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WENDYS INTERNATIONAL INC
Form 10-Q
November 10, 2003

FORM 10-Q
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the quarterly period ended September 28, 2003

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-8116

WENDY'S INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

Ohio	31-0785108
-----	-----
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

P.O. Box 256, 4288 West Dublin-Granville Road, Dublin, Ohio 43017-0256	
-----	-----
(Address of principal executive offices)	(Zip code)

(Registrant's telephone number, including area code)	614-764-3100

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No
--- ---

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No
--- ---

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 2, 2003
-----	-----
Common shares, \$.10 stated value	113,935,000 shares
Exhibit index on page 28.	

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WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES INDEX

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QUARTER ENDED
SEPTEMBER 28, 2003

REVENUES	
Retail sales	\$ 648,887
Franchise revenues	157,641

	806,528

COSTS AND EXPENSES	
Cost of sales	417,031
Company restaurant operating costs	137,130
Operating costs	32,441
General and administrative expenses	64,538
Depreciation of property and equipment	40,491
Other expense (income)	(897)
Interest expense	11,509
Interest income	(1,504)

	700,739

INCOME BEFORE INCOME TAXES	105,789
INCOME TAXES	39,501

NET INCOME	\$ 66,288
	=====
BASIC EARNINGS PER COMMON SHARE	\$.58
	=====
DILUTED EARNINGS PER COMMON SHARE	\$.58
	=====
DIVIDENDS PER COMMON SHARE	\$.06
	=====
BASIC SHARES	113,437
	=====
DILUTED SHARES	114,465
	=====

The accompanying Notes are an integral part of the Consolidated Condensed Financial Statements

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REVENUES		
Retail sales		\$ 1,847,775
Franchise revenues		438,762

		2,286,537

COSTS AND EXPENSES		
Cost of sales		1,188,791
Company restaurant operating costs		393,634
Operating costs		92,270
General and administrative expenses		192,560
Depreciation of property and equipment		119,293
Other expense (income)		(5,715)
Interest expense		34,204
Interest income		(3,403)

		2,011,634

INCOME BEFORE INCOME TAXES		274,903
INCOME TAXES		103,607

NET INCOME		\$ 171,296
		=====
BASIC EARNINGS PER COMMON SHARE		\$1.51
		=====
DILUTED EARNINGS PER COMMON SHARE		\$1.49
		=====
DIVIDENDS PER COMMON SHARE		\$.18
		=====
BASIC SHARES		113,771
		=====
DILUTED SHARES		114,616
		=====

The accompanying Notes are an integral part of the Consolidated Condensed Financial State

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WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

	(Dollars in thousands)	
	SEPTEMBER 28, 2003	DECEMBER 29, 2003
	-----	-----
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 213,494	\$ 171,944
Accounts receivable, net	91,911	86,416
Notes receivable, net	14,039	11,204
Deferred income taxes	13,856	13,822

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Inventories and other	74,428	47,433
	-----	-----
	407,728	330,819
	-----	-----
PROPERTY AND EQUIPMENT	2,837,156	2,588,695
Accumulated depreciation	(859,499)	(743,305)
	-----	-----
	1,977,657	1,845,390
	-----	-----
NOTES RECEIVABLE, NET	16,522	20,548
GOODWILL	280,011	272,325
DEFERRED INCOME TAXES	64,260	48,966
INTANGIBLE ASSETS, NET	46,266	47,393
OTHER ASSETS	127,457	96,044
	-----	-----
	\$ 2,919,901	\$ 2,661,485
	=====	=====

The accompanying Notes are an integral part of the Consolidated Condensed Financial State

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WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

	(Dollars in
	SEPTEMBER 28, 2003

	(Unaudited)
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	\$ 94,677
Accrued expenses:	
Salaries and wages	44,658
Taxes	91,958
Insurance	42,480
Other	67,672
Current portion of long-term obligations	55,104

	396,549

LONG-TERM OBLIGATIONS	
Term debt	626,575
Capital leases	64,151

	690,726

DEFERRED INCOME TAXES	122,164
OTHER LONG-TERM LIABILITIES	75,193
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY	
Preferred stock, Authorized: 250,000 shares	
Common stock, \$.10 stated value per share,	
Authorized: 200,000,000 shares,	

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Issued and Exchangeable: 115,301,000 and 114,692,000 shares, respectively	11,530
Capital in excess of stated value	13,968
Retained earnings	1,645,611
Accumulated other comprehensive income (expense)	14,155

	1,685,264
Treasury stock, at cost: 1,881,000 shares at September 28, 2003	(49,995)

	1,635,269

	\$ 2,919,901
	=====

The accompanying Notes are an integral part of the Consolidated Condensed Financial Stat

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WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	(In thousands)
	YEAR-TO-DATE ENDED SEPTEMBER 28, 2003

NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 270,563

CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from property dispositions	13,409
Capital expenditures	(218,872)
Acquisition of Baja Fresh	0
Acquisition of franchises	(9,600)
Principal payments on notes receivable	7,427
Investment in joint venture and other	(6,215)
Proceeds from sale of Conference Cup	0
Other investing activities	(3,329)

Net cash used in investing activities	(217,180)

CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issuance of debt, net of issuance costs	49,975
Proceeds from employee stock options exercised	12,216
Repurchase of common stock	(49,995)
Principal payments on long-term obligations	(3,535)
Dividends paid on common and exchangeable shares	(20,494)

Net cash provided by (used in) financing activities	(11,833)

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INCREASE IN CASH AND CASH EQUIVALENTS	41,550
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	171,944

	\$ 213,494
	=====
CASH AND CASH EQUIVALENTS AT END OF PERIOD	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Interest paid	\$ 22,058
Income taxes paid	104,042
Capitalized lease obligations incurred	7,426
NON-CASH INVESTING AND FINANCING ACTIVITIES	
\$2.50 Term Convertible Securities, Series A, converted and redeemed	0

The accompanying Notes are an integral part of the Consolidated Condensed Financial Statements.

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

NOTE 1. MANAGEMENT'S STATEMENT

In the opinion of management, the accompanying Consolidated Condensed Financial Statements contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly the condensed financial position of Wendy's International, Inc. and Subsidiaries (the "Company") as of September 28, 2003 and December 29, 2002, and the condensed results of operations and comprehensive income (see Note 4) for the quarters and year-to-date periods ended September 28, 2003 and September 29, 2002, and cash flows for the year-to-date periods ended September 28, 2003 and September 29, 2002. All of these financial statements are unaudited with the exception of the December 29, 2002 balance sheet, which is derived from audited financial statements. The Notes to the audited Consolidated Financial Statements, which are contained in the Company's Form 10-K/A filed with the Securities and Exchange Commission on April 22, 2003, should be read in conjunction with these Consolidated Condensed Financial Statements.

NOTE 2. NET INCOME PER SHARE

Basic earnings per common share are computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Diluted computations include assumed conversions of stock options, net of shares assumed to be repurchased from the proceeds, and company-obligated mandatorily redeemable preferred securities converted in the second quarter of 2002, when outstanding and dilutive, and the elimination of after-tax related expenses. Options to purchase 4.6 million shares of common stock in the current quarter and year-to-date, and 3.3 million shares and 3.4 million shares in the prior year quarter and year-to-date, respectively, were not included in the computation of diluted earnings per common share. These options were excluded from the calculation because the exercise price of these options was greater than the average market price of the common shares in the respective periods, and therefore, they are antidilutive.

