

WENDY'S/ARBY'S GROUP, INC.
Form 10-Q
August 12, 2010

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 July 4, 2010

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 registrant 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)

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 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). Yes No

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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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

There were 418,277,163 shares of the registrant’s Common Stock outstanding as of August 6, 2010.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| | July 4, 2010 | January 3, 2010 |
|--|-----------------|--------------------|
| ASSETS | (Unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | \$ 508,380 | \$ 591,719 |
| Accounts and notes receivable | 96,625 | 88,004 |
| Inventories | 22,401 | 23,024 |
| Prepaid expenses and other current assets | 51,565 | 29,212 |
| Deferred income tax benefit | 66,556 | 66,557 |
| Advertising funds restricted assets | 83,550 | 80,476 |
| Total current assets | 829,077 | 878,992 |
| Notes receivable | 7,871 | 39,295 |
| Investments | 104,056 | 107,020 |
| Properties | 1,567,964 | 1,619,248 |
| Goodwill | 880,729 | 881,019 |
| Other intangible assets | 1,376,658 | 1,392,883 |
| Deferred costs and other assets | 73,345 | 56,959 |
| Total assets | \$ 4,839,700 | \$ 4,975,416 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 18,002 | \$ 22,127 |
| Accounts payable | 79,246 | 103,454 |
| Accrued expenses and other current liabilities | 256,795 | 269,090 |
| Advertising funds restricted liabilities | 83,550 | 80,476 |
| Total current liabilities | 437,593 | 475,147 |
| Long-term debt | 1,556,623 | 1,500,784 |
| Deferred income | 31,373 | 13,195 |
| Deferred income taxes | 469,997 | 475,538 |
| Other liabilities | 175,630 | 174,413 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock | 47,042 | 47,042 |
| Additional paid-in capital | 2,766,425 | 2,761,433 |
| Accumulated deficit | (386,171) | (380,480) |
| Common stock held in treasury, at cost | (251,601) | (85,971) |
| Accumulated other comprehensive loss | (7,211) | (5,685) |
| Total stockholders' equity | 2,168,484 | 2,336,339 |
| Total liabilities and stockholders' equity | \$ 4,839,700 | \$ 4,975,416 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | July 4, 2010 | June 28, 2009 | July 4, 2010 | June 28, 2009 |
| | (Unaudited) | | | |
| Revenues: | | | | |
| Sales | \$782,683 | \$816,195 | \$1,530,880 | \$1,589,438 |
| Franchise revenues | 94,338 | 96,492 | 183,588 | 187,233 |
| | 877,021 | 912,687 | 1,714,468 | 1,776,671 |
| Costs and expenses: | | | | |
| Cost of sales | 659,084 | 686,462 | 1,300,506 | 1,362,404 |
| General and administrative | 97,512 | 112,746 | 207,994 | 222,624 |
| Depreciation and amortization | 44,944 | 44,687 | 91,270 | 96,349 |
| Impairment of long-lived assets | 2,414 | 8,700 | 14,015 | 15,580 |
| Facilities relocation and corporate restructuring | - | 3,013 | - | 7,174 |
| Other operating expense, net | 404 | 572 | 1,687 | 2,099 |
| | 804,358 | 856,180 | 1,615,472 | 1,706,230 |
| Operating profit | 72,663 | 56,507 | 98,996 | 70,441 |
| Interest expense | (34,389) | (31,065) | (70,667) | (53,214) |
| Loss on early extinguishment of debt | (26,197) | - | (26,197) | - |
| Investment income (expense), net | 5,049 | (2,793) | 5,179 | (4,587) |
| Other than temporary losses on investments | - | (789) | - | (3,916) |
| Other income (expense), net | 1,428 | 1,581 | 2,706 | (1,016) |
| Income before income taxes | 18,554 | 23,441 | 10,017 | 7,708 |
| Provision for income taxes | (7,812) | (8,549) | (2,675) | (3,740) |
| Net income | \$10,742 | \$14,892 | \$7,342 | \$3,968 |
| Basic and diluted income per share | \$.03 | \$.03 | \$.02 | \$.01 |
| Dividends per share | \$.015 | \$.015 | \$.03 | \$.03 |

See accompanying notes to condensed consolidated financial statements.

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

| | Six Months Ended | |
|--|------------------|------------------|
| | July 4, 2010 | June 28, 2009 |
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net income | \$7,342 | \$3,968 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 91,270 | 96,349 |
| Net receipt of deferred vendor incentive | 19,676 | 19,532 |
| Impairment of long-lived assets | 14,015 | 15,580 |
| Accretion of long-term debt | 11,015 | 4,840 |
| Write off and amortization of deferred financing costs | 8,846 | 11,824 |
| Share-based compensation provision | 6,651 | 7,760 |
| Distributions received from joint venture | 5,793 | 7,106 |
| Non-cash rent expense | 4,945 | 6,919 |
| Provision for doubtful accounts | 3,576 | 2,626 |
| Operating investment adjustments, net (see below) | (5,122) | 2,605 |
| Equity in earnings of joint venture | (4,480) | (3,643) |
| Deferred income tax benefit, net | (4,053) | (710) |
| Other, net | 36 | (8,228) |
| Changes in operating assets and liabilities, net: | | |
| Accounts and notes receivable | (7,016) | 747 |
| Inventories | 616 | 324 |
| Prepaid expenses and other current assets | (7,462) | (11,646) |
| Accounts payable | (14,006) | (42,629) |
| Accrued expenses and other current liabilities | (29,433) | 33,070 |
| Net cash provided by operating activities | 102,209 | 146,394 |
| Cash flows from investing activities: | | |
| Capital expenditures | (52,730) | (40,015) |
| Proceeds from dispositions | 4,111 | 7,680 |
| Investment activities, net (see below) | 32,187 | 36,911 |
| Other, net | 67 | 1,166 |
| Net cash (used in) provided by investing activities | (16,365) | 5,742 |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 497,661 | 553,776 |
| Repayments of long-term debt | (466,362) | (138,402) |
| Deferred financing costs | (14,375) | (29,613) |
| Repurchases of common stock | (173,537) | - |
| Dividends paid | (12,989) | (14,073) |
| Other, net | 681 | 1,384 |
| Net cash (used in) provided by financing activities | (168,921) | 373,072 |
| Net cash (used in) provided by operations before effect of exchange rate changes on cash | (83,077) | 525,208 |
| Effect of exchange rate changes on cash | (262) | 703 |
| Net (decrease) increase in cash and cash equivalents | (83,339) | 525,911 |
| Cash and cash equivalents at beginning of period | 591,719 | 90,090 |

| | | |
|--|-----------|-----------|
| Cash and cash equivalents at end of period | \$508,380 | \$616,001 |
|--|-----------|-----------|

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

| | Six Months Ended | |
|--|------------------|------------------|
| | July 4, 2010 | June 28, 2009 |
| | (Unaudited) | |
| Detail of cash flows related to investments: | | |
| Operating investment adjustments, net: | | |
| Income on collection of DFR Notes | \$(4,909) | \$- |
| Other than temporary losses on investments | - | 3,916 |
| Other, net | (213) | (1,311) |
| | \$(5,122) | \$2,605 |
| Investment activities, net: | | |
| Proceeds from sales of available-for-sale securities, securities sold short, and distributions from other investments | \$1,435 | \$29,663 |
| Decrease in restricted cash held for investment | - | 26,515 |
| Proceeds from repayment of DFR Notes | 30,752 | - |
| Cost of available-for-sale securities, other investments purchased, and payments to cover short positions in securities | - | (19,267) |
| | \$32,187 | \$36,911 |
| Supplemental cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$67,665 | \$44,459 |
| Income taxes, net of refunds | \$10,845 | \$4,427 |
| Supplemental non-cash investing and financing activities: | | |
| Total capital expenditures | \$56,337 | \$44,196 |
| Cash capital expenditures | (52,730) | (40,015) |
| Non-cash capitalized lease and certain sales-leaseback obligations | \$3,607 | \$4,181 |

See accompanying notes to condensed consolidated financial statements.

WENDY'S/ARBY'S GROUP, INC. AND SUBSIDIARIES
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" or "Wendy's/Arby's Group" and, together with its subsidiaries, the "Company," "we," "us" or "our") 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 July 4, 2010 and results of our operations for the three months and six months ended July 4, 2010 and June 28, 2009 and our cash flows for the six months ended July 4, 2010 and June 28, 2009. The results of operations for the three months and six months ended July 4, 2010 are not necessarily indicative of the results to be expected for the full 2010 fiscal year. These Financial Statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 3, 2010 (the "Form 10-K").

We report on a fiscal year consisting of 52 or 53 weeks ending on the Sunday closest to December 31. Our 2009 fiscal year consisted of 53 weeks with our fiscal fourth quarter containing 14 weeks. All three month and six month periods presented contain 13 weeks and 26 weeks, respectively. All references to years and quarters relate to fiscal periods rather than calendar periods.

(2) Dispositions

Restaurant dispositions during the six months ended July 4, 2010 were not significant.

During the first half of 2009, the Company received proceeds from dispositions of \$7,680 consisting of \$3,384 from the sale of 10 Wendy's International, Inc. ("Wendy's") units to a franchisee and \$4,296 related to other dispositions. These sales resulted in a net gain of \$304 which is included as an offset to "Depreciation and amortization."

(3) DFR Notes

On June 9, 2010, pursuant to a March 2010 agreement between the Company and Deerfield Capital Corp. ("DFR"), we received cash proceeds of \$31,330, including interest, in consideration for the repayment and cancellation of the series A senior notes (the "DFR Notes") we received in December 2007 in connection with the sale of Deerfield & Company (the "Deerfield Sale") to DFR. Additional information on the DFR Notes and the Deerfield Sale is discussed in our Form 10-K. The proceeds represented 64.1% of the \$47,986 aggregate principal amount of the DFR Notes.

During the fourth quarter of 2008, we recognized an allowance for collectability of \$21,227 to reduce the then carrying amount of the notes to \$24,983. As a result, we recognized income of \$4,909 during the three months and six months ended July 4, 2010, as the repayment proceeds exceeded the carrying value of the DFR Notes. This gain is included in "Investment income (expense), net."

(4) Long-Term Debt

Long-term debt consisted of the following:

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| | July 4, 2010 | January 3, 2010 |
|--|-----------------|--------------------|
| 10% Senior Notes, due 2016 | \$552,500 | \$551,779 |
| Term Loan, due 2017 | 497,514 | - |
| Senior secured term loan | - | 251,488 |
| 6.20% senior notes, due in 2014 | 215,151 | 204,303 |
| 6.25% senior notes | - | 193,618 |
| Sale-leaseback obligations due through 2029 | 123,579 | 125,176 |
| Capitalized lease obligations due through 2036 | 87,840 | 89,886 |
| 7% Debentures, due in 2025 | 80,640 | 80,081 |
| 6.54% Secured equipment term loan, due in 2013 | 13,215 | 18,901 |
| 5% Convertible notes | - | 2,100 |
| Other | 4,186 | 5,579 |
| | 1,574,625 | 1,522,911 |
| Less amounts payable within one year | (18,002) | (22,127) |
| | \$1,556,623 | \$1,500,784 |

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

Credit Agreement

On May 24, 2010, Wendy's/Arby's Restaurants, LLC ("Wendy's/Arby's Restaurants"), a direct wholly-owned subsidiary of the Company, entered into a \$650,000 Credit Agreement (the "Credit Agreement"), which includes a \$500,000 senior secured term loan facility (the "Term Loan") and a \$150,000 senior secured revolving credit facility (the "Credit Facility"). The Credit Agreement contains provisions for an uncommitted increase of up to \$300,000 principal amount in the aggregate in the Credit Facility and/or Term Loan subject to the satisfaction of certain conditions. The Credit Facility includes a sub-facility for the issuance of up to \$70,000 of letters of credit. The obligations under the Credit Agreement are secured by substantially all of the non-real estate assets of Wendy's/Arby's Restaurants and its domestic subsidiaries (other than certain unrestricted subsidiaries), the stock of its domestic subsidiaries (other than certain unrestricted subsidiaries), 65% of the stock of certain of its foreign subsidiaries, as well as by mortgages on certain restaurant properties.

The Term Loan was issued at 99.5% of the principal amount, which represented an original issue discount of 0.5% and resulted in net proceeds paid to us of \$497,500. The \$2,500 discount will be accreted and the related charge included in interest expense through the maturity of the Term Loan. The Term Loan will mature on May 24, 2017 and requires quarterly principal installments equal to 1% per annum of the initial principal amount outstanding, with the balance payable on the maturity date.

The Credit Facility expires not later than May 24, 2015. An unused commitment fee of 50 basis points per annum is payable quarterly on the average unused amount of the Credit Facility until the maturity date.

The interest rate on the Term Loan is based on (i) the Eurodollar Rate as defined in the Credit Agreement (but not less than 1.50%), plus 3.50%, or a Base Rate, as defined in the Credit Agreement (but not less than 2.50%), plus 2.50%. Since the date of the Term Loan and as of July 2, 2010, we have elected to use the Eurodollar Rate which resulted in an interest rate of 5.00% as of July 4, 2010.

Wendy's/Arby's Restaurants incurred approximately \$16,353 in costs (of which \$1,978 is unpaid as of July 4, 2010) related to the Credit Agreement, which will be amortized to interest expense over the Term Loan's term utilizing the effective interest rate method.

