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APPLEBEES INTERNATIONAL INC
Form 10-Q
April 28, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 27, 2005

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-17962

Applebee's International, Inc.

(Exact name of registrant as specified in its charter)

Delaware

43-1461763

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification
No.)

4551 W. 107th Street, Overland Park, Kansas 66207

(Address of principal executive offices and zip code)

(913) 967-4000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act). Yes ☒ No ☐

The number of shares of the registrant's common stock outstanding as of April 22, 2005 was 81,125,240.

APPLEBEE'S INTERNATIONAL, INC.
FORM 10-Q
FISCAL QUARTER ENDED MARCH 27, 2005
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PART I. FINANCIAL INFORMATION

Item 1.	Condensed Consolidated Financial Statements
	APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES

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CONSOLIDATED BALANCE SHEETS (Unaudited) (in thousands, except share amounts)

March 27,
2005

ASSETS

Current assets:

Cash and cash equivalents.....	\$ 6,195
Short-term investments, at market value.....	282
Receivables (less allowance for bad debts of \$394 in 2005 and \$417 in 2004).....	43,712
Receivables related to captive insurance subsidiary.....	4,163
Inventories.....	28,755
Prepaid and other current assets.....	15,660
Total current assets.....	98,767
Property and equipment, net.....	506,072
Goodwill.....	117,002
Restricted assets related to captive insurance subsidiary.....	18,162
Other intangible assets, net.....	8,318
Other assets, net.....	27,429
	\$ 775,750

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt.....	\$ 233
Notes payable.....	2,000
Accounts payable.....	34,811
Accrued expenses and other current liabilities.....	85,829
Loss reserve and unearned premiums related to captive insurance subsidiary..	15,168
Accrued dividends.....	--
Accrued income taxes.....	15,495
Total current liabilities.....	153,536

Non-current liabilities:

Long-term debt - less current portion.....	25,412
Deferred income taxes.....	32,185
Other non-current liabilities.....	43,802
Total non-current liabilities.....	101,399
Total liabilities.....	254,935

Commitments and contingencies (Note 4)

Stockholders' equity:

Preferred stock - par value \$0.01 per share: authorized - 1,000,000 shares; no shares issued.....	--
Common stock - par value \$0.01 per share: authorized - 125,000,000 shares; issued - 108,503,243 shares.....	1,085
Additional paid-in capital.....	228,474
Unearned compensation.....	(4,155)
Retained earnings.....	654,972
	880,376

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Treasury stock - 27,428,482 shares in 2005 and 27,375,044 shares in 2004, at cost.....	(359,561)
Total stockholders' equity.....	520,815
	\$ 775,750
	=====

See notes to condensed consolidated financial statements.

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APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in thousands, except per share amounts)

	13 Weeks Ended	
	March 27, 2005	March 20
		(as re
Revenues:		
Company restaurant sales.....	\$ 270,458	\$ 24
Franchise royalties and fees.....	33,008	3
Other franchise income.....	1,065	
Total operating revenues.....	304,531	27
Cost of company restaurant sales:		
Food and beverage.....	71,635	6
Labor.....	88,724	7
Direct and occupancy.....	66,367	5
Pre-opening expense.....	1,167	
Total cost of company restaurant sales.....	227,893	20
Cost of other franchise income.....	819	
General and administrative expenses.....	26,946	2
Amortization of intangible assets.....	228	
Loss on disposition of restaurants and equipment.....	297	
Operating earnings.....	48,348	4
Other income (expense):		
Investment income (expense).....	(41)	
Interest expense.....	(337)	
Other income.....	435	
Total other income.....	57	
Earnings before income taxes.....	48,405	4
Income taxes.....	16,748	1
Net earnings.....	\$ 31,657	\$ 2
	=====	=====
Basic net earnings per common share.....	\$ 0.39	\$

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Diluted net earnings per common share.....	\$ 0.38	\$
Basic weighted average shares outstanding.....	80,705	8
Diluted weighted average shares outstanding.....	82,375	8

See notes to condensed consolidated financial statements.

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APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited) (in thousands)

	Common Stock		Additional	
	Shares	Amount	Paid-In Capital	Unearned Compensation
Balance, December 26, 2004	108,503	\$ 1,085	\$ 220,897	\$ (1,92
Net earnings	--	--	--	--
Purchases of treasury stock	--	--	--	--
Stock options exercised and related tax benefit	--	--	4,975	--
Shares issued under employee benefit plans	--	--	617	--
Restricted shares awarded under equity incentive plans, net of cancellations	--	--	1,985	(2,72
Amortization of unearned compensation relating to restricted shares	--	--	--	49
Balance, March 27, 2005	108,503	\$ 1,085	\$ 228,474	\$ (4,15

See notes to condensed consolidated financial statements.

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APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (in thousands)

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CASH FLOWS FROM OPERATING ACTIVITIES:

Net earnings
Adjustments to reconcile net earnings to net
cash provided by operating activities:
Depreciation and amortization
Amortization of intangible assets
Amortization of unearned compensation
Other amortization
Deferred income tax provision
Loss on disposition of restaurants and equipment
Income tax benefit from exercise of stock options
Changes in assets and liabilities (exclusive of effects of acquisitions):
Receivables
Receivables related to captive insurance subsidiary
Inventories
Prepaid and other current assets
Accounts payable
Accrued expenses and other current liabilities
Loss reserve and unearned premiums related to captive insurance
subsidiary
Income taxes
Other non-current liabilities
Other

NET CASH PROVIDED BY OPERATING ACTIVITIES

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment
Restricted assets related to captive insurance subsidiary
Acquisition of restaurants
Purchases of short-term investments
Other investing activities

NET CASH USED BY INVESTING ACTIVITIES

CASH FLOWS FROM FINANCING ACTIVITIES:

Purchases of treasury stock
Dividends paid
Issuance of common stock upon exercise of stock options
Shares issued under employee benefit plans
Net debt proceeds (payments)

NET CASH USED BY FINANCING ACTIVITIES

NET DECREASE IN CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS, beginning of period

CASH AND CASH EQUIVALENTS, end of period

See notes to condensed consolidated financial statements.

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APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
(Unaudited)
(in thousands)

	13 Wee
	March 27, 2005
SUPPLEMENTAL DISCLOSURES OF CASH	
FLOW INFORMATION:	
Cash paid during the 13 week period for:	
Income taxes.....	\$ 626
Interest.....	\$ 210

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

In April 2005, we finalized the acquisition of eight Applebee's restaurants that were closed in 2004 by a former franchisee. We paid approximately \$5,700,000 in cash in the first quarter of fiscal 2005 and paid approximately \$2,300,000 in cash in the second quarter of fiscal 2005.

