print, radio and television, including network, cable or syndication.

### Singular Focus on One Brand

Our momentum and marketplace success in recent years is a direct result of our singular focus on one brand. Based on our belief in the untapped potential of the Applebee's brand, we remain convinced and more confident than ever that we do not need another brand to meet our growth targets over the next three to five years. Our review of numerous transactions in the restaurant industry indicates that acquisitions of other concepts have not created much value for shareholders, and in many cases, have eroded value and diverted management's attention from their core business.

While we have no interest in a big acquisition, we will remain opportunistic – but extremely selective – about making a potential acquisition. We are determined to make sure our strategy of maximizing the core Applebee's business is not compromised by any new growth initiative.





TECHNOLOGY INNOVATION GIVES APPLEBEE'S A  
**competitive advantage** IN THE  
 MARKETPLACE BY DIFFERENTIATING OUR BRAND  
 AND RESTAURANTS WITH CONSUMERS.

*Shown left: A wireless credit card settlement device is enhancing the overall convenience of our Carside To Go™ program by enabling servers to handle transactions right at the vehicle.*

*Staying True*

## *Staying True to* Our Commitment to Innovate

Applebee's deep commitment to innovation extends from our concept, menu and promotions geared to gaining a loyal customer base, to innovative internal systems and practices designed to save money and increase effectiveness.

### *Focus on Technology*

Technology innovation is an integral ingredient of our business strategy and critical to restaurant performance and financial improvement. Our internal information technology strategy is centered on a comprehensive suite of integrated products designed to enhance the operational performance and execution in our restaurants, to improve the overall guest experience and to drive tangible financial benefits.

### *Kitchen Display System*

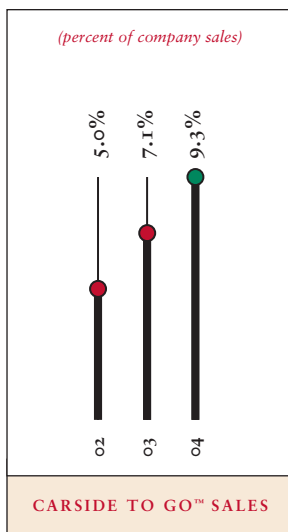
After being fully implemented in our company restaurants during 2003, our Kitchen Display System (KDS) had been installed in more than three-fourths

of our system as of year-end. This innovation has proved to be an invaluable kitchen management tool that translates into improved revenue from increased guest satisfaction and reduced table turn times.

### *Carside To Go™*

Our Carside To Go initiative continues to gain momentum in the marketplace, with the percentage of company sales rising to 9.3 percent for the year, up from 7.1 percent in 2003. Throughout 2004, our franchisees continued to implement the program, and we expect Carside To Go to be a continued driver of sales and traffic growth as we leverage our marketing muscle behind this effort with the introduction of national advertising in 2005. By year-end, we had completed the conversion to Carside To Go at nearly 1,400 restaurants and completed implementation for substantially all of the system in the first quarter of 2005.

Going forward, we are continuing to focus on execution. In addition, we will use technology innovation as a competitive advantage to clearly differentiate Applebee's with consumers – such as our new wireless credit card settlement device in conjunction with our Carside To Go initiative. This handheld electronic device enhances the overall convenience of curbside pickup by enabling servers





# INNOVATION

*staying true to our commitment to innovate*



Innovation at Applebee's is perhaps most apparent in our palate-pleasing menu that features flavorful choices to match every taste and appetite.

## REFRESHING THE BRAND

Since first originated 25 years ago, the Applebee's concept has been continually refined and refreshed to keep it exciting and inviting. Our latest restaurant prototype blends a contemporary new look with interior and exterior enhancements to attract guests and keep them coming back.



## UPGRADING OUR MENU

As a result of our emphasis on continually upgrading Applebee's core menu for greater variety and flavor, quality and portion size, more than 85 percent of the menu is new or improved over the past three years.





REACHING MILLIONS OF LOYAL, LONG-TIME GUESTS  
AND ATTRACTING NEW, FIRST-TIME VISITORS, WE USE A  
**broad array** OF PRINT, BROADCAST AND  
ELECTRONIC MEDIA TO BUILD THE APPLEBEE'S BRAND.

