



# FROM THE HEART

APPLEBEE'S INTERNATIONAL, INC.

2003 ANNUAL REPORT & FORM 10-K





In last year's annual report, we embarked on a journey of discovery ... sampling the flavors and features that make each of our restaurants unique and seeking the best of America's ideals and values.

This year, we salute our associates and franchisees, our guests and shareholders who helped make **2003 ONE OF OUR BEST YEARS** in the history of Applebee's. In their own way, each made a contribution, each made a difference ... devoting their **LOVE, PASSION AND HARD WORK** to our continuing success.

Our message and our thanks come straight **FROM THE HEART**.

## **A TERRIFIC YEAR.**

In 2003, we further extended our lead as the world's largest casual dining chain with expanded market share and record sales. We substantially exceeded the industry average in comparable sales and traffic growth. For the 11th year in a row, the Applebee's system opened 100 or more restaurants and reached a year-end total of 1,585 units. And we continually strived toward becoming noticeably better in every area of our operations. Our stock price reached an all-time high, increasing 70 percent for the calendar year.

Truly, our success in 2003 has come from the heart. We thank our **loyal guests, our hard-working associates and franchisees, and our supportive shareholders.**

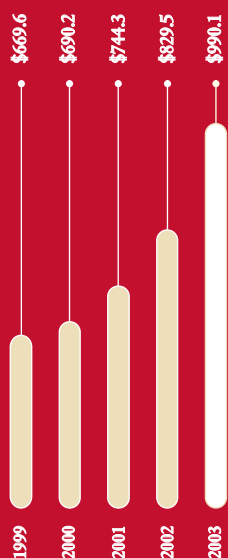
## SELECTED FINANCIAL DATA

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

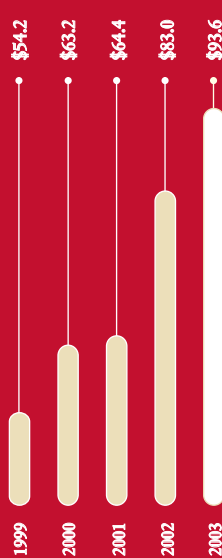
	FISCAL YEAR ENDED				
	Dec. 28, 2003	Dec. 29, 2002	Dec. 30, 2001	Dec. 31, 2000	Dec. 26, 1999
<b>Statement of Earnings Data:</b>					
Company restaurant sales	\$ 867,158	\$ 724,616	\$ 651,119	\$ 605,414	\$ 596,754
Franchise royalties and fees	109,833	102,180	93,225	84,738	72,830
Other franchise income	13,147	2,688	—	—	—
<b>Total operating revenues</b>	<b>\$ 990,138</b>	<b>\$ 829,484</b>	<b>\$ 744,344</b>	<b>\$ 690,152</b>	<b>\$ 669,584</b>
Operating earnings	\$ 153,647	\$ 129,708	\$ 112,427	\$ 107,207	\$ 94,910
Net earnings	\$ 93,558	\$ 83,027	\$ 64,401	\$ 63,161	\$ 54,198
Basic net earnings per share	\$ 1.69	\$ 1.49	\$ 1.16	\$ 1.07	\$ 0.85
Diluted net earnings per share	\$ 1.64	\$ 1.46	\$ 1.13	\$ 1.07	\$ 0.84
Dividends declared per share	\$ 0.07	\$ 0.06	\$ 0.05	\$ 0.05	\$ 0.04
Basic weighted average shares outstanding	55,296	55,605	55,512	58,841	63,908
Diluted weighted average shares outstanding	56,939	56,922	56,877	59,170	64,353
<b>Balance Sheet Data (at end of fiscal year):</b>					
Total assets	\$ 644,001	\$ 566,114	\$ 500,411	\$ 471,707	\$ 442,216
Long-term debt, including current portion	\$ 20,862	\$ 52,563	\$ 74,568	\$ 91,355	\$ 108,100
Stockholders' equity	\$ 459,732	\$ 392,581	\$ 325,183	\$ 281,718	\$ 253,873

The table above 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 preceding 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.

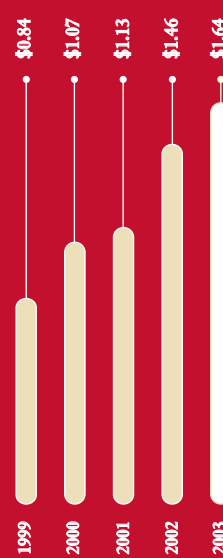
**TOTAL OPERATING REVENUES**  
(in millions)



**NET EARNINGS**  
(in millions)



**DILUTED NET EARNINGS PER SHARE**



## TO OUR SHAREHOLDERS

Fiscal 2003 was, without question, one of our best years ever ... by any number of measurements. Sales. Earnings. Return on equity. Cash flow. System size. Market share. Stock appreciation. These remarkable accomplishments didn't just happen. They were the result of the tough decisions we've made and the specific strategic directions we've set. Those strategies are the bedrock of our current and future growth. And now, as we work to extend our lead in casual dining, we pour our passion for service into every meal we prepare and every guest we serve. It comes straight from the heart.