We issued restricted common stock, net of forfeitures, of \$2,727,000 and \$1,497,000 for the 13 weeks ended March 27, 2005 and March 28, 2004, respectively.

In 2002, we entered into a rabbi trust agreement to protect the assets of the nonqualified deferred compensation plan for certain of our associates. The plan investments are included in other assets and the offsetting obligation is included in other non-current liabilities in our consolidated balance sheets. We had non-cash increases in these balances of \$2,257,000 and \$1,888,000 for the 13 weeks ended March 27, 2005 and March 28, 2004, respectively.

In 2004, we made matching contributions in shares of our common stock to a profit sharing plan and trust established in accordance with Section 401(k) of the Internal Revenue Code of \$1,308,000.

See notes to condensed consolidated financial statements.

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APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

Our condensed consolidated financial statements included in this Form 10-Q have been prepared without audit in accordance with the rules and regulations of the Securities and Exchange Commission. Although certain information and footnote disclosures normally included in financial statements prepared in accordance

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with accounting principles generally accepted in the United States of America have been condensed or omitted, we believe that the disclosures are adequate to make the information presented not misleading. The accompanying condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 26, 2004.

We believe that all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented have been made. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

We have made certain reclassifications to the condensed consolidated financial statements to conform to the fiscal 2005 presentation.

2. Restatement of Financial Statements

Like many other companies in the restaurant, retail and other industries, we reviewed our accounting treatment for leases and depreciation of related leasehold improvements during the fourth fiscal quarter of 2004 and restated our consolidated financial statements for fiscal years 2003 and 2002 and the first three fiscal quarters of fiscal 2004 in our Annual Report on Form 10-K for the fiscal year ended December 26, 2004.

Historically, when accounting for leases with renewal options, we had recorded rent expense on a straight-line basis over the initial non-cancelable lease term, with the term commencing when actual rent payments began and depreciated leasehold improvements on those properties over a maximum period of 20 years which, in certain cases, included a portion of the renewal option periods. We corrected our lease term to include option periods where failure to recognize such options would result in an economic penalty such that the renewal appears reasonably assured. The primary result of this correction was to accelerate the recognition of rent expense under certain leases that include fixed-rent escalations. In addition, the lease term is deemed to commence on the date the company becomes legally obligated for rent payments. Therefore, we adopted a policy to capitalize the straight-line rent amounts during the construction period of leased properties, which resulted in an increase to previously reported property and equipment in the restated consolidated balance sheets and an increase to depreciation expense in the restated consolidated statements of earnings. Straight-line rent subsequent to the construction period and prior to the restaurant opening is recognized as expense, which resulted in an increase to previously reported pre-opening expenses in the restated consolidated statements of earnings.

In connection with the restatement for lease accounting matters, we also corrected previously identified immaterial errors, primarily related to vacation and workers' compensation expense.

The following table contains information regarding the impact of the restatement adjustments on our consolidated statement of earnings for the 13 weeks ended March 28, 2004. All amounts, except per share amounts, are in thousands.

Consolidated Statement of Earnings

13 Weeks Ended

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	March 28, 2004 (As previously reported)	Restate amount
Revenues:		
Company restaurant sales.....	\$ 243,560	\$ -
Franchise royalties and fees	30,772	-
Other franchise income	3,115	-
Total operating revenue	277,447	-
Cost of company restaurant sales:		
Food and beverage	63,515	-
Labor	79,659	-
Direct and occupancy	59,069	-
Pre-opening expense	550	-
Total cost of company restaurant sales	202,793	-
Cost of other franchise income	2,937	-
General and administrative expenses	25,517	-
Amortization of intangible assets	86	-
Loss on disposition of restaurants and equipment	495	-
Operating earnings	45,619	(
Other income (expense):		
Investment income	223	-
Interest expense	(344)	-
Other income	(109)	-
Total other income (expense)	(230)	-
Earnings before income taxes	45,389	-
Income taxes	15,886	-
Net earnings.....	\$ 29,503	\$
	=====	=====
Basic net earnings per common share.....	\$ 0.36	\$ -
	=====	=====
Diluted net earnings per common share.....	\$ 0.35	\$ -
	=====	=====
Basic weighted average shares outstanding	81,986	-
	=====	-
Diluted weighted shares outstanding	84,628	-
	=====	-

3. Stock-Based Compensation

We have adopted the disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123." The Statement requires prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We account for stock-based compensation awards under the intrinsic method of Accounting Principles Board ("APB") Opinion No. 25. Opinion No. 25 requires compensation cost to be recognized based on the excess, if any, between the quoted market price of the stock at the date of grant and the amount an employee must pay to acquire the stock. All options awarded under all of our plans are granted with an exercise price equal to the fair market value on the date of the grant. The

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following table presents the effect on our net earnings and earnings per share had we adopted the fair value method of accounting for stock-based compensation under SFAS No. 123, "Accounting for Stock-Based Compensation" (in thousands, except for per share amounts).

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	13 Weeks Ended	
	March 27, 2005	March 28, 2004
Net earnings, as reported.....	\$ 31,657	(as restated) \$ 29,7
Add: Stock-based compensation expense included in net earnings, net of related taxes.....	282	2
Less: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related taxes.....	1,604	2,5
Pro forma net earnings.....	\$ 30,335	\$ 27,4
Basic net earnings per common share, as reported.....	\$ 0.39	\$ 0.
Basic net earnings per common share, pro forma.....	\$ 0.38	\$ 0.
Diluted net earnings per common share, as reported.....	\$ 0.38	\$ 0.
Diluted net earnings per common share, pro forma.....	\$ 0.37	\$ 0.

4. Commitments and Contingencies

Litigation, claims and disputes: We are involved in various legal actions which include, without limitation, employment law related matters, dram shop claims, personal injury claims and other such normal restaurant operational matters. In each instance, we believe that we have meritorious defenses to the allegations made and we are vigorously defending these claims.

We believe that the ultimate disposition of these matters will not, individually or in the aggregate, have a material adverse effect upon our business or consolidated financial position.

Lease guarantees and contingencies: In connection with the sale of restaurants to franchisees and other parties, we have, in certain cases, remained contingently liable for the remaining lease payments. As of March 27, 2005, we have outstanding lease guarantees of approximately \$18,800,000. These leases expire at various times throughout the next several years with the final lease agreement expiring in 2025. In addition, we or our subsidiaries are contingently liable for various leases that we have assigned in connection with the sale of restaurants to franchisees and other parties, in the potential amount of \$17,700,000. We have not recorded a liability as of March 27, 2005 or December 26, 2004.

Franchisee guarantees: In November 2003, we arranged for a third-party financing company to provide up to \$75,000,000 to qualified franchisees for short-term loans to fund remodel investments, subject to our approval. Under the terms of

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this financing program, we will provide a limited guarantee pool for the loans advanced during the three-year period ending December 2006. As of March 27, 2005, there were loans outstanding to four franchisees aggregating approximately \$1,300,000 under this program.

