WENDYS INTERNATIONAL INC
Form DEF 14A
March 07, 2003

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SCHEDULE 14A

(Rule 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

x Definitive Additional Materials

¨ Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12.

Wendy s International, Inc.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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WENDY S INTERNATIONAL, INC.

P.O. Box 256

Dublin, Ohio 43017-0256

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Wendy s International, Inc.:

Notice is hereby given that the Annual Meeting of Shareholders of Wendy s International, Inc. (the Company) will be held at the Veterans Memorial, 300 West Broad Street, Columbus, Ohio 43215, on Wednesday, April 23, 2003, at 10:00 a.m., local time, for the following purposes, all of which are more completely set forth in the accompanying Proxy Statement:

1. To elect four Directors, each for a term of three years.
2. To approve a proposal to amend the Company s 1990 Stock Option Plan.
3. To consider a Shareholder Proposal if presented at the Annual Meeting, as described on pages 24 to 27 of the Proxy Statement.
4. To transact such other business as may properly come before the meeting.

Only shareholders of record at the close of business on February 28, 2003 are entitled to notice of and to vote at the Annual Meeting of Shareholders.

YOUR VOTE IS IMPORTANT

Again this year we are offering registered shareholders the opportunity to vote their shares electronically through the internet or by telephone. Please see the Proxy Statement and the enclosed Proxy for details about electronic voting. You are urged to date, sign and promptly return the enclosed Proxy, or to vote electronically through the internet or by telephone, so that your shares may be voted in accordance with your wishes and so that the presence of a quorum may be assured. Voting promptly, regardless of the number of shares you hold, will aid the Company in reducing the expense of additional Proxy solicitation. Voting your shares by the enclosed Proxy, or electronically through the internet or by telephone, does not affect your right to vote in person in the event you attend the meeting. You are cordially invited to attend the meeting, and we request that you indicate your plans in this respect in the space provided on the enclosed form of Proxy or as prompted if you vote electronically through the internet or by telephone.

LEON M. McCORKLE, JR.

Secretary

Dublin, Ohio

March 4, 2003

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WENDY S INTERNATIONAL, INC.

P.O. Box 256

Dublin, Ohio 43017-0256

(614) 764-3100

PROXY STATEMENT

The enclosed Proxy, for use at the Annual Meeting of Shareholders to be held on Wednesday, April 23, 2003, and any adjournments thereof, is being solicited on behalf of the Board of Directors of the Company. A shareholder may also choose to vote electronically by accessing the internet site or by using the toll-free telephone number stated on the form of Proxy. Without affecting any vote previously taken, the Proxy may be revoked by the shareholder by giving notice of revocation to the Company in writing, by accessing the internet site, by using the toll-free telephone number stated on the form of Proxy, or in open meeting. A shareholder may also change his or her vote by executing and returning to the Company a later-dated Proxy, by a later-dated electronic vote through the internet site, by using the toll-free telephone number stated on the form of Proxy, or by voting at the open meeting. All properly executed Proxies received by the Board of Directors, and properly authenticated electronic votes recorded through the internet or by telephone, will be voted as directed by the shareholder. All properly executed Proxies received by the Board of Directors which do not specify how shares should be voted will be voted **FOR** the election as Directors of the nominees listed below under ELECTION OF DIRECTORS , **FOR** approval of the proposal to amend the Company s 1990 Stock Option Plan, and **AGAINST** the Shareholder Proposal, if presented at the Annual Meeting, described on pages 24 to 27 of this Proxy Statement.

Solicitation of Proxies may be made by mail, personal interview and telephone by Officers, Directors and regular employees of the Company, and by employees of the Company s transfer agent, American Stock Transfer and Trust Company. In addition, the Company has retained, at an estimated cost of $10,000 plus reasonable expenses, Georgeson Shareholder Communications, Inc., a firm specializing in proxy solicitations. The Company will reimburse its transfer agent, banks, brokers, and other custodians, nominees and fiduciaries for their reasonable costs in sending proxy materials to shareholders.

The internet and telephone procedures for voting and for revoking or changing a vote are designed to authenticate shareholders identities, to allow shareholders to give their voting instructions and to confirm that shareholders instructions have been properly recorded. Shareholders that vote through the internet should understand that there may be costs associated with electronic access, such as usage charges from internet access providers and telephone companies, that will be borne by the shareholder.

This Proxy Statement, including the Notice of Meeting, was first mailed to shareholders on March 7, 2003.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Voting Rights

The total number of outstanding shares entitled to vote at the meeting is 114,357,572, and only shareholders of record at the close of business on February 28, 2003, are entitled to notice of and to vote at the meeting or any adjournments thereof. Each shareholder is entitled to one vote for each share held and has cumulative voting rights in the election of Directors. A shareholder wishing to exercise cumulative voting must notify the President, a Vice President or the Secretary of the Company in writing not less than 48 hours before the meeting. If cumulative voting is requested and if an announcement of such request is made upon the convening of the meeting by the Chairman or Secretary or by or on behalf of the shareholder requesting cumulative voting, each shareholder will have a number of votes equal to the number of Directors to be elected multiplied by the number of shares owned by such shareholder and will be entitled to distribute votes among the nominees as the shareholder sees fit. If cumulative voting is requested, as described above, the enclosed Proxy, and votes recorded through the internet or by telephone, would grant discretionary authority to the Proxies named therein to cumulate votes and to distribute the votes among the candidates.

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Security Ownership of Certain Beneficial Owners

The following table sets forth information (based upon filings with the Securities and Exchange Commission) with respect to the persons known to the Company to own beneficially more than five percent of the outstanding common shares of the Company as of February 28, 2003:

(1) Title of class	(2) Name and address of beneficial owner	(3) Amount and nature of beneficial ownership	(4) Percent of class
Common shares	Barrow, Hanley, Mewhinney & Strauss, Inc. One McKinney Plaza 3232 McKinney Avenue 15th Floor Dallas, Texas 75204-2429	6,763,180 (a)	5.9%
Common shares	Ronald V. Joyce 690 Princeton Way SW Calgary, Alberta T2P 5J9 Canada	5,741,262	5.0%

(a) As of December 31, 2002.

Security Ownership of Management

The following table sets forth, as of February 28, 2003, information with respect to the Company s common shares owned beneficially by each Director, by each nominee for election as a Director of the Company, by the Executive Officers named in the Summary Compensation Table set forth on page 9 of this Proxy Statement and by all Directors and Executive Officers as a group:

(1) Title of class	(2) Name of beneficial owner	(3) Amount and nature of beneficial ownership (a) (b)	(4) Percent of class

(All of these are	John T. Schuessler	279,766	.2%
common shares.)	Kerrii B. Anderson	71,924	.1%
	Paul D. House	145,347	.1%
	Ernest S. Hayeck	12,550	
	Janet Hill	13,250	
	Thomas F. Keller	14,044	
	William E. Kirwan (c)	1,425	
	True H. Knowles	10,750	
	David P. Lauer	198,251	.2%
	Andrew G. McCaughey	11,750	
	James F. Millar (d)	0	
	James V. Pickett	80,997	.1%
	Thekla R. Shackelford	29,184	
	Donald F. Calhoon	55,382	
	George Condos	105,677	.1%
	Thomas J. Mueller	114,394	.1%
	All Directors and Executive Officers as a group (24 persons)	1,449,069	1.3%

(a) The amounts reflected in this table include common shares in which there is shared voting and investment power.

(b) Includes options exercisable within 60 days following February 28, 2003.

(c) Dr. Kirwan became a Director on February 20, 2001.

(d) Mr. Millar became a Director on November 1, 2001.

The information with respect to beneficial ownership is based upon information furnished by each Director, nominee or Executive Officer, or information contained in filings made with the Securities and Exchange Commission.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s Directors and Executive Officers to file reports of ownership and changes of ownership with the Securities and Exchange Commission and the New York Stock Exchange. The Company assists its Directors and Executive Officers in completing and filing those reports. The Company believes that all filing requirements applicable to its Directors and Executive Officers were complied with during the last completed fiscal year.

ELECTION OF DIRECTORS

The Board of Directors has designated the following nominees for election as Directors of the Company with their terms to expire in 2006:

Name	Age	Directors and Their Principal Occupations / Business Experience	Director Since
James V. Pickett	61	Chairman, The Pickett Realty Advisors Inc.; Principal, Stonehenge Financial Holdings, Inc., Dublin, Ohio. Mr. Pickett has served as President and Chief Executive Officer of various companies generally known as The Pickett Companies since 1969. The Pickett Companies are involved in real estate development, ownership and management. Mr. Pickett was also the Vice Chairman of Banc One Capital Corporation from February 1, 1993 to August 4, 1999. He became a Principal of Stonehenge Financial Holdings, Inc. on August 6, 1999. Stonehenge Financial Holdings, Inc. is an investment management firm. (1)	1982
Thomas F. Keller	71	R.J. Reynolds Professor of Business Administration, Fuqua School of Business, Duke University, Durham, North Carolina. Dr. Keller was also Dean of the Fuqua School of Business at Duke University until he retired from that position on May 31, 1996. He was also Dean of the Fuqua School of Business Europe from July 1, 1999 to June 30, 2001. (1)	1991
David P. Lauer	60	Retired President and Chief Operating Officer, Bank One, Columbus, NA, Columbus, Ohio. Mr. Lauer was Office Managing Partner of the Columbus office of Deloitte & Touche LLP from January, 1989 until he retired in June, 1997. He was also a member of the board of directors of Deloitte & Touche LLP from 1988 to 1995. He was appointed to his former position with Bank One, Columbus, NA in June, 1997. Mr. Lauer retired from that position in January, 2001. He has been a Certified Public Accountant since 1968. (1)	2000
James F. Millar	55	President and Chief Operating Officer Pharmaceutical Distribution and Medical Products, Cardinal Health, Inc., Dublin, Ohio. Mr. Millar has been President and Chief Operating Officer Pharmaceutical Distribution and Medical Products of Cardinal Health, Inc. since 1987. Cardinal Health, Inc. provides products and	2001

services to healthcare providers and manufacturers.

The following Directors will continue to serve after the 2003 Annual Meeting:

Terms Expiring in 2004

Name	Age	Directors and Their Principal Occupations / Business Experience	Director Since
Ernest S. Hayeck	78	Retired Judge, Trial Court of Massachusetts. Judge Hayeck was a Trial Court Justice for the State of Massachusetts, from January 27, 1970 until he retired on January 26, 1993. Judge Hayeck was awarded the American Bar Association Franklin N. Flaschner Judicial Award in 1992. He is also a faculty member of the National Judicial College	1993
Janet Hill	55	Vice President, Alexander & Associates, Inc., Washington, D.C. Mrs. Hill provides corporate planning, advice and analysis to directors, executives and managers in the areas of human resource planning, corporate responsibility, corporate communications and government consultation. Alexander & Associates, Inc. is a corporate consulting firm. (1)	1994
True H. Knowles	65	Retired President and Chief Operating Officer, Dr Pepper Company, and Retired Executive Vice President, Dr Pepper/Seven-Up Companies, Inc., Dallas, Texas. Mr. Knowles was President and Chief Operating Officer of the Dr Pepper Company and Executive Vice President of Dr Pepper/Seven-Up Companies, Inc., from January, 1992 until he retired in June, 1995. (1)	1997
Paul D. House	59	President and Chief Operating Officer, The TDL Group Ltd., Oakville, Ontario, Canada. Mr. House has been the Chief Operating Officer of The TDL Group Ltd. since January, 1992. He assumed his current position on December 29, 1995. The TDL Group Ltd. franchises and operates Tim Hortons restaurants.	1998

Terms Expiring in 2005

Name	Age	Directors and Their Principal Occupations / Business Experience	Director Since
Thekla R. Shackelford	68	Owner / President, School Selection Consulting, Columbus, Ohio. Mrs. Shackelford is an educational consultant and served as President of the National Professional Association for Education Consultants from 1987 to 1988. Prior to 1987, she was Director of Development of the Buckeye Boys Ranch located in Columbus, Ohio. She currently is serving as Chair of the I KNOW I CAN and Project GRAD boards in Columbus, Ohio, and on the board of the Ohio State University Foundation. Mrs. Shackelford is the recipient of numerous awards for community service and educational achievements. (1)	1984
John T. Schuessler	52	Chairman of the Board, Chief Executive Officer and President. Mr. Schuessler joined the Company in 1976 and has been promoted several times. He was Executive Vice President, U.S. Operations from February 20, 1995 until February 19, 1997, when he became President and Chief Operating Officer, U.S. Operations. He became Chief Executive Officer and President on March 16, 2000. He assumed his current position on May 1, 2001.	2000
Kerrii B. Anderson	45	Executive Vice President and Chief Financial Officer. Mrs. Anderson joined the Company on September 1, 2000. Prior to joining the Company, Mrs. Anderson had held the titles of Senior Vice President and Chief Financial Officer of M/I Schottenstein Homes, Inc. since 1987. She was also Secretary of M/I Schottenstein Homes, Inc. from 1987 to 1994 and Assistant Secretary from 1994 until she joined the Company. (1)	2000
William E. Kirwan	65	Chancellor, University System of Maryland, Adelphi, Maryland. Dr. Kirwan assumed this position effective August 1, 2002. He had previously served as President of The Ohio State University for four years and as President of the University of Maryland for nine years.	2001

(1) Mr. Pickett serves as a director of Metatec Corporation; Dr. Keller serves as a director of Hatteras Income Securities, Inc., Nations Funds, Inc., Nations Fund Trust, Nations Government Income Term Trust 2003, Inc., Nations Government Income Term Trust 2004, Inc., Nations Balanced Target Maturity Fund Inc., DIMON International and Biogen Inc.; Mr. Lauer serves as a director of AirNet Systems, Inc., Metatec Corporation, Diamond Hill Investment Group and Huntington Preferred Capital, Inc.; Mrs. Hill serves as a director of The Progressive Corporation, Dean Foods Company and Nextel Communications, Inc.; Mr. Knowles serves as a director of Cott Corporation; Mrs. Shackelford serves as a director of Fiserv Inc.; and Mrs. Anderson serves as a director of Lancaster Colony Corporation.

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Mr. Andrew G. McCaughey is currently a Director of the Company. Mr. McCaughey, age 80, was formerly Chairman and Chief Executive Officer of Scott s Hospitality Inc. from April 30, 1989 to September 3, 1992. Scott s Hospitality Inc. operated restaurants and hotels, and was also involved with the school bus and retail photography industries. Scott s Hospitality Inc. had been a Canadian franchisee operating both Wendy s and Tim Hortons restaurants since 1987. Mr. McCaughey announced his retirement as a Director effective April 23, 2003, and is not standing for re-election as a Director.

Unless otherwise directed, the persons named in the Proxy will vote the Proxies for the election of Messrs. Pickett, Keller, Lauer and Millar, as Directors of the Company, each to serve for a term of three years and until their successors are elected. While it is contemplated that all nominees will stand for election, in the event any person nominated fails to stand for election, the Proxies will be voted for such other person or persons as may be designated by the Directors. Management has no reason to believe that any of the above-mentioned persons will not stand for election or serve as a Director.

Under Ohio law and the Company s Regulations, the nominees receiving the greatest number of votes will be elected as Directors. Shares as to which the authority to vote is withheld and broker non-votes are not counted toward the election of Directors or toward the election of the individual nominees specified on the Proxy.

OTHER DIRECTOR INFORMATION AND COMMITTEES OF DIRECTORS

In February, 2001 the Board of Directors adopted Principles of Governance and Governance Guidelines that address Board structure, membership, performance, operations and management oversight. Pursuant to the Principles of Governance and Governance Guidelines, the Board of Directors meets quarterly in executive session (without management present). The discussion leader for these meetings generally is the Chair of the Nominating and Corporate Governance Committee, although the Chairs of the Audit and Compensation Committees lead discussions on matters within the purview of those Committees. The Company s investor website contains more information about the Principles of Governance and Governance Guidelines.

The Company s investor website also contains a description of its strategic plan, including the elements of the plan and the role of the Directors in the development, formulation and oversight for future performance and refinement of the plan.

A total of 10 meetings of the Board of Directors of the Company were held during 2002. No Director attended less than 75 percent of the aggregate of (i) the total number of meetings of the Board of Directors, and (ii) the total number of meetings held by all committees of the Board of Directors on which that Director served during the period each served as a Director, except for Mr. House.

Directors who are not employees of the Company or its subsidiaries are paid $7,000 quarterly, plus $1,500 for each Board meeting and $1,000 for each qualified committee meeting attended, including telephonic meetings, for all services, plus expenses. If more than one qualified meeting is held on the same day, a separate fee is paid for each meeting attended. Meetings of the Audit, Compensation and the Nominating and Corporate Governance Committees are qualified meetings, as are meetings of any special committees established from time to time. In addition, the Chairs of those committees are paid a retainer of $1,250 quarterly.

Directors who are not employees of the Company or its subsidiaries also receive grants of stock options under Part II of the Company s 1990 Stock Option Plan. Each Director who is not an employee of the Company receives an annual grant of options to purchase 2,500 common shares. The option exercise price is 100% of the fair market value of the Company s common shares on the date of grant. Options are granted on the date on which the regularly scheduled Board meeting is held during the Company s third fiscal quarter. Each option is granted for a period of 10 years. 25% of the options granted each year become exercisable on each of the first four anniversaries of the grant date for such options. If the proposed amendments to the 1990 Stock Option Plan are approved by shareholders, beginning in 2003, each Director who is not an employee of the Company or its subsidiaries will receive an annual grant of options to

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purchase 5,500 common shares and such grants will be made on the date on which the regularly scheduled Board meeting is held during the Company s second fiscal quarter, except that in 2003 such grants will be made on April 23, 2003, the date of the Annual Meeting of Shareholders. The proposed amendments will not affect the other terms described in this paragraph.

Pursuant to the Board s Governance Guidelines, which were adopted in 2001 and specify a maximum age for Directors at the time of election or re-election, Mr. McCaughey is not standing for re-election as a Director. Since Mr. McCaughey will not be able under the terms of the 1990 Stock Option Plan to exercise certain options granted to him for service as a Director, the Company has agreed to make a cash payment to Mr. McCaughey equal to the difference between the closing price for the Company s common shares on the date of the Annual Meeting of Shareholders and the exercise price for unexercisable options granted to Mr. McCaughey while he was a Director.

The Board of Directors has a Nominating and Corporate Governance Committee, a Compensation Committee and an Audit Committee, all of which are comprised solely of independent Directors.

The members of the Nominating and Corporate Governance Committee are Messrs. Pickett (Chair), Knowles, Lauer and Millar, and Mrs. Shackelford. The Committee met four times during 2002. Its function is to recommend candidates for membership to the Board of Directors. The Committee also discussed various corporate governance matters during 2002. The Nominating and Corporate Governance Committee will consider nominees recommended by shareholders for the 2004 Annual Meeting of Shareholders, provided that the names of such nominees are submitted in writing, not later than November 7, 2003, to James V. Pickett, P.O. Box 256, Dublin, Ohio 43017-0256. Each such submission must include a statement of the qualifications of the nominee, a consent signed by the nominee evidencing a willingness to serve as a Director, if elected, and a commitment by the nominee to meet personally with the Committee members.

The members of the Compensation Committee are Mmes. Shackelford (Chair) and Hill, and Messrs. Kirwan, Knowles, McCaughey and Millar. The Compensation Committee met five times during 2002. The Compensation Committee s function is to examine the levels and methods of compensation employed by the Company with respect to the individuals named or to be named in the Company s proxy statement, to review and evaluate alternative and additional compensation programs for these individuals, and to make recommendations to the Board of Directors on such matters. The Compensation Committee has the authority to make all decisions regarding the individuals to whom options are to be granted under the Company s stock option plans, and the timing, pricing, number of options to be granted and the other terms of such grants (the Compensation Committee does not have the authority to amend the terms of the stock option plans or to adopt new stock option plans). In addition, the Compensation Committee has the authority to adopt one or more cash bonus plans, subject to shareholder approval, which will qualify compensation paid thereunder as performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and to implement and administer such plans.

The members of the Audit Committee are Messrs. Keller (Chair), Hayeck, Lauer and Pickett. The Committee met nine times during 2002. Its function is to provide assistance to the Board of Directors in fulfilling its oversight responsibility relating to the Company s financial statements and the financial reporting process, the Company s system of internal controls, the Internal Audit function, the annual independent audit of the Company s financial statements, and the Company s code of ethical conduct.

AUDIT COMMITTEE REPORT

Each member of the Audit Committee is independent within the meaning of applicable New York Stock Exchange rules. In 2001 the Committee recommended, and the Board of Directors approved, a revised Audit Committee Charter, which was attached as an appendix to the 2001 Proxy Statement.

In performing its responsibilities, the Committee, in addition to other activities, (i) reviewed and discussed the Company s audited financial statements with management; (ii) discussed with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards 61 (Communication with Audit

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Committees), as modified or supplemented; and (iii) received the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as modified or supplemented, and discussed with PricewaterhouseCoopers LLP the firm s independence. Based on these reviews, discussions and activities, the Committee recommended to the Board of Directors that the audited financial statements be included in the Company s Annual Report on Form 10-K for fiscal 2002 for filing with the Securities and Exchange Commission.

Audit Fees

The aggregate fees for the audit of the Company s annual consolidated financial statements for the most recent fiscal year and the reviews of the consolidated financial statements included in the Company s Forms 10-Q were $649,300.

Financial Information Systems Design and Implementation Fees

There were no fees for professional services described in paragraph (c)(4)(ii) of Rule 2-01 of Regulation S-X rendered by PricewaterhouseCoopers LLP for the most recent fiscal year.

All Other Fees

The aggregate fees for services rendered by PricewaterhouseCoopers LLP, other than the services covered in the two preceding paragraphs, for the most recent fiscal year were as follows.

Audit related fees	$ 409,600(1)
Tax service fees	$ 899,600
Other service fees	$ 19,500
Total	$1,328,700

(1) Includes primarily services rendered in connection with acquisitions and investments made by the Company during the year, accounting services rendered in connection with the Company s Senior Notes offering and benefit plan audits.

The Audit Committee considered whether the provision of non-audit services by PricewaterhouseCoopers LLP was compatible with maintaining such firm s independence.

Respectfully submitted,

Audit Committee

Thomas F. Keller, Chair

Ernest S. Hayeck

David P. Lauer

James V. Pickett

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COMPENSATION OF MANAGEMENT

The following table summarizes compensation awarded or paid to, or earned by, each of the named Executive Officers during each of the Company s last three fiscal years.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Term Compensation	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation ($)	Securities Underlying Options (#)	All Other Compensation ($) (1)
John T. Schuessler,	2002	863,693	1,931,250	78,683(3)	330,000	343,955
Chairman of the Board,	2001	790,481	1,716,800		214,181	154,779
Chief Executive Officer	2000	627,303	1,343,716		270,220	57,620
and President (2)						
Kerrii B. Anderson,	2002	359,885	965,625	(5)	88,000	62,253
Executive Vice President	2001	333,970	858,400		60,373	18,474
and Chief Financial Officer (4)	2000	199,692	300,000		55,000	0
Thomas J. Mueller,	2002	339,154	728,035	(5)	88,000	121,358
President and Chief Operating	2001	315,798	670,639		62,224	94,121
Officer North America (6)	2000	238,889	486,346		65,470	44,737
George Condos,	2002	326,500	523,275	(5)	49,500	78,857
Executive Vice President	2001	313,731	486,494		40,964	75,807
	2000	303,038	523,116		40,909	21,681
Donald F. Calhoon,	2002	321,923	523,275	(5)	49,500	61,292
Executive Vice President	2001	294,889	483,963		40,062	37,040
	2000	260,983	298,708		37,506	28,050

(1) The amounts shown in this column for each named Executive Officer consist of (i) executive health insurance premiums paid by the Company for coverage for the named Executive Officers of $3,173 per person for each year

(except that no premiums were paid for Mrs. Anderson in 2001 and 2000); and (ii) contributions or other allocations to the Company s Profit Sharing and Savings Plan, and the amount allocated to the account of each of the named Executive Officers under the Company s Supplemental Executive Retirement Plan (SERP), as follows:

	Profit Sharing and Savings Plan			**SERP Allocations**		
Name	**2002**	**2001**	**2000**	**2002**	**2001**	**2000**
Mr. Schuessler	$ 4,000	$ 5,808	$ 2,375	$ 336,782	$ 145,798	$ 52,072
Mrs. Anderson	$ 8,000	$ 2,585	$ 0	$ 51,080	$ 15,889	$ 0
Mr. Mueller	$ 8,000	$ 9,208	$ 2,375	$ 110,185	$ 81,740	$ 39,189
Mr. Condos	$ 8,000	$ 9,208	$ 2,375	$ 67,684	$ 63,426	$ 16,133
Mr. Calhoon	$ 8,000	$ 9,208	$ 2,375	$ 50,119	$ 24,659	$ 22,502

(2) Mr. Schuessler was President and Chief Operating Officer, U.S. Operations, until March 16, 2000, at which time he was named Chief Executive Officer and President. He assumed his current position on May 1, 2001.

