

WENDY'S/ARBY'S GROUP, INC.

Form 10-Q

May 10, 2011

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

FORM 10-Q

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

For the quarterly period ended April 3, 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

WENDY'S/ARBY'S GROUP, INC.
(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.)

1155 Perimeter Center West, Atlanta, GA
(Address of principal executive offices)

30338
(Zip Code)

(678) 514-4100
(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/ARBY'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.)

1155 Perimeter Center West, Atlanta, GA
(Address of principal executive offices)

30338
(Zip Code)

(678) 514-4100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,
if changed since last report)

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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.

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

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

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).

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

Wendy's/Arby's Restaurants, LLC Yes 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.

Wendy's/Arby's Group, Inc.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Wendy's/Arby's Restaurants, LLC

Large accelerated filer Accelerated filer Non-accelerated filer 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

There were 419,022,290 shares of Wendy's/Arby's Group, Inc. common stock outstanding as of May 2, 2011.

Wendy's/Arby'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/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.

Table of Contents

Explanatory Note

This Quarterly Report on Form 10-Q 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 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.

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 for certain administrative 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 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."

Table of Contents

WENDY'S/ARBY'S GROUP, INC. AND SUBSIDIARIES
 WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES
 INDEX TO FORM 10-Q

	Page
<u>Part I: FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	<u>5</u>
Wendy's/Arby's Group, Inc. and Subsidiaries	
<u>Condensed Consolidated Balance Sheets as of April 3, 2011 and January 2, 2011</u>	<u>5</u>
<u>Condensed Consolidated Statements of Operations for the three months ended April 3, 2011 and April 4, 2010</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows for the three months ended April 3, 2011 and April 4, 2010</u>	<u>7</u>
Wendy's/Arby's Restaurants, LLC and Subsidiaries	
<u>Condensed Consolidated Balance Sheets as of April 3, 2011 and January 2, 2011</u>	<u>9</u>
<u>Condensed Consolidated Statements of Operations for the three months ended April 3, 2011 and April 4, 2010</u>	<u>10</u>
<u>Condensed Consolidated Statements of Cash Flows for the three months ended April 3, 2011 and April 4, 2010</u>	<u>11</u>
Wendy's/Arby's Group, Inc. and Subsidiaries and Wendy's/Arby's Restaurants, LLC and Subsidiaries	
<u>Combined Notes to Condensed Consolidated Financial Statements</u>	<u>13</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>42</u>
<u>Item 4. Controls and Procedures</u>	<u>42</u>
<u>Part II: OTHER INFORMATION</u>	<u>43</u>
<u>Item 1. Legal Proceedings</u>	<u>44</u>
<u>Item 1A. Risk Factors</u>	<u>45</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 4. (Removed and Reserved)</u>	<u>45</u>
<u>Item 6. Exhibits</u>	<u>46</u>
<u>Signatures</u>	<u>47</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

WENDY'S/ARBY'S GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In Thousands)

	April 3, 2011 (Unaudited)	January 2, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$500,061	\$512,508
Accounts and notes receivable	84,623	84,258
Inventories	23,112	22,694
Prepaid expenses and other current assets	53,783	24,386
Deferred income tax benefit	54,996	34,389
Advertising funds restricted assets	85,478	76,553
Total current assets	802,053	754,788
Properties	1,519,962	1,551,261
Other intangible assets	1,351,418	1,358,574
Goodwill	888,095	883,644
Investments	109,941	107,223
Deferred costs and other assets	69,272	77,164
Total assets	\$4,740,741	\$4,732,654
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$17,350	\$18,415
Accounts payable	68,745	81,361
Accrued expenses and other current liabilities	240,519	245,157
Advertising funds restricted liabilities	85,478	76,553
Total current liabilities	412,092	421,486
Long-term debt	1,526,674	1,553,987
Deferred income	39,745	11,460
Deferred income taxes	430,189	412,293
Other liabilities	164,928	170,254
Commitments and contingencies		
Stockholders' equity:		
Common stock	47,042	47,042
Additional paid-in capital	2,774,276	2,771,126
Accumulated deficit	(422,257)	(412,464)
Common stock held in treasury, at cost	(246,568)	(249,547)
Accumulated other comprehensive income	14,620	7,017
Total stockholders' equity	2,167,113	2,163,174
Total liabilities and stockholders' equity	\$4,740,741	\$4,732,654

See accompanying notes to condensed consolidated financial statements.