**LLOYD HILL**

*Chairman of the Board, Chief Executive Officer and President*

### ACHIEVING FINANCIAL PERFORMANCE

Our stellar performance is clearly reflected in the financial results achieved by Applebee's International in fiscal 2003. System-wide sales, including both company and franchise restaurant sales, climbed 11 percent. Total sales for company restaurants grew 20 percent to \$867.2 million, and total operating revenues increased 19 percent to \$990.1 million.

The company's net earnings for 2003 were a record \$93.6 million, or \$1.64 per share, including an impairment charge of \$0.10 per share. Our five-year compounded annual growth in earnings per share is nearly 18 percent, and we've targeted earnings per share growth of 14 to 17 percent through 2007. Our return on equity, including the impairment charge, was 22 percent for the year, among the highest in the industry and well above our target of 20 percent.

System-wide comparable sales, which compare restaurants open for at least 18 months, rose 4.1 percent in 2003 – representing 22 consecutive quarters of growth and the

highest annual rate of growth since 1993. These results exceeded both our original 2003 target of at least 3 percent and the industry average as measured by Knapp-Track.™ Comparable sales for company and franchise restaurants increased 5.2 percent and 3.7 percent, respectively.

Our company restaurants experienced strong growth in guest traffic of 2.5 to 3.0 percent in 2003. This growth is all the more impressive compared to the casual dining sector as a whole which experienced traffic declines.

The company's financial position and balance sheet remain exceptionally strong and provide us with great flexibility. Our year-end debt to capitalization ratio was less than 5 percent. Cash flow from operations grew to \$176 million in 2003 and was used to fund \$83 million of capital expenditures, the \$22 million acquisition of 11 franchise restaurants, and to continue repurchasing company stock to enhance shareholder returns.

**COMMON STOCK** During 2003, we repurchased 1,679,500 shares of common stock at an aggregate cost of \$49.8 million. During the past six years, our cash flow and strong balance sheet have enabled the repurchase of 22.7 million shares totaling \$316.4 million at an average share cost of less than \$14. In December 2003, our Board of Directors authorized an additional repurchase of \$80 million of common stock, subject to market conditions, increasing the total amount available to \$99.8 million at year-end.

Also in December, we declared an annual dividend of 7 cents per share, representing an increase of 17 percent over last year's dividend of 6 cents per share and the company's 14th consecutive annual dividend.

Reflecting our strong performance, our common stock reached a then all-time high of \$40.19 in December and closed out 2003 at \$39.34 – up 70 percent since the beginning of the year.

SYSTEM-WIDE

SALES INCREASED

**11 PERCENT**

IN 2003.

AT YEAR-END, THERE WERE

**1,585 APPLEBEE'S  
RESTAURANTS**

OPERATING IN **49 STATES AND**

**9 INTERNATIONAL COUNTRIES.**

### **BUILDING LEADERSHIP STRENGTH**

**SENIOR EXECUTIVE TEAM** Our ability to attract and retain bright, skilled executives across diverse disciplines is among our core strengths. Today, we have in place a strong and seasoned senior management team that is sharply focused on executing our strategies and extending our industry leadership. This group consists of Dave Goebel, Steve Lumpkin, John Cywinski and Lou Kaucic, who are pictured throughout this letter with their respective teams.

In January 2004, Dave Goebel was promoted to executive vice president and chief operating officer with responsibility for all aspects of system-wide operations including company and franchise operations, supply chain management and restaurant development. Steve Lumpkin, executive vice president, chief financial officer and treasurer, was appointed to the Board of Directors in January and will stand for election at the annual meeting of shareholders in May 2004. Steve is responsible for the company's finance, accounting and treasury functions, as well as information technology, legal affairs, investor relations and risk management. Also in January 2004, John Cywinski was promoted to executive vice president. As chief marketing officer, John leads the company's advertising, marketing, brand initiatives, and menu development and innovation. Lou Kaucic, executive vice president and chief people officer, leads our system-wide human resources initiatives including employment practices, training and development, performance management, organizational and executive development, compensation and benefits, and communications.



**FROM LEFT:** *Phil Crimmins*, Senior Vice President of Development *Sam Rothschild*, Vice President of Franchise Operations *Dave Goebel*, Executive Vice President and Chief Operating Officer *Harry Stroup*, Vice President of Design and Facilities *Carin Stutz*, Senior Vice President of Company Operations *Jim Kirkpatrick*, Vice President of Real Estate and Construction *David Parsley*, Senior Vice President of Supply Chain Management

**KEY MANAGEMENT APPOINTMENTS** During 2003, we also made key additions to and advancements among our officer team. Sam Rothschild joined the company in March as vice president of franchise operations with responsibility for franchise operations and relationships with more than 1,100 restaurants owned and operated by 50 domestic Applebee's franchisee groups. In November, Becky Tilden joined the company as vice president and general counsel, bringing broad experience in corporate compliance and ethics issues, and corporate secretarial and governance matters. She replaces Bob Steinkamp, who retired in early 2004 after serving as the company's general counsel since 1990.

