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

# FORM 10-Q

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

For the quarterly period ended October 1, 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 [x] 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 [x] 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 [x] | 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 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 [x]

There were 242,196,738 shares of The Wendy's Company common stock outstanding as of November 2, 2017.

**THE WENDY'S COMPANY AND SUBSIDIARIES**
**INDEX TO FORM 10-Q**

**PART I. FINANCIAL INFORMATION**

**Item 1.** ***Financial Statements.***

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

| | October 1, 2017 | January 1, 2017 |
|---|---|---|
| **ASSETS** | (Unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | $ 186,629 | $ 198,240 |
| Restricted cash | 34,042 | 57,612 |
| Accounts and notes receivable, net | 115,390 | 98,825 |
| Inventories | 2,895 | 2,851 |
| Prepaid expenses and other current assets | 23,762 | 19,244 |
| Advertising funds restricted assets | 58,163 | 75,760 |
| Total current assets | 420,881 | 452,532 |
| Properties | 1,252,246 | 1,192,339 |
| Goodwill | 743,508 | 741,410 |
| Other intangible assets | 1,332,130 | 1,322,531 |
| Investments | 58,171 | 56,981 |
| Net investment in direct financing leases | 213,649 | 123,604 |
| Other assets | 69,688 | 49,917 |
| Total assets | $ 4,090,273 | $ 3,939,314 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 29,359 | $ 24,652 |
| Accounts payable | 25,776 | 27,635 |
| Accrued expenses and other current liabilities | 121,124 | 102,034 |
| Advertising funds restricted liabilities | 58,163 | 75,760 |
| Total current liabilities | 234,422 | 230,081 |
| Long-term debt | 2,696,520 | 2,487,630 |
| Deferred income taxes | 419,293 | 446,513 |
| Other liabilities | 277,443 | 247,354 |
| Total liabilities | 3,627,678 | 3,411,578 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, $0.10 par value; 1,500,000 shares authorized; 470,424 shares issued; 242,565 and 246,574 shares outstanding, respectively | 47,042 | 47,042 |
| Additional paid-in capital | 2,883,504 | 2,878,589 |
| Accumulated deficit | (305,703) | (290,857) |
| Common stock held in treasury, at cost; 227,859 and 223,850 shares, respectively | (2,117,232) | (2,043,797) |
| Accumulated other comprehensive loss | (45,016) | (63,241) |
| Total stockholders' equity | 462,595 | 527,736 |
| Total liabilities and stockholders' equity | $ 4,090,273 | $ 3,939,314 |

See accompanying notes to condensed consolidated financial statements.

**THE WENDY'S COMPANY AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(In Thousands Except Per Share Amounts)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **October 1, 2017** | **October 2, 2016** | **October 1, 2017** | **October 2, 2016** |
| | **(Unaudited)** | | | |
| Revenues: | | | | |
| Sales | $ 158,843 | $ 228,644 | $ 467,914 | $ 747,211 |
| Franchise royalty revenue and fees | 98,882 | 98,039 | 306,120 | 275,886 |
| Franchise rental income | 50,275 | 37,329 | 140,127 | 102,420 |
| | 308,000 | 364,012 | 914,161 | 1,125,517 |
| Costs and expenses: | | | | |
| Cost of sales | 132,387 | 186,546 | 385,154 | 603,836 |
| Franchise rental expense | 24,076 | 17,534 | 64,841 | 49,684 |
| General and administrative | 52,960 | 58,938 | 156,690 | 184,708 |
| Depreciation and amortization | 31,216 | 29,362 | 91,690 | 92,456 |
| System optimization losses (gains), net | 106 | (37,756) | 39,749 | (48,106) |
| Reorganization and realignment costs | 2,888 | 2,129 | 20,768 | 7,866 |
| Impairment of long-lived assets | 1,041 | 361 | 1,804 | 12,991 |
| Other operating expense (income), net | 1,669 | 810 | 5,294 | (13,483) |
| | 246,343 | 257,924 | 765,990 | 889,952 |
| Operating profit | 61,657 | 106,088 | 148,171 | 235,565 |
| Interest expense | (29,977) | (28,731) | (87,887) | (85,483) |
| Other (expense) income, net | (125) | 498 | 3,108 | 1,036 |
| Income before income taxes | 31,555 | 77,855 | 63,392 | 151,118 |
| Provision for income taxes | (17,298) | (28,965) | (28,639) | (50,385) |
| Net income | $ 14,257 | $ 48,890 | $ 34,753 | $ 100,733 |
| | | | | |
| Net income per share: | | | | |
| Basic | $ .06 | $ .19 | $ .14 | $ .38 |
| Diluted | .06 | .18 | .14 | .37 |
| | | | | |
| Dividends per share | $ .07 | $ .06 | $ .21 | $ .18 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 1, 2017 | October 2, 2016 | October 1, 2017 | October 2, 2016 |
| | (Unaudited) | | | |
| Net income | $ 14,257 | $ 48,890 | $ 34,753 | $ 100,733 |
| Other comprehensive income (loss), net: | | | | |
| Foreign currency translation adjustment | 8,787 | (3,369) | 16,797 | 10,887 |
| Change in unrecognized pension loss, net of income tax (provision) benefit of $(60) and $34 for the nine months ended October 1, 2017 and October 2, 2016, respectively | — | — | 96 | (56) |
| Effect of cash flow hedges, net of income tax provision of $279 and $838 for both the three and nine months ended October 1, 2017 and October 2, 2016, respectively | 444 | 444 | 1,332 | 1,332 |
| Other comprehensive income (loss), net | 9,231 | (2,925) | 18,225 | 12,163 |
| Comprehensive income | $ 23,488 | $ 45,965 | $ 52,978 | $ 112,896 |

See accompanying notes to condensed consolidated financial statements.

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

| | Nine Months Ended | |
|---|---|---|
| | October 1, 2017 | October 2, 2016 |
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net income | $ 34,753 | $ 100,733 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 91,690 | 94,056 |
| Share-based compensation | 16,356 | 14,260 |
| Impairment of long-lived assets | 1,804 | 12,991 |
| Deferred income tax | 945 | (17,024) |
| Non-cash rental income, net | (8,348) | (5,138) |
| Net receipt of deferred vendor incentives | 4,547 | 4,110 |
| System optimization losses (gains), net | 39,749 | (48,106) |
| Gain on sale of investments, net | (1,807) | — |
| Distributions received from TimWen joint venture | 5,524 | 8,451 |
| Equity in earnings in joint ventures, net | (6,113) | (6,495) |
| Accretion of long-term debt | 927 | 914 |
| Amortization of deferred financing costs | 5,954 | 5,668 |
| Reclassification of unrealized losses on cash flow hedges | 2,170 | 2,170 |
| Other, net | 2,395 | 4,229 |
| Changes in operating assets and liabilities: | | |
| Restricted cash | 233 | 181 |
| Accounts and notes receivable, net | (14,193) | (29,118) |
| Inventories | (44) | 126 |
| Prepaid expenses and other current assets | (1,281) | (3,958) |
| Accounts payable | (1,557) | (6,412) |
| Accrued expenses and other current liabilities | 3,039 | 5,677 |
| Net cash provided by operating activities | 176,743 | 137,315 |
| Cash flows from investing activities: | | |
| Capital expenditures | (53,711) | (108,744) |
| Acquisitions | (86,788) | (2,209) |
| Dispositions | 80,058 | 173,849 |
| Proceeds from sale of investments | 3,282 | — |
| Payments for investments | (375) | (172) |
| Notes receivable, net | (4,174) | (2,282) |
| Changes in restricted cash | 23,624 | 1,912 |
| Other, net | — | 103 |
| Net cash (used in) provided by investing activities | (38,084) | 62,457 |
| Cash flows from financing activities: | | |
| Repayments of long-term debt | (20,291) | (18,678) |
| Deferred financing costs | (1,069) | (1,017) |
| Repurchases of common stock | (90,065) | (161,194) |
| Dividends | (51,464) | (47,793) |
| Proceeds from stock option exercises | 10,419 | 10,623 |
| Payments related to tax withholding for share-based compensation | (4,484) | (4,142) |
| Net cash used in financing activities | (156,954) | (222,201) |
| Net cash used in operations before effect of exchange rate changes on cash | (18,295) | (22,429) |
| Effect of exchange rate changes on cash | 6,684 | 3,997 |
| Net decrease in cash and cash equivalents | (11,611) | (18,432) |
| Cash and cash equivalents at beginning of period | 198,240 | 327,216 |
| Cash and cash equivalents at end of period | $ 186,629 | $ 308,784 |

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

| | Nine Months Ended | |
|---|---|---|
| | October 1, 2017 | October 2, 2016 |
| | (Unaudited) | |
| Supplemental cash flow information: | | |
| Cash paid for: | | |
| Interest | $ 93,701 | $ 85,753 |
| Income taxes, net of refunds | 22,092 | 63,775 |
| | | |
| Supplemental non-cash investing and financing activities: | | |
| Capital expenditures included in accounts payable | $ 9,621 | $ 20,108 |
| Capitalized lease obligations | 239,721 | 102,748 |

See accompanying notes to condensed consolidated financial statements.