Proceeds from the Term Loan were used to (1) repay approximately \$253,849 of existing indebtedness, including fees and interest, under the then existing Wendy's/Arby's Restaurants amended senior secured term loan scheduled to be due in 2012, (2) redeem the Wendy's 6.25% senior notes scheduled to be due in 2011, and (3) pay fees and expenses related to the Credit Agreement. The remaining Term Loan proceeds are expected to be used for working capital and other general corporate purposes.

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

The affirmative and negative covenants in the Credit Agreement include, among others, preservation of corporate existence; payment of taxes; and maintenance of insurance; and limitations on: indebtedness (including guarantee obligations of other indebtedness); liens; mergers, consolidations, liquidations and dissolutions; sales of assets; dividends and other payments in respect of capital stock; investments; payments of certain indebtedness; transactions with affiliates; changes in fiscal year; negative pledge clauses and clauses restricting subsidiary distributions; and material changes in lines of business. The financial covenants contained in the Credit Agreement are (i) a consolidated interest coverage ratio, (ii) a consolidated senior secured leverage ratio and (iii) a consolidated senior secured lease adjusted leverage ratio. The covenants generally do not restrict Wendy's/Arby's or any of its subsidiaries that are not subsidiaries of Wendy's/Arby's Restaurants. Wendy's/Arby's Restaurants was in compliance with all covenants of the Credit Agreement as of July 4, 2010.

Interest Rate Swaps

In connection with the redemption of the Wendy's 6.25% senior notes discussed above, we cancelled four interest rate swaps with notional amounts totaling \$175,000 that had swapped their fixed rate interest rates for floating interest rates. We recognized a gain on the cancellation of \$1,875 in the second quarter of 2010 which is included in "Interest expense."

Convertible Notes

On June 17, 2010, we repurchased the remaining 5% convertible notes (the "Convertible Notes") for \$2,109, including accrued interest. The Convertible Notes were repurchased at a price of 100% of their principal amount plus accrued interest.

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

(5) Fair Value Measurement of Financial Assets and Liabilities

The carrying amounts and estimated fair values of the Company's financial assets and liabilities were as follows:

| | July 4, 2010 | |
|---|--------------------|-------------|
| | Carrying Amount | Fair Value |
| Financial assets: | | |
| Cash and cash equivalents (a) | \$508,380 | \$508,380 |
| Restricted cash equivalents (a): | | |
| Current included in "Prepaid expenses and other current assets" | 1,013 | 1,013 |
| Non-current included in "Deferred costs and other assets" | 5,896 | 5,896 |
| Non-current cost investments (b) | 8,485 | 10,388 |
| Interest rate swaps (c) | 9,238 | 9,238 |
| Financial liabilities: | | |
| Long-term debt, including current portion: | | |
| 10% Senior Notes (d) | \$552,500 | \$589,295 |
| Term Loan (d) | 497,514 | 499,500 |
| 6.20% senior notes (d) | 215,151 | 230,625 |
| Sale-leaseback obligations (e) | 123,579 | 131,839 |
| Capitalized lease obligations (e) | 87,840 | 93,136 |
| 7% Debentures (d) | 80,640 | 82,500 |
| 6.54% Secured equipment term loan (e) | 13,215 | 13,520 |
| Other | 4,186 | 4,269 |
| Total long-term debt, including current portion | \$1,574,625 | \$1,644,684 |
| Guarantees of: | | |
| Lease obligations for restaurants not operated by the Company (f) | \$402 | \$402 |
| Wendy's franchisee loans obligations (g) | \$1,060 | \$1,060 |

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

(b) These consist of investments in certain non-current cost investments. The fair values of these investments were based entirely on statements of account received from investment managers or investees which were principally based on quoted market or broker/dealer prices. To the extent that some of these investments, including the underlying investments in investment limited partnerships, do not have available quoted market or broker/dealer prices, the Company 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.
- (e) The fair values were determined by discounting the future scheduled principal payments using an interest rate assuming the same original issuance spread over a current U.S. Treasury bond yield for securities with similar durations.
- (f) The fair value was assumed to reasonably approximate the carrying amount since the carrying amount represented the fair value of these lease obligations. We have accrued liabilities for these lease obligations based on a weighted average risk percentage.
- (g) Wendy's provided loan guarantees to various lenders on behalf of franchisees entering into pooled debt facility arrangements for new store development and equipment financing. Wendy's has accrued a liability for the fair value of these guarantees, the calculation for which was based upon a weighed average risk percentage established at the inception of each program.

The carrying amounts of current accounts, notes receivable and non-current notes receivable (included in "Deferred costs and other assets") 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.

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

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 our financial assets and liabilities (other than cash and cash equivalents) measured at fair value on a recurring basis as of July 4, 2010 by the valuation hierarchy as defined in the fair value guidance:

| | July 4, 2010 | Fair Value Measurements | | |
|---|-----------------|-------------------------|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Interest rate swaps (included in “Deferred costs and other assets”) | \$9,238 | \$- | \$9,238 | \$- |

(6) Impairment of Long-lived Assets

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | July 4, 2010 | June 28, 2009 | July 4, 2010 | June 28, 2009 |
| Arby's restaurant segment: | | | | |
| Impairment of Company-owned restaurants: | | | | |
| Properties | \$1,672 | \$5,902 | \$12,361 | \$11,796 |
| Intangible assets | 260 | 371 | 1,172 | 938 |
| | 1,932 | 6,273 | 13,533 | 12,734 |
| Wendy's restaurant segment: | | | | |
| Impairment of Company-owned restaurants: | | | | |
| Properties | 75 | 251 | 75 | 670 |
| Intangible assets | 407 | - | 407 | - |
| | 482 | 251 | 482 | 670 |
| Corporate - aircraft | - | 2,176 | - | 2,176 |
| Total impairment of long-lived assets | \$2,414 | \$8,700 | \$14,015 | \$15,580 |

The Arby's Restaurant Group, Inc. ("Arby's") Company-owned restaurant segment impairment losses in each period 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 period which did not subsequently recover. For the three months and six months ended June 28, 2009, Arby's impairment losses also included reductions in the carrying value of certain surplus properties. The Wendy's restaurant segment impairment losses for the three months and six months ended July 4, 2010 and June 28, 2009 reflected (1) write-downs in the carrying value of certain surplus properties and properties held for sale and (2) write-downs in the carrying value of options to purchase property.

The Corporate impairment loss reflected the reduction of our carrying value of one of our corporate aircraft to its net realizable value based on the sale of this aircraft in July 2009.

WENDY'S/ARBY'S GROUP, INC. AND SUBSIDIARIES
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 Arby's and Wendy's restaurant segments were generally estimated based on the present values of the associated cash flows and on the market value with respect to land (Level 3 inputs). There is no remaining carrying value of the properties and intangible assets which were measured at fair value as of July 4, 2010 and April 4, 2010.

(7) Facilities Relocation and Corporate Restructuring

The Company incurred corporate restructuring charges in 2009, primarily related to severance as a result of the merger with Wendy's (the "Wendy's Merger"). Such restructuring accrual, which is included in "Accrued expenses and other liabilities," was \$1,498 at July 4, 2010 and \$5,630 at January 3, 2010. The reduction in this accrual during the six months ended July 4, 2010 reflects total payments of \$4,168 partially offset by net adjustments of \$36. We do not expect to incur any additional corporate restructuring charges with respect to the Wendy's Merger.

(8) 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. Our equity in earnings from TimWen is included in "Other operating expense, net."

Presented below is an unaudited summary of activity related to our portion of TimWen included in our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations:

| | Six Months Ended | |
|--|------------------|------------------|
| | July 4, 2010 | June 28, 2009 |
| Balance at beginning of period | \$ 97,476 | \$ 89,771 |
| Equity in earnings for the period | 5,913 | 4,958 |
| Amortization of purchase price adjustments | (1,433) | (1,315) |
| | 4,480 | 3,643 |
| Distributions | (5,793) | (7,106) |
| Currency translation adjustment included in "Comprehensive income" | (592) | 5,255 |
| Balance at end of period (a) | \$ 95,571 | \$ 91,563 |

(a) Included in "Investments."

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Presented below is a summary of unaudited financial information of TimWen as of and for the six months ended July 4, 2010 and June 28, 2009, respectively, in Canadian dollars. The summary balance sheet financial information does not distinguish between current and long-term assets and liabilities:

| | July 4, 2010 (Canadian) | June 28, 2009 (Canadian) |
|--|----------------------------|-----------------------------|
| Balance sheet information: | | |
| Properties | C\$ 80,988 | C\$ 85,232 |
| Cash and cash equivalents | 1,244 | 701 |
| Accounts receivable | 4,258 | 4,784 |
| Other | 3,621 | 2,310 |
| | C\$ 90,111 | C\$ 93,027 |
| Accounts payable and accrued liabilities | | |
| | C\$ 1,218 | C\$ 1,774 |
| Other liabilities | 8,926 | 10,896 |
| Partners' equity | 79,967 | 80,357 |
| | C\$ 90,111 | C\$ 93,027 |

| | Six Months Ended | |
|---|----------------------------|-----------------------------|
| | July 4, 2010 (Canadian) | June 28, 2009 (Canadian) |
| Income statement information: | | |
| Revenues | C\$ 18,619 | C\$ 18,762 |
| Income before income taxes and net income | 12,014 | 11,935 |

(9) Other Than Temporary Losses on Investments

Due to market conditions and other factors present during the six months ended June 28, 2009, we recorded other than temporary losses of \$3,916 attributable primarily to the decline in fair value of three of our investments.

(10) Income Taxes

The effective tax rate for the three months ended July 4, 2010 and June 28, 2009 was 42.1% and 36.5%, respectively. The effective rates vary from the U.S. federal statutory rate of 35% due to the effect of (1) changes in our estimated full year tax rates, (2) state income taxes, net of federal income tax benefit, (3) non-deductible expenses, and (4) tax credits.

The effective tax rate for the six months ended July 4, 2010 and June 28, 2009 was 26.7% and 48.5%, respectively. The 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) non-deductible expenses, (3) a reduction in our state valuation allowances in 2010, (4)

adjustments to our uncertain tax positions, and (5) tax credits.

For the six months ended July 4, 2010 and June 28, 2009, we increased our unrecognized tax benefits for prior periods by \$2,921 and \$1,184, respectively. Additionally, we increased interest on unrecognized tax benefits for these periods by \$1,201 and \$773, respectively. There were no other significant changes to unrecognized tax benefits and related interest and penalties in the six months ended July 4, 2010 and June 28, 2009.

The Internal Revenue Service (the "IRS") is currently conducting an examination of our 2010 and 2009 U.S. Federal income tax return years as part of the Compliance Assurance Process ("CAP"). As part of CAP, tax years are audited on a contemporaneous basis so that all or most issues are resolved prior to the filing of the tax return. The Company participated in CAP beginning with the tax period ended December 28, 2008 and Wendy's has been a participant since its 2006 tax year. Any matters relating to our December 28, 2008 U.S. Federal income tax return and to Wendy's U.S. Federal income tax returns for 2007 and prior years have been settled.

Wendy's/Arby's U.S. Federal income tax returns for periods ended December 31, 2006 through September 29, 2008 are not currently under examination by the IRS. Our foreign income tax returns are open to examination primarily for periods ending on or after January 1, 2006. Certain of these foreign income tax returns and some of our state income tax returns are currently under examination. Certain of these

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states have issued notices of proposed tax assessments aggregating \$3,372. We dispute these notices and believe their ultimate resolution will not have a material adverse impact on our consolidated financial position or results of operations.

(11) Income Per Share

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding.

Diluted income per share for the three months and six months ended July 4, 2010 and June 28, 2009 has been computed by dividing net income by the weighted average number of shares plus the potential common share effect of dilutive stock options and non-vested restricted common shares, both computed using the treasury stock method. For the three months and six months ended July 4, 2010, we excluded 15,796 and 16,048, respectively, of potential common shares from our diluted per share calculation as they would have had anti-dilutive effects. For the three months and six months ended June 28, 2009, we excluded 24,178 and 20,648, respectively, of potential common shares from our diluted per share calculation as they would have had anti-dilutive effects.

As of July 4, 2010, our potential common shares consisted of (1) outstanding stock options which can be exercised into 22,295 shares of our Common Stock and (2) 1,412 unvested restricted shares of our Common Stock.

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | July 4, 2010 | June 28, 2009 | July 4, 2010 | June 28, 2009 |
| Common Stock: | | | | |
| Basic shares - weighted average | | | | |
| shares outstanding | 425,594 | 469,614 | 434,460 | 469,425 |
| Dilutive effect of stock options and restricted shares | | | | |
| | 973 | 1,539 | 1,068 | 2,074 |
| Diluted shares | 426,567 | 471,153 | 435,528 | 471,499 |

(12) Stockholders' Equity

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

| | Six Months Ended | |
|----------------------------|------------------|------------------|
| | July 4, 2010 | June 28, 2009 |
| Balance, beginning of year | \$ 2,336,339 | \$ 2,383,445 |

| | | |
|--|--------------|--------------|
| Comprehensive income (a) | 5,816 | 23,280 |
| Dividends paid | (12,989) | (14,073) |
| Share-based compensation expense | 6,651 | 7,760 |
| Repurchases of common stock for treasury | (167,744) | - |
| Other | 411 | 1,410 |
| Balance, end of period | \$ 2,168,484 | \$ 2,401,822 |

WENDY'S/ARBY'S GROUP, INC. AND SUBSIDIARIES
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(a) The following is a summary of the components of comprehensive income, net of income taxes:

| | Six Months Ended | |
|--|------------------|------------------|
| | July 4, 2010 | June 28, 2009 |
| Net income | \$ 7,342 | \$ 3,968 |
| Net change in currency translation adjustment | (1,562) | 19,438 |
| Net unrealized losses on available-for-sale securities | (59) | (126) |
| Net unrecognized pension loss | 95 | - |
| Other comprehensive (loss) income | (1,526) | 19,312 |
| Comprehensive income | \$ 5,816 | \$ 23,280 |

(13) Business Segments

We manage and internally report our 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).

