



AFC ENTERPRISES, INC.
2005 Annual Report

Maximizing...



A close-up photograph of AFC Enterprises food items. In the foreground, a large, golden-brown, crispy fried chicken drumstick is the central focus. To its left, a white bowl is filled with brown rice mixed with green onions. In the background, another white bowl contains a fresh green salad with shredded lettuce and small pieces of orange and red vegetables. The food is presented on a wooden surface, and a small sprig of green herbs is visible in the lower-left corner.

... Flavor

This was the year that AFC Enterprises was reborn.

We are in many ways a new company, with new initiatives, a new management team, and a new outlook that combines solid industry experience with fresh ways of thinking. 2005 was the year that AFC became a smaller, more efficient company focused on maximizing flavor and variety for our customers, growth and cost savings opportunities for our franchisees, a positive work environment for our employees, and strong performance and return for our shareholders. AFC had outstanding operational results in 2005 and is poised for growth and positive results in 2006.



To Our Stakeholders

In AFC's 2004 annual report, I shared my expectations that 2005 would bring "alignment to brand communications, a larger re-image presence in our existing markets, a menu that is more consistent and relevant to our customers, operations that are responsive to what our guests expect, and a business that provides stronger sales and profits to our franchisees." I am extremely pleased to report that in 2005, the AFC team turned those expectations into realities.

Staying focused

In 2005, our company's infrastructure went through an incredible transition as we moved from an organization that once managed five different brands to management of the single brand that we felt would maximize our shareholders' satisfaction and return—Popeyes® Chicken & Biscuits. The AFC team remained focused on results, despite the potential for significant distractions as brands were sold, the infrastructure was reduced, and a new management team formed.

First and foremost, we had to take the steps necessary to set a strong foundation for 2006. These efforts included putting in place a new credit facility that would provide operating capital and enable the company to pay a \$12 per share dividend to our shareholders. In addition, we settled shareholder litigation relating to the restatement of AFC's financial statements for fiscal years 2000 and 2001 and the first three quarters of 2002. Finally, we closed the former AFC headquarters and consolidated all functions and personnel into the existing Popeyes Chicken & Biscuits facility.

Next, we sharpened our focus on key business drivers and delivered positive performance over the course of the year. From development to marketing, 2005 saw a new approach centered on specific objectives. As a direct result, we saw renewed vigor and interest from franchisees, consumers, investors, and employees.

Excellent results reflect outstanding efforts

The Popeyes team worked extremely hard during 2005 and our efforts paid off with positive numbers across a range of metrics. System-wide sales increased 4.8 percent versus fiscal 2004, driven primarily by a 3.3 percent increase in domestic restaurant comparable sales. In addition, we saw a solid trend of positive transactions in 2005 and we fully expect that to continue throughout 2006.

Our restaurant development pipeline improved significantly in 2005 and the results of those efforts were seen in our new restaurant opening performance late in 2005, extending into 2006. Our development team delivered nearly 13 percent more unit openings than in 2004, with 123 new Popeyes restaurants opening during the year. We believe we are on track for continued strong performance in 2006.

Our goal for 2006: continue the momentum

AFC and Popeyes made significant strides in 2005 and we have created positive momentum that will continue the long-term viability of this company. We have a number of important initiatives we plan to execute in the months ahead that will keep driving the business forward and generate continued growth.

First, we will continue to focus on operations to make our stores run more smoothly and provide even faster service. We have already made progress in this area as reflected in the 12 percentage point improvement in our operating scores over the past year. These scores, measured by consumer comments and mystery shop scores conducted by two independent firms, provide a first-hand consumer perspective—a key indicator of our performance at the operations level. Clearly, in such a competitive environment, we must consistently deliver a positive customer experience on every visit.

We are designating 2006 to be the "Year of the Operator" for Popeyes and placing significant emphasis on consistent operations across the system. We began this initiative in March 2006 with our first Popeyes Operators Summit in Atlanta.

Open to all Popeyes franchisees and their key operators, the summit focused solely on improving our operations execution at the restaurant level. Additionally, we will place great emphasis on consistent national standards and



(Left to Right)
Bob Melberth, Vice President, Field Services;
Ken Keymer, CEO, AFC Enterprises, Inc., President, Popeyes Chicken & Biscuits;
Jim Lyons, Chief Development Officer;
Rob Calderin, Chief Marketing Officer.

system-wide testing throughout the year, all in an effort to improve the quality and speed of our service.