## (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 October 1, 2017 and the results of our operations for the three and nine months ended October 1, 2017 and October 2, 2016 and cash flows for the nine months ended October 1, 2017 and October 2, 2016. The results of operations for the three and nine months ended October 1, 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- and nine-month periods presented herein contain 13 weeks and 39 weeks, respectively. 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 Losses (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 and drive new restaurant development and accelerate reimages in the Image Activation format.

During the nine months ended October 1, 2017, the Company recorded post-closing adjustments on sales of restaurants and completed the sale of other assets, resulting in net gains totaling $3,385. In addition, the Company facilitated the transfer of 270 restaurants between franchisees during the nine months ended October 1, 2017 (excluding the DavCo and NPC transactions discussed below).

### *DavCo and NPC Transactions*

As part of our system optimization initiative, the Company acquired 140 Wendy's restaurants on May 31, 2017 from DavCo Restaurants, LLC ("DavCo") for total net cash consideration of $86,788, which were immediately sold to NPC International, Inc. ("NPC"), an existing franchisee of the Company, for cash proceeds of $70,688 (the "DavCo and NPC transactions"). As part of the transaction, NPC has agreed to remodel 90 acquired restaurants in the Image Activation format by the end of 2021 and build 15 new Wendy's restaurants by the end of 2022. Prior to closing the DavCo transaction, seven DavCo restaurants were closed. The acquisition of Wendy's restaurants from DavCo was not contingent on executing the sale agreement with NPC; as such, the Company accounted for the transactions as an acquisition and subsequent disposition of a business. The total consideration paid to DavCo was allocated to net tangible and identifiable intangible assets acquired based on their estimated fair values. As part of the transactions, the Company retained leases for purposes of subleasing such properties to NPC.

**(In Thousands Except Per Share Amounts)**

The following is a summary of the activity recorded as a result of the DavCo and NPC transactions:

| | Nine Months Ended October 1, 2017 |
|---|---|
| ***Acquisition (a)*** | |
| Total consideration paid | $ 86,788 |
| Identifiable assets and liabilities assumed: | |
| Net assets held for sale | 70,688 |
| Capital lease assets | 49,360 |
| Deferred taxes | 27,639 |
| Capital lease obligations | (97,046) |
| Net unfavorable leases (b) | (22,330) |
| Other liabilities (c) | (6,999) |
| Total identifiable net assets | 21,312 |
| Goodwill (d) | $ 65,476 |
| | |
| ***Disposition*** | |
| Proceeds | $ 70,688 |
| Net assets sold | (70,688) |
| Goodwill (d) | (65,476) |
| Net favorable leases (e) | 24,034 |
| Other (f) | (1,692) |
| Loss on DavCo and NPC transactions | $ (43,134) |

(a) The fair values of the identifiable intangible assets and taxes related to the acquisition are provisional amounts as of October 1, 2017, pending final valuations and purchase accounting adjustments. The Company utilized management estimates and consultation with an independent third-party valuation firm to assist in the valuation process. For the three months ended October 1, 2017, the Company recorded adjustments to the fair value of deferred taxes and net unfavorable leases, resulting in a decrease in goodwill of $27.

(b) Includes favorable lease assets of $1,229 and unfavorable lease liabilities of $23,559.

(c) Includes a supplemental purchase price estimated at $6,344 to be paid to DavCo for the resolution of certain lease-related matters, which is included in "Accrued expenses and other current liabilities."

(d) Includes tax deductible goodwill of $21,870.

(e) The Company recorded favorable lease assets of $30,068 and unfavorable lease liabilities of $6,034 as a result of subleasing land, buildings and leasehold improvements to NPC.

(f) Includes cash payments for selling and other costs associated with the transaction. For the three and nine months ended October 1, 2017, the Company recorded additional selling and other costs of $12.

Gains and losses recognized on dispositions are recorded to "System optimization losses (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 the DavCo and NPC transactions continue to be recorded to "Reorganization and realignment costs." All other costs incurred during 2017 related to facilitating franchisee-to-franchisee restaurant transfers are recorded to "Other operating expense (income), net." See Note 4 for further information.

(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 | | Nine Months Ended | |
|---|---|---|---|---|
| | October 1, 2017 | October 2, 2016 | October 1, 2017 | October 2, 2016 |
| Number of restaurants sold to franchisees | — | 156 | — | 211 |
| | | | | |
| Proceeds from sales of restaurants | $ — | $ 124,765 | $ — | $ 164,380 |
| Net assets sold (a) | — | (58,227) | — | (75,282) |
| Goodwill related to sales of restaurants | — | (24,254) | — | (30,630) |
| Net unfavorable leases (b) | — | (6,225) | — | (11,131) |
| Other | — | (726) | — | (1,521) |
| | — | 35,333 | — | 45,816 |
| Post-closing adjustments on sales of restaurants (c) | 418 | (120) | 1,345 | (1,710) |
| Gain on sales of restaurants, net | 418 | 35,213 | 1,345 | 44,106 |
| | | | | |
| (Loss) gain on sales of other assets, net (d) | (539) | 2,543 | 2,040 | 4,000 |
| Gain (loss) on DavCo and NPC transactions | 15 | — | (43,134) | — |
| System optimization (losses) gains, net | $ (106) | $ 37,756 | $ (39,749) | $ 48,106 |

(a) Net assets sold consisted primarily of equipment.

(b) During the three and nine months ended October 2, 2016, the Company recorded favorable lease assets of $2,114 and $2,297, respectively, and unfavorable lease liabilities of $8,339 and $13,428, respectively, 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 and nine months ended October 1, 2017 includes cash payments, net of proceeds received, of $333 and $33, respectively, related to post-closing reconciliations with franchisees. The nine months ended October 1, 2017 also 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.

(d) During the three and nine months ended October 1, 2017, the Company received cash proceeds of $2,411 and $9,403, respectively, primarily from the sale of surplus properties. The nine months ended October 1, 2017 also includes the recognition of a deferred gain of $375 related to the sale of a share in an aircraft. During the three and nine months ended October 2, 2016, the Company received cash proceeds of $4,006 and $9,469, respectively, primarily from the sale of surplus properties.

As of October 1, 2017 and January 1, 2017, the Company had assets held for sale of $2,509 and $4,800, respectively, primarily consisting of surplus properties. Assets held for sale are included in "Prepaid expenses and other current assets."

(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:

| | Nine Months Ended | |
|---|---|---|
| | October 1, 2017 | October 2, 2016 |
| Restaurants acquired from franchisees | — | 2 |
| | | |
| Total consideration paid, net of cash received | $ — | $ 2,209 |
| Identifiable assets acquired and liabilities assumed: | | |
| Properties | — | 2,218 |
| Deferred taxes and other assets | — | 9 |
| Other liabilities | — | (18) |
| Total identifiable net assets | — | 2,209 |
| Goodwill | $ — | $ — |

On May 31, 2017, the Company also entered into the DavCo and NPC transactions. See Note 2 for further information.

