WENDYS INTERNATIONAL INC
Form 10-Q
August 14, 2001

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

(Mark One)
/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 1, 2001

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________ to ________________

Commission File Number 1-8116

WENDY'S INTERNATIONAL, INC.
(Exact name of Registrant as specified in its charter)

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES X NO ______.

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

| Class | Outstanding at August 5, 2001 |
|---|---|
| Common shares, $.10 stated value | 114,013,000 shares |

Exhibit index on page 17.

WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES
INDEX

WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES
PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except pe

| | Quarter Ended July 1, 2001 |
|---|---|
| Revenues | |
| Retail sales............................................ | $491,464 |
| Franchise revenues...................................... | 118,146 |
| | 609,610 |
| Costs and expenses | |
| Cost of sales........................................... | 311,063 |
| Company restaurant operating costs...................... | 102,401 |
| Operating costs......................................... | 20,821 |

| | |
|---|---|
| General and administrative expenses | 53,329 |
| Depreciation and amortization of property and equipment | 29,372 |
| Other (income) expense | (794) |
| Interest, net | 4,506 |
| | 520,698 |
| Income before income taxes | 88,912 |
| Income taxes | 32,898 |
| Net income | $ 56,014 |
| Basic earnings per common share | $ .49 |
| Diluted earnings per common share | $ .47 |
| Dividends per common share | $ .06 |
| Basic shares | 113,849 |
| Diluted shares | 122,590 |

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



WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES
PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per

| | Year-to-Date Ended July 1, 2001 | Year |
|---|---|---|
| **Revenues** | | |
| Retail sales | $ 941,067 | |
| Franchise revenues | 224,081 | |
| | 1,165,148 | |
| **Costs and expenses** | | |
| Cost of sales | 599,565 | |
| Company restaurant operating costs | 200,810 | |
| Operating costs | 41,850 | |
| General and administrative expenses | 107,090 | |
| Depreciation and amortization of property and equipment | 58,078 | |

| | |
|---|---|
| Other (income) expense | (1,325) |
| Interest, net | 8,742 |
| | 1,014,810 |
| Income before income taxes | 150,338 |
| Income taxes | 55,625 |
| Net income | $ 94,713 |
| Basic earnings per common share | $ .83 |
| Diluted earnings per common share | $ .80 |
| Dividends per common share | $ .12 |
| Basic shares | 114,095 |
| Diluted shares | 122,853 |

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



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

| | (In thousands) July 1, 2001 (Unaudited) | December 31, 2000 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 163,880 | $ 169,718 |
| Accounts receivable, net | 76,207 | 75,960 |
| Notes receivable, net | 14,073 | 11,832 |
| Deferred income taxes | 19,004 | 21,503 |
| Inventories and other | 39,572 | 40,086 |
| | 312,736 | 319,099 |
| Property and equipment | 2,140,195 | 2,074,574 |
| Accumulated depreciation and amortization | (607,505) | (577,484) |
| | 1,532,690 | 1,497,090 |

| | | |
|---|---|---|
| Notes receivable, net | 37,520 | 38,932 |
| Goodwill, net | 42,355 | 43,719 |
| Deferred income taxes | 15,856 | 20,572 |
| Other assets | 39,884 | 38,304 |
| | $1,981,041 | $1,957,716 |

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



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

| | (In thousands) | |
|---|---|---|
| | July 1, 2001 | December 31, 200 |
| | (Unaudited) | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | $ 80,277 | $ 125,564 |
| Accrued expenses: | | |
| Salaries and wages | 24,912 | 34,663 |
| Taxes | 62,490 | 50,867 |
| Insurance | 40,131 | 38,414 |
| Other | 40,789 | 42,965 |
| Current portion of long-term obligations | 4,043 | 3,943 |
| | 252,642 | 296,416 |
| Long-term obligations | | |
| Term debt | 203,847 | 204,027 |
| Capital leases | 45,747 | 44,357 |
| | 249,594 | 248,384 |
| Deferred income taxes | 68,915 | 72,750 |
| Other long-term liabilities | 14,611 | 14,023 |
| Commitments and contingencies | | |
| Company-obligated mandatorily redeemable preferred securities of Wendy's Financing I, holding solely Wendy's Convertible Debentures | 200,000 | 200,000 |
| Shareholders' equity | | |
| Preferred stock, authorized: 250,000 shares | | |
| Common stock, $.10 stated value per share | | |
| Authorized: 200,000,000 shares | | |
| Issued and Exchangeable: | | |
| 137,042,000 and 136,188,000 shares, respectively | 12,159 | 12,074 |
| Capital in excess of stated value | 439,578 | 423,144 |
| Retained earnings | 1,292,041 | 1,211,015 |

