



Annual Report 2003



America's Restaurant



CHARLES F. MORAN
1930–2004

THE DENNY'S FAMILY IS DEEPLY SADDENED
BY THE DEATH OF OUR LEADER, COLLEAGUE AND FRIEND.

Charles Moran joined Denny's Board of Directors in January 1998, serving as its Chairman since 2002. We are extremely grateful for his tremendous contributions to Denny's, as he played a pivotal role in the turnaround of the company.

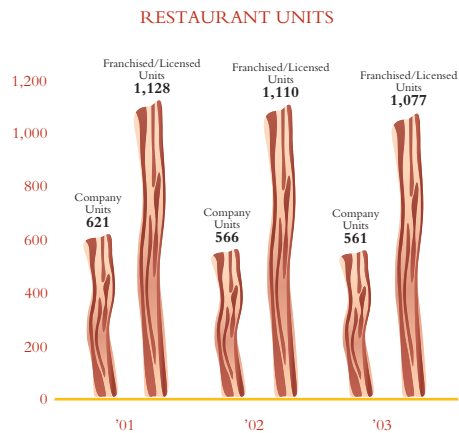
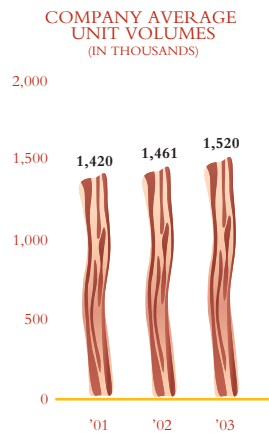
Charley was a retired executive with 40 years of leadership experience at Sears, Roebuck and Co., including membership on the Sears Management Committee as well as senior positions in the areas of operations, corporate planning and technology.

His guidance and friendship will be greatly missed.

financial summary

(dollars in millions, except per share data)

	Fiscal Year Ended	
	Dec. 31, 2003	Dec. 25, 2002
Revenue		
Company restaurant sales	\$851.8	\$858.6
Franchised and licensed restaurant revenue	89.1	90.0
Total revenue	\$940.9	\$948.6
Operating income	48.4	49.6
Net income (loss)	(31.5)	68.1
Diluted income (loss) per share	(0.77)	1.68
Total debt	\$593.5	\$596.0
Number of restaurants	1,638	1,676
Company-owned	561	566
Franchised & licensed	1,077	1,110





letter to shareholders

To Our Valued Shareholders, Employees, Franchisees and Guests

Last year was the restaurant industry's weakest in decades, and the midscale segment was particularly hard-hit. A sluggish economy, harsh winter weather and the war in Iraq all took their toll. Denny's felt the impact as well. The high expectations we held for 2003, viewing it as the beginning of a turnaround at the company, turned to disappointment. However, in the later months of 2003, we began to see evidence of a recovery: Denny's same-store sales in the fourth quarter grew 3.0 percent at company-owned units and 2.8 percent at franchised restaurants. Guest counts increased 1.0 percent at company restaurants. Also in the fourth quarter, operating income rose by \$8.9 million to \$11.3 million from the prior year. Moreover, I'm pleased to report that the improvement has continued into 2004 and has been even stronger. Company same-store sales increased 6.4 percent for the first quarter of 2004 on the strength of a 3.3 percent increase in guest traffic. Similarly, franchise same-store sales were up 6.7 percent in the first quarter of 2004.

For full year 2003, same-store sales increased 0.2 percent at Denny's company-owned restaurants and declined 0.6 percent at franchised units. At company units, a 3.2 percent increase in average check offset a 2.9 percent decline in guest counts. Cost pressures from increases in commodities, utilities, health benefits and workers' compensation were significant,

especially in the second half of the year. By the end of 2003, operating revenue and operating income were down slightly for the year, and we had recorded a net loss of \$31.5 million.