Table of Contents

WENDY'S/ARBY'S GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (In Thousands Except Per Share Amounts)

	Three Months Ended	
	April 3, 2011	April 4, 2010
	(Unaudited)	
Revenues:		
Sales	\$756,496	\$748,197
Franchise revenues	91,328	89,250
	847,824	837,447
Costs and expenses:		
Cost of sales	659,788	641,422
General and administrative	103,627	110,482
Depreciation and amortization	43,125	46,326
Impairment of long-lived assets	9,612	11,601
Other operating expense, net	1,032	1,283
	817,184	811,114
Operating profit	30,640	26,333
Interest expense	(34,328)	(36,278)
Other income, net	323	1,408
Loss before income taxes	(3,365)	(8,537)
Benefit from income taxes	1,956	5,137
Net loss	\$(1,409)	\$(3,400)
Basic and diluted loss per share:	\$.00	\$(.01)
Dividends per share:	\$.02	\$.015

See accompanying notes to condensed consolidated financial statements.

Table of Contents

WENDY'S/ARBY'S GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In Thousands)

	Three Months Ended	
	April 3, 2011	April 4, 2010
	(Unaudited)	
—		
Cash flows from operating activities:		
Net loss	\$(1,409)	\$(3,400)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	43,125	46,326
Net receipt of deferred vendor incentives	29,357	31,067
Impairment of long-lived assets	9,612	11,601
Share-based compensation provision	3,241	3,519
Distributions received from joint venture	3,113	2,968
Write-off and amortization of deferred financing costs	2,151	1,701
Accretion of long-term debt	2,130	2,715
Non-cash rent expense	1,807	2,879
Provision for doubtful accounts	903	2,600
Equity in earnings in joint venture	(2,363)	(1,850)
Deferred income tax benefit, net	(2,900)	(8,546)
Other, net	273	1,236
Changes in operating assets and liabilities:		
Accounts and notes receivable	2,342	1,762
Inventories	(370)	1,295
Prepaid expenses and other current assets	(8,676)	(5,300)
Accounts payable	4,234	(13,025)
Accrued expenses and other current liabilities	(33,107)	(42,307)
Net cash provided by operating activities	53,463	35,241
Cash flows from investing activities:		
Capital expenditures	(28,568)	(27,143)
Business acquisition	(2,900)	—
Other, net	300	2,958
Net cash used in investing activities	(31,168)	(24,185)
Cash flows from financing activities:		
Repayments of long-term debt	(30,211)	(10,216)
Dividends paid	(8,374)	(6,653)
Proceeds from stock option exercises	2,902	939
Repurchases of common stock	—	(80,842)
Other, net	(18)	23
Net cash used in financing activities	(35,701)	(96,749)
Net cash used in operations before effect of exchange rate changes on cash	(13,406)	(85,693)
Effect of exchange rate changes on cash	959	1,258
Net decrease in cash and cash equivalents	(12,447)	(84,435)
Cash and cash equivalents at beginning of period	512,508	591,719
Cash and cash equivalents at end of period	\$ 500,061	\$ 507,284

Table of Contents

WENDY'S/ARBY'S GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
 (In Thousands)

	Three Months Ended	
	April 3, 2011	April 4, 2010
	(Unaudited)	
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$41,721	\$43,375
Income taxes, net of refunds	\$2,884	\$6,062

See accompanying notes to condensed consolidated financial statements.

Table of Contents

WENDY'S/ARBY'S RESTAURANTS, LLC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In Thousands)

	April 3, 2011 (Unaudited)	January 2, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 181,300	\$ 198,686
Accounts and notes receivable	83,854	83,352
Inventories	23,112	22,694
Prepaid expenses and other current assets	52,922	24,032
Deferred income tax benefit	43,274	45,067
Advertising funds restricted assets	85,478	76,553
Total current assets	469,940	450,384
Properties	1,511,019	1,541,853
Other intangible assets	1,351,418	1,358,574
Goodwill	893,372	888,921
Investments	105,121	102,406
Deferred costs and other assets	68,339	74,559
Total assets	\$4,399,209	\$4,416,697
LIABILITIES AND INVESTED EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 16,072	\$ 17,047
Accounts payable	67,912	81,148
Accrued expenses and other current liabilities	239,574	244,300
Advertising funds restricted liabilities	85,478	76,553
Total current liabilities	409,036	419,048
Long-term debt	1,515,728	1,542,684
Due to Wendy's/Arby's	17,486	30,808
Deferred income	39,745	11,460
Deferred income taxes	476,526	478,472
Other liabilities	152,440	157,595
Commitments and contingencies		
Invested equity:		
Member interest, \$0.01 par value; 1,000 shares authorized, one share issued and outstanding	—	—
Other capital	2,426,458	2,423,459
Accumulated deficit	(498,475) (499,500)
Advances to Wendy's/Arby's	(155,000) (155,000)
Accumulated other comprehensive income	15,265	7,671
Total invested equity	1,788,248	1,776,630
Total liabilities and invested equity	\$4,399,209	\$4,416,697

See accompanying notes to condensed consolidated financial statements.