| | | |
|---|---|---|
| Accumulated other comprehensive expense.................... | (30,226) | (27,133) |
| | 1,713,552 | 1,619,100 |
| Treasury stock at cost: 23,128,000 and 21,978,000 shares, respectively.................................... | (518,273) | (492,957) |
| | 1,195,279 | 1,126,143 |
| | $1,981,041 | $1,957,716 |

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

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

| | (In thousands) | |
|---|---|---|
| | Year-to-Date Ended July 1, 2001 | Yea Jul |
| Net cash provided by operating activities................ | 137,382 | $ |
| Cash flows from investing activities | | |
| Proceeds from asset dispositions....................... | 21,116 | |
| Capital expenditures.................................. | (133,123) | |
| Payments on notes receivable........................... | 2,531 | |
| Other investing activities............................. | (7,391) | |
| Net cash used in investing activities................ | (116,867) | |
| Cash flows from financing activities | | |
| Proceeds from issuance of common stock.................. | 14,501 | |
| Repurchase of common shares............................ | (25,315) | |
| Principal payments on long-term obligations............ | (1,852) | |
| Dividends paid on common and exchangeable shares................................. | (13,687) | |
| Net cash used in financing activities................ | (26,353) | |
| Decrease in cash and cash equivalents................... | (5,838) | |
| Cash and cash equivalents at beginning of period......... | 169,718 | |
| Cash and cash equivalents at end of period.............. | $ 163,880 | $ |
| Supplemental disclosures of cash flow Information: | | |
| Interest paid.......................................... | $ 14,485 | $ |
| Capitalized lease obligations incurred................. | 3,310 | |
| Income taxes paid...................................... | 41,455 | |

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



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

## NOTE 1. MANAGEMENT'S STATEMENT

In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly the condensed financial position of Wendy's International, Inc. and Subsidiaries (the Company) as of July 1, 2001 and December 31, 2000 and the condensed results of operations and comprehensive income (see Note 3) for the quarters and year-to-date periods ended July 1, 2001 and July 2, 2000 and cash flows for the year-to-date periods ended July 1, 2001 and July 2, 2000. All of these financial statements are unaudited with the exception of the December 31, 2000 balance sheet. The Notes to the audited Consolidated Financial Statements, which are contained in the Financial Statements and Other Information furnished with the Company's 2001 Proxy Statement, should be read in conjunction with these Consolidated Condensed Financial Statements.

## NOTE 2. NET INCOME PER SHARE

Basic earnings per common share are computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Diluted computations include assumed conversions of stock options, net of shares repurchased from proceeds, and company-obligated mandatorily redeemable preferred securities, when dilutive, and the elimination of related expenses, net of income taxes. Options to purchase 3.4 million shares of common stock in the current quarter and year-to-date, and 6.6 million shares in the prior year quarter and year-to-date, were not included in the computation of diluted earnings per common share. These options were excluded from the calculation because the exercise price of these options was greater than the average market price of the common shares in the respective periods, and therefore, they are antidilutive.

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

| | Quarter Ended July 1, 2001 | Quarter Ended July 2, 2000 | Y J |
|---|---|---|---|
| | (In thousands, except per s | | |
| Income for computation of basic earnings per common share | $ 56,014 | $ 50,678 | $ |
| Interest savings (net of income taxes) on assumed conversions | 1,598 | 1,585 | |
| Income for computation of diluted earnings per common share | $ 57,612 | $ 52,263 | $ |

| | | | |
|---|---|---|---|
| Weighted average shares for computation of basic earnings per common share | 113,849 | 113,712 | |
| Dilutive stock options | 1,168 | 506 | |
| Assumed conversions | 7,573 | 7,573 | |
| Weighted average shares for computation of diluted earnings per common share | 122,590 | 121,791 | |
| Basic earnings per common share | $ .49 | $ .45 | $ |
| Diluted earnings per common share | $ .47 | $ .43 | $ |