(3) Other annual compensation for Mr. Schuessler in 2002 consists of personal use of Company aircraft in the amount of $67,123 and personal use of a Company car in the amount of $11,560. The aggregate incremental cost of perquisites and other personal benefits received by Mr. Schuessler in 2001 and 2000 did not exceed the lesser of $50,000 or 10% of the total annual salary and bonus paid to Mr. Schuessler for those years.

(4) Mrs. Anderson joined the Company on September 1, 2000 in her current position.

(5) The aggregate amount of perquisites and other benefits received by Mrs. Anderson and Messrs. Mueller, Condos and Calhoon did not exceed the lesser of $50,000 or 10% of the total annual salary and bonus of such individuals in 2002, 2001 or 2000.

(6) Mr. Mueller joined the Company as a Senior Vice President effective June 29, 1998. He assumed his current position on May 1, 2000.

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The following table sets forth information concerning individual grants of stock options made during the last fiscal year to each of the named Executive Officers.

OPTIONS GRANTED IN LAST FISCAL YEAR

	Individual Grants				
Name	Number of securities underlying options granted (#) (1)	% of total options granted to employees in fiscal year	Exercise price ($/share) (2)	Expiration date	Grant date present value $ (3)
John T. Schuessler	330,000	9.51%	$ 37.865	4/28/12	$ 4,268,517
Kerrii B. Anderson	88,000	2.54%	$ 37.865	4/28/12	$ 1,138,271
Thomas J. Mueller	88,000	2.54%	$ 37.865	4/28/12	$ 1,138,271
George Condos	49,500	1.43%	$ 37.865	4/28/12	$ 640,278
Donald F. Calhoon	49,500	1.43%	$ 37.865	4/28/12	$ 640,278

(1) 25% of the options listed in this column become exercisable on April 29, 2003. An additional 25% become exercisable on each successive April 29. These exercise dates may be accelerated if the Company is involved in certain change-in-control transactions as specified in the Company s various stock option plans. If the Executive Officer s employment is terminated for any reason other than death, disability or retirement, the options will be canceled as of the date of such termination. If the Executive Officer s employment is terminated by reason of his death or disability, the options will become immediately exercisable and may be exercised at any time during the 12-month period after his death or date of becoming disabled, subject to the stated term of the options. If the Executive Officer s employment is terminated by reason of his retirement, the options may be exercised during the 48-month period after the retirement date, subject to the stated term of the options.

(2) The exercise price is the mean of the high and low prices at which common shares of the Company are traded on the New York Stock Exchange on the date of grant.

(3) All values shown are pretax. Values shown were calculated using the Black-Scholes option pricing model and the following assumptions: expected volatility 32.8743%; risk-free rate of return 4.6750%; dividend yield .7937%; and an expected time of exercise of 4.9 years. No adjustments were made for the non-transferability of the options or for the risk of forfeiture. The Company is not aware of any model which will determine with reasonable accuracy a present value based on future unknown or volatile factors. No gain to the optionees is possible without an increase in the market price of the Company s common shares above the market price on the date of grant. If such increase occurs, all shareholders will benefit commensurately. If no increase in the market price occurs, optionees will realize no value from stock options.

The following table sets forth information regarding each individual exercise of stock options made during the last fiscal year by each of the named Executive Officers.

AGGREGATED OPTION EXERCISES

IN LAST FISCAL YEAR

AND FISCAL YEAR-END OPTION VALUES

Name	Shares acquired on exercise (#)	Value realized ($)	Number of securities underlying unexercised options at fiscal year-end (#)		Value of unexercised in-the-money options at fiscal year-end ($) (1) (2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John T. Schuessler	85,819	1,071,536	144,148	635,732	153,266	1,203,872
Kerrii B. Anderson	7,500	84,650	35,093	160,780	108,048	161,321
Thomas J. Mueller	0	0	86,701	172,984	411,514	321,176
George Condos	0	0	90,618	110,660	145,686	207,946
Donald F. Calhoon	28,300	266,263	30,656	104,130	105,344	162,463

(1) All values as shown are pretax.

(2) Based on the fiscal year-end closing price of $27.26 per share.

The Company has three retirement plans which apply to Executive Officers in addition to other Officers and/or employees. The amounts of contributions or other allocations under the Profit Sharing and Savings Plan and the Supplemental Executive Retirement Plan for each of the named Executive Officers are set forth in footnote 1 to the Summary Compensation Table (see page 9). The third retirement plan is the Company s Pension Plan. Under the Pension Plan as in effect since January 1, 2001, each participant is credited with a basic benefit determined by years of service. The Company contribution is 1.5% of current compensation for participants with less than five years of service, 2.0% of current compensation for participants with at least five but less than 10 years of service, and 2.5% of current compensation for participants with 10 or more years of service. Notwithstanding the contribution rates set forth above, the maximum annual compensation amount for which contributions can be made to the Pension Plan under the Internal Revenue Code is currently $200,000. All accounts are credited with interest at an annual rate equal to the greater of 5% or the average of the 1 year Constant Maturity Treasury Rates for each of the 12-months ending with the month of November, plus 1%. The estimated annual benefits payable upon retirement at normal retirement age under the Pension Plan for each of the named Executive Officers are as follows: John T. Schuessler, $79,056; Kerrii B. Anderson, $25,185; Thomas J. Mueller, $20,267; George Condos, $93,785; and Donald F. Calhoon, $72,008. The estimated annual retirement benefits assume a 7.5% interest factor and retirement at age 65.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The Company s executive compensation policy has been pay for performance since well before the current popularity of that concept. In an effort to provide shareholders with a better understanding of the Company s executive compensation practices, this report provides information beyond the information required by the proxy rules of the Securities and Exchange Commission.

Compensation Philosophy

The Company s executive compensation program is based on two objectives:

Providing market-competitive compensation opportunities, and

Creating a strong link among the interests of the shareholders, the Company s financial performance, and the total compensation of the Company s Executive Officers.

There are three components to the Company s executive compensation program: annual cash compensation, longer-term incentive compensation and benefits. The annual cash compensation program is comprised of base salary and annual incentive compensation. Base salary and annual incentive compensation opportunities are set by periodic comparison to external rates of pay for comparable positions within the food-service industry. The companies used for this comparison for 2002 were comprised of the participants in the National Chain Restaurant Compensation Association annual survey and the same companies which comprise the Peer Group Index shown on the graph on page 14. The companies which comprise the Peer Group Index have revenues of at least $1 billion and reflect the Company s scope of operations and the competitive market in the restaurant industry for senior executive talent.

Base salary ranges are targeted at the 50th percentile of competitive data. Individual variability is based on performance and experience. Adjustments are normally considered annually, based upon general movement in external salary levels, individual performance and potential, and/or changes in the position s duties and responsibilities.

During 2001 the Committee completed a review of the Company s cash bonus plans applicable to Executive Officers and implemented new plans that replaced the Company s prior bonus plans and linked individual award opportunities more closely with Company performance. The new bonus plans applied to Executive Officers for the 2002 fiscal year. Under the Senior Executive Annual Performance Plan (the Senior Executive Plan) (which Mr. Schuessler and Mrs. Anderson participated in during fiscal 2002) and the Executive Annual Performance Plan (the Executive Plan) (which other Executive Officers participated in),

participants received annual incentive awards which were based on the extent to which the Company exceeded specified earnings per share, return on assets, and, for certain participants, Wendy s North America or International Division income goals for the year. The Committee established specific performance objectives for 2002 under both plans, and the eligible participants and individual award opportunities for those participants under the Senior Executive Plan. In accordance with the terms of the Executive Plan, Mr. Schuessler determined the participants, the individual award opportunities for those participants, and the allocation of performance objectives between overall corporate results and business unit results in consultation with the Committee under the Executive Plan. The performance objectives and individual award opportunities were designed to create financial incentives that were closely tied to Company performance.

The longer-term incentive compensation program consists of stock options. Award opportunities under the stock option program for 2002 were set by comparison to stock option grants made to comparable positions at companies with revenues of at least $1 billion within the food-service industry and other industrial companies with revenues between $1 billion and $3 billion, and were set at approximately the 75th percentile. The companies used for the food-service industry comparison were the same companies which comprise the Peer Group Index shown on the graph on page 14. Options are exercisable at not less than 100% of the fair market value of the Company s common shares on the date of grant. Award opportunities under the stock option program are based primarily on a fixed number of options for each eligible employee grade. As a result, the Black-Scholes value of options awarded will increase or decrease based on how the Company s stock price has changed since the previous year s option awards (assuming that the other inputs used in the Black-Scholes calculation remain constant). The fixed number of options to be awarded will be adjusted periodically by comparison to comparable positions within the food-service industry and to other industrial companies with revenues between $1 billion and $3 billion. In addition, the number of options awarded was adjusted in 2002 to reflect earnings per share growth and the Company s three-year average total shareholder return relative to the Standard & Poor s 500 Index. This adjustment serves to more closely align stock option compensation opportunities to Company performance.

Grantees do not receive a benefit from stock options unless and until the market price of the Company s common shares increases. This program accomplishes the objective of linking each Executive Officer s opportunity for financial gain to increases in shareholder wealth, as reflected by the market price of the Company s common shares.

The benefits program is comprised of retirement income and group insurance plans. The objective of the program is to provide Executive Officers with reasonable and competitive levels of protection against the four contingencies (retirement, death, disability and ill health) which will interrupt the Executive Officer s employment and/or income received as an active employee. The retirement program consists of two tax-qualified plans that cover all full-time management and administrative employees, and a supplemental retirement plan which covers the Executive Officers and other Officers of the Company. The group insurance program consists of life, disability and health insurance benefit plans that cover all full-time management and administrative employees and the executive health care reimbursement plan, which covers Executive Officers and other Officers.

Section 162(m) of the Internal Revenue Code of 1986, as amended, generally limits the ability of a publicly-held corporation, such as the Company, to claim a deduction on its federal income tax return for compensation in excess of $1 million paid for a given fiscal year to the chief executive officer (or person acting in that capacity) at the close of the corporation s fiscal year and the four most highly compensated officers of the corporation, other than the chief executive officer, at the end of the corporation s fiscal year, unless the requirements specified in applicable Internal Revenue Service regulations are met. The $1 million compensation deduction limitation does not apply to performance-based compensation . The Company believes that compensation paid under the Senior Executive Plan and its stock option plans qualifies as performance-based compensation for purposes of Section 162(m).

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Compensation for Chief Executive Officer

Mr. Schuessler was named Chief Executive Officer and President of the Company on March 16, 2000. He had previously served as President and Chief Operating Officer, U.S. Operations of the Company. Mr. Schuessler was named Chairman of the Board, Chief Executive Officer and President on May 1, 2001.

Mr. Schuessler s base salary for 2002 was targeted at the 50th percentile of competitive data, taking into consideration the Company s overall compensation philosophy, Mr. Schuessler s performance since being named Chief Executive Officer and President, and the Company s performance under his leadership.

An annual cash incentive award was payable under the Senior Executive Plan to Mr. Schuessler only if the Company achieved or exceeded specified earnings per share and return on assets goals. The amount of the award increased if the Company exceeded the specified goals. Conversely, no award was payable if the Company did not achieve the specified goals. The payment to Mr. Schuessler for 2002 was based on the extent to which the 2002 goals were achieved. 69% of Mr. Schuessler s cash compensation for 2002 was incentive pay. Since the incentive award increased as the Company s performance increased, and decreased if the specified goals were not met, Mr. Schuessler s cash compensation was significantly affected by the Company s performance. Mr. Schuessler did not participate in the Executive Plan.

Long-term incentives in the form of stock options were granted to Mr. Schuessler in 2002. Stock options were granted at 100% of the fair market value of the Company s common shares on April 29, 2002, the date of grant. Options serve to directly align Mr. Schuessler s interests with the interests of other shareholders, since Mr. Schuessler will not realize a benefit unless and until the market price of the Company s common shares increases.

The Committee considered the number of unexercised options already held by Mr. Schuessler, competitive practices and the Company s earnings per share growth and three year average total shareholder return relative to the Standard & Poor s 500 Index in determining the number of options to grant in 2002. The number of options granted in 2002 to Mr. Schuessler was designed to approximate the 75th percentile of competitive practice for comparable positions within the food-service industry and at other industrial companies with revenues between $1 billion and $3 billion, consistent with the policy previously described, adjusted for the Company s earnings per share growth and three year average total shareholder return relative to the Standard & Poor s 500 Index.

The Committee believes that Mr. Schuessler was reasonably compensated for the job he has done as the Chairman of the Board, Chief Executive Officer and President. His opportunities to increase his future compensation depend on the Company s future performance and the competitive pay practices of comparable positions within the food-service industry. The compensation programs applicable to Mr. Schuessler have accomplished the objective of linking shareholder and financial performance to Mr. Schuessler s total compensation.

Respectfully submitted,

Compensation Committee

Thekla R. Shackelford, Chair

Janet Hill

William E. Kirwan

True H. Knowles

Andrew G. McCaughey

James F. Millar

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COMPARISON OF FIVE-YEAR TOTAL RETURN FOR WENDY S INTERNATIONAL, INC., THE PEER GROUP INDEX AND THE S&P 500 INDEX

The following graph compares the yearly percentage change in the Company s cumulative total shareholder return (as measured by dividing (i) the sum of (A) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and (B) the difference between the Company s share price at the end and the beginning of the measurement period; by (ii) the share price at the beginning of the measurement period) against the cumulative total return of the S&P 500 Stock Index and a peer group of other companies with restaurant operations (excluding the Company) (the Peer Group Index). The companies which comprise the Peer Group Index have revenues of at least $1 billion and reflect the Company s scope of operations and the competitive market in the restaurant industry for senior executive talent.

COMPARISON OF FIVE-YEAR TOTAL RETURN[1]

FOR WENDY S INTERNATIONAL, INC.,

THE PEER GROUP INDEX[2] AND THE S&P 500 INDEX

	1997	1998	1999	2000	2001	2002
WEN	$100.00	91.67	88.30	113.10	126.85	118.55
PEER GROUP INDEX	100.00	154.07	149.51	144.49	133.40	103.55
S&P 500 INDEX	100.00	126.71	151.56	136.20	118.43	90.76

(1) Assumes $100 invested on December 31, 1997, in Wendy s International, Inc. common shares, the Peer Group Index and the S&P 500 Index. Total return assumes dividend reinvestment.

(2) The Peer Group Index has been computed by the Company, and is comprised of the following 10 companies: Advantica Restaurant Group, Inc.; Brinker International, Inc.; CBRL Group; CKE Restaurants, Inc.; Darden Restaurants, Inc.; Jack in the Box Inc.; McDonald s Corporation; Outback Steakhouse, Inc.; Starbucks Corporation; and YUM! Brands, Inc. (f/k/a Tricon Global Restaurants, Inc.). This Index has been weighted by market capitalization of each component company.

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EXECUTIVE AGREEMENTS

The Company has entered into employment agreements (Key Executive Agreements) with each of the Executive Officers named in the Summary Compensation Table (see page 9) as well as certain other Executive Officers. The Key Executive Agreements are intended to assure the Company that it will have the continued dedication, undivided loyalty, and objective advice and counsel from these key executives in the event of a proposed transaction, or the threat of a transaction, which could result in a change in control of the Company.

The Key Executive Agreements provide that in the event of a change in control (as defined therein), the key executives will be employed by the Company in their present positions for a period of approximately five years, or until the executive dies, is terminated for cause by the Company or terminates employment himself without good reason (as such terms are defined therein), whichever occurs first (the Employment Term).

In the event of a change in control, the key executives will be entitled to continue to receive during their Employment Term the annual salary, bonus and other benefits made available to them by the Company immediately prior to the change in control. The Board of Directors will review annually the performance of each key executive during such Employment Term to determine whether or not such salary and bonus should be increased.

A key executive s employment may be terminated under the Key Executive Agreement for cause by the Company as defined therein. If a key executive is terminated for cause by the Company, the Company has no further obligation to pay any compensation or to provide benefits to the key executive.

A key executive may terminate his employment under the Key Executive Agreement after a change in control for good reason if the Company (i) changes the key executive s status, title, position or responsibilities in a way that does not represent a promotion, (ii) either reduces the key executive s base salary or provides an annual salary increase less than the increase in a defined consumer price index, (iii) requires the key executive to relocate beyond a 30 mile radius from the executive s business office location immediately prior to the change in control, (iv) takes action which results in a material reduction in compensation and benefits otherwise payable to the key executive, (v) materially breaches the Key Executive Agreement, or (vi) fails to notify the key executive that a successor to the Company has agreed to assume and perform under the Key Executive Agreement. If a key executive s employment is terminated by the Company without cause prior to a change in control, but the executive reasonably demonstrates that the termination of employment (i) was at the request of a third party who had indicated an intention or taken steps reasonably calculated to effect a change in control, or (ii) otherwise occurred in connection with, or in anticipation of, a change in control which had been threatened or proposed, then such termination will be deemed to have occurred after a change in control for the purposes of the Key Executive Agreement, provided that a change in control shall actually have occurred.

If the employment of a key executive is terminated under a Key Executive Agreement by the executive for good reason or by the Company other than for cause, the Company will be obligated to make a lump-sum payment to the key executive of three times the sum of the executive s then-current salary plus average annual bonuses over the prior three years. If the key executive had not previously received bonus payments for three full plan years under the annual bonus plans and was an eligible participant under such plans at the time his employment was terminated, he will be deemed to have received a bonus in prior years equal to the bonus paid to such key executive s predecessor in the same position. If there was not a predecessor in the same position, the key executive will be deemed to have received a bonus in prior years equal to the average of the bonuses paid to participants in positions comparable to the executive s then-current position. The lump-sum payment will not be subject to offset. If the employment of the key executive is terminated under a Key Executive Agreement by the executive for good reason or by the Company other than for cause, the key executive will also be entitled to (i) continuation of group insurance benefits for three years, subject to offset for any benefits from subsequent employment, if any, (ii) purchase his Company automobile at the then-current book value, and (iii) a

lump-sum payment equal to the present value of accrued retirement benefits

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after adding three additional years of benefit accrual, reduced by any vested benefits. In addition, any stock options or stock appreciation rights granted under plans of the Company will become immediately vested and exercisable, and any restrictions on any stock awarded to the key executive by the Company shall lapse.

If any payments or other benefits payable to an executive under a Key Executive Agreement or otherwise is subject to the excise tax under Internal Revenue Code Section 4999 or any similar tax, the Company is obligated under the Key Executive Agreement to pay to the executive an additional amount which, after deduction of any income, withholding and excise tax thereon, equals the excise tax.

The Company has established a benefits protection trust to provide for the payment of benefits to the key executives and to provide for the payment of reasonable legal fees or expenses incurred in good faith by the key executives in enforcing their rights under the Key Executive Agreements or any other benefit plans in which they participate.

CERTAIN TRANSACTIONS INVOLVING MANAGEMENT

A trust for the benefit of Paul D. House and his wife is the sole shareholder of a corporation which purchased a shopping center property in Tottenham, Ontario, Canada from an unrelated third party in 1998. As part of the shopping center purchase transaction, the corporation now leases a Tim Hortons restaurant to a subsidiary of the Company. The remaining term of the lease is 11 years. The amount of rent paid to the corporation in 2002 was the Canadian dollar equivalent of $35,024 (the exchange rate used for all Canadian dollar equivalents in this section is 1.5703 Canadian dollars per U.S. dollar). In the opinion of the Company, the terms of this lease are no less favorable than the Company and its subsidiaries could have obtained from an unrelated third party.

On December 19, 2002, the Company approved the transfer of 5,741,262 common shares of WENTIM, LTD., a subsidiary of the Company, to Jetport Investments, a general partnership between Mr. Joyce and Jetport, Inc., which is wholly-owned by Mr. Joyce. The exchangeable shares were exchangeable into 5,741,262 common shares of the Company. Pursuant to agreements previously entered into among the Company, certain of its subsidiaries and Mr. Joyce, the exchangeable shares were exchanged for common shares of the Company on January 2, 2003. The Company filed a Registration Statement on Form S-3 covering the common shares owned by Jetport Investments on October 29, 2002.

Mr. Joyce has interests in three real properties which are leased to a subsidiary of the Company. Mr. Joyce owns a 70% interest in a joint venture which leases the land and building for a Tim Hortons restaurant in Burlington, Ontario to a subsidiary of the Company. The remaining term of the lease is 11 years. Rent due under the lease is the greater of the Canadian dollar equivalent of $57,312 per year or 6% of sales. The amount of rent paid by the subsidiary of the Company to the joint venture in 2002 was the Canadian dollar equivalent of $95,486. In the opinion of the Company, the terms of this lease are no less favorable than the Company and its subsidiaries could have obtained from an unrelated third party.

Mr. Joyce has a two-thirds interest as a tenant in common in a joint venture which leases the land and building for a Tim Hortons restaurant in Beamsville, Ontario to a subsidiary of the Company. The remaining term of the lease is 9 years. Rent due under the lease is the greater of the Canadian dollar equivalent of $44,576 per year or 6% of sales. The amount of rent paid by the subsidiary of the Company to the joint venture in 2002 was the Canadian dollar equivalent of $86,202. In the opinion of the Company, the terms of this lease are no less favorable than the Company and its subsidiaries could have obtained from an unrelated third party.

A trust for the benefit of Mr. Joyce s children is the sole shareholder of a corporation which leases the land and building for a Tim Hortons restaurant in Brampton, Ontario to a subsidiary of the Company. The remaining term of the lease is 11 years. Rent due under the lease is the greater of the Canadian dollar equivalent of $22,925 per year or 9% of sales. The amount of rent paid by the subsidiary of the Company

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under this lease in 2002 was the Canadian dollar equivalent of $44,308. This lease commenced in early 1994, nearly two years before the Share Purchase Agreement between the Company and Mr. Joyce was executed.

Pursuant to an employment agreement between Mr. Joyce and a subsidiary of the Company which was negotiated and executed in connection with the Share Purchase Agreement between the Company and Mr. Joyce dated as of October 31, 1995, a subsidiary of the Company agreed to reimburse Mr. Joyce for reasonable overhead costs associated with the use of his aircraft for business purposes of the Company and its subsidiaries. The total amount paid to corporations owned by Mr. Joyce for air transportation services provided in 2002 was the Canadian dollar equivalent of $442,750. In the opinion of the Company, the payments for air transportation services made to these corporations were less than the Company and its subsidiaries would have paid for comparable services from unrelated third parties.

APPROVAL OF PROPOSAL TO AMEND THE COMPANY S 1990 STOCK OPTION PLAN

The Company believes stock options more strongly align the interests of key employees with the interests of its other shareholders. The 1990 Stock Option Plan (the 1990 Plan) was adopted to benefit the Company and its shareholders by providing means for key employees and non-employee Directors (Non-Employee Directors) to enlarge their ownership interest in the Company. The 1990 Plan is intended to accomplish three major objectives (i) encourage the judgment, initiative and efforts of key employees and Non-Employee Directors toward the continuing success of the Company, (ii) bring stock ownership levels of key employees into line with key employees of other food-service companies, and (iii) assist the Company in attracting, retaining and motivating key employees and Non-Employee Directors. Key employees may include not only the Executive Officers of the Company but also may include other Officers or employees of the Company who are able to contribute significantly to the success and growth of the Company.

The 1990 Plan consists of two Parts. Part I pertains to key employees of the Company. Part II pertains to Non-Employee Directors of the Company. Shareholders are being asked to amend the 1990 Plan to (i) increase the number of common shares issuable under Part I of the 1990 Plan to 24,025,000 from 23,455,000; (ii) permit optionees under Part I to exercise non-qualified options for one year and incentive stock options for a period of three months following termination of employment if such termination occurs without cause in connection with a disposition of one or more restaurants or other assets by the Company or its subsidiaries, or in connection with a sale or other disposition of a subsidiary (the current provision only permits post-termination exercise of stock options if the termination of employment occurs without cause in connection with the disposition of one or more restaurants of the Company or its subsidiaries); (iii) increases the number of stock options granted annually under Part II to Non-Employee Directors to 5,500 from 2,500; and (iv) amends the definition of retirement under Part II to be termination of membership on the Company s Board of Directors at or after attaining age 55 with at least three years of service as a member of the Board other than by reason of death or disability or for cause (the current definition of retirement is termination of membership on the Board of Directors at or after attaining age 55 with at least 10 years as a member of the Board other than by reason of death or disability or for cause), as more fully described below. Both the adoption of the 1990 Plan in 1991 and amendments to the 1990 Plan in 1994, 1997 and 2000 were approved by an overwhelming majority of shares voted.

