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Wendy's Co
Form 10-Q
May 10, 2017

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

FORM 10-Q

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

For the quarterly period ended April 2, 2017

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

THE WENDY'S COMPANY

(Exact name of registrants as specified in its charter)

Delaware

38-0471180

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

One Dave Thomas Blvd., Dublin, Ohio 43017

(Address of principal executive offices) (Zip Code)

(614) 764-3100

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

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Exchange Act.

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 245,456,174 shares of The Wendy's Company common stock outstanding as of May 4, 2017.

THE WENDY'S COMPANY AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

THE WENDY'S COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In Thousands Except Per Share Amounts)

| | April 2, 2017 | January 1, 2017 |
|--|------------------|--------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$193,235 | \$198,240 |
| Restricted cash | 49,339 | 57,612 |
| Accounts and notes receivable, net | 90,324 | 98,825 |
| Inventories | 2,721 | 2,851 |
| Prepaid expenses and other current assets | 27,515 | 19,244 |
| Advertising funds restricted assets | 75,396 | 75,760 |
| Total current assets | 438,530 | 452,532 |
| Properties | 1,190,550 | 1,192,339 |
| Goodwill | 741,658 | 741,410 |
| Other intangible assets | 1,314,540 | 1,322,531 |
| Investments | 56,954 | 56,981 |
| Other assets | 210,093 | 173,521 |
| Total assets | \$3,952,325 | \$3,939,314 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$24,900 | \$24,652 |
| Accounts payable | 21,852 | 27,635 |
| Accrued expenses and other current liabilities | 86,466 | 102,034 |
| Advertising funds restricted liabilities | 75,396 | 75,760 |
| Total current liabilities | 208,614 | 230,081 |
| Long-term debt | 2,527,819 | 2,487,630 |
| Deferred income taxes | 444,084 | 446,513 |
| Other liabilities | 246,959 | 247,354 |
| Total liabilities | 3,427,476 | 3,411,578 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, \$0.10 par value; 1,500,000 shares authorized; 470,424 shares issued; 246,202 and 246,574 shares outstanding, respectively | 47,042 | 47,042 |
| Additional paid-in capital | 2,876,440 | 2,878,589 |
| Accumulated deficit | (283,916) | (290,857) |
| Common stock held in treasury, at cost; 224,222 and 223,850 shares, respectively | (2,053,962) | (2,043,797) |
| Accumulated other comprehensive loss | (60,755) | (63,241) |
| Total stockholders' equity | 524,849 | 527,736 |
| Total liabilities and stockholders' equity | \$3,952,325 | \$3,939,314 |

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands Except Per Share Amounts)

| | Three Months Ended | |
|--|--------------------|------------------|
| | April 2, 2017 | April 3, 2016 |
| | (Unaudited) | |
| Revenues: | | |
| Sales | \$148,212 | \$259,332 |
| Franchise royalty revenue and fees | 94,690 | 88,895 |
| Franchise rental income | 42,917 | 30,560 |
| | 285,819 | 378,787 |
| Costs and expenses: | | |
| Cost of sales | 123,407 | 214,736 |
| Franchise rental expense | 18,868 | 14,657 |
| General and administrative | 52,450 | 64,646 |
| Depreciation and amortization | 29,165 | 32,345 |
| System optimization gains, net | (1,407) | (8,426) |
| Reorganization and realignment costs | 181 | 3,250 |
| Impairment of long-lived assets | 510 | 7,105 |
| Other operating expense (income), net | 1,925 | (13,355) |
| | 225,099 | 314,958 |
| Operating profit | 60,720 | 63,829 |
| Interest expense | (28,975) | (28,109) |
| Other income, net | 389 | 262 |
| Income before income taxes | 32,134 | 35,982 |
| Provision for income taxes | (9,793) | (10,619) |
| Net income | \$22,341 | \$25,363 |
| Basic and diluted net income per share | \$.09 | \$.09 |
| Dividends per share | \$.07 | \$.06 |

See accompanying notes to condensed consolidated financial statements.

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THE WENDY'S COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In Thousands)

| | Three Months Ended | |
|---|-----------------------|------------------|
| | April 2, 2017 | April 3, 2016 |
| | (Unaudited) | |
| Net income | \$22,341 | \$25,363 |
| Other comprehensive income, net: | | |
| Foreign currency translation adjustment | 1,945 | 12,676 |
| Change in unrecognized pension loss, net of income tax provision of \$60 | 96 | — |
| Effect of cash flow hedges, net of income tax provision of \$278 for the three months ended April 2, 2017 and April 3, 2016 | 445 | 445 |
| Other comprehensive income, net | 2,486 | 13,121 |
| Comprehensive income | \$24,827 | \$38,484 |

See accompanying notes to condensed consolidated financial statements.

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THE WENDY'S COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In Thousands)

| | Three Months Ended | |
|---|--------------------|------------------|
| | April 2, 2017 | April 3, 2016 |
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net income | \$22,341 | \$25,363 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 29,165 | 33,290 |
| Share-based compensation | 3,559 | 5,081 |
| Impairment of long-lived assets | 510 | 7,105 |
| Deferred income tax | (938) | (8,365) |
| Non-cash rental income, net | (2,728) | (1,962) |
| Net receipt of deferred vendor incentives | 9,602 | 12,810 |
| System optimization gains, net | (1,407) | (8,426) |
| Distributions received from TimWen joint venture | 2,439 | 2,689 |
| Equity in earnings in joint ventures, net | (1,846) | (1,899) |
| Accretion of long-term debt | 308 | 304 |
| Amortization of deferred financing costs | 2,000 | 1,869 |
| Reclassification of unrealized losses on cash flow hedges | 723 | 723 |
| Other, net | 1,590 | 2,804 |
| Changes in operating assets and liabilities: | | |
| Restricted cash | 15 | 42 |
| Accounts and notes receivable, net | (1,818) | 758 |
| Inventories | 130 | 431 |
| Prepaid expenses and other current assets | (1,328) | (3,665) |
| Accounts payable | (2,485) | 854 |
| Accrued expenses and other current liabilities | (21,180) | (18,998) |
| Net cash provided by operating activities | 38,652 | 50,808 |
| Cash flows from investing activities: | | |
| Capital expenditures | (14,811) | (38,858) |
| Acquisitions | — | (2,209) |
| Dispositions | 1,650 | 41,185 |
| Payments for investments | (58) | (64) |
| Notes receivable, net | (1,754) | (1,327) |
| Changes in restricted cash | 8,545 | 1,045 |
| Net cash used in investing activities | (6,428) | (228) |
| Cash flows from financing activities: | | |
| Repayments of long-term debt | (6,159) | (6,696) |
| Deferred financing costs | (415) | (138) |
| Repurchases of common stock | (16,026) | (47,601) |
| Dividends | (17,273) | (16,214) |
| Proceeds from stock option exercises | 4,459 | 3,674 |
| Payments related to tax withholding for share-based compensation | (2,559) | (2,601) |
| Net cash used in financing activities | (37,973) | (69,576) |
| Net cash used in operations before effect of exchange rate changes on cash | (5,749) | (18,996) |
| Effect of exchange rate changes on cash | 744 | 4,703 |

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| | | |
|--|-----------|-----------|
| Net decrease in cash and cash equivalents | (5,005) | (14,293) |
| Cash and cash equivalents at beginning of period | 198,240 | 327,216 |
| Cash and cash equivalents at end of period | \$193,235 | \$312,923 |

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THE WENDY'S COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS—CONTINUED

(In Thousands)

| | Three Months Ended | |
|---|-----------------------|------------------|
| | April 2, 2017 | April 3, 2016 |
| | (Unaudited) | |
| Supplemental cash flow information: | | |
| Cash paid for: | | |
| Interest | \$28,497 | \$26,045 |
| Income taxes, net of refunds | 792 | 2,421 |
| Supplemental non-cash investing and financing activities: | | |
| Capital expenditures included in accounts payable | \$7,048 | \$13,847 |
| Capitalized lease obligations | 44,483 | 79,946 |

See accompanying notes to condensed consolidated financial statements.

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THE WENDY'S COMPANY 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 The Wendy's Company ("The Wendy's Company" 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 of a normal recurring nature necessary to present fairly our financial position as of April 2, 2017 and the results of our operations and cash flows for the three months ended April 2, 2017 and April 3, 2016. The results of operations for the three months ended April 2, 2017 are not necessarily indicative of the results to be expected for the full 2017 fiscal year. These Financial Statements should be read in conjunction with the audited consolidated financial statements for The Wendy's Company and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 1, 2017 (the "Form 10-K").

The principal subsidiary of the Company is Wendy's International, LLC and its subsidiaries ("Wendy's"). The Company manages and internally reports its business geographically. The operation and franchising of Wendy's® restaurants in North America (defined as the United States of America ("U.S.") and Canada) comprises virtually all of our current operations and represents a single reportable segment. The revenues and operating results of Wendy's restaurants outside of North America are not material.

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

Certain reclassifications have been made to the prior year presentation to conform to the current year presentation.

(2) System Optimization Gains, Net

In July 2013, the Company announced a system optimization initiative, as part of its brand transformation, which includes a shift from Company-operated restaurants to franchised restaurants over time, through acquisitions and dispositions, as well as facilitating franchisee-to-franchisee restaurant transfers. In February 2015, the Company announced plans to reduce its ongoing Company-operated restaurant ownership to approximately 5% of the total system, which the Company completed as of January 1, 2017. Wendy's will continue to optimize its system by facilitating franchisee-to-franchisee restaurant transfers, as well as evaluating strategic acquisitions of franchised restaurants and strategic dispositions of Company-operated restaurants to existing and new franchisees, to further strengthen the franchisee base, drive new restaurant development and accelerate Image Activation adoption.

During the three months ended April 2, 2017, the Company recorded post-closing adjustments on sales of restaurants and completed the sale of other assets, resulting in net gains totaling \$1,407. In addition, the Company facilitated the transfer of 116 restaurants between franchisees during the three months ended April 2, 2017.

Gains and losses recognized on dispositions are recorded to "System optimization gains, net" in our condensed consolidated statements of operations. Costs related to our system optimization initiative were historically recorded to

“Reorganization and realignment costs.” Costs incurred during 2017 in connection with an in-process transaction as of January 1, 2017 will continue to be recorded to “Reorganization and realignment costs.” All other costs incurred during 2017 related to facilitating franchisee-to-franchisee restaurant transfers will be recorded to “Other operating expense (income), net.” See Note 4 for further information.

