

WENDY'S/ARBY'S GROUP, INC.
Form 10-K
March 03, 2011

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

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE FISCAL YEAR ENDED JANUARY 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 _____.

WENDY'S/ARBY'S GROUP, INC.
(Exact Name of Registrant as Specified in its Charter)
Commission File Number 1-2207

Delaware 38-0471180
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

1155 Perimeter Center West, Atlanta, 30338
Georgia (Zip Code)
(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code: (678) 514-4100

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.10 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

WENDY'S/ARBY'S RESTAURANTS, LLC.
(Exact Name of Registrant as Specified in its Charter)
Commission File Number 333-161613

Delaware 38-0471180
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

1155 Perimeter Center West, Atlanta, 30338
Georgia (Zip Code)
(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code: (678) 514-4100

Securities Registered Pursuant to Section 12(b) of the Act: None
Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if either registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Wendy's/Arby's Group, Inc. Yes No
Wendy's/Arby's Restaurants, LLC Yes No

Indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Wendy's/Arby's Group, Inc. Yes No
Wendy's/Arby's Restaurants, LLC Yes No

Indicate by check mark whether each 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.

Wendy's/Arby's Group, Inc. Yes No
Wendy's/Arby's Restaurants, LLC Yes No*

Indicate by check mark whether each 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 (§ 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).

Wendy's/Arby's Group, Inc. Yes No

Wendy's/Arby's Restaurants, LLC Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of each registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers or smaller reporting companies. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Wendy's/Arby's Group, Inc.

Large accelerated filer Accelerated filer Non-accelerated filer S m a l l e r r e p o r t i n g
company

Wendy's/Arby's Restaurants, LLC

Large accelerated filer Accelerated filer Non-accelerated filer S m a l l e r r e p o r t i n g
company

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

The aggregate market value of common equity held by non-affiliates of Wendy's/Arby's Group, Inc. as of July 2, 2010 was approximately \$1,250,922,364. As of February 25, 2011, there were 419,005,869 shares of Wendy's/Arby's Group, Inc. Common Stock outstanding.

As a limited liability company, Wendy's/Arby's Restaurants, LLC does not issue common stock but has one member's interest issued and outstanding. Wendy's/Arby's Restaurants, LLC's sole member is Wendy's/Arby's Group, Inc. There is no aggregate market value for Wendy's/Arby's Restaurants, LLC member's interest as of February 25, 2011.

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

* Wendy's/Arby'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.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Form 10-K, to the extent not set forth herein, is incorporated herein by reference from Wendy's/Arby's Group, Inc.'s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after January 2, 2011.

Explanatory Note

This Annual Report on Form 10-K is a combined report being filed separately by Wendy's/Arby's Group, Inc. ("Wendy's/Arby's") and Wendy's/Arby's Restaurants, LLC ("Wendy's/Arby's Restaurants"), a direct 100% owned subsidiary holding company of Wendy's/Arby's. Unless the context indicates otherwise, any reference in this report to the "Companies," "we," "us" and "our" refers to Wendy's/Arby's together with its direct and indirect subsidiaries, including Wendy's/Arby's Restaurants. Each registrant hereto is filing on its own behalf all of the information contained in this annual 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.

The principal subsidiaries of Wendy's/Arby's Restaurants are Wendy's International, Inc. ("Wendy's") and Arby's Restaurant Group, Inc. ("Arby's") and their subsidiaries. Substantially all of the operating results of Wendy's/Arby's are derived from the operating results of Wendy's/Arby's Restaurants, except expenses of Wendy's/Arby's. Where information or an explanation is provided that is substantially the same for each company, such information or explanation has been combined in the Annual Report on Form 10-K. 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 Item 8, "Financial Statements and Supplementary Data."