**(4) Reorganization and Realignment Costs**

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 1, 2017 | October 2, 2016 | October 1, 2017 | October 2, 2016 |
| System optimization initiative | $ 232 | $ 2,091 | $ 867 | $ 6,895 |
| G&A realignment - November 2014 plan | — | 38 | — | 971 |
| G&A realignment - May 2017 plan | 2,656 | — | 19,901 | — |
| Reorganization and realignment costs | $ 2,888 | $ 2,129 | $ 20,768 | $ 7,866 |

***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 does not expect to incur additional costs during the remainder of 2017 in connection with the DavCo and NPC transactions. All other costs incurred during 2017 related to facilitating franchisee-to-franchisee restaurant transfers are recorded to "Other operating expense (income), net."

(In Thousands Except Per Share Amounts)

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

| | Three Months Ended | | Nine Months Ended | | Total Incurred Since Inception |
|---|---|---|---|---|---|
| | October 1, 2017 | October 2, 2016 | October 1, 2017 | October 2, 2016 | |
| Severance and related employee costs | $ — | $ 28 | $ 3 | $ 46 | $ 18,237 |
| Professional fees | 232 | 1,991 | 794 | 5,137 | 17,404 |
| Other (a) | — | 72 | 70 | 112 | 5,813 |
| | 232 | 2,091 | 867 | 5,295 | 41,454 |
| Accelerated depreciation and amortization (b) | — | — | — | 1,600 | 25,398 |
| Share-based compensation (c) | — | — | — | — | 5,013 |
| Total system optimization initiative | $ 232 | $ 2,091 | $ 867 | $ 6,895 | $ 71,865 |

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(a) The nine months ended October 2, 2016 includes a reversal of an accrual of $50 as a result of a change in estimate.

(b) 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.

(c) 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 October 1, 2017 |
|---|---|---|---|---|
| Severance and related employee costs | $ — | $ 3 | $ (3) | $ — |
| Professional fees | 101 | 794 | (885) | 10 |
| Other | — | 70 | (70) | — |
| | $ 101 | $ 867 | $ (958) | $ 10 |

| | Balance January 3, 2016 | Charges | Payments | Balance October 2, 2016 |
|---|---|---|---|---|
| Severance and related employee costs | $ 77 | $ 46 | $ (123) | $ — |
| Professional fees | 708 | 5,137 | (5,740) | 105 |
| Other | 90 | 112 | (202) | — |
| | $ 875 | $ 5,295 | $ (6,065) | $ 105 |

***General and Administrative ("G&A") Realignment***

*November 2014 Plan*

In November 2014, the Company initiated a plan to reduce its G&A 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 $38 and $971 during the three and nine months ended October 2, 2016, respectively, and $23,960 in aggregate since inception. The Company did not incur any expenses during the three and nine months ended October 1, 2017 and does not expect to incur additional costs related to the plan.

(In Thousands Except Per Share Amounts)

*May 2017 Plan*

In May 2017, the Company initiated a new plan to further reduce its G&A expenses. The Company expects to incur total costs aggregating approximately $28,000 to $33,000 related to the plan. The Company recognized costs totaling $2,656 and $19,901 during the three and nine months ended October 1, 2017, respectively, which primarily included severance and related employee costs and share-based compensation. The Company expects to incur additional costs aggregating approximately $8,000 to $13,000, comprised of (1) severance and related employee costs of approximately $3,000, (2) recruitment and relocation costs of approximately $4,000, (3) third-party and other costs of approximately $1,000 and (4) share-based compensation of approximately $3,000. The Company expects costs to be recognized during the remainder of 2017 and continue into 2019, with approximately two-thirds to be recognized during 2017.

The following is a summary of the activity recorded as a result of the May 2017 plan:

| | Three Months Ended October 1, 2017 | Nine Months Ended October 1, 2017 |
|---|---|---|
| Severance and related employee costs | $ 1,210 | $ 14,436 |
| Recruitment and relocation costs | 145 | 145 |
| Third-party and other costs | 496 | 821 |
| | 1,851 | 15,402 |
| Share-based compensation (a) | 805 | 4,499 |
| Total G&A realignment - May 2017 plan | $ 2,656 | $ 19,901 |

(a) Primarily represents incremental share-based compensation resulting from the modification of stock options in connection with the termination of employees under our May 2017 plan. The three and nine months ended October 1, 2017 includes incremental share-based compensation of $652 related to the modification of stock options granted during August 2017.

As of October 1, 2017, the accruals for our May 2017 plan are included in "Accrued expenses and other current liabilities" and "Other liabilities" and totaled $7,766 and $5,429, respectively. The table below presents a rollforward of our accruals for the May 2017 plan.

| | Balance January 1, 2017 | Charges | Payments | Balance October 1, 2017 |
|---|---|---|---|---|
| Severance and related employee costs | $ — | $ 14,436 | $ (1,350) | $ 13,086 |
| Recruitment and relocation costs | — | 145 | (36) | 109 |
| Third-party and other costs | — | 821 | (821) | — |
| | $ — | $ 15,402 | $ (2,207) | $ 13,195 |

**(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, a wholly-owned subsidiary of Wendy's 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."

(In Thousands Except Per Share Amounts)

During the three months ended October 1, 2017, a wholly-owned subsidiary of Wendy's agreed to lend the Brazil JV an aggregate amount up to, but not to exceed, $4,800, which is in addition to $8,000 previously loaned. During the three months ended October 1, 2017, $1,500 was loaned to the Brazil JV under this agreement. The loans are denominated in U.S. Dollars, which is also the functional currency of the subsidiary; therefore, there is no exposure to changes in foreign currency rates. The loans are due October 20, 2020 and bear interest at 6.5% per year.

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

| | Nine Months Ended | |
|---|---|---|
| | October 1, 2017 | October 2, 2016 |
| Balance at beginning of period | $ 54,545 | $ 55,541 |
| Investment | 375 | 172 |
| Equity in earnings for the period | 7,844 | 8,207 |
| Amortization of purchase price adjustments (a) | (1,731) | (1,712) |
| | 6,113 | 6,495 |
| Distributions received (b) | (8,128) | (8,451) |
| Foreign currency translation adjustment included in "Other comprehensive income, net" | 4,304 | 3,204 |
| Balance at end of period | $ 57,209 | $ 56,961 |

(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.

(b) The nine months ended October 1, 2017 includes a distribution receivable from TimWen of $2,604, which is included in "Accounts and notes receivable, net."

**(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.

- 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.

(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:

| | October 1, 2017 | | January 1, 2017 | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Fair Value Measurements |
| ***Financial assets*** | | | | | |
| Cash equivalents | $ 337 | $ 337 | $ 5,335 | $ 5,335 | Level 1 |
| Non-current cost method investments (a) | 962 | 325,869 | 2,436 | 326,283 | Level 3 |
| | | | | | |
| ***Financial liabilities*** | | | | | |
| Series 2015-1 Class A-2-I Notes (b) | 857,500 | 863,417 | 864,063 | 857,349 | Level 2 |
| Series 2015-1 Class A-2-II Notes (b) | 882,000 | 900,169 | 888,750 | 880,005 | Level 2 |
| Series 2015-1 Class A-2-III Notes (b) | 490,000 | 504,112 | 493,750 | 474,543 | Level 2 |
| 7% debentures, due in 2025 (b) | 89,204 | 106,000 | 88,277 | 99,750 | Level 2 |
| Guarantees of franchisee loan obligations (c) | 224 | 224 | 280 | 280 | Level 3 |

(a) 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 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.

(c) 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 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).

(In Thousands Except Per Share Amounts)

Reclassifications of unrealized losses on cash flow hedges from "Accumulated other comprehensive loss" to "Interest expense" were $723 and $2,170 for both the three and nine months ended October 1, 2017 and October 2, 2016, respectively.

***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 further information on impairment of our long-lived assets.

| | | Fair Value Measurements | | |
|---|---|---|---|---|
| | October 1, 2017 | Level 1 | Level 2 | Level 3 |
| Held and used | $ 915 | $ — | $ — | $ 915 |
| Held for sale | 1,290 | — | — | 1,290 |
| Total | $ 2,205 | $ — | $ — | $ 2,205 |

| | | 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 and nine months ended October 1, 2017 included remeasuring long-lived assets held and used of $928 and $1,146, respectively, and remeasuring long-lived assets held for sale of $113 and $658, respectively. Total impairment losses for the three and nine months ended October 2, 2016 included remeasuring long-lived assets held and used of $242 and $12,768, respectively, and remeasuring long-lived assets held for sale of $119 and $223, respectively.