The computations of basic and diluted earnings per common share are shown below:

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	QUARTER ENDED SEPTEMBER 28, 2003 -----	QUARTER ENDED SEPTEMBER 2 2002 -----
	(In thousands,	
Income for computation of basic earnings per common share	\$ 66,288	\$ 60,893
Interest savings (net of income taxes) on assumed conversions	0 -----	0 -----
Income for computation of diluted earnings per common share	\$ 66,288 =====	\$ 60,893 =====
Weighted average shares outstanding for computation of basic earnings per common share	113,437	115,689
Dilutive stock options	1,028	1,741
Assumed conversions	0 -----	0 -----
Weighted average shares outstanding for computation of diluted earnings per common share	114,465 =====	117,430 =====
Basic earnings per common share	\$.58 =====	\$.53 =====
Diluted earnings per common share	\$.58 =====	\$.52 =====

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NOTE 3. STOCK OPTIONS

The Company has various stock option plans that provide options for certain employees and outside directors to purchase common shares of the Company. The Company uses the intrinsic value method to account for stock-based employee compensation as defined in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees."

The pro forma disclosures below are provided as if the Company had adopted the cost recognition requirements under Statement of Financial Accounting Standards ("SFAS") No. 123 - "Accounting for Stock-Based Compensation", as amended by SFAS No. 148.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. This model requires the use of subjective assumptions that can materially affect fair value estimates, and therefore, this model does not necessarily provide a reliable single measure of the fair value of the Company's stock options.

Had compensation expense been recognized for stock-based compensation plans in accordance with provisions of SFAS No. 123, the Company would have recorded net income and earnings per share as follows:

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	QUARTER ENDED SEPTEMBER 28, 2003 -----	QUARTER ENDED SEPTEMBER 29, 2002 -----
(In millions, except per share data)		
Net income	\$66.3	\$60.9
Add: Stock compensation cost recorded under APB Opinion No. 25, net of tax	.1	0
Deduct: Stock compensation cost calculated under SFAS No. 123, net of tax	(4.0)	(3.4)
	-----	-----
Pro forma net income	\$62.4	\$57.5
	=====	=====
Earnings per share:		
Basic as reported	\$.58	\$.53
	=====	=====
Basic pro forma	\$.55	\$.50
	=====	=====
Diluted as reported	\$.58	\$.52
	=====	=====
Diluted pro forma	\$.55	\$.49
	=====	=====

The impact of applying SFAS No. 123 in this proforma disclosure is not necessarily indicative of future results.

NOTE 4. CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

The components of other comprehensive income (expense) and total comprehensive income are shown below (in thousands):

	QUARTER ENDED SEPTEMBER 28, 2003 -----	QUARTER ENDED SEPTEMBER 29, 2002 -----
Net income	\$66,288	\$60,893
Other comprehensive income (expense):		
Translation adjustments and other	(929)	(18,230)
	-----	-----
Total comprehensive income	\$65,359	\$42,663
	=====	=====

Other comprehensive income (expense) is primarily comprised of translation adjustments related to fluctuations in the Canadian dollar. During the third quarter 2003, there was a slight weakening in the Canadian dollar versus a significant

weakening in the same quarter a year ago. For year-to-date 2003, there was a significant strengthening in the Canadian dollar versus a slight strengthening in 2002. At the end of the third quarter 2003, the Canadian exchange rate was \$1.35 versus \$1.57 at December 29, 2002. At the end of the third quarter 2002, the Canadian exchange rate was \$1.58 versus \$1.59 at December 30, 2001. Other

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comprehensive income (expense) for the quarter and year-to-date 2003 also includes \$400,000 and \$1.8 million, respectively, related to fair value losses on forward contracts.

NOTE 5. SEGMENT REPORTING

The Company operates exclusively in the food-service industry and has determined its reportable segments based on the Company's methods of internal reporting and management structure. The Company's reportable segments are Wendy's, Tim Hortons and Baja Fresh. There were no material amounts of revenues or transfers among reportable segments for the quarters and year-to-date periods ended September 28, 2003 and September 29, 2002. The following table presents information about reportable segments (in thousands):

	QUARTER ENDED				YEAR
	SEPTEMBER 28, 2003	% OF TOTAL	SEPTEMBER 29, 2002	% OF TOTAL	SEPTEMBER 28, 2003
REVENUES					
Wendy's	\$562,677	69.8%	\$523,192	72.4%	\$1,598,815
Tim Hortons	203,611	25.2%	163,647	22.7%	574,731
Baja Fresh *	40,240	5.0%	35,294	4.9%	112,991
	-----	-----	-----	-----	-----
	\$806,528	100.0%	\$722,133	100.0%	\$2,286,537
	=====	=====	=====	=====	=====
INCOME BEFORE INTEREST AND INCOME TAXES					
Wendy's	\$72,830	56.9%	\$71,393	60.6%	\$192,364
Tim Hortons	56,295	44.0%	44,344	37.6%	145,290
Baja Fresh *	(1,226)	(0.9)%	2,116	1.8%	748
	-----	-----	-----	-----	-----
	\$127,899	100.0%	\$117,853	100.0%	\$338,402
	=====	=====	=====	=====	=====
CAPITAL EXPENDITURES					
Wendy's	\$58,106	61.5%	\$67,434	76.8%	\$140,341
Tim Hortons	29,349	31.0%	13,817	15.7%	61,781
Baja Fresh *	7,059	7.5%	6,552	7.5%	16,750
	-----	-----	-----	-----	-----
	\$94,514	100.0%	\$87,803	100.0%	\$218,872
	=====	=====	=====	=====	=====

* Baja Fresh was acquired by the Company on June 19, 2002. Information prior to that date is not included.

A reconciliation of reportable segment income before interest and income taxes to consolidated income before income taxes follows (in thousands):

	QUARTER ENDED SEPTEMBER 28, 2003	QUARTER ENDED SEPTEMBER 29, 2002
	-----	-----
Income before interest and income taxes	\$127,899	\$117,853
Corporate charges (1)	(22,110)	(21,580)
	-----	-----
Consolidated income before income taxes	\$105,789	\$ 96,273
	=====	=====

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(1) Corporate charges include certain overhead costs and interest income and expense. In the fourth quarter of 2002, the Company revised the allocation of costs between the Wendy's segment and corporate charges as a result of a change in its methods of internal reporting and management structure. The prior year quarter and year-to-date amounts have been reclassified to conform with the current year presentation.

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NOTE 6. INTANGIBLE ASSETS

The table below presents amortizable and unamortizable intangible assets as of September 28, 2003 and December 29, 2002 (in thousands):

	SEPTEMBER 28, 2003			GROSS CARRYING AMOUNT
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT	
Amortizable intangible assets:				
Patents and trademarks	\$43,387	\$(4,301)	\$ 39,086	\$42,197
Purchase options	7,500	(4,475)	3,025	7,500
Other	5,505	(1,350)	4,155	5,190
			----- \$ 46,266 =====	
Unamortizable intangible assets:				
Goodwill			\$280,011 =====	

Total intangibles amortization expense was \$863,000 and \$2.6 million for the quarter and year-to-date ended September 28, 2003, respectively, and \$509,000 and \$1.5 million for the quarter and year-to-date ended September 29, 2002, respectively. The estimated annual intangibles amortization expense for each year through 2007 is \$3.4 million. The \$7.7 million increase in goodwill from December 29, 2002, primarily reflects the Company's goodwill allocation related to its acquisition of five Baja Fresh franchise stores in second quarter 2003 and eight Wendy's Canada franchise stores in first quarter of 2003. Goodwill is assigned to the Company's reportable segments as follows (in thousands):

	As of September 28, 2003	As of December 29, 2002
Goodwill, net		
Wendy's	\$ 44,118	\$ 42,897
Tim Hortons	434	538
Baja Fresh	235,459	228,890
	----- \$280,011 =====	----- \$272,325 =====

Under SFAS No. 142, goodwill and other indefinite-lived intangibles must be tested for impairment annually (or in interim periods if events indicate

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possible impairment). The Company tested for goodwill impairment as of year-end 2002, and no impairment was indicated.

