APPLEBEES INTERNATIONAL INC
Form 10-Q
October 30, 2003

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 28, 2003

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, Suite 100, 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 X No

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

The number of shares of the registrant's common stock outstanding as of October 27, 2003 was 54,976,791.

APPLEBEE'S INTERNATIONAL, INC.
FORM 10-Q
FISCAL QUARTER ENDED SEPTEMBER 28, 2003
INDEX

APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in thousands, except share amounts)

	Septemb 200
ASSETS	
Current assets:	
Cash and cash equivalents	$
Short-term investments, at market value (amortized cost of $478 in 2002)	
Receivables (less allowance for bad debts of $4,096 in 2003 and $4,089 in 2002)	3
Receivables related to captive insurance subsidiary	
Inventories	1
Prepaid income taxes	
Prepaid and other current assets	
Total current assets	6
Property and equipment, net	40
Goodwill	10
Franchise interest and rights, net	
Restricted assets related to captive insurance subsidiary	
Other assets, net	1
	$ 59
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt	$
Notes payable	
Accounts payable	3
Accrued expenses and other current liabilities	7
Loss reserve and unearned premiums related to captive insurance subsidiary	1
Accrued dividends	
Accrued income taxes	
Total current liabilities	13
Non-current liabilities:	
Long-term debt - less current portion	2
Other non-current liabilities	1
Total non-current liabilities	3
Total liabilities	16
Commitments and contingencies (Note 3)	
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 - 72,336,788 shares	
Additional paid-in capital	19
Retained earnings	50
Accumulated other comprehensive income, net of income taxes	
	70
Treasury stock - 17,432,947 shares in 2003 and 16,948,371 shares in 2002, at	

cost..	(26
Total stockholders' equity..	43
	$ 59

See notes to consolidated financial statements.

APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(in thousands, except per share amounts)

	13 Weeks Ended		
	September 28, 2003	September 29, 2002	Septem 2
Revenues:			
Company restaurant sales.........................	$ 222,429	$ 182,807	$ 65
Franchise royalties and fees.....................	27,594	26,033	8
Other franchise income...........................	2,972	168	
Total operating revenues.....................	252,995	209,008	74
Cost of company restaurant sales:			
Food and beverage................................	57,200	47,765	16
Labor..	73,018	60,054	21
Direct and occupancy.............................	55,869	47,009	16
Pre-opening expense..............................	576	792	
Total cost of company restaurant sales.......	186,663	155,620	54
Cost of other franchise income.......................	2,837	99	
General and administrative expenses..................	23,589	20,118	6
Amortization of intangible assets....................	87	95	
Loss on disposition of restaurants and equipment.....	116	458	
Operating earnings...................................	39,703	32,618	11
Other income (expense):			
Investment income................................	227	346	
Interest expense.................................	(330)	(414)	(
Impairment of Chevys note receivable (Note 7)...	--	--	(
Other income.....................................	395	513	
Total other income (expense).................	292	445	(
Earnings before income taxes.........................	39,995	33,063	10
Income taxes...	14,398	12,068	3

Net earnings......................................	$ 25,597	$ 20,995	$ 7
Basic net earnings per common share.................	$ 0.46	$ 0.38	$
Diluted net earnings per common share...............	$ 0.45	$ 0.37	$
Basic weighted average shares outstanding...........	55,556	55,654	5
Diluted weighted average shares outstanding.........	57,184	56,714	5

See notes to consolidated financial statements.

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

	Common Stock		Additional		Accu
					O
	Shares	Amount	Paid-In Capital	Retained Earnings	Compr Incom
Balance, December 29, 2002............	72,336,788	$ 723	$ 187,523	$ 434,621	$
Comprehensive income:					
Net earnings.....................	--	--	--	70,384	
Change in unrealized gain on short-term investments, net of income taxes............	--	--	--	--	
Total comprehensive income.........	--	--	--	70,384	
Purchases of treasury stock.........	--	--	--	--	
Stock options exercised and related tax benefit..............	--	--	7,701	--	
Shares issued under employee stock and 401(k) plans...........	--	--	2,046	--	
Restricted shares awarded under equity incentive plan, net of cancellations...................	--	--	(543)	--	

Unearned compensation relating to restricted shares.............	--	--	785	--	
Repayments of notes receivable from officers for stock sales.........	--	--	99	--	
Balance, September 28, 2003...........	72,336,788	$ 723	$ 197,611	$ 505,005	$

See notes to consolidated financial statements.