In addition, the Company measured assets acquired and liabilities assumed at fair value as part of the DavCo and NPC transactions during the three and nine months ended October 1, 2017. See Note 2 for further information.

**(7) Impairment of Long-Lived Assets**

During the three and nine months ended October 1, 2017 and October 2, 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, (2) closing Company-operated restaurants and classifying such surplus properties as held for sale and (3) the deterioration in operating performance of certain Company-operated restaurants and charges for capital improvements in previously impaired restaurants that did not subsequently recover. 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.

(In Thousands Except Per Share Amounts)

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 | | Nine Months Ended | |
|---|---|---|---|---|
| | October 1, 2017 | October 2, 2016 | October 1, 2017 | October 2, 2016 |
| Restaurants leased or subleased to franchisees | $ 95 | $ 163 | $ 95 | $ 12,654 |
| Surplus properties | 113 | 119 | 658 | 223 |
| Company-operated restaurants | 833 | 79 | 1,051 | 114 |
| | $ 1,041 | $ 361 | $ 1,804 | $ 12,991 |

**(8) Income Taxes**

The Company's effective tax rate for the three months ended October 1, 2017 and October 2, 2016 was 54.8% and 37.2%, respectively. The Company's effective tax rate varies from the U.S. federal statutory rate of 35% due to the effect of (1) the system optimization initiative provision of $5,019 and $2,332 in the third quarter of 2017 and 2016, respectively, reflecting goodwill adjustments, changes to valuation allowances on state net operating loss carryforwards and state deferred taxes, (2) state income taxes net of federal benefits, including non-recurring changes to state deferred taxes, (3) 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 and (4) the rate differential between foreign and domestic taxes.

The Company's effective tax rate for the nine months ended October 1, 2017 and October 2, 2016 was 45.2% and 33.3%, respectively. The Company's effective tax rate varies from the U.S. federal statutory rate of 35% due to the effect of (1) the system optimization initiative, reflecting goodwill adjustments, changes to valuation allowances on state net operating loss carryforwards and state deferred taxes (including corrections to prior years identified and recorded in the first nine months of 2017 and 2016, which resulted in a benefit of $2,248 and $7,113, respectively), (2) the adoption of an amendment issued by the 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 $5,205 during the nine months ended October 1, 2017, (3) state income taxes net of federal benefits, including non-recurring changes to state deferred taxes, and (4) the rate differential between foreign and domestic taxes.

During the next twelve months, we believe that it is reasonably possible the Company will reduce its unrecognized tax benefits by up to $7,030, primarily due to expected settlements with taxing authorities.

The current portion of refundable income taxes was $16,165 and $18,111 as of October 1, 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 $960 and $239 as of October 1, 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 | | Nine Months Ended | |
|---|---|---|---|---|
| | October 1, 2017 | October 2, 2016 | October 1, 2017 | October 2, 2016 |
| Common stock: | | | | |
| Weighted average basic shares outstanding | 243,354 | 260,976 | 245,073 | 265,702 |
| Dilutive effect of stock options and restricted shares | 8,383 | 3,832 | 8,103 | 4,239 |
| Weighted average diluted shares outstanding | 251,737 | 264,808 | 253,176 | 269,941 |

(In Thousands Except Per Share Amounts)

Diluted net income per share for the three and nine months ended October 1, 2017 and October 2, 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 1,617 and 618 for the three and nine months ended October 1, 2017, respectively, and 2,233 and 2,072 for the three and nine months ended October 2, 2016, respectively, from our diluted net income per share calculation as they would have had anti-dilutive effects.

**(10) Stockholders' Equity**

***Stockholders' Equity***

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

| | Nine Months Ended | |
|---|---|---|
| | October 1, 2017 | October 2, 2016 |
| Balance at beginning of period | $ 527,736 | $ 752,914 |
| Comprehensive income | 52,978 | 112,896 |
| Cash dividends | (51,464) | (47,793) |
| Repurchases of common stock | (90,964) | (162,492) |
| Share-based compensation | 16,356 | 14,260 |
| Exercises of stock options | 10,194 | 10,600 |
| Vesting of restricted shares | (4,260) | (3,853) |
| Cumulative effect of change in accounting principle (a) | 1,880 | — |
| Tax benefit from share-based compensation | — | 1,898 |
| Other | 139 | 145 |
| Balance at end of period | $ 462,595 | $ 678,575 |

(a) During the nine months ended October 1, 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 nine months ended October 1, 2017, the Company repurchased 6,131 shares with an aggregate purchase price of $90,876, of which $899 was accrued at October 1, 2017 and excluding commissions of $88. As of October 1, 2017, the Company had $59,124 of availability remaining under its February 2017 authorization. Subsequent to October 1, 2017 through November 2, 2017, the Company repurchased 428 shares with an aggregate purchase price of $6,628, excluding commissions of $6.

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 nine months ended October 2, 2016, the Company repurchased 16,034 shares with an aggregate purchase price of $162,252, of which $2,998 was accrued at October 2, 2016 and excluding commissions of $240.

(In Thousands Except Per Share Amounts)

***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 | 16,797 | 1,332 | 96 | 18,225 |
| Balance at October 1, 2017 | $ (43,502) | $ (465) | $ (1,049) | $ (45,016) |
| | | | | |
| Balance at January 3, 2016 | $ (66,163) | $ (3,571) | $ (1,089) | $ (70,823) |
| Current-period other comprehensive income (loss) | 10,887 | 1,332 | (56) | 12,163 |
| Balance at October 2, 2016 | $ (55,276) | $ (2,239) | $ (1,145) | $ (58,660) |

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(a) Current-period other comprehensive income (loss) includes the reclassification of unrealized losses on cash flow hedges from "Accumulated other comprehensive loss" to our condensed consolidated statements of operations of $444 and $1,332 for both the three and nine months ended October 1, 2017 and October 2, 2016, respectively. The reclassification of unrealized losses on cash flow hedges consists of $723 and $2,170 for both the three and nine months ended October 1, 2017 and October 2, 2016, respectively, recorded to "Interest expense," net of the related income tax benefit of $279 and $838 for both the three and nine months ended October 1, 2017 and October 2, 2016, respectively, recorded to "Provision for income taxes." See Note 6 for further information.

**(11) Leases**

At October 1, 2017, Wendy's and its franchisees operated 6,586 Wendy's restaurants. Of the 333 Company-operated Wendy's restaurants, Wendy's owned the land and building for 146 restaurants, owned the building and held long-term land leases for 137 restaurants and held leases covering land and building for 50 restaurants. Wendy's also owned 521 and leased 1,270 properties that were either leased or subleased principally to franchisees.

Rental expense for operating leases consists of the following components:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 1, 2017 | October 2, 2016 | October 1, 2017 | October 2, 2016 |
| Rental expense: | | | | |
| Minimum rentals | $ 23,997 | $ 19,137 | $ 66,701 | $ 59,139 |
| Contingent rentals | 5,395 | 5,254 | 14,405 | 13,786 |
| Total rental expense (a) | $ 29,392 | $ 24,391 | $ 81,106 | $ 72,925 |

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(a) Amounts exclude sublease income of $35,022 and $92,434 recognized during the three and nine months ended October 1, 2017, respectively, and $25,127 and $68,400 recognized during the three and nine months ended October 2, 2016, respectively.