Working with our current and new franchise operators, we have targeted 130-140 new system-wide restaurant openings for 2006 with domestic new unit openings expected to comprise approximately 60 percent of that total. The brand's new unit development will continue to focus on penetrating existing markets and expanding under-penetrated areas of the country such as the Northeast, Northwest, and Southwest. Internationally, Popeyes will continue to focus on developing restaurants in Canada, Mexico, Latin America, and the Middle East. The growth of our development pipeline, the renewed vigor of our existing franchise operators, and the excitement surrounding the Popeyes brand make me confident that 2006 will be another strong development year for the brand.

Finally, in 2006 Popeyes expects domestic same-store sales growth of 2.0-3.0 percent driven by the introduction of new menu items, continued operational improvements, and more effective food-focused advertising. We will communicate a strong brand message built around food, flavor, and fun. We call this campaign "Food with 'tude," and you can expect that message to come through loud and clear in every Popeyes market. It is all part of our effort to communicate how Popeyes maximizes flavor and choice for the consumer. These are our most compelling points of difference and we intend to leverage them at every opportunity—both to convince new customers to try us and to encourage existing customers to come back again and again.

Financially, 2006 will bring greater emphasis on enhancing value and long-term growth for investors. We will continue efforts begun in 2005 to lower operational costs and to improve margins and overall cash flow.

When you look at the challenges we faced in 2005—both the transitional challenges and the curves Mother Nature threw at us—I think you'll agree that we had a very remarkable year operationally. We started to see things come together very strongly toward the end of the year and I believe that what we've seen in the last half of 2005 will translate very well into 2006. As a result, I have every reason to believe that 2006 will be a very successful year for AFC and the Popeyes brand. It has been and continues to be an exciting time to be part of this organization.



Kenneth L. Keymer
Chief Executive Officer, AFC Enterprises, Inc.
President, Popeyes® Chicken & Biscuits

The 2005 Hurricane Season: Its effect, our response.



Popeyes employees sort goods that were donated to hurricane victims in the New Orleans area.

Of all of the challenges we faced in 2005, Hurricane Katrina was by far the greatest and the most personal. When the storm came ashore in New Orleans on August 28, more than 800 company employees in the New Orleans area, as well as the families and friends of many employees at our headquarters in Atlanta, were displaced. It was clearly a painful time in the Popeyes brand history. It was widely recognized throughout the organization that this would be a challenge that would test the management team's mettle and ability to focus on the business despite concern for our extended family along the Gulf Coast.

Within hours after Katrina made landfall, we set up a situation room staffed with a crisis team that contacted our employees, operators, and vendors in the affected areas to determine their safety. We were on the ground just days after Hurricane Katrina assessing damage. The team quickly verified that approximately 95 to 100 restaurants, including all 36 company-owned locations in the region, were damaged sufficiently to be closed.

Seeing the damage first hand and feeling deeply about the devastating impact of Katrina on our friends and family, AFC and our franchisees pledged to raise funds in support of Hurricane Katrina relief efforts and to rebuild the city of New Orleans. This pledge included a \$500,000 cash donation to the American Red Cross. Our commitment to the city is stronger than ever as we make every possible effort to reopen restaurants.

As of January 9, 2006, we had 25 restaurants temporarily closed due to the effects of Hurricane Katrina, which included 21 company-owned restaurants in New Orleans and four franchised restaurants in other areas of the Gulf Coast region. We have reopened 12 company-owned restaurants in New Orleans and during 2006 we expect to reopen an additional eight to 12 of the 21 company-owned restaurants that were temporarily closed as of January 9, 2006. We expect the four closed franchised restaurants to reopen during fiscal 2006. Hurricane Katrina was followed in quick succession by Hurricanes Rita and Wilma. They too had significant impact on communities on the Gulf Coast as well as the southern portion of Florida.

Our commitment to the entire region continues and we keep those struggling to rebuild their lives in our thoughts.