In December, Kurt Hankins was promoted to senior vice president of menu development and innovation, leading a 10-member culinary team. Nancy Culbertson was promoted to vice president of marketing services with responsibility for creative services, media and marketing for the entire system. Additionally, Scott White joined as vice president of people and performance systems, bringing broad experience in human resources consulting, performance management and rewards. In February 2004, Carol DiRaimo was promoted to vice president of investor relations, serving as the company's primary contact with the financial community.

### **ALIGNING WITH DEMOGRAPHIC AND SOCIAL TRENDS**

The National Restaurant Association's industry forecast for 2004 predicts a 13th consecutive year of real sales growth, with projections of 4.4 percent growth and record sales of \$440 billion, equal to 4 percent of the U.S. gross domestic product. During 2004, more than 878,000 locations will serve more than 70 billion meal and snack occasions – with average daily sales industry-wide of more than \$1.2 billion. Among the major eating-place segments, sales for the full-service sector are projected to reach \$158 billion in 2004 with a growth rate of 4.6 percent.

Restaurants have become an important and essential ingredient of the American lifestyle. The restaurant industry's share of the U.S. food dollar has grown from 25 percent in 1955 to an estimated 46.4 percent in 2004 and is projected to climb to 53 percent by 2010.

Developments shaping the restaurant industry in 2004 include continued expansion driven by Americans' desire for convenience and socialization, plus new menu items in response to diners' increasingly sophisticated tastes and heightened interest in health and nutrition. As detailed throughout this report, Applebee's strategic initiatives squarely address these industry developments. Furthermore, we're ideally positioned to take advantage of enormous opportunities as our operating philosophy and societal trends converge. Forces in today's society – including casual dress, a sluggish economy, neighborhood focus, demographics, time compression and two-income families – all align behind casual dining and the Applebee's concept.

### EXECUTING OUR STRATEGIES

Our financial results and momentum emphatically underscore the success we've achieved in executing our integrated strategies. These substantial improvements have been recognized and appreciated by our guests, as indicated by the annual "Choice in Chains" survey published in the March 2003 issue of *Restaurants and Institutions* magazine. Applebee's earned the highest overall score among the leading bar and grill concepts – with No. 1 rankings in food quality, menu variety, service, atmosphere, cleanliness and convenience.

To extend our leadership in the casual dining segment, we're focused specifically on improving our food and menu, delivering customer convenience, achieving operational excellence, leveraging our unit advantage and retaining noticeably better associates. We remain convinced that our strategies are aligned to deliver consistent, sustainable growth.

### IMPROVING OUR FOOD AND MENU

**MENU IMPROVEMENTS** A key component of our sales-building strategy is continued improvements to our food and menu. In September 2003, we rolled out our new core menu that includes 75 percent new and/or improved items over the past two years – 31 new items and 27 items with enhanced specifications, ingredients, taste or portion size. Our new menu features items like our Appetizer Sampler, Honey BBQ Wings, Crispy Buttermilk Shrimp, Chicken Parmesan and Triple Chocolate Meltdown dessert – plus our Low-Fat Chicken Quesadilla, winner of the MenuMasters Award for Best Healthy Choice Menu Selection in 2003.

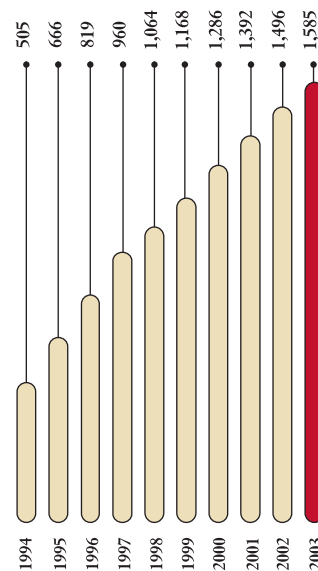
Our guests have noticed, and overall satisfaction with our menu has improved significantly. Going forward, we plan to focus on continuous menu innovation and evolution, introducing new menus twice a year.

**WEIGHT WATCHERS COLLABORATION** At mid-year, we announced an exclusive license agreement with Weight Watchers International, Inc., the world's leading provider of weight-loss services. The cornerstone of the agreement will be a Weight Watchers-branded section of the Applebee's menu listing Weight Watchers® POINTS® values for each item, as well as calories, fat and fiber content. This collaboration directly addresses the difficulty weight-conscious consumers often have finding healthy and satisfying food choices when dining out. With over three-quarters of the adult U.S. population identified as health- or weight-conscious, our Weight Watchers alliance will broaden our reach and appeal, making Applebee's even more relevant in today's marketplace.