NOTE 7. ACQUISITIONS AND INVESTMENTS

In 2001, the Company formed a joint venture between Tim Hortons ("Hortons") and IAWS Group/Cuisine de France ("IAWS") to build a par-baked goods manufacturing facility in Canada. The joint venture is owned and jointly controlled on a fifty-fifty basis by Hortons and IAWS. The Company has committed to invest approximately \$49.6 million in this joint venture, of which \$35.7 million was invested through December 29, 2002, and an additional \$6.2 million has been invested year-to-date in 2003.

On June 19, 2002, the Company completed its acquisition of Fresh Enterprises, Inc. ("Baja Fresh"), the owner and operator of the Baja Fresh Mexican Grill restaurant chain, pursuant to a Merger Agreement dated May 30, 2002. The results of Baja Fresh's operations have been included in the Company's Consolidated Financial Statements since June 19, 2002.

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If the acquisition had been completed as of the beginning of the period indicated below, pro forma revenues, net income and basic and diluted earnings per common share would have been as follows (in thousands, except per share amounts):

	YEAR-TO-DATE ENDED SEPTEMBER 29, 2002 -----
Total revenues	\$2,062,439
Net income	\$ 162,525
Earnings per common share:	
Basic	\$1.47
Diluted	\$1.41

The above selected unaudited pro forma information for the year-to-date ended September 29, 2002, includes interest expense on the Company's \$225 million of 6.20% senior notes that were issued in conjunction with the acquisition of Baja Fresh. Expenses incurred by Baja Fresh in conjunction with its previously planned public offering were excluded from the calculations.

The pro forma information is not necessarily indicative of the results of operations had the acquisition actually occurred at the beginning the period, nor is it necessarily indicative of future results.

NOTE 8. GUARANTEES AND INDEMNIFICATIONS The following table summarizes guarantees of the Company which are primarily comprised of certain lease and debt obligations related to franchisees and leases assigned to non-franchisees (in thousands):

	BALANCE AT SEPTEMBER 28, 2003 -----
Franchisee and other lease and loan guarantees:	
Wendy's	\$129,995

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Tim Hortons	458
Baja Fresh	4,138

Total	\$134,591

Contingently liable rent on leases:	
Wendy's	\$ 22,517
Letters of credit:	
Wendy's	\$ 6,631
Tim Hortons	3,075
Baja Fresh	600

	\$ 10,306

Total guarantees and indemnifications	\$167,414
	=====

In addition to the above guarantees, the Company is party to many agreements executed in the ordinary course of business that provide for indemnification of third parties under specified circumstances, such as lessors of real property leased by the Company, distributors, service providers for various types of services (including commercial banking, investment banking, tax, actuarial and other services), software licensors, marketing and advertising firms, securities underwriters and others. Generally, these agreements obligate the Company to indemnify the third parties only if certain events occur or claims are made, as these contingent events or claims are defined in each of these agreements. The Company believes that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not materially affect the earnings or financial condition of the Company. Effective January 1, 2003, the Company adopted Financial Accounting Standards Board Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". In accordance with FIN No. 45 and based on available information, the Company has accrued \$470,000 for guarantees and indemnities entered into between January 1, 2003 and September 28, 2003.

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NOTE 9. DEBT

In the first quarter of 2003 the Company took two steps to increase its financial flexibility to respond to potential opportunities and longer term cash requirements.

On January 30, 2003, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission which increased its capacity to issue securities up to \$500 million. As of September 28, 2003, no securities under the Company's shelf registration statement have been issued.

The Company also entered into a new \$200 million revolving credit facility that replaced the six revolving credit facilities totaling \$200 million that were previously in place. The new revolving credit facility contains various covenants which, among other things, require the maintenance of certain ratios, including indebtedness to total capitalization and a fixed charge coverage ratio and limits on the amount of assets that can be sold and liens that can be placed on the Company's assets. As of September 28, 2003, the Company was in compliance with its covenants under the revolving credit facility and no amounts under the revolving credit facility were outstanding.

In the third quarter of 2003 the Company issued \$50 million of commercial paper in connection with the acquisition of franchise-owned and operated Wendy's restaurants in Orlando and Tampa, Florida. The commercial paper is included in the current portion of long-term obligations in the Company's financial statements. The acquisition closed on the first day of the fourth quarter and cost approximately \$87 million in total, which was paid in cash.

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NOTE 10. RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This Statement amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 also amends certain other existing pronouncements, which will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships initiated after June 30, 2003. The guidance outlined in this Statement is to be applied prospectively. The Company adopted this Statement in the third quarter of 2003. Such adoption did not result in an impact to the Company's financial statements.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities - an interpretation of "Accounting Research Bulletin" ("ARB") No. 51". This Interpretation is intended to clarify the application of the majority voting interest requirement of ARB No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The controlling financial interest may be achieved through arrangements that do not involve voting interests. FIN 46 is effective immediately to variable interests in a variable interest entity ("VIE") created or obtained after January 31, 2003. As amended by FASB Staff Position ("FSP") No. FIN 46-6, FIN 46 is effective for variable interests in a VIE created before February 1, 2003 at the end of the first interim or annual period ending after December 15, 2003. FIN 46 may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. The Company adopted the disclosure provisions of this Interpretation in the fourth quarter of 2002, and will adopt the remaining provisions in the fourth quarter of 2003.

The FASB is currently proposing modifications and issuing FSPs that change and clarify FIN 46. These modifications and FSPs, when finalized, could impact the Company's analysis of the applicability of FIN 46 to entities that are franchisees of the Company's concepts, to the Horton's joint venture with IAWS Group/Cuisine de France, and to various advertising funds utilized by the Company to administer its advertising programs and certain other arrangements. The Company has no equity ownership interests in its franchisees and has a 50% equity ownership in the Horton's joint venture. The advertising funds collect money from franchise and company operated restaurants to be used for mutually beneficial marketing programs. None of these entities have been consolidated in the Company's third

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quarter financial statements. While the Company will continue to monitor and analyze developments regarding FIN 46 that would impact its applicability to some franchisee and other relationships and arrangements, at this time the Company does not believe that the consolidation of franchisees or other entities, if required, would materially impact its future operating results.

In July 2003, the EITF released EITF No. 03-03, "Applicability of Topic No. D-79, to Claims-Made Insurance Policies". This EITF clarifies that a claims-made insurance policy that provides coverage for specific known claims prior to the policy period contains a retroactive provision that should be accounted for accordingly; either separately, if practicable, or, if not practicable, the claims-made insurance policy should be accounted for entirely as a retroactive contract. The Company adopted the provisions of EITF No. 03-03 in the third

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quarter 2003. Such adoption did not result in an impact to the Company's financial statements.

NOTE 11. SUBSEQUENT EVENT

On September 29, 2003, the Company acquired 68 franchise-owned and operated Wendy's restaurants in Orlando and Tampa, Florida. The transaction cost approximately \$87 million, which was paid in cash.

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WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The Company's net income increased 8.9% to \$66.3 million in the current quarter, and 1.9% to \$171.3 million year-to-date. Diluted earnings per share ("EPS") were \$.58 and \$1.49 in the current year quarter and year-to-date, respectively, versus \$.52 and \$1.45, respectively, in the prior year. The overall impact of Baja Fresh, including earnings less interest expense on the senior notes issued in conjunction with the acquisition, was an approximate \$.025 EPS reduction in the current quarter versus \$.015 EPS reduction in the prior year quarter and year-to-date, and a \$.06 EPS reduction year-to-date 2003. The Canadian dollar has strengthened throughout 2003 and EPS has benefited approximately \$.035 in the quarter and \$.10 year-to-date 2003. In the third quarter 2002, the Company had a gain of \$.02 per share from the sale of Tim Hortons' cup manufacturing business.

