APPLEBEES INTERNATIONAL INC
Form 10-Q
November 08, 2002

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 29, 2002

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

Number of shares of the registrant's common stock outstanding as of November 1, 2002 was 55,250,390.

APPLEBEE'S INTERNATIONAL, INC.
FORM 10-Q
FISCAL QUARTER ENDED SEPTEMBER 29, 2002
INDEX

APPLEBEE'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands, except share amounts)

	September 2002
ASSETS	
Current assets:	
Cash and cash equivalents..........	$ 7,5
Short-term investments, at market value (amortized cost of $478 in 2002 and $677 in 2001)..........	5
Receivables (less allowance for bad debts of $5,443 in 2002 and $4,343 in 2001).	25,2
Inventories..........	7,0
Prepaid and other current assets..........	13,7
Total current assets..........	54,0
Property and equipment, net..........	353,7
Goodwill, net..........	78,6
Franchise interest and rights, net..........	1,5
Other assets..........	20,8
	$ 508,8
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt..........	$ 3
Notes payable..........	3,5
Accounts payable..........	28,1
Accrued expenses and other current liabilities..........	63,8
Accrued dividends..........	
Accrued income taxes..........	1,9
Total current liabilities..........	97,7
Non-current liabilities:	
Long-term debt - less current portion..........	35,1
Franchise deposits..........	1,1
Deferred income taxes..........	2,0
Total non-current liabilities..........	38,4
Total liabilities..........	136,1
Commitments and contingencies (Note 2)	
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..........	7
Additional paid-in capital..........	186,0
Retained earnings..........	417,6
Accumulated other comprehensive income, net of income taxes	
	604,4
Treasury stock - 17,123,011 shares in 2002 and 16,522,099 shares in 2001, at cost..........	(231,7
Total stockholders' equity..........	372,6
	$ 508,8

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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		39
	September 29, 2002	September 30, 2001	September 2002
Revenues:			
Company restaurant sales....................	$ 182,807	$ 164,238	$ 536,67
Franchise income...........................	26,033	23,787	76,35
Total operating revenues.................	208,840	188,025	613,03
Cost of company restaurant sales:			
Food and beverage..........................	47,765	44,489	142,24
Labor......................................	60,054	52,864	176,39
Direct and occupancy.......................	47,009	41,459	134,17
Pre-opening expense........................	792	632	1,43
Total cost of company restaurant sales...	155,620	139,444	454,24
General and administrative expenses.............	20,049	19,197	58,84
Amortization of intangible assets...............	95	1,463	28
Loss on disposition of restaurants and equipment.	458	329	1,47
Operating earnings..............................	32,618	27,592	98,17
Other income (expense):			
Investment income..........................	346	479	1,12
Interest expense...........................	(414)	(1,831)	(1,60
Other income...............................	513	322	1,09
Total other income (expense)............	445	(1,030)	61
Earnings before income taxes....................	33,063	26,562	98,79
Income taxes....................................	12,068	9,776	36,06
Net earnings....................................	$ 20,995	$ 16,786	$ 62,73
Basic net earnings per common share.............	$ 0.38	$ 0.30	$ 1.1
Diluted net earnings per common share...........	$ 0.37	$ 0.30	$ 1.1
Basic weighted average shares outstanding........	55,654	55,366	55,80

Diluted weighted average shares outstanding......	56,714	56,821	57,11

See notes to consolidated financial statements.

4

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

	Common Stock		Additional Paid-In	Retained	Accumula Other Comprehe
	Shares	Amount	Capital	Earnings	Inco
Balance, December 30, 2001............	72,336,788	$ 723	$ 180,802	$ 354,950	$
Comprehensive income:					
Net earnings.....................	--	--	--	62,735	
Change in unrealized gain on short-term investments, net of income taxes............	--	--	--	--	
Total comprehensive income..........	--	--	--	62,735	
Purchases of treasury stock.........	--	--	--	--	
Stock options exercised and related tax benefit...............	--	--	1,898	--	
Shares issued under employee stock and 401(k) plans............	--	--	2,390	--	
Restricted shares awarded under equity incentive plan.......	--	--	8	--	
Unearned compensation relating to restricted shares.............	--	--	467	--	
Repayments of notes receivable from officers for stock sales..........	--	--	490	--	
Dividends paid for fractional shares	--	--	--	(33)	
Balance, September 29, 2002...........	72,336,788	$ 723	$ 186,055	$ 417,652	$

See notes to consolidated financial statements.

