

ADVANTICA
restaurant group

2001

Advantica Restaurant Group, Inc.
203 East Main Street
Spartanburg, SC 29319



2001

ANNUAL REPORT 2001



Corporate Summary

Denny's® is America's largest full-service family restaurant chain with more than 1,700 company and franchise locations. From its beginning as a single restaurant in California in 1953, Denny's has grown into the most recognized brand in family dining, serving more than one million customers each day.

Denny's is owned by Advantica Restaurant Group, Inc. (OTCBB: DINE), which also owns two regional family dining brands, Coco's® and Carrows® under the company's FRD Acquisition Co. subsidiary. Advantica is in the process of divesting these regional brands as part of its strategy to focus all corporate resources on Denny's.



Financial Summary

	Fiscal Year Ended ^(a)	
	2001	2000
(dollars in millions)		
Revenue		
Company restaurant sales	\$ 949.2	\$1,080.6
Franchised and licensed restaurant revenue	90.5	74.6
Total revenue	<u>\$1,039.7</u>	<u>\$1,155.2</u>
Operating loss	\$ (19.7)	\$ (0.3)
Total amortization and depreciation	124.3	153.6
Total impairment and restructuring charges	30.5	19.0
EBITDA ^(b)	<u>\$ 135.1</u>	<u>\$ 172.3</u>
Gains on refranchising and other net, included in EBITDA	\$ 13.3	\$ 51.2
Loss from continuing operations	(96.3)	(82.5)
Total debt	650.2	605.3
Systemwide sales:		
U.S.	\$2,227.5	\$2,163.6
International	64.1	64.1
Total systemwide sales	<u>2,291.6</u>	<u>2,227.7</u>
Systemwide number of restaurants	1,749	1,822

(a) All amounts exclude FRD Acquisition Co.

(b) EBITDA is defined as operating income (loss) before depreciation, amortization and charges for restructuring and impairment. EBITDA as defined may not be comparable to similarly titled measures reported by other companies.

CORPORATE Information

DIRECTORS

Charles F. Moran
*Chairman⁽¹⁾
Director^(1,2)
Retired; Senior Vice President,
Sears, Roebuck and Co.*

Vera K. Farris^(1,2)
*President,
The Richard Stockton College of New Jersey*

Darrell Jackson⁽²⁾
*CEO and President,
Sunrise Enterprise of Columbia, Inc.*

Nelson J. Marchioli^(1,2)
*Chief Executive Officer and President,
Advantica Restaurant Group, Inc.*

Robert E. Marks^(1,2)
*President,
Marks Ventures, Inc.*

Lloyd I. Miller, III^(1,2)
Registered Investment Advisor

Elizabeth A. Sanders^(1,2)
*Principal,
The Sanders Partnership*

Donald R. Shepherd^(1,2)
*Retired; Chairman,
Loomis, Sayles & Company, L.P.*

Raul R. Tapia
*Chairman⁽²⁾
Director⁽²⁾
Partner,
Murray, Montgomery, Tapia & O'Donnell*

(1) Director, Advantica Restaurant Group, Inc.
(2) Director, FRD Acquisition Co.
(parent company of Coco's and Carrows restaurants)

CORPORATE Officers

ADVANTICA AND DENNY'S

Nelson J. Marchioli^(1,2)
Chief Executive Officer and President

Rhonda J. Parish^(1,2)
*Executive Vice President, General Counsel and
Secretary*

Janis S. Emplit^(1,2)
Senior Vice President, Chief Information Officer

Roy C. Getz⁽²⁾
*Senior Vice President, Marketing and Product
Development*

Andrew F. Green^(1,2)
Senior Vice President and Chief Financial Officer

Linda G. Traylor^(1,2)
Senior Vice President, Human Resources

Robert M. Barrett^(1,2)
Vice President and Assistant General Counsel

Phyllis J. Calvert⁽²⁾
Vice President, Human Resources

Timothy E. Flemming^(1,2)
*Vice President, Assistant General Counsel and
Assistant Secretary*