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

	Septembe 2003
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net earnings...	$ 70
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization..	30
Amortization of intangible assets..	
Amortization of deferred financing costs...................................	
Deferred income tax provision (benefit)....................................	
Gain on sale of investments..	
Loss on disposition of restaurants and equipment...........................	1
Impairment of Chevys note receivable.......................................	8
Income tax benefit from exercise of options................................	5
Changes in assets and liabilities (exclusive of effects of acquisitions or dispositions):	
Receivables..	(5
Receivables related to captive insurance subsidiary........................	
Inventories..	(2
Prepaid income taxes...	5
Prepaid and other current assets...	
Restricted assets related to captive insurance subsidiary..................	(8
Accounts payable...	7
Accrued expenses and other current liabilities.............................	(1
Loss reserve and unearned premiums related to captive insurance subsidiary...	10
Accrued income taxes...	
Other..	
NET CASH PROVIDED BY OPERATING ACTIVITIES..................................	120
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment..	(54

Acquisition of restaurants	(21
Proceeds from sale of restaurants and equipment	8
Purchases of short-term investments	
Maturities and sales of short-term investments	
NET CASH USED BY INVESTING ACTIVITIES	(67
CASH FLOWS FROM FINANCING ACTIVITIES:	
Purchases of treasury stock	(49
Dividends paid	(3
Issuance of common stock upon exercise of stock options	11
Shares sold under employee stock purchase plan	2
Proceeds from issuance of notes payable	4
Net payments on long-term debt	(30
NET CASH USED BY FINANCING ACTIVITIES	(65
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11
CASH AND CASH EQUIVALENTS, beginning of period	15
CASH AND CASH EQUIVALENTS, end of period	$ 3

See notes to consolidated financial statements.

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

	Septem 20
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the 39 week period for:	
Income taxes	$ 2
Interest	$

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

We issued restricted common stock of $1,836,000 and $757,000 for the 39 weeks ended September 28, 2003 and September 29, 2002, respectively.

On March 24, 2003, we assumed a loan of approximately $1,400,000 in connection with the acquisition of 11 restaurants.

As of September 28, 2003, we have recorded a receivable of $1,125,000 in connection with the sale of a restaurant.

DISCLOSURE OF ACCOUNTING POLICY:

For purposes of the consolidated statements of cash flows, we consider all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

See notes to consolidated financial statements.

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

1. Basis of Presentation

Our consolidated financial statements included in this Form 10-Q have been prepared without audit (except that the balance sheet information as of December 29, 2002 has been derived from consolidated financial statements which were audited) 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 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 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 29, 2002.

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 consolidated financial statements to conform to the 2003 presentation.

2. 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 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 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).

	13 Weeks Ended		39
	September 28, 2003	September 29, 2002	September 2003
Net earnings, as reported..........................	$ 25,597	$ 20,995	$ 70,38
Less: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related taxes...........................	1,884	1,683	6,19
Pro forma net earnings.............................	$ 23,713	$ 19,312	$ 64,18
Basic net earnings per common share, as reported.....................................	$ 0.46	$ 0.38	$ 1.2
Basic net earnings per common share, pro forma..	$ 0.43	$ 0.35	$ 1.1
Diluted net earnings per common share, as reported.....................................	$ 0.45	$ 0.37	$ 1.2
Diluted net earnings per common share, pro forma..	$ 0.41	$ 0.34	$ 1.1

3. 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.

While the resolution of the matters described above may have an impact on our financial results for the period in which they are resolved, 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: 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 September 28, 2003, the aggregate amount of these lease payments totaled approximately $25,100,000. These leases expire at various times throughout the next several years with the final lease agreement expiring in 2025. The buyers have indemnified us from any losses related to these guarantees. We do not consider our exposure under these guarantees to be material.

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 September 28, 2003, we would have been required to make payments totaling approximately $10,000,000. 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 $5,800,000 if such officers had been terminated as of September 28, 2003.

4. Earnings Per Share

We compute basic earnings per share by dividing income available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted 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 earnings per share. All amounts in the chart, except per share amounts, are expressed in thousands.

	13 Weeks Ended		39
	September 28, 2003	September 29, 2002	September 2003
Net earnings...	$ 25,597	$ 20,995	$ 70,3
Basic weighted average shares outstanding............	55,556	55,654	55,4
Dilutive effect of stock options and equity-based compensation.........................	1,628	1,060	1,5
Diluted weighted average shares outstanding..........	57,184	56,714	56,9
Basic net earnings per common share.................	$ 0.46	$ 0.38	$ 1.
Diluted net earnings per common share...............	$ 0.45	$ 0.37	$ 1.

5. Acquisitions

On November 7, 2002, we acquired the operations and assets of 21 Applebee's restaurants located in the Washington, D.C. area from a franchisee. Under the terms of the purchase agreement and the agreement with the franchisee's secured lender, the total purchase price of the acquisition was $34,250,000. The agreement also provides for additional consideration in July 2004 if the restaurants achieve cash flows in excess of historical levels. Our financial statements reflect the results of operations for these restaurants subsequent to the date of acquisition. The purchase price of $34,250,000 has been allocated to the fair value of property and equipment of $25,200,000, goodwill of $10,100,000 and other net current liabilities of $1,050,000.