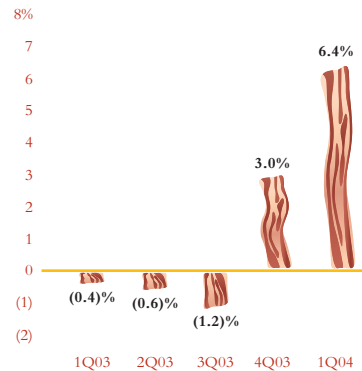
In 2004, we will maintain our focus on sales growth and guest count growth, which are the clear drivers of our business. Both are fueled by Denny's great-tasting food and wide menu variety. We are building on our solid reputation for serving great breakfasts, while reminding customers that Denny's is also a great place for lunch and dinner. New lunch and dinner offerings we promoted earlier in 2003 halted traffic declines at these dayparts and contributed to guest check growth. We returned to a breakfast emphasis in the second half of the year.

We also implemented controls to manage our new operating challenges. This includes negotiating future prices on food items when available; setting menu pricing that protects our margins while giving customers great value; achieving cost savings through improved efficiency in operations; making significant health-care plan changes effective in 2004; and enhancing our safety programs.

One of the most important investments we made in 2003 was in our own people—from our restaurant teams to our

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COMPANY SAME-STORE SALES
(IN PERCENTAGES)



corporate staff. In training programs carried out nationwide, our employees and franchisees recommitted themselves to being leaders in customer service and hospitality. We are raising the "service bar" to align it with customer expectations, and our employees and franchisees are stepping up to the challenge.

During 2003, as in the previous two years, we invested heavily in general facilities improvements at our company restaurants, while continuing to invest in our remodel program. Capital spending on remodels continues to be a priority for both company and franchise restaurants. We remodeled 56 company restaurants in 2003 and expect to remodel 60 locations in 2004. Franchisees remodeled 99 restaurants in 2003 and we expect them to remodel 120 more in 2004.

We have made significant investments in the Denny's brand over the previous three years to position it for long-term growth and profitability. These investments have included new and improved menu offerings, extensive capital improvements, increased restaurant staffing and a focused national media campaign. Our employees and franchisees are energized by the positive sales momentum we have achieved, and they are excited

about our prospects going forward. We believe the steps we have taken and the investments we have made are starting to show results. We thank you—our shareholders, employees, franchisees and guests—for placing your confidence in America's best-known family restaurant.

