Wendy's Co
Form 10-Q
November 09, 2011

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

FORM 10-Q

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

For the quarterly period ended October 2, 2011

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: 1-2207
THE WENDY’S COMPANY
(Exact name of registrants as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	38-0471180 (I.R.S. Employer Identification No.)
One Dave Thomas Blvd., Dublin, Ohio (Address of principal executive offices)	43017 (Zip Code)

(614) 764-3100
(Registrant’s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

Commission file number: 333-161613
WENDY’S RESTAURANTS, LLC
(Exact name of registrants as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	38-0471180 (I.R.S. Employer Identification No.)
One Dave Thomas Blvd., Dublin, Ohio (Address of principal executive offices)	43017 (Zip Code)

(614) 764-3100
(Registrant’s telephone number, including area code)
1155 Perimeter Center West, Atlanta, GA 30338
(Former name, former address and former fiscal year, if changed since last report)

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.
The Wendy's Company Yes [x] No [ ]
Wendy's Restaurants, LLC Yes [ ] No [x]*

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
The Wendy's Company Yes [x] No [ ]
Wendy's Restaurants, LLC Yes [x] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
The Wendy's Company
Large accelerated filer [x] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

Wendy's Restaurants, LLC
Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [x] Smaller reporting company [ ]

Indicate by check mark whether either registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [x]

There were 389,140,409 shares of The Wendy's Company common stock outstanding as of November 3, 2011.

Wendy's Restaurants, LLC meets the conditions set forth in General Instruction (H)(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with reduced disclosure format.

* Wendy's Restaurants, LLC has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the period it was required to file such reports.

Explanatory Note

This Quarterly Report on Form 10-Q is a combined report being filed separately by The Wendy’s Company (“The Wendy’s Company”) and Wendy’s Restaurants, LLC (“Wendy’s Restaurants”), a direct 100% owned subsidiary holding company of The Wendy’s Company. Unless the context indicates otherwise, any reference in this report to the “Companies,” “we,” “us,” and “our” refers to The Wendy’s Company together with its direct and indirect subsidiaries, including Wendy’s Restaurants. Each registrant hereto is filing on its own behalf all of the information contained in this quarterly report that relates to such registrant. Each registrant hereto is not filing any information that does not relate to such registrant, and therefore makes no representation as to any such information. Until July 5, 2011, The Wendy’s Company was known as Wendy’s/Arby’s Group, Inc. and Wendy’s Restaurants was known as Wendy’s/Arby’s Restaurants, LLC.

Where information or an explanation is provided that is substantially the same for each company, such information or explanation has been combined in this Quarterly Report on Form 10-Q. Where information or an explanation is not substantially the same for each company, we have provided separate information and explanation. In addition, separate financial statements for each company are included in Part I Item 1, “Financial Statements.”

The principal subsidiaries of Wendy’s Restaurants for the periods covered in this Quarterly Report on Form 10-Q are Wendy’s International, Inc. (“Wendy’s”) and its subsidiaries. On July 4, 2011, Wendy’s Restaurants sold 100% of the common stock of Arby’s Restaurant Group, Inc. (“Arby’s”) for cash and an indirect 18.5% interest in Arby’s (see Note 2 - Discontinued Operations for additional information regarding the sale of Arby’s). As a result, substantially all of the continuing operating results of The Wendy’s Company are derived from the operating results of Wendy’s and its subsidiaries.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

THE WENDY’S COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands)

	October 2, 2011 (Unaudited)	January 2, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$488,817	$512,508
Accounts and notes receivable	71,712	84,258
Inventories	12,508	22,694
Prepaid expenses and other current assets	32,274	24,386
Deferred income tax benefit	58,279	34,389
Advertising funds restricted assets	72,116	76,553
Total current assets	735,706	754,788
Properties	1,152,666	1,551,261
Goodwill	867,701	883,644
Other intangible assets	1,309,204	1,358,574
Investments	119,207	107,223
Deferred costs and other assets	68,811	77,164
Total assets	$4,253,295	$4,732,654
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Current portion of long-term debt	$8,088	$18,415
Accounts payable	69,599	81,361
Accrued expenses and other current liabilities	192,722	245,157
Advertising funds restricted liabilities	72,116	76,553
Total current liabilities	342,525	421,486
Long-term debt	1,348,707	1,553,987
Deferred income	13,137	11,460
Deferred income taxes	441,896	412,293
Other liabilities	109,677	170,254
Commitments and contingencies		
Stockholders’ equity:		
Common stock	47,042	47,042
Additional paid-in capital	2,781,497	2,771,126
Accumulated deficit	(431,197)	(412,464)
Common stock held in treasury, at cost	(394,257)	(249,547)
Accumulated other comprehensive (loss) income	(5,732)	7,017
Total stockholders’ equity	1,997,353	2,163,174
Total liabilities and stockholders’ equity	$4,253,295	$4,732,654

See accompanying notes to condensed consolidated financial statements.

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THE WENDY'S COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands Except Per Share Amounts)

	Three Months Ended		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
	(Unaudited)			
Revenues:				
Sales	$534,525	$525,082	$1,588,048	$1,570,240
Franchise revenues	76,891	75,626	228,292	222,616
	611,416	600,708	1,816,340	1,792,856
Costs and expenses:				
Cost of sales	458,000	451,319	1,361,669	1,324,970
General and administrative	66,006	73,984	215,147	230,405
Transaction related costs	23,839	—	30,762	—
Depreciation and amortization	30,816	32,639	90,972	96,452
Impairment of long-lived assets	—	20,921	8,262	21,403
Other operating expense, net	365	1,555	1,687	2,728
	579,026	580,418	1,708,499	1,675,958
Operating profit	32,390	20,290	107,841	116,898
Interest expense	(28,384)	(29,159)	(85,915)	(89,740)
Loss on early extinguishment of debt	—	—	—	(26,197)
Investment income, net	3	77	188	5,254
Other income, net	301	163	706	2,116
Income (loss) from continuing operations before income taxes	4,310	(8,629)	22,820	8,331
(Provision for) benefit from income taxes	(1,766)	7,872	(9,198)	3,665
Income (loss) from continuing operations	2,544	(757)	13,622	11,996
Discontinued operations:				
(Loss) income from discontinued operations, net of income taxes	(1,441)	(152)	1,118	(5,563)
Loss on disposal of discontinued operations, net of income taxes	(5,069)	—	(8,849)	—
Net loss from discontinued operations	(6,510)	(152)	(7,731)	(5,563)
Net (loss) income	$(3,966)	$(909)	$5,891	$6,433
Basic and diluted income (loss) per share:				
Continuing operations	$.01	$0.00	$.03	$.03
Discontinued operations	(.02)	0.00	(.02)	(.02)
Net (loss) income	$(.01)	$0.00	$.01	$.01
Dividends per share:	$.02	$.015	$.06	$.045

See accompanying notes to condensed consolidated financial statements.