NOTE 3. CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

The components of other comprehensive income expense and total comprehensive income are shown below:

| | Quarter Ended July 1, 2001 | Quarter Ended July 2, 2000 | Year-to-Date Ended July 1, 2001 |
|---|---|---|---|
| | | (In thousands) | |
| Net income | $56,014 | $50,678 | $94,713 |
| Other comprehensive income (expense): | | | |
| Translation adjustments | 15,768 | (6,726) | (3,093) |
| Comprehensive income | $71,782 | $43,952 | $91,620 |

The translation adjustments change of $22.5 million in the current quarter reflects a strengthening of the Canadian dollar during the second quarter of 2001, versus a weakening during the second quarter of 2000. The $4.7 million translation adjustment change year-to-date reflects a more significant weakening of the Canadian dollar last year versus the current year.

NOTE 4. SEGMENT REPORTING

The Company operates exclusively in the food-service industry and has determined that its reportable segments are those that are based on the Company's methods of internal reporting and management structure. The Company's reportable segments are Wendy's and Tim Hortons. There were no material amounts of revenues or transfers between reportable segments. The table below presents information about reportable segments:

| | Wendy's | Tim Hortons | Total |
|---|---|---|---|
| | | (In thousands) | |
| Quarter Ended July 1, 2001 | | | |

| | | | |
|---|---|---|---|
| Revenues | $470,399 | $139,211 | $ 609,610 |
| Income before income taxes | 85,773 | 32,378 | 118,151 |
| Capital expenditures | 49,524 | 17,587 | 67,111 |
| Quarter Ended July 2, 2000 | | | |
| Revenues | $438,698 | $129,779 | $ 568,477 |
| Income before income taxes | 77,923 | 28,606 | 106,529 |
| Capital expenditures | 57,287 | 15,732 | 73,019 |
| Year-to-Date Ended July 1, 2001 | | | |
| Revenues | $895,348 | $269,800 | $1,165,148 |
| Income before income taxes | 148,293 | 60,718 | 209,011 |
| Capital expenditures | 97,586 | 35,537 | 133,123 |
| Year-to-Date Ended July 2, 2000 | | | |
| Revenues | $839,833 | $247,216 | $1,087,049 |
| Income before income taxes | 140,664 | 53,599 | 194,263 |
| Capital expenditures | 99,332 | 36,098 | 135,430 |

A reconciliation of reportable segment income before income taxes to consolidated income before income taxes follows:

| | Quarter Ended July 1, 2001 | Quarter Ended July 2, 2000 | Year E July |
|---|---|---|---|
| | (In thousands) | | |
| Income before income taxes...................... | $118,151 | $106,529 | $2 |
| Corporate charges............................. | (29,239) | (25,442) | ( |
| Consolidated income before income taxes......... | $ 88,912 | $ 81,087 | $1 |

Corporate charges include certain overhead costs and net interest expense.



WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

The Company's diluted earnings per common share increased 9.3% to $.47 in the current quarter, and 9.6% to $.80 in the year-to-date period. In the quarter, consolidated revenues increased 7.2% to $610 million and systemwide sales increased 8.5% to $2.1 billion. Year-to-date, consolidated revenues increased 7.2% to $1.2 billion and systemwide sales increased 7.8% to $4.0 billion. Consolidated revenues include sales from company operated units, as well as royalties, rents and franchise fees from franchise restaurants. Systemwide sales include sales from both company and franchise restaurants. Average same-store sales increased for both Wendy's and Tim Hortons Canadian and U.S. restaurants during the quarter and year-to-date.

WENDY'S

Retail Sales

Wendy's retail sales for the second quarter 2001 increased $27.2 million, or 7.3%, to $401.6 million, and $47.3 million, or 6.6%, to $767.1 million for year-to-date 2001. Of this total, domestic Wendy's retail sales increased 8.3% to $361.0 million in the quarter, and 7.7% to $690.7 million for the year-to-date. For domestic company operated Wendy's, average restaurant sales increased 2.4% to $344,684 per restaurant in the quarter, and 1.9% to $661,443 year-to-date. Average same-store sales in Wendy's domestic company restaurants increased 2.8% in the quarter and 2.2% for the year-to-date. The average number of transactions in domestic company operated Wendy's decreased .2% in the quarter and .4% year-to-date, while the average check increased 3.1% in the quarter and 2.5% year-to-date. In addition, domestic selling prices increased 2.2% in the quarter and 2.0% year-to-date. In the second quarter and year-to-date, the average number of Wendy's company operated domestic restaurants increased by 57 compared to the prior year quarter and year-to-date.