Same-store sales results as a percentage change for the quarter and year-to-date periods versus prior year are listed below:

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	QUARTER ENDED SEPTEMBER 28, 2003	QUARTER ENDED SEPTEMBER 29, 2002	YEAR-T END SEPTEMBER
Wendy's U.S. company	0.5%	5.0%	(1.
Wendy's U.S. franchise	0.9%	7.8%	(0.
Tim Hortons Canada	5.5%	5.8%	4.
Tim Hortons U.S.	6.8%	8.8%	3.
Baja Fresh total system	(4.1%)	1.2%	(4.

Revenues for the quarter and year-to-date periods were as follows (in thousands):

REVENUES

	QUARTER ENDED			
	SEPTEMBER 28, 2003	% OF TOTAL	SEPTEMBER 29, 2002	% OF TOTAL
RETAIL SALES				
Wendy's	\$487,917	75.2%	\$449,909	77.8%
Tim Hortons	123,114	19.0%	95,325	16.5%
Baja Fresh	37,856	5.8%	33,124	5.7%
	-----	-----	-----	-----
	\$648,887	100.0%	\$578,358	100.0%
	=====	=====	=====	=====
FRANCHISE REVENUES				
Wendy's	\$74,760	47.4%	\$ 73,283	51.0%
Tim Hortons	80,497	51.1%	68,322	47.5%
Baja Fresh	2,384	1.5%	2,170	1.5%
	-----	-----	-----	-----
	\$157,641	100.0%	\$143,775	100.0%
	=====	=====	=====	=====
TOTAL REVENUES				
Wendy's	\$562,677	69.8%	\$523,192	72.4%
Tim Hortons	203,611	25.2%	163,647	22.7%
Baja Fresh	40,240	5.0%	35,294	4.9%
	-----	-----	-----	-----
	\$806,528	100.0%	\$722,133	100.0%
	=====	=====	=====	=====

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REVENUES

	YEAR-TO-DATE			
(In thousands):	SEPTEMBER 28, 2003	% OF TOTAL	SEPTEMBER 29, 2002	% OF TOTAL

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RETAIL SALES				
Wendy's	\$1,385,262	75.0%	\$1,307,508	80.7%
Tim Hortons	356,186	19.3%	279,647	17.3%
Baja Fresh *	106,327	5.7%	33,124	2.0%
	-----	-----	-----	-----
	\$1,847,775	100.0%	\$1,620,279	100.0%
	=====	=====	=====	=====
FRANCHISE REVENUES				
Wendy's	\$213,553	48.7%	\$210,358	52.8%
Tim Hortons	218,545	49.8%	185,769	46.7%
Baja Fresh *	6,664	1.5%	2,170	0.5%
	-----	-----	-----	-----
	\$438,762	100.0%	\$398,297	100.0%
	=====	=====	=====	=====
TOTAL REVENUES				
Wendy's	\$1,598,815	69.9%	\$1,517,866	75.2%
Tim Hortons	574,731	25.2%	465,416	23.1%
Baja Fresh *	112,991	4.9%	35,294	1.7%
	-----	-----	-----	-----
	\$2,286,537	100.0%	\$2,018,576	100.0%
	=====	=====	=====	=====

* Baja Fresh was acquired by the Company on June 19, 2002. Information prior to that date is not included.

WENDY'S

RETAIL SALES

Total Wendy's retail sales for the third quarter increased \$38.0 million, or 8.4%, to \$487.9 million and \$77.8 million, or 5.9%, to \$1.4 billion year-to-date. Of this total, domestic Wendy's retail sales increased \$27.8 million, or 6.9%, to \$430.9 million in the quarter and \$56.9 million, or 4.8%, to \$1.2 billion year-to-date. For domestic company operated Wendy's restaurants, the average number of restaurants increased by 84 in the quarter and 82 year-to-date. Average sales decreased .5% to \$356,230 per restaurant in the quarter and 2.3% to \$1.0 million year-to-date. Same-store sales in Wendy's domestic company restaurants increased .5% in the quarter and decreased 1.6% year-to-date. The domestic company operated Wendy's restaurant same-store sales increase during the quarter reflects an increase in the number of transactions of .3% and an increase in the average check of .3%. The year-to-date decrease reflects a decrease in the number of transactions of 1.2% and average check of .4%. Domestic selling prices increased .5% in both the quarter and year-to-date.

Canadian Wendy's retail sales increased \$10.2 million, or 31.0%, in the third quarter and \$21.2 million, or 22.9%, year-to-date. Approximately 41% and 43% of the increase is due to strengthening of the Canadian dollar in the quarter and year-to-date, respectively, as compared to the prior year. Also, at quarter-end, the Company operated 143 Canadian Wendy's restaurants versus 128 in 2002. Canadian Wendy's same-store sales for company operated restaurants, in local currency, increased 4.3% in the third quarter and 2.1% year-to-date. Outside of North America, the Company only operates two restaurants.

FRANCHISE REVENUES

Total Wendy's franchise revenues increased \$1.5 million, or 2.0%, to \$74.8 million in the quarter and \$3.2 million, or 1.5%, to \$213.6 million year-to-date. Royalties increased \$2.7 million, or 4.5%, to \$63.2 million in the quarter and \$4.3 million, or 2.4%, to \$179.1 million year-to-date, due primarily to an increase in franchise stores open. The average number of domestic Wendy's franchise restaurants increased by 145 in the quarter and year-to-date, to a total of 4,438 as of September 28, 2003. Average net sales at franchise domestic restaurants increased 1.0% to \$329,767 per restaurant in the quarter and decreased .8% to \$942,944 year-to-date. Same-store sales at franchise domestic restaurants

increased .9% for the quarter and decreased .9% year-to-date. In local currency, Canadian Wendy's same-store franchise restaurant sales increased 2.6% in the quarter and .7% year-to-date, while other international same-store franchise sales increased 1.1% for the quarter and 1.2% year-to-date.

TIM HORTONS

The significant majority of Tim Hortons ("Hortons") operations are in Canada. The strengthening of the Canadian dollar in the current year versus 2002 increased amounts reported in U.S. dollars from Hortons on average by approximately 12% in the quarter and 9% year-to-date.

RETAIL SALES

Total Hortons retail sales increased \$27.8 million, or 29.2%, to \$123.1 million in the third quarter and \$76.5 million, or 27.4%, to \$356.2 million year-to-date. The strengthening of the Canadian dollar accounted for approximately \$11 million of the increase in the quarter and \$25 million year-to-date. The remaining increase reflected Canadian warehouse sales (sales of dry goods to franchisees) which increased \$18.5 million, or 22.1%, in the quarter and \$60.1 million, or 24.9%, year-to-date. This reflected a net increase of 159 Hortons' Canadian franchised restaurants serviced compared to September 29, 2002 and same-store sales growth in local currency of 5.5% for the quarter and 4.5% year-to-date. Retail sales in the U.S. decreased \$2.7 million to \$4.1 million in the quarter, and \$8.6 million to \$14.2 million year-to-date, reflecting fewer company operated restaurants as Hortons continued the strategy of franchising company operated restaurants in the U.S.

FRANCHISE REVENUES

Total Hortons franchise revenues increased \$12.2 million, or 17.8%, to \$80.5 million in the third quarter and \$32.8 million, or 17.6%, to \$218.5 million year-to-date. The strengthening of the Canadian dollar accounted for approximately \$8 million of the increase in the quarter and \$16 million year-to-date. Of the remaining \$4.2 million, or 6.6%, increase in the quarter and \$16.8 million, or 8.8%, increase year-to-date, Canadian rental income from restaurants leased to franchisees increased \$5.7 million, or 15.1%, in the quarter and \$17.0 million, or 16.0%, year-to-date. The increase reflected the growth in the number and average sales of franchise stores (rent is generally charged as a percent of sales). Canadian royalties also increased \$1.9 million, or 15.2%, in the quarter and \$5.0 million, or 13.8%, year-to-date. This reflected same-store sales increases in local currency of 5.5% for the quarter and 4.5% year-to-date, and a net increase of 159 Canadian franchise restaurants compared to September 29, 2002. Total Hortons franchise fees decreased \$3.4 million, or 25.7%, for the quarter and \$5.6 million, or 18.4%, year-to-date, reflecting a decrease in the number of full-sized businesses sold to franchisees versus last year.