Together, we are developing a number of new, exclusive, great-tasting menu items including appetizers, entrees and desserts at price points consistent with our price/value philosophy. In November 2003, we launched a five-market test of the newly-developed Weight Watchers

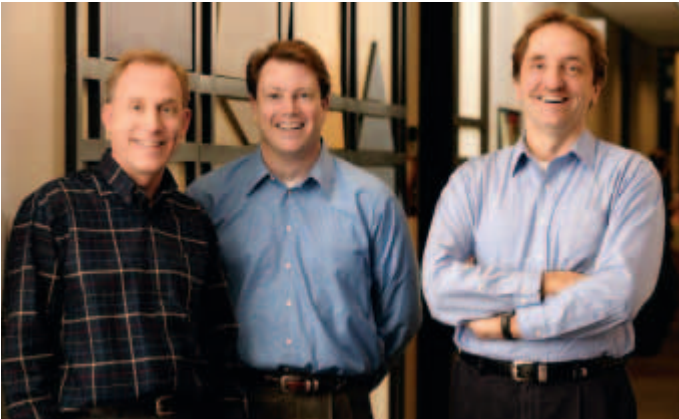
### SYSTEM-WIDE GROWTH

(number of restaurants)



FROM LEFT: Kurt Hankins, Senior Vice President of Menu Development and Innovation  
 Randy Davis, Vice President of Brand Development and Innovation John Cywinski, Executive  
 Vice President and Chief Marketing Officer Nancy Culbertson, Vice President of Marketing Services

menu items, with over 70 stores in five markets each testing 11 of 18 potential items. After analyzing the test results and putting the supply chain in place, the most popular 10 items will be selected for the nationwide menu scheduled to launch in the summer of 2004.



**FROM LEFT:** *Doug Waltman*, Vice President of Training and Development *Scott White*, Vice President of People and Performance Systems *Lou Kaucic*, Executive Vice President and Chief People Officer

**ADVERTISING AND PROMOTIONS** Throughout 2003, we employed compelling promotions and effective advertising to build consumer awareness, guest traffic and revenues. Promotional campaigns included Skillet Sensations,<sup>™</sup> Cajun Combos, Steak Stampede, BBQ Fever, All You Can Eat Rib Tips and the fall Take Two variety-based promotion that has proven so successful in the past that we've made it part of our core menu.

Brand recognition and consumer awareness of Applebee's, fueled by our creative promotions backed by memorable music, continues at a very high level.

**PRICE/VALUE** With an average guest check of \$10.00 to \$10.50 in company markets, Applebee's continues to maintain its positioning as the price/value leader in casual dining. Applebee's traffic growth outpaced the industry average in 2003 by a wide margin.

We know that the perception of value involves more than price alone and includes food, service and convenience. Our sales-building strategies are focused on these and other factors that make up the price/value equation.

#### **DELIVERING CUSTOMER CONVENIENCE**

We remain focused on improving the dining experience and earning increased loyalty with our Applebee's guests. Our research clearly shows that customer satisfaction and loyalty results from six primary drivers – and four are linked to convenience. Convenience initiatives have been given high priority as we analyze the total guest experience seeking efficiencies. Through a number of dining room and kitchen enhancements last year, we decreased table turn times by 13 percent in company restaurants (from 53 to 46 minutes). Our guests clearly noticed the improvement, as reflected in significant increases in every key indicator from our customer satisfaction measures.

**KITCHEN DISPLAY SYSTEM (KDS)** In July 2003, we completed implementation of our Kitchen Display System (KDS) in all company restaurants, and are now working with franchise groups to implement the system in franchise restaurants. This new tool is a key component of improved service and guest satisfaction, primarily faster and hotter food, as dishes come up together, eliminating backlog in the kitchen.

**CARSIDE TO GO<sup>™</sup> INITIATIVE** We completed the rollout of the second phase of our To Go program – Carside To Go<sup>™</sup> – in all company restaurants in November 2003, driving the sales mix to 8.0 percent of company restaurant sales in the fourth quarter, compared to 4.0 percent two years ago. At year-end, nearly 700 restaurants had implemented Carside To Go,<sup>™</sup> including all company and more than 300 franchise units. The implementation of this service will be substantially complete by the end of 2004 in our franchise restaurants. This program has been tremendously popular with our guests and their desire for greater convenience – and has become the fastest growing part of our business.

During the initial phase of our To Go program, the bartender facilitated the program; with the rollout and growth of Carside To Go,<sup>™</sup> we have dedicated one or more servers to handle carryout for greater efficiency. In 2004, we plan to leverage both our local and national marketing muscle behind this major initiative to drive sales and traffic growth.

### LEVERAGING OUR UNIT ADVANTAGE

Applebee's unprecedented pace of development continued in 2003, beginning in January with a milestone event – the opening of our 1,500th neighborhood restaurant in LaGrange, Georgia, owned and operated by franchisee Bill Palmer, founder of the first Applebee's restaurant in Atlanta in 1980.

**STORE DEVELOPMENT** Applebee's has opened at least 100 restaurants every year since 1993, including 100 in 2003, as we continue to widen the gap between ourselves and the competition. At year-end, our system totaled 1,585 restaurants – larger than our two closest competitors combined – including 383 company-owned restaurants and 1,202 franchise restaurants. Going forward, we expect to again open approximately 100 new restaurants in 2004, including at least 28 company restaurants and 70 to 80 franchise restaurants.

Applebee's has achieved broad geographic penetration with operations in 49 states in both urban and smaller markets. In addition to our domestic operations, franchise groups operated 47 Applebee's restaurants in nine international countries.

Applebee's dominant size and market penetration deliver key competitive advantages including brand awareness and consumer convenience. We continue to estimate the potential of the Applebee's system to be at least 2,300 domestic units.