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THE WENDY’S COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Nine Months Ended	
	October 2, 2011	October 3, 2010
	(Unaudited)	
Cash flows from operating activities:		
Net income	$5,891	$6,433
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	113,085	137,448
Net receipt of deferred vendor incentives	13,876	10,096
Share-based compensation provision	13,756	10,519
Distributions received from joint venture	10,784	9,718
Impairment of long-lived assets	9,820	41,424
Loss on disposal of Arby’s	8,849	—
Non-cash rent expense	6,169	7,152
Accretion of long-term debt	6,137	13,013
Write-off and amortization of deferred financing costs	4,863	10,391
Deferred income tax provision (benefit), net	4,871	(16,298)
Provision for doubtful accounts	2,004	7,586
Operating investment adjustments, net (see below)	(145)	(5,201)
Equity in earnings in joint ventures, net	(7,817)	(7,127)
Other, net	128	(2,171)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(6,550)	(6,971)
Inventories	(210)	1,824
Prepaid expenses and other current assets	(8,138)	(6,853)
Accounts payable	9,365	(8,973)
Accrued expenses and other current liabilities	(4,635)	(34,533)
Net cash provided by operating activities	182,103	167,477
Cash flows from investing activities:		
Proceeds from sale of Arby’s, net	103,162	—
Proceeds from other dispositions	3,799	4,394
Capital expenditures	(91,913)	(94,736)
Restaurant acquisitions	(6,613)	—
Franchise incentive loans	(1,269)	—
Investment activities, net (see below)	(818)	32,237
Other, net	(245)	407
Net cash provided by (used in) investing activities	6,103	(57,698)
Cash flows from financing activities:		
Proceeds from long-term debt	—	497,661
Repayments of long-term debt	(36,611)	(470,942)
Proceeds from stock option exercises	5,345	1,380
Repurchases of common stock	(152,681)	(173,537)
Dividends paid	(24,584)	(19,260)
Deferred financing costs	(57)	(16,286)

Other, net	(753)	(894)
Net cash used in financing activities	(209,341)	(181,878)
Net cash used in operations before effect of exchange rate changes on cash	(21,135)	(72,099)
Effect of exchange rate changes on cash	(2,556)	894
Net decrease in cash and cash equivalents	(23,691)	(71,205)
Cash and cash equivalents at beginning of period	512,508	591,719
Cash and cash equivalents at end of period	$488,817	$520,514

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THE WENDY’S COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(In Thousands)

	Nine Months Ended October 2, 2011 (Unaudited)	October 3, 2010
Detail of cash flows related to investments:		
Operating investment adjustments, net:		
Income on collection of DFR Notes	$—	$(4,909)
Other net recognized gains	(145)	(292)
	$(145)	$(5,201)
Investment activities, net:		
Proceeds from sales of investments	$365	$1,810
Proceeds from repayment of DFR Notes	—	30,752
Cost of securities	—	(325)
Investment in joint venture	(1,183)	—
	$(818)	$32,237
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$96,760	$108,556
Income taxes, net of refunds	$11,523	$11,513
Supplemental non-cash investing and financing activities:		
Total capital expenditures	$92,707	$99,553
Cash capital expenditures	(91,913)	(94,736)
Non-cash capitalized lease and certain sales-leaseback obligations	$794	$4,817
Indirect investment in Arby's	$19,000	$—

See accompanying notes to condensed consolidated financial statements.

WENDY’S RESTAURANTS, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands)

	October 2, 2011 (Unaudited)	January 2, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$345,517	$198,686
Accounts and notes receivable	70,808	83,352
Inventories	12,508	22,694
Prepaid expenses and other current assets	23,385	24,032
Deferred income tax benefit	59,758	45,067
Advertising funds restricted assets	72,116	76,553
Total current assets	584,092	450,384
Properties	1,152,617	1,541,853
Goodwill	872,978	888,921
Other intangible assets	1,309,204	1,358,574
Investments	114,609	102,406
Deferred costs and other assets	67,879	74,559
Total assets	$4,101,379	$4,416,697
LIABILITIES AND INVESTED EQUITY		
Current liabilities:		
Current portion of long-term debt	$6,651	$17,047
Accounts payable	69,157	81,148
Accrued expenses and other current liabilities	193,510	244,300
Advertising funds restricted liabilities	72,116	76,553
Total current liabilities	341,434	419,048
Long-term debt	1,338,490	1,542,684
Due to parent	19,401	30,808
Deferred income	13,137	11,460
Deferred income taxes	502,598	478,472
Other liabilities	96,806	157,595
Commitments and contingencies		
Invested equity:		
Member interest, $0.01 par value; 1,000 shares authorized, one share issued and outstanding	—	—
Other capital	2,436,432	2,423,459
Accumulated deficit	(487,186)	(499,500)
Advances to parent	(155,000)	(155,000)
Accumulated other comprehensive (loss) income	(4,733)	7,671
Total invested equity	1,789,513	1,776,630
Total liabilities and invested equity	$4,101,379	$4,416,697

See accompanying notes to condensed consolidated financial statements.

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WENDY’S RESTAURANTS, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands)

	Three Months Ended		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
	(Unaudited)			
Revenues:				
Sales	$534,525	$525,082	$1,588,048	$1,570,240
Franchise revenues	76,891	75,626	228,292	222,616
	611,416	600,708	1,816,340	1,792,856
Costs and expenses:				
Cost of sales	458,000	451,319	1,361,669	1,324,970
General and administrative	62,732	72,360	207,373	225,206
Transaction related costs	23,571	—	29,542	—
Depreciation and amortization	30,758	32,174	90,390	95,055
Impairment of long-lived assets	—	20,921	8,262	21,403
Other operating expense, net	362	1,553	1,582	2,887
	575,423	578,327	1,698,818	1,669,521
Operating profit	35,993	22,381	117,522	123,335
Interest expense	(28,171)	(28,855)	(85,254)	(88,752)
Loss on early extinguishment of debt	—	—	—	(26,197)
Other income, net	301	234	703	999
Income (loss) from continuing operations before income taxes	8,123	(6,240)	32,971	9,385
(Provision for) benefit from income taxes	(3,213)	6,749	(12,926)	3,350
Income from continuing operations	4,910	509	20,045	12,735
Discontinued operations:				
(Loss) income from discontinued operations, net of income taxes	(1,441)	(152)	1,118	(5,563)
Loss on disposal of discontinued operations, net of income taxes	(5,069)	—	(8,849)	—
Net loss from discontinued operations	(6,510)	(152)	(7,731)	(5,563)
Net (loss) income	$(1,600)	$357	$12,314	$7,172

See accompanying notes to condensed consolidated financial statements.