BAJA FRESH

The results of Baja Fresh's operations have been included in the Company's consolidated financial statements since June 19, 2002.

RETAIL SALES

Total Baja Fresh retail sales were \$37.9 million for the third quarter 2003, an increase of \$4.7 million, or 14.3% from third quarter 2002, and were \$106.3 million year-to-date. The increase in the third quarter 2003 over 2002 was driven by a 35% increase in the number of company operated restaurants open. As of September 28, 2003, there were 119 Baja Fresh company operated restaurants, which is an increase of 31 from 2002. Same-stores sales in Baja Fresh company operated restaurants decreased 3.1% for the quarter and 2.8% year-to-date.

FRANCHISE REVENUES

Total Baja Fresh franchise revenues were \$2.4 million in the quarter, an increase of \$214,000, or 9.9% from third quarter 2002, and were \$6.7 million year-to-date. Royalties were \$2.0 million in the quarter, an increase of \$360,000, or 21.6% from third quarter 2002, and were \$5.5 million year-to date.

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The remainder was comprised of franchise fees. Same-store sales at Baja Fresh franchise restaurants decreased 5.0% in the quarter and 5.8% year-to-date. As of September 28, 2003, there were 136 Baja Fresh franchise restaurants, which is an increase of 36 from 2002.

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COST OF SALES, COMPANY RESTAURANT OPERATING COSTS, AND OPERATING COSTS

	QUARTER ENDED			
	SEPTEMBER 28, 2003	% OF TOTAL	SEPTEMBER 29, 2002	% OF TOTAL
COST OF SALES				
Wendy's	\$296,176	71.0%	\$268,321	74.0%
Tim Hortons	96,230	23.1%	72,992	20.1%
Baja Fresh*	24,625	5.9%	21,402	5.9%
	-----	-----	-----	-----
	\$417,031	100.0%	\$362,715	100.0%
	=====	=====	=====	=====
COMPANY RESTAURANT OPERATING COSTS				
Wendy's	\$122,271	89.1%	\$111,488	90.9%
Tim Hortons	2,986	2.2%	3,610	3.0%
Baja Fresh*	11,873	8.7%	7,493	6.1%
	-----	-----	-----	-----
	\$137,130	100.0%	\$122,591	100.0%
	=====	=====	=====	=====
OPERATING COSTS				
Wendy's	\$ 4,661	14.4%	\$ 4,314	13.8%
Tim Hortons	27,780	85.6%	27,025	86.2%
Baja Fresh*	0	0.0%	0	0.0%
	-----	-----	-----	-----
	\$32,441	100.0%	\$31,339	100.0%
	=====	=====	=====	=====

	YEAR-TO-DATE			
	SEPTEMBER 28, 2003	% OF TOTAL	SEPTEMBER 29, 2002	% OF TOTAL
(In thousands):				
COST OF SALES				
Wendy's	\$ 841,845	70.8%	\$ 780,852	76.6%
Tim Hortons	279,734	23.5%	217,164	21.3%
Baja Fresh *	67,212	5.7%	21,402	2.1%
	-----	-----	-----	-----
	\$1,188,791	100.0%	\$1,019,418	100.0%
	=====	=====	=====	=====
COMPANY RESTAURANT OPERATING COSTS				
Wendy's	\$353,063	89.7%	\$323,569	94.4%
Tim Hortons	9,299	2.4%	11,627	3.4%

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Baja Fresh *	31,272	7.9%	7,493	2.2%
	-----	-----	-----	-----
	\$393,634	100.0%	\$342,689	100.0%
	=====	=====	=====	=====
OPERATING COSTS				
Wendy's	\$13,470	14.6%	\$13,251	15.9%
Tim Hortons	78,800	85.4%	70,004	84.1%
Baja Fresh *	0	0.0%	0	0.0%
	-----	-----	-----	-----
	\$92,270	100.0%	\$83,255	100.0%
	=====	=====	=====	=====

* Baja Fresh was acquired by the Company on June 19, 2002. Information prior to that date is not included.

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WENDY'S

COST OF SALES AND RESTAURANT OPERATING COSTS

Wendy's cost of sales includes food, paper and labor for company operated restaurants and the cost of goods sold to franchisees from Wendy's bun baking facilities. Total Wendy's cost of sales increased \$27.9 million, or 10.4%, to \$296.2 million in the quarter and \$61.0 million, or 7.8%, to \$841.8 million year-to-date. The increase in cost of sales is primarily due to an increase in the number of company operated restaurants and higher food costs. Wendy's domestic restaurant cost of sales increased \$21.3 million, or 8.9%, to \$260.7 million in the quarter and \$45.6 million, or 6.5%, to \$744.5 million year-to-date. Wendy's domestic cost of sales as a percent of Wendy's domestic retail sales increased 1.1% in the quarter and 1.0% year-to-date. Domestic food costs, as a percent of domestic retail sales, increased .8% in the quarter and .3% year-to-date. The increase in food costs reflects an increase in beef prices of 6.6% in the quarter and .3% year-to-date, a 30.7% increase in tomato prices in the quarter and 14.5% year-to-date, and an overall increase in other commodity prices. Domestic labor costs, as a percent of sales, increased .3% in the quarter and .7% year-to-date, primarily reflecting the de-leverage impact of lower average sales and a slight average crew wage rate increase of 1.3% for the quarter and 1.5% year-to-date.

Wendy's company restaurant operating costs include costs necessary to manage and operate restaurants other than cost of sales and depreciation. Total Wendy's company restaurant operating costs increased \$10.8 million, or 9.7%, to \$122.3 million in the quarter and \$29.5 million, or 9.1%, to \$353.1 million year-to-date. Of this total, domestic Wendy's company restaurant operating costs increased \$8.2 million, or 8.0%, to \$111.6 million in the quarter and \$23.8 million, or 8.0%, to \$323.1 million year-to-date. The increase in domestic Wendy's company restaurant operating costs is primarily due to an increase in the number of company operated restaurants. The number of domestic Wendy's company operated restaurants increased by 76 from 2002 to a total of 1,213 at September 28, 2003.

Canadian Wendy's cost of sales increased \$6.4 million in the quarter, or 31.5%, and \$13.9 million, or 23.5%, year-to-date. Canadian Wendy's company restaurant operating costs increased \$2.5 million in the quarter and \$5.7 million year-to-date. Approximately 40% of the increase in Wendy's Canada cost of sales and company restaurant operating costs for the quarter and year-to-date reflects the strengthening of the Canadian dollar. Canadian Wendy's same-store sales for company operated restaurants, in local currency, increased 4.3% in the quarter and 2.1% year-to-date. The number of Wendy's Canada company operated restaurants increased by 15 from 2002. Outside of North America, the Company only operates two restaurants.

OPERATING COSTS

Wendy's operating costs include rent expense related to properties subleased to

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franchisees and costs related to operating and maintaining Wendy's bun making facilities. Total Wendy's operating costs were comparable to the prior year with an increase of 8.0% to \$4.7 million in the quarter and 1.7% to \$13.5 million year-to-date.