Canadian Wendy's retail sales increased $2.9 million, or 11.5% in the second quarter, and $5.1 million, or 10.7% for the year-to-date. Canadian Wendy's same-store sales for company operated restaurants, in local currency, increased 7.2% in the quarter and 6.0% year-to-date. With the closure of the Company's Argentina market in fourth quarter 2000, other international retail sales decreased $4.0 million in the quarter and $8.1 million year-to-date.

Franchise Revenues

Wendy's franchise revenues increased $4.5 million, or 6.9%, to $68.8 million in the quarter, and increased $8.2 million, or 6.8%, to $128.2 million year-to-date. Royalties, before reserves, increased $4.2 million, or 8.4%, to $53.3 million in the quarter, and increased $6.8 million, or 7.2%, to $101.1 million year-to-date. This was primarily a result of an average of 167 more Wendy's domestic franchise restaurants being open in the current quarter compared to the prior year quarter and an average of 171 more restaurants open year-to-date. In addition, average net sales at franchise domestic restaurants increased 3.8% to $299,135 in the quarter and 2.6% to $569,600 year-to-date. In local currency, Canadian Wendy's same-store franchise sales increased 5.4% in the quarter and 4.2% year-to-date, while other international same-store franchise sales decreased .4% in the quarter and 1.1% year-to-date. Total Wendy's franchise restaurants open at quarter-end were 4,715 and 4,497, respectively, in 2001 and 2000.

Cost of Sales and Restaurant Operating Costs

Wendy's cost of sales increased $18.1 million, or 8.2%, to $240.4 million in the quarter, and $33.2 million, or 7.7%, to $463.3 million year-to-date. Of this total, Wendy's domestic restaurant cost of sales increased 9.2% to $215.1 million in the quarter, and 8.8% to $415.3 million year-to-date. Cost of sales as a percent of Wendy's domestic retail sales, increased .5% in the quarter and .6% year-to-date. Domestic food costs, as a percent of domestic retail sales, increased .2% in the quarter and year-to-date, primarily reflecting an increase in beef costs of 13.3% in the quarter and 11.1% year-to-date, partly offset by a selling price increase of 2.2% for the quarter and 2.0% year-to-date. Domestic labor costs, as a percent of sales, increased .4% in the quarter and .5% year-to-date, reflecting an increase in the average hourly crew rate of 3.8% in the quarter and 3.9% year-to-date, and average sales increases insufficient to leverage labor costs.



As a percent of retail sales, Canadian Wendy's cost of sales increased .1% in the quarter and .4% year-to-date, reflecting higher commodity prices. Other international restaurants reduced cost of sales $2.5 million in the quarter and

$4.9 million year-to-date, primarily due to the closure of the Argentina market.

Wendy's company restaurant operating costs increased $7.8 million, or 8.7%, to $98.1 million in the quarter, and $15.5 million, or 8.8%, to $192.0 million year-to-date. Of this total, domestic Wendy's company restaurant operating costs increased 11.4% to $90.5 million in the quarter, and 11.7% to $177.1 million, year-to-date. As a percent of retail sales, domestic restaurant costs increased .7% in the quarter and 1.0% for the year-to-date, reflecting higher utility costs, as well as increased health insurance and pension costs. In addition, health insurance costs were lower in the second quarter a year ago, reflecting a $1.3 million insurance refund.

The factors discussed above resulted in Wendy's domestic company operating margin decreasing 1.2% to 16.1% in the quarter and 1.6% to 15.0% for the year-to-date.

Canadian Wendy's company restaurant operating costs increased $635,000 in the quarter and $1.3 million year-to-date. As a percent of retail sales, Canadian Wendy's company restaurant operating costs were 24.9% and 26.1% for second quarter and year-to-date 2001, versus 25.3% and 26.2% for the prior year quarter and year-to-date. Other international restaurant operating costs decreased $2.1 million in the quarter and $4.4 million year-to-date, reflecting the closure of the Argentina market.

Operating Costs

Wendy's operating costs increased 18.7% to $3.7 million in the quarter and 10.3% to $7.4 million year-to-date, reflecting higher percentage rent due to higher average sales and additional rental properties in the current quarter and year-to-date.