In May 2004, we arranged for a third-party financing company to provide up to \$250,000,000 to qualified franchisees for loans to fund development of new restaurants through October 2007, subject to our approval. We will provide a limited guarantee of certain loans advanced under this program. As of March 27, 2005, there were loans outstanding to two franchisees aggregating approximately \$14,100,000 under this program. The fair value of our guarantee under these two financing programs was less than \$100,000 and is recorded in other non-current liabilities in our consolidated balance sheet as of March 27, 2005.

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Severance agreements: We have severance and employment agreements with certain officers providing for severance payments to be made in the event the employee resigns or is terminated related to a change in control. The agreements define the circumstances which will constitute a change in control. If the severance payments had been due as of March 27, 2005, we would have been required to make payments totaling approximately \$13,200,000. In addition, we have severance and employment agreements with certain officers which contain severance provisions not related to a change in control. Those provisions would have required aggregate payments of approximately \$6,900,000 if such officers had been terminated as of March 27, 2005.

5. Net Earnings Per Share

We compute basic net earnings per share by dividing earnings available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted net earnings per share reflects the potential dilution that could occur if holders of options or other contracts to issue common stock exercised or converted their holdings into common stock. Outstanding stock options and equity-based compensation represent the only dilutive effects on weighted average shares. The chart below presents a reconciliation between basic and diluted weighted average shares outstanding and the related net earnings per share. All amounts in the chart, except per share amounts, are expressed in thousands.

	13 Weeks Ended	
	March 27, 2005	Mar 27, 2004
	-----	-----
Net earnings.....	\$ 31,657	(as reported) \$ 31,657
	=====	=====
Basic weighted average shares outstanding.....	80,705	
Dilutive effect of stock options and equity-based compensation.....	1,670	
	-----	-----
Diluted weighted average shares outstanding.....	82,375	
	=====	=====
Basic net earnings per common share.....	\$ 0.39	\$ 0.39
	=====	=====
Diluted net earnings per common share.....	\$ 0.38	\$ 0.38
	=====	=====

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We excluded stock options with exercise prices greater than the average market price of our common stock for the applicable periods from the computation of diluted weighted average shares outstanding. There were approximately 167,000 and 21,000 of these options for the 13 weeks ended March 27, 2005 and March 28, 2004, respectively.

6. Acquisitions

In April 2005, we finalized the acquisition of eight Applebee's restaurants that were closed in fiscal 2004 by a former franchisee for approximately \$8,800,000 payable in cash. In connection with this acquisition, we paid approximately \$800,000 in cash in the fourth quarter of fiscal 2004, approximately \$5,700,000 in cash in the first quarter of fiscal 2005 and approximately \$2,300,000 in cash in the second quarter of

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fiscal 2005. The purchase price of \$8,800,000 has been allocated to the fair value of property and equipment of approximately \$8,200,000 and goodwill of approximately \$600,000. The restaurants will be re-opened throughout fiscal 2005 as they are remodeled. The first restaurant opened in March 2005. Our condensed consolidated financial statements reflect these restaurants subsequent to the date of acquisition. Due to the administrative and training costs to re-enter this market, this acquisition is expected to be slightly dilutive to our net earnings for fiscal 2005.

On April 26, 2004, we completed our acquisition of the operations and assets of ten Applebee's restaurants located in Southern California for approximately \$13,800,000 in cash. Our financial statements reflect the results of operations for these restaurants subsequent to the date of acquisition. The purchase price was allocated to the fair value of property and equipment of \$2,500,000, goodwill of \$10,800,000 and other net assets of approximately \$500,000. This transaction did not have a significant impact on our net earnings for fiscal 2004. Company restaurant sales for these restaurants would have been approximately \$6,600,000 for the 13 weeks ended March 28, 2004 had the acquisition occurred at the beginning of that period.

7. Goodwill and Other Intangible Assets

Changes in goodwill are summarized below (in thousands):

	13 Weeks Ended March 27, 2005	52 Week Decem 2
Carrying amount, beginning of the year.....	\$ 116,344	\$
Goodwill acquired during the period.....	658	
	-----	-----
Goodwill amount, end of period.....	\$ 117,002	\$
	=====	=====

Intangible assets subject to amortization pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets," are summarized below (in thousands):

	March 27, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
	-----	-----	-----
Amortized intangible assets:			
Franchise interest and rights	\$ 6,371	\$ 5,647	\$

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Lease acquisition costs	4,911	415	4,
Noncompete agreement	350	306	
Total	\$11,632	\$ 6,106	\$ 5,
	=====	=====	=====
December 26, 2004			
	Gross Carrying Amount	Accumulated Amortization	Net Boo Value
Amortized intangible assets:			
Franchise interest and rights.....	\$ 6,371	\$ 5,565	\$
Lease acquisition costs.....	4,875	294	4,
Noncompete agreement.....	350	22	
Total.....	\$ 11,596	\$ 5,881	\$ 5,
	=====	=====	=====

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In the fourth quarter of fiscal 2004, we acquired the exclusive right to operate Applebee's restaurants in the Memphis, Tennessee market from a former franchisee group for approximately \$2,800,000. This intangible asset has an indefinite life and accordingly, will not be amortized but tested for impairment at least annually. In connection with this acquisition, we entered into an expanded 4-year noncompete agreement with the former franchise principals which is being amortized over the life of the agreement.

In the second quarter of fiscal 2004, we acquired six restaurant leases which were formerly Ground Round restaurants for approximately \$4,900,000 in cash.

Franchise interest and rights are being amortized over the next two to four years, the lease acquisition costs are being amortized over the next 8 to 20 years and the noncompete agreement is being amortized over the next four years.

We expect annual amortization expense for all intangible assets for the next five fiscal years to range from approximately \$400,000 to \$900,000.