**BALANCED COMPANY/FRANCHISE MIX** As part of our ongoing development strategy, we continue to evaluate and manage the mix of company and franchise restaurants. At year-end, 24 percent of the system was company-owned and over the next three to five years, this mix could shift to one-third company and two-thirds franchise. Our strong balance sheet and substantial cash flow support this strategy, enabling us to acquire franchise operations that offer growth potential, as well as geographic and operational synergies.

In March 2003, we completed the acquisition of 11 franchise restaurants located in Illinois, Indiana, Kentucky and Missouri for a total purchase price of \$23.2 million. Contiguous to the St. Louis market we acquired in 1997, these units will provide added scale and leverage to our base of company restaurants.

In February 2004, we announced an agreement to acquire 10 Applebee's restaurants in Southern California from a franchisee for \$13.4 million in cash. These units are located in a territory we believe can ultimately support a total of more than 30 Applebee's restaurants. We expect to complete the purchase in the second quarter of 2004.

**NEW STORE PROTOTYPE** We unveiled a new-look Applebee's prototype in December 2003 in Kansas City, Kansas. Franchisees were intimately involved in developing the prototype which features numerous exterior and interior enhancements including a complete kitchen redesign and equipment package – the first major rework of the kitchen since our brand's inception. Remodels throughout the system, mandatory every six to seven years, will take elements from this fresh prototype design.

### NOTICEABLY BETTER PEOPLE

**PEOPLE CULTURE** At the very core of our ability to execute our strategies and deliver on customer expectations is a dedicated and skilled team of associates. We have consciously and carefully developed a culture

FOR **11** CONSECUTIVE  
YEARS, APPLEBEE'S HAS  
OPENED **100** OR  
**MORE** NEW  
RESTAURANTS.



FROM LEFT: *Becky Tilden*, Vice President, Secretary and General Counsel *Carol DiRaimo*, Vice President of Investor Relations *Steve Lumpkin*, Executive Vice President, Chief Financial Officer and Treasurer *Bev Elving*, Vice President of Accounting *Tamy Duplantis*, Vice President of Information Technology

that attracts, develops and retains enthusiastic, energetic individuals. We invite associates to join us on a BIG Fun TRIP, an acronym that captures our culture based on our core values and guiding principles – Balance, Innovation, Guest-driven, Fun, Teamwork, Results-driven, Integrity and Passion for service.



**FOR NEARLY TWO DECADES,** Bob Steinkamp has been involved with nearly every major Applebee's decision. As General Counsel, he led the legal team as the company grew from 150 restaurants to nearly 1,600. He's served Applebee's with intelligence, integrity and great wit. He retires this year with our deepest appreciation and fondest wishes.

**HIRING AND RETENTION** To identify associates with a passion for service, we use a formal assessment process to evaluate their fit with our culture and the particular position. We use a variety of training tools and motivational techniques geared to employee lifestyles and attitudes. Our retention efforts include a sophisticated performance assessment and ranking process that enables restaurant managers to focus their retention efforts on the highest-performing hourly associates. A similar approach is used to assess and rate restaurant managers.

These and other initiatives enabled Applebee's to successfully retain 96 percent of our top general managers in 2003, and to reduce hourly turnover to a record low of 92 percent, well below industry averages.

#### **CORPORATE RESPONSIBILITY**

The shared values and principles that form the foundation of our culture extend outside our offices and restaurants. We are committed to making each of our neighborhoods a better place to live, contributing to our communities and helping our neighbors.

**KC BUSINESS PHILANTHROPIST OF THE YEAR** Applebee's was honored by the Greater Kansas City Council on Philanthropy as the Business Philanthropist of the Year for 2003. Applebee's was nominated by DeLaSalle Education Center in appreciation of our ongoing support and many levels of involvement. DeLaSalle provides educational services in the metro area to young people who have been unsuccessful in traditional schools.

**COMMUNITY SERVICE** *Chain Leader* magazine, in conjunction with the PeopleReport, identified eight activities of restaurant companies that impact retention and selected one company for exceptional performance in each area. Applebee's was recognized for our outstanding community service.

**HEIDI FUND** In December 2002, we established the Heidi Fund in honor of Heidi Tomassi, a former server at our restaurant in Olathe, Kansas, for her unwavering honesty and selfless example. The fund is available to assist any Applebee's associate facing a dire personal financial crisis due to a catastrophic life event. Our associates voluntarily contribute through payroll deductions, and the company makes a significant annual contribution. In 2003, the Heidi Fund made it possible to help our fellow associates deal with serious illnesses, natural disasters and the loss of loved ones. In conjunction with our new Code of Conduct, we asked our suppliers and vendors to consider a contribution to the fund instead of a business gift as a meaningful expression of the holiday spirit, and a number have contributed generously.

#### **LASTING LEGACY**

Going forward, we have the opportunity to build on our incredible progress. I believe we are forging a great American company, creating a lasting legacy for our associates, our guests and our communities. With the love, passion and hard work of our franchisees and associates and the continued confidence and support of our guests and shareholders, Applebee's is living its mission to become the World's Favorite Neighbor.™

A handwritten signature in black ink that reads "Lloyd L. Hill". The signature is written in a cursive, flowing style.

**LLOYD L. HILL**

*Chairman of the Board, Chief Executive Officer and President*  
March 2004

# LOVE, PASSION AND HARD WORK.

Our operational achievements, strategic accomplishments and successful initiatives only happen through the collective momentum of individual efforts.