TIM HORTONS

Retail Sales

Tim Hortons (Hortons) retail sales increased $5.9 million, or 7.0%, to $89.8 million in second quarter 2001, and $13.1 million, or 8.2%, to $174.0 million for the year-to-date. Of this total, Canadian warehouse sales (sales of dry goods to franchisees) increased $8.7 million, or 12.8% to $76.3 million in the quarter, and $16.8 million, or 13.1%, to $145.1 million year-to-date. This reflected the increase in the number of Hortons' Canadian franchised restaurants serviced and same-store sales growth in local currency of 7.1% for the quarter and 8.5% for the year-to-date. Retail sales in the U.S. decreased $1.9 million in the quarter and $4.4 million year-to-date, reflecting the strategy to sell most of the company operated restaurants to franchisees.

Franchise Revenues

Hortons franchise revenues, before reserves, increased $3.5 million, or 7.7%, to $49.4 million in second quarter 2001, and $9.5 million, or 10.9% to $95.8 million for the year-to-date. Canadian royalties increased 12.9% to $10.6 million in the quarter, and 13.4% to $20.4 million year-to-date. Canadian rental income from restaurants leased to franchisees increased 16.6% to $30.8 million in the quarter, and 16.4% to $58.6 million for the year-to-date. These increases reflected the increase in the number of Canadian franchise restaurants open and the same-store sales growth in local currency of 7.1% for the quarter and 8.5% for the year-to-date.

Franchise fees decreased $2.9 million in the quarter and $2.5 million year-to-date, reflecting less full-sized restaurants being franchised in Canada in the current quarter and year-to-date.

Cost of Sales

The Hortons' Canadian warehouse cost of sales increased $7.3 million, or 13.6%, to $61.3 million in the quarter, and $13.9 million, or 13.6%, to $115.8 million year-to-date, reflecting additional sales to Canadian franchisees due to the increased number of restaurants serviced and higher average sales per restaurant. Warehouse cost of sales, as a percent of warehouse sales, increased to 80.4% in the second quarter 2001 from 79.8% in 2000, and increased to 79.8% from 79.4% in the year-to-date period. The increases for both periods reflect commodity prices and the change in the

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Canadian currency exchange rate. Hortons U.S. cost of sales decreased $1.5 million in the quarter and $3.3 million year-to-date, reflecting the strategy to franchise most of the company operated restaurants.

Operating Costs

Hortons operating costs decreased $296,000, or 1.7%, to $17.1 million in the quarter, and increased $1.8 million, or 5.6%, to $34.5 million year-to-date. Canadian Hortons rent expense increased 14.5% to $8.2 million in the quarter, and 10.2% to $15.7 million year-to-date, reflecting the growth in the number of properties being leased and then subleased to Canadian franchisees, as well as higher percentage rent due to higher sales. Cost of equipment decreased 36.1% to $3.6 million in the quarter and 13.2% to $8.0 million year-to-date due to a decrease in the number of units being franchised in the current year. Costs of operating and maintaining Canadian warehouse operations increased 14.1% to $4.2 million in the quarter, and increased 18.2% to $8.4 million for the year-to-date.

CONSOLIDATED

General and Administrative Expenses

Company general and administrative expenses for the second quarter 2001 increased 3.1% to $53.3 million, and 4.2% to $107.1 million for the year-to-date. As a percent of revenues, costs were .4% lower in the quarter at 8.7% versus 9.1% last year. For the year-to-date, costs were .3% lower at 9.2% versus 9.5% last year. The dollar increase in 2001 primarily reflects an increase in salaries and benefits, as well as legal and professional fees.

Depreciation and Amortization Expenses

Depreciation and amortization expenses for the quarter and year-to-date increased over 2000 reflecting the Company's information technology initiatives and additional restaurant development.

Other Expense

Other expense decreased $1.6 million in the quarter and $5.3 million year-to-date, reflecting charges that were incurred in the prior year for a legal reserve, executive search charges and asset write-offs. There were no similar charges incurred in the current year.

Interest, Net

Net interest expense increased $840,000 to $8.7 million for year-to-date 2001 as a result of lower interest income rates on investments.

Foreign Currency

The primary currency exposure the Company has is to the Canadian dollar. The results of Wendy's and Tim Hortons' Canadian operations are translated into U.S. dollars. The change in the Canadian dollar this year versus last year reduced earnings per share by approximately $.015 for year-to-date 2001.