8. Captive Insurance Subsidiary

In 2002, we formed Neighborhood Insurance, Inc., a Vermont corporation and a wholly-owned captive insurance subsidiary to provide Applebee's International, Inc. and qualified franchisees with workers' compensation and general liability insurance. Applebee's International, Inc. and covered franchisees make premium payments to the captive insurance company which pays administrative fees and insurance claims, subject to individual and aggregate maximum claim limits under the captive insurance company's reinsurance policies. Franchisee premium amounts billed by the captive insurance company are established based upon third-party actuarial estimates of settlement costs for incurred claims and administrative fees. The franchisee premiums are included in other franchise income ratably over the policy year. The related offsetting expenses are included in cost of other franchise income. Accordingly, we do not expect franchisee participation in the captive insurance company to have a material impact on our net earnings. In fiscal 2005, we reduced the types of insurance coverage plans which resulted in fewer franchisee participants in our captive insurance program. Our consolidated balance sheets include the following balances related to the captive insurance subsidiary:

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- o Franchise premium receivables of approximately \$3,500,000 and \$1,900,000 as of March 27, 2005 and December 26, 2004, respectively, included in receivables related to captive insurance subsidiary.
- o Cash equivalent and other long-term investments restricted for the payment of claims of approximately \$17,400,000 and \$16,700,000 as of March 27, 2005 and December 26, 2004, respectively, included in restricted assets related to captive insurance subsidiary.
- o Loss reserve and unearned premiums related to captive insurance subsidiary of approximately \$22,600,000 and \$19,600,000 as of March 27, 2005 and December 26, 2004, respectively. Approximately \$7,500,000 in both periods is included in other non-current liabilities.
- o Other miscellaneous items, net, of approximately \$1,700,000 and \$1,000,000 as of March 27, 2005 and December 26, 2004, respectively, included in several line items in the consolidated balance sheets.

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9. Treasury Shares

As of March 27, 2005, we had approximately 27,428,000 shares held in treasury. A reconciliation of our treasury shares for the 13 weeks ended March 27, 2005 is provided below (shares in thousands):

	Treasury Shares -----
Balance as of December 26, 2004.....	27,375
Purchases of treasury stock.....	728
Stock options exercised.....	(531)
Shares issued under employee benefit plans.....	(47)
Restricted shares awarded under equity incentive plans.....	(97)

Balance as of March 27, 2005.....	27,428 =====

10. New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-based Payment," which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123 (revised 2004) requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the fair value on the grant date of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service for that award, resulting in a decrease in our net earnings. This new Standard, as amended, will be effective for us beginning in fiscal 2006. We are evaluating the impact of this Standard on our consolidated financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," ("FIN 47"). FIN 47 clarifies that the term "conditional" as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," which refers to a legal obligation to perform an asset retirement

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activity even if the timing and/or settlement are conditional on a future event that may or may not be within the control of an entity. Accordingly, the entity must record a liability for the conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. The Interpretation is effective for us no later than the end of our 2005 fiscal year. We are evaluating the impact of FIN 47 on our consolidated financial statements.

11. Subsequent Event

On April 12, 2005, we announced that we have reached an agreement with a franchisee to acquire the assets of 12 Applebee's restaurants in Missouri, Kansas and Arkansas for approximately \$39,500,000 in cash at closing, subject to adjustment pursuant to agreed upon prorations and adjustments. This acquisition is expected to close in the second quarter of fiscal 2005, subject to obtaining operating licenses and other third-party consents. This transaction is expected to be slightly accretive to our net earnings for fiscal 2005.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Restatement of Financial Statements

The accompanying Management's Discussion and Analysis gives effect to the restatement of our condensed consolidated financial statements for the first quarter of fiscal 2004 to correct our accounting treatment for leases, depreciation of related leasehold improvements and for previously identified immaterial errors, primarily related to vacation and workers' compensation, as described in Note 2 to the condensed consolidated financial statements.

General

We operate on a 52 or 53 week fiscal year ending on the last Sunday in December. Our fiscal years and fiscal quarters are as follows:

Fiscal Year	Fiscal Year End	Number of Weeks
-----	-----	-----
2004	December 26, 2004	52
2005	December 25, 2005	52
2006	December 31, 2006	53

Fiscal Quarter	Fiscal Quarter End	Number of Weeks
-----	-----	-----
2004 Quarter	March 28, 2004	13
2005 Quarter	March 27, 2005	13

Our revenues are generated from three primary sources:

- o Company restaurant sales (food and beverage sales)
- o Franchise royalties and fees
- o Other franchise income

Beverage sales consist of sales of alcoholic beverages, while non-alcoholic beverages are included in food sales. Franchise royalties are generally 4% of each franchise restaurant's monthly gross sales. Franchise fees typically range from \$30,000 to \$35,000 for each restaurant opened. Other franchise income

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includes insurance premiums for the current year and premium audit adjustments for prior years from franchisee participation in our captive insurance program and revenue from information technology products and services provided to certain franchisees. In fiscal 2005, we have fewer franchisee participants due to the termination of one of our captive programs which will result in a decrease in franchise premiums recognized in other franchise income of approximately \$9,500,000.

Certain expenses relate only to company operated restaurants. These include:

- o Food and beverage costs
- o Labor costs
- o Direct and occupancy costs
- o Pre-opening expenses

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Cost of other franchise income includes the costs related to franchisee participation in our captive insurance program and costs related to information technology products and services provided to certain franchisees. In fiscal 2005, we have fewer franchisee participants due to the termination of one of our captive programs which will result in a decrease in franchise premiums expense in the cost of other franchise income of approximately \$9,500,000.

Other expenses, such as general and administrative and amortization expenses, relate to both company operated restaurants and franchise operations.

Overview

Applebee's International, Inc. and our subsidiaries develop, franchise and operate casual dining restaurants under the name "Applebee's Neighborhood Grill Bar" which is the largest casual dining concept in the world with nearly 1,700 system-wide restaurants open as of March 27, 2005. The casual dining segment of the restaurant industry is highly competitive and there are many factors that affect our profitability. Our industry is susceptible to changes in economic conditions, trends in lifestyles, fluctuating costs, government regulation, availability of resources and consumer perceptions. When evaluating and assessing our business, we believe there are five key factors:

- o Development - the number of new company and franchise restaurants opened during the period. As the largest casual dining concept in the world, Applebee's has a unique opportunity to leverage our brand, system size and scale to optimize our future growth. Our expansion strategy has been to cluster restaurants in targeted markets, thereby increasing consumer awareness and convenience, and enabling us to take advantage of operational, distribution and advertising efficiencies. We currently expect that the Applebee's system will encompass at least 3,000 restaurants in the United States, as well as the potential for at least 1,000 restaurants internationally. In the 2005 quarter, we opened 26 restaurants, including 13 company and 13 franchise restaurants. We have opened at least 100 restaurants each year for the past 12 fiscal years. In fiscal 2005, we currently expect to open at least 135 restaurants, comprised of 50 company and 85 franchise restaurants.
- o Comparable restaurant sales - a year-over-year comparison of sales for restaurants open at least 18 months. Our revenues are generated primarily from company restaurant sales, franchise royalties and fees and other franchise income. Increases in company and franchise

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comparable restaurant sales will result in increases in company restaurant sales and franchise fees and royalties. Company, franchise and system-wide comparable sales increased 0.3%, 4.9% and 3.7%, respectively, in the 2005 quarter. We have had 27 consecutive quarters of positive system-wide comparable sales growth. We currently expect system-wide comparable restaurant sales to increase by at least 3% percent in fiscal 2005, with results expected to accelerate in the latter half of the year as comparisons become easier. Comparable restaurant sales increases are driven by increases in the average guest check and/or increases in guest traffic. Average guest check increases result from menu price increases and/or a change in menu mix. Although we may have increases in our average guest check from period to period, our main focus has been increasing guest traffic as we view this component to be more indicative of the health of the Applebee's brand. We are constantly seeking to increase guest traffic by focusing on operations and improving our menu with semi-annual new menu rollouts and implementation of new programs such as Carside to Go(TM) and Weight Watchers(TM). Carside To Go(TM) is expected to be a driver of company, franchise and system-wide comparable sales growth in fiscal 2005.