PART 1

Special Note Regarding Forward-Looking Statements and Projections

This Annual Report on Form 10-K and oral statements made from time to time by representatives of the Companies may contain or incorporate by reference certain statements that are not historical facts, including, most importantly, information concerning possible or assumed future results of operations of the Companies. Those statements, as well as statements preceded by, followed by, or that include the words "may," "believes," "plans," "expects," "anticipates," or "negotiation thereof, or similar expressions, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). All statements that address future operating, financial or business performance; strategies or expectations; future synergies, efficiencies or overhead savings; anticipated costs or charges; future capitalization; and anticipated financial impacts of recent or pending transactions are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are based on our expectations at the time such statements are made, speak only as of the dates they are made and are susceptible to a number of risks, uncertainties and other factors. Our actual results, performance and achievements may differ materially from any future results, performance or achievements expressed or implied by our forward-looking statements. For all of our forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Reform Act. Many important factors could affect our future results and could cause those results to differ materially from those expressed in, or implied by the forward-looking statements contained herein. Such factors, all of which are difficult or impossible to predict accurately, and many of which are beyond our control, include, but are not limited to, the following:

- uncertainty regarding the outcome of the Companies' exploration of strategic alternatives for the Arby's brand and its impact on the Companies' businesses;
- competition, including pricing pressures, aggressive marketing and the potential impact of competitors' new unit openings on sales of Wendy's® and Arby's® restaurants;
 - consumers' perceptions of the relative quality, variety, affordability and value of the food products we offer;
 -

food safety events, including instances of food-borne illness (such as salmonella or E. coli) involving Wendy's or Arby's or their respective supply chains;

- consumer concerns over nutritional aspects of beef, poultry, French fries or other products we sell, or concerns regarding the effects of disease outbreaks such as “mad cow disease” and avian influenza or “bird flu”;
- success of operating and marketing initiatives, including advertising and promotional efforts and new product and concept development by us and our competitors;
- the impact of general economic conditions and high unemployment rates on consumer spending, particularly in geographic regions that contain a high concentration of Wendy's or Arby's restaurants;
 - changes in consumer tastes and preferences, and in discretionary consumer spending;
- changes in spending patterns and demographic trends, such as the extent to which consumers eat meals away from home;

- certain factors affecting our franchisees, including the business and financial viability of franchisees, with a significant number of Arby's franchisees having experienced a prolonged period of declining sales and profitability, the timely payment of such franchisees' obligations due to us or to national or local advertising organizations, and the ability of our franchisees to open new restaurants in accordance with their development commitments, including their ability to finance restaurant development and remodels;
- changes in commodity costs (including beef and chicken), labor, supply, fuel, utilities, distribution and other operating costs;
 - availability, location and terms of sites for restaurant development by us and our franchisees;
 - development costs, including real estate and construction costs;
 - delays in opening new restaurants or completing remodels of existing restaurants;
 - the timing and impact of acquisitions and dispositions of restaurants;
 - our ability to successfully integrate acquired restaurant operations;
 - anticipated or unanticipated restaurant closures by us and our franchisees;
- our ability to identify, attract and retain potential franchisees with sufficient experience and financial resources to develop and operate Wendy's and Arby's restaurants successfully;
- availability of qualified restaurant personnel to us and to our franchisees, and the ability to retain such personnel;
- our ability, if necessary, to secure alternative distribution of supplies of food, equipment and other products to Wendy's and Arby's restaurants at competitive rates and in adequate amounts, and the potential financial impact of any interruptions in such distribution;
 - availability and cost of insurance;
 - adverse weather conditions;
 - availability, terms (including changes in interest rates) and deployment of capital;
- changes in, and our ability to comply with, legal, regulatory or similar requirements, including franchising laws, accounting standards, payment card industry rules, overtime rules, minimum wage rates, wage and hour laws, government-mandated health care benefits, tax legislation and menu-board labeling requirements;
 - the costs, uncertainties and other effects of legal, environmental and administrative proceedings;
- the effects of charges for impairment of goodwill or for the impairment of other long-lived assets due to deteriorating operating results;
 - the effects of war or terrorist activities; and
- other risks and uncertainties affecting us and our subsidiaries referred to in this Form 10-K (see especially "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations")

and in our other current and periodic filings with the Securities and Exchange Commission.