Table of Contents

WENDY'S/ARBY'S RESTAURANTS, LLC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (In Thousands)

	Three Months Ended	
	April 3, 2011	April 4, 2010
	(Unaudited)	
Revenues:		
Sales	\$756,496	\$748,197
Franchise revenues	91,328	89,250
	847,824	837,447
Costs and expenses:		
Cost of sales	659,788	641,422
General and administrative	100,276	108,760
Depreciation and amortization	42,660	45,860
Impairment of long-lived assets	9,612	11,601
Other operating expense, net	977	1,550
	813,313	809,193
Operating profit	34,511	28,254
Interest expense	(34,101) (35,939
Other income, net	283	495
Income (loss) before income taxes	693	(7,190
Benefit from income taxes	332	4,630
Net income (loss)	\$1,025	\$(2,560

See accompanying notes to condensed consolidated financial statements.

Table of Contents

WENDY'S/ARBY'S RESTAURANTS, LLC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In Thousands)

	Three Months Ended	
	April 3, 2011	April 4, 2010
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$1,025	\$(2,560)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	42,660	45,860
Net receipt of deferred vendor incentives	29,357	31,067
Impairment of long-lived assets	9,612	11,601
Distributions received from joint venture	3,113	2,968
Share-based compensation provision	2,999	3,307
Write-off and amortization of deferred financing costs	2,148	1,695
Accretion of long-term debt	2,130	2,715
Non-cash rent expense	1,807	2,879
Provision for doubtful accounts	903	2,600
Deferred income tax benefit, net	(336)	(3,433)
Other operating transactions with Wendy's/Arby's	(662)	(3,624)
Tax sharing payable to Wendy's/ Arby's, net	(914)	(4,627)
Equity in earnings in joint venture	(2,363)	(1,850)
Tax sharing payment to Wendy's/ Arby's	(13,078)	—
Other, net	429	1,596
Changes in operating assets and liabilities:		
Accounts and notes receivable	2,206	2,041
Inventories	(370)	1,295
Prepaid expenses and other current assets	(8,497)	(5,319)
Accounts payable	3,614	(11,959)
Accrued expenses and other current liabilities	(33,180)	(39,189)
Net cash provided by operating activities	42,603	37,063
Cash flows from investing activities:		
Capital expenditures	(28,568)	(27,143)
Business acquisition	(2,900)	—
Other, net	303	2,432
Net cash used in investing activities	(31,165)	(24,711)
Cash flows from financing activities:		
Repayments of long-term debt	(29,765)	(4,849)
Dividends paid to Wendy's/ Arby's	—	(112,000)
Other, net	(18)	161
Net cash used in financing activities	(29,783)	(116,688)
Net cash used in operations before effect of exchange rate changes on cash	(18,345)	(104,336)
Effect of exchange rate changes on cash	959	1,258
Net decrease in cash and cash equivalents	(17,386)	(103,078)
Cash and cash equivalents at beginning of period	198,686	538,864
Cash and cash equivalents at end of period	\$181,300	\$435,786

Table of Contents

WENDY'S/ARBY'S RESTAURANTS, LLC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
 (In Thousands)

	Three Months Ended	
	April 3, 2011	April 4, 2010
	(Unaudited)	
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$41,449	\$42,838
Income taxes, net of refunds	\$2,273	\$3,202

See accompanying notes to condensed consolidated financial statements.

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'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 Wendy's/Arby's Group, Inc. ("Wendy's/Arby's" and, together with its subsidiaries, the "Company") and Wendy's/Arby's Restaurants, LLC ("Wendy's/Arby's Restaurants"), a 100% owned subsidiary of Wendy's/Arby's, 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 April 3, 2011, and the results of our operations and cash flows for the three months ended April 3, 2011 and April 4, 2010. The results of operations for the three months ended April 3, 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 Wendy's/Arby's and Wendy's/Arby'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").

Except where otherwise indicated, these combined notes relate to the Financial Statements for each of Wendy's/Arby's and Wendy's/Arby's Restaurants (the "Companies"). References herein to Wendy's/Arby's corporate ("Corporate") represent Wendy's/Arby's parent company functions only and their effect on the consolidated results of operations and financial condition.

In January 2011, Wendy's/Arby's announced that it is exploring strategic alternatives for Arby's Restaurant Group, Inc. ("Arby's"), including a sale of the brand. This process is continuing and there is no assurance as to any particular outcome. To address uncertainties for our employees created by this process, Wendy's/Arby's has implemented a retention program; the payment of a portion of this program is conditioned on the sale of Arby's. During the 2011 first quarter, Wendy's/Arby's Restaurants and Wendy's/Arby's accrued costs of \$1,279 and \$1,307, respectively, which are included in "General and administrative" related to the portion of this retention program not conditioned on the sale of Arby's. While the process is pending, Arby's will continue to execute its growth initiatives. Arby's did not meet the financial accounting requirements to be classified as held for sale or to be reported as discontinued operations as of April 3, 2011. As of April 3, 2011, the carrying value of our Arby's business (defined as total assets less all non-intercompany liabilities) was \$164,000. (See Note 9 for further segment information.)