On March 24, 2003, we acquired the operations and assets of 11 Applebee's restaurants located in Illinois, Indiana, Kentucky and Missouri for $21,800,000 in cash and $1,400,000 in assumed debt from a franchisee. The total cash payment included $20,800,000 paid at closing, approximately $200,000 paid as a deposit in fiscal 2002 and approximately $800,000 paid in the second quarter of 2003. Our financial statements reflect the results of operations for these restaurants subsequent to the date of acquisition. The purchase price of $23,200,000 has been allocated to the fair value of property and equipment of $7,900,000, goodwill of $16,600,000, and other net liabilities of $1,300,000.

The following table is comprised of actual company restaurant sales included in our consolidated financial statements for each period presented and pro forma company restaurant sales assuming the acquisitions occurred at the beginning of each respective period (in thousands):

	13 Weeks Ended		39
	September 28, 2003	September 29, 2002	September 2003
Actual company restaurant sales for acquired restaurants........................	$ 18,400	$ --	$ 49,1
Pro forma company restaurant sales for acquired restaurants........................	$ 18,400	$ 17,500	$ 55,1

6. Dispositions

On July 20, 2003, we completed the sale of eight company restaurants in the Atlanta, Georgia market to an affiliate of an existing franchisee for $8,000,000 and recognized an immaterial gain in our consolidated statements of earnings. In connection with the sale of these restaurants, we closed one restaurant in the Atlanta market in June 2003. We do not expect this transaction to have a significant impact on our net earnings for fiscal 2003. Actual company restaurant sales included in our consolidated financial statements for the nine restaurants were approximately $900,000 and $4,500,000 in the 13 weeks ended September 28, 2003 and September 29, 2002, respectively, and were approximately $10,300,000 and $14,000,000 in the 39 weeks ended September 28, 2003 and September 29, 2002, respectively.

7. Impairment of Chevys Note Receivable

In 1999, we received a $6,000,000, 8% subordinated note in connection with the sale of the Rio Bravo concept to Chevys Holdings, Inc ("Chevys") due in 2009. The note receivable balance of approximately $8,800,000 and $8,600,000 as of September 28, 2003 and December 29, 2002, respectively, is included in other assets in our consolidated balance sheets. In June 2003, Chevys announced the sale of the majority of its restaurants. Subsequent to the announcement, we received Chevys' audited financial statements for the fiscal year ended December 31, 2002. Based upon this information, we believe that the note is impaired. During the fiscal quarter ended June 29, 2003, we fully reserved the principal by recording an allowance of approximately $8,800,000. A charge for the impairment of this note is included in our consolidated statements of earnings for the thirty-nine weeks ended September 28, 2003. We no longer accrue interest receivable on this note and will record future interest income on this note only upon the receipt of any related cash payments. In October 2003, Chevys Inc. filed a voluntary petition to reorganize under Chapter 11 of the U.S. Bankruptcy Code.

8. Goodwill and Other Intangible Assets

Changes in goodwill are summarized below (in thousands):

	September 28, 2003	December 2002
Carrying amount, beginning of the year..................	$ 88,715	$ 78,6
Goodwill acquired during the period....................	16,611	10,1
	$ 105,326	$ 88,7

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

	September 28, 2003	December 2002
Gross carrying amount..................................	$ 6,371	$ 6,3
Less accumulated amortization..........................	5,151	4,9
Net..	$ 1,220	$ 1,4

We expect annual amortization expense for all intangible assets for the next five fiscal years to range from approximately $40,000 to $330,000.

9. Captive Insurance Subsidiary

On September 20, 2002, we formed Neighborhood Insurance, Inc., a Vermont corporation and a wholly-owned subsidiary, as a captive insurance company. Neighborhood Insurance, Inc. was established 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 ultimate 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.

As of September 28, 2003 we have included in our consolidated balance sheet approximately $1,100,000 in deferred policy acquisition costs in prepaid and other current assets and approximately $8,800,000 of restricted assets restricted for the payment of claims, held primarily in cash equivalent investments. In addition, we have recorded current liabilities of approximately $11,900,000 in loss and premium reserves related to the captive insurance subsidiary.

10. New Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized only when the liability is incurred and measured at fair value. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The initial adoption of this Statement did not have a material impact on our results of operations or financial position.

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In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 supersedes Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others," and provides guidance to guarantors on the recognition and disclosure concerning obligations under certain guarantees in interim and annual financial statements. The initial recognition and measurement provisions of Interpretation No. 45 are effective for guarantees issued or modified after December 31, 2002, and are to be applied prospectively. The disclosure requirements were effective for financial statements for interim or annual periods ending after December 15, 2002. We adopted the initial recognition provisions of Interpretation No. 45 in January of 2003. The initial adoption of Interpretation No. 45 did not have a material impact on our results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This Statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in annual and interim financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for financial statements issued for fiscal years ending after December 15, 2002. The interim disclosure provisions of this Statement were effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. We have adopted the disclosure provisions of SFAS No. 148.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." This Interpretation provides clarification on the consolidation of certain entities in which equity investors do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Such entities are defined as variable interest entities ("VIEs"). This Interpretation requires that VIEs be consolidated by the entity considered to be the primary beneficiary of the VIE. The Interpretation was effective for newly created VIEs after January 31, 2003. We have concluded that we have not created or obtained any VIEs subsequent to January 31, 2003 that would require consolidation and the initial adoption did not have any impact on our consolidated financial statements.