TIM HORTONS

COST OF SALES

Hortons' cost of sales includes food, paper and labor for company operated restaurants and the cost of goods sold to franchisees from Hortons' distribution warehouses and coffee roasting facility. Total Hortons cost of sales increased \$23.2 million, or 31.8%, in the quarter and \$62.6 million, or 28.8%, year-to-date. The strengthening of the Canadian dollar accounted for approximately \$9 million of the increase in the quarter and \$20 million year-to-date. Of the remaining \$14.2 million increase in the quarter and \$42.6 million year-to-date, Hortons' Canadian warehouse cost of sales increased \$15.7 million, or 24.0%, to \$89.3 million in the quarter and \$49.5 million, or 26.0%, to \$258.5 million year-to-date. These increases were more than offset by the increase in retail sales previously discussed and reflect additional sales to Canadian franchisees due to an increase in the number of franchise restaurants and higher average sales per restaurant. Hortons U.S. cost of sales were \$2.4 million in the quarter and \$8.3 million year-to-date, a decrease of \$1.9 million and \$7.1 million from 2002, respectively, reflecting the continuing strategy to franchise company operated restaurants.

OPERATING COSTS

Hortons' operating costs include rent expense related to properties subleased to franchisees, cost of equipment sold to Hortons' franchisees as part of the initiation of the franchise business, costs to operate and maintain the distribution

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warehouses and coffee roasting facility, and training and other costs to ensure successful franchise openings. Total Hortons' operating costs increased \$755,000, or 2.8%, to \$27.8 million in the quarter and \$8.8 million, or 12.6%, to \$78.8 million year-to-date. Operating costs increased \$3 million in the quarter and \$6 million year-to-date due to the stronger Canadian dollar. Canadian Hortons' rent expense also increased \$236,000 to \$10.1 million in the quarter and \$3.8 million, or 14.7%, to \$32.1 million year-to-date, reflecting the growth in the number of properties leased and then subleased to Canadian franchisees, as well as higher percentage rent due to higher sales. Rental income from these subleases is included in franchise revenues. Costs of operating and maintaining Canadian warehouse operations increased \$639,000 to \$7.7 million in the quarter and \$2.5 million to \$21.2 million year-to-date. Partially offsetting these increases, total Hortons cost of equipment and other franchise costs decreased \$2.7 million to \$8.7 million in the quarter and \$3.9 million to \$21.9 million year-to-date.

BAJA FRESH

COST OF SALES AND RESTAURANT OPERATING COSTS

Total Baja Fresh company restaurant cost of sales totaled \$24.6 million for the third quarter, an increase of \$3.2 million, or 15.1%, from third quarter 2002, and were \$67.2 million year-to-date 2003. Total Baja Fresh company restaurant operating costs totaled \$11.9 million for the quarter, an increase of \$4.4 million from third quarter 2002, and were \$31.3 million for the year-to-date.

CONSOLIDATED

GENERAL AND ADMINISTRATIVE EXPENSES

Consolidated general and administrative expenses increased \$1.0 million, or 1.5%, to \$64.5 million in the quarter and \$13.9 million, or 7.8%, to \$192.6 million for the year-to-date. As a percent of revenues, costs were .8% lower in the quarter at 8.0% and .5% lower year-to-date at 8.4%. As a percent of revenues, the decrease from the prior year quarter and year-to-date primarily reflects lower performance-based bonuses, as well as controlled overhead costs. The dollar increase for year-to-date 2003 includes incremental expenses for Baja

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Fresh of \$6.0 million and the impact of the stronger Canadian dollar. If the incremental expense from Baja Fresh is excluded, general and administrative expenses increased 4.5% over the prior year-to-date. The Company believes it is useful to provide the impact that Baja Fresh had on general and administrative expenses since the results of Baja Fresh's operations have only been included in the Company's financial statements since June 19, 2002.

DEPRECIATION OF PROPERTY AND EQUIPMENT

Consolidated depreciation of property and equipment for the quarter and year-to-date increased from 2002 reflecting the Company's information technology initiatives and additional restaurant development.

OTHER EXPENSE AND INCOME

Consolidated other income includes expenses and income that are not directly derived from the Company's primary businesses. This includes income from the Company's investments in joint ventures and other minority investments. Expenses include store closures, other asset write-offs, and reserves for international and legal issues.

Consolidated other expense and income improved \$2.3 million over the prior year quarter and \$6.5 million over the prior year-to-date. Included in this improvement is equity income related to the Company's joint venture with IAWS Group/Cuisine de France, as well as favorable currency adjustments in the year-to-date period associated with the strengthening of the Canadian dollar. Partly offsetting the higher income was the gain from selling the Hortons cup manufacturing business in the third quarter of 2002.

INCOME TAXES

Consolidated income tax expense increased \$4.1 million in the quarter and \$6.0 million year-to-date. The Company's effective tax rate increased to 37.34% in the quarter from 36.75% in the third quarter of 2002, and 37.69% from 36.75% for the year-to-date. The increases in the quarter and year-to-date periods both include the impact from state tax law changes, particularly in Ohio, that took effect during second quarter 2003. The increases also reflect a greater portion of income from Hortons Canada, including higher earnings and a stronger Canadian dollar, which has the impact of increasing the consolidated effective tax rate.

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FOREIGN CURRENCY

The primary currency exposure the Company has is to the Canadian dollar. The results of Wendy's and Hortons' Canadian operations are translated into U.S. dollars. In addition, various cross border transactions must be "marked to market" each quarter with the income impact included in "Other Income". The positive impact on third quarter 2003 diluted earnings per share was approximately \$.035 and \$.10 year-to-date, including marked-to-market amounts and the favorable impact of translating Wendy's and Hortons' Canadian operations. For the quarter and year-to-date periods 2003, the average Canadian exchange rate was \$1.38 and \$1.43, respectively, versus \$1.56 and \$1.57 for the prior year quarter and year-to-date.

COMPREHENSIVE INCOME

Comprehensive income increased \$22.7 million in the quarter and \$76.4 million year-to-date and includes net income, which increased \$5.4 million in the quarter and \$3.2 million year-to-date, and translation and other adjustments that primarily include the effects from changes in foreign currency, primarily the Canadian dollar. Translation and other adjustments increased \$17.3 million in the quarter and \$73.2 million year-to-date, reflecting a stronger Canadian dollar.

FINANCIAL POSITION

OVERVIEW

The Company continues to maintain a strong balance sheet to support system growth and financial flexibility. The long-term debt-to-equity and debt-to-total

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capitalization ratios were 42% and 30%, respectively, at September 28, 2003. Standard & Poor's and Moody's rate the Company's senior unsecured debt BBB+ and Baa-1, respectively. Cash increased \$64.9 million during the quarter and \$41.6 million year-to-date primarily reflecting the \$50 million commercial paper issued in anticipation of a fourth quarter franchise acquisition. Year-to-date cash generated by operations was more than offset by capital expenditures, the repurchase of common stock and the payment of dividends.

COMPARATIVE CASH FLOWS

Cash flows from operations were \$270.6 million year-to-date, a decrease of \$63.7 million compared to the prior year. The most significant component of the 2003 decrease was increased tax payments of \$57.2 million in the current year.

Net cash used in investing activities totaled \$217.2 million year-to-date compared to \$502.6 million for the prior year-to-date. The \$285.4 million decrease in cash used primarily relates to the acquisition of Baja Fresh in the second quarter 2002 for \$287.4 million. The difference also includes lower 2003 capital expenditures of \$15.9 million due to timing of payments, and a decrease in joint venture and equity investments of \$21.6 million. In the prior year the Company received \$20.0 million from the sale of the Hortons cup manufacturing business. Year-to-date through third quarter 2002, the Company invested \$9.0 million for a 45% interest in Cafe Express, an owner of fast casual restaurants, and invested an additional \$18.3 million in a joint venture with IAWS Group/Cuisine de France. Year-to-date 2003, the Company has invested an additional \$6.2 million in this joint venture.