*Shown left:* Our newly redesigned website enables visitors to view our menu, locate the nearest restaurant, order gift cards online, learn all about Carside To Go™ and much more.

## Staying True

to handle credit card payments at the vehicle without going back inside. Once current testing in approximately 160 company restaurants is completed, we have the capacity to roll out the device to over 400 units per month.

In our high-volume Carside To Go units, we also are adding an incremental kitchen monitor so that Carside To Go orders are not confused with dine-in orders.

### Continually Evolving Menu Choices

Together with our other brand attributes, the appeal of Applebee's centers on food. Our focus is to continually upgrade our core menu for improved variety, flavor, quality and portion size. As a result of this emphasis, more than 85 percent of our menu is new or improved over the last three years.

As a testament to this, Kurt Hankins, senior vice president of menu development and innovation, was selected to receive the MenuMasters Chef/Innovator Award in 2005 from *Nation's Restaurant News*.

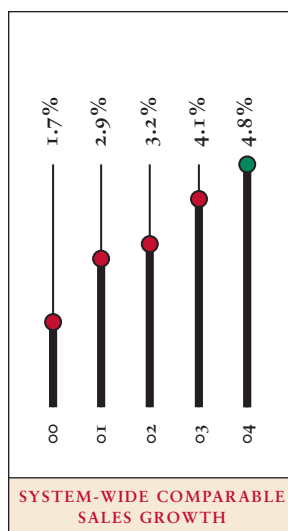
In mid-2003, Applebee's made a commitment to improve our healthy offerings by partnering with the universally recognized, premier brand in weight-loss management – Weight Watchers International, Inc. As a result, we developed more healthful alternative menu choices that were extensively tested in select

markets across the country and launched in our restaurants nationwide in May 2004. Our Weight Watchers® menu of 10 appetizer, entree and dessert selections lists calories, fat and fiber grams, as well as Weight Watchers POINTS® values. With three out of four Americans concerned about eating right, we have found the new menu items as popular with non-Weight Watchers guests as with Weight Watchers members.

Extending our commitment to healthy eating choices and meeting parents' desire for health-conscious food options for children, we expanded our kids menu in June 2004. The new items include two main courses – a grilled chicken sandwich and pasta with marinara sauce, and three side dishes – carrots and celery, steamed broccoli and applesauce.

### Promotions

Compelling promotional campaigns throughout the year helped build consumer awareness, guest traffic and sales. Our branded campaign events featured signature promotional news that addressed both the variety seeker and the value seeker – Three Course Combos, Steak & Shrimp Double Features, Honey BBQ Baby Back Ribs, Fresh Garden Classics, All You Can Eat Riblets, Skillet Sensations and Steak Stampede.





APPLEBEE'S VISION TO BE **America's Favorite Neighbor<sup>®</sup>** COMES ALIVE IN OUR RESTAURANTS

WITH A WELCOMING, INCLUSIVE ATMOSPHERE THAT APPEALS TO ALL AGES AND DEMOGRAPHICS.

*Shown right:* Every Applebee's restaurant features a Neighborhood Wall that celebrates local life, highlighting hometown heroes and history, area schools and police and fire departments.



*Staying True*

***Continually Refreshing the Brand***

To attract more guests and increase the frequency of visits, we are continually refining the Applebee's concept to keep it fresh and appealing – from the look of our restaurants to our menu offerings and promotions, in turn strengthening our franchise model and elevating our guests' satisfaction.

The Applebee's concept, originated in 1980, features a comfortable, neighborhood atmosphere that appeals to a broad demographic range. In late 2003, we unveiled our new Applebee's restaurant prototype featuring an array of interior and exterior enhancements. This contemporary new look is being integrated into both new store construction and remodels throughout the system.

***Staying True to Our Culture***

At Applebee's, we have created a unique culture that truly values people at all levels of the organization, that engages their energies and enthusiasm, and that encourages their growth and development. Working together, we are intent on building a great company that becomes part of the American culture.