(In Thousands Except Per Share Amounts)

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 1, 2017 | October 2, 2016 | October 1, 2017 | October 2, 2016 |
| Rental income: | | | | |
| Minimum rentals | $ 44,682 | $ 31,902 | $ 124,847 | $ 87,409 |
| Contingent rentals | 5,593 | 5,427 | 15,280 | 15,011 |
| Total rental income | $ 50,275 | $ 37,329 | $ 140,127 | $ 102,420 |

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 October 1, 2017. Rental receipts below are presented separately for owned properties and for leased properties based on the classification of the underlying lease.

| | Rental Payments | | Rental Receipts | | |
|---|---|---|---|---|---|
| **Fiscal Year** | Capital Leases | Operating Leases | Capital Leases | Operating Leases | Owned Properties |
| 2017 (a) | $ 11,989 | $ 24,894 | $ 15,868 | $ 18,782 | $ 13,436 |
| 2018 | 43,406 | 93,431 | 60,844 | 75,167 | 53,896 |
| 2019 | 42,717 | 93,272 | 61,368 | 75,267 | 54,866 |
| 2020 | 43,660 | 92,434 | 62,469 | 74,983 | 55,489 |
| 2021 | 45,249 | 91,892 | 64,260 | 74,672 | 57,102 |
| Thereafter | 748,736 | 1,188,165 | 1,045,693 | 973,428 | 1,008,243 |
| Total minimum payments | $ 935,757 | $ 1,584,088 | $ 1,310,502 | $ 1,292,299 | $ 1,243,032 |
| Less interest | (499,703) | | | | |
| Present value of minimum capital lease payments (b) | $ 436,054 | | | | |

(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 $6,608 and $429,446 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:

| | October 1, 2017 | January 1, 2017 |
|---|---|---|
| Land | $ 271,840 | $ 271,160 |
| Buildings and improvements | 312,796 | 312,067 |
| Restaurant equipment | 1,491 | 1,507 |
| | 586,127 | 584,734 |
| Accumulated depreciation and amortization | (122,970) | (110,166) |
| | $ 463,157 | $ 474,568 |

(In Thousands Except Per Share Amounts)

Our net investment in direct financing leases is as follows:

| | October 1, 2017 | January 1, 2017 |
|---|---|---|
| Future minimum rental receipts | $ 630,352 | $ 401,452 |
| Unearned interest income | (416,221) | (277,747) |
| Net investment in direct financing leases | 214,131 | 123,705 |
| Net current investment in direct financing leases (a) | (482) | (101) |
| Net non-current investment in direct financing leases (b) | $ 213,649 | $ 123,604 |

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

(b) Included in "Net investment in direct financing leases."

## (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 nine months ended October 1, 2017 and October 2, 2016, Wendy's paid TimWen $9,362 and $8,926, respectively, under these lease agreements. In addition, TimWen paid Wendy's a management fee under the TimWen joint venture agreement of $158 and $156 during the nine months ended October 1, 2017 and October 2, 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 $56,299 as of October 1, 2017. These leases extend through 2056. We have not received any notice of default related to these leases as of October 1, 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 $637 as of October 1, 2017. These leases expire on various dates through 2021.

***Letters of Credit***

As of October 1, 2017, the Company had outstanding letters of credit with various parties totaling $32,575, of which $3,205 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.

**(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 October 1, 2017, the Company had accruals for all of its legal and environmental matters aggregating $1,639. 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.

We previously described certain legal proceedings under Note 14 to our Condensed Consolidated Financial Statements in our Quarterly Report on Form 10-Q for the second quarter of 2017, as filed with the SEC on August 9, 2017. Except as set forth below, there were no material developments in those legal proceedings during the third quarter of 2017.

As previously reported, 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. On October 27, 2017, the Company moved to dismiss the operative complaint. The Company's motion is pending before the court.

**(15) New Accounting Standards**

***New Accounting Standards***

In May 2017, the FASB issued new guidance on the scope of modification accounting for share-based payment arrangements. The new guidance will provide relief to entities that make non-substantive changes to their share-based payment arrangements. The Company does not expect the amendment, which requires prospective adoption and is effective commencing with our 2018 fiscal year, to have a material impact on our consolidated financial statements.

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 shown in Note 11, there are $1,584,088 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 currently expect to apply the modified retrospective method upon adoption. 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. Under current guidance, we recognize initial fees from franchisees when we have performed all material obligations and services, which generally occurs when the franchised restaurant opens. Additionally, under current guidance, our advertising fund contributions from franchisees and the related advertising expenditures are reported on a net basis in our consolidated balance sheet as "Advertising funds restricted assets" and "Advertising funds restricted liabilities." Under the new guidance, 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 $2,376 during the nine months ended October 2, 2016, was reclassified retrospectively to cash flows provided by operating activities. Additionally, during the nine months ended October 2, 2016, $4,142 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 October 1, 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 "SEC").

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 three- and nine-month periods presented herein contain 13 weeks and 39 weeks, respectively. All references to years and quarters relate to fiscal periods rather than calendar periods.

**Executive Overview**

***Our Business***

As of October 1, 2017, the Wendy's restaurant system was comprised of 6,586 restaurants, of which 333 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 nine months of 2017 include (1) $467.9 million of sales at Company-operated restaurants, (2) $306.1 million of franchise royalty revenue and fees and (3) $140.2 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 same-restaurant sales and systemwide sales 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 and drive new restaurant development and accelerate reimages in the Image Activation format.

During the first nine months of 2017, the Company recorded post-closing adjustments on sales of restaurants and completed the sale of other assets, resulting in net gains totaling $3.4 million. Gains and losses recognized on dispositions are recorded to "System optimization losses (gains), net" in our condensed consolidated statements of operations. In addition, the Company facilitated the transfer of 270 restaurants between franchisees during the first nine months of 2017 (excluding the DavCo and NPC transactions discussed below).

*DavCo and NPC Transactions*

As part of our system optimization initiative, the Company acquired 140 Wendy's restaurants on May 31, 2017 from DavCo Restaurants, LLC ("DavCo") for total net cash consideration of $86.8 million, which were immediately sold to NPC International, Inc. ("NPC"), an existing franchisee of the Company, for cash proceeds of $70.7 million (the "DavCo and NPC transactions"). As part of the transaction, NPC has agreed to remodel 90 acquired restaurants in the Image Activation format by the end of 2021 and build 15 new Wendy's restaurants by the end of 2022. Prior to closing the DavCo transaction, seven DavCo restaurants were closed. The acquisition of Wendy's restaurants from DavCo was not contingent on executing the sale agreement with NPC; as such, the Company accounted for the transactions as an acquisition and subsequent disposition of a business. The total consideration paid to DavCo was allocated to net tangible and identifiable intangible assets acquired based on their estimated fair values. As part of the transactions, the Company retained leases for purposes of subleasing such properties to NPC. As a result of the transactions, the Company recognized a loss of $43.1 million during the first nine months of 2017.

Costs related to our system optimization initiative were historically recorded to "Reorganization and realignment costs." Costs incurred during 2017 in connection with the DavCo and NPC transactions continue to be recorded to "Reorganization and realignment costs." All other costs incurred during 2017 related to facilitating franchisee-to-franchisee restaurant transfers are recorded to "Other operating expense (income), net." During the first nine months of 2017, the Company recognized reorganization and realignment costs totaling $0.9 million, which primarily included professional fees. The Company does not expect to incur additional costs during the remainder of 2017 in connection with the DavCo and NPC transactions.

***General and Administrative ("G&A") Realignment***

*November 2014 Plan*

In November 2014, the Company initiated a plan to reduce its G&A 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 the plan are recorded to "Reorganization and realignment costs." The Company recognized costs totaling $1.0 million during the first nine months of 2016 and $24.0 million in aggregate since inception. The Company did not incur any expenses during the first nine months of 2017 and does not expect to incur additional costs related to the plan.

*May 2017 Plan*

In May 2017, the Company initiated a new plan to further reduce its G&A expenses. The Company expects that approximately three-quarters of the total G&A expense reduction of approximately $35.0 million will 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 continue into 2019, with approximately half of the total cash expenditures occurring in 2018. Costs related to the plan are recorded to "Reorganization and realignment costs." The Company recognized costs totaling $19.9 million during the first nine months of 2017, which primarily included severance and related employee costs and share-based compensation. The Company expects to incur additional costs aggregating approximately $8.0 million to $13.0 million, comprised of (1) severance and related employee costs of approximately $3.0 million, (2) recruitment and relocation costs of approximately $4.0 million, (3) third-party and other costs of approximately $1.0 million and (4) share-based compensation of approximately $3.0 million. The Company expects costs to be recognized during the remainder of 2017 and continue into 2019, with approximately two-thirds to be recognized during 2017.