All future written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. We assume no obligation to update any forward-looking statements after the date of this Form 10-K as a result of new information, future events or developments, except as required by federal securities laws. In addition, it is our policy generally not to endorse any projections regarding future performance that may be made by third parties.

Item 1. Business.

Introduction

Wendy's/Arby's Group, Inc. ("Wendy's/Arby's") is the parent company of its 100% owned subsidiary holding company Wendy's/Arby's Restaurants, LLC ("Wendy's/Arby's Restaurants"). Wendy's/Arby's Restaurants is the parent company of Wendy's International, Inc. ("Wendy's") and Arby's Restaurant Group, Inc. ("Arby's"), which are the owners and franchisors of the Wendy's® and Arby's® restaurant systems, respectively. As used in this report, unless the context requires otherwise, the term "Companies" refers to Wendy's/Arby's and its direct and indirect subsidiaries, including Wendy's/Arby's Restaurants.

As of January 2, 2011, the Wendy's restaurant system was comprised of 6,576 restaurants, of which 1,394 were owned and operated by the Companies. As of January 2, 2011, the Arby's restaurant system was comprised of 3,649 restaurants, of which 1,144 were owned and operated by the Companies. References in this Form 10-K to restaurants that we "own" or that are "company-owned" include owned and leased restaurants. Wendy's/Arby's corporate predecessor was incorporated in Ohio in 1929 and was reincorporated in Delaware in June 1994. Effective September 29, 2008, in conjunction with the merger with Wendy's, Wendy's/Arby's corporate name was changed from Triarc Companies, Inc. ("Triarc") to Wendy's/Arby's Group, Inc. The Companies' principal executive offices are located at 1155 Perimeter Center West, Atlanta, Georgia 30338, and their telephone number is (678) 514-4100. We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports, as well as the Wendy's/Arby's annual proxy statement, available, free of charge, on our website as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission. Our website address is www.wendysarbys.com. Information contained on that website is not part of this Annual Report on Form 10-K.

Merger with Wendy's

On September 29, 2008, Triarc and Wendy's completed their previously announced merger (the "Wendy's Merger") in an all-stock transaction in which Wendy's shareholders received 4.25 shares of Wendy's/Arby's Class A common stock for each Wendy's common share owned.

In the Wendy's Merger, approximately 377,000,000 shares of Wendy's/Arby's Class A common stock were issued to Wendy's shareholders. The merger value of approximately \$2.5 billion for financial reporting purposes is based on the 4.25 conversion factor of the Wendy's outstanding shares as well as previously issued restricted stock awards, both at a value of \$6.57 per share which represented the average closing market price of Triarc Class A common stock two days before and after the merger announcement date of April 24, 2008. Wendy's shareholders held approximately 80%, in the aggregate, of Wendy's/Arby's outstanding Class A common stock immediately following the Wendy's Merger. In addition, effective on the date of the Wendy's Merger, Wendy's/Arby's Class B common stock was converted into Class A common stock. In connection with the May 28, 2009 amendment and restatement of Wendy's/Arby's Certificate of Incorporation, Class A common stock was redesignated as "Common Stock."

The Wendy's and Arby's brands continue to operate independently, with headquarters in Dublin, Ohio and Atlanta, Georgia, respectively. A consolidated support center is based in Atlanta, Georgia and oversees all public company responsibilities, as well as other shared service functions.

Fiscal Year

The Companies use a 52/53 week fiscal year convention whereby their fiscal year ends each year on the Sunday that is closest to December 31 of that year. Each fiscal year generally is comprised of four 13-week fiscal quarters, although

in the years with 53 weeks, including 2009, the fourth quarter represents a 14-week period.

Business Segments

We operate in two business segments, Wendy's and Arby's. See Note 27 of the Financial Statements and Supplementary Data included in Item 8 herein, for financial information attributable to our business segments and geographic areas.

The Wendy's Restaurant System

Wendy's is the third largest restaurant franchising system in the United States specializing in the hamburger sandwich segment of the quick service restaurant industry. According to Nation's Restaurant News, Wendy's is the fourth largest quick service restaurant chain in the United States.