***Strengthened Leadership Team***

In recent years, we have been relentless in our pursuit of the most disciplined, service-oriented and

results-driven professionals in our industry. With key leadership appointments in 2004, Applebee's today is rich with internal talent and depth – bench strength that allows us to promote internally for key leadership positions. In conjunction with our core component of noticeably better people, we remain focused on developing our associates and producing great leaders to achieve industry-leading results.

Our strong and skilled senior executive team, with proven capabilities across diverse disciplines, is sharply focused on executing our strategies and extending our industry leadership. This leadership team consists of Dave Goebel, Steve Lumpkin, John Cywinski, Lou Kaucic and myself.

Dave Goebel, who most recently served as executive vice president and chief operating officer, was named president of the company effective January 1, 2005, and continues to serve as chief operating officer.

During the year, Steve Lumpkin, executive vice president, chief financial officer and treasurer, assumed responsibility for international development and operations in addition to all finance functions, information technology, legal and investor relations. He also was elected to the Board of Directors in 2004.

John Cywinski was promoted to executive vice president and chief marketing officer at the beginning of the year with responsibility for the company's advertising, marketing, brand initiatives, and menu development and innovation.

Lou Kaucic, executive vice president and chief people officer, continues to lead our human resources effort, including employment, compensation and

# CULTURE

*staying true to our culture*

Managers, trainers and experienced associates join forces to pass on the Applebee's culture to new associates.

## **BIG FUN TRIP**

The whimsical acronym BIG Fun TRIP captures the essence of the Applebee's culture and summarizes our shared values and guiding principles – Balance, Innovation, Guest-driven, Fun, Teamwork, Results-driven, Integrity and Passion for service.



## **BUILDING LEADERS**

Our long-range domestic development goal will require more than 5,000 new managers in our restaurants. We have developed industry-leading processes and programs to both attract capable individuals to our system and to identify exceptional associates and groom them into leaders.





ACHIEVING OUR LONG-TERM GROWTH STRATEGIES  
DEMANDS **noticeably better people**, AND OUR  
CAREFULLY CREATED CULTURE ENGAGES OUR ASSOCIATES'  
ENERGIES AND ENCOURAGES THEIR DEVELOPMENT.

*Shown right:* Our successful people approach begins with selecting individuals with a passion for service, and then treating them as people first and as employees second.



### *Staying True*

benefits, training and performance management, and organizational and executive development.

In addition to this strong leadership team, our Board of Directors was strengthened in May with the election of Michael A. Volkema, chairman of the board of Herman Miller, Inc.

Our culture and values set us apart from most companies. We are extremely proud of the corporate governance rating we received in May from Institutional Shareholder Services. Applebee's outperformed 96 percent of the companies in the S&P 400 and 99 percent of the companies in the Hotels, Restaurants & Leisure group.

#### **Key Management Appointments**

Key additions to and advancements among our officer group further strengthen our management team and provide a foundation for long-term leadership.

Carin Stutz, who most recently served as senior vice president of company operations, was promoted to executive vice president of operations effective January 1, 2005, overseeing all U.S. company and franchise restaurants.

Rohan St. George joined the company as president of the International Division in November, and will lead our efforts to expand our brand presence around the world.

Mike Czinege joined the company in April in the newly created position of senior vice president and chief information officer, and Miguel Fernandez was promoted to senior vice president of company operations

effective January 1, 2005. Carol DiRaimo was promoted to vice president of investor relations last February, and effective January 1, 2005, Tom Finocchiaro was promoted to vice president of operations excellence.

#### **Noticeably Better People**

At Applebee's, we recognize that achieving our goals and delivering on our strategies require superior execution. The need for exceptional people will become even more vital in the near future as Baby Boomers begin to retire, leaving a gaping hole in the workforce. A shortage of 1.5 million restaurant workers in the near future, projected by the National Restaurant Association, may provide a significant challenge to our plans for system growth.

To develop 3,000 domestic restaurants, over 1,300 more than today, we will need nearly 100,000 more associates, including more than 5,000 new managers. Near-term and long-term, we need to attract and retain more – and better – associates who are fully engaged and committed to superior execution.

#### **People Philosophy**

Noticeably better people demand a noticeably better people philosophy and personnel systems. Our formula for people success begins with a balanced, seemingly contradictory, philosophy – a performance-driven culture geared to results in which we treat our associates as people first and as employees second.