***Related Party Transactions***

*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 first nine months of 2017 and 2016, Wendy's paid TimWen $9.4 million and $8.9 million, respectively, under these lease agreements. In addition, TimWen paid Wendy's a management fee under the TimWen joint venture agreement of $0.2 million during both the first nine months 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 condensed consolidated results of operations for the third quarter and the first nine months of 2017 and 2016.

| | Third Quarter | | | Nine Months | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change | 2017 | 2016 | Change |
| Revenues: | | | | | | |
| Sales | $ 158.8 | $ 228.6 | $ (69.8) | $ 467.9 | $ 747.2 | $ (279.3) |
| Franchise royalty revenue and fees | 98.9 | 98.0 | 0.9 | 306.1 | 275.9 | 30.2 |
| Franchise rental income | 50.3 | 37.4 | 12.9 | 140.2 | 102.4 | 37.8 |
| | 308.0 | 364.0 | (56.0) | 914.2 | 1,125.5 | (211.3) |
| Costs and expenses: | | | | | | |
| Cost of sales | 132.4 | 186.5 | (54.1) | 385.2 | 603.8 | (218.6) |
| Franchise rental expense | 24.1 | 17.5 | 6.6 | 64.8 | 49.7 | 15.1 |
| General and administrative | 52.9 | 58.9 | (6.0) | 156.7 | 184.7 | (28.0) |
| Depreciation and amortization | 31.2 | 29.4 | 1.8 | 91.7 | 92.4 | (0.7) |
| System optimization losses (gains), net | 0.1 | (37.8) | 37.9 | 39.7 | (48.1) | 87.8 |
| Reorganization and realignment costs | 2.9 | 2.1 | 0.8 | 20.8 | 7.9 | 12.9 |
| Impairment of long-lived assets | 1.0 | 0.4 | 0.6 | 1.8 | 13.0 | (11.2) |
| Other operating expense (income), net | 1.7 | 0.9 | 0.8 | 5.3 | (13.5) | 18.8 |
| | 246.3 | 257.9 | (11.6) | 766.0 | 889.9 | (123.9) |
| Operating profit | 61.7 | 106.1 | (44.4) | 148.2 | 235.6 | (87.4) |
| Interest expense | (30.0) | (28.7) | (1.3) | (87.9) | (85.5) | (2.4) |
| Other (loss) income, net | (0.1) | 0.5 | (0.6) | 3.1 | 1.0 | 2.1 |
| Income before income taxes | 31.6 | 77.9 | (46.3) | 63.4 | 151.1 | (87.7) |
| Provision for income taxes | (17.3) | (29.0) | 11.7 | (28.6) | (50.4) | 21.8 |
| Net income | $ 14.3 | $ 48.9 | $ (34.6) | $ 34.8 | $ 100.7 | $ (65.9) |

| | Third Quarter | | | | Nine Months | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | % of Total Revenues | 2016 | % of Total Revenues | 2017 | % of Total Revenues | 2016 | % of Total Revenues |
| *Revenues:* | | | | | | | | |
| Sales | $ 158.8 | 51.6% | $ 228.6 | 62.8% | $ 467.9 | 51.2% | $ 747.2 | 66.4% |
| Franchise royalty revenue and fees: | | | | | | | | |
| Royalty revenue | 93.7 | 30.4% | 87.9 | 24.1% | 275.0 | 30.1% | 255.0 | 22.6% |
| Franchise fees | 5.2 | 1.7% | 10.1 | 2.8% | 31.1 | 3.4% | 20.9 | 1.9% |
| Total franchise royalty revenue and fees | 98.9 | 32.1% | 98.0 | 26.9% | 306.1 | 33.5% | 275.9 | 24.5% |
| Franchise rental income | 50.3 | 16.3% | 37.4 | 10.3% | 140.2 | 15.3% | 102.4 | 9.1% |
| Total revenues | $ 308.0 | 100.0% | $ 364.0 | 100.0% | $ 914.2 | 100.0% | $1,125.5 | 100.0% |

| | Third Quarter | | | | Nine Months | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | % of Sales | 2016 | % of Sales | 2017 | % of Sales | 2016 | % of Sales |
| *Cost of sales:* | | | | | | | | |
| Food and paper | $ 51.8 | 32.6% | $ 69.3 | 30.3% | $ 147.1 | 31.4% | $ 226.9 | 30.4% |
| Restaurant labor | 45.6 | 28.7% | 64.8 | 28.4% | 135.8 | 29.0% | 211.7 | 28.3% |
| Occupancy, advertising and other operating costs | 35.0 | 22.0% | 52.4 | 22.9% | 102.3 | 21.9% | 165.2 | 22.1% |
| Total cost of sales | $ 132.4 | 83.3% | $ 186.5 | 81.6% | $ 385.2 | 82.3% | $ 603.8 | 80.8% |

| | Third Quarter | | | | Nine Months | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | % of Sales | 2016 | % of Sales | 2017 | % of Sales | 2016 | % of Sales |
| Restaurant margin | $ 26.4 | 16.7% | $ 42.1 | 18.4% | $ 82.7 | 17.7% | $ 143.4 | 19.2% |

| | Third Quarter | | Nine Months | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| *Key business measures:* | | | | |
| North America same-restaurant sales: | | | | |
| Company-operated | (0.5)% | 2.7% | 0.7% | 2.9% |
| Franchised | 2.1 % | 1.2% | 2.4% | 1.7% |
| Systemwide | 2.0 % | 1.4% | 2.3% | 1.8% |
| | | | | |
| Total same-restaurant sales: | | | | |
| Company-operated | (0.5)% | 2.7% | 0.7% | 2.9% |
| Franchised (a) | 2.1 % | 1.3% | 2.4% | 1.6% |
| Systemwide (a) | 1.9 % | 1.4% | 2.3% | 1.7% |

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

| | Third Quarter | | Nine Months | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| *Key business measures (continued):* | | | | |
| Systemwide sales: (a) | | | | |
| Company-operated | $ 158.8 | $ 228.6 | $ 467.9 | $ 747.2 |
| North America franchised | 2,347.2 | 2,198.2 | 6,897.4 | 6,381.8 |
| International franchised (b) | 119.4 | 106.9 | 351.6 | 309.6 |
| Global systemwide sales | $ 2,625.4 | $ 2,533.7 | $ 7,716.9 | $ 7,438.6 |

(a) During the third quarter of 2017 and 2016, North America systemwide sales increased 3.0% and 1.8%, respectively, international franchised sales increased 13.4% and 9.0%, respectively, and global systemwide sales increased 3.4% and 2.1%, respectively, on a constant currency basis. During the first nine months of 2017 and 2016, North America systemwide sales increased 3.2% and 2.9%, respectively, international franchised sales increased 15.0% and 4.1%, respectively, and global systemwide sales increased 3.7% and 3.0%, respectively, on a constant currency basis.

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

| | Third Quarter | | | |
|---|---|---|---|---|
| | Company-operated | North America Franchised | International Franchised | Systemwide |
| *Restaurant count:* | | | | |
| Restaurant count at July 2, 2017 | 331 | 5,762 | 471 | 6,564 |
| Opened | 4 | 25 | 13 | 42 |
| Closed | (2) | (15) | (3) | (20) |
| Restaurant count at October 1, 2017 | 333 | 5,772 | 481 | 6,586 |

| | Nine Months | | | |
|---|---|---|---|---|
| | Company-operated | North America Franchised | International Franchised | Systemwide |
| Restaurant count at January 1, 2017 | 330 | 5,768 | 439 | 6,537 |
| Opened | 7 | 50 | 53 | 110 |
| Closed | (4) | (46) | (11) | (61) |
| Restaurant count at October 1, 2017 | 333 | 5,772 | 481 | 6,586 |

| ***Sales*** | Change | |
|---|---|---|
| | Third Quarter | Nine Months |
| Sales | $ (69.8) | $ (279.3) |

The decrease in sales for both the third quarter and the first nine months 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 $74.1 million and $295.9 million during the third quarter and the first nine months of 2017, respectively. For the third quarter of 2017, Company-operated same-restaurant sales declined due to a decrease in customer count, which was partially offset by an increase in our average per customer check amount. A portion of the customer count decline in the third quarter of 2017 resulted from the hurricanes in the U.S. For the first nine months of 2017, 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 during the third quarter and the first nine months of 2017 primarily due to benefits from strategic price increases on our menu items and changes in product mix. Sales also benefited from higher sales growth at our new and remodeled Image Activation restaurants.