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WENDY’S RESTAURANTS, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Nine Months Ended	
	October 2, 2011	October 3, 2010
	(Unaudited)	
Cash flows from operating activities:		
Net income	$12,314	$7,172
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	112,503	136,051
Net receipt of deferred vendor incentives	13,876	10,096
Share-based compensation provision	12,973	9,841
Distributions received from joint venture	10,784	9,718
Impairment of long-lived assets	9,820	41,424
Loss on disposal of Arby’s	8,849	—
Deferred income tax provision (benefit), net	8,600	(4,918)
Non-cash rent expense	6,166	7,152
Accretion of long-term debt	6,137	13,013
Write-off and amortization of deferred financing costs	4,854	10,378
Tax sharing payable to parent, net	2,437	(8,673)
Provision for doubtful accounts	2,004	7,586
Other operating transactions with parent	(4,366)	(6,831)
Equity in earnings in joint ventures, net	(7,817)	(7,127)
Tax sharing payment to parent	(13,078)	—
Other, net	191	(1,731)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(6,664)	(6,721)
Inventories	(210)	1,824
Prepaid expenses and other current assets	(8,520)	(7,386)
Accounts payable	8,960	(7,289)
Accrued expenses and other current liabilities	(513)	(32,616)
Net cash provided by operating activities	179,300	170,963
Cash flows from investing activities:		
Proceeds from sale of Arby’s, net	103,162	—
Proceeds from other dispositions	3,799	4,394
Capital expenditures	(91,913)	(94,736)
Restaurant acquisitions	(6,613)	—
Franchise incentive loans	(1,269)	—
Investment in joint venture	(1,183)	—
Other, net	(245)	1,369
Net cash provided by (used in) investing activities	5,738	(88,973)
Cash flows from financing activities:		
Proceeds from long-term debt	—	497,661
Repayments of long-term debt	(35,594)	(462,831)
Dividends paid to parent	—	(443,700)
Deferred financing costs	(57)	(16,286)

Net cash used in financing activities	(35,651)	(425,156)
Net cash provided by (used in) operations before effect of exchange rate changes on cash	149,387	(343,166)
Effect of exchange rate changes on cash	(2,556)	894
Net increase (decrease) in cash and cash equivalents	146,831	(342,272)
Cash and cash equivalents at beginning of period	198,686	538,864
Cash and cash equivalents at end of period	$345,517	$196,592

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WENDY’S RESTAURANTS, LLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(In Thousands)

	Nine Months Ended	
	October 2, 2011	October 3, 2010
	(Unaudited)	
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$96,097	$107,326
Income taxes, net of refunds	$9,531	$7,458
Supplemental non-cash investing and financing activities:		
Total capital expenditures	$92,707	$99,553
Cash capital expenditures	(91,913)	(94,736)
Non-cash capitalized lease and certain sales-leaseback obligations	$794	$4,817
Indirect investment in Arby's	$19,000	$—

See accompanying notes to condensed consolidated financial statements.

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THE WENDY’S COMPANY AND SUBSIDIARIES
WENDY’S RESTAURANTS, LLC AND SUBSIDIARIES
COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands Except Per Share Amounts)

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements (the “Financial Statements”) of The Wendy’s Company (“The Wendy’s Company” and, together with its subsidiaries, the “Company”) and Wendy’s Restaurants, LLC (“Wendy’s Restaurants”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and, therefore, do not include all information and footnotes required by GAAP for complete financial statements. In our opinion, the Financial Statements contain all adjustments necessary to present fairly our financial position as of October 2, 2011 and the results of our operations for the three months and nine months ended October 2, 2011 and October 3, 2010 and our cash flows for the nine months ended October 2, 2011 and October 3, 2010. The results of operations for the three months and nine months ended October 2, 2011 are not necessarily indicative of the results to be expected for the full 2011 fiscal year. These Financial Statements should be read in conjunction with the audited consolidated financial statements for The Wendy’s Company and Wendy’s Restaurants, and combined notes thereto, included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2011 (the “Form 10-K”).

On July 5, 2011, and as a result of the sale of Arby’s Restaurant Group, Inc. (“Arby’s”) discussed in Note 2, Wendy’s/Arby’s Group, Inc. changed its name to The Wendy’s Company and Wendy’s/Arby’s Restaurants, LLC, a 100% owned subsidiary of The Wendy’s Company, changed its name to Wendy’s Restaurants.

The Wendy’s Company and Wendy’s Restaurants (together, the “Companies”) manage and internally report their business in one segment: the operation and franchising of Wendy’s® restaurants through a wholly owned subsidiary Wendy’s International, Inc. (“Wendy’s”), including its wholesale bakery operations. References herein to The Wendy’s Company corporate (“Corporate”) represent The Wendy’s Company parent company only functions and their effect on the Company’s consolidated results of operations and financial condition.

We report on a fiscal year consisting of 52 or 53 weeks ending on the Sunday closest to December 31. All three month and nine month periods presented herein contain 13 weeks and 39 weeks, respectively. All references to years and quarters relate to fiscal periods rather than calendar periods.

(2) Discontinued Operations

On July 4, 2011, Wendy’s Restaurants completed the sale of 100% of the common stock of Arby’s, its wholly owned subsidiary, to ARG IH Corporation (“Buyer”), a wholly owned subsidiary of ARG Holding Corporation (“Buyer Parent”), for $130,000 in cash (subject to customary purchase price adjustments) and 18.5% of the common stock of Buyer Parent (through which Wendy’s Restaurants indirectly retained an 18.5% interest in Arby’s) with a fair value of $19,000. Buyer and Buyer Parent were formed for purposes of this transaction. The Buyer also assumed approximately $190,000 of Arby’s debt, consisting primarily of capital lease and sale-leaseback obligations. The sale occurred pursuant to the terms of a Purchase and Sale Agreement by and among Wendy’s Restaurants, Buyer Parent and Buyer dated as of June 13, 2011. In accordance with the Purchase and Sale Agreement, The Wendy’s Company made an election under §338(h)(10) of the Internal Revenue Code, which has the effect of treating the transaction as a sale of assets and results in an approximate $240,000 ordinary loss for income tax purposes. Had this election not been made, the sale of Arby’s common stock would have resulted in a capital loss for income tax purposes.
Wendy’s Restaurants also entered into a Stockholders Agreement with Buyer Parent and ARG Investment Corporation, an entity affiliated with Buyer Parent, which sets forth certain agreements among the parties thereto concerning, among other things, the governance of Buyer Parent and transfer rights, information rights and registration rights with

respect to the equity securities of Buyer Parent. In addition, Wendy’s Restaurants entered into a Transition Services Agreement with Buyer, pursuant to which it is providing and being reimbursed for continuing corporate and shared services to Buyer for a limited period of time; such services are currently anticipated to be completed by the end of 2011.