WITH THREE-FOURTHS OF AMERICANS TODAY  
CONCERNED ABOUT EATING RIGHT, OUR PIONEERING  
COLLABORATION WITH WEIGHT WATCHERS® IS GIVING  
OUR GUESTS **healthful menu** ALTERNATIVES.

*Shown left: Dusting with powdered sugar and drizzled with raspberry sauce, the Weight Watchers® Chocolate Raspberry Layer Cake can be described as a tour de scrumptious.*

## Staying True

Applebee's has developed one of the industry's most creative selection, orientation, training and retention processes. Our efforts to reduce turnover in an industry marked by heavy turnover are delivering results – with turnover among hourly employees dropping from 146 percent in 2000 to 84 percent at the end of 2004, while turnover among general managers fell from 20 percent to 10 percent over the same period. These efforts utilized a process focused on retaining our top performers.

At the very heart of our culture is an approach to people centered around BIG Fun TRIP, an acronym that summarizes our values and guiding principles — Balance, Innovation, Guest-driven, Fun, Teamwork, Results-driven, Integrity and Passion for service.

### Service

We use a number of measures to gauge our guests' experience and identify areas for improvement. Based on our dine-in customer service index, or CSI, that gathered input from over half a million guests last year, our overall satisfaction rating exceeded 50 percent for the first time – meaning that over half of our guests responded with the top rating of “extremely satisfied” with their dining experience on a seven-point scale.

We also conduct over 1,000 telephone interviews monthly to qualitatively and quantitatively measure

our guests' experiences against our casual dining competitors. For 2004, we led our grill and bar competitors on all 19 measures and led our casual dining competitors on 9 of 19 measures, with our strongest results on food, service, value and intent to visit.

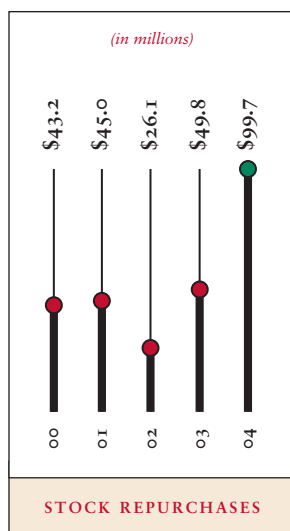
### Neighborhood Positioning

Our mission and our intention is to become part of the American culture – or what has been termed the “third place” following work and home. We are committed to making the concept of neighborhood come alive in our restaurants – creating a social oasis for our guests and reinforcing our vision to become both America's and eventually the world's favorite neighbor.

Our neighborhood appeal clearly addresses demographic trends. Today's lifestyles demand greater convenience in our time-starved world, and cooking increasingly is becoming a lost art. As a result, people are seeking a substitute

for the family dinner table, and Applebee's is right there in the neighborhood to answer this need.

Reflecting our connection with neighborhood, each Applebee's restaurant celebrates its local neighborhood by displaying photos and memorabilia highlighting hometown heroes and history, area schools, local police and fire departments.





STAYING TRUE TO THE SPIRIT OF APPLEBEE'S, WE ARE  
WORKING TOGETHER TO CREATE AN AMERICAN ICON  
THAT **dominates domestic markets**  
AND EVENTUALLY SPANS THE GLOBE.

*Shown right:* Every day in our restaurants, our associates take individual responsibility to make sure our guests have an enjoyable experience and make them want to come back.



*Staying True*

## *Staying True to* **Applebee's Future**

If fiscal 2004 proved anything, it was that Applebee's is not immune from the forces and factors that affect our economy and impact our segment. Yet when challenges emerge, we are determined not to give in to a knee-jerk reaction based on short-term results. We remain convinced that our company is positioned more favorably than most of our competitors, and our focus continues to be on improving our execution, delivering consistent results and staying nimble in an uncertain environment.