Maximizing Choices

Chicken Combos

Signature Sides

Reg Side 1g Side

Cole Slaw

Cajun Rice

Red Beans & Rice

Garlic Potatoes

and Cajun Sauce

Chicken & Sausage Jambalaya

Cajun Battered Fries

Biscuits ea. 6/ 12/

Drinks

Big Value

Chicken Strips

Mild, Naked or Spicy

3 CHICKEN STRIPS

Basket includes: reg side + biscuit

5 CHICKEN STRIPS BOX

Sandwiches

SPICY SAUSAGE CHICKEN DELUXE

Chicken Dinners

2 Pc Dinner

3 Pc Dinner

4 Pc Dinner

1 2 PCS CHICKEN

2 3 PCS CHICKEN

3 3 CHICKEN STRIPS

Combos include: reg side + biscuit + med drink

4 CHICKEN DELUXE

5 CHICKEN & SAUSAGE JAMBALAYA

Legend Combo includes: h

Sandwich Combo includes:

Combos include: reg side +

Popeyes is legendary for its flavor. Over the years, the flavor of our chicken—and the just plain great taste of our other menu items—has made flavor a major differentiating factor for Popeyes. From the early days of Popeyes, it was always the look, smell, and tastes that came to define what New Orleans-style cooking at Popeyes was all about. And that hasn't changed much today. We have been and always will be known for the great taste of our food and the uniqueness of our menu.

Today, we are focused on expanding that unique flavor profile to new menu items. As we develop new products, flavor will continue to be the biggest part of the development criteria. This approach maximizes the choices available to our customers, giving them more reasons to come to Popeyes throughout the day—be it for a snack occasion, lunch, or dinner. Clearly, the more we can bring in customers over the course of the week at various dayparts, the better our transactions and sales.

Popeyes has always held a leadership position within the industry for strong flavor profiles and innovation. We intend to maintain that leadership by doing more than simply adding new items to the menu. Instead, we will rotate new items onto the menu—in some cases as permanent additions, but more often than not as limited time offers. We will also revisit old favorites from time to time, all in an effort to highlight our flavor profile and provide consumers with new reasons to visit our restaurants.

For example, in 2005 we introduced a number of successful new products, including Popeyes Naked Chicken Strips™, Big Flava™ Chicken Deluxe Sandwiches, Southwest Shrimp, and Buffalo Nuggets. Popeyes Naked Chicken Strips and Big Flava Chicken Deluxe Sandwiches are now permanent menu items,

Seafood Combos



6
POPCORN
SHRIMP



7
POPCORN
SHRIMP
DELUXE



8
CATFISH
DELUXE



ides: biscuit • med drink
cludes: reg side • med drink
g side • biscuit • med drink

Sandwich Combo includes: reg side • med drink
Combos include: reg side • biscuit • med drink

Family Meals



8 PCS MIXED CHICKEN
1 lg side • 4 biscuits
8 PCS MIXED CHICKEN

12 PCS MIXED CHICKEN
2 lg sides • 6 biscuits
12 PCS MIXED CHICKEN

16 PCS MIXED CHICKEN
2 lg sides • 8 biscuits
16 PCS MIXED CHICKEN

Featured Specials



Local Favorites

Fried Livers
Onion Rings

Desserts



Restaurant re-imaging: it's all about looking good.

Curb appeal is an essential part of a restaurant's success. When faced with a choice, consumers are much more likely to dine at an attractive restaurant that appears clean and inviting. But, since the cost of re-imaging is always a concern, we found ways to cut the cost while maintaining the heritage and the attractiveness of the re-imaged restaurant facility. The result: franchisees did twice as many re-images in 2005 than in 2004. We think that's an excellent sign that franchisees are reinvigorated about the brand.

while Southwest Shrimp and Buffalo Nuggets will become limited time offers at key points during the year, based on their strong performance and high consumer appeal.

In addition to launching many great tasting new items in 2005, our Menu Development team is also exploring new ways for our customers to enjoy our existing core menu items and continues to focus on ingredient improvement, intensifying flavor, and building a pipeline of new products for the future, all based on the unique Popeyes flavor customers crave.

For Popeyes, maximizing choices goes beyond new menu items. It extends to how consumers make those choices at the restaurant. In 2005, we made it easier for Popeyes customers to order their favorite combinations by rolling out a completely revamped menu board. The new design places a greater emphasis on combo meals, providing value for the customer and significantly improving the speed of service and overall restaurant experience. In addition, by putting greater focus on combo meals, the new boards are designed to increase beverage sales, which have a significant impact on restaurant profitability.

Clearly, focusing on our unique flavor profile and superiority allows for greater innovation, a wider variety of choices, and more reasons for customers to visit our restaurants. Our bottom line: maximizing choices maximizes profits which maximizes returns for all stakeholders.