In the first quarter of 2009, Wendy's/Arby's charged the restaurant segments for certain corporate support services based upon budgeted segment revenues. Commencing with the second quarter of 2009, Wendy's/Arby's Restaurants established a shared service center in Atlanta and allocated all its operating costs to the restaurant segments based also on budgeted segment revenues.

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The following is a summary of our segment information:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|---------------------|---------------------|
| | July 4, 2010 | June 28, 2009 | July 4, 2010 | June 28, 2009 |
| Revenues: | | | | |
| Sales (1): | | | | |
| Wendy's | \$ 532,411 | \$ 539,123 | \$ 1,045,158 | \$ 1,046,126 |
| Arby's | 250,272 | 277,072 | 485,722 | 543,312 |
| Total | 782,683 | 816,195 | 1,530,880 | 1,589,438 |
| Franchise revenues: | | | | |
| Wendy's | 75,023 | 76,055 | 146,990 | 147,293 |
| Arby's | 19,315 | 20,437 | 36,598 | 39,940 |
| Total | 94,338 | 96,492 | 183,588 | 187,233 |
| Total revenues: | | | | |
| Wendy's | 607,434 | 615,178 | 1,192,148 | 1,193,419 |
| Arby's | 269,587 | 297,509 | 522,320 | 583,252 |
| Total | \$ 877,021 | \$ 912,687 | \$ 1,714,468 | \$ 1,776,671 |
| Depreciation and amortization: | | | | |
| Wendy's | \$ 27,861 | \$ 28,608 | \$ 56,656 | \$ 65,295 |
| Arby's | 13,563 | 13,621 | 27,457 | 28,138 |
| Corporate | 3,520 | 2,458 | 7,157 | 2,916 |
| Total | \$ 44,944 | \$ 44,687 | \$ 91,270 | \$ 96,349 |
| Impairment of long-lived assets: | | | | |
| Wendy's | \$ 482 | \$ 251 | \$ 482 | \$ 670 |
| Arby's | 1,932 | 6,273 | 13,533 | 12,734 |
| Corporate | - | 2,176 | - | 2,176 |
| Total | \$ 2,414 | \$ 8,700 | \$ 14,015 | \$ 15,580 |
| Segment operating profit (loss): | | | | |
| Wendy's | \$ 72,128 | \$ 65,499 | \$ 124,528 | \$ 85,524 |
| Arby's | 6,013 | 6,959 | (14,962) | 4,912 |
| Corporate | (5,478) | (15,951) | (10,570) | (19,995) |
| Total | 72,663 | 56,507 | 98,996 | 70,441 |
| Unallocated items: | | | | |
| Interest expense | (34,389) | (31,065) | (70,667) | (53,214) |
| Loss on early extinguishment of debt | (26,197) | - | (26,197) | - |
| Investment income (expense), net | 5,049 | (2,793) | 5,179 | (4,587) |
| Other than temporary losses on investments | - | (789) | - | (3,916) |
| Other income (expense), net | 1,428 | 1,581 | 2,706 | (1,016) |
| Income before income taxes | 18,554 | 23,441 | 10,017 | 7,708 |
| Provision for income taxes | (7,812) | (8,549) | (2,675) | (3,740) |

| | | | | |
|----------------------------|-----------|-----------|-------------------------------------|--------------------------------------|
| Net income | \$ 10,742 | \$ 14,892 | \$ 7,342 | \$ 3,968 |
| | | | Six Months Ended July 4, 2010 | Six Months Ended June 28, 2009 |
| Cash capital expenditures: | | | | |
| Wendy's | | | \$ 29,699 | \$ 16,585 |
| Arby's | | | 15,114 | 15,861 |
| Corporate (2) | | | 7,917 | 7,569 |
| Total | | | \$ 52,730 | \$ 40,015 |

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

(2) The corporate capital expenditures are primarily related to our shared services center.

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There have been no material changes in total assets by segment since January 3, 2010.

(14) Transactions with Related Parties

Wendy's/Arby's has entered into the following new or revised transactions with related parties since those reported in our Form 10-K:

Services Agreement

Wendy's/Arby's and the management company formed by certain former executives and a director, (the "Management Company"), entered into a services agreement (the "Services Agreement") which commenced on July 1, 2009 and will continue until June 30, 2011, unless sooner terminated. Under the Services Agreement, the Management Company will assist us with strategic merger and acquisition consultation, corporate finance and investment banking services and related legal matters. During the second quarter of 2010, in addition to the regular quarterly fee to the Management Company, we paid the Management Company \$2,465 in fees for corporate finance advisory services in connection with the negotiation and execution of the Credit Agreement.

Sublease of New York Office Space

In July 2007, the Company entered into an agreement under which the Management Company is subleasing the office space on one of the floors of the Company's former New York headquarters. During the second quarter of 2010, the Company and the Management Company entered into an amendment to the sublease, effective April 1, 2010, pursuant to which the Management Company's early termination right was cancelled in exchange for a reduction in rent. Under the terms of the amended sublease, the sublease is not cancelable prior to the expiration of the prime lease and the Management Company pays rent to the Company in an amount that covers substantially all of the Company's rent obligations under the prime lease for such space.

Aircraft Agreement

On June 10, 2009, the Company entered into a lease of one of its corporate aircraft to TASCOCO LLC, an affiliate of the Management Company. On June 24, 2010, the Company and TASCOCO LLC entered into an agreement to renew the lease for an additional one year period (expiring June 30, 2011) on the same terms and conditions as the expiring lease.

Strategic Sourcing Group Agreement

On April 5, 2010, the Wendy's independent purchasing cooperative Quality Supply Chain Co-op ("QSCC") and the Arby's independent purchasing cooperative ("ARCOP"), in consultation with Wendy's/Arby's Restaurants, established the Strategic Sourcing Group Co-op, LLC (the "SSG"). The SSG was formed to manage and operate purchasing programs which combine the purchasing power of both Wendy's and Arby's Company-owned and franchised restaurants to create buying efficiencies for certain non-perishable goods, equipment and services utilized by both brands.

In order to facilitate the orderly transition of this purchasing function for the Company's North American operations, Wendy's/Arby's Restaurants transferred certain contracts, assets and certain Wendy's/Arby's Restaurants purchasing employees to the SSG in the second quarter of 2010. Wendy's/Arby's Restaurants has committed to pay approximately \$4,900 of expenses of the SSG, which was expensed in the first quarter of 2010 and included in "General and administrative," and will be paid over a 24 month period. The SSG is exploring various alternatives for its sources of funding for future operations. Effective April 5, 2010, the SSG leased 2,300 square feet of office space from Arby's until December 31, 2016 unless terminated earlier for an annual base rental of \$51.

(15) Legal and Environmental Matters

We are involved in litigation and claims incidental to our current and prior businesses. We have reserves for all of our legal and environmental matters aggregating \$6,073 as of July 4, 2010. The outcome of these matters cannot be predicted with certainty and some of these matters may be disposed of unfavorably to us. 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.

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(16) Accounting Standards

Accounting Standards Adopted During 2010

In June 2009, the Financial Accounting Standards Board (the "FASB") issued guidelines on the consolidation of variable interest entities which alters how a company determines when an entity that is insufficiently capitalized or not controlled through voting should be consolidated. A company has to determine whether it should provide consolidated reporting of an entity based upon the entity's purpose and design and the parent company's ability to direct the entity's actions. The guidance was effective commencing with our 2010 fiscal year. The adoption of this guidance did not have an impact on our consolidated financial statements.

In January 2010, the FASB issued amendments to the existing fair value measurements and disclosures guidance which requires new disclosures and clarifies existing disclosure requirements. The purpose of these amendments is to provide a greater level of disaggregated information as well as more disclosure around valuation techniques and inputs to fair value measurements. The guidance was effective commencing with our 2010 fiscal year. The adoption of this guidance did not have a significant impact on our consolidated financial statements.

Accounting Standards Not Yet Adopted

In July 2010, the FASB issued amendments to the existing financing receivables guidance which increases disclosures that entities must make about the credit quality of financing receivables and the allowance for credit losses. The purpose of these amendments is to provide financial statement users with greater transparency about the entities' allowance for credit losses and the credit quality of its financing receivables. The guidance is effective commencing with our annual report on Form 10-K for the fiscal year ending January 2, 2011. The adoption of this standard is not expected to have an effect on our consolidated financial statements.

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

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Wendy's/Arby's Group, Inc. ("Wendy's/Arby's" and, together with its subsidiaries, the "Company" or "we") should be read in conjunction with our accompanying unaudited condensed consolidated financial statements included elsewhere herein and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2010 (the "Form 10-K"). There have been no significant changes as of July 4, 2010 to the application of our critical accounting policies as described in Item 7 of our Form 10-K. Certain statements we make under this Item 2 constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. See "Special Note Regarding Forward-Looking Statements and Projections" in "Part II – Other Information" preceding "Item 1." You should consider our forward-looking statements in light of our unaudited condensed consolidated financial statements, related notes, and other financial information appearing elsewhere in this report, our Form 10-K and our other filings with the Securities and Exchange Commission.

Introduction and Executive Overview

Our Business

Wendy's/Arby's is the parent company of its wholly-owned subsidiary holding company Wendy's/Arby's Restaurants, LLC ("Wendy's/Arby's Restaurants"). Wendy's/Arby's Restaurants is the parent company of Wendy's International, Inc. ("Wendy's") and Arby's Restaurant Group, Inc. ("Arby's" or "ARG"), which are the owners and franchisors of the Wendy's and Arby's® restaurant systems, respectively. We currently manage and internally report our operations as two business segments: the operation and franchising of Wendy's restaurants, including its wholesale bakery operations, and the operation and franchising of Arby's restaurants. References in this Form 10-Q to restaurants that we "own" or that are "company-owned" include owned and leased restaurants that we operate through our subsidiaries. As of July 4, 2010, the Wendy's restaurant system was comprised of 6,546 restaurants, of which 1,391 were owned and operated by the Company. As of July 4, 2010, the Arby's restaurant system was comprised of 3,685 restaurants, of which 1,152 were owned and operated by the Company. The 2,543 Wendy's and Arby's Company-owned restaurants are located principally in the United States and to a lesser extent in Canada (the "North America Restaurants").

Wendy's and Arby's revenues and operating results have been impacted by a number of factors, including declining sales and traffic trends in the restaurant industry, high unemployment, negative general economic trends and intense price competition.

We remain committed to investing in long-term growth opportunities for our brands. Our Wendy's initiatives include (1) our breakfast program, (2) our remodeling program, and (3) a comprehensive pricing initiative that should further improve sales and margins. Our Arby's initiatives, which are being led by our new brand President, include (1) our value strategy, which includes our everyday affordability proposition, (2) our remodeling program, and (3) the ongoing validation of our brand positioning. In addition, we are aggressively pursuing international development opportunities for both brands.

As of July 4, 2010, there were approximately 310 Arby's franchised restaurants with amounts payable to our subsidiary ARG for royalties, rent and/or other fees that were at least 60 days past due. The financial condition of a number of Arby's franchisees was one of the factors that resulted in a net decrease of 31 and 16 in the number of franchised restaurants for fiscal 2009 and for the six months ended July 4, 2010, respectively. During those periods 74 and 50 franchised Arby's restaurants were closed, respectively. The trend of declining sales at franchised restaurants has resulted in decreases in royalties and other franchise revenues. In addition, Arby's franchisee accounts receivable and related allowance for doubtful accounts have increased significantly, and may continue to grow, as a result of the deteriorating financial condition of some of our franchisees. Franchisees' financial difficulties and the closure of

franchised restaurants have also caused reductions in the contributions to and extent of national and local advertising programs. Continuation of these trends will further affect our revenues and may have a material adverse effect on our results of operations and financial condition.

AFA Service Corporation (“AFA”), an independently controlled advertising cooperative in which we have voting interests of less than 50%, had previously entered into a revolving loan agreement with ARG pursuant to which ARG provides revolving loans up to \$11.0 million. As of July 4, 2010, the outstanding balance under this agreement was \$9.0 million and there were no amounts past due. Due to declining sales and profitability of Arby’s franchisees, it is possible that our ability in the future to collect principal and interest payments from AFA could be adversely affected.

Restaurant business revenues for 2010 first half include: (1) \$1,480.9 million of sales from Company-owned restaurants, (2) \$50.0 million from the sale of bakery items and kids’ meal promotion items to our franchisees, (3) \$170.8 million of royalty income from franchisees and (4) \$12.8 million of other franchise-related revenue and other revenues. All of our Wendy’s and most of our Arby’s royalty agreements provided for royalties of 4.0% of franchise revenues for the six months ended July 4, 2010.

Key Business Measures

We track our results of operations and manage our business using the following key business measures:

- Same-Store Sales

We report Arby's North America Restaurants same-store sales commencing after a store has been open for fifteen continuous months. Wendy's North America Restaurants same-store sales are reported after a store has been open for at least fifteen continuous months as of the beginning of the fiscal year. These methodologies are consistent with the metrics used by our management for internal reporting and analysis. Same-store sales exclude the impact of currency translation.