Information related to Arby’s has been reflected in the accompanying condensed consolidated financial statements as follows:

- Balance sheets - As a result of our sale of Arby’s on July 4, 2011, there are no remaining Arby’s assets and liabilities as of October 2, 2011. Arby’s assets and liabilities were included in our condensed consolidated balance sheet as of January 2, 2011; however, they were not reclassified to discontinued operations.

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THE WENDY’S COMPANY AND SUBSIDIARIES
WENDY’S RESTAURANTS, LLC AND SUBSIDIARIES
COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands Except Per Share Amounts)

- Statements of operations - Arby’s (loss) income from operations for the period from January 3, 2011 through July 3, 2011 and the three months and nine months ended October 3, 2010 has been classified as discontinued operations. Loss from discontinued operations for the three months and nine months ended October 2, 2011 also includes additional Arby’s expenses which were incurred as a result of the sale and the loss on Arby’s disposal, as further described below.
- Statements of cash flows - Arby’s cash flows prior to its sale (for the period from January 3, 2011 through July 3, 2011 and for the nine months ended October 3, 2010) have been included in, and not separately reported from, all our cash flows. The statement of cash flows for the nine months ended October 2, 2011 also includes the effects of the sale of Arby’s in the third quarter of 2011.

Our condensed consolidated statements of operations for periods through July 3, 2011 (prior to the Arby’s sale) include certain indirect corporate overhead costs in “General and administrative,” which for segment reporting purposes had previously been allocated to Arby’s. These indirect corporate overhead costs do not qualify for classification within discontinued operations, and therefore are included in “General and administrative” in continuing operations. Interest expense on Arby’s debt that was assumed by Buyer has been included in discontinued operations; interest expense on Wendy’s Restaurants’ credit agreement, which was not required to be repaid as a result of the sale, continues to be included in “Interest expense” in continuing operations.

The following table details Arby’s revenues and (loss) income from operations which have been reported in discontinued operations:

	Three Months Ended		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Revenues	$—	$260,506	$546,453	$782,826
Loss from discontinued operations, net of income taxes:				
(Loss) income from discontinued operations before income taxes	$(2,287)	$(4,549)	$1,992	$(11,492)
Benefit from (provision for) income taxes	846	4,397	(874)	5,929
	(1,441)	(152)	1,118	(5,563)
Loss on disposal, net of income taxes	(5,069)	—	(8,849)	—
Loss from discontinued operations	$(6,510)	$(152)	$(7,731)	$(5,563)

Included in loss from discontinued operations for the three months ended October 2, 2011 are (1) $2,112 for certain sales and use tax liabilities pursuant to the indemnification provisions of the Purchase and Sale Agreement, (2) incentive compensation of $704 as a result of the completion of the Arby’s sale, and (3) the reversal of previously recognized compensation costs of $529 due to the modification of the terms of stock awards which had been issued to Arby’s employees.

The Companies recorded a pre-tax loss on disposal of Arby’s of $5,277 during the nine months ended October 2, 2011 which included the effect of the valuation of our indirect retained interest ($19,000), transaction closing costs ($11,500), and post closing purchase price adjustments primarily related to working capital ($14,800). During the three months ended October 2, 2011, the Companies recorded favorable adjustments of $723 which reduced the estimated loss on disposal recorded in the second quarter of 2011. The Companies recognized income tax expense associated with the loss on disposal of $3,572 during the nine months ended October 2, 2011. This income tax expense was comprised of (1) an income tax benefit (expense) of $2,220 and $(268) recorded in the second and third quarter of 2011, respectively, on the pre-tax loss on disposal and (2) income tax expense of $5,524 recorded in the third quarter of 2011 upon completion of the Arby’s sale due to a permanent difference between the book and tax basis of Arby’s goodwill.

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The following table sets forth the effect of the sale of Arby’s on certain information of Wendy’s Restaurants as of January 2, 2011 as disclosed in the combined notes to our consolidated financial statements included in the Form 10-K:

	Applicable to Discontinued Operations	Continuing Operations
Total future operating lease commitments:		
Rental payments	$729,940	$958,872
Rental receipts	33,016	52,516
Future rental receipts on owned properties	24,985	53,907
Pledged assets	325,774	2,557,456
Future purchase and capital commitments:		
Beverage agreements	52,301	175,249
Capital expenditures	5,316	12,879

In addition and as a result of the sale, Arby’s guarantees and other commitments as of January 2, 2011 that are separately disclosed in the combined notes to our consolidated financial statements included in the Form 10-K are no longer obligations of the Companies.

(3) Acquisitions and Other Dispositions

During the nine months ended October 2, 2011, Wendy’s acquired nine Wendy’s franchised restaurants in three separate acquisitions. The total consideration for these acquisitions before post closing adjustments was $7,673 consisting of (1) $6,613 of cash, net of $55 of cash acquired, and (2) the issuance of a note payable of $1,060. The total consideration was allocated to net tangible and identifiable intangible assets acquired, primarily properties, and liabilities assumed based on their estimated fair values with the excess of $3,689 recognized as goodwill. During the nine months ended October 2, 2011, Wendy’s also assumed the operations and management of four additional Wendy’s franchised restaurants.

During the nine months ended October 2, 2011, Wendy’s received proceeds from dispositions of $2,865 consisting of $1,125 from the sale of three company-owned Wendy’s restaurants to franchisees, $899 from the sale of surplus properties, and $841 related to other dispositions. These sales resulted in a net gain of $744 which is included as an offset to “Depreciation and amortization.”

During the nine months ended October 3, 2010, Wendy’s received proceeds from dispositions of $2,174 consisting of $1,123 from the sale of surplus properties, $821 from the sale of two company-owned Wendy’s restaurants, and $230 related to other dispositions. These sales resulted in a net gain of $1,292 which is included as an offset to “Depreciation and amortization.”

(4) DFR Notes

(The Wendy’s Company)

On June 9, 2010, pursuant to a March 2010 agreement between the Company and Deerfield Capital Corp. (“DFR”), we received cash proceeds of $31,330, including interest, in consideration for the repayment and cancellation of the series

A senior notes (the “DFR Notes”) we received in December 2007 in connection with the sale of Deerfield & Company (the “Deerfield Sale”) to DFR. Additional information on the DFR Notes and the Deerfield Sale is discussed in the Form 10-K. The proceeds represented 64.1% of the $47,986 aggregate principal amount of the DFR Notes.