Nelson J. Marchioli
Chief Executive Officer and President
March 2004

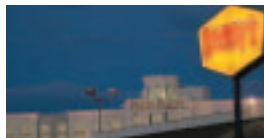


Denny's of Las Vegas

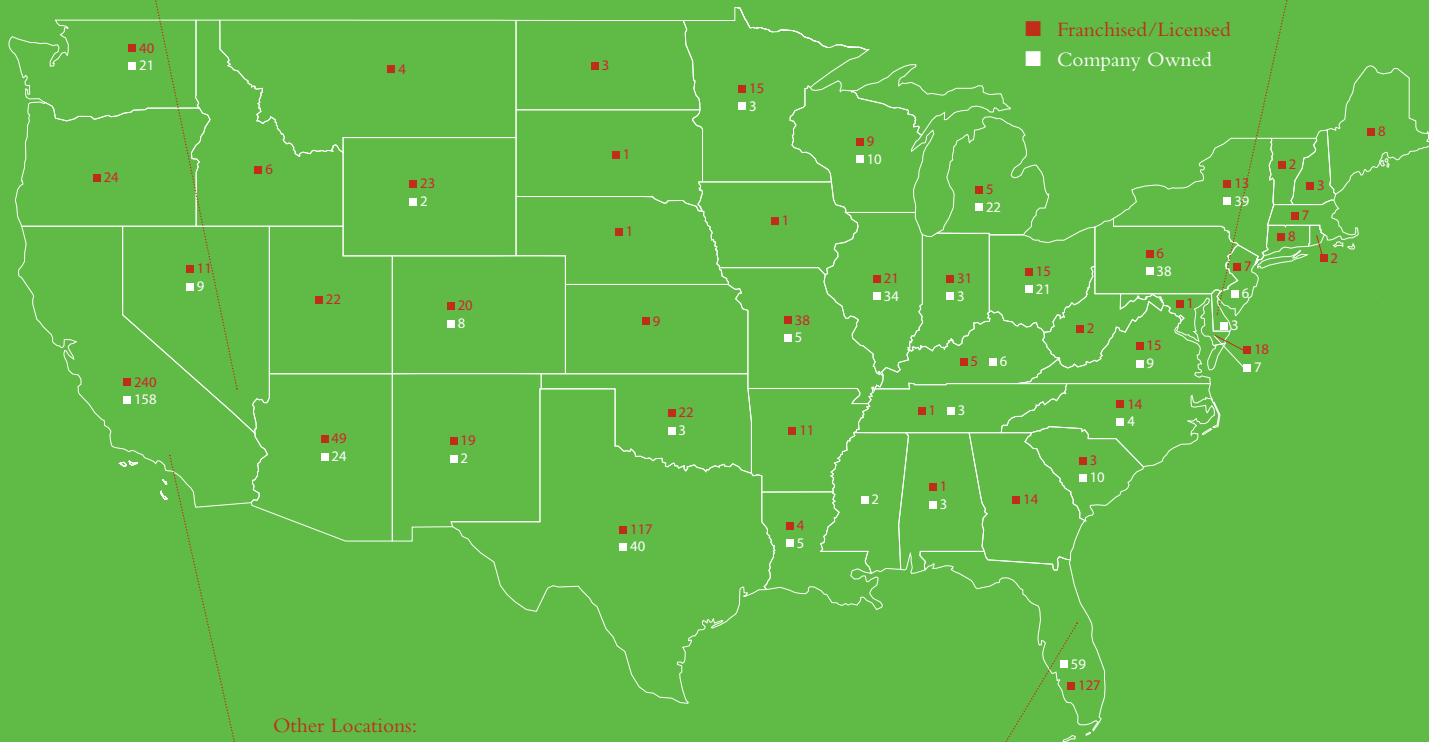
Las Vegas, one of the most popular U.S. travel destinations, is home to the busiest Denny's in the country. More than 35 million people visit Las Vegas each year to enjoy the world's finest casino resorts, hotels, shows and attractions. Fifteen 24-hour Denny's restaurants serve the "24-hour city," and more development is underway for 2004.

Denny's of Dover

Denny's in Dover, Delaware, at the main entrance to Dover International Speedway®, hosts thousands of race fans each year who attend NASCAR race weekends at the famed "Monster Mile."® Dover International Speedway has become one of the biggest venues on the NASCAR NEXTEL Cup circuit, with a seating capacity of 140,000.



Denny's goes where America goes



Other Locations:
Alaska 4, Hawaii 7, Guam 2, Puerto Rico 11, Canada 51, Other Intl. 11



Denny's of Hollywood

As an entertainment mecca, Hollywood draws millions of visitors to its classic "Walk of Fame" and other attractions each year. Since the 1970s, Denny's on Sunset Boulevard has greeted tourists, up-and-coming entertainers and residents alike.

Denny's of Orlando

Theme parks, dining, shopping and touring make Orlando a vacation hot spot with 43 million visitors annually. The Sunshine State is one of Denny's largest territories, second only to California, with 60 restaurants in the Orlando area alone.



franchises

Number One in Family Dining Segment

Harold Butler's vision of a 24-hour high-value restaurant intrigued customers and entrepreneurs, who recognized the potential of the young chain and sought to become part of its growth through franchising. Denny's established its proven franchise system in 1963. By the end of 1981, Denny's had grown to over 1,000 restaurants—200 of which were franchises. The company ramped up franchising in the late 1990s, and franchisees opened a record 84 new Denny's restaurants in 2000. Steady franchise development has continued, and today nearly two-thirds of all Denny's restaurants are owned and operated by franchisees. At December 31, 2003, Denny's had 561 company-owned restaurants and 1,077 franchised and licensed restaurants.