FASB Staff Position No. 46-6 "Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities," deferred the effective date for applying the provisions of the Interpretation for VIEs created before February 1, 2003 to the first interim or annual period ending after December 15, 2003, if certain conditions are met. We will implement the provisions of Interpretation 46 for any VIEs created prior to February 1, 2003 in our consolidated financial statements for the fiscal year ending December 28, 2003.

As of the date of this filing, the FASB is deliberating certain FASB Staff Positions ("FSPs") and may issue additional FSPs prior to our fiscal year ending December 28, 2003. These FSPs, when finalized, may impact the accounting under this Interpretation. We are currently assessing Interpretation No. 46 and, although we have not completed our analysis, we do not expect the adoption to have a material impact on our consolidated financial statements.

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

General

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 includes insurance premiums from franchisee participation in our captive insurance company and revenue from information technology products and services provided to certain franchisees.

Comparable restaurant sales are based upon those restaurants open for at least 18 months and are compared from period to period.

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

Cost of other franchise income includes the costs related to franchisee participation in our captive insurance company and costs related to information technology products and services provided to certain franchisees.

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

We operate on a 52 or 53 week fiscal year ending on the last Sunday in December. Our fiscal quarters ended September 28, 2003 and September 29, 2002 each contained 13 weeks and are referred to hereafter as the "2003 quarter" and the "2002 quarter," respectively. Our 39 week periods ended September 28, 2003 and September 29, 2002 are referred to hereafter as the "2003 year-to-date period" and the "2002 year-to-date period," respectively.

On September 20, 2002, we formed Neighborhood Insurance, Inc., a Vermont corporation and a wholly-owned subsidiary, as a captive insurance company. Neighborhood Insurance, Inc. was established 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 ultimate 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.

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As of September 28, 2003 we have included in our consolidated balance sheet approximately $1,100,000 in deferred policy acquisition costs in prepaid and other current assets and approximately $8,800,000 of restricted assets restricted for the payment of claims, held primarily in cash equivalent investments. In addition, we have recorded current liabilities of approximately $11,900,000 in loss and premium reserves related to the captive insurance subsidiary.

Application of Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our 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 consolidated financial statements and notes thereto. Actual results may differ from these estimates, and such differences may be material to the consolidated financial statements. We believe that the following significant accounting policies involve a higher degree of judgment or complexity (see Note 2 of our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 29, 2002 for a complete discussion of our significant accounting policies).

Franchise revenues: Franchise revenues consist of franchise royalties, franchise fees and other franchise income. We recognize royalties on a franchisee's sales in the period in which the sales are reported to have occurred. We also receive a franchise fee for each restaurant that a franchisee opens. The recognition of franchise fees is deferred until we have performed substantially all of our related obligations as franchisor, typically when the restaurant opens. Other franchise income includes insurance premiums from franchisee participation in our captive insurance company and revenue from information technology products and services provided to certain franchisees.

Property and equipment: Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. 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.

Impairment of long-lived assets: We periodically review 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. This assessment process requires the use of estimates and assumptions which are subject to a significant degree of judgment. In addition, we periodically assess the recoverability of goodwill and other intangible assets, which requires us to make assumptions regarding the future cash flows and other factors to determine the fair value of the assets. If these assumptions change in the future, we may be required to record impairment charges for these assets.

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.

Employee incentive compensation plans: We have various long-term employee incentive compensation plans which require us to make estimates to determine our liability based upon projected performance of plan criteria. If actual performance against the criteria differs from our estimates in the future, we will be required to adjust our liability accordingly.

Receivables: We continually assess the collectibility of our franchise receivables. We establish our allowance for bad debts based on several factors, including historical collection experience, the current economic environment and other specific information available to us at the time. The allowance for bad debts may change in the future due to changes in the factors above or other new developments.

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 the consolidated balance sheets would be adjusted accordingly. Historically, actual results have not been materially different than the estimates that are described above.

Acquisitions

On November 7, 2002, we acquired the operations and assets of 21 Applebee's restaurants located in the Washington, D.C. area from a franchisee. Under the terms of the purchase agreement and the agreement with the franchisee's secured lender, the total purchase price of the acquisition was $34,250,000. The agreement also provides for additional consideration in July 2004 if the restaurants achieve cash flows in excess of historical levels. Our financial statements reflect the results of operations for these restaurants subsequent to the date of acquisition.