During the fourth quarter of 2008, we recognized an allowance for collectability of $21,227 to reduce the then carrying amount of the notes to $24,983. As a result, we recognized income of $4,909 during the nine months ended October 3, 2010, as the repayment proceeds exceeded the carrying value of the DFR Notes. This gain is included in “Investment income, net.”

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(5) Investment in Joint Ventures

Investment in Joint Venture with Tim Hortons Inc.

Wendy's is a partner in a Canadian restaurant real estate joint venture ("TimWen") with Tim Hortons Inc. Wendy's 50% share of the joint venture is accounted for using the equity method of accounting. Our equity in earnings from TimWen is included in "Other operating expense, net."

Presented below is an unaudited summary of activity related to our portion of TimWen included in our condensed consolidated balance sheets and condensed consolidated statements of operations:

	Nine Months Ended	
	October 2, 2011	October 3, 2010
Balance at beginning of period (a)	$98,631	$97,476
Equity in earnings for the period	10,258	9,309
Amortization of purchase price adjustments	(2,170)	(2,182)
	8,088	7,127
Distributions received	(10,784)	(9,718)
Currency translation adjustment included in "Comprehensive income"	(5,050)	3,465
Balance at end of period (a)	$90,885	$98,350

(a) Included in "Investments."

Presented below is a summary of unaudited financial information of TimWen as of and for the nine months ended October 2, 2011 and October 3, 2010, respectively, in Canadian dollars. The summary balance sheet financial information does not distinguish between current and long-term assets and liabilities:

	October 2, 2011	October 3, 2010
Balance sheet information:		
Properties	C$76,158	C$80,011
Cash and cash equivalents	2,644	2,315
Accounts receivable	4,418	3,941
Other	2,628	3,011
	C$85,848	C$89,278
Accounts payable and accrued liabilities	C$1,541	C$1,418
Other liabilities	8,975	8,844
Partners' equity	75,332	79,016
	C$85,848	C$89,278

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	Nine Months Ended	
	October 2, 2011	October 3, 2010
Income statement information:		
Revenues	C$29,131	C$28,620
Income before income taxes and net income	20,404	19,064

Investment in Joint Venture in Japan

During the second quarter of 2011, Wendy’s entered into a joint venture for the operation of Wendy’s restaurants in Japan (the “Japan JV”). Wendy’s 49% share of the joint venture is accounted for using the equity method of accounting. The Japan JV expects to open its first restaurant before the end of 2011.

As of October 2, 2011, the carrying value of our investment in the Japan JV was $912, which is included in “Investments.” For the nine months ended October 2, 2011, we recognized a loss of $271 which is included in “Other operating expense, net.”

(6) Fair Value of Financial Instruments

Below are the carrying amounts and estimated fair values of the Companies’ financial instruments for which the disclosure of fair values is required.

	October 2, 2011		
	Wendy’s Restaurants	Corporate	The Wendy’s Company
Financial assets			
Carrying Amount:			
Non-current cost investments	$22,812	$4,598	$27,410
Interest rate swaps	13,014	—	13,014
Fair Value:			
Non-current cost investments (a)	$25,219	$20,600	$45,819
Interest rate swaps (b)	13,014	—	13,014

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	October 2, 2011	
	Carrying Amount	Fair Value
Financial liabilities		
Long-term debt, including current portion:		
10% senior notes (c)	$554,474	$602,855
Wendy’s Restaurants term loan (c)	467,163	466,718
6.20% senior notes (c)	224,777	234,000
Sale-leaseback obligations (d)	1,460	1,732
Capitalized lease obligations (d)	14,151	15,585
7% debentures (c)	82,056	87,500
Other	1,060	1,088
Total Wendy’s Restaurants long-term debt, including current portion	1,345,141	1,409,478
6.54% aircraft term loan (d)	11,654	11,840
Total The Wendy’s Company long-term debt, including current portion	$1,356,795	$1,421,318
Guarantees of:		
Franchisee loans obligations (e)	$420	$420

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(a) Fair value of these investments was based entirely on statements of account received from investment managers or investees which were principally based on quoted market or broker/dealer prices. To the extent that some of these investments, including the underlying investments in investment limited partnerships, do not have available quoted market or broker/dealer prices, the Companies relied on valuations performed by the investment managers or investees in valuing those investments or third-party appraisals.

(b) The fair values were based on information provided by the bank counterparties that is model-driven and whose inputs were observable or whose significant value drivers were observable.

(c) The fair values were based on quoted market prices.

(d) The fair values were determined by discounting the future scheduled principal payments using an interest rate assuming the same original issuance spread over a current U.S. Treasury bond yield for securities with similar durations.

(e) Wendy’s provided loan guarantees to various lenders on behalf of franchisees entering into pooled debt facility arrangements for new store development and equipment financing. Wendy’s has accrued a liability for the fair value of these guarantees, the calculation for which was based upon a weighted average risk percentage established at the inception of each program.

The carrying amounts of cash and cash equivalents, accounts payable and accrued expenses approximated fair value due to the short-term maturities of those items. The carrying amounts of accounts and notes receivable (both current and non-current) approximated fair value due to the effect of related allowances for doubtful accounts and notes receivable.

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Valuation techniques under the accounting guidance related to fair value measurements were based on observable and unobservable inputs. Observable inputs reflected readily obtainable data from independent sources, while unobservable inputs reflected our market assumptions. These inputs are classified into the following hierarchy:

Level 1 Inputs - Quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs - Pricing inputs are unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the assets or liabilities. The inputs into the determination of fair value require significant management judgment or estimation.

The following table presents the Companies’ financial assets and liabilities (other than cash and cash equivalents) measured at fair value on a recurring basis as of October 2, 2011 by the valuation hierarchy as defined in the fair value guidance:

		Fair Value Measurements		
	October 2, 2011	Level 1	Level 2	Level 3
Interest rate swaps (included in “Deferred costs and other assets”)	$13,014	$—	$13,014	$—

The following table presents the fair values for those assets and liabilities of continuing operations measured at fair value during the nine months ended October 2, 2011 on a non-recurring basis. Total losses include losses recognized from all non-recurring fair value measurements during the nine months ended October 2, 2011. The carrying value of properties presented in the table below substantially represents the remaining carrying value of land for Wendy’s properties that were impaired in the first quarter of 2011. See Note 7 for more information on the impairment of our long-lived assets.