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

	39 W
	September 29, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net earnings	$ 62,735
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	25,812
Amortization of intangible assets	285
Amortization of deferred financing costs	145
Deferred income tax benefit (provision)	635
Loss on disposition of restaurants and equipment	1,479
Income tax benefit from exercise of options	1,397
Changes in assets and liabilities:	
Receivables	(2,380)
Inventories	3,095
Prepaid and other current assets	(1,574)
Accounts payable	5,910
Accrued expenses and other current liabilities	(5,263)
Accrued income taxes	940
Franchise deposits	(333)
Other	1,371
NET CASH PROVIDED BY OPERATING ACTIVITIES	94,254
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(49,680)
Proceeds from sale of restaurants and equipment	3
Purchases of short-term investments	(150)
Maturities and sales of short-term investments	350
NET CASH USED BY INVESTING ACTIVITIES	(49,477)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Purchases of treasury stock	(26,113)
Dividends paid	(3,010)
Issuance of common stock upon exercise of stock options	3,791
Shares sold under employee stock purchase plan	1,529
Proceeds from issuance of notes payable	3,500
Payments on long-term debt	(39,000)
NET CASH USED BY FINANCING ACTIVITIES	(59,303)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,526)
CASH AND CASH EQUIVALENTS, beginning of period	22,048
CASH AND CASH EQUIVALENTS, end of period	$ 7,522

See notes to consolidated financial statements.

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

	39 We
	September 29, 2002
Supplemental disclosures of cash flow information:	
Cash paid during the 39 week period for:	
Income taxes	$ 30,172
Interest	$ 1,159

Disclosure of Accounting Policy:

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

See notes to consolidated financial statements.

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 30, 2001 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 30, 2001.

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 2002 presentation.

2. Commitments and Contingencies

Litigation, claims and disputes: We are involved in various legal actions arising in the normal course of business. These matters include, without limitation, such matters as employment law related claims and disputes with two international franchisees regarding disclosures we allegedly made or omitted. 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 the 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 guaranties: 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 29, 2002, the aggregate amount of these remaining lease payments totaled approximately $25,200,000. The buyers have indemnified us from any losses related to these guaranties.

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 29, 2002, we would have been required to make payments totaling approximately $7,900,000. 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 $5,900,000 if such officers had been terminated as of September 29, 2002.

3. 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 W
	September 29, 2002	September 30, 2001	September 29 2002
Net earnings....................................	$ 20,995	$ 16,786	$ 62,735
Basic weighted average shares outstanding.........	55,654	55,366	55,801
Dilutive effect of stock options and performance shares..........................	1,060	1,455	1,318
Diluted weighted average shares outstanding.......	56,714	56,821	57,119
Basic net earnings per common share..............	$ 0.38	$ 0.30	$ 1.12
Diluted net earnings per common share............	$ 0.37	$ 0.30	$ 1.10

4. Stock Split

On May 9, 2002, we declared a three-for-two stock split, effected in the form of a 50% stock dividend, to shareholders of record on May 24, 2002, payable on June 11, 2002. We issued approximately 24,100,000 shares of common stock as a result of the stock split. All references to the number of shares and per share amounts of common stock have been restated to reflect the stock split. We have reclassified an amount equal to the par value of the number of shares issued to common stock from retained earnings.

5. Goodwill and Other Intangible Assets

We adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", effective December 31, 2001. SFAS No. 142 requires that an intangible asset that is acquired shall be initially recognized and measured based on its fair value. This Statement also provides that goodwill should not be amortized, but shall be tested for impairment annually, or more frequently if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. In the first quarter of fiscal 2002, we completed the first step of the required two-step goodwill impairment testing and ceased amortization of goodwill. The first step of the impairment test required us to compare the fair value of each reporting unit to its carrying value to determine whether there was an indication that an impairment existed. If there had been an indication of impairment, we would have allocated the fair value of the reporting unit to its assets and liabilities as if the reporting unit had been acquired in a business combination. No impairment losses were recorded upon the initial adoption of SFAS No. 142.