Maximizing



It seems like whenever a new Popeyes restaurant opens, excitement follows (see the sidebar, for a recent example). And it's easy to see why: nobody else offers Popeyes combination of flavors and choices—even for restaurant development.

Fulfilling needs and providing resources

The year 2005 was a solid one for Popeyes Development. We are attracting new franchisees to the brand and stimulating growth from existing franchisees for a number of reasons. First, they know Popeyes offers a unique menu and flavor profile that customers love.

Second, they know that we are more committed than ever to their success and the success of the entire system and are implementing the steps necessary to fulfill that commitment.

Third, our Development team worked to reduce new restaurant and re-imaging costs, which provided greater incentive to develop new restaurants and re-image existing units. We saw a solid increase in re-imaged restaurants in 2005 and we anticipate a continuation of that trend in 2006 as we push toward a goal of having all restaurants in the system re-imaged by 2008.

Fourth, and probably most important, was the transition from a centralized support model to one in which operations, development, and field marketing people live and work in the markets they support. This new model enables our field-based team members to form closer relationships with franchisees and have greater insight and knowledge of the market, customer base, and franchisee needs and issues. For the development team, this new structure fosters better relationships with developers and brokers in the area, improving the development process. Decentralization significantly improved our franchisee support system and was instrumental in our ability to attract many new quality franchisees in 2005—and is why we expect the trend to continue in 2006.



Development

A three-hour wait for chicken? Sure, if it's Popeyes chicken.

In December 2005, a Popeyes franchisee opened a new location in Des Moines, Iowa. Even he was stunned by the response. According to the *Des Moines Register*, "From joining the end of the line to leaving with your bag of chicken took three hours. The line for the dining room was 2½ hours." Now that's a hot QSR concept.

Maximizing choices for franchisees

Just as we pride ourselves on maximizing choices for customers, we do the same thing for our franchisees. We call it a "menu of venues," and it simply means that we help franchisees capitalize on opportunities in a variety of markets by enabling them to develop different types of restaurants for different locations.

In addition to the traditional standalone Popeyes restaurant, operators can open smaller walk-up locations, which are ideal for urban settings where space is tight, or they can develop a drive-through only location or add a drive-through to an existing standalone unit. Other restaurant options include an in-line format for a strip mall and institutional versions of Popeyes for locations such as hospitals, malls, and food courts.

Popeyes "menu of venues" is key to ensuring continued growth of the system and penetration of the brand domestically and internationally. For franchisees to continue to develop and grow, we must provide options so that they can build the right building type in the right location at the right cost.

Maximizing development maximizes profits

It's a simple equation: reducing development costs maximizes the bottom line. Good market planning—choosing the best sites—maximizes the top line.

So the emphasis in development at Popeyes is maximizing new location opportunities, maximizing franchisee investment opportunities, and maximizing convenience to the customer by being where they already live, work, and play. That kind of convenience means customers will probably come more often.

It's all designed to make Popeyes attractive to consumers by making Popeyes attractive to franchisees.



Maximizing Returns

Financial Highlights (Continuing Operations) & Key Operational Metrics⁽¹⁾

(Dollars in millions, except per common share data)	2005	2004	2003
Franchise revenues	\$ 77.5	\$ 72.8	\$ 70.8
Total revenues ⁽²⁾	\$ 143.4	\$ 163.9	\$ 161.5
Loss before discontinued operations and accounting change	\$ (8.4)	\$ (14.3)	\$ (14.5)
Net income (loss) ⁽³⁾	\$ 149.6	\$ 24.6	\$ (9.1)
Diluted earnings per common share: Net income (loss) ⁽⁴⁾	\$ 5.14	\$ 0.87	\$ (0.33)
System-wide sales increase from prior year ⁽⁵⁾	4.8%	4.5%	3.6%
Domestic system-wide same-store sales growth	3.3%	1.3%	(2.6)%
Restaurant openings	123	109	177
Total units	1,828	1,825	1,806

(1) The information presented in the table relates to AFC's continuing operations with the exception of net income (loss) and diluted earnings per common share. The Company sold Church's Chicken and Cinnabon in 2004, and Seattle Coffee Company in 2003 and accordingly, results of those operations have been excluded from the above statistics. Refer to AFC's Consolidated Financial Statements and Management's Discussion & Analysis of Financial Condition and Results of Operations in the attached Annual Report on Form 10-K for additional information concerning financial performance.