The Board of Directors believes that it is desirable to be able to continue the incentive program provided by the 1990 Plan and therefore recommends that the shareholders approve the proposal to amend the 1990 Plan. The Board anticipates that the additional common shares authorized will cover the option grants which the Company may make in 2003.

The number and exercise price of options that will be received by each individual or group listed below under the Plan cannot be determined at this time. The following table sets forth the number and exercise price of options granted during the last fiscal year under the 1990 Plan, and the number of options granted under the 1990 Plan since it was initially adopted in 1990, to (i) each of the Executive Officers of the Company named in the Summary Compensation Table; (ii) all current Executive Officers of the Company as a group; (iii) all current Directors who are not Executive Officers as a group; (iv) each nominee for election as a Director of the Company; and (v) all employees, including all current Officers

who are not

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Executive Officers, as a group. No options were granted to associates of any of the Directors, Executive Officers or nominees for election as a Director of the Company, and no person received five percent (5%) or more of the options that could be granted under the 1990 Plan.

	Number of Options Granted in 2002	Exercise Price of Options Granted in 2002	Number of Options Granted Since 1990 Plan was Initially Adopted
John T. Schuessler, Chairman of the Board, Chief Executive Officer and President	330,000	$37.865	1,149,304
Kerrii B. Anderson, Executive Vice President and Chief Financial Officer	88,000	$37.865	203,000
Thomas J. Mueller, President and Chief Operating Officer North America	88,000	$37.865	257,137
George Condos, Executive Vice President	49,500	$37.865	514,772
Donald F. Calhoon, Executive Vice President	49,500	$37.865	319,827
All Current Executive Officers as a Group	1,073,833	$37.865	4,947,170
All Current Directors who are not Executive Officers as a Group	25,000	$35.24	146,951
David P. Lauer (1)	2,500	$35.24	7,500
James V. Pickett (1)	2,500	$35.24	23,064
Thomas F. Keller (1)	2,500	$35.24	19,223
James F. Millar (1)	2,500	$35.24	2,500
All Employees (including All Current Officers who are not Executive Officers), as a Group	1,693,415	$37.6005	8,050,946

(1) Nominee for election as a Director of the Company.

The following table sets forth, as of the end of the Company s last fiscal year, (a) the number of securities that could be issued upon exercise of outstanding options under the Company s equity compensation plans, (b) the weighted-average exercise price of outstanding options under such plans, and (c) the number of securities remaining available for future issuance under such plans, excluding securities that could be issued upon exercise of outstanding options. The information presented in the table does not include the additional 570,000 common shares that would be available for future issuance under the 1990 Plan if shareholders approve the proposal to amend the 1990 Plan.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)

Equity compensation plans approved by security holders	8,263,564	$28.9296	2,033,788
Equity compensation plans not approved by security holders	3,177,257	$26.2376	342,335
Total	11,440,821	$28.1820	2,376,123

On August 2, 1990, the Board of Directors adopted the WeShare Stock Option Plan (the WeShare Plan), a non-qualified stock option plan that provided for grants of options equal to 10% of each eligible employee s earnings, with a minimum of 20 options to be granted to each eligible employee annually. Beginning in 2002, options equal to 8-12% of each eligible employee s earnings could be granted annually under the WeShare Plan. The percentage of each eligible employee s earnings is determined by the Company s annual performance as measured by earnings per share growth and the Company s three-year

average total shareholder return relative to the Standard & Poor s 500 Index. Most employees of the Company and its subsidiaries who are full-time employees on the grant date and on December 31 of the year preceding the grant date are eligible employees. An aggregate of 8.2 million common shares of the Company have been reserved pursuant to the WeShare Plan.

Options granted under the WeShare Plan have a term of 10 years from the grant date and become exercisable in installments of 25% on each of the first four anniversaries of the grant date. These exercise dates may be accelerated if the Company is involved in certain merger, consolidation, reclassification or exchange of securities transactions as specified in the WeShare Plan. If an employee s employment is terminated for any reason other than death, disability, termination without cause in connection with the disposition of one or more restaurants or retirement, the options will be canceled as of the date of such termination. If the employee s employment is terminated by reason of his death, disability or termination without cause in connection with the disposition of one or more restaurants, the options will become immediately exercisable and may be exercised at any time during the 12-month period after his death or date of becoming disabled, subject to the stated term of the options. If the employee s employment is terminated by reason of his retirement, the options may be exercised during the 48-month period after the retirement date, subject to the stated term of the options. The Company has granted options under the WeShare Plan annually to several thousand employees. The WeShare Plan has not been submitted to the shareholders of the Company for approval as permitted under current New York Stock Exchange listing requirements.

Part I Key Employees

The Company s Executive Officers as well as its other Officers and key employees are eligible to receive grants of stock options under the 1990 Plan. The number of options granted under the 1990 Stock Option Plan is based on a periodic comparison of option grants to persons holding comparable positions at companies with revenues of at least $1 billion within the food-service industry and other industrial companies with revenues between $1 billion and $3 billion, the Company s earnings per share growth and its three-year average total shareholder return relative to the Standard & Poor s 500 Index.

As of February 28, 2003, options to purchase an aggregate of 1,868,962 common shares were available for future grants under Part I of the 1990 Plan.

The common shares offered under the 1990 Plan may be either authorized but unissued common shares or treasury shares. The number of common shares issuable under the 1990 Plan will be adjusted to include any additional common shares which may result from any share distributions effected in the future by the Board of Directors, although no such distributions are contemplated at this time. If an option expires or terminates for any reason without having been exercised in full, the unpurchased common shares will remain available for issuance under the 1990 Plan. Options granted to key employees may be either non-qualified stock options (Non-Qualified Options) or incentive stock options (ISOs) as defined under Section 422 of the Internal Revenue Code of 1986, as amended (Code).

The material terms of the 1990 Plan are summarized in the following paragraphs. This summary is qualified in its entirety by reference to the copy of the 1990 Plan, as amended, attached to this Proxy Statement as the Annex.

Purchase Price

The purchase price for all common shares covered by each option granted is not less than one hundred percent (100%) of the fair market value of the common shares on the date of the grant. In the case of any ISO granted to an individual who, on the effective date of the grant, owns shares possessing more than ten percent (10%) of the total combined voting power of the Company, the exercise price per share must be at least one hundred ten percent (110%) of the fair market value of a common share on the date of the grant. Fair market value is defined as the mean of the high and low prices at which common shares of the Company are traded on the New York Stock Exchange on the grant date (the Market Price). On February 28, 2003, the Market Price for the common shares of the Company was $25.36.

The purchase price for common shares covered by an option must be paid in full at the time of exercise of the option by cash or check in United States Dollars, by the delivery of common shares of the Company having a fair market value on the date of exercise equal to the exercise price or by tender of other property acceptable to the Compensation Committee of the Board of Directors (the Committee).

Authority of the Committee

The 1990 Plan is administered by the Committee, which consists of not less than three members of the Board. All members of the Committee are qualified to administer the stock option plans for purposes of Securities and Exchange Commission Rule 16b-3. Presently, the members of the Committee are Mrs. Shackelford (Chair), and Mrs. Hill, and Messrs. Kirwan, Knowles, McCaughey and Millar.

The Committee has the authority to select the individuals, including foreign nationals, to whom, and the time or times at which, options will be granted, the number of common shares to be subject to each grant, the exercise price, and the duration of leaves of absence which may be granted to participants without constituting a termination of their employment for purposes of the 1990 Plan. The Committee also has the authority to impose waiting periods or vesting requirements as conditions of a grant. In addition, the Committee has the authority to determine the term of the options, up to a maximum of ten years, and each option will be exercisable as determined by the Committee.

The Committee cannot make any adjustment (other than in connection with a stock dividend, recapitalization or other transaction where an adjustment is permitted or required under the terms of the 1990 Plan) or amendment of the exercise price of an option previously granted, whether through amendment, cancellation or replacement grants, or any other means, unless the Company s shareholders have approved such adjustment or amendment.

At any time after an option granted under Part I of the 1990 Plan becomes exercisable, the Committee has the right, in its sole discretion and without the consent of an optionee, to cancel the option and pay to the optionee the excess of the fair market value of the common shares covered by such option over the option exercise price at the date the Committee provides written notice of its intention to exercise such right. Such amount may be paid in cash, in common shares of the Company, or partly in cash and partly in common shares of the Company, as the Committee deems advisable. To the extent payment is made in common shares, the number of common shares is determined by dividing the amount of the payment to be made by the fair market value of the common shares on the date of the notice of election to the optionee. For purposes of this provision, fair market value is equal to the mean of the high and the low prices at which common shares of the Company were traded on the New York Stock Exchange on the relevant date.

Number of Options

No optionee can be granted options under the 1990 Plan in any one fiscal year covering more than five percent (5%) of the maximum number of common shares authorized to be issued under the 1990 Plan (as specified in the plan document). No individual may be granted ISOs under the 1990 Plan if such grant would cause the aggregate fair market value (determined as of the date the ISOs are granted) of the common shares with respect to which ISOs are exercisable for the first time by such optionee during any calendar year under all stock option plans maintained by the Company and its subsidiaries to exceed $100,000.

Exercise after Termination of Employment

During an optionee s lifetime, options are exercisable only by the optionee. For options granted on or before February 23, 1994, options are not transferable and expire upon termination of the optionee s employment for any reason other than death or disability, in which event the estate of the deceased optionee (or the optionee in the event of disability) has the right to exercise his or her options for a period of six months after the date of death or disability, including any options which become exercisable during such six month period (but in no event later than the date of expiration of the option term).

For options granted after February 23, 1994, all options held by the optionee will become immediately exercisable on the date of death or disability, and the estate of the deceased optionee (or the optionee in the event of disability) will have the right to exercise his or her options for a period of one year after the date of death or disability (but in no event later than the date of expiration of the option term). In addition, an optionee will have the right to exercise Non-Qualified Options for a period of 48 months and ISOs for a period of three months after the date the optionee retires, including any options which become exercisable during such three or 48 month periods (but in no event later than the date of expiration of the option term). Further, under the present terms of the 1990 Plan, optionees whose employment with the Company or its subsidiaries is terminated without cause in connection with a disposition of one or more restaurants will have the right to exercise Non-Qualified Options for a period of one year and ISOs for a period of three months following termination of employment, including any options which become exercisable during such one year or three month periods (but in no event later than the date of expiration of the option term). If the proposed amendments to the 1990 Plan are approved by shareholders, then optionees whose employment with the Company or its subsidiaries is terminated without cause in connection with a disposition of one or more restaurants or other assets by the Company or its subsidiaries, or in connection with a sale or other disposition of a subsidiary, will have the right to exercise Non-Qualified Options for a period of one year and ISOs for a period of three months following termination of employment, including any options which become exercisable during such one year or three month periods (but in no event later than the date of expiration of the option term).

Adjustments

In the event any dividend upon the common shares payable in shares is declared by the Company, or in case of any subdivision or a combination of the outstanding common shares, the aggregate number of common shares to be delivered upon exercise of all options granted under the 1990 Plan will be increased or decreased proportionately so that there will be no change in the aggregate purchase price payable upon exercise of the options. In the event of any other recapitalization or any reorganization, merger, consolidation or any change in the corporate structure or stock of the Company, the Committee will make such adjustment, if any, as it may deem appropriate to reflect accurately the terms of the options as to the number and kind of shares deliverable upon subsequent exercising of the options and in the option prices under the options.

Change in Control

In the event of a change in control (as defined in the 1990 Plan), options granted and outstanding become immediately exercisable notwithstanding the date of exercise fixed in the grant of such options.

Amendment or Termination

The Board of Directors may amend or terminate each of the stock option plans at any time, provided that the Board may not make any change in an outstanding option which will impair the rights of the optionee therein, without the consent of the optionee.

Federal Income Tax Consequences

Based on current provisions of the Code and the existing regulations thereunder, the anticipated federal income tax consequences in respect of options granted under the 1990 Plan are as described below. The following discussion is not intended to be a complete statement of applicable

law and is based upon the federal income tax laws as in effect on the date hereof.

ISOs

An optionee who is granted an ISO does not recognize taxable income either on the date of grant or on the date of exercise. Upon the exercise of an ISO, the difference between the fair market value of the common shares of the Company received and the option price is a tax preference item potentially subject to the alternative minimum tax. However, on the later sale or other disposition of the common shares, generally only the difference between the fair market value of the common shares on the exercise date and the amount realized on the sale or disposition is includable in alternative minimum taxable income.

Upon disposition of common shares acquired from exercise of an ISO, long-term capital gain or loss is generally recognized in an amount equal to the difference between the amount realized on the sale or disposition and the exercise price. However, if the optionee disposes of the common shares within two years of the date of grant or within one year of the date of the transfer of the common shares to the optionee (a Disqualifying Disposition), then the optionee will recognize ordinary income, as opposed to capital gain, at the time of disposition. In general, the amount of ordinary income recognized will be equal to the lesser of (a) the amount of gain realized on the disposition, or (b) the difference between the fair market value of the common shares received on the date of exercise and the exercise price. Any remaining gain or loss is treated as a short-term or long-term capital gain or loss, depending upon the period of time the common shares have been held. The Company is not entitled to a tax deduction upon either exercise of an ISO or disposition of common shares acquired pursuant to such exercise, except to the extent that the optionee recognizes ordinary income in a Disqualifying Disposition.

If an optionee pays the exercise price, in whole or in part, with previously acquired common shares, the exchange should not affect the ISO tax treatment of the exercise. Upon such exchange, and except as otherwise described herein, no gain or loss is recognized by the optionee upon delivering previously acquired common shares to the Company for payment of the exercise price. The common shares received by the optionee, equal in number to the previously acquired common shares exchanged therefor, will have the same basis and holding period for long-term capital gain purposes as the previously acquired common shares. The optionee, however, will not be able to utilize the prior holding period for the purpose of satisfying the ISO statutory holding period requirements. Common shares received by the optionee in excess of the number of previously acquired common shares will have a basis of zero and a holding period which commences as of the date the common shares are transferred to the optionee upon exercise of the ISO. If the exercise of any ISO is effected using common shares previously acquired through the exercise of an ISO, the exchange of such previously acquired common shares will be considered a disposition of such common shares for the purpose of determining whether a Disqualifying Disposition has occurred.

Non-Qualified Options

An optionee receiving a Non-Qualified Option does not recognize taxable income on the date of grant of the Non-Qualified Option, provided that the Non-Qualified Option does not have a readily ascertainable fair market value at the time it is granted. In general, the optionee must recognize ordinary income at the time of exercise of the Non-Qualified Option in the amount of the difference between the fair market value of the common shares of the Company on the date of exercise and the option price. The ordinary income recognized will constitute compensation for which tax withholding generally will be required. The amount of ordinary income recognized by an optionee will be deductible by the Company in the year that the optionee recognizes the income if the Company complies with the applicable withholding requirement.

Common shares acquired upon exercise of a Non-Qualified Option will have a tax basis equal to their fair market value on the exercise date or other relevant date on which ordinary income is recognized, and the holding period for the common shares generally will begin on the date of exercise or such other relevant date. Upon subsequent disposition of the common shares, the optionee will recognize long-term capital gain or loss if the optionee has held the common shares for more than one year prior to disposition, or short-term capital gain or loss if the optionee has held the common shares for one year or less.

If an optionee pays the exercise price, in whole or in part, with previously acquired common shares, the optionee will recognize ordinary income in the amount by which the fair market value of the common shares received exceeds the exercise price. The optionee will not recognize gain or loss upon delivering such previously acquired common shares to the Company. Common shares received by an optionee, equal in number to the previously acquired common shares exchanged therefor, will have the same basis and holding period for long-term capital gain purposes as the previously acquired common shares. Common shares received by an optionee in excess of the number of such previously acquired common shares will have a basis equal to the fair market value of such additional common shares as of the date ordinary income is recognized. The holding period for such additional common shares will commence as of the date of exercise or such other relevant date.

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Part II Non-Employee Directors

Part II of the 1990 Plan governs the automatic grant of options to the Non-Employee Directors of the Company. Only Non-Qualified Options may be granted to Non-Employee Directors.

As of February 28, 2003, options to purchase an aggregate of 68,602 common shares were available for future grants under Part II of the 1990 Plan. The common shares offered under Part II of the 1990 Plan may be either authorized but unissued common shares or treasury shares. The number of common shares issuable under Part II will be adjusted to include any additional common shares which may result from any share distributions effected in the future by the Board of Directors. If an option expires or terminates for any reason without having been exercised in full, the unpurchased common shares will remain available for issuance under Part II of the 1990 Plan.

The following is a brief summary of certain provisions of Part II of the 1990 Plan, which summary is qualified in its entirety by reference to the copy of the 1990 Plan, as amended, attached to this Proxy Statement as the Annex.

Number and Term of Options

Under Part II of the 1990 Plan as currently in effect, each year, each Non-Employee Director is automatically granted options to purchase 2,500 common shares. Such options are granted on the date on which the regularly scheduled Board meeting is held during the Company s third fiscal quarter. Each option is granted for a term of ten years. Twenty-five percent (25%) of the options granted each year become exercisable on each of the first four anniversaries of the grant date for such options. If the proposed amendments to the 1990 Plan are approved by shareholders, then each Non-Employee Director will be automatically granted options to purchase 5,500 common shares each year and such options will be granted on the date on which the regularly scheduled Board meeting is held during the Company s second fiscal quarter, except that in 2003 options will be granted on April 23, the date of the Annual Meeting of Shareholders.

The number of options granted annually to each Non-Employee Director has not been increased since 1997. The increase in the number of options that would be granted annually under Part II of the 1990 Plan is intended to make the equity component of Non-Employee Director compensation more consistent with competitive practice.

Under Part II of the 1990 Plan, upon the occurrence of a change in control (as defined in Section 18 of the 1990 Plan), options granted pursuant to Part II and outstanding would become immediately exercisable notwithstanding the date of exercise fixed in the grant of such options.

Purchase Price

The purchase price for all common shares covered by each option granted under Part II of the 1990 Plan is one hundred percent (100%) of the fair market value of the common shares on the date of the grant. Fair market value is determined in the same manner as Part I of the 1990 Plan

(see page 19). The manner of payment for common shares covered by an option granted pursuant to Part II of the 1990 Plan is also the same (see page 20).

Administration

Part II of the 1990 Plan will be administered by the Committee. The authority of the Committee with respect to options granted to Non-Employee Directors is limited to the making of administrative decisions and interpretations of Part II of the 1990 Plan.

Exercise Following Termination of Status as a Director

During an optionee s lifetime, options are exercisable only by the optionee. For options granted on or before February 23, 1994, options expire at such time as an optionee is no longer a Non-Employee Director or employed by the Company other than by reason of death or disability, in which event the estate of the deceased optionee (or the optionee in the case of disability) has a right to exercise the options granted under Part II of the 1990 Plan for a period of six months after the date of death or disability (but in no event later than the date of expiration of the option term).

For options granted after February 23, 1994, options will be exercisable for a period of 48 months if the optionee retires as a Non-Employee Director or an employee of the Company, and all options held will become immediately exercisable and may be exercised for a period of one year after the date of death or disability, as applicable (but in no event later than the date of expiration of the option term). Under Part II of the 1990 Plan as currently in effect, retirement is defined as termination of membership on the Company s Board of Directors at or after attaining age 55 with at least ten years of service as a member of the Board, other than by reason of death or disability or for cause. If the proposed amendments to the 1990 Plan are approved by shareholders, then for options granted on or after April 23, 2003, retirement will be defined as termination of membership on the Company s Board of Directors at or after attaining age 55 with at least three years of service as a member of the Board, other than by reason of death or disability or for cause.

Amendment or Termination

The Board of Directors may amend or terminate Part II of the 1990 Plan at any time, provided that no change in outstanding options which will impair the rights of an optionee may occur without the consent of the optionee. In addition, no amendment which will (i) materially increase the benefits accruing to participants, (ii) materially increase the number of common shares which may be issued, (iii) materially modify the requirements as to eligibility or participation, or (iv) otherwise amend Part II of the 1990 Plan in such manner that shareholder approval is necessary to comply with any legal, tax or regulatory requirement, including any approval requirement which is a prerequisite for exemptive relief from Section 16(b) of the Exchange Act, may occur without the approval of the shareholders of the Company.

At any time after an option granted under Part II of the 1990 Plan becomes exercisable, the Board of Directors will have the right, in its sole discretion and without the consent of the optionee, to cancel the option and pay the optionee the excess of the fair market value of the common shares covered by such option over the option exercise price at the date the Board provides written notice of its intention to exercise such right. A Non-Employee Director for whom the Board is considering making such buy-out payment cannot participate in such decision. Payments of buy-out amounts, the number of common shares to be issued where payment is made in common shares, and the method for determining the fair market value of such common shares are determined in the same manner as with respect to options granted to key employees under Part I of the 1990 Plan (see page 20).

Federal Income Tax Consequences

All of the options granted under Part II of the 1990 Plan are Non-Qualified Options. The federal income tax treatment for such Non-Qualified Options is the same for both the Company and each optionee as set forth in the discussion of Non-Qualified Options granted under Part I of the 1990 Plan to key employees of the Company, except that tax withholding is not required upon the exercise of Non-Qualified Options by a Non-Employee Director.

Vote Required

The affirmative vote of the holders of a majority of the common shares represented in person or by proxy is necessary to approve the proposal to amend the 1990 Plan. Under Ohio law and the Company s Regulations, abstentions and broker non-votes are counted as present; the effect of an abstention or broker non-vote for each plan is the same as a no vote. **THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF THE PROPOSAL TO AMEND THE 1990 PLAN.** Unless otherwise indicated, the persons named in the Proxy will vote all Proxies in favor of the proposal to amend the 1990 Plan.

SHAREHOLDER PROPOSAL

The Sisters of Mercy of the Americas, 2039 North Geyer Road, St. Louis, Missouri 63131, owner of 100 common shares of the Company, and The Sinsinawa Dominicans, Inc., 7200 West Division Street, River Forest, Illinois 60305, owner of 32 common shares of the Company, have notified the Company that they intend to propose the following resolution at the Annual Meeting of Shareholders.

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The text of the resolution and supporting statement as received from the proponents is as follows:

RESOLVED: Shareholders request that our Board review the Company s policies for food products containing genetically engineered (GE) ingredients and report to shareholders by March 2004. This report, developed at reasonable cost and omitting proprietary information, would identify the risks, financial costs (including opportunity costs) and benefits, and environmental impacts of the continued use of GE-ingredients in food products sold or manufactured by the company.

Supporting Statement

There continue to be indicators that genetically engineered agricultural products may be harmful to humans, animals, or the environment:

- The National Academy of Sciences (NAS) report (8/2002) *Animal Biotechnology: Science-Based Concerns* cautions that the current regulatory system is inadequate to address potential hazards, particularly in the environmental area. (p. 14). Environmental problems from accidentally released transgenic animals such as fish or pigs could be difficult to identify and more difficult to remedy;
- Research reported to the Ecological Society of America indicated that a gene artificially inserted into crop plants to fend off pests can migrate to weeds in a natural environment and make the weeds stronger (8/8/2002);
- The NAS report, *Genetically Modified Pest-Protected Plants*, recommends improved methods for identifying potential allergens in genetically engineered pest-protected plants and found the potential for gaps in regulatory coverage (4/2000);
- The NAS report *The Environmental Effects of Transgenic Plants* calls for significantly more transparent and rigorous testing and assessment of GE-plants (2/2002);
- Since fall 2000, many millions of dollars have been spent by food companies in recalling food containing GE corn not approved for human consumption;
- For human health and environmental concerns, the European Union has proposed regulations to phase out by 2005 antibiotic-resistant marker genes, widely used to develop GE seeds;
- Research has shown that GE-Bt crops are building up Bt toxins in the soil, with unknown long-term effects on soil ecology;
- Crops engineered to produce pharmaceuticals and industrial chemicals could pollute the food system if companies and farmers do not adhere to the voluntary planting guides of the industry (10/21/2002).

Markets for GE-foods are threatened by extensive resistance:

- Upon ratification by 50 countries, the Biosafety Protocol, signed by over 100 countries, will require that genetically engineered organisms (GEOs) intended for food, feed and processing must be labeled may contain GEOs. Countries can decide whether to import those commodities based on a scientific risk assessment;
- Countries around the world, including Brazil, Greece, and Thailand, have instituted moratoriums or banned importation of GE seeds and crops;
- Labeling of GE foods is required in the European Union, Japan, New Zealand, South Korea and Australia, and favored by 70-93% of people surveyed in approximately a dozen opinion polls in the U.S.

We urge that this report:

1) identify the scope of the Company s products that are derived from/contain GE ingredients;

2) outline a contingency plan for sourcing non-GE ingredients should circumstances so require;

3) cite evidence of long-term safety testing that demonstrates that GE crops, organisms, or products thereof are actually safe for humans, animals, and the environment.