On March 24, 2003, we acquired the operations and assets of 11 Applebee's restaurants located in Illinois, Indiana, Kentucky and Missouri for $21,800,000 in cash and $1,400,000 in assumed debt from a franchisee. The total cash payment included $20,800,000 paid at closing, approximately $200,000 paid as a deposit in fiscal 2002 and approximately $800,000 paid in the second quarter of 2003. Our financial statements reflect the results of operations for these restaurants subsequent to the date of acquisition.

The following table is comprised of actual company restaurant sales included in our consolidated financial statements for each period presented and pro forma company restaurant sales assuming the acquisitions occurred at the beginning of each respective period (in thousands):

	13 Weeks Ended		39
	September 28, 2003	September 29, 2002	September 2003
Actual company restaurant sales for acquired restaurants........................	$ 18,400	$ --	$ 49,1
Pro forma company restaurant sales for acquired restaurants........................	$ 18,400	$ 17,500	$ 55,1

Dispositions

On July 20, 2003, we completed the sale of eight company restaurants in the Atlanta, Georgia market to an affiliate of an existing franchisee for $8,000,000 and recognized an immaterial gain in our consolidated statements of earnings. In connection with the sale of these restaurants, we closed one restaurant in the Atlanta market in June 2003. We do not expect this transaction to have a significant impact on our net earnings for fiscal 2003. Actual company restaurant sales included in our consolidated financial statements for the nine restaurants were approximately $900,000 and $4,500,000 in the 13 weeks ended September 28, 2003 and September 29, 2002, respectively, and were approximately $10,300,000 and $14,000,000 in the 39 weeks ended September 28, 2003 and September 29, 2002, respectively.

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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		
September 28, 2003	September 29, 2002	Sep

Revenues:		
Company restaurant sales....................	87.9%	87.5%
Franchise royalties and fees................	10.9	12.5
Other franchise income......................	1.2	0.1
Total operating revenues.................	100.0%	100.0%
Cost of sales (as a percentage of company restaurant sales):		
Food and beverage...........................	25.7%	26.1%
Labor.......................................	32.8	32.9
Direct and occupancy........................	25.1	25.7
Pre-opening expense.........................	0.3	0.4
Total cost of sales......................	83.9%	85.1%
Cost of other franchise income (as a percentage of other franchise income)....................	95.5%	58.9%
General and administrative expenses..............	9.3	9.6
Amortization of intangible assets................	--	--
Loss on disposition of restaurants and equipment..	--	0.2
Operating earnings...............................	15.7	15.6
Other income (expense):		
Investment income...........................	0.1	0.2
Interest expense............................	(0.1)	(0.2)
Impairment of Chevys note receivable.........	--	--
Other income................................	0.2	0.2
Total other income (expense).............	0.1	0.2
Earnings before income taxes.....................	15.8	15.8
Income taxes.....................................	5.7	5.8
Net earnings.....................................	10.1%	10.1%

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

	13 Weeks Ended		39 We
	September 28, 2003	September 29, 2002	September 2 2003
Number of restaurants:			
Company:			

Beginning of period....................	373	318	357
Restaurant openings....................	8	11	15
Restaurants closed.....................	--	--	(2)
Restaurants acquired from franchisee....	--	--	11
Restaurants acquired by franchisee......	(9)	--	(9)
End of period..........................	372	329	372
Franchise:			
Beginning of period....................	1,155	1,103	1,139
Restaurant openings....................	12	26	41
Restaurants closed.....................	(5)	--	(7)
Restaurants acquired from franchisee....	--	--	(11)
Restaurants acquired by franchisee......	9	--	9
End of period..........................	1,171	1,129	1,171
Total:			
Beginning of period....................	1,528	1,421	1,496
Restaurant openings....................	20	37	56
Restaurants closed.....................	(5)	--	(9)
End of period..........................	1,543	1,458	1,543
Weighted average weekly sales per restaurant:			
Company................................	$ 45,976	$ 43,474	$ 45,356
Franchise..............................	$ 45,760	$ 44,105	$ 45,637
Total..................................	$ 45,812	$ 43,963	$ 45,569
Change in comparable restaurant sales:(1)			
Company................................	5.9%	1.7%	5.2%
Franchise..............................	4.4%	3.1%	3.5%
Total..................................	4.8%	2.8%	3.9%
System-wide sales (in thousands):(2)			
Company..	$ 222,429	$ 182,807	$ 650,946
Franchise..	$ 687,292	$ 639,833	$2,047,735
Total..	$ 909,721	$ 822,640	$2,698,681

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Company Restaurant Sales. Total company restaurant sales increased $39,622,000 (22%) from $182,807,000 in the 2002 quarter to $222,429,000 in the 2003 quarter and increased $114,273,000 (21%) from $536,673,000 in the 2002 year-to-date period to $650,946,000 in the 2003 year-to-date period. Company restaurant openings contributed approximately 8% of the increase in total company restaurant sales in both the 2003 quarter and the 2003 year-to-date period. The remaining increase in both periods was due to the acquisition of 21 franchise restaurants in the Washington D.C. area in November 2002 and 11 restaurants in Illinois, Indiana, Kentucky, and Missouri in late March 2003 as well as increases in weighted average weekly sales. The increase in both periods was partially offset by the sale of 8 restaurants in the Atlanta, Georgia market in July 2003.