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

(2) Acquisitions and Dispositions

During the first quarter of 2011, Wendy's International, Inc. ("Wendy's") acquired the operating assets, net of liabilities assumed, of three Wendy's franchised restaurants. The total consideration for this acquisition before post closing adjustments was \$3,960 consisting of (1) \$2,900 of cash, net of \$45 cash acquired and (2) the issuance of a note payable of \$1,060.

Other restaurant acquisitions and dispositions during the periods presented were not significant.

(3) 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."

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES
WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES
COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands Except Per Share Amounts)

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:

	Three Months Ended	
	April 3, 2011	April 4, 2010
Balance at beginning of period (a)	\$98,631	\$97,476
Equity in earnings for the period	2,926	2,698
Amortization of purchase price adjustments	(563) (848
	2,363	1,850
Distributions	(3,113) (2,968
Currency translation adjustment included in "Comprehensive income"	3,465	4,350
Balance at end of period (a)	\$101,346	\$100,708

(a) Included in "Investments."

Presented below is a summary of unaudited financial information of TimWen as of and for the three months ended April 3, 2011 and April 4, 2010, respectively, in Canadian dollars. The summary balance sheet financial information does not distinguish between current and long-term assets and liabilities:

	April 3, 2011	April 4, 2010
Balance sheet information:		
Properties	C\$77,714	C\$82,005
Cash and cash equivalents	2,011	—
Accounts receivable	3,775	4,107
Other	2,980	3,418
	C\$86,480	C\$89,530
Accounts payable and accrued liabilities	C\$701	C\$1,195
Other liabilities	9,222	9,006
Partners' equity	76,557	79,329
	C\$86,480	C\$89,530
	Three Months Ended	
	April 3, 2011	April 4, 2010
Income statement information:		
Revenues	C\$8,906	C\$8,720
Income before income taxes and net income	6,129	5,376

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

(4) Fair Value of Financial Instruments

The carrying amounts and estimated fair values of the Companies' financial instruments for which the disclosure of fair values is required were as follows:

	April 3, 2011 Wendy's/Arby's Restaurants	Corporate	Wendy's/Arby's
Financial assets			
Carrying Amount:			
Cash and cash equivalents	\$ 181,300	\$ 318,761	\$ 500,061
Restricted cash equivalents:			
Current - included in "Prepaid expenses and other current assets"	778	—	778
Non-current - included in "Deferred costs and other assets"	3,536	685	4,221
Non-current cost investments	3,775	4,820	8,595
Interest rate swaps	7,610	—	7,610
Fair Value:			
Cash and cash equivalents (a)	\$ 181,300	\$ 318,761	\$ 500,061
Restricted cash equivalents (a):			
Current	778	—	778
Non-current	3,536	685	4,221
Non-current cost investments (b)	5,349	14,593	19,942
Interest rate swaps (c)	7,610	—	7,610
		April 3, 2011 Carrying Amount	Fair Value
Financial liabilities			
Long-term debt, including current portion:			
10% senior notes (d)		\$ 553,653	\$ 624,325
Wendy's/Arby's Restaurants term loan (d)		469,365	475,210
6.20% senior notes (d)		217,015	233,100
Sale-leaseback obligations (e)		120,607	120,751
Capitalized lease obligations (e)		85,343	85,917
7% debentures (d)		81,487	90,000
Other		4,330	4,318
Total Wendy's/Arby's Restaurants long-term debt, including current portion		1,531,800	1,633,621
6.54% aircraft term loan (e)		12,224	12,149
Total Wendy's/Arby's long-term debt, including current portion		\$ 1,544,024	\$ 1,645,770
Guarantees of:			
Lease obligations for restaurants not operated by the Companies (f)		\$ 279	\$ 279
Wendy's franchisee loans obligations (g)		\$ 368	\$ 368

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

(a) The carrying amounts approximated fair value due to the short-term maturities of the cash equivalents or restricted cash equivalents.

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 (b) 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.

(c) 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.

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

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

(f) The fair value was assumed to reasonably approximate the carrying amount. We have accrued liabilities for these lease obligations based on a weighted average risk percentage.

Wendy's provided loan guarantees to various lenders on behalf of franchisees entering into pooled debt facility (g) 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 current accounts, notes receivable and non-current notes receivable approximated fair value due to the effect of related allowances for doubtful accounts and notes receivable. The carrying amounts of accounts payable and accrued expenses approximated fair value due to the short-term maturities of those items.

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 April 3, 2011 by the valuation hierarchy as defined in the fair value guidance:

	April 3, 2011	Fair Value Measurements		
		Level 1	Level 2	Level 3
Interest rate swaps (included in "Deferred costs and other assets")	\$7,610	\$—	\$7,610	\$—

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

The following table presents the fair values for those assets and liabilities measured at fair value during the three months ended April 3, 2011 on a non-recurring basis. Total losses include losses recognized from all non-recurring fair value measurements during the quarter ended April 3, 2011 for both the Wendy's and Arby's restaurant segments. The carrying value of properties presented in the table below substantially represents the remaining carrying value of land for properties that were impaired related to the Wendy's restaurant segment. See Note 5 for more information on the impairment of our long-lived assets.