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Management s Response

The Board of Directors recommends a vote AGAINST the Shareholder Proposal.

The Company has food safety as its highest priority and cares about and actively supports its customers interest in food safety. The Company believes that the United States Food & Drug Administration, the Environmental Protection Agency, and other regulatory authorities that are charged with protecting the health and safety of the public and the environment are the proper entities, rather than a single restauranteur like the Company, to evaluate and make judgments about environmental risks presented by crops enhanced through biotechnology and safety concerns caused by the use of biotechnology-derived ingredients. These agencies have the responsibility, scientific resources and legal authority necessary to evaluate the issues and apply uniform resolutions based on sound scientific principles. They also have a history of monitoring and testing food and food ingredients, including genetically modified ingredients. They have developed a coordinated system directed to the safety of new agricultural biotechnology products with respect to the environment as well as animal and human health. The Company takes its lead from national food safety and regulatory authorities and supports their efforts to take whatever steps are necessary to assure that any new food technology is safe for consumers and the environment. The Company believes that it complies, and will continue in the future to comply, with all governmental regulations applicable to food safety.

The Company is aware of the concerns of some who oppose development of genetically modified ingredients in agriculture, as well as the strong contrary views of those who believe that use of such ingredients will benefit humanity and the environment by increasing the world s food supply and decreasing the use of pesticides. The Company does not believe that preparation of the report requested by the proponents of this proposal would add new information to the ongoing dialogue on this issue. The Company believes the subject is more appropriately addressed under regulatory authority and leadership on an industry-wide, including food producers, processors, distributors and sellers (not just restaurants), basis and in light of scientific findings and the conclusions of regulatory authorities.

The Company understands that the use of genetic engineering with respect to certain staple foods, such as corn and soybeans, is widespread in the United States. Even when these foods are produced in an unmodified form, under current practices they are combined with other biotechnology-derived foods during storage and distribution. It would be difficult and costly, if not impossible in the absence of federal laws and regulations, for the Company to require its vendors to identify the scope of the Company s products that are derived from biotechnology-derived ingredients and identify sources of alternative food ingredients that are not biotechnology-derived.

In addition, the proposal as written is not practicable because the Company would have serious difficulty determining what constitutes products that are derived from/contain GE ingredients. (1) According to the 2002 proxy statement of a major grocery chain faced with a similar proposal, former FDA Commissioner Jane E. Henney, M.D. has stated that virtually all crops have been genetically modified through traditional plant breeding for more than 100 years. Even if the Company could determine what constituted genetically engineered ingredients, it believes it is impracticable to identify which products contain these ingredients. Since genetic markers used to identify genetically engineered ingredients are sometimes damaged or eliminated during processing, a genetically engineered ingredient can remain virtually undetected in certain foods. It would be impracticable (even if the Company had the testing capability) for the Company to identify all genetically engineered ingredients used in its products. Therefore, the Company does not believe the report apparently requested by the proposal would be meaningful.

The Company will continue to develop and revise plans as required to address business and food safety issues as they arise. These issues are critical to the Company s business. However, the publication of the Company s business plans would compromise its efforts and businesses. The proposed report would require the Company (i) to make public confidential and proprietary business information regarding its products and business plans; and (ii) to make highly speculative scientific and environmental judgments about issues which the Company is not in a position

to evaluate independently. Such a report would not advance consumer safety, but it would jeopardize the business interests of the Company and its shareholders as a result of the publication of confidential business plans and proprietary information.

The Company opposes this proposal on the basis that it would require significant cost and business risks without the prospect of advancing food safety. The Company does emphasize that it is committed to the use of only those ingredients that meet its high quality and safety standards and will continue to support the efforts of regulatory authorities to take whatever steps are necessary to assure that any new food technology is safe for consumers and the environment. The Company s shareholders and consumers can count on its compliance with all such regulations. Particularly in light of the scientific and regulatory attention being given to the use of genetically modified ingredients, the Company believes that preparation and publication of the report requested in this proposal would not constitute an effective use of the Company s assets.

Accordingly, **the Board of Directors recommends that shareholders vote AGAINST the Shareholder Proposal.**

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(1) Note that the proposal is quite broadly worded.

Vote Required

The affirmative vote of a majority of the common shares represented in person or proxy at the Annual Meeting is necessary to adopt the Shareholder Proposal. Unless otherwise indicated, the persons named in the proxy will vote all proxies against the Shareholder Proposal.

INDEPENDENT PUBLIC ACCOUNTANTS

The Directors have selected PricewaterhouseCoopers LLP as the independent public accountants of the Company for the current fiscal year. PricewaterhouseCoopers LLP or one of its constituent firms has audited the Company s financial statements for each of the last 33 years. Management expects that representatives of PricewaterhouseCoopers LLP will be present at the Annual Meeting with the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

OTHER MATTERS

Shareholder Proposals Pursuant to Rule 14a-8

In order to be considered for inclusion in the proxy statement distributed to shareholders prior to the Annual Meeting of Shareholders in 2004, a shareholder proposal pursuant to Securities and Exchange Commission Rule 14a-8 must be received by the Company no later than November 7, 2003. Written requests for inclusion should be addressed to: Corporate Secretary, P. O. Box 256, Dublin, Ohio 43017-0256. It is suggested that you mail your proposal by certified mail, return receipt requested.

Shareholder Proposals Other Than Pursuant to Rule 14a-8

With respect to any shareholder proposal not submitted pursuant to Securities and Exchange Commission Rule 14a-8 in connection with the Annual Meeting of Shareholders in 2004, the proxy for such meeting will confer discretionary authority to vote on such proposal unless (i) the Company is notified of such proposal not later than January 21, 2004, and (ii) the proponent complies with the other requirements set forth in Securities and Exchange Commission Rule 14a-4.

General Information

A COPY OF FORM 10-K AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION WILL BE SENT TO ANY SHAREHOLDER WITHOUT CHARGE UPON WRITTEN REQUEST ADDRESSED TO INVESTOR RELATIONS DEPARTMENT, P. O. BOX 256, 4288 WEST DUBLIN-GRANVILLE ROAD, DUBLIN, OHIO 43017-0256.

Management knows of no other business which may be properly brought before the Annual Meeting of Shareholders. However, if any other matters shall properly come before such meeting, it is the intention of the persons named in the enclosed form of Proxy to vote such Proxy in accordance with their best judgment on such matters.

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. THEREFORE, WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING IN PERSON, YOU ARE URGED TO FILL IN, SIGN AND RETURN THE PROXY IN THE ENCLOSED STAMPED, SELF-ADDRESSED ENVELOPE, OR TO VOTE ELECTRONICALLY AS DESCRIBED ON PAGE 1 OF THIS PROXY STATEMENT.

By order of the Board of Directors.

LEON M. McCORKLE, JR.

Secretary

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Annex

WENDY S INTERNATIONAL, INC.

1990 STOCK OPTION PLAN

(Reflects amendments through January 31, 2003)

Part I Key Employees

Section 1. **Purpose**. This Wendy s 1990 Stock Option Plan (hereinafter referred to as the Plan) is intended as a means whereby key employees (hereinafter referred to as Employee or Employees and Optionee or Optionees) of Wendy s International, Inc. (hereinafter referred as the Company) or its subsidiaries (hereinafter referred to as the Subsidiaries) can each enlarge his proprietary interest in the Company, thereby encouraging the judgment, initiative and efforts of the Employees for the successful conduct of the Company s business. The Plan is also intended to create common interests between the Employees and the other shareholders of the Company, and to assist the Company in attracting, retaining and motivating Employees.

Section 2. **Administration of the Plan**. The Board of Directors of the Company shall appoint a Compensation Committee (hereinafter referred to as the Committee) of not less than three (3) Directors to administer the Plan. The members of the Committee shall serve at the pleasure of the Board, which shall have the power at any time, or from time to time, to remove members from the Committee or to add members thereto. All members of the Committee shall be qualified to administer the Plan as contemplated by Securities and Exchange Commission Rule 16b-3 as amended or superseded from time to time. The Committee shall construe and interpret the Plan, establish such operating guidelines and rules as it deems necessary for the proper administration of the Plan and make such determinations and take such other action in connection with the Plan as it deems necessary and advisable. It shall determine the individuals to whom and the time or times at which Options shall be granted, the number of shares to be subject to each Option, the Option price and the duration of leaves of absence which may be granted to participants without constituting a termination of their employment for purposes of the Plan. Any such construction, interpretation, rule, determination or other action taken by the Committee pursuant to the Plan shall be final, binding and conclusive on all interested parties, including the Company and all former, present and future Employees of the Company.

Actions by a majority of the Committee at a meeting at which a quorum is present, or actions approved in writing by all of the members of the Committee, shall be the valid acts of the Committee. No member of the Board of Directors or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted under it.

The Committee shall have no authority to make any adjustment (other than in connection with a stock dividend, recapitalization or other transaction where an adjustment is permitted or required under the terms of this Plan) or amendment of the exercise price of an Option previously granted under this Plan, whether through amendment, cancellation or replacement grants, or other means, unless the Company s shareholders shall have approved such adjustment or amendment.

Section 3. **Maximum Number of Shares Subject to Plan**. Subject to any adjustment as provided in the Plan, the shares to be offered under the Plan may be, in whole or in part, authorized but unissued Common Shares of the Company, or issued Common Shares which shall have been reacquired by the Company and held by it as treasury shares. The aggregate number of Common Shares to be delivered upon exercise of all Options granted under the Plan shall not exceed 24,025,000, plus the amount of any additional Common Shares which may result from any share distributions effected after the approval of this Plan by the Board of Directors of the Company. If any Option granted hereunder shall expire or terminate for any reason without having been exercised in full, the unpurchased shares with respect thereto shall again be available for other Options to be granted under the Plan unless the Plan shall have been terminated.

Section 4. **Selection of Optionees**. The Committee, from time to time, subject to the terms and provisions of the Plan, may grant Options to any present and future full-time key employees of the Company and of its present and future Subsidiaries. In determining the persons to whom Options shall be granted and the number of shares to be covered by each Option, the Committee may take into account the nature of the services rendered by such persons, their present and potential contribution to the success and growth of the Company and its Subsidiaries, and such other factors as the Committee, in its discretion, shall deem relevant. Any person who has been granted an Option under a prior stock option plan of the Company may be granted an additional Option or Options under the Plan if the Committee shall so determine.

Section 5. **Option Price**. The purchase price for the shares covered by each Option granted shall be not less than one hundred percent (100%) of the fair market value of the shares on the date of the grant of the Option. Such fair market value shall be equal to the mean of the high and low prices at which Common Shares of the Company are traded on the New York Stock Exchange on such date.

Section 6. **Option Requirements**. The Options granted pursuant to the Plan shall be authorized by the Committee and shall be evidenced in writing in a form recommended by the Committee and approved by the Board of Directors and shall include the following terms and conditions:

(a) **Optionee**. Each Option shall state the name of the Optionee.

(b) **Number of Shares**. Each Option shall state the number of shares to which that Option pertains. During any fiscal year of the Company, no Optionee shall be granted Options covering more than five percent (5%) of the maximum number of Common Shares which may be issued upon exercise of Options granted under the Plan.

(c) **Purchase Price**. Each Option shall state the Option price, which shall be not less than one hundred percent (100%) of the fair market value of the shares covered by such Option on the date of grant of such Option. See Section 5, Option Price, and Section 27, date of grant.

(d) **Payment**. The purchase price for the Options being exercised must be paid in full at the time of exercise in a manner acceptable to the Committee. In addition, in order to enable the Company to meet any applicable foreign, federal (including FICA), state and local withholding tax requirements, an Optionee shall also be required to pay the amount of tax to be withheld at the time of exercise. No Common Shares will be delivered to any Optionee until all such amounts have been paid.

(e) **Length of Option**. Each Option shall be granted for a period to be determined by the Committee but in no event to exceed more than ten (10) years. However, subject to Sections 9 and 10, each Option shall be exercisable only during such portion of its term as the Committee shall determine, and only if the Optionee is employed by the Company or a Subsidiary of the Company at the time of such exercise.

(f) **Exercise of Option**. With respect to Options offered pursuant to this Plan to an Employee who is subject to Section 16 of the Securities Exchange Act of 1934 (Section 16 of the Exchange Act), no option can be exercised for at least six (6) months after the date of grant except in the case of death or Disability as set forth in Section 10 where the Option is otherwise exercisable. Otherwise each Optionee shall have the right to exercise his or her Option in the manner specified in this Plan or in the agreement evidencing granting of such Option.

Section 7. **Method of Exercise of Options**. Each Option shall be exercised pursuant to the terms of such Option and pursuant to the terms of the Plan by giving written notice to the Company at its principal place of business or other address designated by the Company, accompanied by cash, check, shares, or other property acceptable to the Committee, in payment of the Option price for the number of shares specified and paid for. From time to time the Committee may establish procedures relating to effecting such exercises. No fractional shares shall be issued as a result of exercising an Option. The Company shall make delivery of such shares as soon as possible; provided, however, that if any law or regulation requires the Company to take action with respect to the shares specified in such notice before issuance thereof, the date of delivery of such shares shall then be extended for the period necessary to take such action.

Section 8. **Non-Transferability of Options**. Except as set forth in Section 10, an Option is exercisable during an Optionee s lifetime only by the Optionee. The Options shall not be transferable except by will or the laws of descent and distribution, and shall terminate as provided in this Plan.

Section 9. **Earlier Termination of Options**. Except as set forth in Section 10, upon the termination of the Optionee s employment for any reason whatsoever, the Options will terminate as to all shares covered by Options which have not been exercised as of the date of such termination.

Section 10.

(a) **Exercise Upon Death or Disability**. In the event an Optionee dies while employed by the Company or a Subsidiary, then all Options held by the Optionee shall become immediately exercisable as of the date of death, and the estate of the deceased Optionee shall have the right to exercise any rights the Optionee would otherwise have under this Plan for a period of one year after the date of the Optionee s death, with exercise to be made as set forth in Section 7.

In the event an Optionee becomes Disabled while employed by the Company or a Subsidiary, then all Options held by the Optionee shall become immediately exercisable as of the date the Optionee becomes Disabled, and the Optionee (or, in the event the Optionee is incapacitated and unable to exercise Options, the Optionee s legal guardian or legal representative whom the Committee deems appropriate based on applicable facts and circumstances) shall have the right to exercise any rights the Optionee would otherwise have under this Plan for a period of one year after the date the Optionee becomes Disabled, with exercise to be made as set forth in Section 7.

(b) **Exercise Upon Retirement**. In the event an Optionee s employment with the Company and its Subsidiaries is terminated by reason of the Optionee s retirement, the Optionee shall have the right to exercise any rights the Optionee would otherwise have under this Plan for a period of 48 months after the date the Optionee retires in the case of non-qualified stock options and for a period of three months after the date the Optionee retires in the case of Incentive Stock Options, in each case with exercise to be made as set forth in Section 7. In the event that an Optionee does not exercise the Optionee s Incentive Stock Options prior to the expiration of the three-month period after the date the Optionee retires, such Options shall be treated as non-qualified stock options upon exercise by the Optionee after such three-month period. For purposes of this Section 10(b), retirement shall mean termination of employment at or after attaining age 55 with at least ten (10) years of service (as defined in the Company s qualified retirement plans), other than by reason of death or Disability or for cause.

(c) **Exercise Upon Termination of Employment in Connection with Certain Dispositions**. In the event an Optionee s employment with the Company and its Subsidiaries is terminated without cause in connection with a disposition of one or more restaurants or other assets by the Company or its Subsidiaries, or in connection with a sale or other disposition of a Subsidiary, the Optionee shall have the right to exercise any rights the Optionee would otherwise have under this Plan for a period of one year following the Optionee s termination of employment in the case of non-qualified stock options and for a period of three months following the Optionee s termination of employment in the case of Incentive Stock Options, in each case with exercise to be made as set forth in Section 7.

Section 11. **Types of Stock Options**. The Options granted under the Plan may be non-qualified stock options or Incentive Stock Options (as defined in Section 422A of the Internal Revenue Code of 1986, as amended).

Notwithstanding Section 4, above, no Incentive Stock Option shall be granted to an individual owning stock possessing more than ten percent (10%) of the total combined voting power of the Company, or its parent or subsidiary corporations unless (i) the Option price at the time such Option is granted is equal to at least one hundred ten percent (110%) of the fair market value of the shares subject to the Option, and (ii) such Option by its terms is not exercisable after the expiration of five (5) years from the date such Option is granted. Further, the aggregate fair market value (determined at the time the Option is granted) of the Common Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all such plans of the Company and its Subsidiaries) shall not exceed one hundred thousand dollars ($100,000.00).

Section 12. **Effect of Change in Common Shares Subject to the Plan**. In the event any dividend upon the Common Shares payable in shares is declared by the Company, or in case of any subdivision or combination of the outstanding Common Shares, the aggregate number of Common Shares to be delivered upon exercise of all Options granted under the Plan shall be increased or decreased proportionately so that there will be no change in the aggregate purchase price payable upon the exercise of the Options. In the event of any other recapitalization or any reorganization, merger, consolidation or any change in the corporate structure or stock of the Company, the Committee shall make such adjustment, if any, as it may deem appropriate to reflect accurately the terms of the Options as to the number and kind of shares deliverable upon subsequent exercising of the Options and in the Option prices under the Options.

Section 13. **Listing and Registration of Common Shares**. If at any time the Board of Directors shall determine that listing, registration or qualification of the Common Shares covered by the Option upon any securities exchange or under any state or federal law or the consent or the approval of any governmental regulatory body is necessary or desirable as a condition of or in connection with the purchase of Common Shares under the Option, the Option may not be exercised in whole or in part unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board. Any person exercising an Option shall make such representations and agreements and furnish such information as the Board or the Committee may request to assure compliance with the foregoing or any other applicable legal requirements.

Section 14. **No Obligation to Exercise Option**. The granting of an Option shall impose no obligation upon the Optionee to exercise such Option.

Section 15. **Misconduct**. In the event that an Optionee has (i) used for profit or disclosed to unauthorized persons, confidential information or trade secrets of the Company or its Subsidiaries, or (ii) breached any contract with or violated any fiduciary obligation to the Company or its Subsidiaries, or (iii) engaged in unlawful trading in the securities of the Company or its Subsidiaries or of another company based on information gained as a result of that Optionee s employment with the Company or its Subsidiaries, then that Optionee shall forfeit all rights to any unexercised Options granted under the Plan and all of that Optionee s outstanding Options shall automatically terminate and lapse, unless the Committee shall determine otherwise.

Section 16. **Foreign Employees**. Without amending the Plan, the Committee may grant Options to eligible Employees who are foreign nationals on such terms and conditions different from those specified in this Plan as may in the judgment of the Committee be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance of such purposes, the Committee may make such modifications, amendments, procedures, and the like as may be necessary or advisable to comply with provisions of laws of other countries in which the Company or its Subsidiaries operate or have employees.

Section 17. **Buy Out of Option Gains**. At any time after any Option becomes exercisable, the Committee shall have the right to elect, in its sole discretion and without the consent of the holder thereof, to cancel such Option and pay to the Optionee the excess of the fair market value of the Common Shares covered by such Option over the Option price of such Option at the date the Committee provides written notice (the Buy Out Notice) of the intention to exercise such right. Buy outs pursuant to this provision shall be effected by the Company as promptly as possible after the date of the Buy Out Notice. Payments of buy out amounts may be made in cash, in Common Shares, or partly in cash and partly in Common Shares, as the Committee deems advisable. To the extent payment is made in Common Shares, the number of shares shall be determined by dividing the amount of the payment to be made by the fair market value of a Common Share at the date of the Buy Out Notice. In no event shall the Company be required to deliver a fractional Common Share in satisfaction of this buy out provision. Payments of any such buy out amounts shall be made net of any applicable foreign, federal (including FICA), state and local withholding taxes. For the purposes of this Section 17, fair market value shall be equal to the mean of the high and low prices at which Common Shares of the Company are traded on the New York Stock Exchange on the relevant date.

Section 18. **No Rights to Options or Employment**. No Employee or other person shall have any claim or right to be granted an Option under the Plan. Having received an Option under the Plan shall not give an Employee any right to receive any other grant under the Plan. An Optionee shall have no rights to or interest in any Option except as set forth herein. Neither the Plan nor any action taken herein shall be construed as giving any Employee any right to be retained in the employ of the Company or its Subsidiaries.

Section 19. **Change in Control**. In the event of a Change in Control, as defined below, then Options granted and outstanding pursuant to the Plan, notwithstanding the date of exercise fixed in the grant of such Options, shall become immediately exercisable and each Optionee shall be entitled to receive, upon payment of the amount required for exercise of each Option, securities or cash consideration, or both, equal to those the Optionee would have been entitled to receive under such plan or agreement if the Optionee had already exercised such Option.

For purposes of this Plan, a Change in Control shall mean the occurrence of:

(a) An acquisition (other than directly from the Company) of any common stock or other voting securities of the Company entitled to vote generally for the election of directors (the Voting Securities) by any Person (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act)), immediately after which such Person has Beneficial Ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of thirty percent (30%) or more of the then outstanding shares of the Company s common stock or the combined voting power of the Company s then outstanding Voting Securities; *provided, however,* in determining whether a Change in Control has occurred, Voting Securities which are acquired in a Non-Control Acquisition (as hereinafter defined) shall not constitute an acquisition which would cause a Change in Control. A Non-Control Acquisition shall mean an acquisition by (i) an employee benefit plan (or a trust forming a part thereof) maintained by (A) the Company or (B) a Subsidiary, (ii) the Company or its Subsidiaries, or (iii) any Person in connection with a Non-Control Transaction (as hereinafter defined);

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(b) The individuals who, as of February 18, 1999, are members of the Board (the Incumbent Board), cease for any reason to constitute at least seventy percent (70%) of the members of the Board; *provided, however,* that if the election, or nomination for election by the Company s common stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Plan, be considered as a member of the Incumbent Board; *provided further, however,* that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened Election Contest (as described in Rule 14a-11 promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a Proxy Contest) including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(c) The consummation of:

(i) A merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued, unless such merger, consolidation or reorganization is a Non-Control Transaction. A Non-Control Transaction shall mean a merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued where:

(A) the stockholders of the Company, immediately before such merger, consolidation or reorganization, own directly or indirectly immediately following such merger, consolidation or reorganization, at least seventy percent (70%) of the combined voting power of the outstanding voting securities of the corporation resulting from such merger or consolidation or reorganization (the Surviving Company) in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization,

(B) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the Surviving Company, or a corporation beneficially directly or indirectly owning a majority of the Voting Securities of the Surviving Company, and

(C) no Person other than (i) the Company, (ii) any Subsidiary, (iii) any employee benefit plan (or any trust forming a part thereof) that, immediately prior to such merger, consolidation or reorganization, was maintained by the Company or a Subsidiary, or (iv) any Person who, immediately prior to such merger, consolidation or reorganization had Beneficial Ownership of thirty percent (30%) or more of the then outstanding Voting Securities or common stock of the Company, has Beneficial Ownership of thirty percent (30%) or more of the combined voting power of the Surviving Company then outstanding voting securities or its common stock;

(ii) A complete liquidation or dissolution of the Company; or

(iii) The sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a Subsidiary).

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the Subject Person) acquired Beneficial Ownership of more than the permitted amount of the then outstanding common stock or Voting Securities as a result of the acquisition of common stock or Voting Securities by the Company which, by reducing the number of shares of common stock or Voting Securities then outstanding, increases the proportional number of shares Beneficially Owned by the Subject Persons, provided that if a Change in

Control would occur (but for the operation of this sentence) as a result of the acquisition of common stock or Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional common stock or Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

Section 20. **Amendment or Termination**. The Board of Directors may amend or terminate the Plan at any time, provided that the Board of Directors shall not (except as provided in Sections 9, 10 and 12 hereof) make any change in the Options which will impair the rights of the Optionee therein, without the consent of the Optionee.

Section 21. **Other Actions**. This Plan shall not restrict the authority of the Committee, the Board of Directors or of the Company or its Subsidiaries for proper corporate purposes to grant or assume stock options, other than under the Plan, to or with respect to any Employee or other person.

Section 22. **Costs and Expenses**. Except as provided in Section 6(d) hereof with respect to taxes, the costs and expenses of administering the Plan shall be borne by the Company, and shall not be charged to any grant nor to any Employee receiving a grant.

Section 23. **Plan Unfunded**. The Plan shall be unfunded. Except for reserving a sufficient number of authorized shares to the extent required by law to meet the requirements of the Plan, the Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure payment of any grant under the Plan.

Section 24. **Laws Governing Plan**. This Plan shall be construed under and governed by the laws of the State of Ohio.