INTERNATIONAL CHARGES

In the fourth quarter 2000, the Company recorded a pretax charge of $18.4

million related to the termination of operations in Argentina. This charge included $6.8 million for asset impairment charges, $1.7 million for lease termination costs, $3.2 million in employee-related costs, and $6.7 million in other closure costs. At year-end 2000, $3.5 million of accrued expenses for closure and employee costs remained. At the end of the current quarter, accrued expenses related to the closure totalled $794,000. The resolution of these issues has not resulted in any income impact in the second quarter or year-to-date financial statements.

## COMPREHENSIVE INCOME

Comprehensive income increased $27.8 million in the quarter and $12.8 million year-to-date. The increase in comprehensive income in the quarter reflects an increase of $5.3 million in reported income and a $22.5 million benefit from the movement in the Canadian exchange rate during the current quarter. The increase in comprehensive income year-to-date reflects an increase of $8.1 million in reported income and a $4.7 million relative benefit from movement in the Canadian exchange rate (see Note 3).

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## FINANCIAL CONDITION

The Company's financial condition continues to be very strong at the end of the second quarter of 2001. The long-term debt to equity and debt-to-total capitalization ratios were 21% and 17%, respectively, at July 1, 2001. Cash flow from operations was $135 million for the year-to-date 2001, and $127 million for the prior year. Year-to-date, cash of $25.3 million was used to repurchase 1,150,000 common shares. A total of $517 million in cash has been used to purchase 23.0 million shares since 1998. Capital expenditures amounted to $133 million for 2001 compared with $135 million for 2000.

## OUTLOOK

The Company continues to employ its strategic initiatives as outlined in the Financial Statements and Other Information furnished with the Company's 2001 Proxy Statement. These initiatives include leveraging the Company's core assets, growing same-store sales, improving store-level productivity to enhance margins, improving underperforming operations, repurchasing common shares and implementing new technology initiatives. The Company intends to allocate resources to improve long-term return on assets and invested capital, and to remain focused on established operational strategies of exceeding customer expectations, fostering a performance-driven culture, delivering a balanced message of brand equity plus value in marketing and growing a healthy restaurant system. New restaurant development continues to be very important. The Company also intends to evaluate potential mergers, acquisitions, joint venture investments, alliances, vertical integration opportunities and divestitures. The Company's long-term goal for EPS growth continues to be in the 12% to 15% range, excluding unusual items. The Company anticipates current year EPS growth will be in the 11% to 13% range (or $1.70 to $1.73) over 2000 EPS, exclusive of the charge taken in the fourth quarter of 2000 related to the closure of the Argentina market.

The Company currently anticipates that more than 500 new Wendy's and Hortons restaurants could be opened systemwide (both company and franchise) during 2001, subject to the continued ability of the Company and its franchisees to complete permitting and meet other conditions and to comply with other regulatory requirements for the completion of stores and to obtain financing for new restaurant development. Year-to-date 2001, there have been 193 new restaurants opened.

Cash flow from operations, cash and investments on hand, possible asset sales, and cash available through existing revolving credit agreements and through the possible issuance of securities should provide for the Company's projected short and long-term cash requirements, including cash for capital expenditures, future acquisitions of restaurants from franchisees, stock repurchases or other corporate purposes. If additional funds are needed for mergers, acquisitions or other strategic investments, the Company believes it could borrow additional cash and still maintain its investment grade rating. Standard & Poors and Moody's rate the Company's senior unsecured debt BBB+ and Baa-1, respectively.

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

## MARKET RISK

The Company's debt is primarily denominated in U.S. dollars, at fixed interest rates, which limits financial instruments risk. Therefore, the Company does not currently utilize any derivatives to alter interest rate risk. Currency exposure is predominately related to Canadian operations, since cash exposure outside North America is primarily limited to royalties. The Canadian currency has been reasonably stable over time, and the Company currently does not hedge its cash flow exposure to Canadian currency fluctuations. Also, the Company does not hedge its exposure to currency fluctuations related to royalty collections outside North America, because it does not believe the risk is material.

The Company purchases certain products in the normal course of business, which are affected by commodity prices. Therefore, the Company is exposed to some price volatility related to weather, and various other market conditions outside the Company's control. However, the Company does employ various purchasing and pricing contract techniques, in an effort to minimize volatility. The Company does not generally make use of financial instruments to hedge commodity prices, partly because of the contract pricing utilized. While volatility can occur, which would impact profit

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margins, there are generally alternative suppliers available and if the pricing problem is prolonged, the Company has some ability to increase selling prices to offset the commodity prices.