The effect of the adoption of SFAS No. 142 on net income and earnings per share is as follows (in thousands, except per share amounts. May not add due to rounding):

	13 Weeks Ended		39 W
	September 29, 2002	September 30, 2001	September 29 2002
Net earnings, as reported........................	$ 20,995	$ 16,786	$ 62,735
Goodwill amortization (net of income taxes).......	--	837	--
Net earnings, as adjusted........................	$ 20,995	$ 17,623	$ 62,735
Basic net earnings per common share, as reported.................................	$ 0.38	$ 0.30	$ 1.12
Goodwill amortization (net of income taxes).......	--	0.02	--
Basic net earnings per common share, as reported.................................	$ 0.38	$ 0.32	$ 1.12
Diluted net earnings per common share, as reported.................................	$ 0.37	$ 0.30	$ 1.10
Goodwill amortization (net of income taxes).......	--	0.01	--
Diluted net earnings per common share, as reported	$ 0.37	$ 0.31	$ 1.10

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

	September 29, 2002	December 30, 2001
Gross carrying amount	$6,371	$6,371
Less, accumulated amortization	4,820	4,571
Net	$1,551	$1,800

We expect annual amortization expense for all intangible assets for the next five fiscal years to range from approximately $280,000 to $380,000.

6. New Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets", which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 retains many of the provisions of SFAS No. 121, but addresses certain implementation issues associated with that Statement. We adopted SFAS No. 144 effective December 31, 2001. The adoption of SFAS No. 144 did not have a material impact on our consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS Nos. 4 and 64 required gains and losses from extinguishment of debt to be classified as extraordinary items. SFAS No. 145 rescinds this requirement and stipulates that gains or losses on extinguishment of debt would have to meet the criteria of APB Opinion No. 30 to be classified as an extraordinary item. In addition, any extraordinary gains or losses on extinguishment of debt in prior periods presented would require reclassification. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. We are currently evaluating the impact of this Statement.

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. We do not expect the initial adoption of this Statement to have a material impact on our results of operations or financial position.

7. Subsequent Event

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 $34.3 million, subject to adjustment. The agreement also provides for additional payments if the restaurants achieve cash flows in excess of historical levels in the first 18 months after the closing of the acquisition. Our financial statements will reflect the results of operations for these restaurants subsequent to the date of acquisition.

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

General

Our revenues are generated from two primary sources:

- Company restaurant sales (food and beverage sales)
- Franchise income

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

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

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

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 29, 2002 and September 30, 2001 each contained 13 weeks and are referred to hereafter as the "2002 quarter" and the "2001 quarter", respectively. Our 39 week periods ended September 29, 2002 and September 30, 2001 are referred to hereafter as the "2002 year-to-date period" and the "2001 year-to-date period," respectively.

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 have identified the following accounting policies as critical to the understanding of our consolidated financial statements (see Note 2 of our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 30, 2001 for a complete discussion of our significant accounting policies).

Franchise income: Franchise income consists of franchise royalties and franchise fees. We recognize royalties on a franchisee's sales in the period in which the sales occur. We also receive a franchise fee for each restaurant that a franchisee opens. This franchise fee is recognized as income when the restaurant opens.

12

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 best 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 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 judgement. 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 arising in the normal course of business. We are required to assess the probability of any adverse judgements as well as the potential ranges of any losses. We determine the required accruals after a careful review of the facts of each legal action. Our accruals may change in the future due to new developments in these matters.

We use estimates in the determination of the required accruals for general liability, workers' compensation and health insurance. These estimates are based upon a third party's detailed examination of historical and industry claims experience. These estimates may change in the future and may require us to revise these accruals.

Employee incentive compensation plans: We have various long-term employee incentive compensation plans which require us to make estimates to determine our liability. If performance against the criteria in each plan 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 based on several factors, using estimates based upon specific information available to us at the time. The allowance for bad debts may change in the future due to new developments.

We periodically reassess our assumptions and judgements 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.

13

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 29, 2002	September 30, 2001	Sep
Revenues:			
Company restaurant sales....................	87.5%	87.3%	
Franchise income............................	12.5	12.7	

Total operating revenues	100.0%	100.0%	
Cost of sales (as a percentage of company restaurant sales):			
Food and beverage	26.1%	27.1%	
Labor	32.9	32.2	
Direct and occupancy	25.7	25.2	
Pre-opening expense	0.4	0.4	
Total cost of sales	85.1%	84.9%	
General and administrative expenses	9.6%	10.2%	
Amortization of intangible assets	--	0.8	
Loss on disposition of restaurants and equipment	0.2	0.2	
Operating earnings	15.6	14.7	
Other income (expense):			
Investment income	0.2	0.3	
Interest expense	(0.2)	(1.0)	
Other income	0.2	0.2	
Total other income (expense)	0.2	(0.5)	
Earnings before income taxes	15.8	14.1	
Income taxes	5.8	5.2	
Net earnings	10.1%	8.9%	