- Restaurant Margin

We define restaurant margin as sales from Company-owned restaurants less cost of sales divided by sales from Company-owned restaurants. Cost of sales includes food and paper, restaurant labor, and occupancy, advertising and other operating costs. Sales and cost of sales exclude amounts related to bakery items and kids' meal promotion items sold to franchisees. Restaurant margin is influenced by factors such as restaurant openings and closures, price increases, the effectiveness of our advertising and marketing initiatives, featured products, product mix, the level of our fixed and semi-variable costs, and fluctuations in food and labor costs.

DFR Notes

On June 9, 2010, pursuant to a March 2010 agreement between the Company and Deerfield Capital Corp. ("DFR"), we received cash proceeds of \$31.3 million, including interest, in consideration for the repayment and cancellation of the series A senior notes (the "DFR Notes") we received in December 2007 in connection with the sale of Deerfield & Company (the "Deerfield Sale") to DFR. Additional information on the DFR Notes and the Deerfield Sale is discussed in our Form 10-K. The proceeds represented 64.1% of the \$48.0 million aggregate principal amount of the DFR Notes.

During the fourth quarter of 2008, we recognized an allowance for collectability of \$21.2 million to reduce the then carrying amount of the notes to \$25.0 million. As a result, we recognized income of \$4.9 million during the three months and six months ended July 4, 2010, as the repayment proceeds exceeded the carrying value of the DFR Notes. This gain is included in "Investment income (expense), net."

Credit Agreement

As further described in "Liquidity and Capital Resources – Long-term Debt – Credit Agreement," below, on May 24, 2010, Wendy's/Arby's Restaurants, a direct wholly-owned subsidiary of the Company, entered into a \$650.0 million Credit Agreement (the "Credit Agreement"), which includes a \$500.0 million senior secured term loan facility (the "Term Loan") and a \$150.0 million senior secured revolving credit facility (the "Credit Facility").

The Company recognized a loss on early extinguishment of debt of \$26.2 million in the second quarter of 2010 related to the use of proceeds from the Term Loan. This loss consisted of (1) a \$15.0 million premium payment required to redeem the Wendy's 6.25% senior notes, (2) \$5.5 million for the write-off of the unaccreted discount of the Wendy's 6.25% senior notes (recorded in connection with the Wendy's merger), and (3) \$5.7 million for the write-off of deferred costs associated with the repayment of the prior senior secured term loan.

Related Party Transactions

Wendy's/Arby's has entered into the following new or revised transactions with related parties since those reported in our Form 10-K:

Services Agreement

Wendy's/Arby's and the management company formed by certain former executives and a director, (the "Management Company"), entered into a services agreement (the "Services Agreement") which commenced on July 1, 2009 and will continue until June 30, 2011, unless sooner terminated. Under the Services Agreement, the Management Company will assist us with strategic merger and acquisition consultation, corporate finance and investment banking services and related legal matters. During the second quarter of 2010, in addition to the regular quarterly fee to the Management Company, we paid the Management Company \$2.5 million in fees for corporate finance advisory services in connection with the negotiation and execution of the Credit Agreement.

Sublease of New York Office Space

In July 2007, the Company entered into an agreement under which the Management Company is subleasing the office space on one of the floors of the Company's former New York headquarters. During the second quarter of 2010, the Company and the Management

Company entered into an amendment to the sublease, effective April 1, 2010, pursuant to which the Management Company's early termination right was cancelled in exchange for a reduction in rent. Under the terms of the amended sublease, the sublease is not cancelable prior to the expiration of the prime lease and the Management Company pays rent to the Company in an amount that covers substantially all of the Company's rent obligations under the prime lease for such space.

Aircraft Agreement

On June 10, 2009, the Company entered into a lease of one of its corporate aircraft to TASCOCO LLC, an affiliate of the Management Company. On June 24, 2010, the Company and TASCOCO LLC entered into an agreement to renew the lease for an additional one year period (expiring June 30, 2011) on the same terms and conditions as the expiring lease.

Strategic Sourcing Group Agreement

On April 5, 2010, the Wendy's independent purchasing cooperative Quality Supply Chain Co-op ("QSCC") and the Arby's independent purchasing cooperative ("ARCOP"), in consultation with Wendy's/Arby's Restaurants, established the Strategic Sourcing Group Co-op, LLC (the "SSG"). The SSG was formed to manage and operate purchasing programs which combine the purchasing power of both Wendy's and Arby's Company-owned and franchised restaurants to create buying efficiencies for certain non-perishable goods, equipment and services utilized by both brands.

In order to facilitate the orderly transition of this purchasing function for the Company's North American operations, Wendy's/Arby's Restaurants transferred certain contracts, assets and certain Wendy's/Arby's Restaurants purchasing employees to the SSG in the second quarter of 2010. Wendy's/Arby's Restaurants has committed to pay approximately \$4.9 million of expenses of the SSG, which was expensed in the first quarter of 2010 and included in "General and administrative," and will be paid over a 24 month period. The SSG is exploring various alternatives for its sources of funding for future operations. Effective April 5, 2010, the SSG leased 2,300 square feet of office space from Arby's until December 31, 2016 unless terminated earlier for an annual base rental of less than \$0.1 million.

Presentation of Financial Information

We report on a fiscal year consisting of 52 or 53 weeks ending on the Sunday closest to December 31. Our 2009 fiscal year contained 53 weeks with the fiscal fourth quarter containing 14 weeks. All quarters presented contain 13 weeks. All references to years and quarters relate to fiscal periods rather than calendar periods. Certain percentage changes between these years are considered not measurable or not meaningful ("n/m").

Results of Operations

Three Months Ended July 4, 2010 Compared with Three Months Ended June 28, 2009

| | July 4, 2010 | Three Months Ended June 28, 2009 (In Millions) | \$ Change | % Change |
|---|-----------------|---|--------------|-------------|
| Revenues: | | | | |
| Sales | \$782.7 | \$816.2 | \$(33.5) | (4.1)% |
| Franchise revenues | 94.3 | 96.5 | (2.2) | (2.3) |
| | 877.0 | 912.7 | (35.7) | (3.9) |
| Costs and expenses: | | | | |
| Cost of sales | 659.1 | 686.5 | (27.4) | (4.0) |
| General and administrative | 97.5 | 112.7 | (15.2) | (13.5) |
| Depreciation and amortization | 44.9 | 44.7 | 0.2 | 0.5 |
| Impairment of long-lived assets | 2.4 | 8.7 | (6.3) | (72.4) |
| Facilities relocation and corporate restructuring | - | 3.0 | (3.0) | (100.0) |
| Other operating expense, net | 0.4 | 0.6 | (0.2) | (33.3) |
| | 804.3 | 856.2 | (51.9) | (6.1) |
| Operating profit | 72.7 | 56.5 | 16.2 | 28.7 |
| Interest expense | (34.4) | (31.1) | (3.3) | 10.6 |
| Loss on early extinguishment of debt | (26.2) | - | (26.2) | 100.0 |
| Investment income (expense), net | 5.0 | (2.8) | 7.8 | n/m |
| Other than temporary losses on investments | - | (0.8) | 0.8 | (100.0) |
| Other income, net | 1.4 | 1.6 | (0.2) | (12.5) |
| Income before income taxes | 18.5 | 23.4 | (4.9) | (20.9) |
| Provision for income taxes | (7.8) | (8.5) | 0.7 | (8.2) |
| Net income | \$10.7 | \$14.9 | \$(4.2) | (28.2)% |

Restaurant statistics:

| | Second Quarter 2010 | Second Quarter 2009 |
|---|------------------------|------------------------|
| Wendy's same-store sales: | | |
| North America Company-owned restaurants | (2.9)% | (1.2)% |
| North America franchised restaurants | (1.4)% | (0.1)% |
| North America system wide | (1.7)% | (0.4)% |

Arby's same-store sales:

| | | |
|---|--------|--------|
| North America Company-owned restaurants | (8.8)% | (5.8)% |
| North America franchised restaurants | (6.7)% | (7.4)% |
| North America system wide | (7.4)% | (6.9)% |

Sales:

| | | |
|--|----------|----------|
| Wendy's | \$ 506.2 | \$ 514.7 |
| Arby's | 250.3 | 277.1 |
| Bakery and kid's meal promotion items to franchisees | 26.2 | 24.4 |
| Total sales | \$ 782.7 | \$ 816.2 |

Company restaurant margin \$

| | | |
|--------------|----------|----------|
| Wendy's | \$ 83.2 | \$ 82.1 |
| Arby's | 33.5 | 41.3 |
| Consolidated | \$ 116.7 | \$ 123.4 |

Company restaurant margin %

| | | |
|--------------|-------|-------|
| Wendy's | 16.4% | 15.9% |
| Arby's | 13.4% | 14.9% |
| Consolidated | 15.4% | 15.6% |

| Restaurant count: | Company-owned | Franchised | System Wide |
|---|---------------|------------|-------------|
| Wendy's restaurant count: | | | |
| Restaurant count at April 4, 2010 | 1,390 | 5,150 | 6,540 |
| Opened | 3 | 14 | 17 |
| Closed | - | (11) | (11) |
| Sold to franchisees | (2) | 2 | - |
| Restaurant count at July 4, 2010 | 1,391 | 5,155 | 6,546 |
| Arby's restaurant count: | | | |
| Restaurant count at April 4, 2010 | 1,155 | 2,544 | 3,699 |
| Opened | - | 14 | 14 |
| Closed | (3) | (25) | (28) |
| Restaurant count at July 4, 2010 | 1,152 | 2,533 | 3,685 |
| Total Wendy's/Arby's restaurant count at July 4, 2010 | 2,543 | 7,688 | 10,231 |

Sales

| | Change (In Millions) |
|---|----------------------------|
| Wendy's | \$ (8.5) |
| Arby's | (26.8) |
| Bakery and kids' meal promotion items to franchisees | 1.8 |
| | \$ (33.5) |

The overall decrease in sales was primarily due to the decline in Wendy's and Arby's North America Company-owned same-store sales, which were down 2.9% and 8.8%, respectively. Wendy's and Arby's North America Company-owned same-store sales were impacted by (1) the negative economic trends and competitive pressures described above and in our Form 10-K, as well as (2) the negative industry-wide restaurant trends that continued in the 2010 second quarter. Wendy's North America Company-owned same-store sales were also negatively impacted by a reduction in national advertising exposure in the second quarter of 2010 as compared to the second quarter of 2009. Wendy's has reallocated a portion of its 2010 national advertising expenditure to the second half of the year in connection with new product introductions. The negative factors impacting Wendy's sales were partially offset by the effect of an approximate 1% blended price increase taken in late 2009. Foreign currency translation had a \$7.2 million positive impact on Wendy's second quarter 2010 sales as compared to the 2009 second quarter. Wendy's locations sold during or subsequent to the 2009 second quarter generated \$2.6 million of sales in that 2009 period. Arby's North America Company-owned same-store sales were impacted by (1) a decrease of approximately 1.7% due to certain in-store value promotions in the 2009 second quarter which did not recur in the 2010 second quarter and (2) a decrease in advertising expenditures in the 2010 second quarter as compared to the 2009 second quarter. Arby's has reallocated some of its advertising expenditures to the second half of 2010 in connection with its sales initiatives. Customer transaction volume in Arby's North America Company-owned stores was virtually unchanged in the 2010 second quarter as compared to the 2009 second quarter, and transaction trends have improved significantly since the end of 2009 primarily as a result of the introduction of Arby's everyday value strategy.

Franchise

Revenues

| | Change (In Millions) |
|---------|----------------------------|
| Wendy's | \$ (1.1) |
| Arby's | (1.1) |
| | \$ (2.2) |

The overall decrease in franchise revenues was primarily due to the decline in Wendy's and Arby's North America franchised restaurant same-store sales, which were down 1.4% and 6.7%, respectively. Wendy's North America franchised restaurant same-store sales were impacted by the same factors described above for Wendy's Company-owned restaurants, although we believe certain franchised restaurants mitigated some of the decline in same-store sales through greater price increases than those taken by Wendy's Company-owned restaurants. Arby's North America franchised restaurant same-store sales were impacted by the same factors described above for Arby's

Company-owned restaurants, although Arby's North America franchised restaurants offered fewer in-store value promotions during the 2009 second quarter, which lessened the negative impact on franchised restaurant same-store sales for the three months ended July 4, 2010.

Restaurant Margin Amount Change

| | | |
|--------------|-------|-------------------|
| Wendy's | 16.4% | 0.5 % points |
| Arby's | 13.4% | (1.5) % points |
| Consolidated | 15.4% | (0.2) % points |

The increase in Wendy's restaurant margin in the 2010 second quarter as compared to the 2009 second quarter was attributable to (1) a 1.3% point decrease in restaurant labor costs primarily due to a reduction in comparable incentive payments, (2) a 0.6% point benefit from price increases taken in 2009, a portion of which directly offset the increase in commodity costs mentioned below, and (3) the effect of ongoing operational improvements. These positive impacts on restaurant margin were partially offset by (1) a 0.9% point increase in commodity costs, a portion of which was due to product improvements, and (2) the deleverage effect of the decline in Wendy's same-store sales for the comparable quarter on controllable costs. The Arby's restaurant margin decreased approximately 2.8% points due to the deleverage effect of the decline in Arby's same-store sales for the comparable quarters without similar reductions in fixed and semi-variable costs. The decrease in Arby's restaurant margin was partially offset by a 1.6% point decline in advertising expenditures. In addition, increases in the cost of commodities were more than offset by changes in our promotional activities in the second quarter of 2010 as compared to the second quarter of 2009.