	April 3, 2011	Fair Value Measurements			Three Months Ended
		Level 1	Level 2	Level 3	April 3, 2011 Total Losses
Properties	\$575	\$—	\$—	\$575	\$7,755
Other intangible assets	—	—	—	—	1,857
	\$575	\$—	\$—	\$575	\$9,612

Derivative instruments

The Companies' derivative instruments in the first quarter of 2011 included interest rate swaps with notional amounts totaling \$225,000 that were all designated as fair value hedges on Wendy's 6.20% senior notes. At April 3, 2011 and January 2, 2011, the fair value of these interest rate swaps of \$7,610 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 \$1,413 and \$1,812 for the three months ended April 3, 2011 and April 4, 2010, respectively.

(5) Impairment of Long-Lived Assets

	Three Months Ended	
	April 3, 2011	April 4, 2010
Wendy's restaurant segment:		
Impairment of company-owned restaurants:		
Properties	\$6,084	\$—
Intangible assets	1,813	—
	7,897	—
Arby's restaurant segment:		
Impairment of company-owned restaurants:		
Properties	1,671	10,689
Intangible assets	44	912
	1,715	11,601
Total impairment of long-lived assets	\$9,612	\$11,601

The Wendy's company-owned restaurant impairment losses in the three months ended April 3, 2011 and the Arby's company-owned restaurant impairment losses in the three months ended April 4, 2010 predominantly reflected impairment charges on all restaurant level assets resulting from the deterioration in operating performance of certain restaurants, and additional charges for capital improvements in restaurants impaired in a prior year which did not subsequently recover. The Arby's restaurant segment impairment losses in the three months ended April 4, 2010 also

reflected write-downs in the carrying value of surplus properties and properties held for sale. The Arby's company-owned restaurant impairment losses in the three months ended April 3, 2011 reflected additional charges for capital improvements in restaurants impaired in a prior year which did not subsequently recover.

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

All of 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 discussed above for the Wendy's and Arby's restaurant segments were generally estimated based on the present values of the associated cash flows and on market value with respect to land (Level 3 inputs).

(6) Income Taxes

The Company's effective tax rate benefit for the three months ended April 3, 2011 and April 4, 2010 was 58.1% and 60.2%, respectively. Wendy's/Arby's Restaurants effective tax rate benefit for the three months ended April 3, 2011 and April 4, 2010 was 47.9% and 64.4%, respectively. The Companies' effective 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, and (3) a reduction in our state valuation allowances in 2010.

There were no significant changes to unrecognized tax benefits or related interest and penalties for either the Company or Wendy's/Arby's Restaurants.

Amounts payable for Federal and certain state income taxes are settled by Wendy's/Arby's Restaurants to Wendy's/Arby's under a tax sharing agreement. During the three months ended April 3, 2011 and April 4, 2010, Wendy's/Arby's Restaurants made tax sharing payments to Wendy's/Arby's of \$13,078 and \$0, respectively.

(7) Loss Per Share

(Wendy's/Arby's)

Basic loss per share for the three months ended April 3, 2011 and April 4, 2010 was computed by dividing net loss by the weighted average number of common shares outstanding.

Diluted loss per share for the three months ended April 3, 2011 and April 4, 2010 was the same as basic loss per share for each share since the Company reported a net loss and, therefore, the effect of all potentially dilutive securities on the net loss per share would have been antidilutive.

As of April 3, 2011, our potential common shares consisted of the following: (1) outstanding stock options which can be exercised into 27,036 shares of our Common Stock and (2) 3,107 restricted shares of our Common Stock.

The weighted average number of shares used to calculate basic and diluted loss per share was 418,520 and 443,326 for the three months ended April 3, 2011 and April 4, 2010, respectively.

(8) Debt and Equity

Debt

The Wendy's/Arby's Restaurants senior secured term loan facility (the "Term Loan"), which is part of the credit agreement entered into in May 2010 and further described in our Form 10-K, requires prepayments of principal amounts resulting from certain events and on an annual basis from Wendy's/Arby'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. Should our strategic alternatives for Arby's result in a sale of the brand (as discussed in Note 1), we may be required to utilize a portion of the sales proceeds as a Term Loan prepayment.