(2) Total revenues for 2005 and 2004 included approximately \$2.7 million and \$12.6 million, respectively, in sales related to Popeyes franchisees that were consolidated as part of AFC's adoption of FIN 46R.

(3) Discontinued operations provided after-tax income of \$158.0 million during 2005 (all of which was associated with a gain on the sale of Church's Chicken) and provided after-tax income of \$39.1 million in 2004 (principally related to the gain on the sale of Cinnabon and Church's Chicken operating results).

(4) Weighted average common shares for the computation of diluted earnings per common share were 29.1 million, 28.1 million, and 27.8 million for 2005, 2004, and 2003, respectively. For all three years presented, potentially dilutive employee stock options were excluded from the computation of dilutive earnings per share due to the anti-dilutive effect they would have on "loss before discontinued operations and accounting change."

(5) System-wide sales increase calculates combined sales of all restaurants that we operate or franchise. Information for franchised units is provided by our franchisees. System-wide sales are unaudited.



Board of Directors

Frank J. Belatti

Chairman: AFC Enterprises, Inc.
Director since: 1992 Age: 58

Victor Arias, Jr.

Executive Search Consultant:
Heidrick & Struggles
Director since: 2001 Age: 49

Carolyn Hogan Byrd

Founder, Chair & CEO:
GlobalTech Financial, LLC
Director since: 2001 Age: 57

R. William Ide, III

Partner: McKenna Long &
Aldridge, LLP
Director since: 2001 Age: 65

Kelvin J. Pennington

President: Pennington Partners & Co.
Director since: 1996 Age: 47

John M. Roth

Principal: Freeman Spogli & Co.
Director since: 1996 Age: 47

Peter Starrett

President: Peter Starrett Associates
Director since: 1998 Age: 58

Shareholder Information

Principal Office

5555 Glendridge Connector NE
Suite 300
Atlanta, GA 30342
404-459-4450

Stock Transfer Agent

SunTrust Bank
Stock Transfer Department
Mail Code 0258
P. O. Box 4625
Atlanta, GA 30302-4625
800-568-3476
www.suntrust.com

Other Information

The Company's press releases, annual report and other information can be accessed through its home page on the World Wide Web at:
www.afce.com

Annual Meeting

AFC's 2006 Annual Meeting will be held at:
The Westin Atlanta North at Perimeter
Seven Concourse Parkway
Atlanta, GA 30328
9:00 AM ET, May 25, 2006
770-395-3900

Form 10-K

The Company's 2005 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is being delivered with this Letter to Our Stakeholders.

Copies of the Annual Report on Form 10-K are also available without charge upon written request to:
AFC Enterprises, Inc.
5555 Glendridge Connector NE
Suite 300
Atlanta, GA 30342
Attn: Investor Relations
www.investor.afce.com

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this release, and other written or oral statements made by or on behalf of AFC or its brand are "forward-looking statements" within the meaning of the federal securities laws. Statements regarding future events and developments and our future performance, as well as management's current expectations, beliefs, plans, estimates or projections relating to the future, are forward-looking statements within the meaning of these laws. These forward-looking statements are subject to a number of risks and uncertainties. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are: competition from other restaurant concepts and food retailers, the loss of franchisees and other business partners, labor shortages or increased labor costs, increased costs of our principal food products, changes in consumer preferences and demographic trends, as well as concerns about health or food quality, instances of avian flu or other food-borne illnesses, the need to continue to improve our internal controls, adverse effects on operations from Hurricane Katrina, the Company's ability to recover related

losses from its insurers and the economic impact on consumer spending in markets affected by Katrina, the loss of senior management and the inability to attract and retain additional qualified management personnel, limitations on our business under our 2005 Credit Facility, failure of our franchisees, a decline in the number of franchised units, a decline in our ability to franchise new units, slowed expansion into new markets, unexpected and adverse fluctuations in quarterly results, increased government regulation, adverse effects of regulatory actions arising in connection with the restatement of our previously issued financial statements, effects of increased gasoline prices, general economic conditions, supply and delivery shortages or interruptions, currency, economic and political factors that affect our international operations, inadequate protection of our intellectual property and liabilities for environmental contamination and the other risk factors detailed in our 2005 Annual Report on Form 10-K and other documents we file with the Securities and Exchange Commission. Therefore, you should not place undue reliance on any forward-looking statements.