Comparable restaurant sales at company restaurants increased by 5.9% and 5.2% in the 2003 quarter and the 2003 year-to-date period, respectively. Weighted average weekly sales at company restaurants increased 5.8% from $43,474 in the 2002 quarter to $45,976 in the 2003 quarter and also increased 4.4% from $43,424 in the 2002 year-to-date period to $45,356 in the 2003 year-to-date period. These increases were due primarily to increases in guest traffic and in the average guest check resulting from our food promotions. In addition, a portion of the increase resulted from the implementation of our To Go initiative and menu price increases of approximately 1.5% in fiscal 2003. To Go sales mix increased from 4.9% of company restaurant sales in the 2002 quarter to 6.9% of company restaurant sales in the 2003 quarter.

Franchise Royalties and Fees. Overall franchise royalties and fees increased $1,561,000 (6%) from $26,033,000 in the 2002 quarter to $27,594,000 in the 2003 quarter and increased $5,731,000 (8%) from $76,357,000 in the 2002 year-to-date period to $82,088,000 in the 2003 year-to-date period. These increases were due primarily to the increased number of franchise Applebee's restaurants operating during the 2003 quarter and 2003 year-to-date period and increases in comparable restaurant sales. Weighted average weekly sales at franchise restaurants increased 3.8% and 3.1% in the 2003 quarter and 2003 year-to-date period, respectively and franchise comparable restaurant sales increased 4.4% and 3.5% in the 2003 quarter and 2003 year-to-date periods, respectively.

Other Franchise Income. Other franchise income increased from $168,000 in the 2002 quarter to $2,972,000 in the 2003 quarter and increased from $765,000 in the 2002 year-to-date period to $8,881,000 in the 2003 year-to-date period due primarily to revenues recognized related to the franchise premium amounts billed by the captive insurance company which was formed in September 2002. Franchise premiums are included in other franchise income ratably over the policy year.

Cost of Company Restaurant Sales. Food and beverage costs decreased from 26.1% in the 2002 quarter to 25.7% in the 2003 quarter and decreased from 26.5% in the 2002 year-to-date period to 26.0% in the 2003 year-to-date period. The decreases in both the 2003 quarter and the 2003 year-to-date period were due to menu price increases and operational improvements resulting from our supply chain management initiatives.

Labor costs decreased from 32.9% in both the 2002 quarter and the 2002 year-to-date period to 32.8% in both the 2003 quarter and 2003 year-to-date period. These decreases were due to lower hourly costs due to higher sales volume at company restaurants and were partially offset by higher costs related to the addition of dedicated To Go hourly labor at most of our restaurants during the 2003 quarter and workers compensation costs. In addition, the 2003 quarter was impacted by higher management incentive compensation.

Direct and occupancy costs decreased from 25.7% in the 2002 quarter to 25.1% in the 2003 quarter and from 25.0% in the 2002 year-to-date period to 24.7% in the 2003 year-to-date period. The decrease in both periods was due primarily to a decrease in advertising costs, as a percentage of sales, due to the timing of our menu promotions and was partially offset by higher insurance costs and higher packaging costs relating to our To Go initiative. In addition, higher sales volume at company restaurants during both periods resulted in lower depreciation expense, as a percentage of sales, due to its relatively fixed nature.

Cost of Other Franchise Income. Cost of other franchise income increased from $99,000 in the 2002 quarter to $2,837,000 in the 2003 quarter and increased from $252,000 in the 2002 year-to-date period to $8,510,000 in the 2003 year-to-date due primarily to the costs related to the operation of our captive insurance company, which was formed in September 2002.

General and Administrative Expenses. General and administrative expenses decreased from 9.6% in the 2002 quarter and 9.7% in the 2002 year-to-date period to 9.3% in both the 2003 quarter and 2003 year-to-date period. General and administrative expenses were lower in both the 2003 quarter and 2003 year-to-date period as a result of the absorption of general and administrative expenses over a larger revenue base. Decreases in both periods were partially offset by a higher depreciation expense related to our new information systems and increased incentive compensation.

Impairment of Chevys Note Receivable. In June 2003, Chevys announced the sale of the majority of its restaurants. Subsequent to the announcement, we received Chevys' audited financial statements for the fiscal year ended December 31, 2002. Based upon this information, we believe that the note is impaired. During the fiscal quarter ended June 29, 2003, we fully reserved the principal and accrued interest by recording an allowance of approximately $8,800,000 as of September 28, 2003. In October 2003, Chevys Inc. filed a voluntary petition to reorganize under Chapter 11 of the U.S. Bankruptcy Code.