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THE WENDY'S COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

The following is a summary of the disposition activity recorded as a result of our system optimization initiative:

| | Three Months Ended April 2, April 3, 2017 2016 | |
|--|---|-----------|
| Number of restaurants sold to franchisees | — | 55 |
| Proceeds from sales of restaurants | \$— | \$39,615 |
| Net assets sold (a) | — | (17,055) |
| Goodwill related to sales of restaurants | — | (6,376) |
| Net unfavorable leases (b) | — | (4,906) |
| Other | — | (795) |
| | — | 10,483 |
| Post-closing adjustments on sales of restaurants (c) | 900 | (2,135) |
| Gain on sales of restaurants, net | 900 | 8,348 |
| Gain on sales of other assets, net (d) | 507 | 78 |
| System optimization gains, net | \$1,407 | \$8,426 |

(a) Net assets sold consisted primarily of equipment.

During the three months ended April 3, 2016, the Company recorded favorable lease assets of \$183 and (b) unfavorable lease liabilities of \$5,089 as a result of leasing and/or subleasing land, buildings and/or leasehold improvements to franchisees in connection with sales of restaurants.

(c) The three months ended April 2, 2017 includes the recognition of a deferred gain of \$312 as a result of the resolution of certain contingencies related to the extension of lease terms for a Canadian restaurant.

During the three months ended April 2, 2017 and April 3, 2016, the Company received cash proceeds of \$1,650 (d) and \$1,570, respectively, primarily from the sale of surplus properties. The three months ended April 2, 2017 also includes the recognition of a deferred gain of \$375 related to the sale of a share in an aircraft.

As of April 2, 2017 and January 1, 2017, the Company had assets held for sale of \$4,110 and \$4,800, respectively, primarily consisting of surplus properties. Assets held for sale are included in "Prepaid expenses and other current assets."

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THE WENDY'S COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

(3) Acquisitions

The table below presents the allocation of the total purchase price to the fair value of assets acquired and liabilities assumed for acquisitions of franchised restaurants:

| | Three Months Ended April 3, 2016 |
|---|--|
| Restaurants acquired from franchisees | —2 |
| Total consideration paid, net of cash received | \$-\$2,209 |
| Identifiable assets acquired and liabilities assumed: | |
| Properties | —2,218 |
| Other assets | —9 |
| Other liabilities | —(18) |
| Total identifiable net assets | —2,209 |
| Goodwill | \$-\$— |

(4) Reorganization and Realignment Costs

The following is a summary of the initiatives included in “Reorganization and realignment costs:”

| | Three Months Ended April 3, 2017 | Three Months Ended April 3, 2016 |
|--------------------------------------|---|---|
| System optimization initiative | \$ 181 | \$ 2,723 |
| G&A realignment | — | 527 |
| Reorganization and realignment costs | \$ 181 | \$ 3,250 |

System Optimization Initiative

The Company has recognized costs related to its system optimization initiative, which includes a shift from Company-operated restaurants to franchised restaurants over time, through acquisitions and dispositions, as well as facilitating franchisee-to-franchisee restaurant transfers. The Company expects to incur additional costs, primarily comprised of professional fees, of approximately \$1,300 during 2017 in connection with an in-process transaction as of January 1, 2017. All other costs incurred during 2017 related to facilitating franchisee-to-franchisee restaurant transfers will be recorded to “Other operating expense (income), net.”

The following is a summary of the costs recorded as a result of our system optimization initiative:

| Three Months Ended April 3, 2017 | Three Months Total Incurred Since April 3, 2016 | Total Incurred Since Inception |
|---|--|---|
| | | |

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| | | | |
|---|-------|---------|-----------|
| Severance and related employee costs | \$3 | \$— | \$ 18,237 |
| Professional fees | 130 | 1,701 | 16,740 |
| Other | 48 | 77 | 5,791 |
| | 181 | 1,778 | 40,768 |
| Accelerated depreciation and amortization (a) | — | 945 | 25,398 |
| Share-based compensation (b) | — | — | 5,013 |
| Total system optimization initiative | \$181 | \$2,723 | \$ 71,179 |

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THE WENDY'S COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

(a) Primarily includes accelerated amortization of previously acquired franchise rights related to Company-operated restaurants in territories that have been sold in connection with our system optimization initiative.

(b) Represents incremental share-based compensation resulting from the modification of stock options and performance-based awards in connection with the termination of employees under our system optimization initiative.

The tables below present a rollforward of our accrual for our system optimization initiative, which is included in "Accrued expenses and other current liabilities."

| | Balance January 1, 2017 | Charges | Payments | Balance April 2, 2017 |
|--------------------------------------|----------------------------------|---------|-----------|-----------------------------|
| Severance and related employee costs | \$ — | \$ 3 | \$ (3) | \$ — |
| Professional fees | 101 | 130 | (143) | 88 |
| Other | — | 48 | (48) | — |
| | \$ 101 | \$ 181 | \$ (194) | \$ 88 |

| | Balance January 3, 2016 | Charges | Payments | Balance April 3, 2016 |
|--------------------------------------|-------------------------------|----------|-------------|-----------------------------|
| Severance and related employee costs | \$ 77 | \$ — | \$ (16) | \$ 61 |
| Professional fees | 708 | 1,701 | (1,988) | 421 |
| Other | 90 | 77 | (117) | 50 |
| | \$ 875 | \$ 1,778 | \$ (2,121) | \$ 532 |

General and Administrative ("G&A") Realignment

In November 2014, the Company initiated a plan to reduce its general and administrative expenses. The plan included a realignment and reinvestment of resources to focus primarily on accelerated restaurant development and consumer-facing restaurant technology to drive long-term growth. The Company achieved the majority of the expense reductions through the realignment of its U.S. field operations and savings at its Restaurant Support Center in Dublin, Ohio, which was substantially completed by the end of the second quarter of 2015. The Company recognized costs totaling \$527 during the three months ended April 3, 2016 and \$23,960 in aggregate since inception. The Company did not incur any expenses during the three months ended April 2, 2017 and does not expect to incur additional costs related to the plan. As of April 2, 2017, our accruals for the G&A realignment plan, which are included in "Accrued expenses and other current liabilities," totaled \$76 and primarily related to severance and related employee costs.

As previously announced in February 2017, the Company expects to reduce G&A expense to approximately 1.5 percent of global systemwide sales by 2020. On May 10, 2017, the Company announced that approximately three-quarters of the total G&A expense reduction of approximately \$35,000 is expected to be realized by the end of 2018, with the remainder of the savings being realized in 2019. The Company expects to incur total costs aggregating approximately \$28,000 to \$33,000, of which \$23,000 to \$27,000 will be cash expenditures, related to such savings.

The cash expenditures are expected to begin in the second half of 2017 and continue into 2019, with approximately half of the total cash expenditures occurring in 2018. The total costs expected to be incurred are comprised of (1) severance and related employee costs of approximately \$17,000 to \$19,000, (2) share-based compensation costs of approximately \$5,000 to \$6,000, (3) recruitment and relocation costs of approximately \$4,000 to \$5,000 and (4) third-party and other costs of approximately \$2,000 to \$3,000. The Company expects the costs to be recognized beginning in the second quarter of 2017 and continue into 2019, with approximately two-thirds to be recognized during 2017.

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THE WENDY'S COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

(5) Investments

Equity Investments

Wendy's has a 50% share in a partnership in a Canadian restaurant real estate joint venture ("TimWen") with a subsidiary of Restaurant Brands International Inc., a quick-service restaurant company that owns the Tim Hortons® brand. (Tim Hortons™ is a registered trademark of Tim Hortons USA Inc.) In addition, the Company has a 20% share in a joint venture for the operation of Wendy's restaurants in Brazil (the "Brazil JV"). The Company has significant influence over these investees. Such investments are accounted for using the equity method of accounting, under which our results of operations include our share of the income (loss) of the investees in "Other operating expense (income), net."

Presented below is activity related to our investment in TimWen and the Brazil JV included in our condensed consolidated financial statements:

| | Three Months Ended | |
|---|-----------------------|------------------|
| | April 2, 2017 | April 3, 2016 |
| Balance at beginning of period | \$54,545 | \$55,541 |
| Investment | 58 | 64 |
| Equity in earnings for the period | 2,415 | 2,449 |
| Amortization of purchase price adjustments (a) | (569) | (550) |
| | 1,846 | 1,899 |
| Distributions received | (2,439) | (2,689) |
| Foreign currency translation adjustment included in "Other comprehensive income, net" | 508 | 3,609 |
| Balance at end of period | \$54,518 | \$58,424 |

(a) Purchase price adjustments that impacted the carrying value of the Company's investment in TimWen are being amortized over the average original aggregate life of 21 years.

(6) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques under the accounting guidance related to fair value measurements are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. These inputs are classified into the following hierarchy:

Level 1 Inputs - Quoted prices for identical assets or liabilities in active markets.

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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.

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THE WENDY'S COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands Except Per Share Amounts)

Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments:

| | April 2, 2017 | | January 1, 2017 | | |
|---|--------------------|---------------|--------------------|---------------|----------------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Fair Value Measurements |
| Financial assets | | | | | |
| Cash equivalents | \$2,341 | \$2,341 | \$5,335 | \$5,335 | Level 1 |
| Non-current cost method investments (a) | 2,436 | 325,361 | 2,436 | 326,283 | Level 3 |
| Financial liabilities | | | | | |
| Series 2015-1 Class A-2-I Notes (b) | 861,875 | 862,763 | 864,063 | 857,349 | Level 2 |
| Series 2015-1 Class A-2-II Notes (b) | 886,500 | 888,096 | 888,750 | 880,005 | Level 2 |
| Series 2015-1 Class A-2-III Notes (b) | 492,500 | 479,198 | 493,750 | 474,543 | Level 2 |
| 7% debentures, due in 2025 (b) | 88,585 | 101,500 | 88,277 | 99,750 | Level 2 |
| Guarantees of franchisee loan obligations (c) | 267 | 267 | 280 | 280 | Level 3 |

The fair value of our indirect investment in Arby's Restaurant Group, Inc. ("Arby's") is based on applying a multiple to Arby's adjusted earnings before income taxes, depreciation and amortization per its current unaudited financial information. The carrying value of our indirect investment in Arby's was reduced to zero during 2013 in connection with the receipt of a dividend. The fair values of our remaining investments are not significant and are based on our (a) review of information provided by the investment managers or investees which was based on (1) valuations performed by the investment managers or investees, (2) quoted market or broker/dealer prices for similar investments and (3) quoted market or broker/dealer prices adjusted by the investment managers for legal or contractual restrictions, risk of nonperformance or lack of marketability, depending upon the underlying investments.