Section 25. **Captions**. The captions to the several sections hereof are not a part of this Plan, but are merely guides or labels to assist in locating and reading the several sections hereof.

Section 26. **Effective Date**. The Plan shall become effective on the date it is approved by the Board of Directors of the Company.

Section 27. **Definitions**. Unless the context clearly indicates otherwise, the following terms, when used in this Plan, shall have the meaning set forth below:

(a) The date of grant or grant date of an Option shall be the date on which an Option is granted under the Plan.

(b) Option means the right granted under the Plan to an Optionee to purchase a Common Share of the Company at a fixed price for a specified period of time.

(c) Option price means the price at which a Common Share covered by an Option granted hereunder may be purchased.

(d) With regard to any particular Employee, Disabled shall have (i) the meaning set forth in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended, in the context of determining the period during which Incentive Stock Options granted to such Employee may be exercised and (ii) the meaning set forth in the Company s long term disability program applicable to such Employee in the context of determining the period during which non-qualified stock options granted such Employee may be exercised.

WENDY S INTERNATIONAL, INC.

1990 STOCK OPTION PLAN

(Reflects amendments through January 31, 2003)

Part II Non-Employee Directors

Section 1. **Purpose**. Part II of the Wendy s 1990 Stock Option Plan (hereinafter referred to as the Plan) is intended as a means whereby Non-Employee Directors (hereinafter referred to as Optionee or Optionees) of Wendy s International, Inc. (hereinafter referred to as the Company) can each enlarge his proprietary interest in the Company, thereby encouraging the judgment, initiative and efforts of the Non-Employee Directors for the successful conduct of the Company s business. The Plan is also intended to create common interests between the Non-Employee Directors and the other shareholders of the Company, and to assist the Company in attracting, retaining and motivating the Non-Employee Directors.

Section 2. **Administration of the Plan**. The Board of Directors of the Company shall appoint a Compensation Committee (hereinafter referred to as the Committee) of not less than three (3) Directors to administer the Plan. The members of the Committee shall serve at the pleasure of the Board, which shall have the power at any time, or from time to time, to remove members from the Committee or to add members thereto. All members of the Committee shall be qualified to administer the Plan as contemplated by Securities and Exchange Commission Rule 16b-3 as amended or superseded from time to time. The Committee shall construe and interpret the Plan, establish such operating guidelines and rules as it deems necessary for the proper administration of the Plan and make such determinations and take such other action in connection with the Plan as it deems necessary and advisable. Any such construction, interpretation, rule, determination or other action taken by the Committee pursuant to the Plan shall be final, binding and conclusive on all interested parties, including the Company and all former, present and future Non-Employee Directors of the Company.

Actions by a majority of the Committee at a meeting at which a quorum is present, or actions approved in writing by all of the members of the Committee, shall be the valid acts of the Committee. No member of the Board of Directors or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted under it.

The Committee shall have no authority to make any adjustment (other than in connection with a stock dividend, recapitalization or other transaction where an adjustment is permitted or required under the terms of this Plan) or amendment of the exercise price of an Option previously granted under this Plan, whether through amendment, cancellation or replacement grants, or other means, unless the Company s shareholders shall have approved such adjustment or amendment.

Section 3. **Maximum Number of Shares Subject to Plan**. Subject to any adjustment as provided in the Plan, the shares to be offered under the Plan may be, in whole or in part, authorized but unissued Common Shares of the Company, or issued Common Shares which shall have been reacquired by the Company and held by it as treasury shares. The aggregate number of Common Shares to be delivered upon exercise of all Options granted under the Plan shall not exceed 245,000, plus the amount of any additional Common Shares which may result from any share distributions effected after the approval of this Plan by the Board of Directors of the Company. If any Option granted hereunder shall expire or terminate for any reason without having been exercised in full, the unpurchased shares with respect thereto shall again be available for other Options to be granted under the Plan unless the Plan shall have been terminated.

Section 4. **Stock Option Grants.**

(a) Each Non-Employee Director of the Company on the effective date of the Plan shall be granted the number of Options equal to three (3) times the number of Options calculated for each such Director as follows: 50% of the amount paid to such Director in 1990 as director s fees (including quarterly retainer fees and Board meeting fees but excluding committee meeting fees and expense reimbursements), divided by the Option exercise price and rounded to the nearest whole share.

(b) In 1992 and 1993, each year, the number of Options to be granted to each Non-Employee Director of the Company shall be equal to 50% of the amount paid to such Director during the preceding fiscal year as director s fees (including quarterly retainer fees and Board meeting fees but excluding committee meeting fees and expense reimbursements), divided by the Option exercise price and rounded to the nearest whole share. Such Options shall be

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granted on the date on which the regularly scheduled Board meeting is held during the Company s third fiscal quarter. In the event that an insufficient number of shares remains available under the Plan for issuance to all Non-Employee Directors in a fiscal year, then unless the Plan is amended to provide additional shares or the Company adopts another stock option plan under which the Non-Employee Directors can participate, the Non-Employee Directors shall participate on a prorata basis.

(c) Commencing in 1994, each year, each Non-Employee Director of the Company shall be granted Options to purchase 1,100 Common Shares. Such Options shall be granted on the date on which the regularly scheduled Board meeting is held during the Company s third fiscal quarter. In the event that an insufficient number of shares remains available under the Plan for issuance to all Non-Employee Directors in a fiscal year, then unless the Plan is amended to provide additional shares or the Company adopts another stock option plan under which the Non-Employee Directors can participate, the Non-Employee Directors shall participate on a prorata basis.

(d) Commencing in 1997, each year, each Non-Employee Director of the Company shall be granted Options to purchase 2,500 Common Shares. Such Options shall be granted on the date on which the regularly scheduled Board meeting is held during the Company s third fiscal quarter. In the event that an insufficient number of shares remains available under the Plan for issuance to all Non-Employee Directors in a fiscal year, then unless the Plan is amended to provide additional shares or the Company adopts another stock option plan under which the Non-Employee Directors can participate, the Non-Employee Directors shall participate on a prorata basis.

(e) Commencing in 2003, each year, each Non-Employee Director of the Company shall be granted Options to purchase 5,500 Common Shares. Such Options shall be granted on the date on which the regularly scheduled Board meeting is held during the Company s second fiscal quarter, except that Options shall be granted in 2003 on the date of the annual meeting of shareholders held in 2003. In the event that an insufficient number of shares remains available under the Plan for issuance to all Non-Employee Directors in a fiscal year, then unless the Plan is amended to provide additional shares or the Company adopts another stock option plan under which the Non-Employee Directors can participate, the Non-Employee Directors shall participate on a prorata basis.

Section 5. **Option Price**. The purchase price for the shares covered by each Option granted shall be the fair market value of the shares on the date of the grant of the Option. Such fair market value shall be equal to the mean of the high and low prices at which Common Shares of the Company are traded on the New York Stock Exchange on such date.

Section 6. **Option Requirements**. The Options granted pursuant to the Plan shall be evidenced in writing in a form recommended by the Committee and approved by the Board of Directors and shall include the following terms and conditions:

(a) **Optionee**. Each Option shall state the name of the Optionee.

(b) **Number of Shares**. Each Option shall state the number of shares to which that Option pertains.

(c) **Purchase Price**. Each Option shall state the Option price, which shall be one hundred percent (100%) of the fair market value of the shares covered by such Option on the date of grant of such Option. See Section 5, Option Price, and Section 26, date of grant.

(d) **Payment**. The purchase price for the Options being exercised must be paid in full at the time of exercise in a manner acceptable to the Committee. In addition, in order to enable the Company to meet any applicable foreign, federal (including FICA), state and local withholding tax requirements, an Optionee shall also be required to pay the amount of tax to be withheld at the time of exercise. No Common Shares will be delivered to any Optionee until all such amounts have been paid.

(e) **Length of Option**. Each Option shall be granted for a period of ten (10) years. However, subject to Sections 9 and 10, each Option shall be exercisable only during such portion of its term as hereinafter set forth and only if the Optionee is either a Non-Employee Director of the Company or is employed by the Company or a Subsidiary of the Company at the time of such exercise.

(f) **Exercise of Option**. Twenty-five (25%) percent of the Options covered by each grant shall become exercisable on each of the four anniversaries of the grant date for such Options. Otherwise, each Optionee shall have the right to exercise his or her Options in the manner specified in this Plan.

Notwithstanding any provision in the Plan to the contrary, the Options shall not be exercisable in whole or in part unless and until the Plan is approved by the shareholders of the Company.

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Section 7. **Method of Exercise of Options**. Each Option shall be exercised pursuant to the terms of such Option and pursuant to the terms of the Plan by giving written notice to the Company at its principal place of business or other address designated by the Company, accompanied by cash, check, shares, or other property acceptable to the Committee in payment of the Option price for the number of shares specified and paid for. From time to time the Committee may establish procedures relating to effecting such exercises. No fractional shares shall be issued as a result of exercising an Option. The Company shall make delivery of such shares as soon as possible; provided, however, that if any law or regulation requires the Company to take action with respect to the shares specified in such notice before issuance thereof, the date of delivery of such shares shall then be extended for the period necessary to take such action.

Section 8. **Non-Transferability of Options**. Except as set forth in Section 10, an Option is exercisable during an Optionee s lifetime only by the Optionee. The Options shall not be transferable except by will or the laws of descent and distribution, and shall terminate as provided in this Plan.

Section 9. **Earlier Termination of Options**. Except as set forth in Section 10 of this Plan, if the Optionee ceases to be a Non-Employee Director of the Company or an employee of the Company or its Subsidiaries for any reason whatsoever, the Options will terminate as to all shares covered by Options which have not been exercised as of such date.

Section 10.

(a) **Exercise Upon Death or Disability**. In the event an Optionee dies while either a Non-Employee Director of the Company or while employed by the Company or a Subsidiary, then all Options held by the Optionee shall become immediately exercisable as of the date of death, and the estate of the deceased Optionee shall have the right to exercise any rights the Optionee would have under this Plan for a period of one year after the date of the Optionee s death, with exercise to be made as set forth in Section 7.

In the event an Optionee becomes Disabled while either a Non-Employee Director of the Company or while employed by the Company or a Subsidiary, then all Options held by the Optionee shall become immediately exercisable as of the date the Optionee becomes Disabled, and the Optionee (or, in the event the Optionee is incapacitated and unable to exercise Options, the Optionee s legal guardian or legal representative whom the Committee deems appropriate based on applicable facts and circumstances) shall have the right to exercise any rights the Optionee would otherwise have under this Plan for a period of one year after the date the Optionee becomes Disabled, with exercise to be made as set forth in Section 7.

(b) **Exercise Upon Retirement**. In the event an Optionee retires as a Non-Employee Director or as an employee of the Company and its Subsidiaries, the Optionee shall have the right to exercise any rights the Optionee would otherwise have under this Plan for a period of 48 months after the date of such retirement, with exercise to be made as set forth in Section 7. For purposes of this Section 10(b), retirement shall mean termination of membership on the Company s Board of Directors at or after attaining age 55 with at least three (3) years of service as a member of the Board, other than by reason of death or Disability or for cause, and termination for cause shall mean termination of membership on the Board of Directors on account of any fraud, intentional misrepresentation, embezzlement or misappropriation or conversion of assets or opportunities of the Company or its Subsidiaries.

Section 11. **Types of Stock Options**. The Options granted under the Plan shall be non-qualified stock options.

Section 12. **Effect of Change in Common Shares Subject to the Plan**. In the event any dividend upon the Common Shares payable in shares is declared by the Company, or in case of any subdivision or combination of the outstanding Common Shares, the aggregate number of Common Shares to be delivered upon exercise of all Options granted under the Plan shall be increased or decreased proportionately so that there will be no change in the aggregate purchase price payable upon the exercise of the Options. In the event of any other recapitalization or any reorganization, merger, consolidation or any change in the corporate structure or stock of the Company, the Board of Directors shall make such adjustment, if any, as it may deem appropriate to reflect accurately the terms of the Options as to the number and kind of shares deliverable upon subsequent exercising of the Options and in the Option prices under the Options.

Section 13. **Listing and Registration of Common Shares**. If at any time the Board of Directors shall determine that listing, registration or qualification of the Common Shares covered by the Option upon any securities exchange or under any state or federal law or the consent or the approval of any governmental regulatory body is necessary or desirable as a

condition of or in connection with the purchase of Common Shares under the Option, the Option may not be exercised in whole or in part unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board. Any person exercising an Option shall make such representations and agreements and furnish such information as the Board or the Committee may request to assure compliance with the foregoing or any other applicable legal requirements.

Section 14. **No Obligation to Exercise Option**. The granting of an Option shall impose no obligation upon the Optionee to exercise such Option.

Section 15. **Misconduct**. In the event that an Optionee has (i) used for profit or disclosed to unauthorized persons, confidential information or trade secrets of the Company or its Subsidiaries, or (ii) breached any contract with or violated any fiduciary obligation to the Company or its Subsidiaries, or (iii) engaged in unlawful trading in the securities of the Company or its Subsidiaries or of another company based on information gained as a result of that Optionee serving as a Non-Employee Director of the Company, then that Optionee shall forfeit all rights to any unexercised Options granted under the Plan and all of that Optionee s outstanding Options shall automatically terminate and lapse, unless the Committee shall determine otherwise.

Section 16. **Buy Out of Option Gains**. At any time after any Option becomes exercisable, the Board of Directors (excluding any Director who holds Options for which the buy out election is being considered) shall have the right to elect, in its sole discretion and without the consent of the holder thereof, to cancel such Option and pay to the Optionee the excess of the fair market value of the Common Shares covered by such Option over the Option price of such Option at the date the Board provides written notice (the Buy Out Notice) of the intention to exercise such right. Buy outs pursuant to this provision shall be effected by the Company as promptly as possible after the date of the Buy Out Notice. Payments of buy out amounts may be made in cash, in Common Shares, or partly in cash and partly in Common Shares, as the Board deems advisable. To the extent payment is made in Common Shares, the number of shares shall be determined by dividing the amount of the payment to be made by the fair market value of a Common Share at the date of the Buy Out Notice. In no event shall the Company be required to deliver a fractional Common Share in satisfaction of this buy out provision. Payments of any such buy out amounts shall be made net of any applicable foreign, federal (including FICA), state and local withholding taxes. For the purposes of this Section 16, fair market value shall be equal to the mean of the high and low prices at which Common Shares of the Company are traded on the New York Stock Exchange on the relevant date.

Section 17. **No Other Rights**. An Optionee shall have no rights to or interest in any Option except as set forth herein. Neither the Plan nor any action taken herein shall be construed as giving any Optionee any right to remain as a Director of the Company.

Section 18. **Change in Control**. In the event of a Change in Control, as defined below, then Options granted and outstanding pursuant to the Plan, notwithstanding the date of exercise fixed in the grant of such Options, shall become immediately exercisable and each Optionee shall be entitled to receive, upon payment of the amount required for exercise of each Option, securities or cash consideration, or both, equal to those the Optionee would have been entitled to receive under such plan or agreement if the Optionee had already exercised such Option.

For purposes of this Plan, a Change in Control shall mean the occurrence of:

(a) An acquisition (other than directly from the Company) of any common stock or other voting securities of the Company entitled to vote generally for the election of directors (the Voting Securities) by any Person (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act)), immediately after which such Person has Beneficial Ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of thirty percent (30%) or more of the then outstanding shares of the Company s common stock or the combined voting power of the Company s then outstanding Voting Securities; *provided, however,* in

determining whether a Change in Control has occurred, Voting Securities which are acquired in a Non-Control Acquisition (as hereinafter defined) shall not constitute an acquisition which would cause a Change in Control. A Non-Control Acquisition shall mean an acquisition by (i) an employee benefit plan (or a trust forming a part thereof) maintained by (A) the Company or (B) a Subsidiary, (ii) the Company or its Subsidiaries, or (iii) any Person in connection with a Non-Control Transaction (as hereinafter defined);

(b) The individuals who, as of February 18, 1999, are members of the Board (the Incumbent Board), cease for any reason to constitute at least seventy percent (70%) of the members of the Board; *provided, however,* that if the

election, or nomination for election by the Company s common stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Plan, be considered as a member of the Incumbent Board; *provided further, however,* that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened Election Contest (as described in Rule 14a-11 promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a Proxy Contest) including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(c) The consummation of:

(i) A merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued, unless such merger, consolidation or reorganization is a Non-Control Transaction. A Non-Control Transaction shall mean a merger, consolidation or reorganization with or into the Company or in which securities of the Company are issued where:

(A) the stockholders of the Company, immediately before such merger, consolidation or reorganization, own directly or indirectly immediately following such merger, consolidation or reorganization, at least seventy percent (70%) of the combined voting power of the outstanding voting securities of the corporation resulting from such merger or consolidation or reorganization (the Surviving Company) in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization,

(B) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the Surviving Company, or a corporation beneficially directly or indirectly owning a majority of the Voting Securities of the Surviving Company, and

(C) no Person other than (i) the Company, (ii) any Subsidiary, (iii) any employee benefit plan (or any trust forming a part thereof) that, immediately prior to such merger, consolidation or reorganization, was maintained by the Company or a Subsidiary, or (iv) any Person who, immediately prior to such merger, consolidation or reorganization had Beneficial Ownership of thirty percent (30%) or more of the then outstanding Voting Securities or common stock of the Company, has Beneficial Ownership of thirty percent (30%) or more of the combined voting power of the Surviving Company then outstanding voting securities or its common stock;

(ii) A complete liquidation or dissolution of the Company; or

(iii) The sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a Subsidiary).

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the Subject Person) acquired Beneficial Ownership of more than the permitted amount of the then outstanding common stock or Voting Securities as a result of the acquisition of common stock or Voting Securities by the Company which, by reducing the number of shares of common stock or Voting Securities then outstanding, increases the proportional number of shares Beneficially Owned by the Subject Persons, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of common stock or Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional common stock or Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

Section 19. **Amendment or Termination**. The Board of Directors may amend or terminate the Plan at any time, provided that the Board of Directors shall not (except as provided in Sections 9, 10 and 12 hereof) make any change in the Options which will impair the rights of the Optionee therein, without the consent of the Optionee, and further provided that any amendment which would (i) materially increase the benefits accruing to participants under the Plan, (ii) materially increase the number of Common Shares which may be issued under the Plan, (iii) materially modify the requirements as to eligibility or participation in the Plan, or (iv) otherwise amend the Plan in such manner where shareholder approval is necessary to comply with any legal, tax or regulatory requirement, including any approval requirement which is a prerequisite for exemptive relief from Section 16(b) of the Securities Exchange Act of 1934, shall not be made without the approval of the shareholders of the Company.

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Section 20. **Other Actions**. This Plan shall not restrict the authority of the Committee, the Board of Directors or of the Company or its Subsidiaries for proper corporate purposes to grant or assume stock options, other than under the Plan, to or with respect to any Optionee or other person.

Section 21. **Costs and Expenses**. Except as provided in Section 6(d) hereof with respect to taxes, the costs and expenses of administering the Plan shall be borne by the Company, and shall not be charged to any grant nor to any Optionee receiving a grant.

Section 22. **Plan Unfunded**. The Plan shall be unfunded. Except for reserving a sufficient number of authorized shares to the extent required by law to meet the requirements of the Plan, the Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure payment of any grant under the Plan.

Section 23. **Laws Governing Plan**. This Plan shall be construed under and governed by the laws of the State of Ohio.

Section 24. **Captions**. The captions to the several sections hereof are not a part of this Plan, but are merely guides or labels to assist in locating and reading the several sections hereof.

Section 25. **Effective Date**. The Plan shall become effective on the date it is approved by the Board of Directors of the Company.

Section 26. **Definitions**. Unless the context clearly indicates otherwise, the following terms, when used in this Plan, shall have the meaning set forth below:

(a) The date of grant or grant date of an Option shall be the date on which an Option is granted under the Plan.

(b) The phrase Non-Employee Director means a member of the Board of Directors of the Company who is not an employee of the Company or any of its Subsidiaries.

(c) Option means the right granted under the Plan to an Optionee to purchase a Common Share of the Company at a fixed price for a specified period of time.

(d) Option price means the price at which a Common Share covered by an Option granted hereunder may be purchased.

(e) Subsidiaries means the subsidiaries of Wendy s International, Inc.

(f) With regard to any particular Employee, Disabled shall have the meaning set forth in the Company s long term disability program generally applicable to officers of the Company.

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Wendy s International, Inc. and Subsidiaries

Management s Review and Outlook

RESULTS OF OPERATIONS

2002 Overview

For Wendy s International, Inc. (the Company), 2002 was a year of continued growth. Despite facing a challenging economic and competitive environment, the Company delivered quality earnings and a solid overall performance, particularly in its main businesses of Wendy s and Tim Hortons. Systemwide sales, which includes sales of both franchise and company operated restaurants, increased 12.7% to a record $9.4 billion. Consolidated revenues, which include royalties, rents and other fees but do not include sales in franchise restaurants, increased 14.2% to a record $2.7 billion. In addition, the Company and its franchisees continued to develop new restaurants, concentrated in our core markets of Wendy s North America and Tim Hortons (Hortons) Canada. The following chart details the Company s revenues and systemwide sales by segment:

(In millions)	2002	2001	2000
Systemwide Sales			
Wendy s	**$ 7,535**	$ 6,837	$ 6,412
Tim Hortons	**1,679**	1,462	1,287
Baja Fresh[1]	**142**	0	0
Total	**$ 9,356**	$ 8,299	$ 7,699
Change From Prior Year	**12.7%**	7.8%	8.9%
Revenues			
Wendy s	**$ 2,010**	$ 1,819	$ 1,712
Tim Hortons	**651**	572	525
Baja Fresh[1]	**69**	0	0
Total	**$ 2,730**	$ 2,391	$ 2,237
Change From Prior Year	**14.2%**	6.9%	8.2%

(1) Baja Fresh was acquired by the Company on June 19, 2002. Information prior to that date is not included (see Note 9).

Average same-store sales increased at domestic Wendy s (6.6%), Canadian Wendy s (6.5% in Canadian dollars), Canadian Tim Hortons (7.2% in Canadian dollars), U.S. Tim Hortons (9.9%) and Baja Fresh (2.7%) including the period when Baja Fresh was not owned by the Company.

In 2002, the Company continued to focus on its long-term strategic plan that was established in 2001. Significant accomplishments in 2002 included:

In the second quarter of 2002, the Company completed its acquisition of Fresh Enterprises, Inc. (Baja Fresh), the owner and operator of the Baja Fresh Mexican Grill restaurant chain (see Note 9 to the Consolidated Financial Statements). The purchase price was $274 million (including purchase price adjustments) in exchange for 100% of the stock of Baja Fresh. Including reimbursement of Baja Fresh s investment expenditures in 2002 and third party fees, the Company paid a total of $287 million in cash in connection with the acquisition. The Company used the proceeds from the issuance of $225 million in senior notes and cash on hand to finance this transaction. This acquisition is consistent with the Company s strategy to invest in opportunities that have the potential to add to the Company s long-term earnings growth.

In the first quarter of 2002, the Company made an investment of $9 million for a 45% minority interest in Cafe Express, a fast-casual restaurant pioneer. In the fourth quarter of 2002, the Company made a $12 million investment in the Pasta Pomodoro restaurant business, for a minority interest of 25% (fully diluted). Both of these investments are also consistent with the Company s strategy to invest in opportunities that have the potential to add to the Company s long-term earnings growth (see Note 9 to the Consolidated Financial Statements for more information on these investments).

In the third quarter of 2002, the Company s Tim Hortons subsidiary sold its cup manufacturing business (Conference Cup) to Dopaco Canada, Inc. (Dopaco). The sale generated $20 million in cash and a one-time pretax gain of $3.2 million. This sale is consistent with the Company s strategy to divest of businesses that do not fit strategically to its long-term objectives.

As part of the Company s goal to proactively manage the balance sheet, during the second quarter of 2002, the Company called for redemption all of its outstanding $2.50 Term Convertible Securities, Series A (trust preferred securities), issued by Wendy s Financing I, a subsidiary of the Company. As a result of the call, 99.9% of the trust preferred securities were converted. As a result of the conversion, the Company s common shares outstanding increased by 7.6 million shares. In addition, during 2002, the Company repurchased 1.6 million common shares for $49.4 million. Since 1998, the Company has repurchased a total of 34.8 million shares for $827.2 million.

In 2002, the Company continued to open new restaurants systemwide including 321 Wendy s restaurants and 204 Hortons restaurants. Baja Fresh opened 40 restaurants since the acquisition by the Company and a total of 61 for the entire year.

The Company reported diluted earnings per share (EPS) of $1.89 in 2002, $1.65 in 2001 and $1.44 in 2000. Year 2000 earnings were reduced by $11.5 million after tax ($.09 earnings per share) for international charges (see Note 2 to the Consolidated Financial Statements and the International Charges discussion that follows).