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

Invested Equity

(Wendy's/Arby's Restaurants)

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

	Three Months Ended	
	April 3, 2011	April 4, 2010
Balance, beginning of year	\$1,776,630	\$2,197,907
Comprehensive income (a)	8,619	7,155
Share-based compensation	2,999	3,307
Dividends paid to Wendy's/Arby's	—	(112,000)
Other	—	(75)
Balance, end of the period	\$1,788,248	\$2,096,294

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

	Three Months Ended	
	April 3, 2011	April 4, 2010
Net income (loss)	\$1,025	\$(2,560)
Net change in currency translation adjustment	7,649	9,704
Net unrecognized pension (loss) gain	(55)	11
Other comprehensive income	7,594	9,715
Comprehensive income	\$8,619	\$7,155

Stockholders' Equity

(Wendy's/Arby's)

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

	Three Months Ended	
	April 3, 2011	April 4, 2010
Balance, beginning of year	\$2,163,174	\$2,336,339
Comprehensive income (a)	6,194	6,340
Share-based compensation	3,241	3,519
Exercises of stock options	2,838	859
Dividends paid	(8,374)	(6,653)
Repurchases of common stock for treasury	—	(78,821)
Other	40	(337)
Balance, end of the period	\$2,167,113	\$2,261,246

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

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

	Three Months Ended	
	April 3, 2011	April 4, 2010
Net loss	\$(1,409	\$(3,400
Net change in currency translation adjustment	7,649	9,704
Net unrealized losses on available-for-sale securities	—	(59
Net unrecognized pension (loss) gain	(46	95
Other comprehensive income	7,603	9,740
Comprehensive income	\$6,194	\$6,340

(9) Business Segments

The Companies manage and internally report their operations in two segments: (1) the operation and franchising of Wendy's restaurants and (2) the operation and franchising of Arby's restaurants. We evaluate segment performance and allocate resources based on each segment's operating profit (loss).

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

The following is a summary of the Companies' segment information:

	Three Months Ended	
	April 3, 2011	April 4, 2010
Revenues:		
Sales:		
Wendy's (1)	\$509,323	\$512,747
Arby's	247,210	235,450
Corporate eliminations	(37) —
Total	756,496	748,197
Franchise revenues:		
Wendy's	73,189	71,967
Arby's	18,149	17,283
Corporate eliminations	(10) —
Total	91,328	89,250
Total revenues:		
Wendy's	582,512	584,714
Arby's	265,359	252,733
Corporate eliminations	(47) —
Total	\$847,824	\$837,447
Depreciation and amortization:		
Wendy's	\$27,261	\$28,795
Arby's	12,811	13,894
Shared services center	2,588	3,171
Wendy's/Arby's Restaurants	42,660	45,860
Corporate	465	466
Wendy's/Arby's	\$43,125	\$46,326
Impairment of long-lived assets:		
Wendy's	\$7,897	\$—
Arby's	1,715	11,601
Total	\$9,612	\$11,601
Segment operating profit (loss):		
Wendy's	\$43,687	\$52,400
Arby's	(5,312) (20,975
Corporate eliminations	3) —
Shared services center (2)	(3,867) (3,171
Wendy's/Arby's Restaurants	34,511	28,254
Corporate	(3,871) (1,921
Wendy's/Arby's	\$30,640	\$26,333

Wendy's/Arby's Restaurants:			
Segment operating profit	\$34,511		\$28,254
Unallocated items:			
Interest expense	(34,101)	(35,939)
Other income, net	283		495
Income (loss) before income taxes	\$693		\$(7,190)

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

	Three Months Ended	
	April 3, 2011	April 4, 2010
Wendy's/Arby's:		
Segment operating profit	\$30,640	\$26,333
Unallocated items:		
Interest expense	(34,328)	(36,278)
Other income, net	323	1,408
Loss before income taxes	\$(3,365)	\$(8,537)

	Three Months Ended	
	April 3, 2011	April 4, 2010
Cash capital expenditures:		
Wendy's	\$20,797	\$15,680
Arby's	4,478	6,470
Shared services center	3,293	4,993
Wendy's/Arby's Restaurants	28,568	27,143
Corporate	—	—
Wendy's/Arby's	\$28,568	\$27,143

(1) Sales include sales of bakery items and kids' meal promotion items sold to franchisees.

(2) Includes costs associated with exploring strategic alternatives for Arby's.

(10) Transactions with Related Parties

The following is a summary of ongoing transactions between the Companies and their related parties and includes any updates or amendments, as well as one new transaction (see footnote (e) below) since those reported in our Form 10-K:

	Three Months Ended	
	April 3, 2011	April 4, 2010
SSG agreement (a)	\$(2,275)	\$4,900
Subleases with related parties (b)	(105)	(80)
Interest income on revolving credit facility (c)	(19)	(106)
AFA dues subsidy (d)	723	—
Wendy's advertising program (e)	150	—
Charitable contributions to the Foundation (f)	—	500
(Wendy's/Arby's)		
Advisory fees (g)	\$250	\$250
Sublease income (h)	(408)	(413)
Executive use of corporate aircraft (i)	(30)	(30)
Liquidation services agreement (j)	110	110

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

Transactions with Purchasing Cooperatives, the Foundation, and AFA

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"). Wendy's/Arby's Restaurants had (a) 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."