The company is giving increased attention to franchising in 2004 to attract new franchisees and expand existing franchise relationships. Additionally, development of company-owned restaurants will resume this year on a limited basis as we seek prime development sites.

During 2003, the company implemented a new customized, fully integrated tool for strategic development planning. Denny's Geographic Information System combines the latest in customer profiling, market analysis, sales projection and mapping software. The stand-alone, laptop system provides instant, on-site evaluation of key markets and potential locations. By making our development planning more precise, this advanced tool helps us select the best sites available.

Strong franchise support, a large national marketing budget and the most recognized name in family dining make Denny's a great franchise proposition. It is no wonder Denny's has been selected as the No. 1 Franchise among family restaurants in *Entrepreneur* magazine's annual **Franchise 500**, and as one of the top 30 among all franchisors in *Franchise Times'* **Top 200** list.



“Denny’s corporate and franchisees are embarking on the brand’s next 50 years with a tremendous sense of optimism, spirit and commitment to the business.”

—Ben Bagnas
Denny's franchisee for 15 years
Chair of Denny's Franchisee Association

customer satisfaction

50 Years of Serving Great Food

The qualities that have elevated the Denny's brand for 50 years—good food and hospitality in a comfortable environment—are still at the heart of today's business.

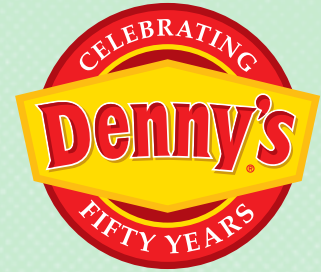
Denny's menu evolution reached a significant milestone when the new Meat Lover's Breakfast, introduced in July, surpassed the popularity of the Original Grand Slam® as the best-selling entree. Additionally, the Smoked Sausage Breakfast and Country-Fried Steak and Biscuits Breakfast delighted customers as new menu choices. Hoagie-style sandwiches, mini-burgers and nachos were introduced for lunch and dinner. A signature Caramel Apple Crisp was added to the redesigned dessert menu. We also featured a limited-time barbecue line-up, including St. Louis style ribs and grilled chicken, during the summer.

The spring 2004 menu now features a special Carb Watch section, making it easier for our guests to find low-carb options. We also added new offerings to our low-fat Fit Fare® category. As the first family restaurant chain to offer a kids' menu, we recognize it is not always easy for parents to steer their kids to healthy menu fare. We have created a new kids' menu that is specially designed so children can eat good food that is good for them. The new menu includes side choices such as fruit, vegetables and a garden salad. It will be available nationwide in June 2004. These additions are in response to the changing diets of American consumers.

Harold Butler believed in giving customers good service, and we are continuing the tradition of customer service through the "We Will" hospitality training initiative for all company and franchise employees. We trained approximately 60,000 employees in Denny's hospitality philosophies during 2003.



Denny's Meat Lover's Breakfast gave customers a new favorite in 2003.



America's Restaurant

From its beginning as a single restaurant in California in 1953, Denny's has grown into the most recognized name in family dining. For 50 years, we've been an integral part of the American way of life. Breakfast, value, "come as you are" environment, 24/7 service, family—these are the strengths of this incredible brand. The yellow and red Denny's sign is a beacon for hungry travelers...families enjoying a weekend treat...students taking a late-night study break...workers stopping to refuel along their way...friends spending time together. Millions of customers visit Denny's every week. Hundreds of franchisees deliver a consistent Denny's experience across the country and abroad. Denny's is a good place to sit and eat great-tasting food any time of the day or night. We are great people, serving great people.

mission statement

Ready for the Next 50 Years and Beyond...