(b) The fair values were based on quoted market prices in markets that are not considered active markets.

Wendy's has provided loan guarantees to various lenders on behalf of franchisees entering into debt arrangements for new restaurant development and equipment financing. In addition, during 2012, Wendy's provided a guarantee (c) to a lender for a franchisee in connection with the refinancing of the franchisee's debt. We have accrued a liability for the fair value of these guarantees, the calculation of which was based upon a weighted average risk percentage established at inception and adjusted for a history of defaults.

The carrying amounts of cash, accounts payable and accrued expenses approximated fair value due to the short-term nature of those items. The carrying amounts of accounts and notes receivable, net (both current and non-current) approximated fair value due to the effect of the related allowance for doubtful accounts. Our cash and cash equivalents and guarantees are the only financial assets and liabilities measured and recorded at fair value on a recurring basis.

Derivative Instruments

The Company's primary objective for entering into interest rate swap agreements was to manage its exposure to changes in interest rates, as well as to maintain an appropriate mix of fixed and variable rate debt.

Our derivative instruments for 2015 included seven forward-starting interest rate swaps designated as cash flow hedges to change the floating rate interest payments for \$350,000 and \$100,000 in borrowings associated with the Term A and Term B Loans, respectively, under the Company's prior credit agreement, to fixed rate interest payments beginning June 30, 2015 and maturing on December 31, 2017. In May 2015, the Company terminated these interest rate swaps and paid \$7,275, which was recorded against the derivative liability. The unrealized loss on the cash flow hedges at termination of \$7,275 is being reclassified on a straight-line basis from "Accumulated other comprehensive loss" to "Interest expense" beginning June 30, 2015 (the original effective date of the interest rate swaps) through December 31, 2017 (the original maturity date of the interest rate swaps).

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Reclassifications of unrealized losses on cash flow hedges from "Accumulated other comprehensive loss" to "Interest expense" were \$723 for both the three months ended April 2, 2017 and April 3, 2016.

Non-Recurring Fair Value Measurements

Assets and liabilities remeasured to fair value on a non-recurring basis resulted in impairment that we have recorded to "Impairment of long-lived assets" in our condensed consolidated statements of operations.

Total impairment losses may reflect the impact of remeasuring long-lived assets held and used (including land, buildings, leasehold improvements and favorable lease assets) to fair value as a result of (1) the Company's decision to lease and/or sublease the land and/or buildings to franchisees in connection with the sale or anticipated sale of restaurants and (2) declines in operating performance at Company-operated restaurants. The fair value of long-lived assets held and used presented in the tables below represents the remaining carrying value and was estimated based on either discounted cash flows of future anticipated lease and sublease income or current market values.

Total impairment losses may also include the impact of remeasuring long-lived assets held for sale, which primarily include surplus properties. The fair value of long-lived assets held for sale presented in the tables below represents the remaining carrying value and was estimated based on current market values. See Note 7 for more information on impairment of our long-lived assets.

| | Fair Value Measurements | | |
|---------------|-------------------------|---------|----------|
| | April 2, 2017 | | |
| | Level 1 | Level 2 | Level 3 |
| Held and used | \$— | \$— | \$— |
| Held for sale | 1,074 | — | 1,074 |
| Total | \$ 1,074 | \$— | \$ 1,074 |

| | Fair Value Measurements | | |
|---------------|-------------------------|---------|----------|
| | January 1, 2017 | | |
| | Level 1 | Level 2 | Level 3 |
| Held and used | \$ 5,462 | \$— | \$ 5,462 |
| Held for sale | 1,552 | — | 1,552 |
| Total | \$ 7,014 | \$— | \$ 7,014 |

Total impairment losses for the three months ended April 2, 2017 and April 3, 2016 included remeasuring long-lived assets held and used of \$17 and \$7,001, respectively, and remeasuring long-lived assets held for sale of \$493 and \$104, respectively.

(7) Impairment of Long-Lived Assets

During the three months ended April 2, 2017, the Company recorded impairment charges on long-lived assets as a result of (1) closing Company-operated restaurants and classifying such surplus properties as held for sale and (2) the

deterioration in operating performance of certain Company-operated restaurants and charges for capital improvements in previously impaired restaurants that did not subsequently recover.

During the three months ended April 3, 2016, the Company recorded impairment charges on long-lived assets as a result of (1) the Company's decision to lease and/or sublease properties to franchisees in connection with the sale or anticipated sale of Company-operated restaurants and (2) closing Company-operated restaurants and classifying such surplus properties as held for sale.

The Company may recognize additional impairment charges resulting from leasing or subleasing additional properties to franchisees in connection with sales of Company-operated restaurants to franchisees.

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The following is a summary of impairment losses recorded, which represent the excess of the carrying amount over the fair value of the affected assets and are included in "Impairment of long-lived assets."

| | Three Months Ended | |
|--|-----------------------|------------------|
| | April 2, 2017 | April 3, 2016 |
| Restaurants leased or subleased to franchisees | \$— | \$7,001 |
| Surplus properties | 493 | 104 |
| Company-operated restaurants | 17 | — |
| | \$510 | \$7,105 |

(8) Income Taxes

The Company's effective tax rate for the three months ended April 2, 2017 and April 3, 2016 was 30.5% and 29.5%, respectively. The Company's effective tax rate varies from the U.S. federal statutory rate of 35% due to the effect of (1) the adoption of an amendment issued by the Financial Accounting Standards Board ("FASB"), which requires that excess tax benefits and tax deficiencies related to share-based payments be recognized in net income, which resulted in a benefit of \$2,122 in the first quarter of 2017, (2) state income taxes net of federal benefits, including non-recurring changes to state deferred taxes, (3) the rate differential between foreign and domestic taxes, (4) changes to valuation allowances on state net operating loss carryforwards (including a correction to a prior year identified and recorded in the first quarter of 2016, which resulted in a benefit of \$2,878) and (5) the disposition of non-deductible goodwill in 2016.

There were no significant changes to unrecognized tax benefits or related interest and penalties for the Company for the three months ended April 2, 2017. During the next twelve months, we believe that it is reasonably possible the Company will reduce its unrecognized tax benefits by up to \$714, primarily due to expected settlements with taxing authorities.

The current portion of refundable income taxes was \$8,339 and \$18,111 as of April 2, 2017 and January 1, 2017, respectively, and is included in "Accounts and notes receivable, net" in the condensed consolidated balance sheets. Long-term refundable income taxes are included in "Other assets" and amounted to \$951 and \$239 as of April 2, 2017 and January 1, 2017, respectively.

(9) Net Income Per Share

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

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

| Three Months Ended | |
|-----------------------|------------------|
| April 2, 2017 | April 3, 2016 |

Common stock:

| | | |
|--|---------|---------|
| Weighted average basic shares outstanding | 246,606 | 270,214 |
| Dilutive effect of stock options and restricted shares | 7,633 | 4,536 |
| Weighted average diluted shares outstanding | 254,239 | 274,750 |

Diluted net income per share for the three months ended April 2, 2017 and April 3, 2016 was computed by dividing net income by the weighted average number of basic shares outstanding plus the potential common share effect of dilutive stock options and restricted shares. We excluded potential common shares of 132 and 3,726 for the three months ended April 2, 2017 and April 3, 2016, respectively, from our diluted net income per share calculation, as they would have had anti-dilutive effects.

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(10) Stockholders' Equity

Stockholders' Equity

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

| | Three Months Ended | |
|---|--------------------|------------------|
| | April 2, 2017 | April 3, 2016 |
| Balance at beginning of period | \$527,736 | \$752,914 |
| Comprehensive income | 24,827 | 38,484 |
| Cash dividends | (17,273) | (16,214) |
| Repurchases of common stock | (17,823) | (48,268) |
| Share-based compensation | 3,559 | 5,081 |
| Exercises of stock options | 4,418 | 3,216 |
| Vesting of restricted shares | (2,518) | (2,378) |
| Cumulative effect of change in accounting principle (a) | 1,880 | — |
| Tax benefit from share-based compensation | — | 708 |
| Other | 43 | 46 |
| Balance at end of period | \$524,849 | \$733,589 |

(a) During the three months ended April 2, 2017, the Company recognized a tax benefit as a reduction to the Company's deferred tax liability with an equal offsetting increase to "Accumulated deficit." The adjustment was recognized as a result of adoption of an amendment to the accounting for employee share-based payment transactions. See Note 15 for further information.

Repurchases of Common Stock

In February 2017, our Board of Directors authorized a repurchase program for up to \$150,000 of our common stock through March 4, 2018, when and if market conditions warrant and to the extent legally permissible. During the three months ended April 2, 2017, the Company repurchased 1,319 shares with an aggregate purchase price of \$17,803, of which \$1,797 was accrued at April 2, 2017 and excluding commissions of \$20. Subsequent to April 2, 2017 through May 4, 2017, the Company repurchased 803 shares with an aggregate purchase price of \$11,215, excluding commissions of \$12.

On June 1, 2015, our Board of Directors authorized a repurchase program for up to \$1,400,000 of our common stock through January 1, 2017, when and if market conditions warranted and to the extent legally permissible. During the three months ended April 3, 2016, the Company repurchased 4,885 shares with an aggregate purchase price of \$48,195, excluding commissions of \$73.