General and
AdministrativeChange
(In
Millions)

| | |
|------------------------|------------|
| Incentive compensation | \$ (5.6) |
| Compensation | (3.4) |
| Integration costs | (3.4) |
| Services agreement | (1.4) |
| Severance | 1.6 |
| Other, net | (3.0) |
| | \$ (15.2) |

The decrease in general and administrative expenses was primarily related to: (1) reductions in incentive compensation accruals due to lower operating performance as compared to plan in 2010 versus 2009, (2) reductions in staffing at our shared services center in Atlanta, Georgia, (3) decreases in Wendy's-related integration costs resulting from the completion of integration efforts in early 2010, and (4) decreases in fees under our related party services agreement that was renegotiated in June 2009. These decreases were partially offset by severance costs related to the termination of certain senior Arby's executives.

Depreciation and
AmortizationChange
(In
Millions)

| | |
|---|-----------|
| Wendy's restaurants, primarily properties | \$ (0.7) |
| Arby's restaurants, primarily properties | (0.1) |
| General corporate | 1.0 |
| | \$ 0.2 |

The increase in depreciation and amortization was primarily related to increases in the amortization of software and related costs capitalized in connection with the establishment of the shared services center at the Company's corporate headquarters in Atlanta, Georgia. On a consolidated basis, this increase was partially offset by a reduction in depreciation related to Wendy's and Arby's previously impaired long-lived assets.

Impairment of
Long-Lived
AssetsChange
(In
Millions)

| | |
|---|-----------|
| Wendy's restaurants, intangibles and surplus properties | \$ 0.2 |
| Arby's restaurants, primarily properties at underperforming locations | (4.3) |
| Corporate - aircraft | (2.2) |
| | \$ (6.3) |

The decrease in impairment of long-lived assets was primarily related to a decline in Arby's Company-owned restaurants impairment losses due to the level of impairment charges taken in prior periods. The decrease was also impacted by the impairment of one of our corporate aircraft classified as held for sale in the 2009 second quarter which was subsequently sold in July 2009.

Interest Expense

| | Change (In Millions) |
|--|----------------------------|
| 10% Senior Notes | \$ 14.3 |
| Amortization of deferred financing costs | (6.1) |
| Wendy's interest rate swaps | (3.3) |
| Other | (1.6) |
| | \$ 3.3 |

The increase in interest expense was principally affected by interest on the \$565.0 million principal amount of Wendy's/Arby's Restaurants 10% Senior Notes issued in June 2009, partially offset by the effect of the 2009 second quarter write-off of deferred debt costs

relating to prepayments on the term loan under the prior Arby's credit agreement. In addition, there was a favorable impact of interest rate swaps on the Wendy's 6.20% and 6.25% senior notes entered into during 2009 and 2010. This favorable impact included a \$1.9 million gain on the cancellation of the swaps related to the Wendy's 6.25% senior notes in connection with their redemption in the second quarter of 2010.

Loss on Early Extinguishment of Debt

The loss on early extinguishment of debt of \$26.2 million consisted of (1) a \$15.0 million premium payment required to redeem the Wendy's 6.25% senior notes as discussed above in "Introduction and Executive Overview – Credit Agreement," (2) \$5.5 million for the write-off of the unaccreted discount of the Wendy's 6.25% senior notes (recorded in connection with the Wendy's merger), and (3) \$5.7 million for the write-off of deferred costs associated with the repayment of the Wendy's/Arby's Restaurants prior senior secured term loan as discussed below in "Liquidity and Capital Resources – Long-term Debt – Credit Agreement."

Investment Income (Expense), Net

| | Change (In Millions) |
|-------------------------|----------------------------|
| DFR Notes | \$ 4.9 |
| Early withdrawal fee | 5.5 |
| Recognized net gains | (3.0) |
| Other | 0.4 |
| | \$ 7.8 |

The increase in investment income primarily related to (1) the recognition of income on the DFR Notes as discussed above in "Introduction and Executive Overview – DFR Notes," and (2) an early withdrawal fee incurred in the 2009 second quarter which did not recur in the 2010 second quarter. These increases were partially offset by net investment gains recognized in the prior year quarter that did not recur in the 2010 second quarter. As of July 4, 2010, our investments include a joint venture investment and certain cost investments.

Other Than Temporary Losses on Investments

Due to market conditions and other factors present during the 2009 second quarter, we recorded other than temporary losses of \$0.8 million attributable primarily to the decline in fair value of two of our cost investments. We did not recognize any other than temporary losses on our remaining investments during the 2010 second quarter.

Provision for Income Taxes

| | Change (In Millions) |
|---|----------------------------|
| Federal and state provision on variance in income before | \$ (0.9) |

| | |
|--------------|-----------|
| income taxes | |
| Other | 0.2 |
| | \$ (0.7) |

Our income taxes were impacted by variations in income before income taxes.

Results of Operations

Six Months Ended July 4, 2010 Compared with Six Months Ended June 28, 2009

| | July 4, 2010 | Six Months Ended June 28, 2009 | \$ Change | % Change |
|---|-----------------|--------------------------------------|--------------|-------------|
| | (In Millions) | | | |
| Revenues: | | | | |
| Sales | \$1,530.9 | \$1,589.4 | \$(58.5) | (3.7)% |
| Franchise revenues | 183.6 | 187.3 | (3.7) | (2.0) |
| | 1,714.5 | 1,776.7 | (62.2) | (3.5) |
| Costs and expenses: | | | | |
| Cost of sales | 1,300.5 | 1,362.4 | (61.9) | (4.5) |
| General and administrative | 208.0 | 222.6 | (14.6) | (6.6) |
| Depreciation and amortization | 91.3 | 96.3 | (5.0) | (5.2) |
| Impairment of long-lived assets | 14.0 | 15.6 | (1.6) | (10.3) |
| Facilities relocation and corporate restructuring | - | 7.2 | (7.2) | (100.0) |
| Other operating expense, net | 1.7 | 2.2 | (0.5) | (22.7) |
| | 1,615.5 | 1,706.3 | (90.8) | (5.3) |
| Operating profit | 99.0 | 70.4 | 28.6 | 40.6 |
| Interest expense | (70.7) | (53.2) | (17.5) | 32.9 |
| Loss on early extinguishment of debt | (26.2) | - | (26.2) | 100.0 |
| Investment income (expense), net | 5.2 | (4.6) | 9.8 | n/m |
| Other than temporary losses on investments | - | (3.9) | 3.9 | (100.0) |
| Other income (expense), net | 2.7 | (1.0) | 3.7 | n/m |
| Income before income taxes | 10.0 | 7.7 | 2.3 | 29.9 |
| Provision for income taxes | (2.7) | (3.7) | 1.0 | (27.0) |
| Net income | \$7.3 | \$4.0 | \$3.3 | 82.5% |

Restaurant statistics:

| | First Half 2010 | First Half 2009 |
|---|-----------------|-----------------|
| Wendy's same-store sales: | | |
| North America Company-owned restaurants | (1.4)% | (0.5)% |
| North America franchised restaurants | (0.3)% | 0.5% |
| North America system wide | (0.5)% | 0.3% |

Arby's same-store sales:

| | | |
|---|---------|--------|
| North America Company-owned restaurants | (10.2)% | (6.9)% |
| North America franchised restaurants | (8.9)% | (7.8)% |
| North America system wide | (9.4)% | (7.5)% |

Sales:

| | | |
|--|------------|-----------|
| Wendy's | \$ 995.2 | \$997.3 |
| Arby's | 485.7 | 543.3 |
| Bakery and kids' meal promotion items to franchisees | 50.0 | 48.8 |
| Total sales | \$ 1,530.9 | \$1,589.4 |

Company restaurant margin \$

| | | |
|--------------|----------|---------|
| Wendy's | \$ 158.3 | \$135.8 |
| Arby's | 58.9 | 79.2 |
| Consolidated | \$ 217.2 | \$215.0 |

Company restaurant margin %

| | | |
|--------------|-------|-------|
| Wendy's | 15.9% | 13.6% |
| Arby's | 12.1% | 14.6% |
| Consolidated | 14.7% | 14.0% |

| | Company-owned | Franchised | System Wide |
|---|---------------|------------|-------------|
| Restaurant count: | | | |
| Wendy's restaurant count: | | | |
| Restaurant count at January 3, 2010 | 1,391 | 5,150 | 6,541 |
| Opened | 3 | 25 | 28 |
| Closed | (1) | (22) | (23) |
| Sold to franchisees | (2) | 2 | - |
| Restaurant count at July 4, 2010 | 1,391 | 5,155 | 6,546 |
| Arby's restaurant count: | | | |
| Restaurant count at January 3, 2010 | 1,169 | 2,549 | 3,718 |
| Opened | - | 23 | 23 |
| Closed | (6) | (50) | (56) |
| Sold to franchisees | (11) | 11 | - |
| Restaurant count at July 4, 2010 | 1,152 | 2,533 | 3,685 |
| Total Wendy's/Arby's restaurant count at July 4, 2010 | 2,543 | 7,688 | 10,231 |

Sales

| | Change (In Millions) |
|---|----------------------------|
| Wendy's | \$ (2.1) |
| Arby's | (57.5) |
| Bakery and kids' meal promotion items to franchisees | 1.1 |
| | \$ (58.5) |

The overall decrease in sales was primarily due to the decline in Wendy's and Arby's North America Company-owned same-store sales which were down 1.4% and 10.2%, respectively. Wendy's and Arby's North America Company-owned same-store sales were impacted by (1) the same negative economic trends and competitive pressures described above and in our Form 10-K and (2) negative industry-wide restaurant trends that continued in the 2010 first half, as well as (3) severe winter weather in February 2010. The negative factors impacting Wendy's were offset by (1) an approximate 1% blended price increase taken in late 2009 and (2) a \$15.8 million positive impact from foreign currency translation in the first half 2010 sales as compared to first half 2009. Wendy's locations sold during or subsequent to the first half 2009 generated \$6.1 million of sales in that 2009 period. Arby's North America Company-owned same-store sales were impacted by the effects of (1) a new product introduction in the 2009 first quarter which did not recur in 2010, (2) a decrease of approximately 0.7% due to certain in-store value promotions in the 2009 first half which did not recur in the 2010 first half, and (3) a decline in advertising expenditures. Arby's has reallocated some of its advertising expenditures to the second half of 2010 in connection with its sales initiatives. Customer transaction volume in Arby's North America Company-owned stores was virtually unchanged in the 2010 first half as compared to the 2009 first half and transaction trends have improved significantly since the end of 2009 primarily as a result of the introduction of Arby's everyday value strategy.

Franchise
Revenues

| | Change (In Millions) |
|---------|----------------------------|
| Wendy's | \$ (0.3) |
| Arby's | (3.4) |
| | \$ (3.7) |

The overall decrease in franchise revenues for Wendy's and Arby's North America franchised restaurants was primarily due to the same factors discussed above for the second quarter 2010. Arby's North America franchised restaurants were also disproportionately negatively affected by the absence of national media advertising in the 2010 first quarter as certain franchise markets did not have sufficient local media advertising to offset the absence of national advertising.

Restaurant Margin

| Amount | Change |
|--------|--------|
|--------|--------|

| | | |
|--------------|-------|--------|
| Wendy's | | 2.3% |
| | 15.9% | points |
| Arby's | | (2.5)% |
| | 12.1% | points |
| Consolidated | | 0.7% |
| | 14.7% | points |

The restaurant margins for both Wendy's and Arby's brands were impacted by the same factors discussed above in "Restaurant Margin" for the 2010 second quarter, as well as the factors discussed above in "Sales." Although restaurant margins for the second quarter of 2010 were negatively impacted by the cost of commodities, such costs did not have a material impact on either brand for the 2010 first half.

General and
AdministrativeChange
(In
Millions)

| | |
|---------------------------|------------|
| Compensation | \$ (5.0) |
| Incentive compensation | (4.7) |
| Integration costs | (4.2) |
| Services agreement | (2.8) |
| Legal fees | (1.4) |
| SSG co-op agreement | 4.9 |
| Severance | 3.0 |
| Other, net | (4.4) |
| | \$ (14.6) |

The decrease in general and administrative expenses was primarily related to: (1) reductions in staffing at our shared services center in Atlanta, Georgia, (2) decreases in incentive compensation accruals due to lower operating performance as compared to plan in 2010 versus 2009, (3) decreases in Wendy's-related integration costs resulting from the completion of integration efforts in early 2010, (4) decreases in fees under our related party services agreement that was renegotiated in June 2009, and (5) decreases in legal fees accrued as compared to the 2009 first half primarily related to the Americans with Disabilities Act case described in our Form 10-K. The decreases were partially offset by an increase related to the formation of the SSG in the 2010 first half as discussed above in "Introduction and Executive Overview – Related Party Transactions" and severance costs related to the termination of certain senior Arby's executives.

Depreciation and
AmortizationChange
(In
Millions)

| | |
|--|-----------|
| Wendy's restaurants, primarily properties | \$ (8.6) |
| Arby's restaurants, primarily properties | (0.6) |
| General corporate | 4.2 |
| | \$ (5.0) |

The decrease in depreciation and amortization was primarily related to (1) an adjustment in the prior year of \$6.5 million related to a one-time increase in depreciation as a result of refinements to the Wendy's purchase price allocation (including long-lived assets) and (2) a reduction in depreciation related to Wendy's and Arby's previously

impaired long-lived assets. These decreases were partially offset by increases in the amortization of software and related costs capitalized in connection with the establishment of the shared services center.