***Franchise Royalty Revenue and Fees***

| | Change | | | |
|---|---|---|---|---|
| | Third Quarter | | Nine Months | |
| Royalty revenue | $ | 5.8 | $ | 20.0 |
| Franchise fees | | (4.9) | | 10.2 |
| | $ | 0.9 | $ | 30.2 |

The increase in franchise royalty revenue and fees during the third quarter of 2017 was primarily due to higher royalty revenue resulting from sales of Company-operated restaurants to franchisees under our system optimization initiative. Royalty revenue also benefited from a 2.1% increase in franchise same-restaurant sales. These increases were largely offset by a decrease in franchise fees driven by lower initial franchise fees because no sales of Company-operated restaurants or franchisee-to-franchisee restaurant transfers occurred during the third quarter of 2017.

The increase in franchise royalty revenue and fees during the first nine months of 2017 was due to sales of Company-operated restaurants to franchisees and facilitating franchisee-to-franchisee restaurant transfers under our system optimization initiative. Royalty revenue also benefited from a 2.4% increase in franchise same-restaurant sales.

***Franchise Rental Income***

| | Change | | | |
|---|---|---|---|---|
| | Third Quarter | | Nine Months | |
| Franchise rental income | $ | 12.9 | $ | 37.8 |

The increase in franchise rental income during the third quarter and the first nine months 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 | |
|---|---|---|
| | Third Quarter | Nine Months |
| Food and paper | 2.3 % | 1.0 % |
| Restaurant labor | 0.3 % | 0.7 % |
| Occupancy, advertising and other operating costs | (0.9)% | (0.2)% |
| | 1.7 % | 1.5 % |

The increase in cost of sales, as a percent of sales, during the third quarter of 2017 was primarily due to an increase in commodity costs, reflecting higher beef and bacon costs.

The increase in cost of sales, as a percent of sales, during the first nine months of 2017 was primarily due to an increase in commodity costs, reflecting higher chicken and bacon costs. The first nine months of 2017 were also negatively impacted by increased restaurant labor rates.

***Franchise Rental Expense***

| | Change | | | |
|---|---|---|---|---|
| | Third Quarter | | Nine Months | |
| Franchise rental expense | $ | 6.6 | $ | 15.1 |

The increase in franchise rental expense during the third quarter and the first nine months 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 | |
|---|---|---|
| | Third Quarter | Nine Months |
| Professional services | $ (5.5) | $ (11.7) |
| Employee compensation and related expenses | (2.2) | (7.7) |
| Severance | (0.7) | (3.5) |
| Share-based compensation | (0.2) | (2.4) |
| Incentive compensation | 1.1 | (2.0) |
| Other, net | 1.5 | (0.7) |
| | $ (6.0) | $ (28.0) |

The decrease in general and administrative expenses during the third 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 third quarter of 2016 (see “Item 1 - Financial Statements,” Note 14 to the Condensed Consolidated Financial Statements for further information) and (2) employee compensation and related expenses primarily as a result of changes in staffing driven by our system optimization initiative.

The decrease in general and administrative expenses during the first nine months 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 nine months 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) severance expense, (4) share-based compensation primarily as a result of awards granted and timing of expense recognition and (5) incentive compensation accruals due to a decrease in operating performance as compared to plan in 2017 versus 2016.

***Depreciation and Amortization***

| | Change | |
|---|---|---|
| | Third Quarter | Nine Months |
| Restaurants | $ (0.1) | $ (4.7) |
| Corporate and other | 1.9 | 4.0 |
| | $ 1.8 | $ (0.7) |

The decrease in restaurant depreciation and amortization during the third quarter and the first nine months of 2017 was primarily due to a decrease in depreciation on assets sold under our system optimization initiative of $0.2 million and $3.9 million, respectively. Corporate and other depreciation expense increased due to an increase in depreciation and amortization for technology investments.

| ***System Optimization Losses (Gains), Net*** | Third Quarter | | Nine Months | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| System optimization losses (gains), net | $ 0.1 | $ (37.8) | $ 39.7 | $ (48.1) |

The change in system optimization losses (gains), net was because no sales of Company-operated restaurants occurred during the third quarter of 2017, compared with the sale of 156 restaurants during the third quarter of 2016.

The change in system optimization losses (gains), net during the first nine months of 2017 was due to the DavCo and NPC transactions, which resulted in a loss of $43.1 million during the first nine months of 2017. During the first nine months of 2016, the Company sold 211 Company-operated restaurants to franchisees.

| ***Reorganization and Realignment Costs*** | **Third Quarter** | | **Nine Months** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| System optimization initiative | $ 0.2 | $ 2.1 | $ 0.9 | $ 6.9 |
| G&A realignment - November 2014 plan | — | — | — | 1.0 |
| G&A realignment - May 2017 plan | 2.7 | — | 19.9 | — |
| | $ 2.9 | $ 2.1 | $ 20.8 | $ 7.9 |

During the third quarter of 2017 and 2016, the Company recognized costs associated with its system optimization initiative totaling $0.2 million and $2.1 million, respectively. In both the third quarter of 2017 and 2016, costs primarily included professional fees.

During the first nine months of 2017 and 2016, the Company recognized costs associated with its system optimization initiative totaling $0.9 million and $6.9 million, respectively. In the first nine months of 2017, costs primarily included professional fees. In the first nine months of 2016, costs primarily included professional fees of $5.1 million and accelerated amortization of previously acquired franchise rights of $1.6 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 G&A expenses. During the first nine months of 2016, the Company recognized costs associated with this plan totaling $1.0 million, which primarily included recruitment and relocation costs. The Company did not incur any expenses during the first nine months of 2017 and does not expect to incur additional costs related to the plan.

In May 2017, the Company initiated a new plan to further reduce its G&A expenses. During the third quarter of 2017, the Company recognized costs associated with this plan totaling $2.7 million, which primarily included (1) severance and related employee costs of $1.2 million, (2) share-based compensation of $0.8 million and (3) third-party and other costs of $0.5 million.

During the first nine months of 2017, the Company recognized costs associated with its May 2017 plan totaling $19.9 million, which primarily included (1) severance and related employee costs of $14.4 million, (2) share-based compensation of $4.5 million and (3) third-party and other costs of $0.8 million.

| ***Impairment of Long-Lived Assets*** | **Change** | |
|---|---|---|
| | **Third Quarter** | **Nine Months** |
| Impairment of long-lived assets | $ 0.6 | $ (11.2) |

Impairment of long-lived assets increased during the third quarter of 2017 primarily due to the deterioration in operating performance of certain Company-operated restaurants and charges for capital improvements in previously impaired restaurants that did not subsequently recover.

Impairment of long-lived assets decreased during the first nine months 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. This decrease was partially offset by higher impairment charges due to the deterioration in operating performance of certain Company-operated restaurants and charges for capital improvements in previously impaired restaurants that did not subsequently recover.

| ***Other Operating Expense (Income), Net*** | **Third Quarter** | | **Nine Months** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Lease buyout | $ 0.2 | $ — | $ 0.1 | $ (11.6) |
| Equity in earnings in joint ventures, net | (2.3) | (2.2) | (6.1) | (6.5) |
| Other, net | 3.8 | 3.1 | 11.3 | 4.6 |
| | $ 1.7 | $ 0.9 | $ 5.3 | $ (13.5) |

The change in other operating expense (income), net during the third quarter of 2017 was primarily due to costs incurred to provide information technology services to our franchisees, as well as costs related to facilitating franchisee-to-franchisee restaurant transfers.