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Accumulated Other Comprehensive Loss

The following table provides a rollforward of the components of accumulated other comprehensive loss, net of tax as applicable:

| | Foreign Currency Translation | Cash Flow Hedges (a) | Pension | Total |
|---|------------------------------------|-------------------------------|------------|-------------|
| Balance at January 1, 2017 | \$ (60,299) | \$ (1,797) | \$ (1,145) | \$ (63,241) |
| Current-period other comprehensive income | 1,945 | 445 | 96 | 2,486 |
| Balance at April 2, 2017 | \$ (58,354) | \$ (1,352) | \$ (1,049) | \$ (60,755) |
| Balance at January 3, 2016 | \$ (66,163) | \$ (3,571) | \$ (1,089) | \$ (70,823) |
| Current-period other comprehensive income | 12,676 | 445 | — | 13,121 |
| Balance at April 3, 2016 | \$ (53,487) | \$ (3,126) | \$ (1,089) | \$ (57,702) |

Current-period other comprehensive income includes the reclassification of unrealized losses on cash flow hedges from "Accumulated other comprehensive loss" to our condensed consolidated statements of operations of \$445 for (a) both the three months ended April 2, 2017 and April 3, 2016. The reclassification of unrealized losses on cash flow hedges consists of \$723 recorded to "Interest expense," net of the related income tax benefit of \$278 recorded to "Provision for income taxes." See Note 6 for more information.

(11) Leases

At April 2, 2017, Wendy's and its franchisees operated 6,551 Wendy's restaurants. Of the 331 Company-operated Wendy's restaurants, Wendy's owned the land and building for 149 restaurants, owned the building and held long-term land leases for 132 restaurants and held leases covering land and building for 50 restaurants. Wendy's also owned 520 and leased 1,050 properties that were either leased or subleased principally to franchisees.

Rental expense for operating leases consists of the following components:

| | Three Months Ended | |
|--------------------------|-----------------------|------------------|
| | April 2, 2017 | April 3, 2016 |
| Rental expense: | | |
| Minimum rentals | \$ 19,918 | \$ 19,490 |
| Contingent rentals | 4,288 | 3,782 |
| Total rental expense (a) | \$ 24,206 | \$ 23,272 |

(a) Amounts exclude sublease income of \$26,563 and \$19,732 recognized during the three months ended April 2, 2017 and April 3, 2016, respectively.

Rental income for operating leases and subleases consists of the following components:

Three Months
Ended
April 2, April 3,
2017 2016

Rental income:

| | | |
|---------------------|----------|----------|
| Minimum rentals | \$38,605 | \$25,798 |
| Contingent rentals | 4,312 | 4,762 |
| Total rental income | \$42,917 | \$30,560 |

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The following table illustrates the Company's future minimum rental payments and rental receipts for non-cancelable leases and subleases, including rental receipts for direct financing leases as of April 2, 2017. Rental receipts below are presented separately for owned properties and for leased properties based on the classification of the underlying lease.

| Fiscal Year | Rental Payments | | Rental Receipts | | |
|---|-----------------|------------------|-----------------|------------------|------------------|
| | Capital Leases | Operating Leases | Capital Leases | Operating Leases | Owned Properties |
| 2017 (a) | \$21,798 | \$59,696 | \$30,085 | \$49,375 | \$40,056 |
| 2018 | 29,670 | 77,201 | 40,650 | 65,444 | 53,581 |
| 2019 | 28,738 | 77,734 | 40,832 | 65,700 | 54,553 |
| 2020 | 29,238 | 77,107 | 41,475 | 65,438 | 55,148 |
| 2021 | 30,634 | 76,758 | 42,913 | 65,398 | 56,732 |
| Thereafter | 491,105 | 1,049,312 | 678,756 | 867,957 | 1,002,429 |
| Total minimum payments | \$631,183 | \$1,417,808 | \$874,711 | \$1,179,312 | \$1,262,499 |
| Less interest | (375,357) | | | | |
| Present value of minimum capital lease payments (b) | \$255,826 | | | | |

(a) Represents future minimum rental payments and rental receipts for non-cancelable leases and subleases for the remainder of our 2017 fiscal year.

(b) The present value of minimum capital lease payments of \$2,150 and \$253,676 are included in "Current portion of long-term debt" and "Long-term debt," respectively.

Properties owned by the Company and leased to franchisees and other third parties under operating leases include:

| | April 2, 2017 | January 1, 2017 |
|---|------------------|--------------------|
| Land | \$271,700 | \$271,160 |
| Buildings and improvements | 312,150 | 312,067 |
| Office, restaurant and transportation equipment | 1,507 | 1,507 |
| | 585,357 | 584,734 |
| Accumulated depreciation and amortization | (114,389) | (110,166) |
| | \$470,968 | \$474,568 |

Our net investment in direct financing leases is as follows:

| | April 2, 2017 | January 1, 2017 |
|---|------------------|--------------------|
| Future minimum rental receipts | \$461,756 | \$401,452 |
| Unearned interest income | (307,610) | (277,747) |
| Net investment in direct financing leases | 154,146 | 123,705 |
| Net current investment in direct financing leases (a) | (135) | (101) |
| Net non-current investment in direct financing leases (b) | \$154,011 | \$123,604 |

(a) Included in "Accounts and notes receivable, net."

(b)Included in “Other assets.”

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(12) Transactions with Related Parties

Except as described below, the Company did not have any significant changes in or transactions with its related parties during the current fiscal period since those reported in the Form 10-K.

TimWen Lease and Management Fee Payments

A wholly-owned subsidiary of Wendy's leases restaurant facilities from TimWen for the operation of Wendy's/Tim Hortons combo units in Canada. During the three months ended April 2, 2017 and April 3, 2016, Wendy's paid TimWen \$2,819 and \$2,636, respectively, under these lease agreements. In addition, TimWen paid Wendy's a management fee under the TimWen joint venture agreement of \$52 and \$50 during the three months ended April 2, 2017 and April 3, 2016, respectively, which has been included as a reduction to "General and administrative."

(13) Guarantees and Other Commitments and Contingencies

The Company did not have any significant changes in guarantees and other commitments and contingencies during the current fiscal period since those reported in the Form 10-K. Refer to the Form 10-K for further information regarding the Company's additional commitments and obligations.

Franchisee Image Activation Incentive Programs

In order to promote Image Activation new restaurant development, Wendy's has an incentive program for franchisees that provides for reductions in royalty and national advertising payments for up to the first two years of operation for qualifying new restaurants opened by December 31, 2020, with the value of the incentives declining in the later years of the program. Wendy's also has incentive programs for 2017 available to franchisees that commence Image Activation restaurant remodels by December 15, 2017. The remodel incentive programs provide for reductions in royalty payments for one year after the completion of construction.

Lease Guarantees

Wendy's has guaranteed the performance of certain leases and other obligations, primarily from former Company-operated restaurant locations now operated by franchisees, amounting to \$59,623 as of April 2, 2017. These leases extend through 2056. We have not received any notice of default related to these leases as of April 2, 2017. In the event of default by a franchise owner, Wendy's generally retains the right to acquire possession of the related restaurant locations.

Wendy's is contingently liable for certain other leases which have been assigned to unrelated third parties who have indemnified Wendy's against future liabilities amounting to \$663 as of April 2, 2017. These leases expire on various dates through 2021.

Letters of Credit

As of April 2, 2017, the Company had outstanding letters of credit with various parties totaling \$38,007, of which \$6,165 were cash collateralized. The outstanding letters of credit include amounts outstanding against the securitized

financing facility. The related cash collateral is classified as “Restricted cash” in the condensed consolidated balance sheets. We do not expect any material loss to result from these letters of credit.

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(14) Legal and Environmental Matters

We are involved in litigation and claims incidental to our current and prior businesses. We provide accruals for such litigation and claims when payment is probable and reasonably estimable. As of April 2, 2017, the Company had accruals for all of its legal and environmental matters aggregating \$1,396. We cannot estimate the aggregate possible range of loss due to most proceedings, including those described below, being in preliminary stages, with various motions either yet to be submitted or pending, discovery yet to occur and significant factual matters unresolved. In addition, most cases seek an indeterminate amount of damages and many involve multiple parties. Predicting the outcomes of settlement discussions or judicial or arbitral decisions is thus inherently difficult. Based on currently available information, including legal defenses available to us, and given the aforementioned accruals and our insurance coverage, we do not believe that the outcome of these legal and environmental matters will have a material effect on our consolidated financial position or results of operations.

The Company has been named as a defendant in putative class action lawsuits alleging, among other things, that the Company failed to safeguard customer credit card information and failed to provide notice that credit card information had been compromised. Jonathan Torres and other consumers filed an action in the U.S. District Court for the Middle District of Florida (the "Torres case"). The operative complaint seeks to certify a nationwide class of consumers, or in the alternative, statewide classes of consumers for Florida, New York, New Jersey, Texas, and Tennessee, as well as statewide classes of consumers under those states' consumer protection and unfair trade practices laws. Certain financial institutions have also filed class actions lawsuits in the U.S. District Court for the Western District of Pennsylvania (the "FI cases"), which seek to certify a nationwide class financial institutions that issued payment cards that were allegedly impacted. In the Torres case and the FI cases, the plaintiffs seek monetary damages, injunctive and equitable relief, attorneys' fees and other costs. The Company's motion to dismiss the amended complaint in the Torres case was denied in part and granted in part with leave to amend; the plaintiffs then filed the operative complaint referenced above. The Company's motion to dismiss in the FI case was denied. The Company filed its answer in the Torres case in April 2017 and expects to file its answer in the FI case during the second quarter of 2017.

Certain of the Company's present and former directors have been named in two putative shareholder derivative complaints arising out of the credit card incidents above. The first case, brought by James Graham in the U.S. District Court for the Southern District of Ohio (the "Graham case"), asserts claims of breach of fiduciary duty, waste of corporate assets, unjust enrichment and gross mismanagement, and additionally names one non-director executive officer of the Company. The second case, brought by Thomas Caracci in the U.S. District Court for the Southern District of Ohio (the "Caracci case"), asserts claims of breach of fiduciary duty and violations of Section 14(a) and Rule 14a-9 of the Securities Exchange Act of 1934. Collectively, the plaintiffs seek a judgment on behalf of the Company for all damages incurred or that will be incurred as a result of the alleged wrongful acts or omissions, a judgment ordering disgorgement of all profits, benefits, and other compensation obtained by the named individual defendants, a judgment directing the Company to reform its governance and internal procedures, attorneys' fees and other costs. The Company's motion to dismiss is pending in the Graham case and the Company has yet to respond to the Caracci case.

The Torres case, the FI cases and the Graham case were previously described in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2017.