Impairment of
Long-Lived
Assets

Change
(In
Millions)

| | |
|---|-----------|
| Wendy's restaurants, intangibles and surplus properties | \$ (0.2) |
| Arby's restaurants, primarily properties at underperforming locations | 0.8 |
| Corporate – aircraft | (2.2) |
| | \$ (1.6) |

The decrease in the impairment of long-lived assets was primarily related to the impairment of one of our corporate aircraft classified as held for sale in the 2009 second half which was subsequently sold in July 2009. This decrease was partially offset by an increase in Arby's Company-owned restaurants impairment losses as a result of the continuing deterioration in operating performance of certain restaurants in the 2010 first half.

Interest Expense

Change
(In
Millions)

| | |
|--|---------|
| 10% Senior Notes | \$ 29.5 |
| Amortization of deferred financing costs | (5.7) |
| Wendy's interest rate swaps | (5.1) |
| Other | (1.2) |
| | \$ 17.5 |

The increase in interest expense was principally affected by interest on the \$565.0 million principal amount of Wendy's/Arby's Restaurants 10% Senior Notes issued in June 2009, partially offset by the effect of the 2009 first half write-off of deferred debt costs relating to prepayments on the term loan under the prior Arby's credit agreement. In addition, there was a favorable impact of interest rate swaps on the Wendy's 6.20% and 6.25% senior notes entered into during 2009 and 2010. This favorable impact included a \$1.9 million gain on the cancellation of the swaps related to the Wendy's 6.25% senior notes in connection with their redemption in the second quarter of 2010.

Loss on Early Extinguishment of Debt

The loss on early extinguishment of debt of \$26.2 million consisted of (1) a \$15.0 million premium payment required to redeem the Wendy's 6.25% senior notes as discussed below in "Liquidity and Capital Resources – Long-term Debt – Credit Agreement," (2) \$5.5 million for the write-off of the unaccreted discount of the Wendy's 6.25% senior notes (recorded in connection with the Wendy's merger), and (3) \$5.7 million for the write-off of deferred costs associated with the repayment of the Wendy's/Arby's Restaurants prior senior secured term loan as discussed below in "Liquidity and Capital Resources – Long-term Debt – Credit Agreement."

Investment

Income

(Expense), Net

Change
(In
Millions)

| | |
|-------------------------|--------|
| DFR Notes | \$ 4.9 |
| Early withdrawal fee | 5.5 |
| Recognized net gains | (1.1) |
| Other | 0.5 |
| | \$ 9.8 |

The increase in investment income primarily related to (1) the recognition of income on the DFR Notes as discussed above in "Introduction and Executive Overview – DFR Notes," and (2) an early withdrawal fee incurred in the 2009 first half that did not recur in the 2010 first half. These increases were partially offset by net investment gains recognized in the prior year that did not recur in the 2010 second half. As of July 4, 2010, our remaining investments include a joint venture investment and certain cost investments.

Other Than Temporary Losses on Investments

Due to market conditions and other factors present during the 2009 first half, we recorded other than temporary losses of \$3.9 million attributable primarily to the decline in fair value of certain of our available for sale securities and three of our cost investments. We did not recognize any other than temporary losses on our remaining investments during the 2010 first half.

Provision for Income Taxes

| | Change (In Millions) |
|---|----------------------------|
| Federal and state provision on variance in income before income taxes | \$ 1.9 |
| Valuation allowance reduction | (2.5) |
| Other | (0.4) |
| | \$ (1.0) |

Our income taxes were impacted by variations in income before income taxes as offset by a reduction in valuation allowances related to state tax matters.

Outlook for the Remainder of 2010

There are no material changes to the outlook for 2010 as discussed in our Form 10-K except that restaurant margins for both of our brands will be somewhat negatively impacted by the expected increase in the cost of commodities.

Liquidity and Capital Resources

Net Cash Provided by Operating Activities

Net cash provided by operating activities was \$102.2 million for the six months ended July 4, 2010 as compared to \$146.4 million for the same period in 2009. The significant components of the \$44.2 million decrease in net cash provided by operating activities for the first half of 2010 as compared to the first half of 2009 are as follows:

| | Change (In Millions) |
|------------------------------|----------------------------|
| Accounts payable | \$ 28.6 |
| Incentive compensation | (24.7) |
| Interest | (23.2) |
| AFA notes receivable | (6.9) |
| Income taxes, net of refunds | (6.4) |
| Other, net | (11.6) |
| | \$ (44.2) |

The net decrease in the comparative operating cash flow principally resulted from an increase in (1) amounts paid under the Company's incentive compensation plans in 2010 versus 2009 for fiscal 2009 and fiscal 2008, respectively, (2) interest payments in the first half of 2010 primarily due to the interest payment on the 10% Senior Note

borrowings by our principal subsidiary in June 2009, (3) advances, net, to AFA, an independently controlled advertising cooperative for the Arby's restaurant system, under its revolving loan agreement from the Company, and (4) payments for estimated taxes as well as for certain state income taxes for which examinations are either completed or ongoing. These changes were partially offset by the following which affected accounts payable: (1) a reduction in the amounts payable to the Wendy's national advertising cooperative in the first half of 2010 as compared to the same period in 2009 due to changes in the timing and nature of amounts due, (2) a decrease in the number and amount of non-recurring items more typically included in accounts payable rather than accrued expenses, and (3) a decrease in the volume of transactions processed as received from third parties, due in part to the decrease in sales, for the 2010 first half as compared to the 2009 first half.

We expect continued positive cash flows from operating activities during the remainder of 2010.

Additionally, for the six months ended July 4, 2010, we had the following significant sources and uses of cash other than from operating activities:

- Proceeds from the Term Loan of \$497.5 million;
- Repayment of \$250.8 million of Wendy's/Arby's Restaurants amended senior secured term loan;
- Payment of \$215.0 million, including a premium of \$15 million, to redeem the Wendy's 6.25% senior notes;
- Repurchases of common stock of \$173.5 million, including commissions of \$0.7 million, and \$5.8 million of 2009 repurchases that were not settled until 2010;
- Cash capital expenditures totaling \$52.7 million, which included \$9.7 million for the remodeling of restaurants, \$3.0 million for the construction of new restaurants, and \$4.6 million for software purchases. The remaining capital expenditures were primarily related to various technology projects and store maintenance capital expenditures;
 - Proceeds of \$30.8 million, excluding interest, from the repayment and cancellation of the DFR Notes;
 - Deferred financing costs of \$14.4 million; and
 - Dividend payments of \$13.0 million.

The net cash used in our operations before the effect of exchange rate changes on cash was approximately \$83.1 million.

Sources and Uses of Cash for the Remainder of 2010

Our anticipated consolidated cash requirements for the remainder of 2010, exclusive of operating cash flow requirements, consist principally of:

- Cash capital expenditures of approximately \$112.3 million as discussed in our Form 10-K;
- Quarterly cash dividends aggregating up to approximately \$12.5 million as discussed below in "Dividends";
 - Scheduled debt principal repayments aggregating \$8.8 million;
- Potential repurchases of common stock of up to \$79.5 million under the currently authorized stock buyback program;
 - Scheduled payments of \$6.3 million pursuant to the QSCC and SSG co-op agreements;
- Severance payments of approximately \$1.4 million related to our facilities relocation and corporate restructuring accruals and \$1.1 million related to the termination of certain senior Arby's executives; and
 - The costs of any potential business acquisitions or financing activities.

Based upon current levels of operations, we expect that cash flows from operations and available cash will provide sufficient liquidity to meet operating cash requirements for the next twelve months.

Long-term Debt

The following is an explanation of changes to the terms of certain debt obligations since January 3, 2010, as discussed in our Form 10-K:

Credit Agreement

On May 24, 2010, Wendy's/Arby's Restaurants, a direct wholly-owned subsidiary of the Company, entered into the Credit Agreement, which includes a \$500.0 million Term Loan and a \$150.0 million Credit Facility. The Credit Agreement contains provisions for an uncommitted increase of up to \$300.0 million principal amount in the aggregate in the Credit Facility and/or Term Loan subject to the satisfaction of certain conditions. The Credit Facility includes a sub-facility for the issuance of up to \$70.0 million of letters of credit. The obligations under the Credit Agreement are secured by substantially all of the non-real estate assets of Wendy's/Arby's Restaurants and its domestic subsidiaries

(other than certain unrestricted subsidiaries), the stock of its domestic subsidiaries (other than certain unrestricted subsidiaries), 65% of the stock of certain of its foreign subsidiaries as well as by mortgages on certain restaurant properties.

The Term Loan was issued at 99.5% of the principal amount, which represented an original issue discount of 0.5% and resulted in net proceeds paid to us of \$497.5 million. The \$2.5 million discount will be accreted and the related charge included in interest expense through the maturity of the Term Loan. The Term Loan will mature on May 24, 2017 and requires quarterly principal installments equal to 1% per annum of the initial principal amount outstanding, with the balance payable on the maturity date.

The Credit Facility expires not later than May 24, 2015. An unused commitment fee of 50 basis points per annum is payable quarterly on the average unused amount of the Credit Facility until the maturity date.

The interest rate on the Term Loan is based on (i) the Eurodollar Rate as defined in the Credit Agreement (but not less than 1.50%), plus 3.50%, or a Base Rate, as defined in the Credit Agreement (but not less than 2.50%), plus 2.50%. Since the date of the Term Loan and as of July 2, 2010, we have elected to use the Eurodollar Rate which resulted in an interest rate of 5.00% as of July 4, 2010.

Wendy's/Arby's Restaurants incurred approximately \$16.4 million in costs (of which \$2.0 million is unpaid as of July 4, 2010) related to the Credit Agreement, which will be amortized to interest expense over the Term Loan's term utilizing the effective interest rate method.

Proceeds from the Term Loan were used to (1) repay approximately \$253.8 million of existing indebtedness, including fees and interest, under the prior Wendy's/Arby's Restaurants amended senior secured term loan scheduled to be due in 2012, (2) redeem the Wendy's 6.25% senior notes scheduled to be due in 2011, and (3) pay fees and expenses related to the Credit Agreement. The remaining Term Loan proceeds are expected to be used for working capital and other general corporate purposes.

The Company recognized a loss on early extinguishment of debt of \$26.2 million in the second quarter of 2010, related to the use of proceeds from the Term Loan. This loss consisted of (1) a \$15.0 million premium payment required to redeem the Wendy's 6.25% senior notes (2) \$5.5 million for the write-off of the unaccreted discount of the Wendy's 6.25% senior notes (recorded in connection with the Wendy's merger), and (3) \$5.7 million for the write-off of deferred costs associated with the repayment of the prior senior secured term loan.

The affirmative and negative covenants in the Credit Agreement include, among others, preservation of corporate existence; payment of taxes; and maintenance of insurance; and limitations on: indebtedness (including guarantee obligations of other indebtedness); liens; mergers, consolidations, liquidations and dissolutions; sales of assets; dividends and other payments in respect of capital stock; investments; payments of certain indebtedness; transactions with affiliates; changes in fiscal year; negative pledge clauses and clauses restricting subsidiary distributions; and material changes in lines of business. The financial covenants contained in the Credit Agreement are (i) a consolidated interest coverage ratio, (ii) a consolidated senior secured leverage ratio and (iii) a consolidated senior secured lease adjusted leverage ratio. The covenants generally do not restrict Wendy's/Arby's or any of its subsidiaries that are not subsidiaries of Wendy's/Arby's Restaurants. Wendy's/Arby's Restaurants was in compliance with all covenants of the Credit Agreement as of July 4, 2010.

The indentures that govern Wendy's 6.20% Senior Notes and 7% Debentures (the "Wendy's Notes") contain covenants that specify limits on the incurrence of indebtedness. We were in compliance with these covenants as of July 4, 2010 and project that we will be in compliance with these covenants for the next twelve months.

A significant number of the underlying leases in the Arby's restaurants segment for sale-leaseback obligations and capitalized lease obligations, as well as the operating leases, require or required periodic financial reporting of certain subsidiary entities within ARG or of individual restaurants, which in many cases have not been prepared or reported. The Company has negotiated waivers and alternative covenants with its most significant lessors which substitute consolidated financial reporting of ARG for that of individual subsidiary entities and which modify restaurant level reporting requirements for more than half of the affected leases. Nevertheless, as of July 4, 2010, the Company was not in compliance, and remains not in compliance, with the reporting requirements under those leases for which waivers and alternative financial reporting covenants have not been negotiated. However, none of the lessors has asserted that the Company is in default of any of those lease agreements. The Company does not believe that such non-compliance will have a material adverse effect on its condensed consolidated financial position or results of operations.

Interest Rate Swaps

In connection with the redemption of the Wendy's 6.25% senior notes discussed above under "Credit Agreement," we cancelled four interest rate swaps with notional amounts totaling \$175.0 million that had swapped the fixed rate interest rates on these senior notes for floating rates. We recognized a gain on the cancellation of \$1.9 million in the

second quarter of 2010 which is included in "Interest expense."

Convertible Notes

On June 17, 2010, we repurchased the remaining 5% convertible notes (the "Convertible Notes") for \$2.1 million, including accrued interest. The Convertible Notes were repurchased at a price of 100% of the principal amount of the Convertible Notes plus accrued interest.