Wendy's and QSCC entered into a sublease amendment, effective January 1, 2011, which increased the office space (b) 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.

The Companies received \$18 and \$0 of sublease income from SSG, \$25 and \$26 of sublease income from ARCOP, \$23 and \$26 of sublease income from the Arby's Foundation, Inc. (the "Foundation"), and \$39 and \$28 of sublease income from QSCC during the first quarter of 2011 and 2010, respectively.

In December 2009, and as amended in February and August 2010 and in February 2011, AFA Service Corporation ("AFA") entered into a revolving loan agreement with Arby's. As of April 3, 2011 and January 2, 2011, the (c) outstanding revolving loan balance due from AFA to Arby's was \$0 and \$4,458, respectively. Arby's recorded interest income of \$19 and \$106 during the first quarter of 2011 and 2010, respectively, which is included in "Other income, net."

Arby's and most domestic Arby's franchisees pay member dues to AFA. Beginning in January 2011 and for the remainder of 2011, the AFA board approved a dues increase based on a tiered rate structure for the payment of advertising and marketing service fees ranging between 1.25% and 3.50% of sales. In addition and consistent with (d) a similar arrangement in effect from April through December 2010, Arby's agreed to partially subsidize the top two rate tiers thereby decreasing franchisees' effective advertising and marketing service fee percentages through December 2011. Arby's incurred \$723 in the first quarter of 2011 associated with the advertising dues subsidy, which is recorded in "Cost of sales."

Wendy's participates in two national advertising funds for Wendy's United States and Canadian locations established to collect and administer funds contributed for use in advertising through television, radio, newspapers, (e) the Internet and a variety of promotional campaigns. During the first quarter of 2011, Wendy's reimbursed the Canadian advertising fund approximately \$150 for advertising expenses associated with new product testing.

During the first quarter of 2010, the Companies made a charitable contribution of \$500 to the Foundation, primarily (f) utilizing funds reimbursed to it by one of the beverage companies used by Arby's as provided by the applicable contract. This payment is included in "General and administrative."

Transactions with the Management Company

(g) Wendy's/Arby's incurred service fees of \$250 in the first quarter of 2011 and 2010, 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 commenced on July 1, 2009 and will continue until June 30, 2011.

Wendy's/Arby's recognized income of \$408 and \$413 from the Management Company under subleases for office (h)space on two of the floors of the Company's former New York headquarters for the first quarter of 2011 and 2010, respectively, which has been recorded as a reduction of "General and administrative."

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

(i) Wendy's/Arby's received lease income of \$30 in the first quarter of 2011 and 2010 under an agreement to lease one of the Company's aircraft, which is included as an offset to "General and administrative."

(j) Wendy's/Arby's paid the Management Company a fee of \$900 in two installments in June 2009 and 2010, which was deferred and is being amortized through its expiration date of June 30, 2011 for assistance in the sale, liquidation, or other disposition of certain of our investments. \$110 was amortized and recorded in "General and administrative" in the first quarter of 2011 and 2010.

(Wendy's/Arby's Restaurants)

The following is a summary of continuing transactions between Wendy's/Arby's Restaurants and Wendy's/Arby's:

	Three Months Ended	
	April 3, 2011	April 4, 2010
Dividends paid (k)	\$—	\$ 112,000
Other transactions:		
Payments for Federal and state income tax (l)	13,078	—
Share-based compensation (m)	2,999	3,307
Expense under management service agreements (n)	1,261	1,254

(k) Wendy's/Arby's Restaurants paid cash dividends to Wendy's/Arby's which were charged to "Invested equity."

(l) Wendy's/Arby's Restaurants made cash payments to Wendy's/Arby's under a tax sharing agreement, as discussed in more detail in Note 6.

(m) Wendy's/Arby's Restaurants provides share based compensation with respect to Wendy's/Arby's Common Stock to certain employees. Such compensation cost is allocated by Wendy's/Arby's to Wendy's/Arby's Restaurants and is correspondingly recorded as capital contributions from Wendy's/Arby's.

(n) Wendy's/Arby's Restaurants incurred \$1,261 and \$1,254 for management services during the first quarter of 2011 and 2010, respectively. Such fees are included in "General and administrative" and are settled through Wendy's/Arby's Restaurants' intercompany account with Wendy's/Arby's.

(11) 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 April 3, 2011, Wendy's/Arby's Restaurants had reserves for all of its legal and environmental matters aggregating \$3,905 which are included in the total \$3,934 accrued by Wendy's/Arby's for all legal and environmental matters. Although the outcome of these matters cannot be predicted with certainty and we cannot estimate the aggregate possible range of loss, 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 adverse effect on our consolidated financial position or results of operations.