Michael J. Jank^(1,2)
Vice President, Risk Management

Kenneth E. Jones^(1,2)
Vice President and Treasurer

Steven B. McGehee⁽²⁾
Vice President, Marketing

Ross B. Nell^(1,2)
Vice President, Tax

Kenneth R. Parson⁽²⁾
Vice President, Training

Karen F. Randall^(1,2)
Vice President, Communications

Mounir N. Sawda⁽²⁾
Vice President, Franchise and Development

Mark C. Smith^(1,2)
Vice President, Procurement and Distribution

Thomas M. Starnes⁽²⁾
*Vice President, Food Safety, Quality Assurance
and Brand Standards*

Gustave E. Gelardi⁽²⁾
Division Vice President of Operations—Division 3

Craig E. Herman⁽²⁾
Division Vice President of Operations—Division 2

Bonnie J. McFarland⁽²⁾
Division Vice President of Operations—Division 1

Samuel M. Wilensky⁽²⁾
Division Vice President of Franchise Operations

(1) Officer, Advantica Restaurant Group, Inc. ("Advantica")
(2) Officer, Denny's, Inc. ("Denny's")

SHAREHOLDER Information

CORPORATE OFFICE:
Advantica Restaurant Group, Inc.
203 East Main Street
Spartanburg, SC 29319
(864) 597-8000

INDEPENDENT AUDITORS:
Deloitte & Touche LLP
Greenville, SC

**TRANSFER AGENT FOR
COMMON STOCK AND WARRANTS:**
For information regarding change of address
or other matters concerning your shareholder
account, please contact the transfer agent
directly at:
Continental Stock Transfer & Trust Co.
17 Battery Place
New York, NY 10004
(212) 509-4000
(800) 509-5586

BOND TRUSTEES:
11¼% Senior Notes due 2008
U.S. Bank
Corporate Trust Department
P.O. Box 64111 (zip 55164-0111)
180 East Fifth Street
St. Paul, MN 55101
(800) 934-6802

12.5% FRD Senior Notes due 2004
The Bank of New York
Corporate Trust Operations
Fiscal Agencies Department
101 Barclay Street, 7 East
New York, NY 10286
(800) 548-5075

STOCK LISTING INFORMATION:
Advantica common stock and warrants are
listed on OTC Bulletin Board® under the
symbols DINE and DINEW, respectively.

FOR FINANCIAL INFORMATION:
Call (864) 597-8658, or write to:
Ken Jones, Treasurer
Advantica Restaurant Group, Inc.
203 East Main Street, P-10-10
Spartanburg, SC 29319

Investor information such as news releases,
links to SEC filings and stock quotes may also
be accessed from Advantica's corporate web
site at: www.advantica-dine.com

ANNUAL Meeting:
Wednesday, May 22, 2002
The Ritz-Carlton, Buckhead
3434 Peachtree Road
Atlanta, GA 30326

Living the *Vision*

It's a new day at Denny's as we refocus our powerful brand for future success. People count on us 24 hours a day, 7 days a week, 365 days a year. After nearly 50 years, the Denny's name has become synonymous with family dining. We are devoting our collective energies toward meeting and exceeding customer expectations, and we have launched a new vision to provide clear company direction for all employees and franchisees.

Our new vision is simple in concept, yet a great challenge for restaurants such as ours that never

close. The vision recognizes each customer has certain reasonable expectations that must always be met. These include: quality food that tastes good; friendly, attentive servers who make customers feel welcome; clean, well-maintained surroundings; and prices that represent a good value. We believe these expectations must be met every time a customer enters one of our restaurants. We invite you to read further and explore Denny's new vision, summed up in the statement: *Great Food and Great Service by Great People...Every Time!*

Great Food...

High quality, prepared fresh and served safely to each customer's satisfaction

Great Service...

Prompt, friendly, courteous and efficient

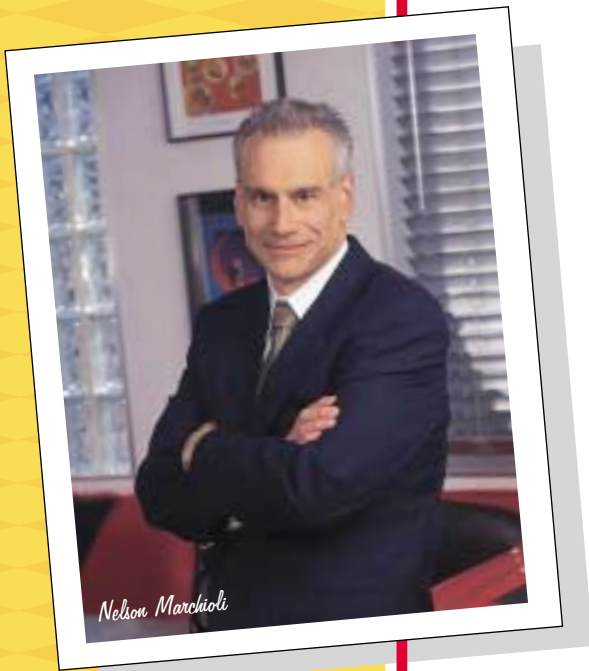
Great People...