Income Taxes. The effective income tax rate, as a percentage of earnings before income taxes, decreased from 36.5% in both the 2002 quarter and 2002 year-to-date period to 36.0% in both the 2003 quarter and the 2003 year-to-date period due to a reduction in state and local income taxes and the discontinuation of goodwill amortization required under SFAS No. 142.

Liquidity and Capital Resources

Our need for capital historically has resulted from the construction and acquisition of restaurants, investment in information technology systems and the repurchase of our common shares. 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.

Capital expenditures were $64,874,000 in fiscal year 2002 (excluding the acquisition of 21 restaurants) and $54,893,000 in the 2003 year-to-date period (excluding the acquisition of 11 restaurants). We currently expect to open approximately 25 company restaurants, and capital expenditures excluding acquisitions are expected to be between $70,000,000 and $80,000,000 in 2003. 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 November 7, 2002, we acquired the operations and assets of 21 Applebee's restaurants located in the Washington, D.C. area from a franchisee. Under the terms of the purchase agreement and the agreement with the franchisee's secured lender, the total purchase price of the acquisition was $34,250,000. The agreement also provides for additional consideration in July 2004 if the restaurants achieve cash flows in excess of historical levels. Our financial statements reflect the results of operations for these restaurants subsequent to the date of acquisition.

On March 24, 2003, we acquired the operations and assets of 11 Applebee's restaurants located in Illinois, Indiana, Kentucky and Missouri for $21,800,000 in cash and $1,400,000 in assumed debt from a franchisee. The total cash payment included $20,800,000 paid at closing, approximately $200,000 paid as a deposit in fiscal 2002 and approximately $800,000 paid in the second quarter of 2003. Our financial statements reflect the results of operations for these restaurants subsequent to the date of acquisition.

On July 20, 2003, we completed the sale of eight company restaurants in the Atlanta, Georgia market to an affiliate of an existing franchisee for $8,000,000 and recognized an immaterial gain in our consolidated statements of earnings. In connection with the sale of these restaurants, we closed one restaurant in the Atlanta market in June 2003. We do not expect this transaction to have a significant impact on our net earnings for fiscal 2003.

Our bank credit agreement provides for a $150,000,000 three-year unsecured revolving credit facility, of which $25,000,000 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, and limit additional indebtedness and capital expenditures in excess of specified amounts. Cash dividends are limited to $10,000,000 annually. The facility is subject to standard other terms, conditions, covenants, and fees. We are currently in compliance with the covenants contained in our credit agreement. As of September 28, 2003, we had borrowings of $22,800,000 and standby letters of credit of $11,892,000 outstanding under our revolving credit facility.

In May 2002, our Board of Directors authorized an additional repurchase of $75,000,000 of our common stock through May 2005. During the 2003 year-to-date period, we repurchased 1,679,500 shares at an average cost of $29.63 for an aggregate cost of $49,800,000. As of September 28, 2003, we had $19,800,000 remaining under the 2002 authorization.

As of September 28, 2003, our liquid assets totaled $3,385,000. These assets consisted of cash and cash equivalents in the amount of $3,359,000 and short-term investments in the amount of $26,000. The working capital deficit increased from $45,607,000 as of December 29, 2002 to $70,398,000 as of September 28, 2003. This increase was due primarily to decreases in cash and cash equivalents due to the acquisition of 11 restaurants in Illinois, Indiana, Kentucky and Missouri, repurchases of our common stock and the repayment of debt and was partially offset by the redemption of gift certificates in the 2003 year-to-date period sold in 2002.

We believe that our liquid assets and cash generated from operations, combined with borrowings available under our credit facilities, will provide sufficient funds for our operating, capital and other requirements for the foreseeable future.

The following table shows our debt amortization schedule, our future capital lease commitments (including principal and interest payments) and our future operating lease commitments as of September 28, 2003 (in thousands):

Payments due by period

Certain Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years
Long-term Debt (excluding capital lease obligations).....................	$ 24,480	$ 4,919	$ 18,242	$ 1
Capital Lease Obligations................	$ 10,005	$ 735	$ 1,548	$ 1,6
Operating Leases.........................	$ 211,122	$ 18,349	$ 34,381	$ 33,3

In addition, we have outstanding lease guarantees of approximately $25,100,000 as of September 28, 2003 (see Note 3 to our Consolidated Financial Statements).

Inflation

Substantial increases in costs and expenses could impact our operating results to the extent such increases cannot be passed along to customers. In particular, increases in food, supplies, labor and operating expenses could have a significant impact on our operating results. We do not believe that inflation has materially affected our operating results during the past three years.