		Fair Value Measurements			Nine Months Ended
	October 2, 2011	Level 1	Level 2	Level 3	October 2, 2011 Total Losses
Properties	$575	$—	$—	$575	$6,449
Other intangible assets	—	—	—	—	1,813
	$575	$—	$—	$575	$8,262

Derivative instruments

The Companies’ derivative instruments in the third quarter of 2011 included interest rate swaps on Wendy’s 6.20% senior notes with notional amounts totaling $225,000 that were all designated as fair value hedges. At October 2, 2011 and January 2, 2011, the fair value of these interest rate swaps of $13,014 and $9,623, respectively, has been included in “Deferred costs and other assets” and as an adjustment to the carrying amount of the Wendy’s 6.20% senior notes.

Interest income on interest rate swaps was $1,402 and $4,250 for the three months and nine months ended October 2, 2011, respectively, and $1,320 and $6,396 for the three months and nine months ended October 3, 2010, respectively. In connection with the redemption of the Wendy’s 6.25% senior notes during the second quarter of 2010, we recognized a gain of $1,875 on the cancellation of four interest rate swaps with notional amounts totaling $175,000, which is included in the amounts above for the nine months ended October 3, 2010.

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(7) Impairment of Long-Lived Assets

Wendy’s company-owned restaurant impairment losses included in the table below for the nine months ended October 2, 2011 and the three months and nine months ended October 3, 2010 predominantly reflected impairment charges on restaurant level assets resulting from the deterioration in operating performance of certain restaurants and additional charges for capital improvements in restaurants impaired in prior years which did not subsequently recover. The Wendy’s impairment losses for the three months and nine months ended October 3, 2010 also included write-downs in the carrying value of certain surplus properties and properties held for sale.

These impairment losses represented the excess of the carrying amount over the fair value of the affected assets and are included in “Impairment of long-lived assets.” The fair values of impaired assets in the table below were generally estimated based on the present values of the associated cash flows and on market value with respect to land (Level 3 inputs).

	Three Months Ended		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Impairment of company-owned restaurants:				
Properties	$—	$17,373	$6,449	$17,448
Intangible assets	—	3,548	1,813	3,955
	$—	$20,921	$8,262	$21,403

Arby’s company-owned restaurant impairment losses of $6,488 and $20,021 for the three months and nine months ended October 3, 2010, respectively, predominantly reflected impairment charges on restaurant level assets resulting from the deterioration in operating performance of certain restaurants and additional charges for capital improvements in restaurants impaired in prior years which did not subsequently recover. These impairment losses represented the excess of the carrying amount over the fair value of the affected assets and are included in discontinued operations and not included in the table above.

The fair values of impaired assets were generally estimated based on the present values of the associated cash flows and on market value with respect to land (Level 3 inputs). Arby’s impairment losses for the period from January 3, 2011 through July 4, 2011 (its date of sale) were not significant. See Note 2 for more information on discontinued operations.

(8) Income Taxes

The Company’s effective tax rate for the three months ended October 2, 2011 and effective tax rate benefit for the three months ended October 3, 2010 was 41.0% and 91.2%, respectively. Wendy’s Restaurants effective tax rate for the three months ended October 2, 2011 and effective tax rate benefit for the three months ended October 3, 2010 was 39.6% and 108.2%, respectively. The Companies’ effective tax rates vary from the U.S. federal statutory rate of 35% due to the effect of (1) state income taxes, net of federal income tax benefit, (2) tax credits, (3) adjustments related to prior year tax matters, and (4) the tax benefit of foreign tax credits, net of the tax on foreign earnings resulting from the repatriation of foreign earnings during the third quarter of 2010.

The Company’s effective tax rate for the nine months ended October 2, 2011 and effective tax rate benefit for the nine months ended October 3, 2010 was 40.3% and 44.0%, respectively. Wendy’s Restaurants effective tax rate for the nine months ended October 2, 2011 and effective tax rate benefit for the nine months ended October 3, 2010 was 39.2% and 35.7%, respectively. The Companies’ effective tax rates vary from the U.S. federal statutory rate of 35% due to the effect of (1) state income taxes, net of federal income tax benefit, (2) tax credits, (3) adjustments related to prior year tax matters, (4) the tax benefit of foreign tax credits, net of the tax on foreign earnings resulting from the repatriation of foreign earnings during the third quarter of 2010, and (5) a reduction in our state valuation allowances in 2010.

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There were no significant changes to unrecognized tax benefits or related interest and penalties for either the Company or Wendy’s Restaurants for the nine month periods ended October 2, 2011 and October 3, 2010. Amounts payable for Federal and certain state income taxes are settled by Wendy’s Restaurants to The Wendy’s Company under a tax sharing agreement. During the nine months ended October 2, 2011 and October 3, 2010, Wendy’s Restaurants made tax sharing payments to The Wendy’s Company of $13,078 and $0, respectively.

(9) Income (Loss) Per Share

(The Wendy’s Company)

Basic income (loss) per share for the three months and nine months ended October 2, 2011 and October 3, 2010 was computed by dividing net income (loss) by the weighted average number of common shares outstanding.

The weighted average number of shares used to calculate basic and diluted income per share was as follows:

	Three Months Ended		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Common Stock:				
Weighted average basic shares outstanding	395,677	417,985	410,624	428,968
Dilutive effect of stock options and restricted shares	2,222	—	1,619	1,006
Weighted average diluted shares outstanding	397,899	417,985	412,243	429,974

Diluted income (loss) per share for the three months and nine months ended October 2, 2011 and the nine months ended October 3, 2010 was computed by dividing income by the weighted average number of basic shares outstanding plus the potential common share effect of dilutive stock options and restricted shares, computed using the treasury stock method. For the three months and nine months ended October 2, 2011, we excluded 20,525 and 19,038, respectively, of potential common shares from our diluted income per share calculation as they would have had anti-dilutive effects. For the nine months ended October 3, 2010, we excluded 23,846 of potential common shares from our diluted income per share calculation as they would have had anti-dilutive effects. Diluted loss per share for the three months ended October 3, 2010 was the same as basic loss per share since we reported a loss from continuing operations and, therefore, the effect of all potentially dilutive securities would have been antidilutive.

As of October 2, 2011, our potential common shares consisted of the following: (1) outstanding stock options which can be exercised into 31,022 shares of our Common Stock and (2) 3,820 restricted stock units and other restricted stock awards.

(10) Debt and Equity

Debt

The Wendy’s Restaurants senior secured term loan facility (the “Term Loan”), which is part of the credit agreement entered into in May 2010 and is further described in the Form 10-K, requires prepayments of principal amounts resulting from certain events and on an annual basis from Wendy’s Restaurants excess cash flow as defined under the Term Loan. An excess cash flow payment for fiscal 2010 of $24,874 was paid in the first quarter of 2011. Wendy’s

Restaurants was not required to utilize any portion of the proceeds from the sale of Arby’s described in Note 2 as a Term Loan prepayment.