(15) New Accounting Standards

New Accounting Standards

In March 2017, the FASB issued new guidance on the presentation of net periodic benefit costs that requires entities to disaggregate the current service cost component from the other components of net benefit cost in the income statement. The company does not expect the amendment, which requires retrospective adoption and is effective commencing with our 2018 fiscal year, to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued new guidance on leases, which outlines principles for the recognition, measurement, presentation and disclosure of leases applicable to both lessors and lessees. The new guidance requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by finance and operating leases with lease terms of more than 12 months. The amendment requires the recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective approach. We are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements and plan to reflect adoption when effective in the first quarter of our 2019 fiscal year. As

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shown in Note 11, there are \$1,417,808 in future minimum rental payments for operating leases that are not currently on our balance sheet; therefore, we expect this will have a material impact on our balance sheet and related disclosures.

In May 2014, the FASB issued amended guidance for revenue recognition. The new guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Additionally, the guidance requires improved disclosure to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The new guidance supersedes most current revenue recognition guidance, including industry-specific guidance, and is effective commencing with our 2018 fiscal year. The guidance allows for either a full retrospective or modified retrospective transition method. We are continuing to evaluate which transition method to use. This guidance will not impact our recognition of revenue from Company-operated restaurant sales or our recognition of continuing royalty revenues from franchisees, which are based on a percentage of franchise sales. We anticipate recognizing the initial fees from franchisees over the life of the related franchise agreements and we expect to consolidate the operations and cash flow results of our national advertising funds, both of which will have a material impact on our consolidated financial statements.

New Accounting Standards Adopted

In March 2016, the FASB issued an amendment related to equity method accounting, which eliminates the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in level of ownership interest or degree of influence. The Company adopted this amendment, prospectively, during the first quarter of 2017. The adoption of this guidance did not impact our consolidated financial statements.

In March 2016, the FASB issued an amendment that clarifies the steps for assessing triggering events of embedded contingent put and call options within debt instruments. The Company adopted this amendment during the first quarter of 2017. The adoption of this guidance did not impact our consolidated financial statements.

In March 2016, the FASB issued an amendment that modifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory withholding requirements, as well as statement of cash flows presentation. The transition requirement is generally modified retrospective, with the exception of recognition of excess tax benefits and tax deficiencies that requires prospective adoption. The Company adopted this amendment during the first quarter of 2017. The cash flows used in financing activities related to the excess tax benefits from share-based compensation arrangements, which amounted to \$933 during the first quarter of 2016, was reclassified retrospectively to cash flows provided by operating activities. Additionally, during the first quarter of 2016, \$2,601 was paid to taxing authorities for withheld shares on share-based compensation arrangement activities, which was reclassified retrospectively from cash flows provided by operating activities to cash flows used in financing activities. Upon adopting the amendment in the first quarter of 2017, the Company recognized \$1,880 in unrecognized tax benefits for deductions in excess of cumulative compensation costs relating to the exercise of stock options and vesting of restricted stock. This tax benefit was recognized as a reduction to the Company's deferred tax liability with an equal offsetting increase to "Accumulated deficit." The Company will

continue to estimate forfeitures each period.

In July 2015, the FASB issued an amendment that requires entities to measure inventory at the lower of cost and net realizable value, rather than the lower of cost or market, with market value represented by replacement cost, net realizable value or net realizable value less a normal profit margin. The Company adopted this amendment during the first quarter of 2017. The adoption of this guidance did not impact our consolidated financial statements.

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

Introduction

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" of The Wendy's Company ("The Wendy's Company" and, together with its subsidiaries, the "Company," "we," "us," or "our") should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the related notes included elsewhere within this report 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 1, 2017 (the "Form 10-K"). There have been no material changes as of April 2, 2017 to the application of our critical accounting policies as described in Item 7 of the 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 of Part II of this report. 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, the Form 10-K and our other filings with the Securities and Exchange Commission.

The Wendy's Company is the parent company of its 100% owned subsidiary holding company, Wendy's Restaurants, LLC ("Wendy's Restaurants"). The principal 100% owned subsidiary of Wendy's Restaurants is Wendy's International, LLC and its subsidiaries ("Wendy's"). Wendy's franchises and operates Wendy's quick-service restaurants throughout North America (defined as the United States of America ("U.S.") and Canada). Wendy's also has franchised restaurants in 29 foreign countries and U.S. territories.

Wendy's restaurants offer an extensive menu specializing in hamburger sandwiches and featuring fillet of chicken breast sandwiches, chicken nuggets, chili, french fries, baked potatoes, freshly prepared salads, soft drinks, Frosty[®] desserts and kids' meals. In addition, the restaurants sell a variety of promotional products on a limited basis.

The Company manages and internally reports its business geographically. The operation and franchising of Wendy's restaurants in North America comprises virtually all of our current operations and represents a single reportable segment. The revenues and operating results of Wendy's restaurants outside of North America are not material. The results of operations discussed below may not necessarily be indicative of future results.

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

Executive Overview

Our Business

As of April 2, 2017, the Wendy's restaurant system was comprised of 6,551 restaurants, of which 331 were owned and operated by the Company. All of our Company-operated restaurants are located in the U.S.

Wendy's operating results are impacted by a number of external factors, including unemployment, general economic trends, intense price competition, commodity costs, labor costs and weather.

Wendy's long-term growth opportunities will be driven by a combination of brand relevance and economic relevance. Key components of growth include (1) systemwide same-restaurant sales growth through continuing core menu improvement, product innovation and customer count growth, (2) investing in our Image Activation program, which includes innovative exterior and interior restaurant designs for our new and reimaged restaurants and focused

execution of operational excellence, (3) growth in new restaurants, including global growth, (4) increased restaurant utilization in various dayparts and brand access utilizing mobile technology, (5) building shareholder value through financial management strategies and (6) our system optimization initiative.

Wendy's revenues for the first quarter of 2017 include (1) \$148.2 million of sales at Company-operated restaurants, (2) \$94.7 million of franchise royalty revenue and fees and (3) \$42.9 million of franchise rental income. Substantially all of our Wendy's royalty agreements provide for royalties of 4.0% of franchisees' revenues.

Key Business Measures

We track our results of operations and manage our business using the following key business measures, which include non-GAAP financial measures:

Same-Restaurant Sales - We report same-restaurant sales commencing after new restaurants have been open for 15 continuous months and as soon as reimaged restaurants reopen. This methodology is consistent with the metric used by our management for internal reporting and analysis. The table summarizing same-restaurant sales below in “Results of Operations” provides the same-restaurant sales percent changes. Same-restaurant sales exclude the impact of currency translation.

Restaurant Margin - We define restaurant margin as sales from Company-operated restaurants less cost of sales divided by sales from Company-operated restaurants. Cost of sales includes food and paper, restaurant labor and occupancy, advertising and other operating costs. Restaurant margin is influenced by factors such as restaurant openings, remodels 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.

Systemwide Sales - Systemwide sales is a non-GAAP financial measure, which includes sales by both Company-operated restaurants and franchised restaurants. Franchised restaurants’ sales are reported by our franchisees and represent their revenues from sales at franchised Wendy’s restaurants. The Company’s consolidated financial statements do not include sales by franchised restaurants to their customers. The Company believes systemwide sales data is useful in assessing consumer demand for the Company’s products, the overall success of the Wendy’s brand and, ultimately, the performance of the Company. The Company’s royalty revenues are computed as percentages of sales made by Wendy’s franchisees. As a result, sales by Wendy’s franchisees have a direct effect on the Company’s royalty revenues and therefore on the Company’s profitability.

The Company reviews systemwide sales for its North America and international franchised restaurants on a constant currency basis. Constant currency results exclude the impact of foreign currency translation and are derived by translating current year results at prior year average exchange rates. The Company believes excluding the impact of foreign currency translation provides better year over year comparability.

System Optimization Initiative

In July 2013, the Company announced a system optimization initiative, as part of its brand transformation, which includes a shift from Company-operated restaurants to franchised restaurants over time, through acquisitions and dispositions, as well as facilitating franchisee-to-franchisee restaurant transfers. In February 2015, the Company announced plans to reduce its ongoing Company-operated restaurant ownership to approximately 5% of the total system, which the Company completed as of January 1, 2017. Wendy’s will continue to optimize its system by facilitating franchisee-to-franchisee restaurant transfers, as well as evaluating strategic acquisitions of franchised restaurants and strategic dispositions of Company-operated restaurants to existing and new franchisees, to further strengthen the franchisee base, drive new restaurant development and accelerate Image Activation adoption.

During the first quarter of 2017, the Company recorded post-closing adjustments on sales of restaurants and completed the sale of other assets, resulting in net gains totaling \$1.4 million. Gains and losses recognized on dispositions are recorded to “System optimization gains, net” in our condensed consolidated statements of operations. In addition, the Company facilitated the transfer of 116 restaurants between franchisees during the first quarter of 2017.

Costs related to our system optimization initiative were historically recorded to “Reorganization and realignment costs.” Costs incurred during 2017 in connection with an in-process transaction as of January 1, 2017 will continue to be recorded to “Reorganization and realignment costs.” All other costs incurred during 2017 related to facilitating franchisee-to-franchisee restaurant transfers will be recorded to “Other operating expense (income), net.” During the

first quarter of 2017, the Company recognized reorganization and realignment costs totaling \$0.2 million, which primarily included professional fees. The Company expects to incur additional reorganization and realignment costs, primarily comprised of professional fees, of approximately \$1.3 million during the remainder of 2017.

General and Administrative (“G&A”) Realignment

In November 2014, the Company initiated a plan to reduce its general and administrative expenses. The plan included a realignment and reinvestment of resources to focus primarily on accelerated restaurant development and consumer-facing restaurant technology to drive long-term growth. The Company achieved the majority of the expense reductions through the realignment of

its U.S. field operations and savings at its Restaurant Support Center in Dublin, Ohio, which was substantially completed by the end of the second quarter of 2015. Costs related to G&A realignment are recorded to “Reorganization and realignment costs.” The Company recognized costs totaling \$0.6 million during the first quarter of 2016. The Company did not incur any expenses during the first quarter of 2017 and does not expect to incur additional costs related to the plan.