Considerate, helpful, respectful, willing to go the extra mile

Every Time!

That's what our customers expect





“We are pleased with our progress during the past year, but realize we have far to go to achieve our goals. Denny’s emerged from 2001 a stronger, leaner company with a focus on increasing sales and profitability.”

Nelson J. Marchioli
CEO and President

To Our Shareholders:

During my first year as CEO and President of Denny’s, the management team and I have turned a critical eye toward every facet of our business. Today, we are focusing on our brand strengths as seen through the eyes of our customer.

After completing one of the most comprehensive customer segmentation studies in the company’s history, our direction has never been clearer. Customers believe Denny’s offers value; however, we fall short on the basic deliverables of our business. We must regain the food and service culture integral to Denny’s heritage and build on the key brand elements that have made Denny’s an American icon: breakfast, value, family, 24-hour service and, a “come as you are” environment.

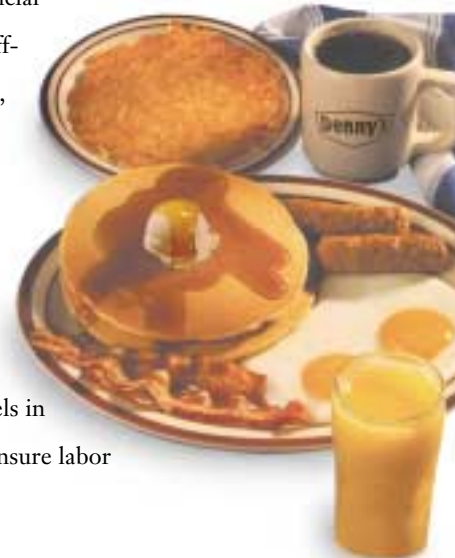
Increasing sales and customer counts remains our highest priority. During 2001, system-wide sales gained 3.0 percent to \$2.30 billion. Denny’s same-store sales rose 2.7 percent in company-owned restaurants (the fourth consecutive yearly increase), while franchised

Great Food and Great Service by Great People...

restaurant same-store sales increased 0.8 percent. Most important, our same-store guest counts at company stores increased for the first time since 1995.

We ended 2001 with 621 company-owned Denny’s restaurants and 1,128 franchised units. We have 115 fewer company-owned restaurants, due to the year’s refranchising activities and the closing of stores that failed to meet our financial standards. The decline in company restaurants was partially offset by a 42 unit increase in franchised and licensed restaurants, primarily through refranchising and new store development. While closing restaurants is difficult for our customers and employees, we will only operate units that generate an acceptable return on our investment.

Restaurant management has also accepted the challenge to improve operating margins. We have increased staffing levels in our restaurants while implementing new scheduling tools to ensure labor





productivity and efficiency. We have also implemented initiatives such as reducing food costs through waste controls, minimizing overtime, and improving cash controls. At the corporate level, we streamlined our administrative support services to reduce general and administrative expenses.

During the year, we reinvested significantly in our company-owned restaurant facilities to bring them up to Denny's high standards and provide a comfortable, friendly atmosphere for our customers. We spent more than \$40 million in capital expenditures and \$28 million on repairs and maintenance. Moving forward, we will continue to remodel and upgrade our company-owned restaurants and will ask our franchisees to do the same.

Value-oriented marketing promotions contributed to increased sales and the reversal of a long-term decline in guest counts. We constantly focus on profitable customer counts through promotions that give customers what they want without eroding our profit margins. We also are adding new items to our menu and testing additional items that will debut in the near future.

In the midst of the year's activity, our nation suffered the horrible events of September 11. Keenly aware of our responsibility to give back to the community, Denny's restaurants across the nation displayed canisters at their cash registers to collect cash contributions for the American Red Cross victims relief efforts. Despite the fact that guest counts declined during September and October, our restaurants collected thousands of dollars in employee and customer donations for the Red Cross.