Wendy's is primarily engaged in the business of operating, developing and franchising a system of distinctive quick-service restaurants serving high quality food. At January 2, 2011, there were 6,576 Wendy's restaurants in operation in North America and in 22 foreign countries (other than Canada) and United States territories. Of these restaurants, 1,394 were operated by Wendy's and 5,182 by a total of 490 franchisees. See "Item 2. Properties" for a listing of the number of company-owned and franchised locations in the United States and in foreign countries and United States territories.

The revenues from our restaurant business are derived from three principal sources: (1) sales at company-owned restaurants; (2) sales of bakery items and kids' meal promotional items to franchisees and others; and (3) franchise royalties received from all Wendy's franchised restaurants.

Wendy's is also a 50% partner in a Canadian restaurant real estate joint venture with Tim Hortons Inc. The joint venture owns Wendy's/Tim Hortons combo units in Canada. As of January 2, 2011, there were 105 Wendy's restaurants in operation that were owned by the joint venture. The Tim Hortons menu includes premium coffee, flavored cappuccinos, specialty teas, home-style soups, fresh sandwiches and fresh baked goods.

Wendy's Restaurants

Wendy's opened its first restaurant in Columbus, Ohio in 1969. During 2010, Wendy's opened 9 new company-owned restaurants and closed 4 generally underperforming company-owned restaurants. In addition, Wendy's sold 2 company-owned restaurants to its franchisees. During 2010, Wendy's franchisees opened 69 new restaurants and closed 39 generally underperforming restaurants. In 2009, 71 franchised restaurants were closed in Japan at year-end upon the expiration of the related franchise agreement.

The following table sets forth the number of Wendy's restaurants at the beginning and end of each year from 2008 to 2010:

	2010	2009	2008
Restaurants open at beginning of period	6,541	6,630	6,645
Restaurants opened during period	78	63	97
Restaurants closed during period	(43)	(152)	(112)
Restaurants open at end of period	6,576	6,541	6,630

During the period from December 31, 2007, through January 2, 2011, 238 Wendy's restaurants were opened and 307 generally underperforming Wendy's restaurants were closed.

Operations

Each Wendy's restaurant offers a relatively standard menu featuring hamburgers and filet of chicken breast sandwiches, which are prepared to order with the customer's choice of condiments. Wendy's menu also includes chicken nuggets, chili, baked and French fried potatoes, freshly prepared salads, soft drinks, milk, Frosty™ desserts, floats and kids' meals. In addition, the restaurants sell a variety of promotional products on a limited basis. Wendy's has tested breakfast in certain markets and plans to expand its breakfast initiative in 2011.

Free-standing Wendy's restaurants generally include a pick-up window in addition to a dining room. The percentage of sales at company-owned Wendy's restaurants through the pick-up window was 64.9%, 64.6%, and 63.8% in 2010, 2009, and 2008 respectively.

Wendy's strives to maintain quality and uniformity throughout all restaurants by publishing detailed specifications for food products, preparation and service, continual in-service training of employees, restaurant operational audits and field visits from Wendy's supervisors. In the case of franchisees, field visits are made by Wendy's personnel who review operations, including quality, service and cleanliness and make recommendations to assist in compliance with Wendy's specifications.

Generally, Wendy's does not sell food or supplies, other than sandwich buns and kids' meal toys, to its franchisees. However, prior to 2010, Wendy's arranged for volume purchases of many food and supply products. Commencing in 2010, the purchasing function was transferred to a new purchasing co-op as described below in "Raw Materials and Purchasing."

The New Bakery Co. of Ohio, Inc. (the "Bakery"), a 100% owned subsidiary of Wendy's, is a producer of buns for some Wendy's restaurants, and to a lesser extent for other outside parties, including one distributor to the Arby's system. At January 2, 2011, the Bakery supplied 709 restaurants operated by Wendy's and 2,551 restaurants operated by franchisees. As of that date, the Bakery also directly supplied 10 Arby's restaurants on a test basis. The Bakery also manufactures and sells some products to customers in the grocery and other food service businesses.