In the second quarter of 2010 the Companies recognized a loss on early extinguishment of debt of $26,197 related to the repayment of debt from the proceeds of the Term Loan as discussed above. This loss consisted of (1) a $14,953 premium payment required to redeem the Wendy’s 6.25% senior notes, (2) $5,477 for the write-off of the unaccreted discount of the Wendy’s 6.25% senior notes (recorded in connection with the Wendy’s merger), and (3) $5,767 for the write-off of deferred costs associated with the repayment of the Wendy’s Restaurants prior senior secured term loan.

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Stockholders’ Equity

(The Wendy’s Company)

The following is a summary of the changes in stockholders’ equity:

	Nine Months Ended October 2, 2011	October 3, 2010
Balance, beginning of year	$2,163,174	$2,336,339
Comprehensive (loss) income (a)	(6,858)	14,347
Share-based compensation	13,756	10,519
Exercises of stock options	5,199	1,227
Dividends paid	(24,584)	(19,260)
Repurchases of common stock for treasury	(152,681)	(167,744)
Other	(653)	(841)
Balance, end of the period	$1,997,353	$2,174,587

(a) The following is a summary of the components of comprehensive income, net of income taxes:

	Nine Months Ended October 2, 2011	October 3, 2010
Net income	$5,891	$6,433
Net change in currency translation adjustment	(12,703)	7,878
Net unrealized losses on available-for-sale securities	—	(59)
Change in net unrecognized pension loss	(46)	95
Other comprehensive (loss) income	(12,749)	7,914
Comprehensive (loss) income	$(6,858)	$14,347

Invested Equity

(Wendy’s Restaurants)

The following is a summary of the changes in invested equity:

	Nine Months Ended October 2, 2011	October 3, 2010
Balance, beginning of year	$1,776,630	$2,197,907
Comprehensive (loss) income (a)	(90)	15,061
Share-based compensation	12,973	9,841
Dividends paid to The Wendy’s Company	—	(443,700)
Other	—	(76)
Balance, end of the period	$1,789,513	$1,779,033

(In Thousands Except Per Share Amounts)

(a) The following is a summary of the components of comprehensive income, net of income taxes:

	Nine Months Ended	
	October 2, 2011	October 3, 2010
Net income	$12,314	$7,172
Net change in currency translation adjustment	(12,703)	7,878
Change in net unrecognized pension loss (b)	299	11
Other comprehensive (loss) income	(12,404)	7,889
Comprehensive (loss) income	$(90)	$15,061

(b) Includes the reclassification of the change in net unrecognized pension loss related to Arby’s pension liability to a subsidiary of The Wendy’s Company.

(11) Guarantees and Other Commitments and Contingencies

Except as related to the sale of Arby’s as discussed in Note 2 and as described below, the Companies did not have any significant changes to their guarantees, other commitments and contingencies as disclosed in the combined notes to our consolidated financial statements included in the Form 10-K.

Equipment for Systemwide Core Menu Initiative

In order to facilitate the purchase and related installation of equipment by franchisees required to implement a systemwide core menu initiative, Wendy’s initiated incentive programs for franchisees including the partial subsidy of interest rates and a guarantee program, and committed to a direct loan of up to $2,700 in the fourth quarter of 2011. Wendy’s has accrued liabilities under these initiatives of approximately $621 as of October 2, 2011.

Breakfast Test Expansion

In order to encourage franchisees to participate in expanded testing of the breakfast daypart, Wendy’s has established the following programs:

- Wendy’s will continue to lease equipment to certain franchisees that are testing the breakfast program. At the time breakfast becomes a required program, the franchisees will be required to purchase the equipment from Wendy’s based on its then book value plus installation costs. The total amount of expenditures for equipment (including installation) leased to franchisees is expected to be no more than $4,500.

- Additionally, Wendy’s is providing loans to certain franchisees for the purchase and installation of equipment required to implement the breakfast program. The loans are expected to not exceed $25 per restaurant, carry no interest charge and be repayable in full 24 months after the installation is completed. Wendy’s will fund a maximum of $20,000 of these loans for early adopters of the breakfast program.

As of October 2, 2011, Wendy’s has purchased equipment with a current net book value of approximately $1,846 that has been leased to franchisees and has made loans of $1,269 under the above breakfast program. The above programs also have the following additional features:

- For the first three years of an early adopting franchisee’s participation in the breakfast program, a portion of franchise royalties (on a sliding scale) will not be payable to Wendy’s but will be required to be reinvested in local advertising and promotions for the breakfast program. Based on franchisee participation in the breakfast program, Wendy’s estimates the royalties not to be received under this program will approximate $5,000 over the three year period.

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- Contributions otherwise due to The Wendy’s National Advertising Program, Inc. (“Wendy’s National Advertising Program”) based on breakfast sales will not be made but will be required to be reinvested in local advertising and promotions for the breakfast program until Wendy’s National Advertising Program begins to purchase national advertising for the breakfast programs.

North America Incentive Program

In order to promote new unit development, Wendy’s has established a franchisee assistance program for its North American franchisees that provides for reduced technical assistance fees and a sliding scale of royalties for the first two years of operation for qualifying locations opened between April 1, 2011 and December 31, 2013. While we are unable to project the number of locations to be opened under this program, we do not expect the effect on current or future franchise revenues to be material.

Canadian Lease Guarantee Program

Wendy’s Canadian subsidiary has established a lease guarantee program to promote new franchisee unit development for up to an aggregate of C$5,000 for periods of up to five years. Franchisees pay the Canadian subsidiary a nominal fee for the guarantee. As of October 2, 2011, the Canadian subsidiary had guaranteed C$249 under this program. Wendy’s has accrued a liability for the fair value of these guarantees.