Guests who love the **welcoming warmth** of their neighborhood Applebee's, and our promise to make their visit **memorable**. Associates who are **passionate** about good food delivered with **unsurpassed service** and convenience. And franchisees who are **committed** to the Applebee's brand and its potential.

Each one of us at Applebee's has made the commitment to work hard to **better ourselves**, to **better our company** and to **better our communities**.

# CONVENIENCE

8%

OF SALES CAPTURED BY  
CARSIDE TO GO™ INITIATIVE  
IN THE FOURTH QUARTER  
OF 2003



IT'S NOT FAST FOOD, IT'S APPLEBEE'S FOOD, FAST. Addressing today's on-the-go lifestyles and increasing consumer desire for convenience, our To Go initiative continues to build sales and fans. Beginning with a dedicated entrance, signage and unique take-out packaging, we are continuing to roll out the second phase of the program – Carside To Go™ – featuring dedicated servers and convenient carryout delivery right to guests' cars in specially reserved parking spaces.

# MENU

**75%** NEW AND/OR IMPROVED MENU  
ITEMS IN LAST TWO YEARS



ENHANCED VARIETY, FLAVOR AND PORTION SIZE. Applebee's latest core menu, introduced in fall 2003, features 75 percent of menu items that have been newly added or significantly improved over the past two years. With noticeably improved variety and flavors, quality and portion size, our menu positions us to compete successfully against higher-priced competitors in the casual dining segment. Our new menu features something for every taste and appetite – from our Crispy Orange Chicken Skillet to Boneless Buffalo Wings to Sizzling Apple Pie.



# GUEST DRIVEN

## 10 NEW WEIGHT WATCHERS® MENU ITEMS COMING IN 2004

ONION SOUP AU GRATIN

TORTILLA CHICKEN MELT

GRILLED CITRUS CHICKEN SALAD

BAJA CHICKEN ROLLUP

MESQUITE CHICKEN SALAD

SIZZLING CHICKEN SKILLET

GRILLED TILAPIA WITH MANGO SALSA

TERIYAKI SHRIMP SKEWERS

BERRY LEMON CHEESECAKE

CHOCOLATE RASPBERRY LAYER CAKE



TEAMING WITH THE WORLD'S WEIGHT-LOSS LEADER. Under an exclusive agreement with Weight Watchers, a portion of the Applebee's menu will be co-branded to offer more healthful alternative appetizers, entrees and desserts. The most popular items now being tested will be selected for our nationwide menu rolling out in the summer of 2004. Weight- and nutrition-conscious guests will be able to truly enjoy a guilt-free dining experience with flavorful, satisfying alternatives.

# ATMOSPHERE

27 MILLION TOURISTS VISIT  
TIMES SQUARE EACH YEAR,  
SITE OF OUR SYSTEM'S  
HIGHEST-VOLUME RESTAURANT



APPLEBEE'S AT THE CROSSROADS. Applebee's restaurants serve guests in major cities and small towns across America. Last year, the average restaurant in our system had annual sales of \$2.35 million, with over 200 units exceeding the \$3 million mark. With 2003 sales of \$11.3 million, the highest-volume Applebee's restaurant is on 42nd Street in the heart of New York City's Times Square – the self-described “Crossroads of the World” visited by some 27 million tourists each year.



# CONCEPT

## 250 RESTAURANTS TO BE REMODELED IN 2004



*Steve Grove, left, our 2003 Franchisee of the Year, and Stuart Waggoner, President and COO of Restaurant Concepts II, LLC, exemplify how we partner with our franchisees to continually evolve our brand.*



CONTINUOUSLY REFRESHING OUR CONCEPT. To attract guests and keep them coming back, we are constantly evolving and continuously improving the Applebee's concept to keep it fresh, exciting and inviting. Our recently introduced prototype features a new look – the biggest visual impact being the removal of the bar canopy and the elimination of the stained glass lights. Updates will also be seen in the color schemes – from the wall coverings to the seating. A greater emphasis will be placed on local artifacts – including more local history, updated memorabilia from area high schools, hometown hero tributes and items from local fire and police departments.

# SERVICE

# 13%

IMPROVED TICKET TIME  
FOR FASTER, HOTTER FOOD

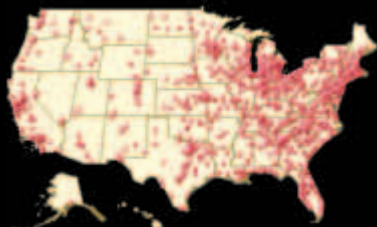


TECHNOLOGY BOOSTS GUEST SATISFACTION. Passionate, attentive service is fundamental to Applebee's success, and we continually monitor and measure our operations to ensure we meet expectations. We know that half the drivers of customer satisfaction and loyalty involve promptness – taking the order, delivering the meal and bringing the check. Our Kitchen Display System (KDS) is cooking up efficiencies in the kitchen and helping to improve ticket times by 13 percent – so our guests receive their food faster and hotter than ever.