Being a great place to work is also critical to the success of any service organization such as ours. In 2001, Denny's was named by *Fortune* magazine the "Best Company in America for Minorities" for the second consecutive year. We are proud of our role as a leader and corporate model in cultural diversity, and, in 2002, we launched another important initiative to promote human and civil rights. Throughout the year, participating Denny's restaurants will donate 20 cents from the sale of each All-American Slam® entrée to the National Civil Rights Museum in Memphis, Tennessee. Our goal is to raise at least \$1 million toward the museum's \$10 million

expansion program. You can read more about this project on page 10 of this annual report.

Every Time!

We are pleased with our progress during the past year, but realize we have far to go to achieve our goals. Denny's emerged from 2001 a stronger, leaner company with a focus on increasing sales and profitability. Our management, Board of Directors, franchisees and employees are working together to achieve our goals. I thank them for their support and dedication. I also thank our shareholders and stakeholders for their patience and loyalty. The year ahead will be a defining one. By building on the strong foundation laid in 2001, we will usher the Denny's brand into a new era.

Sincerely,

Nelson J. Marchioli

Chief Executive Officer and President



Great Food

BBQ Chicken Sandwich

Denny's is known throughout the country for great breakfasts, outstanding burgers and mouth-watering sandwiches. We built that reputation over the past 50 years by serving meals that start with quality ingredients, delivered fresh to Denny's and kept fresh until they are used in one of our great menu items.

Denny's consistently seeks to improve the taste experience of our customers by testing different products such as improved coffees and breakfast meats, and by including new items on the menu such as the Triple Play™ breakfast (eggs served with a trio of bacon, honey-cured ham and sausage) featured in 2001. Several new products, including our Fabulous French Toast and BBQ Chicken Sandwich, will be added to our menu during 2002.

While many new hits are on the horizon, customer favorites such as our signature Grand Slam Breakfast® remain a drawing card for the brand. We successfully promoted the \$2.99 Grand Slam Breakfast during the summer, profitably capitalizing on its popularity among our value-conscious customers. We also are updating our menus for uniformity, so our customers know they can always get their favorite Denny's meal wherever they go.

Great Food...Is Our Business

Product quality and food safety are critical to the success of our Denny's brand. Every year we purchase more than 3.5 million pounds of top sirloin and 35 million pounds of eggs in addition to other perishable items. We have strict product specifications, and pay particularly close attention to the way food is handled and stored until it is used.

One example of our diligence in this area is the incorporation in 2001 of the science-based HACCP (Hazardous Analysis Critical Control Points) food safety program into our brand standards. According to the U.S. Food and Drug Administration, HACCP is the most efficient and effective way to ensure food safety, and Denny's is a leader in retail food safety. Our goal is to always have a manager on duty who has completed a certified food safety program, and we will not compromise on the quality and safety of the food served in our restaurants.



The Denny's brand has always meant value. We are committed to exceeding our customers' expectations with improved quality and taste, more selections and the promise of great food and an excellent value...every time.



Most people think of good service as being welcomed at the door and quickly escorted to a table, where a pleasant server is poised to take the customer's order. This initial contact is followed by the quick delivery of hot and fresh food items prepared consistently with the customer's expectations. Denny's "Great Service" goes above and beyond these basic requirements to create a genuine environment of hospitality.

We have developed four Hospitality Values—Smile at Me, Look at Me, Talk to Me, Thank Me—to help employees convey hospitality to all customers.

By smiling at customers, our employees demonstrate Denny's is a warm and inviting place. Looking at customers when talking with them shows that they are important to us. Thanking our customers tells them that we appreciate their business.

The company is making sure it has staff to meet the demands of the business and has set tough standards for service. But standards are only as good as the measurement of performance. In 2001, we realigned our incentive programs to reward company employees for service improvements. In 2002, we will begin

Great Service...Is Our Business

testing systems and timing devices to assist managers in measuring the performance of their employees against our standards.

Great service manifests itself in anything that makes the customer feel comfortable, safe and welcome. This was a year of significant labor investment at Denny's. Company restaurants added host, server and cook hours to expedite and improve speed of delivery. Additionally, Denny's initiated 24-hour management coverage to enhance the consistency of the customer's experience across all dayparts.