- o Company restaurant margin - company restaurant sales less food and beverage, labor, direct and occupancy restaurant costs and pre-opening expenses expressed as a percentage of company

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restaurant sales. Company restaurant margin was 15.7% in the 2005 quarter and we currently expect that our full year fiscal 2005 margin will be similar to the full year fiscal 2004 margin of 15.6%. Company restaurant margin is susceptible to fluctuations in commodity costs, labor costs and other operating costs such as utilities costs. We attempt to negotiate contracts for the majority of our food products in order to mitigate the impact of rising commodity costs. We currently expect commodity costs for beef, poultry and other proteins to increase by approximately 1.5% in fiscal 2005. Labor costs are impacted by many factors, including minimum wage rate and other employment laws.

- o General and administrative expenses - general and administrative expense expressed as a percentage of total operating revenues. General and administrative expense leverage is a key focus for us. We currently expect that revenues will grow faster than general and administrative expenses. In fiscal 2005, general and administrative expenses as a percent of total revenues are currently expected to be approximately nine percent.
- o Return on equity - net earnings expressed as a percent of average stockholders' equity. We believe this is an important indicator as it allows us to evaluate our ability to create value for our shareholders. We have exceeded our stated goal of at least 20% return on equity for the past six years and are a leader in the casual dining industry in this category.

The above overview contains forward-looking statements. Please refer to "Forward-Looking Statements" later in this section.

Application of Critical Accounting Estimates

Management's Discussion and Analysis of Financial Condition and Results of

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Operations is based upon our condensed consolidated financial statements, which were prepared in accordance with accounting principles generally accepted in the United States of America. These principles require us to make estimates and assumptions that affect the reported amounts in the condensed consolidated financial statements and notes thereto. Actual results may differ from these estimates, and such differences may be material to our condensed consolidated financial statements. We believe that the following significant accounting policies involve a significant degree of judgment or complexity.

Inventory valuation: We state inventories at the lower of cost, using the first-in, first-out method, or market. Market is determined based upon our estimates of the net realizable value.

We purchase and maintain inventories of certain specialty products to assure sufficient supplies to the system. We review and make quality control inspections of our inventories to determine obsolescence on an ongoing basis. These reviews require management to make certain estimates and judgments regarding projected usage which may change in the future and may require us to record an inventory impairment.

Property and equipment: We report property and equipment at historical cost less accumulated depreciation. Depreciation is provided on a straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful life of the related asset. The useful lives of the assets are based upon management's expectations. We periodically review the assets for changes in circumstances which may impact their useful lives. If there are changes in circumstances that shorten an asset's useful life, we will recognize increased depreciation expense for that asset in future periods.

Impairment of long-lived assets: We periodically review restaurant property and equipment for impairment on a restaurant by restaurant basis using historical cash flows as well as current estimates of future cash

flows and/or appraisals. We review other long-lived assets annually and when events or circumstances indicate that the carrying value of the asset may not be recoverable. The recoverability is assessed in most instances by comparing the carrying value to its undiscounted cash flows. This assessment process requires the use of estimates and assumptions regarding future cash flows and estimated useful lives which are subject to a significant degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets.

Income taxes: We record valuation allowances against our deferred tax assets, when necessary, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Realization of deferred tax assets is dependent on future taxable earnings and is therefore uncertain. We assess the likelihood that our deferred tax assets in each of the jurisdictions in which we operate will be recovered from future taxable income. Deferred tax assets do not include future tax benefits that we deem likely not to be realized.

We are periodically audited by foreign, state and local tax authorities for both income and sales and use taxes. We record accruals when we determine it is probable that we have an exposure in a matter relating to an audit. The accruals may change in the future due to new developments in each matter.

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Legal and insurance reserves: We are periodically involved in various legal actions. We are required to assess the probability of any adverse judgments as well as the potential range of loss. We determine the required accruals after a review of the facts of each legal action.

We use estimates in the determination of the appropriate liabilities for general liability, workers' compensation and health insurance. The estimated liability is established based upon historical claims data and third-party actuarial estimates of settlement costs for incurred claims. Unanticipated changes in these factors may require us to revise our estimates.

We periodically reassess our assumptions and judgments and make adjustments when significant facts and circumstances dictate. A change in any of the above estimates could impact our consolidated statements of earnings and the related asset or liability recorded in our consolidated balance sheets would be adjusted accordingly. Historically, actual results have not been materially different than the estimates that are described above.

Acquisitions

In April 2005, we finalized the acquisition of eight Applebee's restaurants that were closed in fiscal 2004 by a former franchisee for approximately \$8,800,000 payable in cash. In connection with this acquisition, we paid approximately \$800,000 in cash in the fourth quarter of fiscal 2004, approximately \$5,700,000 in cash in the first quarter of fiscal 2005 and approximately \$2,300,000 in cash in the second quarter of fiscal 2005. The purchase price of \$8,800,000 has been allocated to the fair value of property and equipment of approximately \$8,200,000 and goodwill of approximately \$600,000. The restaurants will be re-opened throughout fiscal 2005 as they are remodeled. The first restaurant opened in March 2005. Our condensed consolidated financial statements reflect these restaurants subsequent to the date of acquisition. Due to the administrative and training costs to re-enter this market, this acquisition is expected to be slightly dilutive to our net earnings for fiscal 2005.

On April 26, 2004, we completed our acquisition of the operations and assets of ten Applebee's restaurants located in Southern California for approximately \$13,800,000 in cash. Our financial statements reflect the results of operations for these restaurants subsequent to the date of acquisition. The

purchase price was allocated to the fair value of property and equipment of \$2,500,000, goodwill of \$10,800,000 and other net assets of approximately \$500,000. This transaction did not have a significant impact on our net earnings for fiscal 2004. Company restaurant sales for these restaurants would have been approximately \$6,600,000 for the 13 weeks ended March 28, 2004 had the acquisition occurred at the beginning of that period.