(12) Transactions with Related Parties

The following is a summary of ongoing transactions between the Companies and their related parties which are included in continuing operations and includes any updates and amendments since those reported in the Form 10-K:

	Nine Months Ended			
	October 2, 2011		October 3, 2010	
SSG agreement (a)	$(2,275	)	$4,900	
Subleases with related parties (b)	(157	)	(100	)
Advisory fees (c)	—		2,465	
(The Wendy’s Company)				
Advisory fees (c)	$500		$750	
Sublease income (d)	(1,225	)	(1,228	)
Use of corporate aircraft (e)	(100	)	(90	)
Liquidation services agreement (f)	220		331	

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Transactions with Purchasing Cooperatives

(a) As agreed by its board of directors in March 2011, effective April 2011 the activities of Strategic Sourcing Group Co-op, LLC (“SSG”) were transferred to the Wendy’s independent purchasing cooperative, Quality Supply Chain Co-op (“QSCC”), and Arby’s independent purchasing cooperative (“ARCOP”), which, following the sale of Arby’s, is no longer a related party. Wendy’s Restaurants had committed to pay approximately $5,145 of SSG expenses, of which $4,900 was expensed in the first quarter of 2010, and was to be paid over a 24 month period through March 2012. During the first quarter of 2011, the remaining accrued commitment of $2,275 was reversed and credited to “General and administrative.”

(b) Wendy’s and QSCC entered into a sublease amendment, effective January 1, 2011, which increased the office space subleased to QSCC to 14,333 square feet for a one year period for a revised annual base rental of $176 with five one-year renewal options. On July 5, 2011, QSCC renewed the lease for a one year period ending December 31, 2012.

The Companies received $23 and $16 of sublease income from SSG and $134 and $84 of sublease income from QSCC during the first nine months of 2011 and 2010, respectively.

Transactions with the Management Company

(c) The Companies paid approximately $2,465 in the second quarter of 2010 in fees for corporate finance advisory services in connection with the negotiation and execution of the Wendy’s Restaurants credit agreement.

In addition, The Wendy’s Company incurred service fees of $500 and $750 in the first nine months of 2011 and 2010, respectively, which are included in “General and administrative.”

These fees were paid to a management company (the “Management Company”) which was formed by our Chairman, who was our former Chief Executive Officer, and our Vice Chairman, who was our former President and Chief Operating Officer, and a director, who was our former Vice Chairman, in connection with a services agreement which expired on June 30, 2011.

(d) The Wendy’s Company recognized income of $1,225 and $1,228 from the Management Company under subleases, which expire in May 2012, for office space on two of the floors of the Company’s former New York headquarters for the first nine months of 2011 and 2010, respectively, which has been recorded as a reduction of “General and administrative.”

(e) On June 29, 2011, The Wendy’s Company and TASCO, LLC, an affiliate of the Management Company, entered into an agreement to extend an aircraft lease agreement for an additional one year period (expiring on June 30, 2012) for an increased monthly rent of $13. Under the extended lease agreement, TASCO, LLC continues to be responsible for operating costs related to the aircraft’s usage. The Wendy’s Company received lease income of $100 and $90 in the first nine months of 2011 and 2010, respectively, which is included as an offset to “General and administrative.”

We intend to dispose of the Company-owned aircraft leased under the lease agreement discussed above as soon as practicable. As of October 2, 2011, the aircraft has a carrying value that approximates its fair value, is classified as held-for-sale, and is included in “Prepaid expenses and other current assets.”

(f) The Wendy’s Company paid the Management Company a fee of $900 in two installments in June 2009 and 2010, which was deferred and amortized through its June 30, 2011 expiration date for assistance in the sale, liquidation, or other disposition of certain of our investments. Related amortization of $220 and $331 was recorded in “General and administrative” in the first nine months of 2011 and 2010, respectively.

THE WENDY’S COMPANY AND SUBSIDIARIES
WENDY’S RESTAURANTS, LLC AND SUBSIDIARIES
COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands Except Per Share Amounts)

(Wendy’s Restaurants)

The following is a summary of continuing transactions between Wendy’s Restaurants and The Wendy’s Company:

	Nine Months Ended	
	October 2, 2011	October 3, 2010
Dividends paid (g)	$—	$443,700
Other transactions:		
Payments for Federal and state income tax (h)	13,078	—
Share-based compensation (i)	10,917	9,841
Expense under management service agreements (j)	2,521	3,763

(g) Wendy’s Restaurants paid cash dividends to The Wendy’s Company which were charged to “Invested equity.”

(h) Wendy’s Restaurants made cash payments to The Wendy’s Company under a tax sharing agreement, as discussed in Note 8.

(i) Wendy’s Restaurants incurs share based compensation costs for The Wendy’s Company Common Stock awards issued to certain employees under The Wendy’s Company various equity plans. Such compensation cost is allocated by The Wendy’s Company to Wendy’s Restaurants and is correspondingly recorded as capital contributions from The Wendy’s Company.

(j) Wendy’s Restaurants incurred $2,521 and $3,763 for management services during the first nine months of 2011 and 2010, respectively. Such fees were included in “General and administrative” and were settled through Wendy’s Restaurants’ intercompany account with The Wendy’s Company. Effective upon the sale of Arby’s, the agreement for such management services was terminated.

As a result of the sale of Arby’s, Arby’s and its affiliates are no longer considered related parties. Prior to the sale, the transactions between Arby’s and its non-consolidated affiliates were not material.

(13) Legal and Environmental Matters

We are involved in litigation and claims incidental to our current and prior businesses. We provide reserves for such litigation and claims when payment is probable and reasonably estimable. As of October 2, 2011, the Companies had reserves for continuing operations for all of its legal and environmental matters aggregating $1,722. We cannot estimate the aggregate possible range of loss due to most proceedings being in preliminary stages, with various motions either yet to be submitted or pending, discovery yet to occur, and significant factual matters unresolved. In addition, most cases seek an indeterminate amount of damages and many involve multiple parties. Predicting the outcomes of settlement discussions or judicial or arbitral decisions are thus inherently difficult. Based on currently available information, including legal defenses available to us, and given the aforementioned reserves and our insurance coverage, we do not believe that the outcome of these legal and environmental matters will have a material effect on our consolidated financial position or results of operations.

(14) Transaction Related Costs

Following the sale of Arby's and the related announcement that the Companies' headquarters would be relocated to Ohio, our then President and Chief Executive Officer of the Company resigned effective as of September 12, 2011. The former President and Chief Executive Officer continues to serve as a director of the Company and, until December 30, 2011, remains an employee of the Company in the capacity of Special Advisor. As a result, and in accordance with the termination provisions of the related employment agreement, the Companies incurred termination costs of $12,568 (principally for required payments of $7,987 and vesting of previously issued stock awards of $4,581) in the third quarter of 2011, which are included in the table below.

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The following table summarizes the Companies “Transaction related costs” associated with the sale of Arby’s and related corporate realignment:

	Three Months Ended October 2, 2011	Nine Months Ended October 2, 2011
Termination and severance (including stock compensation costs)	$14,462	$16,208
Employee retention (a)	5,305	7,855
Bonus	2,529	2,529
Relocation (b)	826	827
Other professional fees	368	2,034
Other	81	89
Total Wendy’s Restaurants	23,571	29,542