As previously announced in February 2017, the Company expects to reduce G&A expense to approximately 1.5 percent of global systemwide sales by 2020. On May 10, 2017, the Company announced that approximately three-quarters of the total G&A expense reduction of approximately \$35.0 million is expected to be realized by the end of 2018, with the remainder of the savings being realized in 2019. The Company expects to incur total costs aggregating approximately \$28.0 million to \$33.0 million, of which \$23.0 million to \$27.0 million will be cash expenditures, related to such savings. The cash expenditures are expected to begin in the second half of 2017 and continue into 2019, with approximately half of the total cash expenditures occurring in 2018. The total costs expected to be incurred are comprised of (1) severance and related employee costs of approximately \$17.0 million to \$19.0 million, (2) share-based compensation costs of approximately \$5.0 million to \$6.0 million, (3) recruitment and relocation costs of approximately \$4.0 million to \$5.0 million and (4) third-party and other costs of approximately \$2.0 million to \$3.0 million. The Company expects the costs to be recognized beginning in the second quarter of 2017 and continue into 2019, with approximately two-thirds to be recognized during 2017.

Related Party Transactions

TimWen Lease and Management Fees

A wholly-owned subsidiary of Wendy’s leases restaurant facilities from TimWen for the operation of Wendy’s/Tim Hortons combo units in Canada. During the first quarter of 2017 and 2016, Wendy’s paid TimWen \$2.8 million and \$2.6 million, respectively, under these lease agreements. In addition, TimWen paid Wendy’s a management fee under the TimWen joint venture agreement of \$0.1 million during both the first quarter of 2017 and 2016, which has been included as a reduction to “General and administrative.”

Cybersecurity Incident

The Company first reported unusual payment card activity affecting some franchise-owned restaurants in February 2016 and that malware had been discovered on certain systems. Subsequently, on June 9, 2016, the Company reported that an additional malware variant had been identified and disabled. On July 7, 2016, the Company, on behalf of affected franchise locations, provided information about specific restaurant locations that may have been impacted by these attacks, all of which are located in the United States, along with support for customers who may have been affected by the malware variants. See “Item 1 - Financial Statements,” Note 14 to the Condensed Consolidated Financial Statements for further information.

Results of Operations

The tables included throughout Results of Operations set forth in millions the Company's consolidated results of operations for the first quarter of 2017 and 2016.

| | First Quarter 2017 | First Quarter 2016 | Change |
|---------------------------------------|--------------------------|--------------------------|-----------|
| Revenues: | | | |
| Sales | \$148.2 | \$259.3 | \$(111.1) |
| Franchise royalty revenues and fees | 94.7 | 88.9 | 5.8 |
| Franchise rental income | 42.9 | 30.6 | 12.3 |
| | 285.8 | 378.8 | (93.0) |
| Costs and expenses: | | | |
| Cost of sales | 123.4 | 214.7 | (91.3) |
| Franchise rental expense | 18.9 | 14.7 | 4.2 |
| General and administrative | 52.4 | 64.7 | (12.3) |
| Depreciation and amortization | 29.2 | 32.3 | (3.1) |
| System optimization gains, net | (1.4) | (8.4) | 7.0 |
| Reorganization and realignment costs | 0.2 | 3.3 | (3.1) |
| Impairment of long-lived assets | 0.5 | 7.1 | (6.6) |
| Other operating expense (income), net | 1.9 | (13.4) | 15.3 |
| | 225.1 | 315.0 | (89.9) |
| Operating profit | 60.7 | 63.8 | (3.1) |
| Interest expense | (29.0) | (28.1) | (0.9) |
| Other income, net | 0.4 | 0.3 | 0.1 |
| Income before income taxes | 32.1 | 36.0 | (3.9) |
| Provision for income taxes | (9.8) | (10.6) | 0.8 |
| Net income | \$22.3 | \$25.4 | \$(3.1) |

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| | First Quarter 2017 | % of Total Revenues | | First Quarter 2016 | % of Total Revenues | |
|--|--------------------------|---------------------------|--|--------------------------|---------------------------|--|
| Revenues: | | | | | | |
| Sales | \$ 148.2 | 51.9 % | | \$ 259.3 | 68.5 % | |
| Franchise royalty revenue and fees: | | | | | | |
| Royalty revenue | 87.1 | 30.5 % | | 80.8 | 21.3 % | |
| Franchise fees | 7.6 | 2.6 % | | 8.1 | 2.1 % | |
| Total franchise royalty revenue and fees | 94.7 | 33.1 % | | 88.9 | 23.4 % | |
| Franchise rental income | 42.9 | 15.0 % | | 30.6 | 8.1 % | |
| Total revenues | \$ 285.8 | 100.0 % | | \$ 378.8 | 100.0 % | |

| | First Quarter 2017 | % of Sales | | First Quarter 2016 | % of Sales | |
|--|--------------------------|---------------|--|--------------------------|---------------|--|
| Cost of sales: | | | | | | |
| Food and paper | \$ 45.0 | 30.4 % | | \$ 79.2 | 30.5 % | |
| Restaurant labor | 44.3 | 29.9 % | | 76.0 | 29.3 % | |
| Occupancy, advertising and other operating costs | 34.1 | 23.0 % | | 59.5 | 23.0 % | |
| Total cost of sales | \$ 123.4 | 83.3 % | | \$ 214.7 | 82.8 % | |

| | First Quarter 2017 | % of Sales | First Quarter 2016 | % of Sales |
|-------------------|--------------------------|---------------|--------------------------|---------------|
| Restaurant margin | \$ 24.8 | 16.7% | \$ 44.6 | 17.2% |

| | First Quarter 2017 | | First Quarter 2016 | |
|--------------------------------------|--------------------------|--|--------------------------|--|
| Key business measures: | | | | |
| North America same-restaurant sales: | | | | |
| Company-operated | 0.8 % | | 4.8 % | |
| Franchised | 1.7 % | | 3.5 % | |
| Systemwide | 1.6 % | | 3.6 % | |
| Total same-restaurant sales: | | | | |
| Company-operated | 0.8 % | | 4.8 % | |
| Franchised (a) | 1.8 % | | 3.2 % | |
| Systemwide (a) | 1.8 % | | 3.4 % | |

(a) Includes international franchised same-restaurant sales (excluding Venezuela due to the impact of Venezuela's highly inflationary economy).

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| | First Quarter 2017 | First Quarter 2016 |
|------------------------------------|--------------------------|--------------------------|
| Key business measures (continued): | | |
| Systemwide sales: (a) | | |
| Company-operated | \$148.2 | \$259.3 |
| North America franchised | 2,189.2 | 2,016.3 |
| International franchised (b) | 112.5 | 99.3 |
| Global systemwide sales | \$2,449.9 | \$2,374.9 |

During the first quarter of 2017 and 2016, North America systemwide sales increased 2.5% and 5.4%, respectively, (a)international franchised sales increased 14.1% and 1.0%, respectively, and global systemwide sales increased 3.0% and 5.2%, respectively, on a constant currency basis.

(b)Excludes Venezuela due to the impact of Venezuela's highly inflationary economy.

| | Company-operated | Franchised | Systemwide |
|-------------------------------------|------------------|------------|------------|
| Restaurant count: | | | |
| Restaurant count at January 1, 2017 | 330 | 6,207 | 6,537 |
| Opened | 1 | 32 | 33 |
| Closed | — | (19) | (19) |
| Restaurant count at April 2, 2017 | 331 | 6,220 | 6,551 |

Sales Change
Sales \$(111.1)

The decrease in sales during the first quarter of 2017 was primarily due to the impact of Wendy's Company-operated restaurants sold under our system optimization initiative, which resulted in a reduction in sales of \$114.9 million. This decrease in sales was partially offset by higher sales growth at our new and remodeled Image Activation restaurants and an increase in Company-operated same-restaurant sales. Company-operated same-restaurant sales benefited from an increase in our average per customer check amount, which was partially offset by a decrease in customer count. Our per customer check amount increased primarily due to benefits from changes in product mix.

| Franchise Royalty Revenue and Fees | Change |
|------------------------------------|--------|
| Royalty revenue | \$ 6.3 |
| Franchise fees | (0.5) |
| | \$ 5.8 |

The increase in franchise royalty revenue and fees during the first quarter of 2017 was due to increased royalty revenue resulting primarily from sales of Company-operated restaurants to franchisees under our system optimization initiative. Royalty revenue also benefited from a 1.8% increase in franchise same-restaurant sales.

Franchise Rental Income Change
Franchise rental income \$ 12.3

The increase in franchise rental income during the first quarter of 2017 was primarily due to leasing and/or subleasing properties to franchisees in connection with the sale of Company-operated restaurants and facilitating franchisee-to-franchisee restaurant transfers.

| Cost of Sales, as a Percent of Sales | Change |
|--|---------|
| Food and paper | (0.1)% |
| Restaurant labor | 0.6 % |
| Occupancy, advertising and other operating costs | — % |
| | 0.5 % |

The increase in cost of sales, as a percent of sales, during the first quarter of 2017 was primarily due to increased restaurant labor rates. This increase in cost of sales, as a percent of sales, was partially offset by a decrease in commodity costs, reflecting lower beef prices. Cost of sales, as a percent of sales, also benefited from the increase in same-restaurant sales and higher sales at our new and remodeled Image Activation restaurants.

Franchise Rental Expense Change

Franchise rental expense \$ 4.2

The increase in franchise rental expense during the first quarter of 2017 was primarily due to subleasing properties to franchisees that were previously Company-operated restaurants and as such, had been previously recorded in cost of sales. Rental expense also increased as a result of entering into new leases in connection with facilitating franchisee-to-franchisee restaurant transfers for purposes of subleasing such properties to the franchisee.

| General and Administrative | Change |
|--|----------|
| Professional services | \$(5.0) |
| Employee compensation and related expenses | (2.5) |
| Incentive compensation | (2.0) |
| Share-based compensation | (1.5) |
| Legal reserves | (1.2) |
| Other, net | (0.1) |
| | \$(12.3) |

The decrease in general and administrative expenses during the first quarter of 2017 was primarily due to decreases in (1) professional services due to legal and other costs associated with the cybersecurity incident recognized during the first quarter of 2016 (see "Item 1 - Financial Statements," Note 14 to the Condensed Consolidated Financial Statements for further information), (2) employee compensation and related expenses primarily as a result of changes in staffing driven by our system optimization initiative, (3) incentive compensation accruals due to a decrease in operating performance as compared to plan in 2017 versus 2016, (4) share-based compensation primarily as a result of awards granted and timing of expense recognition and (5) legal reserves.

| Depreciation and Amortization Change | |
|--------------------------------------|----------|
| Restaurants | \$(4.0) |
| Corporate and other | 0.9 |
| | \$(3.1) |

The decrease in restaurant depreciation and amortization during the first quarter of 2017 was primarily due to (1) a decrease in depreciation on assets sold under our system optimization initiative of \$2.5 million and (2) a decrease in accelerated depreciation on existing assets that are being replaced as part of our Image Activation program of \$1.4 million.