14

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 29, 2002	September 30, 2001	September 2 2002
Number of restaurants:			
Company:			
Beginning of period	318	289	310
Restaurant openings	11	9	19
Restaurant closings	--	--	--
End of period	329	298	329
Franchise:			
Beginning of period	1,103	1,035	1,082
Restaurant openings	26	25	50

Restaurant closings	--	--	(3)
End of period	1,129	1,060	1,129
Total:			
Beginning of period	1,421	1,324	1,392
Restaurant openings	37	34	69
Restaurant closings	--	--	(3)
End of period	1,458	1,358	1,458
Weighted average weekly sales per restaurant:			
Company	$ 43,474	$ 43,118	$ 43,424
Franchise	$ 44,105	$ 42,680	$ 44,252
Total	$ 43,963	$ 42,776	$ 44,067
Change in comparable restaurant sales:(1)			
Company	1.7 %	1.9 %	1.5
Franchise	3.1 %	2.9 %	3.6
Total	2.8 %	2.7 %	3.1
Total system sales (in thousands)	$ 822,640	$ 745,887	$2,430,412

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(1) When computing comparable restaurant sales, restaurants open for at least 18 months are compared from period to period.

Company Restaurant Sales. Total company restaurant sales increased $18,569,000 (11%) from $164,238,000 in the 2001 quarter to $182,807,000 in the 2002 quarter and increased $50,257,000 (10%) from $486,416,000 in the 2001 year-to-date period to $536,673,000 in the 2002 year-to-date period due primarily to company restaurant openings and increases in comparable restaurant sales.

Comparable restaurant sales at company restaurants increased by 1.7% and 1.5% in the 2002 quarter and the 2002 year-to-date period, respectively. Weighted average weekly sales at company restaurants increased 0.8% from $43,118 in the 2001 quarter to $43,474 in the 2002 quarter and also increased 0.7% from $43,126 in the 2001 year-to-date period to $43,424 in the 2002 year-to-date period. These increases were due primarily to an increase in guest traffic in both periods and an increase in the average guest check in the 2002 year-to-date period resulting from the company's food promotions. In addition, a portion of the increase in both periods resulted from the implementation of our To Go initiative in 2002 and a menu price increase of approximately 1.0% in early August 2002.

Franchise Income. Overall franchise income increased $2,246,000 (9%) from $23,787,000 in the 2001 quarter to $26,033,000 in the 2002 quarter and increased $6,451,000 (9%) from $69,906,000 in the 2001 year-to-date period to $76,357,000 in the 2002 year-to-date period. These increases were due primarily to the increased number of franchise Applebee's restaurants operating during the 2002 quarter and 2002 year-to-date period and increases in comparable restaurant sales. Weighted average weekly sales at franchise restaurants increased 3.3% and 3.8% in the 2002 quarter and 2002 year-to-date period, respectively and franchise comparable restaurant sales increased 3.1% and 3.6% in the 2002 quarter and 2002 year-to-date periods, respectively.

Cost of Company Restaurant Sales. Food and beverage costs decreased from 27.1% in the 2001 quarter to 26.1% in the 2002 quarter and decreased from 27.0% in the 2001 year-to-date period to 26.5% in the 2002 year-to-date period. The decreases in both the 2002 quarter and the 2002 year-to-date period were due to lower commodity costs relating to our food promotions and the benefit of certain supply chain management initiatives implemented in 2001.

Labor costs increased from 32.2% and 31.9% in the 2001 quarter and the 2001 year-to-date period, respectively, to 32.9% in both the 2002 quarter and 2002 year-to-date period. These increases were due primarily to higher costs related to wage rates, management incentive compensation relating to a new restaurant management bonus program and workers compensation and group insurance costs.

Direct and occupancy costs increased from 25.2% in the 2001 quarter to 25.7% in the 2002 quarter and decreased from 25.4% in the 2001 year-to-date period to 25.0% in the 2002 year-to-date period. Direct and occupancy costs were impacted in both periods by lower utility costs, higher packaging costs relating to our To Go initiative and higher insurance costs. Advertising costs, as a percentage of sales, also decreased in the 2002 year-to-date period.