Contractual Obligations

The following is an explanation of changes to the Company's contractual obligations since January 3, 2010, as discussed in our Form 10-K:

- The completion of a new \$500.0 million Term Loan, due May 24, 2015, which resulted in the following early principal reductions of our long-term debt obligations:
 - \$251.5 million for the Wendy's/Arby's Restaurants amended senior secured term loan; and
 - \$200.0 million for the Wendy's 6.25% senior notes.
- The repurchase of \$2.1 million of 5% Convertible Notes.

- The formation of the SSG requiring payments of approximately \$4.9 million for its initial operations as discussed in “Introduction and Executive Overview – Related Party Transactions.”

Credit Ratings

Wendy's/Arby's Group, Inc. and its subsidiaries with specific debt issuances (Wendy's/Arby's Restaurants and Wendy's) are rated by Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's"). S&P and Moody's have assigned the following credit ratings in June 2010, which became effective after the closing of the Senior Secured Credit Facility.

| | S&P | Moody's |
|---|--|----------------------------|
| Corporate family/corporate credit | | |
| Entity | Wendy's/Arby's Group, Inc. Wendy's/Arby's Restaurants | Wendy's/Arby's Restaurants |
| Rating | B+ | B2 |
| Outlook | Negative | Stable |
| Wendy's/Arby's Restaurants 10% Senior Notes | B+ | B3 |
| Wendy's/Arby's Restaurants Senior Secured Credit Facility | BB | Ba2 |
| Wendy's 6.20% Senior Notes and 7% Debentures | B- | Caa1 |

There are many factors that could lead to future upgrades or downgrades of our credit ratings. Credit rating upgrades or downgrades could lead to, among other things, changes in borrowing costs and changes in our ability to access capital markets on acceptable terms.

A rating is not a recommendation to buy, sell or hold any security, and may be subject to revision or withdrawal at any time by the rating agency. Each rating should be evaluated independently of any other rating.

Dividends

On March 15, 2010 and June 15, 2010, we paid quarterly cash dividends of \$0.015 per share on our Common Stock, aggregating \$13.0 million. On August 9, 2010, we declared dividends of \$0.015 per share to be paid on September 15, 2010 to shareholders of record as of September 1, 2010. If we pay regular quarterly cash dividends for the remainder of 2010 at the same rate as declared in our 2010 first half, our total cash requirement for dividends for the remainder of 2010 would be approximately \$12.5 million based on the number of shares of our Common Stock outstanding at August 6, 2010. We currently intend to continue to declare and pay quarterly cash dividends; however, there can be no assurance that any quarterly dividends will be declared or paid in the future or of the amount or timing of such dividends, if any.

Stock Repurchases

As of January 3, 2010, our Board of Directors had previously authorized the repurchase of up to a total of \$125.0 million of our Common Stock through January 2, 2011, when and if market conditions warrant and to the extent legally permissible. On January 27, 2010, March 22, 2010 and May 27, 2010, our Board of Directors authorized the repurchase of up to an additional \$75.0 million, \$50.0 million and \$75.0 million, respectively, of our Common Stock

through January 2, 2011, when and if market conditions warrant and to the extent legally permissible. As of July 4, 2010, we had repurchased 52.3 million shares with an aggregate purchase price of \$245.5 million, excluding commissions of \$1.0 million.

Seasonality

Our restaurant operations are moderately impacted by seasonality because Wendy's restaurant revenues are normally higher during the summer months than during the winter months. Because of this seasonality, results for any particular quarter are not necessarily indicative of the results that may be achieved for any other quarter or for the full fiscal year.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

This “Quantitative and Qualitative Disclosures about Market Risk” has been presented in accordance with Item 305 of Regulation S-K promulgated by the Securities and Exchange Commission (the “SEC”) and should be read in conjunction with “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” in our annual report on Form 10-K for the fiscal year ended January 3, 2010 (the “Form 10-K”). Certain statements we make under this Item 3 constitute “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. See “Special Note Regarding Forward-Looking Statements and Projections” in “Part II – Other Information” preceding “Item 1.”

We are exposed to the impact of interest rate changes, changes in commodity prices, changes in the fair value of our investments and foreign currency fluctuations primarily related to the Canadian dollar. In the normal course of business, we employ established policies and procedures to manage our exposure to these changes using financial instruments we deem appropriate.

Wendy’s/Arby’s has not experienced any material changes since January 3, 2010, as discussed in our Form 10-K, to its commodity price, equity market and foreign currency risks.

Interest Rate Risk

Our objective in managing our exposure to interest rate changes is to limit the impact on our earnings and cash flows. Our policy is to maintain a target, over time and subject to market conditions, of between 50% and 75% of “Long-term debt” as fixed rate debt. As of July 4, 2010 our long-term debt, including current portion and excluding the effect of interest rate swaps discussed below, aggregated \$1,574.6 million and consisted of \$865.7 million of fixed-rate debt, \$497.5 million of variable-rate debt, and \$211.4 million of capitalized lease and sale-leaseback obligations. Our variable interest rate debt consists of \$497.5 million of term loan borrowings under a variable-rate senior secured term loan facility due through 2017 (the “Term Loan”). The interest rate on the Term Loan is based on the Eurodollar rate, which has a floor of 1.50%, plus 3.50%, or a base rate, which has a floor of 2.50%, plus 2.50%. Since the date of the Term Loan and as of July 2, 2010, we have elected to use the Eurodollar Rate which resulted in a rate of 5.00% as of July 4, 2010.

Consistent with our policy, we entered into several outstanding interest rate swap agreements (the “Interest Rate Swaps”) during the third quarter of 2009 and the first quarter of 2010 with notional amounts totaling \$186.0 million and \$39.0 million, respectively, that swap the fixed rate interest rates on the Wendy’s 6.20% senior notes for floating rates. The Interest Rate Swaps are accounted for as fair value hedges. At July 4, 2010, the fair value of our Interest Rate Swaps was \$9.2 million and was included in “Deferred costs and other assets” and as an adjustment to the carrying amount of the Wendy’s 6.20% senior notes. Our policies prohibit the use of derivative instruments for trading purposes, and we have procedures in place to monitor and control their use. If any portion of the hedge is determined to be ineffective, any changes in fair value would be recognized in our results of operations.

Credit Risk

Our credit risk as of January 3, 2010 included the Deerfield Capital Corp. (“DFR”) Notes (“DFR Notes”), which we received in late fiscal 2007 in connection with the sale of our majority capital interest in Deerfield & Company (the “Deerfield Sale”).

On June 9, 2010, pursuant to a March 2010 agreement between the Company and Deerfield Capital Corp. (“DFR”), we received cash proceeds of \$30.8 in consideration for the repayment and cancellation of the series A senior notes (the “DFR Notes”) we received in December 2007 in connection with the sale of Deerfield & Company (the “Deerfield Sale”) to DFR. Additional information on the DFR Notes and the Deerfield Sale is discussed in our Form 10-K. The

proceeds represented 64.1% of the \$48.0 aggregate principal amount of the DFR Notes.

During the fourth quarter of 2008, we recognized an allowance for collectability of \$21.2 to reduce the then carrying amount of the notes. As a result, we recognized income of \$4.9 during the three months and six months ended July 4, 2010, as the repayment proceeds exceeded the carrying value of the DFR Notes. This gain is included in "Investment income (expense), net."

Overall Market Risk

Our overall market risk as of July 4, 2010 includes cash equivalents, certain cost investments and our equity investment in a Canadian restaurant real estate joint venture (“TimWen”) with Tim Hortons Inc. As of July 4, 2010, these investments were classified in our unaudited condensed consolidated balance sheet as follows (in millions):

| | |
|---|---------|
| Cash equivalents included in “Cash and cash equivalents” | \$4.9 |
| Restricted cash equivalents: | |
| Current included in “Prepaid expenses and other current assets” | 1.0 |
| Non-current included in “Deferred costs and other assets” | 5.9 |
| Investment related receivable included in “Accounts and notes receivable” | 0.1 |
| Equity investment | 95.6 |
| Cost investments | 8.5 |
| | \$116.0 |

Our cash equivalents are short-term, highly liquid investments with maturities of three months or less when acquired and consisted principally of cash in bank money market and mutual fund accounts, and are primarily not in Federal Deposit Insurance Corporation (“FDIC”) insured accounts, \$6.9 million of which was restricted as of July 4, 2010.

At July 4, 2010 our investments were classified in the following general types or categories (in millions):

| Type | At Cost | At Fair Value (a) | Carrying Value | |
|---|---------|-------------------|----------------|---------|
| | | | Amount | Percent |
| Cash equivalents | \$4.9 | \$4.9 | \$4.9 | 4% |
| Current and non-current restricted cash equivalents | 6.9 | 6.9 | 6.9 | 6% |
| Investment related receivables | 0.1 | 0.1 | 0.1 | - |
| Other non-current investments accounted for at: | | | | |
| Equity (b) | 82.6 | 95.6 | 95.6 | 83% |
| Cost | 8.5 | 10.3 | 8.5 | 7% |
| | \$103.0 | \$117.8 | \$116.0 | 100% |

(a) There can be no assurance that we would be able to realize these amounts.

(b) The company believes that the fair value of our equity interest in TimWen is at least equal to its carrying value as there have been no indications of its impairment.

Our investments which are accounted for at cost included limited partnerships and other non-current investments in which we do not have significant influence over the investees. Realized gains and losses on our investments recorded at cost are reported as income or loss in the period in which the securities are sold. Investments accounted for in accordance with the equity method of accounting are those in which we have significant influence over the investees and for which our results of operations include our share of the income or loss of the investees. We review all of our investments in which we have unrealized losses and recognize investment losses currently for any unrealized losses we deem to be other than temporary.

Sensitivity Analysis

Our estimate of market risk exposure is presented for each class of financial instruments held by us at July 4, 2010 for which an immediate adverse market movement would cause a potential material impact on our financial position or results of operations. We believe that the adverse market movements described below represent the hypothetical loss to our financial position or our results of operations and do not represent the maximum possible loss nor any expected actual loss, even under adverse conditions, because actual adverse fluctuations would likely differ. As of July 4, 2010, we did not hold any market-risk sensitive instruments which were entered into for trading purposes. As such, the table below reflects the risk for those financial instruments entered into as of July 4, 2010 based upon assumed immediate adverse effects as noted below (in millions):

| | Carrying Value | Interest Rate Risk | Equity Price Risk | Foreign Currency Risk |
|--|----------------|--------------------|-------------------|-----------------------|
| Cash equivalents | \$4.9 | \$- | \$- | \$- |
| Current and non-current restricted cash equivalents | 6.9 | - | - | - |
| Equity investment | 95.6 | - | (9.6) | (9.6) |
| Cost investments | 8.5 | (0.1) | (0.8) | - |
| Interest Rate Swaps | 9.2 | (11.3) | - | - |
| Long-term debt, excluding capitalized lease and sale-leaseback obligations-variable rate | (497.5) | (33.1) | - | - |
| Long-term debt, excluding capitalized lease and sale-leaseback obligations-fixed rate | (865.7) | (90.7) | - | - |

The sensitivity analysis of financial instruments held at July 4, 2010 assumes an instantaneous one percentage point adverse change in market interest rates, and an instantaneous 10% adverse change in the foreign currency exchange rates versus the United States dollar, each from their levels at July 4, 2010 and with all other variables held constant. The equity price risk reflects the impact of a 10% decrease in the carrying value of our equity securities, including those in "Cost investments" in the tables above. The sensitivity analysis also assumes that the decreases in the equity markets and foreign exchange rates are other than temporary.

Our cash equivalents and restricted cash equivalents included \$11.8 million as of July 4, 2010 of bank money market accounts and interest-bearing brokerage and bank accounts which are all investments with a maturity of three months or less when acquired and are designed to maintain a stable value.

As of July 4, 2010, we had amounts of both fixed-rate debt and variable-rate debt. On the fixed-rate debt, the interest rate risk presented with respect to our long-term debt, excluding capitalized lease and sale-leaseback obligations, primarily relates to the potential impact a decrease in interest rates of one percentage point has on the fair value of our \$865.7 million of fixed-rate debt and not on our financial position or our results of operations. However, as discussed above under "Interest Rate Risk," we have interest rate swap agreements on a portion of our fixed-rate debt. The interest rate risk of our fixed-rate debt presented in the tables above exclude the effect of the \$225.0 million for which we designated interest rate swap agreements as fair value hedges for the terms of the swap agreements. As interest rates decrease, the fair market values of the interest rate swap agreements increase. The interest rate risks presented with respect to the interest rate swap agreements represent the potential impact the indicated change has on our results of operations. On the variable-rate debt, the interest rate risk presented with respect to our long-term debt, excluding capitalized lease and sale-leaseback obligations, represents the potential impact an increase in interest rates of one percentage point has on our results of operations related to our \$497.5 million of variable-rate long-term debt outstanding as of July 4, 2010. Our variable-rate long-term debt outstanding as of July 4, 2010 had a weighted average remaining maturity of approximately seven years.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of July 4, 2010. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of July 4, 2010, our disclosure controls and procedures were effective in (1) recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and (2) ensuring that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting made during the quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

There are inherent limitations in the effectiveness of any control system, including the potential for human error and the circumvention or overriding of the controls and procedures. Additionally, judgments in decision-making can be faulty and breakdowns can occur because of simple error or mistake. An effective control system can provide only reasonable, not absolute, assurance that the control objectives of the system are adequately met. Accordingly, our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our control system can prevent or detect all error or fraud. Finally, projections of any evaluation or assessment of effectiveness of a control system to future periods are subject to the risks that, over time, controls may become inadequate because of changes in an entity's operating environment or deterioration in the degree of compliance with policies or procedures.

