

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-04-03**
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FILER

WENDYS INTERNATIONAL INC

CIK: **105668** | IRS No.: **310785108** | State of Incorpor.: **OH** | Fiscal Year End: **1231**
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended April 3, 1994

OR

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

For the transition period from _____ to _____

Commission File Number 1-8116

WENDY'S INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

Ohio

31-0785108

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

P.O. Box 256, 4288 West Dublin-Granville Road, Dublin, Ohio 43017-0256

(Address of principal executive offices)

(Zip code)

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

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

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

 Common shares, \$.10 stated value

 101,144,000 shares

Exhibit index on page 13.

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WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES

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

<TABLE>
<CAPTION>

	(In thousands except per share data)	
	Quarter Ended April 3 1994 -----	Quarter Ended April 4 1993 -----
<S>	<C>	<C>
Revenues		
Retail sales.....	\$291,792	\$286,154
Royalties.....	24,521	22,902
Other.....	3,477	1,315
	-----	-----
	319,790	310,371
	-----	-----
Costs and expenses		
Cost of sales.....	173,388	169,810
Company restaurant operating costs.....	80,436	80,504
General and administrative expenses....	27,180	25,148
Depreciation and amortization of property and equipment.....	16,657	16,385
Interest, net.....	2,619	3,151
	-----	-----
	300,280	294,998
	-----	-----
Income before income taxes.....	19,510	15,373
Income taxes.....	7,024	5,534
	-----	-----
Net income.....	\$ 12,486	\$ 9,839
	=====	=====
Primary earnings per share.....	\$.12	\$.10
	=====	=====
Fully diluted earnings per share.....	\$.12	\$.10
	=====	=====
Dividends per share.....	\$.06	\$.06
	=====	=====
Primary shares.....	104,541	102,265
	=====	=====
Fully diluted shares.....	104,541	102,348
	=====	=====

</TABLE>

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

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WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

	(In thousands)	
	April 3 1994	January 2 1994
	-----	-----
	(Unaudited)	
<S>	<C>	<C>
ASSETS		
Current assets		
Cash and cash equivalents.....	\$ 63,836	\$ 71,698
Short-term investments, at cost which approximates market.....	37,371	40,647
Accounts receivable, net.....	25,521	27,381
Notes receivable, net.....	4,513	5,259
Deferred income taxes.....	11,263	12,244
Inventories and other.....	22,095	21,478
	-----	-----
	164,599	178,707
	-----	-----
Property and equipment, at cost		
Land.....	209,293	203,651
Buildings.....	332,945	329,023
Leasehold improvements.....	182,579	182,519
Restaurant equipment.....	292,982	289,242
Other equipment.....	65,216	65,197
Capital leases.....	62,761	64,148
	-----	-----
	1,145,776	1,133,780
	-----	-----
Accumulated depreciation and amortization.....	(438,676)	(426,496)
	-----	-----
	707,100	707,284
	-----	-----
Cost in excess of net assets		
acquired, net.....	23,932	24,314
Deferred income taxes.....	14,778	15,250
Other assets.....	74,421	70,931
	-----	-----

</TABLE>

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

WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

	(In thousands)	
	April 3 1994	January 2 1994
	-----	-----
	(Unaudited)	
<S>	<C>	<C>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts and drafts payable.....	\$ 49,489	\$ 68,735
Accrued expenses:		
Salaries and wages.....	13,155	16,288
Taxes.....	15,462	14,935
Insurance.....	20,850	21,345
Other.....	10,648	11,160
Income taxes.....	9,418	2,896
Deferred income taxes.....	2,047	2,299
Current portion of long-term obligations.....	55,715	5,611
	-----	-----
	176,784	143,269
	-----	-----
Long-term obligations		
Term debt.....	106,677	156,741
Capital leases.....	42,028	43,892
	-----	-----
	148,705	200,633
	-----	-----
Deferred income taxes.....	39,926	40,859
Other long-term liabilities.....	11,325	10,930
Commitments and contingencies		
Shareholders' equity		
Preferred stock,		
Authorized: 250,000 shares		
Common stock, \$.10 stated value		
Authorized: 200,000,000 shares		

Issued: 101,132,000 and 100,823,000 shares, respectively.....	10,113	10,082
Capital in excess of stated value.....	163,363	161,238
Retained earnings.....	437,286	430,866
Translation adjustments.....	66	1,347
Pension liability adjustment.....	(2,572)	(2,572)
	-----	-----
	608,256	600,961
	-----	-----
Treasury stock at cost: 29,000 shares..	(166)	(166)
	-----	-----
	608,090	600,795
	-----	-----
	\$984,830	\$996,486
	=====	=====