System Optimization Gains, Net First Quarter

| | 2017 | 2016 |
|--------------------------------|---------|---------|
| System optimization gains, net | \$(1.4) | \$(8.4) |

The decrease in system optimization gains, net during the first quarter of 2017 was primarily due to the sale of 55 Company-operated restaurants in the first quarter of 2016. No restaurants were sold during the first quarter of 2017. System optimization gains, net during the first quarter of 2017 included post-closing adjustments on sales of restaurants and gains on sales of other assets.

| Reorganization and Realignment Costs | First Quarter | |
|--------------------------------------|---------------|-------|
| | 2017 | 2016 |
| System optimization initiative | \$0.2 | \$2.7 |
| G&A realignment | — | 0.6 |
| | \$0.2 | \$3.3 |

During the first quarter of 2017 and 2016, the Company recognized costs associated with its system optimization initiative totaling \$0.2 million and \$2.7 million, respectively. In the first quarter of 2017, costs primarily included professional fees. In the first quarter of 2016, costs primarily included professional fees of \$1.7 million and accelerated amortization of previously acquired franchise rights of \$0.9 million.

In November 2014, the Company initiated the realignment of its U.S. field operations and Restaurant Support Center in Dublin, Ohio to reduce its general and administrative expenses. During the first quarter of 2016, the Company recognized costs associated with its G&A realignment plan totaling \$0.6 million, which primarily included recruitment and relocation costs. No additional costs are expected to be incurred under the plan.

Impairment of Long-Lived Assets Change

| | |
|---------------------------------|----------|
| Impairment of long-lived assets | \$(6.6) |
|---------------------------------|----------|

Impairment of long-lived assets decreased during the first quarter of 2017 primarily due to lower impairment charges resulting from the remeasurement of properties to fair value upon determination that the assets will be leased and/or subleased to franchisees in connection with the sale of Company-operated restaurants.

Other Operating Expense (Income), Net First Quarter

| | 2017 | 2016 |
|---|--------|----------|
| Lease buyout | \$— | \$(11.6) |
| Equity in earnings in joint ventures, net | (1.8) | (1.9) |
| Other, net | 3.7 | 0.1 |
| | \$1.9 | \$(13.4) |

The change in other operating expense (income), net during the first quarter of 2017 was primarily due to a gain recognized on a lease buyout during the first quarter of 2016. In addition, the first quarter of 2017 includes costs incurred to provide information technology, customer care and help desk support services to our franchisees, as well as costs related to facilitating franchisee-to-franchisee restaurant transfers.

Interest Expense Change

| | |
|------------------|--------|
| Interest expense | \$ 0.9 |
|------------------|--------|

Interest expense increased during the first quarter of 2017 primarily due to an increase in capital lease obligations resulting from facilitating franchisee-to-franchisee restaurant transfers and subleasing such properties to the

franchisee.

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| Provision for Income Taxes | First Quarter | |
|------------------------------|---------------|--------|
| | 2017 | 2016 |
| Income before income taxes | \$32.1 | \$36.0 |
| Provision for income taxes | 9.8 | 10.6 |
| Effective tax rate on income | 30.5 % | 29.5 % |

Our effective tax rates in the first quarter of 2017 and 2016 were impacted by variations in income before income taxes, adjusted for recurring items such as non-deductible expenses and state income taxes, as well as non-recurring discrete items. Discrete items, which may occur in any given year but are not consistent from year to year include the following: (1) the adoption of an amendment issued by the Financial Accounting Standards Board (“FASB”), which requires that excess tax benefits and tax deficiencies related to share-based payments be recognized in net income, which resulted in a benefit of \$2.1 million in the first quarter of 2017 (see “Item 1 - Financial Statements,” Note 15 to the Condensed Consolidated Financial Statements for further information), (2) the rate differential between foreign and domestic taxes, (3) changes to valuation allowances on state net operating loss carryforwards (including a correction to a prior year identified and recorded in the first quarter of 2016, which resulted in a benefit of \$2.9 million) and (4) our system optimization initiative.

The impact of our system optimization initiative on the provision for income taxes included the effects of changes to our state deferred taxes and valuation allowances on state net operating losses caused by the shifting relative taxable presence in the various states as our system optimization initiative is executed, and the disposition of non-deductible goodwill in 2016. These items, which are non-recurring, decreased the provision for income taxes by \$0.1 million during the first quarter of 2017 and increased the provision for income taxes by \$1.5 million during the first quarter of 2016.

Deferred income taxes are not recorded for temporary differences related to our investments in non-U.S. subsidiaries that we consider permanently invested outside of the U.S. At April 2, 2017, our cash balances held outside of the U.S. totaled \$98.0 million.

Liquidity and Capital Resources

The tables included throughout Liquidity and Capital Resources present dollars in millions.

Cash Flows

Our primary sources of liquidity and capital resources are cash flows from operations and borrowings under our securitized financing facility. Principal uses of cash are operating expenses, capital expenditures, repurchases of common stock and dividends to shareholders.

Our anticipated consolidated sources of cash and cash requirements for the remainder of 2017, exclusive of operating cash flow requirements, consist principally of:

- capital expenditures of approximately \$70.2 million, resulting in total anticipated cash capital expenditures for the year of approximately \$85.0 million.

- cash dividends aggregating up to approximately \$51.5 million as discussed below in “Dividends;”

- potential stock repurchases of up to \$132.2 million, of which \$11.2 million was repurchased subsequent to April 2, 2017 through May 4, 2017 as discussed below in “Stock Repurchases;” and

consideration paid for restaurant acquisitions and proceeds from restaurant dispositions under our system optimization initiative.

Based on current levels of operations, the Company expects that available cash and cash flows from operations will provide sufficient liquidity to meet operating cash requirements for the next 12 months.

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The table below summarizes our cash flows from operating, investing and financing activities for the first quarter of 2017 and 2016:

| | First Quarter 2017 | First Quarter 2016 | Change |
|---|--------------------------|--------------------------|----------|
| Net cash provided by (used in): | | | |
| Operating activities | \$38.7 | \$50.8 | \$(12.1) |
| Investing activities | (6.4) | (0.2) | (6.2) |
| Financing activities | (38.0) | (69.6) | 31.6 |
| Effect of exchange rate changes on cash | 0.7 | 4.7 | (4.0) |
| Net decrease in cash and cash equivalents | \$(5.0) | \$(14.3) | \$9.3 |

Operating Activities

Cash provided by operating activities was \$38.7 and \$50.8 in the first quarter of 2017 and 2016, respectively. Cash provided by operating activities consists primarily of net income, adjusted for non-cash expenses such as depreciation and amortization, deferred income tax and share-based compensation, and the net change in operating assets and liabilities.

Cash provided by operating activities decreased \$12.1 million during the first quarter of 2017 as compared to the first quarter of 2016, due to (1) a decrease of \$6.0 million in net income adjusted for non-cash expenses, including a \$3.2 million decrease in the net receipt of deferred vendor incentives, and (2) an unfavorable change in operating assets and liabilities of \$6.1 million. The unfavorable change in operating assets and liabilities resulted primarily from the timing of receipt of rental payments from franchisees, largely offset by the favorable impact of a decrease in payments for incentive compensation for the 2016 fiscal year.

Investing Activities

Cash used in investing activities increased \$6.2 million during the first quarter of 2017 as compared to the first quarter of 2016, primarily due to a decrease in proceeds from dispositions related to our system optimization initiative of \$39.5 million, partially offset by (1) a decrease of \$24.0 million in capital expenditures and (2) a decrease of \$7.5 million in restricted cash for the reinvestment in capital assets under our securitized financing facility.

Financing Activities

Cash used in financing activities decreased \$31.6 million during the first quarter of 2017 as compared to the first quarter of 2016, primarily due to a decrease in repurchases of common stock of \$31.6 million.

Dividends

On March 15, 2017, The Wendy's Company paid quarterly cash dividends of \$0.07 per share on its common stock, aggregating \$17.3 million. On May 10, 2017, The Wendy's Company declared a dividend of \$0.07 per share to be paid on June 15, 2017 to shareholders of record as of June 1, 2017. If The Wendy's Company pays regular quarterly dividends for the remainder of 2017 at the same rate as declared in the second quarter of 2017, the total cash requirement for dividends will be approximately \$51.5 million based on the estimated number of shares of common stock outstanding at May 4, 2017. The Wendy's Company currently intends 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

In February 2017, our Board of Directors authorized a repurchase program for up to \$150.0 million of our common stock through March 4, 2018, when and if market conditions warrant and to the extent legally permissible. During the three months ended April 2, 2017, the Company repurchased 1.3 million shares with an aggregate purchase price of \$17.8 million, of which \$1.8 million was accrued at April 2, 2017 and excluding commissions. Subsequent to April 2, 2017 through May 4, 2017, the Company repurchased 0.8 million shares with an aggregate purchase price of \$11.2 million, excluding commissions.

On June 1, 2015, our Board of Directors authorized a repurchase program for up to \$1,400.0 million of our common stock through January 1, 2017, when and if market conditions warranted and to the extent legally permissible. During the three months ended April 3, 2016, the Company repurchased 4.9 million shares with an aggregate purchase price of \$48.2 million, excluding commissions of \$0.1 million.

General Inflation, Commodities and Changing Prices

We believe that general inflation did not have a significant effect on our condensed consolidated results of operations during the reporting periods. We manage any inflationary costs and commodity price increases primarily through selective menu price increases. Delays in implementing such menu price increases and competitive pressures may limit our ability to recover such cost increases in the future. Inherent volatility experienced in certain commodity markets, such as those for beef, chicken, corn, pork and cheese could have an unfavorable effect on our results of operations in the future. The extent of any impact will depend on our ability and timing to increase food prices.