## RECENTLY ISSUED ACCOUNTING STANDARDS

The Company adopted Financial Accounting Standard Number 133 - "Accounting for Derivative Instruments and Hedging Activities" in the first quarter 2001. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires recognition of all derivatives as either assets or liabilities in the financial statements at fair value. Currently this statement does not materially impact the Company's financial statements.

In June 2001, Financial Accounting Standard Number 141 - "Business Combinations" was issued. This statement requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase accounting method and establishes specific criteria for the recognition of intangible assets separately from goodwill. The Company will adopt the provisions of this statement for any future business combinations.

Also in June 2001, Financial Accounting Standard Number 142 - "Goodwill and Other Intangible Assets" was issued. This statement is effective for all quarters of fiscal years beginning after December 15, 2001. This statement addresses the accounting for goodwill and intangible assets subsequent to acquisition. The Company is in the process of evaluating the impact of this statement on its financial statements and will adopt the provisions of this statement in the first quarter of fiscal year 2002.

## SAFE HARBOR STATEMENT

Certain information contained in this Form 10-Q, particularly information regarding future economic performance and finances, plans and objectives of management, is forward looking. In some cases, information regarding certain important factors that could cause actual results to differ materially from any such forward-looking statement appears together with such statement. In addition, the following factors, in addition to other possible factors not listed, could affect the Company's actual results and cause such results to differ materially from those expressed in forward-looking statements. These factors include: competition within the quick-service restaurant industry, which remains extremely intense, both domestically and internationally, with many competitors pursuing heavy price discounting; changes in economic conditions; changes in consumer perceptions of food safety; harsh weather, particularly in the first and fourth quarters; changes in consumer tastes; labor and benefit costs; legal claims; risks inherent to international development (including currency fluctuations); the continued ability of the Company and its franchisees to obtain suitable locations and financing for new restaurant development; governmental initiatives such as minimum wage rates, taxes and possible franchise legislation; the ability of the Company to successfully complete transactions designed to improve its return on investment; and other factors set forth in Exhibit 99 attached hereto.

The number of systemwide restaurants open as of July 1, 2001 and July 2, 2000 was as follows:

| | 2001 | 2000 |
|---|---|---|
| **Wendy's** | | |
| Company | 1,159 | 1,124 |
| Franchise | 4,715 | 4,497 |
| Total Wendy's | 5,874 | 5,621 |
| **Tim Hortons** | | |
| Company | 106 | 107 |
| Franchise | 1,941 | 1,759 |
| Total Hortons | 2,047 | 1,866 |
| Total System | 7,921 | 7,487 |

## PART II: OTHER INFORMATION

Item 4. Submission of Matters to Vote of Security Holders.

(a) The Annual Meeting of the Company's shareholders was held on May 2, 2001.

(b) The following table sets forth the name of each director elected at the meeting and the number of votes for or withheld from each director:

| Director | For | Withheld |
|---|---|---|
| R. David Thomas | 69,740,232 | 31,469,826 |
| Ernest S. Hayeck | 83,702,159 | 17,507,898 |
| Janet Hill | 83,663,661 | 17,546,396 |
| True H. Knowles | 83,736,227 | 17,473,831 |
| Paul D. House | 83,738,018 | 17,472,038 |

The following directors did not stand for reelection at the meeting (the year in which each director's term expires is indicated in parenthesis): Thekla R. Shackelford (2002), Ronald E. Musick (2002), John T. Schuessler (2002), Kerrii B. Anderson (2002), William E. Kirwan (2002), James V. Pickett (2003), Thomas F. Keller (2003), Ronald V. Joyce (2003), Andrew G. McCaughey (2003) and David P. Lauer (2003).

Item 6. Exhibits and Reports on Form 8-K.

(a) Index to Exhibits on Page 17.

(b) No report on Form 8-K was filed during the quarter ended July 1, 2001.



## WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES
## SIGNATURE

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

WENDY'S INTERNATIONAL, INC.
(Registrant)

Date: 08/14/01

/s/ Kerrii B. Anderson

Kerrii B. Anderson
Executive Vice President and
Chief Financial Officer

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