We expect Denny's restaurants everywhere to provide the same pleasant atmosphere and great service for our customers...*every time.*





Great Service



Great People

The most important space in a Denny's restaurant is the space between the customer and the server. Within that space, our employees develop the bonds with our customers that have made the Denny's brand an American icon.

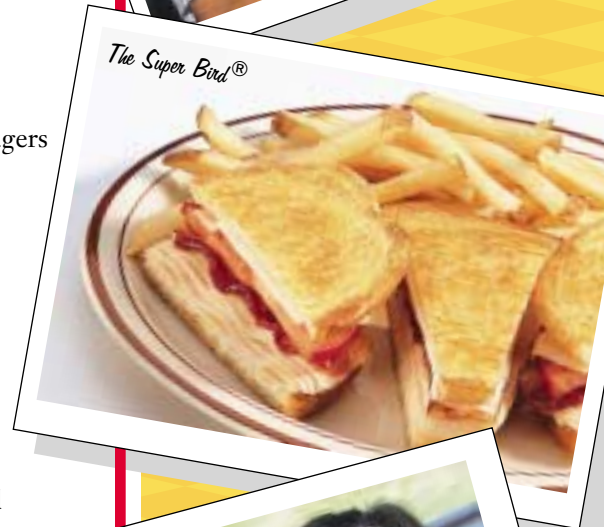
Not only must we make certain our customers experience hospitality in our restaurants, but our employees must feel welcomed and appreciated as well. In other words, we must take care of the people who take care of the customer.

Training plays an important role in minimizing employee turnover and improving service. We have developed training resources to aid Denny's managers in selecting the best talent for their restaurants and to better manage the cost control systems in their restaurants.

In 2001, we introduced all employees to our new vision, *Great Food and Great Service by Great People...Every Time!* This year we are working with company and franchise managers to align everything they do with Denny's vision. We will focus on the key results areas: customer focus, people (recruiting, training, retention), brand standards execution, guest count growth, and sales and profits.

Great People...Going The Extra Mile

The "Great People" in Denny's vision are those who know the menu items, prepare the food to our strict standards and customer expectations, are obsessed with cleanliness, have a passion for doing an excellent job and, above all, put our customer first...*every time.*





As *Fortune* magazine's "Best Company in America for Minorities," Denny's commitment to diversity and inclusion reaches beyond the workplace to such forward-looking initiatives as our multi-year campaign promoting human and civil rights.



What qualifies a business to be called the best Company in America for minorities? That's how *Fortune* magazine has characterized Denny's for two years running. It relates in part to Denny's employment and workplace practices that rise toward the goal of Reverend Martin Luther King, Jr.'s dream of equality and fair treatment for all people. It goes beyond the workplace, of course, to all of our associations, and to such forward-looking initiatives as Denny's multi-year campaign promoting human and civil rights.

The essence of the 2002 campaign is Denny's support of the National Civil Rights Museum in Memphis, Tennessee, which is dedicated to keeping Martin Luther King, Jr.'s dream alive. Located at the site where Dr. King was assassinated in 1968, the museum is a valuable information source on the American civil rights movement and its influence on global human rights.

Denny's has set a goal to raise at least \$1 million this year toward the museum's \$10 million expansion project. Toward this end, the Denny's "Re-ignite the

Re-igniting the Dream...Is Our Goal

Denny's "Re-ignite the Dream" initiative has teamed up with outstanding spokespersons such as NAACP leader Julian Bond, actor Danny Glover, U.S. Representative Jim Clyburn, former NFL defensive end Reggie White and others in a national media campaign launched in January 2002 that included television, print and radio advertising. In addition, the Board of Governors of the National Center for Faith Based Initiative, representing 50,000 black churches, were featured in a national magazine ad and a direct mail brochure endorsing the campaign.

Denny's believes that its customers may want to become involved as well, so it has pledged to the museum \$0.20 from every All-American Slam® entrée sold during 2002. Individuals wishing to make personal donations can do so by calling 1-866-4-A-DREAM or by visiting www.civilrightsmuseum.org.

Denny's is proud to be taking a leading role with the National Civil Rights Museum in its efforts to teach the importance of civil and human rights and to Re-ignite the Dream.