Captive Insurance Subsidiary

In 2002, we formed Neighborhood Insurance, Inc., a Vermont corporation and a wholly-owned captive insurance subsidiary to provide Applebee's International, Inc. and qualified franchisees with workers' compensation and general liability insurance. Applebee's International, Inc. and covered franchisees make premium payments to the captive insurance company which pays administrative fees and insurance claims, subject to individual and aggregate maximum claim limits under the captive insurance company's reinsurance policies. Franchisee premium amounts billed by the captive insurance company are established based upon third-party actuarial estimates of settlement costs for incurred claims and administrative

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fees. The franchisee premiums are included in other franchise income ratably over the policy year. The related offsetting expenses are included in cost of other franchise income. Accordingly, we do not expect franchisee participation in the captive insurance company to have a material impact on our net earnings. In fiscal 2005, we reduced the types of insurance coverage plans which resulted in fewer franchisee participants in our captive insurance program. Our consolidated balance sheets include the following balances related to the captive insurance subsidiary:

- o Franchise premium receivables of approximately \$3,500,000 and \$1,900,000 as of March 27, 2005 and December 26, 2004, respectively, included in receivables related to captive insurance subsidiary.
- o Cash equivalent and other long-term investments restricted for the payment of claims of approximately \$17,400,000 and \$16,700,000 as of March 27, 2005 and December 26, 2004, respectively, included in restricted assets related to captive insurance subsidiary.
- o Loss reserve and unearned premiums related to captive insurance subsidiary of approximately \$22,600,000 and \$19,600,000 as of March 27, 2005 and December 26, 2004, respectively. Approximately \$7,500,000 in both periods is included in other non-current liabilities.
- o Other miscellaneous items, net, of approximately \$1,700,000 and \$1,000,000 as of March 27, 2005 and December 26, 2004, respectively, included in several line items in the consolidated balance sheets.

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Results of Operations

The following table contains information derived from our consolidated statements of earnings expressed as a percentage of total operating revenues, except where otherwise noted. Percentages may not add due to rounding.

	13 Weeks Ended	
	March 27, 2005	March 26, 2004
	-----	-----
		(as a percentage of total operating revenues)
Revenues:		
Company restaurant sales.....	88.8%	
Franchise royalties and fees.....	10.8	
Other franchise income.....	0.3	
	-----	-----
Total operating revenues.....	100.0%	
	=====	=====
Cost of sales (as a percentage of company restaurant sales):		
Food and beverage.....	26.5%	
Labor.....	32.8	
Direct and occupancy.....	24.5	
Pre-opening expense.....	0.4	
	-----	-----
Total cost of sales.....	84.3%	
	=====	=====
Cost of other franchise income (as a percentage of other franchise income).....	76.9%	
General and administrative expenses.....	8.8	
Amortization of intangible assets.....	0.1	
Loss on disposition of restaurants and equipment.....	0.1	

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Operating earnings.....	15.9	
Other income (expense):		
Investment income.....	--	
Interest expense.....	(0.1)	
Other income.....	0.1	
Total other income.....	--	
Earnings before income taxes.....	15.9	
Income taxes.....	5.5	
Net earnings.....	10.4%	

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The following table sets forth certain financial information and other restaurant data relating to company and franchise restaurants, as reported to us by franchisees:

	13 Weeks
	March 27, 2005
Number of restaurants:	
Company:	
Beginning of period.....	424
Restaurant openings.....	13
End of period.....	437
Franchise:	
Beginning of period.....	1,247
Restaurant openings.....	13
Restaurant closings.....	(3)
End of period.....	1,257
Total:	
Beginning of period.....	1,671
Restaurant openings.....	26
Restaurant closings.....	(3)
End of period.....	1,694
Weighted average weekly sales per restaurant:	
Company.....	\$ 48,193
Franchise.....	\$ 51,277
Total.....	\$ 50,485
Change in comparable restaurant sales:(1)	
Company.....	0.3%
Franchise.....	4.9%
Total.....	3.7%
Total operating revenues (in thousands):	
Company restaurant sales.....	\$ 270,458

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Franchise royalties and fees(2)	33,008
Other franchise income(3)	1,065

Total.....	\$ 304,531
	=====

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- (1) When computing comparable restaurant sales, restaurants open for at least 18 months are compared from period to period.
 - (2) Franchise royalties are generally 4% of each franchise restaurant's reported monthly gross sales. Reported franchise sales, in thousands, were \$832,997 and \$764,116 in the 2005 quarter and the 2004 quarter, respectively. Franchise fees typically range from \$30,000 to \$35,000 for each restaurant opened.
 - (3) Other franchise income includes insurance premiums from franchisee participation in our captive insurance program and revenue from information technology products and services provided to certain franchisees.

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2005 Quarter Compared With 2004 Quarter

Company Restaurant Sales. Total company restaurant sales increased \$26,898,000 (11%) from \$243,560,000 in the 2004 quarter to \$270,458,000 in the 2005 quarter. Company restaurant openings contributed approximately 9% of the increase in total company restaurant sales in the 2005 quarter. The acquisition of 10 restaurants in Southern California in April 2004 contributed approximately 3% of the increase in company restaurant sales. These increases were partially offset by the weighted average weekly sales decrease in the 2005 quarter as described below.

Comparable restaurant sales at company restaurants increased by 0.3% in the 2005 quarter. Weighted average weekly sales at company restaurants decreased 0.4% from \$48,402 in the 2004 quarter to \$48,193 in the 2005 quarter. The increase in comparable restaurant sales was due primarily to our Carside To Go(TM) initiative and menu price increases of approximately 1.0% in the 2005 quarter. To Go sales mix increased from 9.4% of company restaurant sales in the 2004 quarter to 10.0% of company restaurant sales in the 2005 quarter. Both comparable restaurant sales and weighted average weekly sales at company restaurants were negatively impacted by decreases in guest traffic.

Franchise Royalties and Fees. Franchise royalties and fees increased \$2,293,000 (7%) from \$30,715,000 in the 2004 quarter to \$33,008,000 in the 2005 quarter due primarily to the increased number of franchise restaurants operating during the 2005 quarter as compared to the 2004 quarter and increases in franchisee comparable restaurant sales. Weighted average weekly sales and franchise comparable restaurant sales increased 5.1% and 4.9%, respectively, in the 2005 quarter due in part to the implementation of the Carside To Go(TM) program in most franchise restaurants.

Other Franchise Income. Other franchise income decreased \$2,050,000 (66%) from \$3,115,000 in the 2004 quarter to \$1,065,000 in the 2005 quarter due primarily to fewer franchisee participants in our captive insurance program resulting from the reduction of the types of insurance coverage plans offered. Franchisee premiums are included in other franchise income ratably over the policy year.

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Cost of Company Restaurant Sales. Food and beverage costs increased from 26.1% in the 2004 quarter to 26.5% in the 2005 quarter, due to higher commodity costs which were partially offset by menu price increases of 1.0% and better food cost control.