</TABLE>

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

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

<TABLE>
<CAPTION>

	(In thousands)	
	Quarter Ended April 3 1994	Quarter Ended April 4 1993
	-----	-----
<S>	<C>	<C>
Net cash provided by operating activities.....	\$ 20,396	\$ 37,992
	-----	-----
Cash flow from investing activities		
Proceeds from asset dispositions.....	1,052	2,858
Capital expenditures.....	(27,377)	(26,112)
Acquisition of franchises.....		(8,529)
Investment in marketable securities.....	(1,276)	(662)
Proceeds from marketable securities.....	4,552	
Other investing activities.....	(118)	(720)
	-----	-----
Net cash used in investing activities..	(23,167)	(33,165)
	-----	-----
Cash flows from financing activities		
Proceeds from issuance of common stock.....	2,154	1,588
Principal payments on long-term obligations.....	(1,184)	(1,415)
Dividends paid.....	(6,061)	(5,934)

Net cash used in financing activities..	(5,091)	(5,761)
Decrease in cash and cash equivalents.....	(7,862)	(934)
Cash and cash equivalents at beginning of period.....	71,698	77,412
Cash and cash equivalents at end of period...	\$ 63,836	\$ 76,478
Supplemental disclosures of cash flow information		
Interest paid.....	\$ 4,697	\$ 8,206
Interest received.....	2,185	2,259
Income taxes paid.....	422	1,336
Acquisition of franchises:		
Fair value of assets acquired, net.....		\$ 13,169
Cash paid.....		8,529
Liabilities assumed.....		\$ 4,640

</TABLE>

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

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

NOTE 1. MANAGEMENT'S STATEMENT

In the opinion of management the accompanying unaudited financial statements contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of Wendy's International, Inc. and Subsidiaries (the company) at April 3, 1994, and the results of operations and cash flows for the quarters ended April 3, 1994 and April 4, 1993. The Notes to the Consolidated Financial Statements which are contained in the 1993 Form 10-K should be read in conjunction with these Consolidated Financial Statements.

NOTE 2. ACQUISITIONS AND DISPOSITIONS

In both the first quarter of 1994 and 1993, one restaurant was disposed of for a net pretax gain of \$25,000 and \$400,000, respectively.

During the first quarter of 1993, the company acquired 27 restaurants in the Ft. Lauderdale, Florida market and three restaurants in the Milwaukee, Wisconsin market for approximately \$8,500,000.

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

The company recorded net income of \$12.5 million for the first quarter ended April 3, 1994, while \$9.8 million was reported for the first quarter ended April 4, 1993.

RETAIL SALES

Domestic retail sales increased 1.8% for the first quarter of 1994 compared to the first quarter of 1993. This was primarily a result of a 1.9% increase in average domestic net sales. Selling prices remained constant for the first quarter of 1994, and domestic coupon sales were .7% of retail sales in 1994 and .8% in 1993. The first quarter 1994 sales results were somewhat hampered by much of the country's severe winter weather conditions.

The company believes its value strategy, such as Combo Meals, Kids' Meals, and Super Value Menu, along with solid restaurant operations and effective marketing campaigns, have contributed to sales increases.

Average net sales per domestic Wendy's restaurant for the quarters ended April 3, 1994 and April 4, 1993 were as follows:

<TABLE>
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	First Quarter		%
	1994	1993	Increase
	----	----	-----
<S>	<C>	<C>	<C>
Company.....	\$237,150	\$232,700	1.9
Franchise.....	227,850	225,150	1.2
Total Domestic..	230,650	227,500	1.4

The number of Wendy's restaurants open as of April 3, 1994 and April 4, 1993 was as follows:

<TABLE>
 <CAPTION>

	1994	1993
	----	----
<S>	<C>	<C>
Company.....	1,229	1,244
Franchise.....	2,977	2,744
Total Wendy's.....	4,206	3,988
	=====	=====

</TABLE>

COST OF SALES AND RESTAURANT OPERATING COSTS

The company restaurant operating profit margin increased in the first quarter 1994 to 13.0% versus 12.5% for 1993. The increase reflected an improvement in domestic company restaurant operating costs. As a percent of domestic retail sales restaurant operating costs decreased to 27.9% from 28.4% for the first quarter 1994. This reflects lower insurance and advertising costs.

ROYALTIES

Royalties before reserve provisions increased \$2.3 million in the first quarter 1994 compared to 1993. This was primarily a result of increases in franchise domestic average net sales of 1.2% over the first quarter of 1993 and an increase of 190 average domestic restaurants open. Reserves provided were \$1.9 million for the first quarter of 1994 and \$1.2 million for the first quarter of 1993. This increase reflects a provision of \$.7 million for potential international issues.

OTHER REVENUES

Other revenues increased \$2.2 million over the first quarter of 1993. This was primarily a result of \$2.0 million in losses related to surplus property held for disposition and casualty losses that were recognized in 1993 while no similar items were recorded in 1994.

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GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the first quarter of 1994 increased \$2.0 million over 1993. This primarily reflects increases in salaries and benefits of \$2.0 million. This was a result of annual employee merit and performance pay increases and minimal increases in staffing of overhead personnel throughout 1993 to support new restaurant development planned for 1994 and beyond.

FINANCIAL CONDITION

The company's financial condition remains solid at the end of the first quarter of 1994. The debt to equity and debt to total capitalization ratios were 24% and 20%, respectively, at April 3, 1994. These compare to a debt to equity ratio and debt to total capitalization ratio of 33% and 25%, respectively, at fiscal year-end 1993. The decline in these ratios reflects the transfer of long-term debt to current liabilities as \$50 million of 12 1/8% Notes is payable April 1, 1995. Capital expenditures amounted to \$27.4 million for 1994 compared to \$26.1 million for 1993.