# DEVELOPMENT

**100** OR MORE NEW RESTAURANTS OPENED  
IN EACH OF THE PAST 11 YEARS



SHOOTING FOR 2,300. Beginning in 1993, Applebee's has opened at least 100 new restaurants for 11 consecutive years – that's going from 250 restaurants at the end of 1992 to 1,585 at the close of 2003. To add a bit of perspective, that incredible development momentum is roughly equivalent to opening a new restaurant almost every other business day for more than a decade. And we're not done – we continue to estimate domestic potential for the Applebee's system of at least 2,300 restaurants.

# PEOPLE

# 96%

OF OUR TOP  
GENERAL  
MANAGERS  
STAY AND GROW  
THEIR CAREERS  
AT APPLEBEE'S



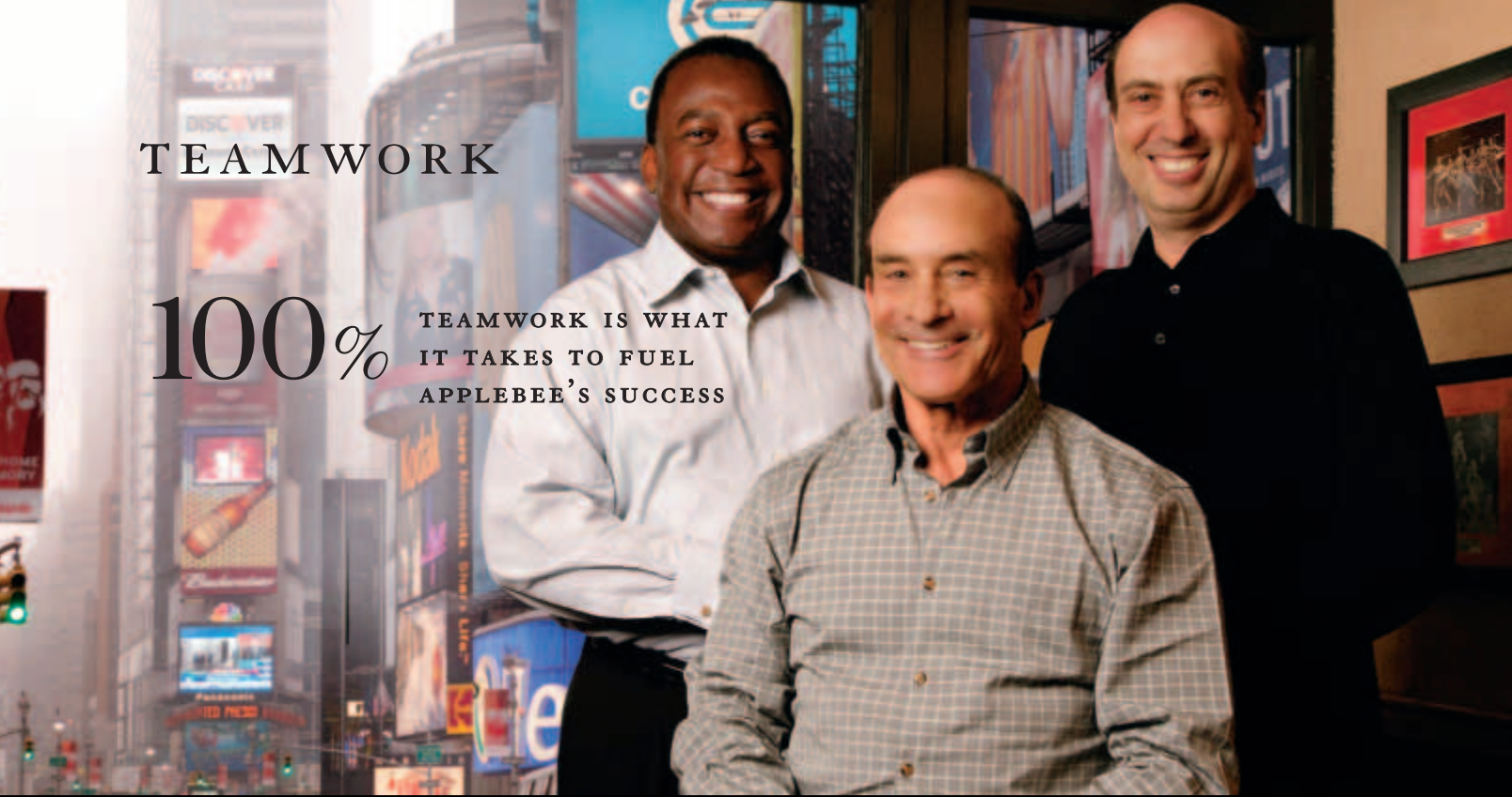
A WORLD OF OPPORTUNITY. Using innovative approaches to employee performance and retention, including mix management, creative rewards and recognition, and cutting-edge selection and assessment tools, Applebee's is an industry leader in retaining and promoting its best and brightest associates. Bonnie Kunkel (right), who began her Applebee's career as a server, was promoted up through the ranks to executive general manager. Kathy Pozarski (left) and Brent Robison both began their careers as servers, were later promoted to general managers, and today continue their Applebee's careers as area directors.