Financing activities used cash of \$11.8 million year-to-date 2003 compared to a net cash inflow of \$251.5 million in 2002. The difference of \$263.3 million is primarily due to proceeds from the issuance of debt of \$224.4 million in the second quarter 2002 compared to \$50.0 million year-to-date 2003, reduced proceeds from the exercise of employee stock options and a greater number of common shares repurchased in 2003. Proceeds from the exercise of stock options were \$63.0 million higher in the prior year. A total of \$50.0 million was used to repurchase 1.9 million common shares in 2003 compared to 731,500 common shares repurchased for \$24.7 million in the first nine months of 2002. As of the end of the third quarter 2003, \$173 million remained under the repurchase authorization as approved by the Company's Board of Directors.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operations, cash and investments on hand, possible asset sales, and cash available through existing revolving credit agreements and through the possible issuance of securities should provide for the Company's projected short-term and long-term cash requirements, including cash for capital expenditures, future acquisitions of restaurants from franchisees or other corporate purposes. The Company is committed to a strong capital structure and financial profile, and intends to maintain an investment grade rating. If additional funds are needed for mergers, acquisitions or other strategic investments, the Company believes it could borrow additional cash and still maintain its investment grade

rating. In the event the Company's rating declines, the Company may incur an increase in borrowing costs. If the decline in the rating is significant, it is possible that the Company would not be able to borrow on acceptable terms.

Factors that could be significant to the determination of the Company's credit ratings include sales and cost trends, margins at Wendy's U.S. company restaurants, the Company's cash position, cash flow, capital expenditures and capitalization and stability of earnings.

In the third quarter of 2003 the Company issued \$50 million of commercial paper in connection with the acquisition of 68 franchise-owned and operated Wendy's restaurants in Orlando and Tampa, Florida. The acquisition closed on the first

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day of the fourth quarter and cost approximately \$87 million in total, which was paid in cash. The Company plans to refranchise some of the 68 acquired restaurants during the remainder of 2003 and 2004.

In the first quarter of 2003, the Company took two steps to increase its financial flexibility to respond to potential opportunities and longer term cash requirements. These included filing a shelf registration statement on Form S-3 with the Securities and Exchange Commission to issue up to \$500 million of securities and entering into a new \$200 million revolving credit facility. The new \$200 million revolving credit facility replaced the six revolving credit facilities totaling \$200 million that were previously in place. The new revolving credit facility contains various covenants which, among other things, require the maintenance of certain ratios, including indebtedness to total capitalization and a fixed charge coverage ratio, and limits on the amount of assets that can be sold and liens that can be placed on the Company's assets. As of September 28, 2003, the Company was in compliance with its covenants under the revolving credit facility and no amounts under that facility were outstanding.

The Company does not have significant term debt maturities until 2005. The Company believes it will be able to pay or refinance future term debt obligations based on its strong financial condition and sources of cash described in the preceding paragraphs.

MANAGEMENT'S OUTLOOK

The Company continues to employ its strategic initiatives as outlined in its 10-K/A filed with the Securities and Exchange Commission on April 22, 2003. These initiatives include leveraging the Company's core assets, growing same-store sales, improving store-level productivity to enhance margins, improving underperforming operations, developing profitable new restaurants and implementing new technology initiatives. The Company intends to allocate resources to improve long-term return on assets and invested capital, and to remain focused on established long-term operational strategies of exceeding customer expectations, fostering a performance-driven culture, delivering a balanced message of brand equity plus value in marketing, growing a healthy restaurant system and partnering finance with operations.

New restaurant development will continue to be very important to the Company. The Company currently estimates that it will open between 560-605 new Wendy's, Hortons and Baja Fresh restaurants during 2003 (both company and franchise), subject to the continued ability of the Company and its franchisees to complete permitting and meet other conditions and to comply with other regulatory requirements for the completion of stores and to obtain financing for new restaurant development. This would be a net growth rate of approximately 5% to 6%, including store closures. The new unit openings will be concentrated in North America, specifically Wendy's U.S., Hortons Canada and Baja Fresh.

Third quarter and year-to-date new restaurant development for 2003 and 2002 is summarized in the chart below:

	THIRD QUARTER 2003 -----	THIRD QUARTER 2002 -----	YEAR-TO-DATE 2003 -----	YEAR- 2002 -----
Wendy's	68	71	159	
Hortons	56	55	110	
Baja Fresh *	14	17	46	
	---	---	---	
Totals	138	143	315	
	===	===	===	

* Baja Fresh was acquired by the Company on June 19, 2002. Information prior to

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that date is included for informational purposes only.

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The Company will continue to evaluate potential mergers, acquisitions, joint venture investments, alliances, vertical integration opportunities and divestitures that could add to the Company's long-term earnings growth. Year-to-date 2003, the Company has made an additional investment of \$6.2 million in its joint venture investment between Hortons Canada and IAWS Group/Cuisine de France. Capital expenditures for 2003 are expected to be in the range of \$325 million to \$365 million for new restaurant development, remodeling, maintenance and technology initiatives. In 2003, the Company also plans to invest \$7 million to \$10 million on new business opportunities and to expand its Hortons joint venture facility in Canada.

The Company's anticipated diluted earnings per share is in the range of \$1.97 to \$2.03 for the full year 2003, which would be an increase of 4% to 7% from 2002. The Company is maintaining its long-term annual EPS growth goal of 12% to 15%, and will be evaluating the longer term impact of the tax rate change and other factors during the remainder of 2003.

MARKET RISK

The Company's exposure to various market risks remains substantially the same as of December 29, 2002. The Company's disclosures about market risk are incorporated herein by reference from page 11 of the Company's Form 10-K/A filed with the Securities and Exchange Commission on April 22, 2003.

The following is a summary of derivative contracts entered into and outstanding as of September 28, 2003:

FOREIGN EXCHANGE RISK

The Company's exposure to foreign exchange risk is primarily related to fluctuations in the Canadian dollar relative to the U.S. dollar. The exposure to Canadian dollar exchange rates on the Company's 2003 cash flows primarily includes imports paid for by Canadian operations in U.S. dollars and payments from the Company's Canadian operations to the Company's U.S. operations. In aggregate, these amounts are anticipated to be in excess of \$100 million in 2003.

The Company seeks to manage its cash flows, net income, and balance sheet exposure to changes in the value of foreign currencies. The Company may use derivative products to reduce the risk of a significant negative impact on its U.S. dollar cash flows or income. The Company does not hedge foreign currency exposure in a manner that would entirely eliminate the effect of changes in foreign currency exchange rates on net income and cash flows. The Company does not speculate in foreign currency and does not hedge foreign currency translation or foreign currency net assets and liabilities.

Forward currency contracts to sell Canadian dollars and buy \$77.0 million U.S. dollars were outstanding as of September 28, 2003. These contracts mature at various dates through January 2005 and are considered to be highly effective cash flow hedges according to criteria specified in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". In accordance with SFAS No. 133 the Company defers unrealized gains and losses arising from these contracts until the related transactions occur. The fair value loss on the contracts as of September 28, 2003 of \$1.8 million is included as a component of accumulated other comprehensive income and will be reclassified to earnings and offset against the underlying transactions when the transactions occur. Fair values are determined from quoted market prices.

INTEREST RATE RISK

The Company is exposed to interest rate risk impacting its net borrowing costs. The Company seeks to manage its exposure to interest rate risk and to lower its net borrowing costs by managing the mix of fixed and floating rate instruments based on capital markets and business conditions.

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To manage interest rate risk, the Company has entered into an interest rate swap, effectively converting some of its fixed interest rate debt to variable interest rates. By entering into the interest rate swap, the Company agreed to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principle amount. The Company does not enter into speculative swaps or other financial contracts.