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WENDY S

Retail Sales

Wendy s retail sales include sales from company operated Wendy s restaurants and sales of sandwich buns from Wendy s bun baking facilities to Wendy s franchisees. Franchise sales are not included in reported retail sales. Total Wendy s retail sales were $1.7 billion, $1.6 billion and $1.5 billion in 2002, 2001 and 2000, respectively. This was an increase of 11.0% in 2002 and 6.1% in 2001. Of these totals, domestic Wendy s retail sales were $1.6 billion, $1.4 billion and $1.3 billion in 2002, 2001 and 2000. This was an increase of 10.9% in 2002 and 7.1% in 2001.

Domestic Wendy s average same-store sales in company operated units increased 4.7% in 2002, 2.1% in 2001 and 3.1% in 2000. The average number of transactions in domestic company operated Wendy s increased 2.5% in 2002, were unchanged in 2001 and increased .2% in 2000. Domestic selling prices increased .8% during the year, while 2001 and 2000 increased 1.6% and 1.4%, respectively.

The following chart reflects average net sales per domestic Wendy s restaurant for the last three years. Total domestic Wendy s average restaurant sales increased 6.7%, 2.8% and 2.6% in 2002, 2001 and 2000, respectively.

	2002	2001	2000
Company	**$1,387,000**	$1,337,000	$1,314,000
Franchise	**$1,251,000**	$1,164,000	$1,130,000
Total domestic	**$1,280,000**	$1,199,000	$1,167,000

Canadian Wendy s retail sales were $121.8 million, $107.9 million and $99.8 million in 2002, 2001 and 2000, respectively. This was an increase of 12.9% in 2002 and 8.0% in 2001. Canadian Wendy s same-store sales for company operated restaurants, in local currency, increased 6.1% in 2002 following a 4.5% increase in 2001 and a 1.1% increase in 2000. At year-end, total Canadian company operated Wendy s restaurants open were 133, 127 and 114 for 2002, 2001 and 2000, respectively. Outside North America, the Company operates two stores.

Franchise Revenues

Wendy s franchise revenues primarily consist of royalty income from franchisees, rental income from properties leased to franchisees and franchise fees. Also included are gains from the sale of properties previously leased to franchisees and gains from franchising Wendy s company restaurants. Franchise fees include charges for various costs and expenses related to establishing a franchisee s business. Total Wendy s franchise revenues, net of reserves for uncollectible amounts, were $279.1 million, $259.0 million and $241.6 million for 2002, 2001 and 2000, respectively. Of these totals, domestic Wendy s represented 92% in 2002 and North America Wendy s represented 97%. Total Wendy s franchise

restaurants open at year-end were 4,933, 4,815, and 4,639 for 2002, 2001 and 2000, respectively.

Royalties, before reserves for uncollectible amounts, increased $22.4 million or 10.8% to $231.1 million in 2002, and $14.6 million or 7.5% to $208.7 million in 2001. This was primarily the result of an average of 146 more domestic Wendy s franchise restaurants being open in 2002 compared to an average of 167 more in 2001. In addition, average same-store sales at domestic franchise restaurants increased 7.1% and 2.6% in 2002 and 2001, respectively.

Pretax gains from franchising Wendy s company owned restaurants amounted to $710,000 in 2002 for 3 restaurants sold, compared with $5.0 million in 2001 for 19 restaurants and $1.9 million in 2000 for 14 restaurants. Additionally, pretax gains resulting from the sale of properties that were previously leased to franchisees by Wendy s were $2.1 million in 2002, $1.8 million in 2001 and $4.5 million in 2000.

Rental income from restaurants leased to franchisees increased $3.0 million to $41.8 million in 2002 compared with an increase of $2.3 million to $38.8 million in 2001. Total restaurants leased to franchisees were 502, 546 and 497 at year-end of 2002, 2001 and 2000, respectively. Franchise fees were $4.7 million in 2002, $5.3 million in 2001 and $6.0 million in 2000.

Reserves for uncollectible franchise revenues are provided and amounted to $596,000 in 2002 and $801,000 in 2000. There were no net additional reserves provided in 2001. Management reviews reserves on an ongoing basis and believes they are adequate for franchise-related receivables. In addition to franchise-related reserves, the Company has recorded additional reserves related to International issues. These reserves are recorded in Other Expense (see discussion below).

Canadian Wendy s same-store franchise sales increased, in local currency, 6.8% and 3.8% in 2002 and 2001, respectively. At year-end, total Canadian franchise

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Wendy s restaurants open were 221, 212 and 210 for 2002, 2001 and 2000, respectively. Outside Canada, 18 new franchise restaurants were opened, primarily in Latin America, and 56 franchise restaurants were closed during 2002 due to challenging conditions in certain markets.

Cost of Sales and Restaurant Operating Costs

Wendy s cost of sales includes food, paper and labor costs for company operated restaurants and the cost of goods sold to franchisees from Wendy s bun baking facilities. Total Wendy s company restaurant cost of sales increased 9.8% to $1.0 billion in 2002 and 7.7% to $944.1 million in 2001. Of this total, domestic Wendy s company restaurant cost of sales increased 9.7% to $927.5 million in 2002 and 8.7% to $845.8 million in 2001. Domestic Wendy s company restaurant cost of sales decreased to 59.6% of domestic Wendy s company restaurant retail sales in 2002, compared with 60.2% in 2001 and 59.3% in 2000. Domestic food costs, as a percent of domestic retail sales, were 29.0% in 2002, 29.7% in 2001 and 29.2% in 2000. Food costs in 2002, as a percent of retail sales, reflected a decrease in beef of 6.4%, and a selling price increase of .8%. Food costs in 2001, as a percent of retail sales, reflected a 13.4% increase in beef costs, which was partially offset by a 1.6% selling price increase.

Domestic Wendy s labor costs were 27.0% of domestic Wendy s company restaurant retail sales in 2002, compared with 27.0% in 2001 and 26.5% in 2000. Average wage rates increased 1.8% in 2002 and 3.4% in 2001. The Company continues to control labor costs by adherence to its labor guidelines and store-level productivity programs. Sales per labor hour increased to $32.09 in 2002 compared with $31.30 in 2001, reflecting a 1.7% increase in productivity following a .6% increase in 2001. Productivity measures the percent increase in sales per labor hour less the percent of price increase.

Wendy s company restaurant operating costs include costs necessary to manage and operate restaurants except cost of sales and depreciation. Total Wendy s company restaurant operating costs increased 10.1% to $428.1 million in 2002 and 7.0% to $388.9 million in 2001. Of this total, domestic Wendy s company restaurant operating costs increased 9.8% to $395.7 million in 2002 and 9.9% to $360.3 million in 2001. Domestic Wendy s company restaurant operating costs, as a percent of domestic Wendy s company restaurant retail sales, were 25.4% in 2002, 25.7% in 2001 and 25.0% in 2000. The percentage in 2002 reflects lower utility costs and the leverage benefit of higher average sales, partly offset by higher performance-based bonus expense. The percentage in 2001 reflects higher pension costs partly related to reduced pension costs in 2000, and increased utility costs. In addition, average sales increases in 2001 were not high enough to leverage restaurant costs, many of which are fixed or semi-fixed in nature.

Wendy s domestic company operating margin was 15.8% for 2002, compared with 14.9% in 2001 and 16.5% in 2000. The following chart details the margin:

	2002	2001	2000
	% of Sales	% of Sales	% of Sales
Retail sales	**100.0%**	100.0%	100.0%
Cost of sales	**59.5**	60.2	59.2
Company restaurant operating costs	**24.7**	24.9	24.3

Domestic company operating margin	**15.8%**	14.9%	16.5%

Canadian Wendy s company restaurant cost of sales increased 11.5% to $77.9 million in 2002 and 10.0% to $69.9 million in 2001. Canadian Wendy s cost of sales decreased to 63.9% of Canadian Wendy s retail sales in 2002, from 64.8% in 2001, reflecting higher average sales and reduced beef costs. In 2001, cost of sales increased to 64.8% from 63.6% reflecting higher commodity prices. Average crew wage rates for Canadian Wendy s increased 2.4% in 2002 versus 4.1% in 2001 and 2.3% in 2000. Canadian Wendy s company restaurant operating costs increased 14.1% to $30.4 million in 2002 and 4.3% to $26.6 million in 2001. The increase in 2002 reflects the growth of the business. Canadian Wendy s company restaurant operating costs, as a percent of Canadian Wendy s retail sales, were 25.0%, 24.7% and 25.6% for 2002, 2001 and 2000, respectively. Outside North America, the Company operates two stores.

Operating Costs

Wendy s operating costs include rent expense and other costs related to properties subleased to franchisees and costs related to operating and maintaining Wendy s bun baking facilities. Excluding the bun baking facilities, these costs amounted to $14.6 million in 2002, $13.3 million in 2001 and $12.8 million in 2000. The increase in 2002 reflects higher percentage rent due to higher average sales. There were 208 total restaurants leased by the Company and then subleased to franchisees in 2002 versus 227 in 2001 and 191 in 2000.

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Costs to operate and maintain Wendy s bun baking facilities were $2.9 million in 2002, $2.2 million in 2001 and $1.8 million in 2000. The increase in 2002 reflects the opening of a second Wendy s bun baking facility in the second half of 2001.

TIM HORTONS

Retail Sales

Retail sales include sales from company operated Hortons restaurants and sales of dry goods and supplies from Hortons Canadian distribution warehouses to franchisees. Retail sales also include sales to franchisees from Hortons coffee roasting facility. Total Hortons retail sales increased 7.2% to $391.8 million in 2002 and 8.3% to $365.5 million in 2001. Of this total, Canadian distribution warehouse sales increased 13.0% to $343.0 million in 2002 and 10.9% to $303.7 million in 2001. This reflected the increase in the number of Hortons Canadian franchised restaurants serviced and positive same-store sales growth, in local currency, of 7.2% in 2002 and 7.8% in 2001. Retail sales from company operated units decreased 21.0% to $48.8 million in 2002 and 3.2% to $61.7 million in 2001, reflecting the Company s continuing strategy to franchise company operated units in the United States. Of the 2,348 Hortons restaurants open systemwide at the end of 2002, only 71 were company operated.

Franchise Revenues

Included in franchise revenues are royalty income from franchisees, rental income from properties leased to franchisees and franchise fees. Franchise fees include charges for various costs and expenses related to establishing a franchisee s business, and include initial equipment packages for the Hortons franchises. Reserves for uncollectible franchise revenues are provided. Total Hortons franchise revenues, net of reserves for uncollectible amounts, increased 25.3% to $259.3 million in 2002 and 10.4% to $206.9 million in 2001.

Total Hortons royalties, before reserves for uncollectible amounts, increased 17.2% to $52.1 million in 2002 and 13.8% to $44.5 million in 2001. This primarily reflected the increase in the number of Canadian franchise restaurants open and the positive same-store sales growth in Canada, in local currency, of 7.2% and 7.8% in 2002 and 2001, respectively. Franchise fees were $47.1 million in 2002, $32.5 million in 2001 and $35.5 million in 2000. The increase in 2002 included an increase in the number of businesses sold to franchisees to 251 from 211. At the end of 2002, total restaurants franchised were 2,277 versus 2,066 in 2001 and 1,875 in 2000.

Rental income from restaurants leased to franchisees was $150.5 million in 2002 compared with $125.4 million in 2001 and $108.7 million in 2000, reflecting an additional number of restaurants being leased to Canadian franchisees and positive same-store sales growth (rent is generally charged as a percent of sales). At the end of 2002, 1,799 restaurants were leased to franchisees, versus 1,599 in 2001 and 1,435 in 2000.

Cost of Sales

Hortons cost of sales includes food, paper and labor costs for company operated restaurants and the cost of goods sold to franchisees from Hortons distribution warehouses and coffee roasting facility. The Hortons distribution warehouses distribute primarily dry goods such as flour, sugar and coffee to Hortons franchisees. The Hortons Canadian warehouse cost of sales increased 12.9% to $271.4 million in 2002 and 10.1% to $240.3 million in 2001, reflecting additional sales to franchisees due to the increased number of restaurants serviced and higher average sales per restaurant. Warehouse cost of sales, as a percent of warehouse sales, was 79.1% in both 2002 and 2001 and 79.7% in 2000. Cost of sales for company operated units amounted to $33.6 million, $44.4 million and $46.5 million in 2002, 2001 and 2000, respectively. The reduction in each year reflects the Company s continuing strategy to franchise company operated units in the United States.

Operating Costs

Hortons operating costs include rent expense related to properties subleased to franchisees and cost of equipment sold to Hortons franchisees as part of the initiation of the franchise business. Training and other costs necessary to ensure a successful Hortons franchise opening and costs to operate and maintain the distribution warehouses and coffee roasting facility are also included in operating costs.

Total Hortons operating costs increased 32.8% to $101.2 million in 2002 and 6.3% to $76.2 million in 2001. Canadian Hortons rent expense was $35.5 million in 2002, $32.5 million in 2001 and $29.1 million in 2000, reflecting the growth in the number of properties being leased and then subleased to Canadian franchisees, as well as higher percentage rent due to higher sales. There were 1,342 total restaurants leased by Canadian Hortons and then subleased to franchisees at year-end of 2002 versus 1,206 in 2001 and

1,076 in 2000. Cost of equipment and other franchise costs increased 58.0% to $36.9 million in 2002 and decreased 8.5% to $23.4 million in 2001. The increase in 2002 includes an increase of 40 in the number of franchises sold. Costs of operating and maintaining the distribution warehouses were $23.8 million in 2002, $17.8 million in 2001 and $15.0 million in 2000. The new Hortons U.S. coffee roasting facility incurred operating costs of $2.2 million in 2002.

BAJA FRESH

Retail Sales

Retail sales include sales from company operated Baja Fresh restaurants. Total Baja Fresh retail sales were $64.3 million for the period from June 19, 2002 through December 29, 2002. Same-store sales in Baja Fresh company operated units increased 2.9% for the entire year of 2002. At the end of 2002, there were 98 total company operated units.

Franchise Revenues

Included in franchise revenues are royalty income from franchisees and franchise fees. Total Baja Fresh franchise revenues, net of reserves for uncollectible amounts, were $4.4 million for the period from June 19, 2002 through December 29, 2002. Of this total, royalties were $3.3 million. Same-store sales at Baja Fresh franchise restaurants increased 2.5% for the entire year of 2002. At year-end, total franchise restaurants open were 112.

Cost of Sales and Restaurant Operating Costs

Total Baja Fresh company restaurant cost of sales totaled $42.0 million for the period from June 19, 2002 through December 29, 2002. Total Baja Fresh company restaurant operating costs totaled $15.7 million for the period June 19, 2002 through December 29, 2002.

CONSOLIDATED

General and Administrative Expenses

Company general and administrative expenses increased 11.7% in 2002 to $241.4 million compared to a 3.8% increase in 2001 to $216.1 million. As a percent of revenues, expenses decreased to 8.8% in 2002, down from 9.0% in 2001 and 9.3% in 2000. The dollar increase in 2002 primarily reflects incremental expenses for Baja Fresh and an overall increase in salaries and benefits, including performance-based bonus costs. The bonus increase reflects a reduced amount for 2001 when performance objectives were not achieved, versus an increase in 2002 when

performance objectives were exceeded. The increase in 2001 includes increases in salaries and benefits, insurance and consulting fees for technology and strategic initiatives.

Depreciation and Amortization Expenses

Depreciation and amortization expenses increased $20.8 million in 2002 to $139.1 million and $10.0 million to $118.3 million in 2001. The increase in both years reflects the Company s information technology initiatives and additional restaurant development.

International Charges

In 2000, the Company incurred a non-recurring pretax charge of $18.4 million ($.09 earnings per share) for the closure of 18 Wendy s company operated restaurants in Argentina (see Note 2 to the Consolidated Financial Statements).

Other Expense

Other expense includes expenses (income) that are not directly derived from the Company s primary businesses. This includes income from the Company s investments in joint ventures and other minority investments. Expenses include store closures, other asset write-offs, reserves for international and legal issues.

Other expense was $6.9 million, $1.7 million and $5.5 million in 2002, 2001 and 2000, respectively. The increase in 2002 included $3.4 million in equity losses related to the joint venture with IAWS Group/Cuisine de France (IAWS) and Cafe Express, and $3.3 million in international reserves, reflecting political and economic uncertainties in countries where the Company has franchise restaurants. The Company also had higher write-offs related to remodeling activity and costs related to properties that are no longer viable for development. This was partially offset by the $3.2 million pretax gain from the sale of the Tim Hortons cup manufacturing business. The decrease in 2001 reflects legal reserves and executive search costs in 2000, and reduced international reserves in 2001, partly offset by net currency transaction losses in 2001.

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Interest Expense

Interest expense was $41.5 million in 2002, $30.2 million in 2001 and $28.9 million in 2000. The increase in 2002 reflects the $200 million of 6.25% senior notes issued by the Company in the fourth quarter of 2001 and $225 million of 6.20% senior notes issued by the Company in the second quarter of 2002. This was partially offset by the conversion into common shares of $200 million in trust preferred securities in the second quarter of 2002.

Interest Income

Interest income was $6.0 million in 2002, $9.6 million in 2001 and $13.8 million in 2000. The decrease in interest income primarily reflects the repayment of franchise notes receivable and the sharply lower overall interest income rates available in the current interest rate environment. This was partly offset by a higher average cash balance in 2002.

Income Taxes

The effective income tax rate for 2002 was 36.75% compared with 37.0% for 2001 and 37.5% for 2000. In 2002, the .25% decrease in the tax rate was due to an increase in the work opportunity tax credits and reductions in statutory Canadian income tax rates. In 2001, the .50% decrease in the tax rate from 2000 was due to a combination of changes in the work opportunity tax credits, tax exempt interest income and non-deductible expenses.

Other Comprehensive Income

Comprehensive income was lower than net income by $12.1 million in 2002, $21.6 million in 2001 and $12.7 million in 2000. The change in 2002 includes $4.0 million in income related to favorable translation adjustments on the Canadian dollar and $16.2 million in expense related to a minimum pension liability adjustment for the Company s pension plan (see Note 12 to the Consolidated Financial Statements). For 2001 and 2000, the differences were primarily the result of changes in the Canadian exchange rate, which was unfavorable to the Company for each of these years (see Consolidated Statements of Comprehensive Income).

FINANCIAL POSITION

Overview

The Company continues to maintain a strong balance sheet to support system growth and financial flexibility. The long-term debt-to-equity ratio was 47% at year-end of 2002 and 44% at year-end 2001 reflecting the $200 million in senior notes issued in the fourth quarter of 2001 and $225 million in senior notes issued in the second quarter of 2002. Equity also increased from the conversion of $200 million in trust preferred securities in the second quarter of 2002. Standard & Poor s and Moody s rate the Company s senior unsecured debt BBB+ and Baa-1, respectively.

Total assets increased $583.3 million in 2002 to $2.7 billion. The increase included $303.6 million from the purchase of Baja Fresh, which was primarily funded by the net proceeds received from the issuance of $225 million 6.20% senior notes in 2002. The primary assets purchased were $35.0 million in net property, plant and equipment, $34.0 million of intangibles and $226.8 million in goodwill. In addition, net property and equipment increased $168.3 million unrelated to the purchase, primarily reflecting a greater number of Wendy s company operated restaurants. A total of $49.4 million of cash was used to repurchase 1.6 million common shares in 2002. Return on average assets was 9.2% in 2002 and 9.7% in 2001. Return on average assets is computed as net income divided by average assets.

Total shareholders equity increased $418.8 million in 2002. Equity increased as a result of the conversion of $200 million in trust preferred securities, earnings and option exercises, partially offset by the Company s purchase of treasury stock. Treasury stock was retired at the end of 2002, which reduced capital in excess of stated value and retained earnings , but did not change the total shareholders equity balance. Return on average equity was 17.0% in 2002 and 16.9% in 2001.

Cash Flow and Liquidity

Cash provided by operating activities was $444.3 million in 2002, compared with $305.2 million in 2001 and $302.2 million in 2000. The Company increased net income and depreciation, and in addition benefited from the increases in accrued and deferred taxes. The Company also received $197.1 million net proceeds from the issuance of 6.25% senior notes in 2001 and $223.0 million net proceeds from the issuance of 6.20% senior notes in 2002.

In all three years, cash provided by operating activities and other sources was used for capital expenditures, dividend payments and the repurchase of common and exchangeable stock, and in 2002, acquisitions and investments. The Company repurchased common and exchangeable stock for $49.4 million, $287.3 million and $93.4 million in 2002, 2001 and 2000, respectively. The repurchase of exchangeable shares in 2001 was largely funded by the

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$200 million in senior notes issued in the fourth quarter of 2001. In the fourth quarter of 2002, the Company s Board of Directors authorized an additional $200 million for share repurchase, which raised the total amount authorized to $247 million, of which $223 million remained as of December 29, 2002.

During 2002, capital expenditures amounted to $240 million for Wendy s, $77 million for Hortons and $14 million for Baja Fresh. New restaurant expenditures amounted to $173 million; $111 million was spent for improvements to existing restaurants; and $47 million was spent for other additions. In 2003, the Company plans to open 295-315 new Wendy s restaurants, 195-210 new Hortons restaurants, primarily franchised, and 70-80 new Baja Fresh restaurants. The Company expects 2003 capital expenditures to be in the range of $325 million to $365 million for new restaurant development, remodeling, maintenance and technology initiatives. In addition, the Company also plans to invest $50 million to $60 million on new business opportunities, and may expand its Hortons joint venture facility in Canada.

In 2001, the Company formed a joint venture between Hortons and IAWS to build a par-baked goods manufacturing facility in Canada. The facility became operational in 2002. The Company has committed to invest approximately $49.6 million in this joint venture, of which $35.7 million was paid through December 29, 2002.

Cash flow from operations, cash and investments on hand, possible asset sales, and cash available through existing revolving credit agreements and through the possible issuance of securities should provide for the Company s projected short-term and long-term cash requirements, including cash for capital expenditures, future acquisitions of restaurants from franchisees or other corporate purposes. As part of its strategic initiatives, the Company took a number of actions in 2001 to increase its financial flexibility to respond to potential opportunities and longer term cash requirements. The actions included the establishment of a commercial paper program, increasing available lines of credit from $167 million to $200 million and filing a $500 million shelf registration statement. The Company issued $200 million of 6.25% senior notes in 2001 and $225 million of 6.20% senior notes in 2002. On January 30, 2003, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission to issue up to $500 million of securities. Included in the $500 million are $75 million of securities that were carried forward from the Company s S-3 filing that was made in October 2001. None of these $75 million in securities had been issued or sold. In early 2003, the Company restructured its $200 million in revolving credit facilities in order to provide greater financial flexibility for the Company. The new facility is also for $200 million.

The Company is committed to a strong capital structure and financial profile, and intends to maintain an investment grade rating. If additional funds are needed for mergers, acquisitions or other strategic investments, the Company believes it could borrow additional cash and still maintain its investment grade rating. In the event the Company s rating declines, the Company may incur an increase in borrowing costs. If the decline in the rating is significant, it is possible that the Company would not be able to borrow on acceptable terms. Factors that could be significant to the determination of the Company s credit ratings include sales and cost trends, margins at Wendy s U.S. company restaurants, the Company s cash position, cash flow, capital expenditures and capitalization, and stability of earnings. The Company does not have any off-balance sheet or special-purpose entity financing arrangements.

Long term, the Company does not have significant term debt maturities until 2005 and after that, the next significant maturity is 2011. The Company believes it will be able to pay or refinance future term debt obligations based on its strong financial condition and sources of cash described in the preceding paragraph. The Company s debt agreements, as in effect on December 29, 2002, contain various covenants which, among other things, require the maintenance of certain financial ratios, including consolidated pretax interest coverage and consolidated funded indebtedness ratios. In addition, the debt agreements contain covenants that specify the maximum aggregate amount of liens the Company could impose on restaurant property and the maximum aggregate value of restaurant property as to which the Company could enter into sale-leaseback transactions. The Company was in compliance with these covenants as of December 29, 2002 and will continue to monitor these on a regular basis.