# TEAMWORK

# 100%

TEAMWORK IS WHAT  
IT TAKES TO FUEL  
APPLEBEE'S SUCCESS



**THE POWER OF MANY.** Applebee's associates know there's strength in numbers. That's why teamwork is a core value and key ingredient to the company's success. (Top) Franchise Consultant Glenn Crowell (left) partners closely with New York City franchisees Zane Tankel and Roy Raeburn. (Bottom) Meanwhile, the company operations team, led by Carin Stutz (center) and regional vice presidents (from left) Francis Christman, Miguel Fernandez, John Mallon and Matt Drennan work closely together to encourage and support the nearly 400 company-owned restaurants.



**PASSION FOR SERVICE.** Whether it's our guests at the restaurants or our co-workers at the Restaurant Support Center in Overland Park, Applebee's associates are passionate about providing exceptional service. (Top) These St. Louis area general managers and area director depend heavily on the support they receive from Patsy Ward (second from right) in the restaurant accounting department. (From left) Jim Milner, Wendy McClure, Steve Corrier and Jeanne Paxton say Patsy sets the standard for service. (Bottom) Applebee's executives recognize that nearly every company initiative must ultimately be executed in the restaurant. To make certain they understand how decisions will impact the front lines, each year the executives select the top GMs to serve as advisors on the President's Leadership Council (shown here).



**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 and Steven K. Lumpkin

**BOARD OF DIRECTORS**

**Lloyd L. Hill**  
*Chairman of the Board, Chief Executive Officer and President, 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**  
*Retired Former Executive, Applebee's International, Inc.*

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

**OFFICERS**

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

**David L. Goebel**  
*Executive Vice 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*

**Larry A. Cates**  
*President of International Division*

**Philip R. Crimmins**  
*Senior Vice President of Development*

**Kurt Hankins**  
*Senior Vice President of Menu Development and Innovation*

**David R. Parsley**  
*Senior Vice President of Supply Chain Management*

**Carin L. Stutz**  
*Senior Vice President of Company Operations*

**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*

**Tamy T. Duplantis**  
*Vice President of Information Technology*

**Beverly O. Elving**  
*Vice President of Accounting*

**James W. Kirkpatrick**  
*Vice President of Real Estate and Construction*

**Samuel M. Rothschild**  
*Vice President of Franchise Operations*

**Harry B. Stroup**  
*Vice President of Design and Facilities*

**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*

## CORPORATE INFORMATION

### CORPORATE HEADQUARTERS

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

### INDEPENDENT ACCOUNTANTS

Deloitte & Touche LLP  
1010 Grand Avenue, 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

American Stock Transfer & Trust Co.  
59 Maiden Lane  
New York, New York 10007  
(800) 937-5449

### ANNUAL MEETING

Shareholders are cordially invited to attend the 2004 Annual Meeting of Stockholders which will be held at 10:00 a.m., CDT, on May 13, 2004 at the Doubletree Hotel, 10100 College Boulevard, 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 nine 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 28, 2003, there were 1,585 Applebee's Neighborhood Grill & Bar restaurants, of which 1,202 were operated by franchisees and 383 were operated by the company.

### DIVIDENDS

The 2003 annual dividend was \$0.07 per share, paid in January 2004.

### SHAREHOLDERS

There were approximately 25,500 beneficial shareholders including 1,349 shareholders of record as of December 28, 2003.

### TRADEMARKS

The following are registered trademarks of Applebee's International, Inc.: Applebee's Neighborhood Grill & Bar,<sup>®</sup> Applebee's Neighborhood Grill & Bar and Design,<sup>®</sup> T.J. Applebee's Rx for Edibles and Elixirs,<sup>®</sup> America's Favorite Neighbor,<sup>®</sup> As American As Applebee's,<sup>®</sup> Eatin' Good in the Neighborhood,<sup>®</sup> It's Got to Be Applebee's,<sup>®</sup> Carside To Go and Design,<sup>™</sup> To Go and Design.<sup>®</sup>

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 11, 2004. The company disclaims any obligation to update these forward-looking statements.

## COMMON STOCK INFORMATION

Our common stock trades on The Nasdaq Stock Market,<sup>®</sup> 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.

	2003		2002	
	High	Low	High	Low
First Quarter	\$28.30	\$23.09	\$25.41	\$21.20
Second Quarter	\$31.75	\$26.75	\$27.67	\$22.26
Third Quarter	\$33.47	\$29.74	\$23.50	\$19.13
Fourth Quarter	\$40.19	\$30.80	\$26.35	\$19.03

At December 28, 2003 there were 1,349 stockholders of record.

We declared an annual dividend of \$0.07 per common share on December 11, 2003 for stockholders of record on December 26, 2003, and the dividend was paid on January 23, 2004. We declared an annual dividend of \$0.06 per common share on December 12, 2002 for stockholders of record on December 27, 2002, and the dividend was paid on January 30, 2003.

Visit your neighborhood Applebee's soon, and let us show you how our love for what we do, our passion for service and our hard work make for a memorable dining experience.

[WWW.APPLEBEES.COM](http://WWW.APPLEBEES.COM)

APPLEBEE'S INTERNATIONAL, INC.

4551 WEST 107TH STREET

OVERLAND PARK, KANSAS 66207