Raw Materials and Purchasing

As of January 2, 2011, 5 independent processors (6 total production facilities) supplied all of Wendy's hamburger in the United States. In addition, 5 independent processors (7 total production facilities) supplied all of Wendy's chicken in the United States.

Wendy's and its franchisees have not experienced any material shortages of food, equipment, fixtures or other products that are necessary to maintain restaurant operations. Wendy's anticipates no such shortages of products and believes that alternate suppliers are available. Suppliers to the Wendy's system must comply with United States Department of Agriculture ("USDA") and United States Food and Drug Administration ("FDA") regulations governing the manufacture, packaging, storage, distribution and sale of all food and packaging products.

During the 2009 fourth quarter, Wendy's entered into a purchasing co-op relationship agreement (the "Co-op Agreement") to establish a new Wendy's purchasing co-op, Quality Supply Chain Co-op, Inc. ("QSCC"). QSCC manages food and related product purchases and distribution services for the Wendy's system in the United States and Canada. Through QSCC, Wendy's and Wendy's franchisees purchase food, proprietary paper and operating supplies under national contracts with pricing based upon total system volume.

QSCC's supply chain management facilitates the continuity of supply and provides consolidated purchasing efficiencies while monitoring and seeking to minimize possible obsolete inventory throughout the Wendy's North America supply chain. The system's purchasing function for 2009 and prior was performed and paid for by Wendy's. In order to facilitate the orderly transition of the 2010 purchasing function for North America operations, Wendy's transferred certain contracts, assets and certain Wendy's purchasing employees to QSCC in the first quarter of 2010. Pursuant to the terms of the Co-op Agreement, Wendy's was required to pay \$15.5 million to QSCC over an 18 month period through May 2011 in order to provide funding for start-up costs, operating expenses and cash reserves. In addition to the initial funding by Wendy's, since the third quarter of 2010 all QSCC members (including Wendy's) began paying sourcing fees on products sourced through QSCC. Such sourcing fees will be the primary means of funding QSCC's operations after the initial funding by Wendy's is completed.

During the 2010 second quarter, QSCC and ARCOP, Inc. ("ARCOP"), Arby's independent purchasing cooperative, in consultation with Wendy's/Arby's Restaurants, established the Strategic Sourcing Group Co-op, LLC ("SSG"). SSG was formed to manage and operate purchasing programs which combine the purchasing power of both Wendy's and Arby's company-owned and franchised restaurants to create buying efficiencies for certain non-perishable goods, equipment and services.

In order to facilitate the orderly transition of this purchasing function for the Companies' North America operations, Wendy's/Arby's Restaurants transferred certain contracts, assets and certain Wendy's/Arby's Restaurants purchasing employees to SSG in the second quarter of 2010. Wendy's/Arby's Restaurants had committed to pay approximately \$5.2 million of SSG expenses, which was expensed in 2010 and was to be paid over a 24 month period through March 2012. We made payments of \$2.0 million in 2010.

Should a sale of Arby's occur as discussed in "The Arby's Restaurant System" herein, under the change of control provisions in the agreement that established SSG, the activities of SSG would be wound up. In the wind up process, the assets, personnel and functions of SSG would be transferred to QSCC and ARCOP as such parties and Wendy's/Arby's Restaurants agree. In contemplation of a possible sale, the parties are in discussion regarding the dissolution of SSG and transferring SSG's assets, personnel and functions to QSCC and ARCOP.

Trademarks and Service Marks

Wendy's or its subsidiaries have registered certain trademarks and service marks in the United States Patent and Trademark Office and in international jurisdictions, some of which include Wendy's®, Old Fashioned Hamburgers® and Quality Is Our Recipe®. Wendy's believes that these and other related marks are of material importance to its business. Domestic trademarks and service marks expire at various times from 2011 to 2020, while international trademarks and service marks have various durations of 10 to 15 years. Wendy's generally intends to renew trademarks and service marks that are scheduled to expire.