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The Company s contractual obligations and commitments as of December 29, 2002 were as follows (see Note 11 to the Consolidated Financial Statements):

Contractual Obligations (In thousands)	Less Than 1 Year	2-3 Years	4-5 Years	After 5 Years	Total
Long-term debt, including current maturities:					
Wendy s	$ 975	$ 104,239	$ 2,077	$ 520,505	$ 627,796
Baja Fresh	55	118	114		287
Total	$ 1,030	$ 104,357	$ 2,191	$ 520,505	$ 628,083
Capital leases:					
Wendy s	$ 3,494	$ 5,842	$ 3,700	$ 19,011	$ 32,047
Tim Hortons	5,146	10,421	12,011	40,900	68,478
Total	$ 8,640	$ 16,263	$ 15,711	$ 59,911	$ 100,525
Operating leases:					
Wendy s	$ 35,771	$ 60,752	$ 44,862	$ 91,775	$ 233,160
Tim Hortons	30,323	53,859	43,803	97,557	225,542
Baja Fresh	8,849	18,213	18,378	40,351	85,791
Total	$ 74,943	$ 132,824	$ 107,043	$ 229,683	$ 544,493
Total Contractual Obligations	$ 84,613	$ 253,444	$ 124,945	$ 810,099	$ 1,273,101

Other Commercial Commitments (in thousands)	Balance at December 29, 2002
Franchisee lease and loan guarantees:	
Wendy s	$112,892
Baja Fresh	3,431
Total	$116,323
Contingently liable rent on leases:	
Wendy s	$ 22,365
Letters of credit:	
Wendy s	$ 17,716
Tim Hortons	2,133

Total	$ 19,849
Total Other Commercial Commitments	$158,537

In recent years, the Company has generated a significant amount of interest income on investable cash balances, however, given the current interest rate environment, management expects interest income rates to remain relatively low in the near future. In addition, $19.8 million of franchise and other notes receivable were paid off in 2002. As a result, management expects lower interest income in 2003.

At December 29, 2002 and December 30, 2001, the Company s reserves established for doubtful royalty receivables were $1.4 million and $1.5 million, respectively. Reserves related to possible losses on notes receivable, real estate, guarantees, claims and contingencies involving franchisees totaled $6.3 million at December 29, 2002 and $7.6 million at December 30, 2001. These reserves are included in accounts receivable, notes receivable and other accrued expenses.

The Company has guaranteed certain leases and debt payments primarily related to franchisees, amounting to $116.3 million. In the event of default by a franchise owner, the Company generally retains the right to acquire possession of the related restaurants. The Company is contingently liable for certain leases amounting to $22.4 million. These leases were assigned to unrelated third parties, which have agreed to indemnify the Company against future liabilities arising under the leases. These leases expire on various dates through 2022. The Company is also the guarantor on $19.8 million in letters of credit with various parties, however, management does not expect any material loss to result from these instruments because it does not believe performance will be required.

In addition to the guarantees described above, the Company is party to many agreements executed in the ordinary course of business that provide for indemnification of third parties under specified circumstances, such as lessors of real property leased by the Company, distributors, service providers for various types of services (including commercial banking, investment banking, tax, actuarial and other services),

software licensors, marketing and advertising firms, securities underwriters and others. Generally, these agreements obligate the Company to indemnify the third parties only if certain events occur or claims are made, as these contingent events or claims are defined in each of these agreements. The Company is not aware of circumstances that would require it to perform its indemnification obligations under any of these agreements, and believes that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not materially affect the earnings or financial condition of the Company.

Inflation

Financial statements determined on a historical cost basis may not accurately reflect all the effects of changing prices on an enterprise. Several factors tend to reduce the impact of inflation for the Company. Inventories approximate current market prices, there is some ability to adjust prices, and liabilities are repaid with dollars of reduced purchasing power.

Market Risk

The Company s debt is primarily denominated in U.S. dollars, at fixed interest rates, which limits interest rate risk on financial instruments. While the Company has not historically utilized derivatives to alter interest rate risk the Company may consider such arrangements in the future. Currency exposure is predominately related to Canadian operations, since exposure outside of North America is limited to royalties. The Company has cash flow exposure from Tim Hortons and Wendy s operations in Canada. The Canadian currency has been reasonably stable over time, however, in recent years the Canadian dollar has weakened which reduces the U.S. benefit of Canadian operations. During 2002, the impact of currency adjustments on Canadian operating earnings reduced EPS $.01. While the Company does not currently hedge its exposure to Canadian currency fluctuations, the Company may enter into cash flow hedges related to Canada in the future. The Company has a policy preventing the use of derivatives for trading or speculative purposes. At the current level of annual operating income generated from Canada, if the Canadian currency rate changes one penny for the entire period, the annual impact on the Company s EPS would be approximately one-half cent per share. At current royalty levels outside of North America, if all foreign currencies moved 10% during each royalty collection period in the same direction, at the same time, the annual impact would be approximately one-half cent per share. Therefore, the Company does not hedge its exposure to currency fluctuations related to royalty collections outside North America, because it does not believe the risk is material.

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

Concentrations of Credit Risk

The Company has cash balances in various domestic bank accounts above the FDIC guarantee limits. The Company subscribes to a bank rating system, and only utilizes high-grade banks for accounts that might exceed these limits. At year-end 2002, the amount in domestic bank accounts above FDIC limits was approximately $14.5 million. The Company also has cash in various Canadian bank accounts above amounts guaranteed by the Canadian Deposit Insurance Corporation of Canada (CDIC). At year-end 2002, the amount in Canadian banks above CDIC limits was

approximately $49.3 million U.S. dollars equivalent. The Company also utilizes only high-grade banks in Canada for accounts that might exceed CDIC limits.

MANAGEMENT S OUTLOOK

The Company continues to employ its strategic initiatives as outlined in the Financial Statements and Other Information furnished with the Company s 2002 Proxy Statement. These initiatives include leveraging the Company s core assets, growing same-store sales, improving store-level productivity to enhance margins, improving underperforming operations, developing profitable new restaurants and implementing new technology initiatives. Management intends to allocate resources to improve long-term return on assets and invested capital, and monitor its progress by tracking various metrics, including return on average assets, return on average equity and return on invested capital, as well as

comparing to historical performance, the Company s peers and other leading companies.

The Company also intends to remain focused on established long-term operational strategies of exceeding customer expectations, fostering a performance-driven culture, delivering a balanced message of brand equity plus value in marketing, growing a healthy restaurant system and partnering finance with operations. The Company believes its success depends on providing everyday value, quality and variety, not discounting. Management believes in reinvesting in its restaurants to maintain a fresh image, providing convenience for its customers and increasing the overall efficiency of restaurant operations. The goal of these strategies is to increase average sales over time, primarily through greater customer traffic in the restaurants. The Company intends to effectively manage corporate and field-level costs to control overall general and administrative expense growth.

New restaurant development will continue to be very important to the Company. Wendy s, Hortons and Baja Fresh restaurant concepts are all underpenetrated in key markets. The Company intends to grow aggressively, but responsibly, focusing on the markets with the best potential for sales and return on investment. A total of 565 new restaurants were opened in 2002 which included Baja Fresh since the date of acquisition. The Company and its franchisees plan to open 560-605 new units in 2003. Over the next several years, the Company anticipates opening a substantial number of new Wendy s, Hortons and Baja Fresh restaurants. The primary focus will be on core operations of Wendy s in North America and Hortons in Canada, with the majority of units being traditional sites.

The Company is optimistic about the development of Hortons in the United States. The U.S. division produced its first profit in 2002. The Company s strategy for Hortons U.S. is to enhance brand awareness, increase same-store sales, build customer loyalty and attract additional franchisees. In 2003, the Company plans to develop between 25-35 new Hortons franchise units in the United States. Management believes that Hortons U.S. has the potential to become a long-term growth opportunity for the Company, but there is no assurance that this will occur.

The Company continued to focus on improving its global brand image and supporting its franchisees business plans and growth objectives. In 2001, the Company developed a 5-year plan for its International Wendy s division outside of North America that focused on disciplined growth in the Americas. The Company made progress on this plan in 2002 as the International division produced a profit for the second consecutive year. The Company s franchisees slowed growth outside North America in 2002 opening 18 new restaurants while closing 56. In 2003, the Company will continue cautious development. Most of Wendy s development outside of North America is with franchisees who can be affected by adverse economic and political conditions. Economic and competitive pressures remain very challenging in Latin America, Asia and certain other markets outside of North America.

The political and economic status of Venezuela and Mexico are being closely monitored by the Company. As of December 29, 2002, all Wendy s restaurants in Venezuela were closed due to political and economic turmoil in that country. The majority of the restaurants have reopened in 2003, however there is no assurance that they will remain open. Royalty collections will be limited, at least in the near future, in Venezuela. Since the same franchisee also operates in Mexico, it is possible that operations will be impacted there also. The Company does not maintain any company operated or owned restaurants in either Venezuela or Mexico, which limits any potential exposure.

Another element of the Company s strategic plan is the evaluation of potential mergers, acquisitions, joint venture investments, alliances, vertical integration opportunities and divestitures that could add to the Company s long-term earnings growth. As part of this initiative, in 2001, the Company formed a joint venture between Hortons and IAWS to build a par-baked goods manufacturing facility in Canada. In 2002, the Company made several investments. In the first quarter, the Company made a minority investment of $9 million in fast-casual restaurant pioneer Cafe Express. In the second quarter, the Company purchased 100% of the stock of Baja Fresh. In the fourth quarter, the Company made a $12 million minority investment in the Pasta Pomodoro restaurant business (see Note 9 to the Consolidated Financial Statements for more

information on these investments). Tim Hortons sold its cup manufacturing business in July 2002 after a strategic business review (see Note 10 to the Consolidated Financial Statements).

Revenue Recognition

Wendy s and Baja Fresh have significant company operated restaurants, while Hortons is predominately franchised. Revenue at company operated restaurants is

recognized as customers pay for products at the time of sale. Hortons operates warehouses in Canada to distribute coffee and other dry goods to an extensive franchise system. Revenues from these sales are recorded when the product is delivered to the franchisee.

Franchise revenues consist of royalties, rents and various franchise fees. Hortons controls most of their real estate and rents to franchisees as a normal business practice. Collections are normally made at the end of each period, with only minimal amounts exceeding a month. Wendy s also rents some real estate to franchisees, but this is a minor part of its business model, and the rents are normally collected at the end of each period.

Royalties are collected by Wendy s, Hortons and Baja Fresh, and normally all revenue is collected within a month after a period ends. Collections are monitored closely, and reserves are provided where appropriate to reduce royalties to collectable amounts in revenue recognition. Various franchise fees are also collected by each concept, which are generally paid in advance, with revenue recognition when the applicable restaurant opens. The timing of revenue recognition for both retail sales and franchise revenues does not involve contingencies and judgments other than providing adequate reserves against collections of franchise related revenues. Although the Company enjoys a good relationship with franchisees, and collection rates are very high, if average sales or the financial health of franchisees were to deteriorate, the Company might have to increase reserves against collection of franchise revenues.

The Application of Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make assumptions and estimates that can have a material impact on the results of operations of the Company. The earnings reporting process is covered by the Company s system of internal controls, and generally does not require significant management estimates and judgments. However, estimates and judgments are inherent in the calculations of royalty and other franchise-related revenue collections, legal obligations, pension and other post-retirement benefits, income taxes, insurance liabilities, various other commitments and contingencies and the estimation of the useful lives of fixed assets and other long-lived assets. While management applies its judgment based on assumptions believed to be reasonable under the circumstances, actual results could vary from these assumptions. It is possible that materially different amounts would be reported using different assumptions.

The Company is self-insured for most domestic workers compensation, health care claims, general liability and automotive liability losses. The Company records its insurance liabilities based on historical and industry trends, which are continually monitored, and accruals are adjusted when warranted by changing circumstances. Outside actuaries are used to assist in estimating casualty insurance obligations. Since there are many estimates and assumptions involved in recording insurance liabilities, differences between actual future events and prior estimates and assumptions could result in adjustments to these liabilities. Workers Compensation insurance can particularly involve significant time before the ultimate resolution of claims. Wendy s has an accrual of $26.5 million at year-end 2002 for domestic workers compensation liabilities, domestic general liability and domestic automotive liability. In Canada, workers compensation benefits are part of a government-sponsored plan (the Plan) and although the Company and its employees make contributions to the Plan, management is not involved in determining these amounts.

Pension and other retirement benefits, including all relevant assumptions required by generally accepted accounting principles, are evaluated each year with the oversight of the Company s retirement committee. Due to the technical nature of retirement accounting, outside actuaries are used to provide assistance in calculating the estimated future obligations. Since there are many estimates and assumptions involved in retirement benefits, differences between actual future events and prior estimates and assumptions could result in adjustments to pension expenses and obligations. If the Company were to change its discount rate by .25%, this would change annual pension costs by approximately $275,000. If the Company were to change its long-term return on assets rate by .25%, this would change annual pension costs by approximately $70,000.

In recognition of current economic circumstances, including lower investment returns, the Company has lowered its discount rate used to determine the present value of pension benefit obligations to 6.75% from 7.25% and the long-term return on assets rate for 2003 to 7.75% from 8.5%. These changes will increase pension costs approximately $.005 per share in 2003 (see Note 12 to the Consolidated Financial Statements).

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In the normal course of business, the Company must make continuing estimates of potential future legal obligations and liabilities, which requires the use of management s judgment on the outcome of various issues. Management may also use outside legal advice to assist in the estimating process. However, the ultimate outcome of various legal issues could be different than management estimates, and adjustments to income could be required.

The Company records income tax liabilities utilizing known obligations and estimates of potential obligations. A deferred tax asset or liability is recognized whenever there are future tax effects from existing temporary differences and operating loss and tax credit carryforwards. The Company records a valuation allowance to reduce deferred tax assets to the balance that is more likely than not to be realized. Management must make estimates and judgments on future taxable income, considering feasible tax planning strategies and taking into account existing facts and circumstances, to determine the proper valuation allowance. When the Company determines that deferred tax assets could be realized in greater or less amounts than recorded, the asset balance and income statement reflects the change in the period such determination is made. Due to changes in facts and circumstances and the estimates and judgments that are involved in determining the proper valuation allowance, differences between actual future events and prior estimates and judgments could result in adjustments to this valuation allowance. The Company uses an estimate of its annual effective tax rate at each interim period based on the facts and circumstances available at that time, while the actual effective tax rate is calculated at year-end. Based on 2002 results, a change of one-tenth of a percent in the annual effective tax rate would have the equivalent impact of a $550,000 pretax change over the course of a year.

Depreciation and amortization are recognized using the straight-line method in amounts adequate to amortize costs over the following estimated useful lives: buildings, up to 40 years; leasehold improvements, up to 25 years; restaurant equipment, up to 15 years; other equipment, up to 10 years; and property under capital leases, the primary lease term. The Company estimates useful lives on buildings and equipment based on historical data and industry trends. Long-lived assets are grouped into operating markets and tested for impairment whenever an event occurs that indicates that an impairment may exist. The Company tests for impairment using the cash flows of the operating markets. A significant deterioration in the cash flows of an operating market or other circumstances may trigger impairment testing. The Company capitalizes certain internally developed software costs which are amortized over a ten-year period. The Company monitors its capitalization and amortization policies to ensure they remain appropriate. The Company tests goodwill for impairment annually (or in interim periods if events or changes in circumstances indicate that its carrying amount may not be recoverable) by comparing the fair value of each reporting unit as measured by discounted cash flows, to the carrying value, to determine if there is an indication that a potential impairment may exist. In calculating discounted cash flows as of December 29, 2002, the Company used a discount rate of 6.2% and assumed a 3% increase in cash flows per year. The Company will review these assumptions each time goodwill is tested for impairment and will make the appropriate adjustments based on facts and circumstances available at that time. The Company tested for goodwill impairment as of year-end 2002 and no impairment was indicated.

When the Company acquired Baja Fresh in the second quarter of 2002, the purchase included $226.8 million of goodwill and $34.0 million of other intangibles. These other intangibles, primarily trademarks and trade names, will be amortized over approximately 20 years. Since the goodwill and intangibles are associated with the Baja Fresh business unit, the future fair value of the intangibles, and any potential impairment, depends on the future performance of Baja Fresh.

Recently Issued Accounting Standards

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets in the first quarter of 2002. In accordance with SFAS No. 142, the Company reclassified approximately $2.5 million of net intangibles into goodwill at year-end 2001 and the Company is no longer recording amortization on goodwill effective December 31, 2001. The Company has determined that its

goodwill is not impaired. Please refer to Note 3 to the Consolidated Financial Statements for more detailed disclosures concerning SFAS No. 142.

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, Accounting for Asset Retirement Obligations . This Statement addresses accounting and reporting standards for legal obligations associated with the retirement of tangible long-lived assets. The Company has evaluated the impact of this Statement on its financial statements and will adopt the provisions of

this Statement in the first quarter of 2003. Based on its evaluation to date the Company does not anticipate this Statement having a material impact on the results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . This Statement supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of and Accounting Principles Board (APB) Opinion Number 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions . This Statement addresses accounting and reporting standards for the impairment or disposal of long-lived assets. This Statement was adopted in the first quarter of 2002 and has not had a significant impact on the Company s financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB SFAS No. 4, 44 and 64, Amendment of SFAS No. 13, and Technical Corrections . This Statement rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt , and an amendment of that Statement, SFAS No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund requirements . This Statement also rescinds SFAS No. 44, Accounting for Intangible Assets of Motor Carriers . This Statement amends SFAS No. 13, Accounting for Leases , to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of SFAS No. 4 will be applied in fiscal years beginning after May 15, 2002. The Company is in the process of evaluating the impact of those provisions on its financial statements and will adopt such provisions in the first quarter of 2003. The remaining provisions of this Statement were adopted by the Company for transactions occurring after May 15, 2002 and have not resulted in a significant impact to the Company s financial statements.

In June, 2002 the FASB issued SFAS No. 146, Accounting for Exit or Disposal Activities . This Statement addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with the exit and disposal activities, including restructuring activities, that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force (EITF) has set forth in EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) . This Statement also addresses accounting and reporting standards for costs related to terminating a contract that is not a capital lease and termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement or an individual deferred-compensation contract. This Statement will be applied for exit or disposal activities that are initiated after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, Accounting of Stock-Based Compensation Transition and Disclosure an amendment of SFAS No. 123 . This Statement amends SFAS No. 123, Accounting for Stock- Based Compensation , to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Under the provisions of SFAS No. 148, companies that choose to adopt the accounting provisions of SFAS No. 123 will be permitted to select from three transition methods: Prospective method, Modified prospective method and Retroactive restatement method. The transition and annual disclosure provisions of SFAS No. 148 are effective for the fiscal years ending after December 15, 2002. The Company will continue to follow the disclosure requirements of SFAS No. 123, as amended by SFAS No. 148.

In November 2002, the FASB issued FIN No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others an interpretation of SFAS No. 5, 57, and 107 and rescission of FIN No. 34 . This Interpretation addresses the disclosures to be made by a guarantor in its interim and annual financial statements about obligations under guarantees. This Interpretation

clarifies that a guarantor is required to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in the issuing of the guarantee. FIN No. 45 does not prescribe a specific approach for subsequently

measuring the guarantor s recognized liability over the term of the related guarantee. This Interpretation also incorporates, without change, the guidance of FIN No. 34, Disclosure of Indirect Guarantees of Indebtedness of Others , which is being superseded. The recognition provisions of FIN No. 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim and annual periods after December 15, 2002. The Company is in the process of evaluating the impact of this Interpretation on its financial statements and will adopt the liability recognition provisions of this Interpretation in the first quarter of 2003. The disclosure requirements are included in the accompanying financial statements report.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities an interpretation of ARB No. 51 . This Interpretation clarifies the application of the majority voting interest requirement of ARB No. 51, Consolidated Financial Statements , to certain types of variable interest entities that do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The controlling financial interest may be achieved through arrangements that do not involve voting interests. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. It applies to the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that is acquired before February 1, 2003. The Interpretation applies to public enterprises as of the beginning of the applicable interim or annual period, and it applies to nonpublic enterprises as of the end of the applicable annual period. FIN No. 46 may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated.

The Company utilizes various advertising funds (Funds) to administer its advertising programs. These Funds collect money from franchise and company operated restaurants to be used for mutually beneficial marketing programs (see Note 13 to the Consolidated Financial Statements). The Company is in the process of evaluating the impact of this Interpretation on its financial statements, including the classification of these Funds under FIN No. 46. The Company will adopt the disclosure provisions of this Interpretation in the first quarter of 2003 and the remaining provisions in the third quarter of 2003. If it were determined that the consolidation of these Funds would be required under FIN No. 46, the Company does not expect this to have a material impact to consolidated net income.

Safe Harbor Statement

Certain information contained in the Financial Statements and Other Information section of the Proxy Statement, particularly information regarding future economic performance and finances, plans and objectives of management, is forward looking. In some cases, information regarding certain important factors that could cause actual results to differ materially from any such forward-looking statement appears together with such statement. In addition, the following factors, in addition to other possible factors not listed, could affect the Company s actual results and cause such results to differ materially from those expressed in forward-looking statements. These factors include: competition within the quick-service restaurant industry, which remains extremely intense, both domestically and internationally, with many competitors pursuing heavy price discounting; changes in economic conditions; changes in consumer perceptions of food safety; harsh weather, particularly in the first and fourth quarters; changes in consumer tastes; labor and benefit costs; legal claims; risk inherent to international development (including currency fluctuations); the continued ability of the Company and its franchisees to obtain suitable locations and financing for new restaurant development; governmental initiatives such as minimum wage rates, taxes and possible franchise legislation; the ability of the Company to successfully complete transactions designed to improve its return on investment; the ability of the Company to achieve projected economic and operating synergies from its strategy of mergers, acquisitions and other strategic transactions; or other factors set forth in Exhibit 99 to the Company s Form 10-K filed with the Securities and Exchange Commission and in the Financial Statements and Other Information section of the Proxy Statement for the 2003 Annual Meeting of Shareholders.

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SYSTEMWIDE RESTAURANTS

	Total Wendy s			Wendy s Company Operated			Wendy s Franchised		
	2002	2001	2000	**2002**	2001	2000	**2002**	2001	2000
r	**6,043**	5,792	5,527	**1,228**	1,153	1,112	**4,815**	4,639	4,415
	321	334	367	**100**	93	96	**221**	241	271
	(111)	(83)	(102)	**(7)**	(3)	(43)	**(104)**	(80)	(59)
	5	23	16	**2**	4	2	**3**	19	14
	(5)	(23)	(16)	**(3)**	(19)	(14)	**(2)**	(4)	(2)
	6,253	6,043	5,792	**1,320**	1,228	1,153	**4,933**	4,815	4,639

	Total Hortons			Hortons Canada			Hortons U.S.				
	2002	2001	2000	**2002**	2001	2000	**2002**	2001	2000		
r	**2,163**	1,980	1,817	**2,023**	1,860	1,709	**140**	120	108		
	204	201	185	**182**	181	173	**22**	20	12		
	(19)	(18)	(22)	**(17)**	(18	-	-	-		71,908	-

-	-	-	-	-	(234,475)	-	-
-	-	-	-	-	(107,491)	-	-
4,689,503	2,345	83,158,778	8,318	26,124,907	(30,497,901)	1,012,914	1,079,563
-	-	-	-	-	-	76,067	-
-	-	-	-	-	(234,475)	-	-
-	-	-	-	-	(59,047)	-	-
4,689,503	2,345	83,158,778	8,318	26,124,907	(30,791,423)	1,088,981	1,079,563

See accompanying notes to the consolidated financial statements.

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2016	For the year ended December 31, 2015	**For the year ended December 31, 2014**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss from continuing operations	$ (59,047)	$ (107,491)	$ (284,673)
Adjustments to reconcile net loss from operations to net cash used in operating activities			
Depreciation and amortization	-	-	373
Impairment loss on receivables	-	-	83,410
Write off of property and equipment	-	-	3,384
Changes in assets and liabilities			
Accrued liabilities	-	(14,024)	(168,720)
Net cash used in operating activities	(59,047)	(121,515)	(366,226)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	-	-	(882)
Net cash used in investing activities	-	-	(882)
NET DECREASE IN CASH	(59,047)	(121,515)	(367,108)
EXCHANGE RATE EFFECT ON CASH	(586)	(343)	8,985
CASH - BEGINNING OF PERIOD	$ 183,097	$ 304,955	$ 663,078
CASH - END OF PERIOD	**$ 123,464**	**$ 183,097**	**$ 304,955**

See accompanying notes to the consolidated financial statements.

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – Organization

China Networks International Holdings, Ltd. (“CNIH” or the “Company”) was incorporated in Delaware on August 16, 2006 as Alyst Acquisition Corp. (“Alyst”) in order to serve as a vehicle for the acquisition of an operating business in any industry, with a focus on the telecommunications industry, through a merger, capital stock exchange, asset acquisition or other similar business combination. Alyst’s initial shareholders purchased 1,750,000 shares of common stock, par value $0.0001 per share (“Common Stock”), in a private placement. On July 5, 2007, Alyst consummated its initial public offering (“IPO”) of 8,044,400 of its units (“Units”). Each Unit consisted of one share of Common Stock and one warrant to purchase one share of Common Stock at an exercise price of $5.00 per share. Simultaneously with the consummation of the IPO, Alyst consummated a private placement of 1,820,000 warrants, each warrant entitled upon exercise to one share of Common Stock at an exercise prices of $5.00 per share.