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

(12) Guarantor/Non-Guarantor

(Wendy's/Arby's Restaurants)

Wendy's/Arby's Restaurants is the issuer of, and certain of its domestic subsidiaries have guaranteed amounts outstanding under our 10% senior notes. Each of the guaranteeing subsidiaries is a direct or indirect 100% owned subsidiary of Wendy's/Arby's Restaurants and each has fully and unconditionally guaranteed the 10% senior notes on a joint and several basis.

The following are included in the presentation of our consolidating: (1) Condensed Consolidating Balance Sheets as of April 3, 2011 and January 2, 2011, (2) Condensed Consolidating Statements of Operations for the three months ended April 3, 2011 and April 4, 2010, and (3) Condensed Consolidating Statements of Cash Flows for the three months ended April 3, 2011 and April 4, 2010 to reflect:

- (a) Wendy's/Arby's Restaurants (the "Parent");
- (b) the 10% senior notes guarantor subsidiaries as a group;
- (c) the 10% senior notes non-guarantor subsidiaries as a group;
- (d) elimination entries necessary to combine the Parent with the guarantor and non-guarantor subsidiaries; and
- (e) Wendy's/Arby's Restaurants on a consolidated basis.

Substantially all of our domestic restricted subsidiaries are guarantors of the 10% senior notes. Certain of our subsidiaries, including our foreign subsidiaries and national advertising funds, do not guarantee the 10% senior notes.

For purposes of presentation of such consolidating information, investments in subsidiaries are accounted for by the Parent on the equity method. The elimination entries are principally necessary to eliminate intercompany balances and transactions.

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

CONDENSED CONSOLIDATING BALANCE SHEET

April 3, 2011

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$6,664	\$142,819	\$31,817	\$—	\$181,300
Accounts and notes receivable	1,450	78,353	4,051	—	83,854
Inventories	—	22,050	1,062	—	23,112
Prepaid expenses and other current assets	5,255	45,815	1,852	—	52,922
Deferred income tax benefit	15,834	27,218	222	—	43,274
Advertising funds restricted assets	—	—	85,478	—	85,478
Total current assets	29,203	316,255	124,482	—	469,940
Properties	9,899	1,439,526	61,594	—	1,511,019
Other intangible assets	20,684	1,303,504	27,230	—	1,351,418
Goodwill	—	843,954	49,418	—	893,372
Investments	—	—	105,121	—	105,121
Deferred costs and other assets	30,470	37,188	681	—	68,339
Net investment in subsidiaries	2,612,303	255,422	—	(2,867,725)	—
Deferred income tax benefit	89,126	—	—	(89,126)	—
Due from affiliate	44,738	—	16,584	(61,322)	—
Total assets	\$2,836,423	\$4,195,849	\$385,110	\$(3,018,173)	\$4,399,209

LIABILITIES AND INVESTED**EQUITY**

Current liabilities:

Current portion of long-term debt	\$4,981	\$10,852	\$239	\$—	\$16,072
Accounts payable	2,602	60,491	4,819	—	67,912
Accrued expenses and other current liabilities	22,244	209,569	7,761	—	239,574
Advertising funds restricted liabilities	—	—	85,478	—	85,478
Total current liabilities	29,827	280,912	98,297	—	409,036
Long-term debt	1,018,348	493,462	3,918	—	1,515,728
Due to affiliates	—	78,808	—	(61,322)	17,486
Deferred income	—	39,174	571	—	39,745
Deferred income taxes	—	548,224	17,428	(89,126)	476,526
Other liabilities	—	142,966	9,474	—	152,440

Invested equity:

Member interest, \$0.01 par value;

1,000

shares authorized, one share issued and
outstanding

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Other capital	2,426,458	3,276,291	199,014	(3,475,305)	2,426,458
(Accumulated deficit) retained earnings	(498,475)	(524,253)	40,789	483,464	(498,475)
Advances to Wendy's/Arby's	(155,000)	(155,000)	—	155,000	(155,000)
Accumulated other comprehensive income	15,265	15,265	15,619	(30,884)	15,265
Total invested equity	1,788,248	2,612,303	255,422	(2,867,725)	1,788,248
Total liabilities and invested equity	\$2,836,423	\$4,195,849	\$385,110	\$(3,018,173)	\$4,399,209

Table of Contents

WENDY'S/ ARBY'S GROUP, INC. AND SUBSIDIARIES

WENDY'S/ARBY'S RESTAURANTS, LLC AND SUBSIDIARIES

COMBINED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

CONDENSED CONSOLIDATING BALANCE SHEET

January 2, 2011

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$79,355	\$88,936	\$30,395	\$—	\$198,686
Accounts and notes receivable	320	79,404	3,628	—	83,352
Inventories	—	21,558	1,136	—	22,694
Prepaid expenses and other current assets	3,900	19,446	686	—	24,032
Deferred income tax benefit	17,634	27,218	215	—	45,067
Advertising funds restricted assets	—	—	76,553	—	76,553
Total current assets	101,209	236,562	112,613	—	450,384
Properties	13,748				