General and Administrative Expenses. General and administrative expenses decreased from 10.2% in the 2001 quarter and 9.8% in the 2001 year-to-date period to 9.6% in both the 2002 quarter and 2002 year-to-date period. General and administrative expenses were lower in both the 2002 quarter and 2002 year-to-date period as a result of costs incurred in 2001 associated with our purchasing supply chain and strategic brand assessment projects and the absorption of general and administrative expenses over a larger revenue base. These decreases were partially offset by higher legal fees and expenses related to certain litigation and higher incentive compensation.

Amortization of Intangible Assets: Amortization of intangible assets decreased from $1,463,000 in the 2001 quarter to $95,000 in the 2002 quarter and decreased from $4,388,000 in the 2001 year-to date period to $285,000 in the 2002 year-to-date period. These decreases were due to the elimination of goodwill amortization in accordance with SFAS No. 142.

Interest Expense: Interest expense decreased in both the 2002 quarter and the 2002 year-to-date period due primarily to a reduction in our debt levels and lower interest rates in both periods.

Income Taxes. The effective income tax rate, as a percentage of earnings before income taxes, decreased from 36.8% in both the 2001 quarter and 2001 year-to-date period to 36.5% in both the 2002 quarter and the 2002 year-to-date period.

Liquidity and Capital Resources

Our need for capital historically has resulted from the construction and acquisition of restaurants and the repurchase of our common shares. In 2002 and for the foreseeable future, we will also use our capital resources to invest 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.

Capital expenditures were $50,086,000 in fiscal year 2001 and $49,680,000 in the 2002 year-to-date period. We currently expect to open at least 25 company restaurants in 2002, and capital expenditures are expected to be between $63,000,000 and $68,000,000 in fiscal 2002, excluding the purchase price of the franchise acquisition discussed below. These expenditures will primarily be for the development of new restaurants, refurbishment and capital replacement for existing restaurants, and the enhancement of information systems including a new accounting and human resource information system. 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 $34.3 million, subject to adjustment. The agreement also provides for additional payments if the restaurants achieve cash flows in excess of historical levels in the first 18 months after the closing of the acquisition. Our financial statements will reflect the results of operations for these restaurants subsequent to the date of acquisition.

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.

In February 2001, our Board of Directors authorized the repurchase of up to $55,000,000 of our common stock through 2001, subject to market conditions and applicable restrictions imposed by our then-current credit agreement. As of December 30, 2001, we had $20,600,000 remaining on this authorization. In February 2002, our Board of Directors extended the 2001 authorization through 2002. In May 2002, our Board of Directors authorized an additional repurchase of $75,000,000 of our common stock through May 2005. During the 2002 year-to-date period, we repurchased 1,210,000 shares of our common stock at an average price of $21.58 for an aggregate cost of $26,100,000. As of September 29, 2002, we had

$69,500,000 remaining under these authorizations.

As of September 29, 2002, our liquid assets totaled $8,026,000. These assets consisted of cash and cash equivalents in the amount of $7,522,000 and short-term investments in the amount of $504,000. The working capital deficit increased from $29,747,000 as of December 30, 2001 to $43,709,000 as of September 29, 2002. This increase was due primarily to decreases in cash and cash equivalents due to payments on long-term debt and an increase in accrued insurance which were partially offset by the redemption of gift certificates in 2002 sold in 2001. As of September 29, 2002, we had borrowings of $34,500,000 and standby letters of credit of $5,291,000 outstanding under our $150,000,000 revolving credit facility. We also had a standby letter of credit for $827,000 outstanding with another financial institution.

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 our franchisees with workers compensation and general liability insurance. Applebee's International, Inc. and our franchisees will make premium payments to the captive insurance company which will pay administrative fees and insurance claims, subject to individual and aggregate maximum claim limits under the captive insurance company's reinsurance policies. As a result, our cash and cash equivalents and accrued liabilities may increase in future periods due to the operation of the captive insurance company.