Part II. OTHER INFORMATION

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND PROJECTIONS

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

- competition, including pricing pressures, aggressive marketing and the potential impact of competitors’ new unit openings on sales of Wendy’s and Arby’s restaurants;
 - consumers’ perceptions of the relative quality, variety, affordability and value of the food products we offer;
- success of operating initiatives, including advertising and promotional efforts and new product and concept development by us and our competitors;
 - development costs, including real estate and construction costs;
 - changes in consumer tastes and preferences, including changes resulting from concerns over nutritional or safety aspects of beef, poultry, French fries or other foods or the effects of food-borne illnesses such as “mad cow disease” and avian influenza or “bird flu,” and changes in spending patterns and demographic trends, such as the extent to which consumers eat meals away from home;
- certain factors affecting our franchisees, including the business and financial viability of franchisees, with a significant number of Arby’s franchisees and a minimal number of Wendy’s franchisees having experienced declining sales and profitability, the timely payment of franchisees’ obligations due to us or to national or local advertising organizations, and the ability of our franchisees to open new restaurants in accordance with their development commitments, including their ability to finance restaurant development and remodels;
 - availability, location and terms of sites for restaurant development by us and our franchisees;
 - delays in opening new restaurants or completing remodels of existing restaurants;
 - the timing and impact of acquisitions and dispositions of restaurants;

- our ability to successfully integrate acquired restaurant operations;
- anticipated or unanticipated restaurant closures by us and our franchisees;
- our ability to identify, attract and retain potential franchisees with sufficient experience and financial resources to develop and operate Wendy's and Arby's restaurants successfully;
- availability of qualified restaurant personnel to us and to our franchisees, and the ability to retain such personnel;
- our ability, if necessary, to secure alternative distribution of supplies of food, equipment and other products to Wendy's and Arby's restaurants at competitive rates and in adequate amounts, and the potential financial impact of any interruptions in such distribution;
- changes in commodity (including beef and chicken), labor, supply, fuel, utilities, distribution and other operating costs;

- availability and cost of insurance;
- adverse weather conditions;
- availability, terms (including changes in interest rates) and deployment of capital;
- changes in legal or regulatory requirements, including franchising laws, accounting standards, payment card industry rules, overtime rules, minimum wage rates, government-mandated health benefits, tax legislation and menu-board labeling requirements;
 - the costs, uncertainties and other effects of legal, environmental and administrative proceedings;
- the impact of general economic conditions and high unemployment rates on consumer spending, particularly in geographic regions that contain a high concentration of Wendy's or Arby's restaurants, and the effects of war or terrorist activities;
- the effects of charges for impairment of goodwill or for the impairment of long-lived assets due to deteriorating operating results; and
 - other risks and uncertainties affecting us and our subsidiaries referred to in our Form 10-K for the fiscal year ended January 3, 2010 (the "Form 10-K") (see especially "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations") and in our other current and periodic filings with the Securities and Exchange Commission.

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

Item 1. Legal Proceedings.

We are involved in litigation and claims incidental to our current and prior businesses. We have reserves for all of our legal and environmental matters aggregating \$6.1 million as of July 4, 2010. The outcome of these matters cannot be predicted with certainty and some of these matters may be disposed of unfavorably to us. 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.

Item 1A. Risk Factors.

In addition to the information contained in this report, you should carefully consider the risk factors disclosed in our Form 10-K, which could materially affect our business, financial condition or future results. Except as described in this report, including the risk factor set forth below, there have been no material changes from the risk factors previously disclosed in our Form 10-K and our Form 10-Q for the quarter ended April 4, 2010.

Our financial results are affected by the operating results of franchisees.

As of July 4, 2010, approximately 79% of the Wendy's system and 69% of the Arby's system were franchise restaurants. We receive revenue in the form of royalties, which are generally based on a percentage of sales at franchised restaurants, rent and fees from franchisees. Accordingly, a substantial portion of our financial results is to a large extent dependent upon the operational and financial success of our franchisees. If sales trends or economic conditions worsen for franchisees, their financial results may worsen and our royalty, rent and other fee revenues may decline. In addition, accounts receivable and related allowance for doubtful accounts may increase. When company-owned restaurants are sold, one of our subsidiaries is often required to remain responsible for lease payments for these restaurants to the extent that the purchasing franchisees default on their leases. During periods of declining sales and profitability of franchisees, such as are currently being experienced by a significant number of Arby's franchisees and a minimal number of Wendy's franchisees, the incidence of franchisee defaults for these lease payments increases and we are then required to make those payments and seek recourse against the franchisee or agree to repayment terms. Additionally, if franchisees fail to renew their franchise agreements, or if we decide to restructure franchise agreements in order to induce franchisees to renew these agreements, then our royalty revenues may decrease. Further, we may decide from time to time to acquire restaurants from franchisees that experience significant financial hardship, which may reduce our cash and equivalents.

As of July 4, 2010, there were approximately 310 Arby's franchised restaurants with amounts payable to our subsidiary Arby's Restaurant Group, Inc. ("ARG") for royalties, rent and/or other fees that were at least 60 days past due. The financial condition of a number of Arby's franchisees was one of the factors that resulted in a net decrease of 31 and 16 in the number of franchised restaurants for fiscal 2009 and for the six months ended July 4, 2010, respectively. During those periods 74 and 50 franchised Arby's restaurants were closed, respectively. The trend of declining sales at franchised restaurants has resulted in decreases in royalties and other franchise revenues. In addition, Arby's franchisee accounts receivable and related allowance for doubtful accounts have increased significantly, and may continue to grow as a result of the deteriorating financial condition of some of our franchisees. Franchisee financial difficulties and the closure of franchised restaurants have also caused reductions in the contributions to and extent of national and local advertising programs. Continuation of these trends will further affect our revenues and may have a material adverse effect on our results of operations and financial condition.

AFA Service Corporation ("AFA"), an independently controlled advertising cooperative in which we have voting interests of less than 50%, had previously entered into a revolving loan agreement with ARG pursuant to which ARG provides revolving loans up to \$11.0 million. As of July 4, 2010, the outstanding balance under this agreement was \$9.0 million and there were no amounts past due. Due to declining sales and profitability of Arby's franchisees, it is possible that our ability in the future to collect principal and interest payments from AFA could be adversely affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table provides information with respect to repurchases of shares of our common stock by us and our “affiliated purchasers” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) during the second fiscal quarter of 2010:

Issuer Repurchases of Equity Securities

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (2) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan (2) |
|-----------------------------------|--------------------------------------|------------------------------|---|---|
| April 5, 2010 through May 9, 2010 | 3,044 | \$5.05 | 6,328,500 | \$59,793,803 |
| May 10, 2010 through June 6, 2010 | 6,525 | 4.37 | 9,674,000 | \$90,591,191 |
| June 7, 2010 through July 4, 2010 | 32,163 | 4.29 | 2,648,300 | \$79,517,373 |
| Total | 41,732 | \$4.36 | 18,650,800 | \$79,517,373 |

(1) Includes 41,732 shares reacquired by the Company from holders of restricted stock awards to satisfy tax withholding requirements. The shares were valued at the closing price of our Common Stock on the date of activity.

(2) On January 27, 2010, March 22, 2010 and May 27, 2010, our Board of Directors authorized our management, when and if market conditions warrant and to the extent legally permissible, to repurchase through January 2, 2011 up to an additional \$75.0 million, \$50.0 million and \$75.0 million, respectively, of our Common Stock.

Item 4. (Removed and Reserved).

Item 6. Exhibits.

| EXHIBIT NO. | DESCRIPTION |
|----------------|--|
| 2.1 | Agreement and Plan of Merger, dated as of April 23, 2008, by and among Triarc Companies, Inc., Green Merger Sub Inc. and Wendy's International, Inc., incorporated herein by reference to Exhibit 2.1 to Triarc's Current Report on Form 8-K dated April 29, 2008 (SEC file no. 001-02207). |
| 2.2 | Side Letter Agreement, dated August 14, 2008, by and among Triarc Companies, Inc., Green Merger Sub, Inc. and Wendy's International, Inc., incorporated herein by reference to Exhibit 2.3 to Triarc's Registration Statement on Form S-4, Amendment No.3, filed on August 15, 2008 (Reg. no. 333-151336). |
| 2.3 | Agreement and Plan of Merger, dated as of December 17, 2007, by and among Deerfield Triarc Capital Corp., DFR Merger Company, LLC, Deerfield & Company LLC and, solely for the purposes set forth therein, Triarc Companies, Inc. (in such capacity, the Sellers' Representative, incorporated herein by reference to Exhibit 2.1 to Triarc's Current Report on Form 8-K dated December 21, 2007 (SEC file No. 001-02207). |
| 3.1 | Amended and Restated Certificate of Incorporation of Wendy's/Arby's Group, Inc., as filed with the Secretary of State of the State of Delaware on May 28, 2009, incorporated herein by reference to Exhibit 3.1 to Wendy's/Arby's Group's Current Report on Form 8-K dated June 1, 2009 (SEC file no. 001-02207). |
| 3.2 | Amended and Restated By-Laws of Wendy's/Arby's Group, Inc., as amended and restated as of May 28, 2009, incorporated herein by reference to Exhibit 3.2 to Wendy's/Arby's Group's Current Report on Form 8-K dated June 1, 2009 (SEC file no. 001-02207). |
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| 10.3 | <u>Amendment No. 1, dated as of July 12, 2010, to the Credit Agreement, dated as of May 24, 2010, among Wendy's/Arby's Restaurants, LLC, as borrower, Bank of America, N.A., as administrative agent, Citicorp North America, Inc., as syndication agent, Wells Fargo Bank, National Association, as documentation agent, and the lenders and issuers party thereto.*</u> |
| 10.4 | Wendy's/Arby's Group, Inc. 2010 Omnibus Award Plan, incorporated by reference to Annex A of the Wendy's/Arby's Group, Inc. Definitive 2010 Proxy Statement (SEC file no. 001-02207). |
| 10.5 | <u>Form of Non-Incentive Stock Option Award Agreement under the Wendy's/Arby's Group, Inc. 2010 Omnibus Award Plan.*</u> |
| 10.6 | <u>Form of Long Term Performance Unit Award Agreement under the Wendy's/Arby's Group, Inc. 2010 Omnibus Award Plan.*</u> |
| 10.7 | <u>Form of Non-Employee Director Restricted Stock Award Agreement under the Wendy's/Arby's Group, Inc. 2010 Omnibus Award Plan.*</u> |
| 10.8 | Letter Agreement dated as of May 11, 2010 between Hala Modellmog and Wendy's/Arby's Group, Inc., incorporated by reference to Exhibit 10.1 to Wendy's/Arby's Group's Current Report on Form 8-K dated May 14, 2010 (SEC file no. 001-02207). |
| 10.9 | <u>Amendment No. 1 to the Wendy's/Arby's Group, Inc. 2009 Directors' Deferred Compensation Plan, effective as of May 27, 2010.*</u> |
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First Amendment to Agreement of Sublease between Wendy's/Arby's Group, Inc. (f/k/a Triarc Companies, Inc.) and Trian Fund Management, L.P.*

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31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished as an exhibit to this Form 10-Q.*

101.INS XBRL Instance Document**

101.SCH XBRL Taxonomy Extension Schema Document**

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document**

101.LAB XBRL Taxonomy Extension Label Linkbase Document**

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document**

101.DEF XBRL Taxonomy Extension Definition Linkbase Document**

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** In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be "furnished" and not "filed."

SIGNATURES

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/ARBY'S GROUP, INC.
(Registrant)

Date: August 12, 2010

By: /s/ Stephen E. Hare
Stephen E. Hare
Senior Vice President and
Chief Financial Officer
(On behalf of the Company)

Date: August 12, 2010

By: /s/ Steven B. Graham
Steven B. Graham
Senior Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

Exhibit Index

| EXHIBIT NO. | DESCRIPTION |
|----------------|--|
| 2.1 | Agreement and Plan of Merger, dated as of April 23, 2008, by and among Triarc Companies, Inc., Green Merger Sub Inc. and Wendy's International, Inc., incorporated herein by reference to Exhibit 2.1 to Triarc's Current Report on Form 8-K dated April 29, 2008 (SEC file no. 001-02207). |
| 2.2 | Side Letter Agreement, dated August 14, 2008, by and among Triarc Companies, Inc., Green Merger Sub, Inc. and Wendy's International, Inc., incorporated herein by reference to Exhibit 2.3 to Triarc's Registration Statement on Form S-4, Amendment No.3, filed on August 15, 2008 (Reg. no. 333-151336). |
| 2.3 | Agreement and Plan of Merger, dated as of December 17, 2007, by and among Deerfield Triarc Capital Corp., DFR Merger Company, LLC, Deerfield & Company LLC and, solely for the purposes set forth therein, Triarc Companies, Inc. (in such capacity, the Sellers' Representative, incorporated herein by reference to Exhibit 2.1 to Triarc's Current Report on Form 8-K dated December 21, 2007 (SEC file No. 001-02207). |
| 3.1 | Amended and Restated Certificate of Incorporation of Wendy's/Arby's Group, Inc., as filed with the Secretary of State of the State of Delaware on May 28, 2009, incorporated herein by reference to Exhibit 3.1 to Wendy's/Arby's Group's Current Report on Form 8-K dated June 1, 2009 (SEC file no. 001-02207). |
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