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The interest rate swap outstanding on September 28, 2003 is for the notional amount of \$100.0 million and meets specific conditions of SFAS No. 133 to be considered a highly effective fair value hedge of a portion of the Company's long-term debt. Accordingly, gains and losses arising from the swap are completely offset against gains or losses of the underlying debt obligation. The fair value gain on the interest rate swap was \$576,000 as of September 28, 2003 based on quoted market prices. The swap matures in December 2005.

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WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES
SYSTEMWIDE RESTAURANTS

AS OF SEPTEMBER 28, 2003	AS OF JUNE 29, 2003	INCREASE/ (DECREASE) FROM PRIOR QUARTER	SE
--------------------------------	---------------------------	-----------------------------------------------	----

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Wendy's			
U.S			
Company	1,213	1,201	12
Franchise	4,438	4,405	33
	-----	-----	-----
	5,651	5,606	45
	=====	=====	=====
Canada			
Company	143	143	0
Franchise	214	213	1
	-----	-----	-----
	357	356	1
	=====	=====	=====
Other International			
Company *	4	4	0
Franchise	343	342	1
	-----	-----	-----
	347	346	1
	=====	=====	=====
*Includes two Hawaii Stores			
Total Wendy's			
Company	1,360	1,348	12
Franchise	4,995	4,960	35
	-----	-----	-----
	6,355	6,308	47
	=====	=====	=====
Tim Hortons			
U.S			
Company	26	28	(2)
Franchise	140	134	6
	-----	-----	-----
	166	162	4
	=====	=====	=====
Canada			
Company	35	34	1
Franchise	2,238	2,189	49
	-----	-----	-----
	2,273	2,223	50
	=====	=====	=====
Total Tim Hortons			
Company	61	62	(1)
Franchise	2,378	2,323	55
	-----	-----	-----
	2,439	2,385	54
	=====	=====	=====
Baja Fresh			
Company	119	112	7
Franchise	136	129	7
	-----	-----	-----
Total Baja Fresh	255	241	14
	=====	=====	=====
Total System			
Company	1,540	1,522	18
Franchise	7,509	7,412	97
	-----	-----	-----
	9,049	8,934	115
	=====	=====	=====

RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This Statement amends and clarifies the accounting guidance on derivative instruments (including certain derivative instruments embedded in other contracts) and hedging activities that fall within the scope of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 also amends certain other existing pronouncements, which will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships initiated after June 30, 2003. The guidance outlined in this Statement is to be applied prospectively. The Company adopted this Statement in third quarter 2003. Such adoption did not have an impact on the Company's financial statements.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities - an interpretation of "Accounting Research Bulletin" ("ARB") No. 51". This Interpretation is intended to clarify the application of the majority voting interest requirement of ARB No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The controlling financial interest may be achieved through arrangements that do not involve voting interests. FIN 46 is effective immediately to variable interests in a variable interest entity ("VIE") created or obtained after January 31, 2003. As amended by FASB Staff Position ("FSP") No. FIN 46-6, FIN 46 is effective for variable interests in a VIE created before February 1, 2003 at the end of the first interim or annual period ending after December 15, 2003. FIN 46 may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. The Company adopted the disclosure provisions of this Interpretation in the fourth quarter of 2002, and will adopt the remaining provisions in the fourth quarter of 2003.

The FASB is currently proposing modifications and issuing FSPs that change and clarify FIN 46. These modifications and FSPs, when finalized, could impact the Company's analysis of the applicability of FIN 46 to entities that are franchisees of the Company's concepts, to the Horton's joint venture with IAWS Group/Cuisine de France, and to various advertising funds utilized by the Company to administer its advertising programs and certain other arrangements. The Company has no equity ownership interests in its franchisees and has a 50% equity ownership in the Horton's joint venture. The advertising funds collect money from franchise and company operated restaurants to be used for mutually beneficial marketing programs. None of these entities have been consolidated in the Company's third quarter financial statements. While the Company will continue to monitor and analyze developments regarding FIN 46 that would impact its applicability to some franchisee and other relationships and arrangements, at this time the Company does not believe that the consolidation of franchisees or other entities, if required, would materially impact its future operating results.

Emerging Issue Task Force 03-03, "Applicability of Topic No. D-79 to Claims-Made Insurance Policies" was issued in July 2003. This Issue clarifies that a claims-made insurance policy that provides coverage for specific known claims prior to the policy period contains a retroactive provision that should be accounted for accordingly; either separately, if practicable, or, if not practicable, the claims-made insurance policy should be accounted for entirely as a retroactive contract. The Company adopted the provisions of EITF No. 03-03 in third quarter 2003. Such adoption did not result in an impact to the

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Company's financial statements.

SAFE HARBOR STATEMENT

Certain information contained in this Form 10-Q, particularly information regarding future economic performance and finances, plans and objectives of management, is forward looking. In some cases, information regarding certain important factors that could cause actual results to differ materially from any such forward-looking statement appears together with such statement. In addition, the following factors, in addition to other possible factors not listed, could affect the Company's actual results and cause such results to differ materially from those expressed in forward-looking statements. These factors include: competition within the quick-service restaurant industry, which remains extremely

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intense, both domestically and internationally, with many competitors pursuing heavy price discounting; changes in economic conditions; changes in consumer perceptions of food safety; harsh weather, particularly in the first and fourth quarters; changes in consumer tastes; labor and benefit costs; legal claims; risks inherent to international development (including currency fluctuations); the continued ability of the Company and its franchisees to obtain suitable locations and financing for new restaurant development; governmental initiatives such as minimum wage rates, taxes and possible franchise legislation; the ability of the Company to successfully complete transactions designed to improve its return on investment; and other factors set forth in Exhibit 99 attached hereto.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This information is incorporated by reference from the section titled "Market Risk" on page 23 of this Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

- (a) The Company, under the supervision, and with the participation, of its management, including its Chief Executive Officer and Chief Financial Officer, performed an evaluation of the Company's disclosure controls and procedures, as contemplated by Securities Exchange Act Rule 13a-15. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded, as of the end of the period covered by this report, that such disclosure controls and procedures were effective.
- (b) No change was made in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Index to Exhibits on Page 29.
- (b) The Company filed four reports on Form 8-K for the quarter ended September 28, 2003. The first report on Form 8-K was filed July 7, 2003 as the Company issued a press release announcing an increase in its effective tax rate, preliminary second quarter 2003 earnings per share, a revised earnings per share goal for 2003, and June 2003 sales results. A copy of the press release was attached to the filing.

The second report on Form 8-K was filed July 24, 2003 as the Company issued a press release and other financial information regarding its second quarter 2003 results. A copy of the press release and other financial information was attached to the filing.

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The third report on Form 8-K was filed August 5, 2003 as the Company issued a press release reporting preliminary July 2003 sales results and plans to acquire Wendy's restaurants from retiring Florida franchisees. A copy of the press release was attached to the filing.

The fourth report on form 8-K was filed September 3, 2003 as the Company issued a press release reporting August 2003 sales results. A copy of the press release was attached to the filing.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WENDY'S INTERNATIONAL, INC.

(Registrant)

Date: November 10, 2003

/s/ Kerrii B. Anderson

Kerrii B. Anderson
Executive Vice President and
Chief Financial Officer

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WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES
INDEX TO EXHIBITS

Exhibit Number -----	Description -----	Page No. -----
31(a)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	30
31(b)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	31

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32 (a)	Section 1350 Certification of Chief Executive Officer	32
32 (b)	Section 1350 Certification of Chief Financial Officer	33
99	Safe Harbor Under the Private Securities Litigation Reform Act of 1995	34 - 35

The Company and its subsidiaries are parties to instruments with respect to long-term debt for which securities authorized under each such instrument do not exceed ten percent of the total assets of the Company and its subsidiaries on a consolidated basis. Copies of these instruments will be furnished to the Commission upon request.