Denny's is the premier family restaurant chain—a brand with incredible staying power. Widespread brand recognition, leading market share, highest unit penetration and largest advertising budget in the family segment are all marks of Denny's success. We recognize that each customer experience is what will set us apart in the years to come. Denny's and its approximately 27,000 company employees and hundreds of franchisees are proud of the brand's legacy of good food and service. Our mission is to profitably grow the company by providing our guests with great food, service and hospitality in a clean, comfortable restaurant, 24 hours a day. This is what our guests expect, and what we are committed to delivering...*every time.*

Corporate Officers

Denny's Corporation and Denny's, Inc.

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,
Strategic Services, and
Chief Information Officer

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

Margaret L. Jenkins⁽²⁾
Senior Vice President and
Chief Marketing Officer,
Marketing and Product Development

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

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

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

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

Susan L. Mirdamadi⁽¹⁾
Vice President,
Information Technology

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

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

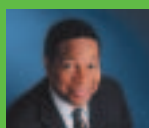
Gustave E. Gelardi⁽²⁾
Division Vice President of
Operations—Division 2 (East)

Craig E. Herman⁽²⁾
Division Vice President of
Operations—Division 1 (West)

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

(1) Officer, Denny's Corporation
(2) Officer, Denny's, Inc.

Directors of Denny's Corporation



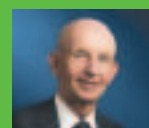
Vada Hill

Chief Marketing Officer of
Fannie Mae; Harvard University
graduate with over 20 years in
marketing at Procter & Gamble,
Taco Bell Corporation,
Ogilvy & Mather and BBDO.



Robert E. Marks, Interim Chairman

President of Marks Ventures, LLC,
with more than 20 years of experience
in private equity investments in more than
15 different industries.



Donald R. Shepherd

Former Chairman and CEO of
Loomis, Sayles & Company, L.P.,
investment management firm,
with nearly 40 years of experience in
portfolio management and research.



Vera K. Farris

President Emerita and Distinguished
Professor of The Richard Stockton
College of New Jersey with
more than 20 years in education,
including senior administrative positions
at Kean College of New Jersey and
the State University of New York.



Nelson J. Marchioli

CEO of Denny's Corporation with
more than 30 years of experience
in the restaurant industry, including
leadership positions at Bruegger's
Bagel Bakeries, Burger King,
El Pollo Loco and Red Lobster.



Elizabeth A. Sanders

Principal of The Sanders Partnership;
management consultant with
20 years of leadership at Nordstrom, Inc.;
author of *Fabled Service* and *Inspiring
Fabled Service* and well-known resource
on leadership, focused on creating service
cultures and workplaces of choice.



Debra Smithart-Oglesby

President of O/S Partners, an investment
capital and consulting services firm
specializing in food service and retailing;
formerly the Chief Financial Officer at
Brinker International, Inc., offering
financial expertise and experience at a
major multi-brand restaurant company.

Shareholder Information

Corporate Office
Denny's Corporation
203 East Main Street
Spartanburg, SC 29319
(864) 597-8000

Independent Auditors
KPMG 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 Trustee
11¼% Senior Notes due 2008
12¾% Senior Notes due 2007
U.S. Bank
Corporate Trust Department
P.O. Box 64111 (zip 55164-0111)
180 East Fifth Street
St. Paul, MN 55101
(800) 934-6802

Stock Listing Information
Denny's Corporation common
stock and warrants are listed on
OTC Bulletin Board® under the
symbols DNYY and DNYYW,
respectively.

For Financial Information
Call (864) 597-8658, or write to:
Kenneth Jones, Treasurer
Denny's Corporation
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 Denny's corporate web site
at: www.dennys.com

Annual Meeting
Thursday, May 27, 2004



Denny's Corporation

203 East Main Street—Spartanburg, SC 29319