OUTLOOK

The company continues to employ its strategies as outlined in the company's 1993 Annual Report. Emphasis continues to be on solid restaurant operations, new products, effective marketing, new restaurant development, and the financial health of the entire system. The company anticipates that as many as 350 new

restaurants will be opened or under construction systemwide (both company and franchise) during 1994. During the first quarter of 1994, the company opened 53 new restaurants with another 63 under construction. Cash flow from operations, cash and investments on hand, and possible asset sales should adequately provide for projected cash requirements for 1994.

WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES
PART II: OTHER INFORMATION

Item 1. Legal Proceedings

On April 12, 1994, Richard Johnson and 12 other individuals, individually and purportedly on behalf of a putative class of other persons similarly situated, filed a complaint against the company and others in the U.S. District Court for the Northern District of Georgia. The Complaint alleges that the company has engaged in racial discrimination in violation of Title VII and 42 U.S.C. Section 1981. The plaintiffs further allege that the company conspired with certain of its franchisees to deprive the plaintiffs and employees of such franchisees of their rights under 42 U.S.C. Section 1985. The plaintiffs seek judgment in an undetermined amount against the company for punitive and compensatory damages (including benefits) as well as injunctive and equitable relief, including reinstatement of the plaintiffs to their former positions. The company intends to defend the action vigorously, and believes that it has meritorious defenses to the claims sought to be asserted and that the resolution of the action will not materially effect the company's financial condition.

On April 29, 1994, Mercy Health Services filed a complaint against the Company in the U.S. District Court for the Southern District of New York. The plaintiff, who purports to be a shareholder of the company, alleges that the company wrongfully refused to include a shareholder resolution in the company's notice of proxy and proxy statement for the May 2, 1994 Annual Meeting of Shareholders. The shareholder resolution requested the Board of Directors to adopt a policy making all company restaurants smoke-free by 1995, and requested that the

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policy include stipulations that, beginning in 1995, all new franchisees' facilities be smoke-free and all renewals of franchise agreements include smoke-free facilities in the agreements. The plaintiff seeks a declaration that the company's failure to include the shareholder resolution in the proxy statement was unlawful, an injunction which would enjoin the company from excluding the plaintiff's shareholder resolution from any future proxy statements when the resolution otherwise qualifies for inclusion under the applicable rules of the Securities and Exchange Commission, and an award for costs, expenses and attorneys' fees. The company intends to defend the action vigorously, and believes that it has meritorious defenses to this action and that an unfavorable judgment would not have a material impact upon the financial condition of the company.

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

- a. Index to Exhibits on Page 12.
- b. No report on Form 8-K was filed during the quarter ended April 3, 1994.

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SIGNATURE

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

WENDY'S INTERNATIONAL, INC.

(Registrant)

Date: 5/13/94

/s/ John K. Casey

John K. Casey
Vice Chairman and Chief
Financial Officer

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

<TABLE>
<CAPTION>

Exhibit Number	Description	Page No.
-----	-----	-----
<S> 11	<C> Computation of Net Income Per Share.	<C> 13

</TABLE>

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WENDY'S INTERNATIONAL, INC. AND SUBSIDIARIES
EXHIBIT 11
COMPUTATION OF NET INCOME PER COMMON SHARE

<TABLE>
<CAPTION>

	(In thousands except per share data)	
	Quarter Ended April 3 1994	Quarter Ended April 4 1993
	-----	-----
<S>	<C>	<C>
Weighted average number of common shares outstanding.....	100,942	98,936
Add net shares issuable pursuant to employee stock option plans less shares assumed repurchased at the average market price.....	3,599	3,329
	-----	-----
Number of shares for computation of primary earnings per share.....	104,541	102,265
Add net additional shares issuable pursuant to employee stock option plans at period-end market price.....		83
	-----	-----
Number of shares for computation of fully diluted earnings per share.....	104,541	102,348
Add additional shares issuable assuming conversion of subordinated debentures.....	8,130 (a)	9,854 (a)
	-----	-----
Number of shares for computation of fully diluted earnings per share (a).....	112,671	112,202
	=====	=====
Net income.....	\$ 12,486	\$ 9,839
Less requirements of preferred stock of subsidiary.....	-	15
	-----	-----
Net income for computation of primary earnings per share.....	12,486	9,824
Add savings on assumed dilutive conversion of subordinated debentures net of tax.....	1,136	1,465
	-----	-----
Net income for computation of fully diluted earnings per share.....	\$ 13,622	\$ 11,289
	=====	=====
Net income per share:		
Assuming primary dilution.....	\$.12	\$.10
	=====	=====
Assuming full dilution.....	\$.12	\$.10
	=====	=====

</TABLE>

(a) This calculation is submitted in accordance with Regulation S-K item 601(b)(11) although it is contrary to paragraph 40 of APB Opinion No. 15 because it produces an anti-dilutive result.