Wendy's entered into an Assignment of Rights Agreement with the company's founder, R. David Thomas, and his wife dated as of November 5, 2000 (the "Assignment"). Wendy's had used Mr. Thomas, who was Senior Chairman of the Board until his death on January 8, 2002, as a spokesperson and focal point for its products and services for many years. With the efforts and attributes of Mr. Thomas, Wendy's has, through its extensive investment in the advertising

and promotional use of Mr. Thomas' name, likeness, image, voice, caricature, endorsement rights and photographs (the "Thomas Persona"), made the Thomas Persona well known in the United States and throughout North America and a valuable asset for both Wendy's and Mr. Thomas' estate. Under the terms of the Assignment, Wendy's acquired the entire right, title, interest and ownership in and to the Thomas Persona, including the sole and exclusive right to commercially use the Thomas Persona.

Seasonality

Wendy's restaurant operations are moderately seasonal. Wendy's average restaurant sales are normally higher during the summer months than during the winter months. Because the business is moderately seasonal, results for any quarter are not necessarily indicative of the results that may be achieved for any other quarter or for the full fiscal year.

Competition

Each Wendy's restaurant is in competition with other food service operations within the same geographical area. The quick-service restaurant segment is highly competitive and includes well-established competitors such as McDonald's®, Burger King®, Taco Bell®, Kentucky Fried Chicken® and Arby's®. Wendy's competes with other restaurant companies and food outlets, primarily through the quality, variety, convenience, price, and value perception of food products offered. The number and location of units, quality and speed of service, attractiveness of facilities, effectiveness of marketing and new product development by Wendy's and its competitors are also important factors. The price charged for each menu item may vary from market to market (and within markets)

depending on competitive pricing and the local cost structure. Wendy's also competes within the food service industry and the quick service restaurant sector not only for customers, but also for personnel, suitable real estate sites and qualified franchisees.

Wendy's competitive position is differentiated by a focus on quality, its use of fresh, never frozen ground beef in the United States and Canada and certain other countries, its unique and diverse menu, its promotional products, its choice of condiments and the atmosphere and decor of its restaurants.

Many of the leading restaurant chains have focused on new unit development as one strategy to increase market share through increased consumer awareness and convenience. This has led to increased competition for available development sites and higher development costs for those sites, although the recent decline in commercial real estate values has somewhat offset those costs. Competitors also employ marketing strategies such as frequent use of price discounting, frequent promotions and heavy advertising expenditures. Continued price discounting in the quick service restaurant industry and the emphasis on value menus has had and could continue to have an adverse impact on Wendy's. In addition, the growth of fast casual chains and other in-line competitors could cause some fast food customers to "trade up" to a more traditional dining out experience while keeping the benefits of quick service dining.

Other restaurant chains have also competed by offering high quality sandwiches made with fresh ingredients and artisan breads and there are several emerging restaurant chains featuring high quality food served at in-line locations. Several chains have also sought to compete by targeting certain consumer groups, such as capitalizing on trends toward certain types of diets (e.g., low carbohydrate or low trans fat) by offering menu items that are promoted as being consistent with such diets.

Additional competitive pressures for prepared food purchases come from operators outside the restaurant industry. A number of major grocery chains offer fresh deli sandwiches and fully prepared food and meals to go as part of their deli sections. Some of these chains also have in-store cafes with service counters and tables where consumers can order and consume a full menu of items prepared especially for that portion of the operation. Additionally, convenience stores and retail outlets at gas stations frequently offer sandwiches and other foods.

Quality Assurance

Wendy's quality assurance program is designed to verify that the food products supplied to our restaurants are processed in a safe, sanitary environment and in compliance with our food safety and quality standards. Wendy's quality assurance personnel conduct multiple on-site sanitation and production audits throughout the year at all of our core menu product processing facilities, which include beef, poultry, pork, buns, French fries, Frosty™ dessert ingredients, and produce. Animal welfare audits are also conducted every year at all beef, poultry, and pork facilities to confirm compliance with our required animal welfare and handling policies and procedures. In addition to our facility audit program, weekly samples of beef, poultry, and other core menu products from our distribution centers are randomly sampled and analyzed by a third party laboratory to test conformance to our quality specifications. Each year, Wendy's representatives conduct unannounced inspections of all company and franchise restaurants to test conformance to our sanitation, food safety, and operational requirements. Wendy's has the right to terminate franchise agreements if franchisees fail to comply with quality standards.