Seasonality

Our restaurant operations are moderately impacted by seasonality; Wendy's restaurant revenues are normally higher during the summer months than during the winter months. Because our business is moderately seasonal, results for any future quarter will not necessarily be 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.

As of April 2, 2017 there were no material changes from the information contained in the Form 10-K for the fiscal year ended January 1, 2017.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The management of the Company, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its 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 April 2, 2017. Based on such evaluations, the Chief Executive Officer and Chief Financial Officer concluded that, as of April 2, 2017, the disclosure controls and procedures of the Company were effective at a reasonable assurance level in (1) recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act and (2) ensuring that information required to be disclosed by the Company in such reports is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the internal control over financial reporting of the Company during the first quarter of 2017 that materially affected, or are reasonably likely to materially affect, its 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 possible circumvention or overriding of controls and procedures. Additionally, judgments in decision-making can be faulty and breakdowns can occur because of a 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, the management of the Company, including

its Chief Executive Officer and Chief Financial Officer, does not expect that the control system can prevent or detect all errors 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.

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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, initiatives or expectations; future synergies, efficiencies or overhead savings; anticipated costs or charges; future capitalization; and anticipated financial impacts of recent or pending transactions are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are based on our expectations at the time such statements are made, speak only as of the dates they are made and are susceptible to a number of risks, uncertainties and other factors. Our actual results, performance and achievements may differ materially from any future results, performance or achievements expressed or implied by our forward-looking statements. For all of our forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Reform Act. Many important factors could affect our future results and could cause those results to differ materially from those expressed in or implied by the forward-looking statements contained herein. Such factors, all of which are difficult or impossible to predict accurately, and many of which are beyond our control, include, but are not limited to, the following:

- competition, including pricing pressures, couponing, aggressive marketing and the potential impact of competitors’ new unit openings on sales of Wendy’s restaurants;

- consumers’ perceptions of the relative quality, variety, affordability and value of the food products we offer;

- food safety events, including instances of food-borne illness (such as salmonella or E. coli) involving Wendy’s or its supply chain;

- consumer concerns over nutritional aspects of beef, poultry, french fries or other products we sell, concerns regarding the ingredients in our products and/or cooking processes used in our restaurants, or concerns regarding the effects of disease outbreaks, epidemics or pandemics impacting the Company’s customers or food supplies;

- the effects of negative publicity that can occur from increased use of social media;

- success of operating and marketing initiatives, including advertising and promotional efforts and new product and concept development by us and our competitors;

- the impact of general economic conditions and increases in unemployment rates on consumer spending, particularly in geographic regions that contain a high concentration of Wendy’s restaurants;

- changes in consumer tastes and preferences, and in discretionary consumer spending;

- changes in spending patterns and demographic trends, such as the extent to which consumers eat meals away from home;

- certain factors affecting our franchisees, including the business and financial viability of franchisees, the timely payment of such franchisees’ obligations due to us or to national or local advertising organizations, and the ability of our franchisees to open new restaurants and remodel existing restaurants in accordance with their development and

franchise commitments, including their ability to finance restaurant development and remodels;

• increased labor costs due to competition or increased minimum wage or employee benefit costs;

• changes in commodity costs (including beef, chicken and corn), labor, supplies, fuel, utilities, distribution and other operating costs;

• availability, location and terms of sites for restaurant development by us and our franchisees;

• development costs, including real estate and construction costs;

delays in opening new restaurants or completing reimages of existing restaurants, including risks associated with the Image Activation program;

the timing and impact of acquisitions and dispositions of restaurants;

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 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 restaurants at competitive rates and in adequate amounts, and the potential financial impact of any interruptions in such distribution;

availability and cost of insurance;

adverse weather conditions;

availability, terms (including changes in interest rates) and deployment of capital;

changes in, and our ability to comply with, legal, regulatory or similar requirements, including franchising laws, payment card industry rules, overtime rules, minimum wage rates, wage and hour laws, government-mandated health care benefits, tax legislation, federal ethanol policy and accounting standards;

the costs, uncertainties and other effects of legal, environmental and administrative proceedings;

the effects of charges for impairment of goodwill or for the impairment of other long-lived assets;

the effects of war or terrorist activities;

risks associated with failures, interruptions or security breaches of the Company's computer systems or technology, or the occurrence of cyber incidents or a deficiency in cybersecurity that impacts the Company or its franchisees, including the cybersecurity incident described in Item 1 below;

the difficulty in predicting the impact of the sale of Company-operated restaurants to franchisees on ongoing operations, any tax impact from the sale of restaurants and the future impact to the Company's earnings, restaurant operating margins, cash flow and depreciation;

the difficulty in predicting the ultimate costs that will be incurred in connection with the Company's plan to reduce its general and administrative expense, and the future impact on the Company's earnings;

risks associated with the Company's securitized financing facility, including the ability to generate sufficient cash flow to meet increased debt service obligations, compliance with operational and financial covenants, and restrictions on the Company's ability to raise additional capital;

risks associated with the amount and timing of share repurchases under the \$150.0 million share repurchase program approved by the Board of Directors; and

other risks and uncertainties affecting us and our subsidiaries referred to in our Annual Report on Form 10-K for the fiscal year ended January 1, 2017 (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 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 provide accruals for such litigation and claims when payment is probable and reasonably estimable. The Company believes it has adequate accruals for continuing operations for all of its legal and environmental matters. We cannot estimate the aggregate possible range of loss due to most proceedings, including those described below, being in preliminary stages, with various motions either yet to be submitted or pending, discovery yet to occur and significant factual matters unresolved. In addition, most cases seek an indeterminate amount of damages and many involve multiple parties. Predicting the outcomes of settlement discussions or judicial or arbitral decisions is thus inherently difficult. Based on our currently available information, including legal defenses available to us, and given the aforementioned accruals and our insurance coverage, we do not believe that the outcome of these legal and environmental matters will have a material effect on our consolidated financial position or results of operations.

The Company has been named as a defendant in putative class action lawsuits alleging, among other things, that the Company failed to safeguard customer credit card information and failed to provide notice that credit card information had been compromised. Jonathan Torres and other consumers filed an action in the U.S. District Court for the Middle District of Florida (the "Torres case"). The operative complaint seeks to certify a nationwide class of consumers, or in the alternative, statewide classes of consumers for Florida, New York, New Jersey, Texas, and Tennessee, as well as statewide classes of consumers under those states' consumer protection and unfair trade practices laws. Certain financial institutions have also filed class actions lawsuits in the U.S. District Court for the Western District of Pennsylvania (the "FI cases"), which seek to certify a nationwide class financial institutions that issued payment cards that were allegedly impacted. In the Torres case and the FI cases, the plaintiffs seek monetary damages, injunctive and equitable relief, attorneys' fees and other costs. The Company's motion to dismiss the amended complaint in the Torres case was denied in part and granted in part with leave to amend; the plaintiffs then filed the operative complaint referenced above. The Company's motion to dismiss in the FI case was denied. The Company filed its answer in the Torres case in April 2017 and expects to file its answer in the FI case during the second quarter of 2017.

Certain of the Company's present and former directors have been named in two putative shareholder derivative complaints arising out of the credit card incidents above. The first case, brought by James Graham in the U.S. District Court for the Southern District of Ohio (the "Graham case"), asserts claims of breach of fiduciary duty, waste of corporate assets, unjust enrichment and gross mismanagement, and additionally names one non-director executive officer of the Company. The second case, brought by Thomas Caracci in the U.S. District Court for the Southern District of Ohio (the "Caracci case"), asserts claims of breach of fiduciary duty and violations of Section 14(a) and Rule 14a-9 of the Securities Exchange Act of 1934. Collectively, the plaintiffs seek a judgment on behalf of the Company for all damages incurred or that will be incurred as a result of the alleged wrongful acts or omissions, a judgment ordering disgorgement of all profits, benefits, and other compensation obtained by the named individual defendants, a judgment directing the Company to reform its governance and internal procedures, attorneys' fees and other costs. The Company's motion to dismiss is pending in the Graham case and the Company has yet to respond to the Caracci case.

The Torres case, the FI cases and the Graham case were previously described in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2017.

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

elsewhere in this report, there have been no material changes from the risk factors previously disclosed in our Form 10-K.

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 Exchange Act) during the first quarter of 2017:

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 Plans | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans (2) |
|--|--------------------------------------|------------------------------|--|--|
| January 2, 2017 through February 5, 2017 | 14,657 | \$ 13.74 | — | \$— |
| February 6, 2017 through March 5, 2017 | 573,240 | \$ 13.82 | 380,680 | \$144,756,649 |
| March 6, 2017 through April 2, 2017 | 940,461 | \$ 13.40 | 938,000 | \$132,196,786 |
| Total | 1,528,358 | \$ 13.56 | 1,318,680 | \$132,196,786 |

Includes 209,678 shares reacquired by the Company from holders of share-based awards to satisfy certain (1) requirements associated with the vesting or exercise of the respective awards. The shares were valued at the average of the high and low trading prices of our common stock on the vesting or exercise date of such awards.

(2) In February 2017, our Board of Directors authorized the repurchase of up to \$150 million of our common stock through March 4, 2018, when and if market conditions warrant and to the extent legally permissible.

Subsequent to April 2, 2017 through May 4, 2017, the Company repurchased 0.8 million shares with an aggregate purchase price of \$11.2 million, excluding commissions.

Item 6. Exhibits.

| EXHIBIT NO. | DESCRIPTION |
|-------------|--|
| 10.1 | Form of Long Term Performance Unit Award Agreement for 2017 under The Wendy's Company 2010 Omnibus Award Plan.* ** |
| 31.1 | Certification of the Chief Executive Officer of The Wendy's Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification of the Chief Financial Officer of The Wendy's Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certifications 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.DEF | XBRL Taxonomy Extension Definition Linkbase Document* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document* |

* Filed herewith.

**Identifies a management contract or compensatory plan or arrangement.

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.

THE WENDY'S COMPANY
(Registrant)

Date: May 10, 2017

By: /s/ Gunther Plosch
Gunther Plosch
Chief Financial Officer
(On behalf of the Company)

Date: May 10, 2017

By: /s/ Scott A. Kriss
Scott A. Kriss
Senior Vice President,
Chief Accounting and Tax Officer
(Principal Accounting Officer)

Exhibit Index

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