A majority of our employees are paid hourly rates related to federal and state minimum wage laws and various laws that allow for credits to that wage. The Federal government continues to consider an increase in the minimum wage. Several state governments have increased the minimum wage and other state governments are also considering an increased minimum wage. In the past, we have been able to pass along cost increases to customers through food and beverage price increases, and we will attempt to do so in the future. We cannot guarantee, however, that all future cost increases can be reflected in our prices or that increased prices will be absorbed by customers without at least somewhat diminishing customer spending in our restaurants.

New Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized only when the liability is incurred and measured at fair value. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The initial adoption of this Statement did not have a material impact on our results of operations or financial position.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others." Interpretation No. 45 supersedes Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others," and provides guidance to guarantors on the recognition and disclosure concerning obligations under certain guarantees in interim and annual financial statements. The initial recognition and measurement provisions of Interpretation No. 45 are effective for guarantees issued or modified after December 31, 2002, and are to be applied prospectively. The disclosure requirements were effective for financial statements for interim or annual periods ending after December 15, 2002. We adopted the initial recognition provisions of Interpretation No. 45 in January of 2003. The initial adoption of Interpretation No. 45 did not have a material impact on our results of operations or financial position.

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In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This Statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in annual and interim financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for financial statements issued for fiscal years ending after December 15, 2002. The interim disclosure provisions of this Statement were effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. We have adopted the disclosure provisions of SFAS No. 148.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." This Interpretation provides clarification on the consolidation of certain entities in which equity investors do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Such entities are defined as variable interest entities ("VIEs"). This Interpretation requires that VIEs be consolidated by the entity considered to be the primary beneficiary of the VIE. The Interpretation was effective for newly created VIEs after January 31, 2003. We have concluded that we have not created or obtained any VIEs subsequent to January 31, 2003 that would require consolidation and the initial adoption did not have any impact on our consolidated financial statements.

FASB Staff Position No. 46-6 "Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities," deferred the effective date for applying the provisions of the Interpretation for VIEs created before February 1, 2003 to the first interim or annual period ending after December 15, 2003, if certain conditions are met. We will implement the provisions of Interpretation 46 for any VIEs created prior to February 1, 2003 in our consolidated financial statements for the fiscal year ending December 28, 2003.

As of the date of this filing, the FASB is deliberating certain FASB Staff Positions ("FSPs") and may issue additional FSPs prior to our fiscal year ending December 28, 2003. These FSPs, when finalized, may impact the accounting under this Interpretation. We are currently assessing Interpretation No. 46 and, although we have not completed our analysis, we do not expect the adoption to have a material impact 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, capital expenditures 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 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 12, 2003. We disclaim any obligation to update forward-looking statements.

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 1.0%, at our option. As of September 28, 2003, the total amount of debt subject to interest rate fluctuations was $24,500,000. A 1% change in interest rates would result in an increase or decrease in interest expense of $245,000 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 and seasonality. As part of our strategy to moderate this volatility, we have entered into fixed price purchase commitments.

Item 4. Controls and Procedures

As of the end of the period covered by this report, 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.

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.

While the resolution of the matters described above may have an impact on our financial results for the period in which they are resolved, 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 6. Exhibits and Reports on Form 8-K

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

(b) We furnished a report on Form 8-K on July 2, 2003 announcing our presentation at the CIBC World Markets Consumer Growth Conference.

We furnished a report on Form 8-K on July 23, 2003 announcing our broadcast of the second quarter 2003 earnings conference call over the Internet.

We furnished a report on Form 8-K on July 25, 2003 announcing plans to co-develop a new menu with Weight Watchers International, Inc.

We furnished a report on Form 8-K on July 25, 2003 announcing the temporary suspension of trading under an employee benefit plan.

We filed a report on Form 8-K on July 31, 2003 reporting second quarter earnings.

We filed a report on Form 8-K on August 26, 2003 reporting August comparable sales.

We furnished a report on Form 8-K on September 10, 2003 announcing our presentation at the Banc of America Securities Investment Conference.

We furnished a report on Form 8-K on September 24, 2003 announcing our presentation at the RBC Capital Markets Consumer Conference.

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: October 29, 2003 By: /s/ Lloyd L. Hill

Lloyd L. Hill
Chairman and Chief Executive Officer
(principal executive officer)

Date: October 29, 2003 By: /s/ Steven K. Lumpkin

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

Date: October 29, 2003 By: /s/ Beverly O. Elving

Beverly O. Elving
Vice President, Accounting
(principal accounting officer)

APPLEBEE'S INTERNATIONAL, INC.
EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.1	Memorandum of Understanding dated May 12, 2003 with Robert T. Steinkamp
10.2	Confidentiality, Non-Solicitation and Non-Competition Agreement dated May 12, 2003 with Robert T. Steinkamp
31.1	Certification of Chairman and Chief Executive Officer Pursuant to SEC Rule 13a-14
31.2	Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14
32	Certification of Chairman and Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350