Other operating expense (income), net during the first nine months of 2017 includes costs incurred to provide information technology services to our franchisees, as well as costs related to facilitating franchisee-to-franchisee restaurant transfers. The first nine months of 2016 includes a gain recognized on a lease buyout during the first quarter of 2016.

| ***Interest Expense*** | **Change** | |
|---|---|---|
| | **Third Quarter** | **Nine Months** |
| Interest expense | $ 1.3 | $ 2.4 |

Interest expense increased during the third quarter and the first nine months 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.

| ***Provision for Income Taxes*** | **Third Quarter** | | **Nine Months** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Income before income taxes | $ 31.6 | $ 77.9 | $ 63.4 | $ 151.1 |
| Provision for income taxes | 17.3 | 29.0 | 28.6 | 50.4 |
| Effective tax rate on income | 54.8% | 37.2% | 45.2% | 33.3% |

Our effective tax rates in the third 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) our system optimization initiative, (2) state income taxes net of federal benefits, including non-recurring changes to state deferred taxes, (3) 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 (see "Item 1 - Financial Statements," Note 15 to the Condensed Consolidated Financial Statements for further information) and (4) the rate differential between foreign and domestic taxes.

Our effective tax rates in the first nine months 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) our system optimization initiative (including corrections to prior years identified and recorded in the first nine months of 2017 and 2016, which resulted in a benefit of $2.2 million and $7.1 million, respectively), (2) the adoption of an amendment issued by the 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 $5.2 million in the first nine months of 2017 (see "Item 1 - Financial Statements," Note 15 to the Condensed Consolidated Financial Statements for further information), (3) state income taxes net of federal benefits, including non-recurring changes to state deferred taxes, and (4) the rate differential between foreign and domestic taxes.

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. These items, which are non-recurring, increased the provision for income taxes by $5.0 million and $2.3 million during the third quarter of 2017 and 2016, respectively, and increased the provision for income taxes by $7.1 million and decreased the provision by $1.3 million during the first nine months of 2017 and 2016, respectively.

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 October 1, 2017, our cash balances held outside of the U.S. totaled $107.7 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 $26.0 million to $31.0 million, resulting in total anticipated cash capital expenditures for the year of approximately $80.0 million to $85.0 million.
- cash dividends aggregating up to approximately $17.0 million as discussed below in "Dividends;" and
- potential stock repurchases of up to $59.1 million, of which $6.6 million was repurchased subsequent to October 1, 2017 through November 2, 2017 as discussed below in "Stock Repurchases."

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.

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

| | Nine Months | | |
|---|---|---|---|
| | 2017 | 2016 | Change |
| Net cash provided by (used in): | | | |
| Operating activities | $ 176.7 | $ 137.3 | $ 39.4 |
| Investing activities | (38.1) | 62.5 | (100.6) |
| Financing activities | (156.9) | (222.2) | 65.3 |
| Effect of exchange rate changes on cash | 6.7 | 4.0 | 2.7 |
| Net decrease in cash and cash equivalents | $ (11.6) | $ (18.4) | $ 6.8 |

*Operating Activities*

Cash provided by operating activities was $176.7 and $137.3 in the first nine months 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 increased $39.4 million during the first nine months of 2017 as compared to the first nine months of 2016, due to (1) an increase of $19.7 million in net income adjusted for non-cash expenses and (2) a favorable change in operating assets and liabilities of $19.7 million. The favorable change in operating assets and liabilities resulted primarily from a decrease in income tax payments, net of refunds and a decrease in payments for incentive compensation for the 2016 fiscal year.

*Investing Activities*

Cash used in investing activities increased $100.6 million during the first nine months of 2017 as compared to the first nine months of 2016, due to (1) a decrease in proceeds from dispositions of Company-operated restaurants and other assets of $164.5 million and (2) net cash used in the DavCo and NPC transactions of $16.1 million. These unfavorable changes were partially offset by (1) a decrease of $55.0 million in capital expenditures and (2) a decrease of $21.7 million in restricted cash for the reinvestment in capital assets under our securitized financing facility.

*Financing Activities*

Cash used in financing activities decreased $65.3 million during the first nine months of 2017 as compared to the first nine months of 2016, primarily due to a decrease in repurchases of common stock of $71.1 million.

### *Dividends*

On March 15, 2017, June 15, 2017 and September 15, 2017, The Wendy's Company paid quarterly cash dividends of $0.07 per share on its common stock, aggregating $51.5 million. On November 2, 2017, The Wendy's Company declared a dividend of $0.07 per share to be paid on December 15, 2017 to shareholders of record as of December 1, 2017. As a result of the declaration, The Wendy's Company's total cash requirements for the fourth quarter of 2017 will be approximately $17.0 million based on the number of shares of common stock outstanding at November 2, 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 nine months ended October 1, 2017, the Company repurchased 6.1 million shares with an aggregate purchase price of $90.9 million, of which $0.9 million was accrued at October 1, 2017 and excluding commissions of $0.1 million. As of October 1, 2017, the Company had $59.1 million of availability remaining under its February 2017 authorization. Subsequent to October 1, 2017 through November 2, 2017, the Company repurchased 0.4 million shares with an aggregate purchase price of $6.6 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 nine months ended October 2, 2016, the Company repurchased 16.0 million shares with an aggregate purchase price of $162.3 million, of which $3.0 million was accrued at October 2, 2016 and excluding commissions of $0.2 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 October 1, 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 October 1, 2017. Based on such evaluations, the Chief Executive Officer and Chief Financial Officer concluded that, as of October 1, 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 third 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.

## 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 (including the amended guidance for revenue recognition that will become effective for the Company's 2018 fiscal year and that may impact the Company's adjusted EBITDA margin goal for 2020, as well as the new guidance on leases that will become effective for fiscal year 2019);

- 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 SEC.

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.

We previously described certain legal proceedings under Item 1 of Part II in our Quarterly Report on Form 10-Q for the second quarter of 2017, as filed with the SEC on August 9, 2017. Except as set forth below, there were no material developments in those legal proceedings during the third quarter of 2017.

As we previously reported, 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. On October 27, 2017, the Company moved to dismiss the operative complaint. The Company's motion is pending before the court.

**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 third 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) |
|---|---|---|---|---|
| July 3, 2017 through August 6, 2017 | 934,795 | $15.64 | 917,452 | $83,214,931 |
| August 7, 2017 through September 3, 2017 | 877,515 | $15.11 | 795,500 | $71,230,388 |
| September 4, 2017 through October 1, 2017 | 806,500 | $15.03 | 806,500 | $59,123,593 |
| Total | 2,618,810 | $15.27 | 2,519,452 | $59,123,593 |

(1) Includes 99,358 shares reacquired by the Company from holders of share-based awards to satisfy certain 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 October 1, 2017 through November 2, 2017, the Company repurchased 0.4 million shares with an aggregate purchase price of $6.6 million, excluding commissions.

**Item 6. *Exhibits.***

| EXHIBIT NO. | DESCRIPTION |
|---|---|
| 10.1 | Form of Nonqualified Stock Option Award Agreement 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 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |
| 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: November 8, 2017

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

Date: November 8, 2017

By: /s/ Leigh A. Burnside
Leigh A. Burnside
Chief Accounting Officer
(Principal Accounting Officer)

**EXHIBIT 31.1**

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
OF THE WENDY'S COMPANY, PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Todd A. Penegor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Wendy's Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2017

/s/ Todd A. Penegor
Todd A. Penegor
President and Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
OF THE WENDY'S COMPANY, PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Gunther Plosch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Wendy's Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2017

/s/ Gunther Plosch
Gunther Plosch
Chief Financial Officer

**EXHIBIT 32.1**

**CERTIFICATIONS OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of The Wendy's Company, a Delaware corporation (the "Company"), does hereby certify, to the best of such officer's knowledge, that in connection with the Quarterly Report on Form 10-Q of the Company for the quarter ended October 1, 2017 (the "Form 10-Q"):

1. the Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2017

/s/ Todd A. Penegor
Todd A. Penegor
President and Chief Executive Officer

Date: November 8, 2017

/s/ Gunther Plosch
Gunther Plosch
Chief Financial Officer