Staying true to our clearly articulated strategies, maintaining our discipline as a returns-focused company and leveraging the power of the Applebee's brand, our goals over the next three to five years include system-wide sales growth of between 7 and 8 percent annually and system-wide comparable sales increases of 3 to 4 percent each year. The combination of restaurant operating margin and general and administrative expense leverage, stock repurchase activity and the impact of potential franchise acquisitions are expected to contribute 4 to 5 percent to annual diluted earnings per share

growth. As a result, diluted earnings per share are expected to increase annually by 14 to 17 percent for the next three to five years. We are also committed to maintaining a return on equity of at least 20 percent.

Staying true to our vision for the future of Applebee's is about more than building restaurants ... it's about building lives, families and communities. If we are successful, we will create an American icon that dominates domestic markets and spans the globe. We continually work to make sure that we deserve to be called America's Favorite Neighbor® and remain committed to building one of the world's greatest brands.

Lloyd L. Hill  
Chairman of the Board and  
Chief Executive Officer

March 2005

## OFFICERS

### Lloyd L. Hill

Chairman of the Board and  
Chief Executive Officer

### David L. Goebel

President and  
Chief Operating Officer

### Steven K. Lumpkin

Executive Vice President,  
Chief Financial Officer and Treasurer

### John C. Cywinski

Executive Vice President  
and Chief Marketing Officer

### Louis A. Kaucic

Executive Vice President  
and Chief People Officer

### Carin L. Stutz

Executive Vice President of Operations

### Rohan St. George

President of International Division

### Philip R. Crimmins

Senior Vice President of Development

### Michael Czinege

Senior Vice President and Chief  
Information Officer

### Miguel A. Fernandez

Senior Vice President of Company  
Operations

### Kurt Hankins

Senior Vice President of Menu  
Development and Innovation

### David R. Parsley

Senior Vice President of  
Supply Chain Management

### Nancy E. Culbertson

Vice President of Marketing Services

### Randolph P. Davis

Vice President of Brand Development  
and Innovation

### Carol A. DiRaimo

Vice President of Investor Relations

### Beverly O. Elving

Vice President and Controller

### Thomas F. Finocchiaro

Vice President of Operations Excellence

### James W. Kirkpatrick

Vice President of Real Estate  
and Construction

### Samuel M. Rothschild

Vice President of Franchise and Beverage  
Operations

### Rebecca R. Tilden

Vice President, Secretary and  
General Counsel

### Douglas D. Waltman

Vice President of Training  
and Development

### Scott W. White

Vice President of People and  
Performance Systems

## BOARD OF DIRECTORS

### Lloyd L. Hill

Chairman of the Board and  
Chief Executive Officer,  
Applebee's International, Inc.

### Erline Belton <sup>2,3</sup>

President and Founder  
of The Lyceum Group

### Douglas R. Conant <sup>2</sup>

President and Chief Executive Officer,  
Campbell Soup Company

### D. Patrick Curran <sup>1</sup>

Chairman and Chief Executive Officer,  
The Curran Companies

### Eric L. Hansen <sup>1,3</sup>

Shareholder in Holman Hansen &  
Colville, P.C., a Professional Association

### Mark S. Hansen <sup>1,2</sup>

Former Chairman and Chief Executive  
Officer, Fleming Companies, Inc.

### Jack P. Helms <sup>2,3</sup>

Principal and Shareholder in Goldsmith,  
Agio, Helms and Company

### Steven K. Lumpkin

Executive Vice President,  
Chief Financial Officer and Treasurer,  
Applebee's International, Inc.

### Burton M. Sack <sup>3</sup>

Retired Former Executive,  
Applebee's International, Inc.

### Michael A. Volkema <sup>1</sup>

Chairman of the Board,  
Herman Miller, Inc.

Committee Memberships: <sup>1</sup> Audit, <sup>2</sup> Executive  
Compensation, <sup>3</sup> Corporate Governance/Nominating

*Pictured below from left:*

Jack P. Helms, Douglas R. Conant,  
Burton M. Sack, Eric L. Hansen, Lloyd L. Hill,  
D. Patrick Curran, Erline Belton,  
Mark S. Hansen, Steven K. Lumpkin and  
Michael A. Volkema





## CORPORATE INFORMATION

### Corporate Headquarters

4551 West 107th Street  
Overland Park, Kansas 66207  
(913) 967-4000  
Fax: (913) 341-1694

### Independent Registered Public Accounting Firm

Deloitte & Touche LLP  
1010 Grand Boulevard, Suite 400  
Kansas City, Missouri 64106

### Financial Community Information

Inquiries from institutional investors, financial analysts, registered representatives, portfolio managers and individual shareholders should be directed to: Investor Relations Department at Applebee's corporate headquarters, as listed above, (913) 967-4000, Fax: (913) 341-4970. Information may also be obtained by visiting our website at [www.applebees.com](http://www.applebees.com).