Labor costs increased slightly from 32.7% in the 2004 quarter to 32.8% in the 2005 quarter. This increase was due to higher management and hourly wage rates and was partially offset by lower management incentive compensation.

Direct and occupancy costs increased slightly from 24.4% in the 2004 quarter to 24.5% in the 2005 quarter due primarily to higher utilities, rent and depreciation expense, as a percentage of sales, which were partially offset by lower advertising costs, as a percentage of sales.

Pre-Opening Expenses. Pre-opening expenses increased from 0.2% in the 2004 quarter to 0.4% in the 2005 quarter due primarily to the number of restaurant openings in the 2005 quarter versus the 2004 quarter.

Cost of Other Franchise Income. Cost of other franchise income decreased \$2,118,000 (72%) from \$2,937,000 in the 2004 quarter to \$819,000 in the 2005 quarter due primarily to fewer franchisee participants in our captive insurance program resulting from the reduction of the types of insurance coverage plans offered.

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General and Administrative Expenses. General and administrative expenses decreased from 9.2% in the 2004 quarter to 8.8% in the 2005 quarter due primarily to the absorption of general and administrative expenses over a larger revenue base which was partially offset by higher compensation expense due to staffing levels.

Income Taxes. The effective income tax rate, as a percentage of earnings before income taxes, decreased from 34.9% in the 2004 quarter to 34.6% in the 2005 quarter due to a reduction in state and local income taxes.

Liquidity and Capital Resources

Our primary source of liquidity is cash provided by operations. Our need for capital resources historically has resulted from the construction and acquisition of restaurants, the repurchase of our common stock and investment in information technology systems. In the past, we have obtained capital through public stock offerings, debt financing, and our ongoing operations. Cash flows from our ongoing operations include cash generated from company and franchise operations, credit from trade suppliers, real estate lease financing, and landlord contributions to leasehold improvements. We have also used our common stock as consideration in the acquisition of restaurants. In addition, we have assumed debt or issued new debt in connection with certain mergers and acquisitions. The following table presents a summary of our cash flows for the 2005 and 2004 quarter (in thousands):

	2005 Quarter	2004 Quarter
	-----	-----
Net cash provided by operating activities.....	\$ 50,309	(as restated) \$ 32,767
Net cash used by investing activities.....	(31,137)	(18,089)
Net cash used by financing activities.....	(23,619)	(23,057)
	-----	-----

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Net decrease in cash and cash equivalents.....	\$ (4,447)	\$ (8,379)
	=====	=====

Capital expenditures were \$13,796,000 in the 2004 quarter and \$24,619,000 in the 2005 quarter. In fiscal 2005, we currently expect to open at least 50 company restaurants, and capital expenditures excluding franchise acquisitions are expected to be between \$140,000,000 and \$150,000,000 including the costs to acquire and re-open eight company restaurants that were closed in fiscal 2004 by a former franchisee in Memphis, Tennessee but excluding the costs to acquire the assets of 12 Applebee's restaurants in Missouri, Kansas and Arkansas.

These expenditures will primarily be for the development of new restaurants, refurbishment and capital replacement for existing restaurants and the enhancement of information systems. Because we expect to continue to purchase a portion of our sites, the amount of actual capital expenditures will be dependent upon, among other things, the proportion of leased versus owned properties. In addition, if we open more restaurants than we currently anticipate or acquire additional restaurants, our capital requirements will increase accordingly.

On April 12, 2005, we announced that we have reached an agreement with a franchisee to acquire the assets of 12 Applebee's restaurants in Missouri, Kansas and Arkansas for approximately \$39,500,000 in cash at closing, subject to adjustment pursuant to agreed upon prorations and adjustments. This acquisition is expected to close in the second quarter of fiscal 2005, subject to obtaining operating licenses and other third-party consents.

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In December 2004, we completed the refinancing of our \$150,000,000 unsecured revolving credit facility. The new bank credit agreement provides for a \$150,000,000 five-year unsecured revolving credit facility, of which \$40,000,000 may be used for the issuance of letters of credit. The facility is subject to various covenants and restrictions which, among other things, require the maintenance of stipulated fixed charge, leverage and indebtedness to capitalization ratios, as defined. There is no limit on cash dividends provided that the declaration and payment of such dividend does not cause a default of any other covenant contained in the agreement. The facility is subject to standard other terms, conditions, covenants, and fees. As of March 27, 2005, we are in compliance with the covenants contained in our credit agreement. As of March 27, 2005, we had borrowings of \$22,000,000, standby letters of credit of \$12,000,000 outstanding and approximately \$116,000,000 available under our revolving credit facility. During fiscal 2005, we expect to fund operations, capital expansion, any repurchases of common stock, and the payment of dividends from operating cash flows and borrowings under our revolving credit facility.

In October 2004, our Board of Directors authorized additional repurchases of our common stock of up to \$150,000,000 beginning in fiscal 2005 and approved a written plan for repurchases of our common stock in the open market. During the 2005 quarter, we repurchased 728,300 shares of our common stock at an average price of \$25.62 for an aggregate cost of \$18,700,000. As of March 27, 2005, we had \$131,300,000 remaining under our repurchase authorization.

As of March 27, 2005, our liquid assets totaled \$6,477,000. These assets consisted of cash and cash equivalents in the amount of \$6,195,000 and short-term investments in the amount of \$282,000. The working capital deficit increased from \$51,041,000 as of December 26, 2004 to \$54,769,000 as of March 27, 2005. This increase was due primarily to increases in accrued income taxes and decreases in cash and cash equivalents due to repurchases of our common stock in the 2005 quarter and was partially offset by the redemption of gift

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cards in the 2005 quarter sold in fiscal 2004.

We believe that our liquid assets and cash generated from operations, combined with borrowings available under our credit facility, will provide sufficient funds for capital expenditures, repurchases of our common stock, the payment of dividends and other such operating activities for the foreseeable future.

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The following table shows our debt amortization schedule, future capital lease commitments (including principal and interest payments), future operating lease commitments and future purchase obligations as of March 27, 2005 (in thousands):

Certain Contractual Obligations	Payments due by period			
	Total	Less than 1 year	1-3 Years	
Long-term Debt (excluding capital lease obligations) (1).....	\$ 23,516	\$ 2,128	\$ 184	\$ 2
Capital Lease Obligations.....	8,910	774	1,630	
Operating Leases (2).....	347,590	24,272	48,562	4
Purchase Obligations - Company (3).....	121,936	93,492	17,230	1
Purchase Obligations - Franchise.(4).....	209,634	153,574	33,510	2

(1) The amounts for long-term debt are primarily borrowings under our revolving credit facility and exclude interest payments which are variable in nature.