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 bank debt amortization schedule, our future capital lease commitments (including principal and interest payments) and other obligations and our future operating lease commitments as of September 29, 2002:

Financial Commitments (in thousands)					
	2002	2003	2004	2005	2006
Bank Debt......................	$ 3,500	$ --	$ 31,000	$ --	$ --
Capital Lease and Other Obligations..............	$ 176	$ 1,040	$ 741	$ 767	$ 794
Operating Leases...............	$ 3,913	$ 15,373	$ 14,501	$ 13,841	$ 13,297

18

Financial commitments for 2002 include only payments to be made for the remaining 13 weeks of fiscal 2002. In addition, we have lease guarantees of approximately $25,200,000 as of September 29, 2002 (see Note 2 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 August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets", which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 retains many of the provisions of SFAS No. 121, but addresses certain implementation issues associated with that Statement. We adopted SFAS No. 144 effective December 31, 2001. The adoption of SFAS No. 144 did not have a material impact on our consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS Nos. 4 and 64 required gains and losses from extinguishment of debt to be classified as extraordinary items. SFAS No. 145 rescinds this requirement and stipulates that gains or losses on extinguishment of debt would have to meet the criteria of APB Opinion No. 30 to be classified as an extraordinary item. In addition, any extraordinary gains or losses on extinguishment of debt in prior periods presented would require reclassification. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. We are currently evaluating the impact of this Statement.

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. We do not expect the initial adoption of this Statement to have a material impact on our results of operations or financial position.

In October 2002, the FASB issued an Exposure Draft relating to the transitional methods for the accounting for stock-based compensation. Under the provisions of this proposed Statement, the FASB provides for alternative methods of transition for voluntary changes to the fair value method of accounting. We are currently evaluating the adoption of the fair value method of accounting for stock-based compensation. In fiscal 2001, the impact on diluted earnings per share of adopting the fair value method of accounting excluding any potential cumulative effect of stock-based compensation prior to fiscal 2001 would have been $0.08. We are waiting further clarification from the FASB on this issue before we make our final decision.

Forward-Looking Statements

The statements contained in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section regarding restaurant development, costs and expenses, 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 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 from our estimates, you should read our current report on Form 8-K which we filed with the Securities and Exchange Commission on July 16, 2002. 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 29, 2002, the total amount of debt subject to interest rate fluctuations was $34,500,000 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 $345,000 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.

Item 4. Controls and Procedures

Within ninety days prior to the filing of 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. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various legal actions arising in the normal course of business. These matters include, without limitation, such matters as employment law related claims and disputes with two international franchisees regarding disclosures we allegedly made or omitted. 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 the 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 8, 2002 announcing our presentation at the CIBC World Markets Consumer Growth Conference.

We filed a report on Form 8-K on July 16, 2002 announcing our agreement to acquire 21 franchise restaurants.

We filed a report on Form 8-K on July 16, 2002 in accordance with the Private Securities Litigation Reform Act of 1995 as it relates to a safe harbor for companies making forward-looking statements. The factors listed in the report are important factors that could cause actual results to differ materially from those we project in forward-looking statements.

We furnished a report on Form 8-K on July 26, 2002 announcing our broadcast of the second quarter 2002 earnings conference call over the Internet.

We filed a report on Form 8-K on August 1, 2002 reporting second quarter earnings.

We filed a report on Form 8-K on August 28, 2002 reporting August comparable sales.

We filed a report on Form 8-K on September 6, 2002 announcing a court extension of the approval date for the sale of the Apple Capitol restaurants.

We furnished a report on Form 8-K on September 18, 2002 announcing our presentation at the Banc of America Securities Investment Conference.

We furnished a report on Form 8-K on September 27, 2002 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: November 8, 2002 By: /s/ Lloyd L. Hill

Lloyd L. Hill
Chairman and Chief Executive Officer

(principal executive officer)

Date: November 8, 2002 By: /s/ Steven K. Lumpkin

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

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Lloyd L. Hill, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Applebee's International, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this

quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 8, 2002   By: /s/ Lloyd L. Hill

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

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven K. Lumpkin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Applebee's International, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
    c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 8, 2002 By: /s/ Steven K. Lumpkin

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

APPLEBEE'S INTERNATIONAL, INC.
EXHIBIT INDEX

Exhibit Number	Description of Exhibit
4.1	Certificate of Adjustment of Shareholder Rights Plan contained in Rights Agreement dated as of September 7, 1994, between Applebee's International, Inc. and Chemical Bank, as Rights Agent, as amended.
10.1	Employment Agreement dated August 7, 2002, with Steven K. Lumpkin.
10.2	Asset Purchase Agreement between Applebee's International, Inc. and Apple Capitol Group, LLC dated as of July 16, 2002.
10.3	Assignment Agreement between Lehman Brothers Holdings, Inc. and Applebee's International, Inc. dated as of October 1, 2002.
99.1	Certifications of Chairman and Chief Executive Officer and Executive Vice President and Chief Financial Officer.