### Registrar and Transfer Agent

Wells Fargo Bank, N.A.  
Shareowner Services  
161 North Concord Exchange  
South St. Paul, Minnesota 55075-1139  
Phone: (800) 468-9716

### Annual Meeting

Shareholders are cordially invited to attend the 2005 Annual Meeting of Stockholders which will be held at 10:00 a.m., CDT, on May 12, 2005, at the Overland Park Marriott Hotel, 10800 Metcalf Avenue, Overland Park, Kansas 66210.

Management urges all shareholders to vote their proxies and thus participate in the decisions that will be made at this meeting.

## CORPORATE PROFILE

Applebee's International, Inc., headquartered in Overland Park, Kansas, develops, franchises and operates casual dining restaurants in 49 states and 12 international countries under the Applebee's Neighborhood Grill & Bar brand.

Each Applebee's Neighborhood Grill & Bar is designed as an attractive, friendly, neighborhood establishment featuring moderately priced, high-quality food and beverage items, table service and a comfortable atmosphere that appeals to all ages.

Applebee's Neighborhood Grill & Bar is the largest casual dining concept in America, both in terms of number of restaurants and market share. At December 26, 2004, there were 1,671 Applebee's Neighborhood Grill & Bar restaurants, of which 1,247 were operated by franchisees and 424 were operated by the company.

### Dividends

The 2004 annual dividend was \$0.06 per share, paid in January 2005.

### Shareholders

There were approximately 26,500 beneficial shareholders including 1,351 shareholders of record as of December 26, 2004.

### Trademarks

The following are registered trademarks of Applebee's International, Inc.: Applebee's,® Applebee's Neighborhood Grill & Bar,® Applebee's Neighborhood Grill & Bar and Design,® and America's Favorite Neighbor.®

Weight Watchers and POINTS are the registered trademarks of Weight Watchers International, Inc.

### Forward-Looking Statements

Certain statements contained in this annual report are forward-looking and based on current expectations. There are several risks and uncertainties that could cause actual results to differ materially from those described, including but not limited to the ability of the company and its franchisees to open and operate additional restaurants profitably, the continued growth of its franchisees and its ability to attract and retain qualified franchisees, the impact of intense competition in the casual dining segment of the restaurant industry and its ability to control restaurant operating costs which are impacted by market changes, minimum wage and other employment laws, food costs and inflation. For additional discussion of the principal factors that could cause actual results to be materially different, the reader is referred to the company's current report on Form 8-K filed with the Securities and Exchange Commission on February 9, 2005. The company disclaims any obligation to update these forward-looking statements.

## COMMON STOCK INFORMATION

Our common stock trades on The Nasdaq Stock Market,® under the symbol APPB. The table below sets forth for the fiscal quarters indicated the reported high and low sale prices of our common stock, as reported on The Nasdaq Stock Market.

	2004		2003	
	High	Low	High	Low
First Quarter	\$28.04	\$23.80	\$18.87	\$15.39
Second Quarter	\$28.55	\$23.30	\$21.17	\$17.83
Third Quarter	\$26.72	\$22.50	\$22.31	\$19.83
Fourth Quarter	\$26.68	\$22.26	\$26.79	\$20.53

All amounts have been adjusted to reflect a three-for-two stock split effected as a 50 percent stock dividend, paid on June 15, 2004.

Ultimately, *staying true* means consistently giving our guests an enjoyable dining experience every time they visit ... something you can experience for yourself at an Applebee's in your neighborhood.



[www.applebees.com](http://www.applebees.com)  
Applebee's International, Inc.  
4551 West 107th Street  
Overland Park, Kansas 66207