(2) The amounts for operating leases include option periods where failure to exercise such options would result in an economic penalty such that the renewal appears reasonably assured.

(3) The amounts for company purchase obligations include commitments for food items, energy, supplies, severance and employment agreements, and other miscellaneous commitments.

(4) The amounts for franchise purchase obligations include commitments for food items and supplies made by Applebee's International, Inc. for our franchisees. Applebee's International, Inc. contracts with certain suppliers to ensure competitive pricing. These amounts will only be payable by Applebee's International, Inc. if our franchisees do not meet certain minimum contractual requirements.

Other Contractual Obligations

We have outstanding lease guarantees of approximately \$18,800,000 as of March 27, 2005 (see Note 4 to the condensed consolidated financial statements). In addition, we or our subsidiaries are contingently liable for various leases that we have assigned in connection with the sale of restaurants to franchisees and other parties, in the potential amount of \$17,700,000. We have not recorded a liability for these guarantees as of March 27, 2005 or December 26, 2004.

We have severance and employment agreements with certain officers providing for severance payments to be made in the event the associate resigns or is terminated related to a change in control. The agreements define the circumstances which will constitute a change in control. If the severance payments had been due as of March 27, 2005, we would have been required to make payments totaling approximately \$13,200,000. In addition, we have severance and employment agreements with certain officers which contain severance provisions not related to a change in control. Those provisions would have required

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aggregate payments of approximately \$6,900,000 if such officers had been terminated as of March 27, 2005.

In November 2003, we arranged for a third-party financing company to provide up to \$75,000,000 to qualified franchisees for short-term loans to fund remodel investments, subject to our approval. Under the terms of this financing program, we will provide a limited guarantee pool for the loans advanced during the three-year period ending December 2006. As of March 27, 2005, there were loans outstanding to four franchisees for approximately \$1,300,000 under this program.

In May 2004, we arranged for a third-party financing company to provide up to \$250,000,000 to qualified franchisees for loans to fund development of new restaurants through October 2007, subject to our approval. We will provide a limited guarantee of certain loans advanced under this program. As of March 27, 2005, there were loans outstanding to two franchisees for approximately \$14,100,000 under this program. The fair value of our guarantees under these two financing programs was less than

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\$100,000 and is recorded in non-current liabilities in our consolidated balance sheet as of March 27, 2005.

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-based Payment," which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123 (revised 2004) requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost will be measured based on the fair value on the grant date of the equity or liability instruments issued. Compensation cost will be recognized over the period that an employee provides service for that award, resulting in a decrease in our net earnings. This new Standard, as amended, will be effective for us beginning in fiscal 2006. We are evaluating the impact of this Standard on our consolidated financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," ("FIN 47"). FIN 47 clarifies that the term "conditional" as used in SFAS No. 143, "Accounting for Asset Retirement Obligations," which refers to a legal obligation to perform an asset retirement activity even if the timing and/or settlement are conditional on a future event that may or may not be within the control of an entity. Accordingly, the entity must record a liability for the conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. The Interpretation is effective for us no later than the end of our 2005 fiscal year. We are evaluating the impact of FIN 47 on our consolidated financial statements.

Forward-Looking Statements

The statements contained in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section regarding restaurant development, comparable sales, Carside To Go(TM), revenue growth, restaurant margin, commodity costs, general and administrative expenses, capital expenditures, return on equity and financial commitments 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. These risks include but are not limited to our ability and the ability of our franchisees to open and operate additional restaurants profitably, the ability

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of our franchisees to obtain financing, the continued growth of our franchisees, our ability to attract and retain qualified franchisees, the impact of intense competition in the casual dining segment of the restaurant industry, and our ability to control restaurant operating costs which are impacted by market changes, minimum wage and other employment laws, food costs and inflation. For a more detailed discussion of the principal factors that could cause actual results to be materially different, you should read our current report on Form 8-K which we filed with the Securities and Exchange Commission on February 9, 2005. We disclaim any obligation to update forward-looking statements.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from fluctuations in interest rates and changes in commodity prices. Our revolving credit facility bears interest at either the bank's prime rate or LIBOR plus 0.5%, at our option. As of March 27, 2005, the total amount of debt subject to interest rate fluctuations was \$22,000,000 which was outstanding on our revolving credit facility. A 1% change in interest rates would result in an increase or decrease in interest expense of \$220,000 per year. We may from time to time enter into interest rate swap agreements to manage the impact of interest rate changes on our earnings. Many of the food products we purchase are subject to price volatility due to factors that are outside of our control such as weather, seasonality and fuel costs. As part of our strategy to moderate this volatility, we have entered into fixed price purchase commitments.

Item 4. Controls and Procedures

As of March 27, 2005, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on this evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective. During our most recent fiscal quarter, there have been no changes in our internal control over financial reporting that occurred that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various legal actions which include, without limitation, employment law related matters, dram shop claims, personal injury claims and other such normal restaurant operational matters. In each instance, we believe that we have meritorious defenses to the allegations made and we are vigorously defending these claims.

We believe that the ultimate disposition of these matters will not, individually or in the aggregate, have a material adverse effect upon our business or consolidated financial position.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities.

Purchases of Equity Securities(1)				
	(a)	(b)	(c)	(d)
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Shares that May be Purchased Under the Plan or Program (in thousands)
December 27, 2004 through January 26, 2005	728,300	\$25.62	728,300	\$131,37
January 27, 2005 through February 26, 2005	7,066 (2)	\$28.30	--	\$131,37
February 27, 2005 through March 27, 2005	--	--	--	\$131,37
Total	735,366		728,300	

(1) In October 2004, our Board of Directors authorized additional repurchases of our common stock of up to \$150,000,000 beginning in fiscal 2005.

(2) Represents shares received as partial payment for shares issued under stock option plans.

Item 6. Exhibits

The Exhibits listed on the accompanying Exhibit Index are filed as part of this report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APPLEBEE'S INTERNATIONAL, INC.
(Registrant)

Date: April 27, 2005

By: /s/ Lloyd L. Hill

Lloyd L. Hill
Director, Chairman of the Board and Chief
Executive Officer
(principal executive officer)

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Date: April 27, 2005

By: /s/ Steven K. Lumpkin

Steven K. Lumpkin
*Director, Executive Vice President, Chief
Financial Officer and Treasurer
(principal financial officer)*

Date: April 27, 2005

By: /s/ Beverly O. Elving

Beverly O. Elving
*Vice President and Controller
(principal accounting officer)*

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**APPLEBEE'S INTERNATIONAL, INC.
EXHIBIT INDEX**

**Exhibit
Number**

Description of Exhibit

- 31.1 Certification of Chairman and Chief Executive Officer Pursuant to SEC Rule 13a-14(a)
- 31.2 Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)
- 32.1 Certification of Chairman and Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

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