Acquisitions and Dispositions of Wendy's Restaurants

Wendy's has from time to time acquired the interests of and sold Wendy's restaurants to franchisees, and it is anticipated that the company may have opportunities for such transactions in the future. Wendy's generally retains a right of first refusal in connection with any proposed sale of a franchisee's interest. Wendy's will continue to sell and acquire restaurants in the future where prudent.

Franchised Restaurants

As of January 2, 2011, Wendy's franchisees operated 5,182 Wendy's restaurants in 49 states, Canada and 22 other countries and United States territories.

The rights and obligations governing the majority of franchised restaurants operating in the United States are set forth in the Wendy's Unit Franchise Agreement. This document provides the franchisee the right to construct, own and operate a Wendy's restaurant upon a site accepted by Wendy's and to use the Wendy's system in connection with the operation of the restaurant at that site. The Unit Franchise Agreement provides for a 20-year term and a 10-year renewal subject to certain conditions. Wendy's has in the past franchised under different agreements on a multi-unit basis; however, Wendy's now generally grants new Wendy's franchises on a unit-by-unit basis.

The Wendy's Unit Franchise Agreement requires that the franchisee pay a royalty of 4% of sales, as defined in the agreement, from the operation of the restaurant. The agreement also typically requires that the franchisee pay Wendy's a technical assistance fee. In the United States, the standard technical assistance fee required under a newly executed Unit Franchise Agreement is currently \$25,000 for each restaurant.

The technical assistance fee is used to defray some of the costs to Wendy's in providing technical assistance in the development of the Wendy's restaurant, initial training of franchisees or their operator and in providing other assistance associated with the opening of the Wendy's restaurant. In certain limited instances (like the regranting of franchise rights or the relocation of an existing restaurant),

Wendy's may charge a reduced technical assistance fee or may waive the technical assistance fee. Wendy's does not select or employ personnel on behalf of franchisees.

Wendy's has announced a program to encourage the development of new restaurants in the United States. Under the program, provided certain conditions are met, the technical assistance fee for franchised restaurants opened from April 2011 through December 2013 will be reduced to \$15,000, and royalties paid on sales from those restaurants will be reduced to 2% for the first 12 months and to 3% for the second 12 months. After 24 months, the monthly royalty rate reverts to the prevailing 4% rate for the remaining term of the franchise agreement.

Wendy's currently does not offer any financing arrangements, or enter into guarantees of financing arrangements, to franchisees seeking to build new franchised units. However, Wendy's had previously made such financing available to qualified franchisees and Wendy's had guaranteed payment on a portion of the loans made by third-party lenders to those franchisees.

Effective February 2011, certain lenders are offering financing to Wendy's United States franchisees to purchase new equipment and smallwares and modify other equipment needed to implement Wendy's new hamburger product roll out. Wendy's has agreed to subsidize a portion of the interest that would otherwise be payable by the franchisees participating in this financing program. The financing program is expected to end in September 2011.

See "Management Discussion and Analysis – Liquidity and Capital Resources – Guarantees and Other Contingencies" in Item 7 herein, for further information regarding guarantee obligations.

Franchised restaurants are required to be operated under uniform operating standards and specifications relating to the selection, quality and preparation of menu items, signage, decor, equipment, uniforms, suppliers, maintenance and cleanliness of premises and customer service. Wendy's monitors franchisee operations and inspects restaurants periodically to ensure that required practices and procedures are being followed.

See Note 5 and Note 23 of the Financial Statements and Supplementary Data included in Item 8 herein, and the information under "Management's Discussion and Analysis" in Item 7 herein, for further information regarding reserves, commitments and contingencies involving franchisees.

Advertising and Marketing

In the United States and Canada, Wendy's advertises nationally on network and cable television programs, including nationally televised events. Locally in the United States and Canada, Wendy's primarily advertises through regional network and cable television, radio and newspapers. Wendy's