On June 24, 2009, Alyst announced that Alyst's stockholders approved its proposed redomestication to the British Virgin Islands (“BVI”) and its proposed business combination with China Networks Media, Ltd., a British Virgin Islands company (“China Networks”). Alyst redomesticated to the British Virgin Islands through a merger with its wholly-owned subsidiary, CNIH, effective June 24, 2009, with CNIH as the surviving entity. With effect from June 26, 2009, the business combination among Alyst, CNIH, China Networks and its shareholders, was approved by regulators in the BVI and, thereafter, was consummated on June 29, 2009.

Upon consummation of the Business Combination, CNIH had outstanding 12,927,888 ordinary shares, par value $0.0001 per share, 9,864,400 warrants, and an IPO Underwriters’ Purchase Option for 300,000 units, each unit containing one ordinary share and one warrant. As the result of consummation of the business combination, China Networks’ common and preferred shares were converted automatically into 9,422,760 CNIH common shares; therefore China Networks shareholders own approximately 73% of voting equity interests of CNIH. The business combination is considered a reverse acquisition with China Networks as the accounting acquirer. As such, the historical financial information presented herein prior to June 29, 2009 relates to the financial position and results of operations of China Networks. Through the business combination, China Networks acquired from Alyst net assets with a fair value of $1,566,492, in which $1,449,122 are in cash.

China Networks was formed to provide broadcast television advertising services in the People’s Republic of China (PRC) operating via joint venture partnerships with PRC state-owned television broadcasters (PRC TV Stations). The Company commenced operations on October 1, 2008. Activity through September 30, 2008 related to the Company’s formation, private placement offering, establishment of joint ventures and contractual relationships in the PRC, and

business combination with Alyst. The Company has selected December 31 as its fiscal year end.

The Company does not directly or indirectly have an equity interest in Beijing Guangwang Hetong Advertising & Media Co., Ltd., (Hetong), however Advertising Networks Ltd., (ANT), a limited liability company incorporated in Hong Kong on November 21, 2007, is a wholly owned subsidiary of China Networks, has entered into a series of contractual arrangements with Hetong and its shareholders. As a result of the following contractual arrangements, the Company controls and is considered the primary beneficiary of Hetong. These arrangements include the following:

The stockholders of Hetong have jointly granted ANT an exclusive and irrevocable option to purchase all or part of their equity interests in Hetong at any time, and this option may only be terminated by mutual consent or at the direction of ANT.

Without ANT's consent, the stockholders of Hetong may not (i) transfer or pledge their equity interests in Hetong, (ii) receive any dividends, loan interest or other benefits from Hetong, or (iii) make any material adjustment or change to Hetong's business or operations.

The stockholders of Hetong agreed to (i) accept the policies and guidelines furnished by ANT with respect to the hiring and dismissal of employees, or the operational management and financial system of Hetong, and (ii) appoint the candidates recommended by ANT as directors of Hetong.

Each stockholder of Hetong has appointed ANT's designee as their attorneys-in-fact to exercise all its voting rights as stockholders of Hetong, until 2037.

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION (Cont'd)

Each stockholder of Hetong has pledged all of its respective equity interests in Hetong to Guangwang Tonghe Technology Consulting (Beijing) Co. Ltd., (WFOE), a wholly-owned subsidiary of ANT in the PRC, to secure the payment obligations of Hetong under certain contractual arrangements between Hetong and WFOE. This pledge is effective until the later of the (i) date on which the last surviving of the Exclusive Service Agreements, the Loan Agreement and the Equity Option Agreement terminates and (ii) date on which all outstanding secured obligations are paid in full or otherwise satisfied. Each of these agreements are subject to customary termination provisions; however, the WFOE may terminate the Exclusive Services Agreement at any time upon 30 days' notice to Hetong.

The accompanying financial statements include the accounts of CNIH, China Networks, its wholly owned subsidiary Advertising Networks Ltd. ("ANT") and Guangwang Tonghe Technology Consulting (Beijing) Co., Ltd ("WFOE"). ANT's accounts include the accounts of its joint-ventures with the PRC TV Station, Shanxi Yellow River and Advertising Networks Cartoon Technology Co., Ltd ("Taiyuan JV"), as a result of ANT's effective control of these entities through the composition of the board of directors. As a result of contractual arrangements with Beijing Guangwang Hetong Advertising and Media Co., Ltd. ("Hetong") and its shareholders, the Company (through ANT) controls and is considered the primary beneficiary of Hetong, and, accordingly, consolidates the accounts of Hetong in its financial statements.

Hetong is a variable interest entity (VIE) as defined by under FASB ASC 810.

Below is the condensed consolidated financial information of Hetong. All significant intercompany accounts, transactions and cash flows are eliminated on consolidation.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION (Cont'd)

BEIJING GUANGWANG HETONG ADVERTISING AND MEDIA CO., LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2016	December 31, 2015
ASSETS		
Total Current Assets	$ 3,954,810	$ 4,225,226
Total Assets	$ 3,954,810	$ 4,225,226
LIABILITIES AND STOCKHOLDERS' EQUITY		
Total Current Liabilities	$ 2,288,792	$ 2,445,076
Total Liabilities	2,288,792	2,445,076
Total Equity	1,666,018	1,780,150
Total Liabilities and Stockholders' Equity	$ 3,954,810	$ 4,225,226

CONDENSED CONSOLIDATED statementS of operations

	For the year ended December 31, 2016	For the year ended December 31, 2015
OPERATING EXPENSES		
General and administrative expense	$ 362	$ 26,585
	362	26,585
LOSS FROM OPERATIONS	(362)	(26,585)
OTHER INCOME/(EXPENSE)		
Interest income	4	41

	(358)	(26,544)
INCOME TAX	-	-
NET LOSS	$ (358)	$ (26,544)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31, 2016	For the year ended December 31, 2015
Net cash generated from/(used in) operating activities	$ (313)	$ 151,836
Effect of foreign exchange rate changes	(4,341)	(184,847)
CASH - BEGINNING OF PERIOD	66,700	99,711
CASH - END OF PERIOD	$ 62,046	$ 66,700

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION (Cont'd)

Establishment of Joint Ventures between ANT and the PRC TV Stations

Establishment of Joint Ventures. In 2008, China Networks established certain equity joint ventures with the state owned PRC TV Stations through its Hong Kong wholly-owned subsidiary, ANT. ANT established the equity joint venture Taiyuan JV with China Yellow River TV Station ("YR TV Station") in Shanxi Province in June 2008; and established an equity joint venture Kunming JV with Kunming TV Station in Yunnan Province in July 2008 (Taiyuan JV and Kunming JV are collectively referred to as the "JV Tech Cos", and YR TV Station and Kunming TV Station are collectively referred to as the "PRC TV Stations"). ANT holds 50% equity interest in the Kunming JV and Taiyuan JV, respectively, and Kunming TV Station and YR TV Station own the remaining 50% of the respective JV Tech Cos. Under the terms of the Kunming JV agreement, Kunming TV Station will contribute certain assets and contractual rights (see Exclusive cooperation agreement below) with a fair value of RMB150 million (approximately $21,900,000) and ANT will contribute an equal amount in cash. Kunming TV Station and ANT have contributed 100% and 50%, respectively, of their obligations under this agreement at both December 31, 2009 and December 31, 2008. ANT is required to contribute the outstanding amount in twelve months after the establishment of Kunming JV. ANT has entered into a supplemental agreement with Kunming TV Station to extend the payment schedule of the outstanding cash contribution until April 30, 2010. ANT has contributed 100% of its obligation under this supplemental agreement before April 30, 2010. Under the terms of the Taiyuan JV agreement, YR TV Station will contribute certain assets and contractual rights (see Exclusive cooperation agreement below) with a fair value of RMB45 million (approximately $6,600,000) and ANT will contribute an equal amount in cash. YR TV Station and ANT have contributed 100% before December 31, 2009. The Company subsequently disposed its interest in Kunming JV to Kunming TV station on December 14, 2010 (see paragraph "Disposal of Kunming JV and Kunming Ad Co." below).

Exclusive Cooperation Agreement. Pursuant to the Exclusive Cooperation Agreement between the JV Tech Cos and the PRC TV Stations, the PRC TV Stations have exclusively and irrevocably granted to the JV Tech Cos the right to carry out advertising operations on its channels, and to provide to the JV Tech Cos all necessary and relevant support, as well as most-favored terms for the conduct of the advertising business. The PRC TV Stations share their resources with the JV Tech Cos, including, but not limited to, all client information (e.g. databases). Under the terms of this agreement, the PRC TV Stations will not engage any other party in any similar agreements. As such, the JV Tech Co's has the exclusive right to carry out advertising business on PRC TV Stations' channels.

Kunming JV and Kunming TV Station entered into such Exclusive Cooperation Agreement on August 6, 2008, while Taiyuan JV and YR TV Station entered such Exclusive Cooperation agreement on July 17, 2008.

Establishment of Trustee Company. In August 2008, Hetong, the trustee company, established two domestic advertising companies with Kunming TV Station and YR TV Station, under the respective name of Kunming Taishi Advertising Co., Ltd. ("Kunming Ad Co.") and Taiyuan Guangwang Hetong Advertising Co., Ltd. ("Taiyuan Ad Co.") (Kunming Ad Co. and Taiyuan Ad Co. are collectively referred to as the "JV Ad Cos"). Hetong is 100% owned by two PRC nationals, who are the trustees.

In order to comply with current PRC laws limiting foreign ownership in the television advertising industry, China Networks' operations are conducted through direct ownership of ANT and through contractual arrangements with Hetong. China Networks does not have an equity interest in Hetong, but instead derives indirect economic benefits from Hetong through a series of contractual arrangements. Through these arrangements, ANT controls Hetong, which in turn owns 50% of Kunming Ad Cos, and 50% of Taiyuan Ad Co. established with PRC TV Stations. The JV Tech Cos collect the television advertising revenue earned by the JV Ad Cos pursuant to an Exclusive Services Agreement, using assets transferred from PRC TV Stations to the JV Tech Cos pursuant to an Asset Transfer Agreement.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION (Cont'd)

Establishment of Joint Ventures between ANT and the PRC TV Stations (Cont'd)

Asset Transfer Agreements. Kunming TV Station and Kunming JV entered into an Asset Transfer Agreement on August 11, 2008, under which Kunming TV Station will transfer certain of its assets and contractual rights to Kunming JV, valued at RMB150 million, and Kunming JV will pay the same to Kunming TV Station. YR TV Station and Shanxi Yellow River and Advertising Networks Cartoon Technology Co., Ltd. ("Taiyuan JV") also entered into such Asset Transfer Agreement on July 17, 2008, under which YR TV Station will transfer certain of its asset and contractual rights, valued at RMB45 million, to Taiyuan JV, and the same consideration will be paid by Taiyuan JV. All governmental, statutory and other approvals required for the transfer of these assets were obtained as of the date of the first transfer in August 2008. Taiyuan JV paid YR TV Station RMB45 million (approximately $6.6 million) under this agreement before December 31, 2009. Kunming JV paid RMB85 million (approximately $12.4 million) to Kunming TV Station before December 31, 2009 and the remaining RMB 65 million (approximately $9.7 million) within 2010 under the Kunming Asset Transfer Agreement.

Exclusive Services Agreement. Pursuant to the Exclusive Services Agreement between the JV Tech Cos and the JV Ad Cos, the JV Tech Cos will be the sole and exclusive provider of services to JV Ad Cos relating to technical support for the production of advertising and advertising consulting. In addition, the JV Ad Cos will be the sole and exclusive advertising agent to the JV Tech Cos and will grant to the JV Ad Cos agency rights for all advertising under the exclusive right to carry out advertising operations, granted by the corresponding PRC TV Stations to the JV Tech Cos in accordance with the Exclusive Cooperation Agreement. Under the terms of the Exclusive Services Agreement, the JV Ad Cos will pay the service fee to the JV Tech Cos as accrued, in accordance with the JV Tech Cos' regular invoices. As such, all of the JV Ad Cos' pre-tax revenue (less the relevant business tax) generated during the term of this agreement and relating to the marketing of advertising and other operations will be transferred to the JV Tech Cos as the service fee.

Kunming JV and Kunming Ad Co. entered into an Exclusive Services Agreement on August 6, 2008, while Taiyuan JV and Taiyuan Ad Co. entered into an Exclusive Services Agreement on July 17, 2008.

ASC 810 “Consolidation” addresses financial reporting for entities over which control is achieved through a means other than voting rights. In accordance with the requirements of ASC 810, China Networks has evaluated its relationships with the JV Ad Cos. The JV Ad Cos are considered variable interest entities (‘‘VIEs’’) as defined by ASC 810. Through contractual arrangements with JV Ad Cos through Hetong, China Networks is considered the primary beneficiary of the JV Ad Cos as China Networks absorbs a majority of the risk and rewards of those entities. As such, China Networks consolidates the financial statements of the JV Ad Cos pursuant to ASC 810 as of the date their formation as described above.

Disposal of Kunming JV and Kunming Ad Co. Due to the Company's strategic plan on the restructuring and integration of Kunming assets, on September 1, 2010, CNIH entered into two agreements with its joint venture partner, Kunming TV Station, on the sale of the Company's assets in Kunming JV and Kunming Ad Co., which are located in Yunnan Province in the PRC, with a total consideration of $22.6 million (RMB150 million) and $0.1 million (RMB 0.7 million), respectively. On December 14, 2010, Kunming JV and Kunming Ad Co. were sold back to the Kunming TV Station. The disposition was completed on December 15, 2010. $19.9 million of the proceeds was received for the year end December 31, 2011; $1.6 million was received subsequent to December 2011. All remaining was received by the end of December 2013. The proceeds of the sale of the Company's Kunming assets have been used to deliver an early repayment to holders of the Company's $11 million senior secured convertible debentures.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION (Cont'd)

Establishment of Joint Ventures between ANT and the PRC TV Stations (Cont'd)

Termination of Business Contract with YR TV Station. Due to the TV broadcasting internal restructuring of Shanxi Province in the PRC, YR TV station had merged with Shanxi Broadcasting Group since January 2011, YR TV Station has since then unilaterally terminated the Taiyuan JV agreement with ANT (see paragraph "Establishment of Joint Ventures" and "Exclusive Services Agreement" above). The Company had filed an arbitration to China International Economic and Trade Arbitration Commission ("CIETAC") to claim YR TV Station the amount of approximately RMB54 million (approximately $8,571,000) on October 9, 2011. The claim was amended in April 2012 to raise the damage sought to RMB 81,417,196 (approximately $12,900,000).

After the conclusion of several hearings, CIETAC repeatedly postponed the date on which to issue an arbitral award. For strategic reasons, ANT submitted an arbitration withdrawal application to CIETAC on February 17, 2013 and received a Withdrawal Decision on March 18, 2013. The Company is working on other channels to recover the above amount and up to the date of report is still in progress. There's no initial agreement been signed with YR TV Station.

In connection with the termination of the cooperation agreement and the transfer of the advertising business, Shanxi TV has also taken, as its own, the RMB 45,000,000 of registered capital contributed by the Company to the Yellow River JV. While the Company acknowledges the right of the PRC government to change policies and rules with respect to agreements with state-owned entities, such as Shanxi TV, however the Company believes that the return of the RMB 45,000,000 contributed to the Yellow River JV by the Company must be returned to the Company. The Company has attempted, in good faith, to negotiate a settlement with respect to the funds, however, to date Shanxi TV has refused to return the funds to the Company or enter into any settlement agreement.

Accordingly, all the assets and liabilities as affected by the arbitration were grouped together under heading "Receivables from YR TV Station" in note 4 and "Payables to YR TV Station" in note 7.

Going Concern. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business. However, the Company did not generate any revenue during the three-year period ended December 31, 2016 and had net cash used in operating activities for each of those years, which have had a significant adverse impact on its business and continue to negatively impact its projected future liquidity. The Company's ability to continue as a going concern is dependent on many factors, including, among other things, the outcome of the YR TV Station litigation as described above, and sourcing new stream of revenue and operations. The Company also plans to settle the accrued dividend by issuance of pay-in-kind shares to preferred shareholders. The Company expects that it will need to raise substantial additional capital to accomplish its business plan over the next several years. In addition, the Company may wish to selectively pursue possible acquisitions of businesses complementary to those of the Company in the future in order to expand its presence in the marketplace and achieve operating efficiencies. The Company expects to seek to obtain additional funding through a bank credit facility or private equity. There can be no assurance as to the availability or terms upon which such financing and capital might be available. If the Company is successful in enforcing the arbitral awards and receiving all of the RMB 90 million (approximately $13,859,800) from Shanxi TV, a portion of the funds will be used to redeem all or a portion of the Class A Preferred Shares that remain outstanding at such time.

note 2 – Basis of Presentation and Summary of Significant Accounting Policies

Basis of presentation – The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP").

Principles of consolidation – The consolidated financial statements include the financial statements of the Company and its majority-owned subsidiaries. All significant inter-company balances and transactions have been eliminated upon consolidation.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

note 2 – Basis of Presentation and Summary of Significant Accounting Policies (CONT’D)

Valuation of long-lived assets– The Company follows Accounting Standards Codification (“ASC”) 360, “Property, Plant and Equipment”. The Company periodically evaluates the carrying value of long-lived assets to be held and used, including intangible assets subject to amortization, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

Please read Note 4 – “Receivables and Other Assets from YR TV Station under Arbitration for a discussion of impairment charges the Company recognized in 2011 related to our investment in YR JV and YR Ad Co.

Fair Value of Financial Instruments **-** Accounting standards require the categorization of financial assets and liabilities, based on the inputs to the valuation technique, into a three-level fair value hierarchy. The various levels of the fair value hierarchy are described as follows:

Level 1 — Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that we have the ability to access.

Level 2 — Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability.

Level 3 — Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Accounting standards require the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

For certain financial instruments, including cash, dividend payable, accrued liabilities, due to related parties and payable to TV station, it was assumed that the carrying amounts approximate fair value because of the near term maturities of such obligations.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, cash accounts, interest bearing savings accounts and time certificates of deposit with a maturity of three months or less when purchased.

Accounts receivable – Accounts receivable are stated at the amount management expects to collect from balances outstanding at the period end. Allowances for doubtful accounts receivable balances are recorded when circumstances indicate that collection is doubtful for particular accounts receivable or as a general reserve for all accounts receivable. Management estimates such allowances based on historical evidence such as amounts that are subject to risk and customer credit worthiness. Accounts receivable are written off if reasonable collection efforts are not successful.

Management periodically reviews the outstanding account balances for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Comprehensive income (loss) – The Company follows the Statement of Financial Accounting Standard (“SFAS”) No. 130, Reporting Comprehensive Income. Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. For the Company, comprehensive income (loss) for the periods presented includes net income (loss) and foreign currency translation adjustments.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

note 2 – Basis of Presentation and Summary of Significant Accounting Policies (CONT'D)

Income taxes – Alyst was subject to US federal, New York State and New York City taxes prior to the redomestication to the BVI through a merger with CNIH. China Networks was originally incorporated in the Cayman Islands and subsequently reincorporated in the BVI. China Networks is not subject to income taxes under the current laws of the Cayman Islands or BVI. PRC entities are subject to the PRC Enterprise Income tax at the applicable rates on taxable income at the commencement of operations.

Income taxes are provided on an asset and liability approach for financial accounting and reporting of income taxes. Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purpose and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred income tax liabilities or assets are recorded to reflect the tax consequences in future differences between the tax basis of assets and liabilities and the financial reporting amounts at each year end. A valuation allowance is recognized if it is more likely than not that some portion, or all, of a deferred tax asset will not be realized.

Foreign Currency – The functional currency of each foreign operation is the local currency. The consolidated financial statements of the Company are presented in United States Dollars ("US$"). Transactions in foreign currencies during the year are translated into US$ at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies on the balance sheet date are translated into US$ at the exchange rates prevailing on that date. Gains and losses on foreign currency transactions (if any) are included in the statement of operations.

The JV Tech Cos and JV Ad Cos translate their assets and liabilities into US$ at the current exchange rate at the end of the reporting period. Revenues and expenses are translated into US$ using the average exchange rate during the period. Gains and losses that result from the translation are included in other comprehensive income/loss.

Earnings per Common Share – The Company follows ASC 260, *Earnings per Share*, resulting in the presentation of basic and diluted earnings per share. Diluted earnings per common share assume that outstanding common shares were increased by shares convertible from preferred stock. Since the Company's common stock equivalents are not dilutive for the year ended December 31, 2016 and 2015, the basic and diluted earnings per share for those periods are the same.

Use of estimates – The preparation of the Company's financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to valuation of program rights and intangible assets, preferred stock valuation, discount on promissory notes, allowance for uncollectible accounts receivable, depreciation, useful lives of property, taxes, and contingencies. These estimates may be adjusted as more current information becomes available and any adjustment could be significant. Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary.

Non-controlling interest in consolidated financial statements – ASC 810 establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The Company adopted this guidance on January 1, 2009. Please read note 3 – Noncontrolling Interests for further discussion.

Recently Issued Accounting Pronouncements

There is no recently issued accounting pronouncements adopted by the Company. Management does not believe that any recently issued, but not effective, accounting standards, if currently adopted, would have a material effect on the accompanying financial statements.

The Company accounts for and discloses events that occur after the balance sheet but before financial statements are issued or are available to be issued through December 31, 2016.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – NON-CONTROLLING INTERESTS

The Company accounts for non-controlling interests in accordance with FASB ASC 810, Consolidation, which requires: (i) ownership interests in subsidiaries held by parties other than the parent to be clearly identified, labeled, and presented in the consolidated statements of financial position within equity, but separate from the parent's equity; (ii) the amount of consolidated net income (loss) attributable to the parent and to the non-controlling interest to be clearly identified and presented on the face of the consolidated statements of operations; (iii) changes in a parent's ownership interests that do not result in deconsolidation to be accounted for as equity transactions; and (iv) that a parent recognize a gain or loss in net income upon deconsolidation of a subsidiary, with any retained non-controlling equity investment in the former subsidiary initially measured at fair value.

The non-controlling interest for the Company as at December 31, 2016 represented YR TV Station's share in Taiyuan Ad Co. and Taiyuan JV. Subject to the matters as discussed in note 1 above, there is no operation and losses incurred after the termination of the agreement, hence, there is no non-controlling interest allocated to the non-controlling shareholder. The non-controlling interest is $1,079,563 as of December 31, 2016 and 2015.

NOTE 4 –RECEIVABLES AND OTHER ASSETS FROM YR TV STATION UNDER ARBITRATION

	December 31, 2016	December 31, 2015
China YR TV Station- Loan	$ 751,377	$ 751,377
China YR TV Station- Advertising income	3,089,450	3,089,450
China YR TV Station- Others	184,457	184,457
Impairment	(4,025,284)	(4,025,284)
	$ -	$ -

As discussed in Note 1 Organization "Termination of Business Contract with YR TV Station", the Company was forced to terminate cooperation with its joint venture partner, YR TV Station due to the PRC's internal restructuring for TV broadcasting business in Shanxi Province, YR TV Station had merged with Shanxi Broadcasting Group. Beginning from December 31, 2011, the carrying value of the assets that are under arbitration is separately presented in the Balance Sheet in the caption "Receivables from YR TV Station under arbitration" and these assets are no longer

depreciated.

In April 2012, the Company formally filed arbitration against China YR TV Stations to the CIETAC. CIETAC is the major permanent arbitration institutions in China and responsible for independently and impartially resolves economic and trade disputes by means of arbitration. In this action the Company allege breach of contract by YR TV Station, seeking recovery of capital investment cost plus interest and others totaled RMB54 million (approximately $8,571,000). After the conclusion of several hearings, CIETAC repeatedly postponed the date on which to issue an arbitral award. For strategic reasons, ANT submitted an arbitration withdrawal application to CIETAC on February 17, 2013 and received a Withdrawal Decision on March 18, 2013. On December 12, 2013, ANT filed two arbitration claims against Shanxi TV with the CIETAC to recover more than RMB90 million (approximately $14,867,000) damages.

In this instance, management has assessed the matters based on current information and made judgments concerning their potential outcome, giving consideration to the nature of the claim, the amount, and the probability of success. Management believes it will receive a positive award in the dispute. However, in view of the significant uncertainty on the outcome of the actions, the management recorded an impairment loss of $680,000 in the year 2011 and a further impairment of $3,345,284 in year 2012, which the carrying value was fully impaired.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On March 15, 2016, CIETAC issued two final arbitral awards with the amount of 90 million in total. Among others, the arbitral tribunal found that because Shanxi TV unilaterally terminated the cooperation agreement, it must pay RMB 45 million (approximately $6,929,900) for damages as claimed by Yellow River JV. In addition, Shanxi TV's termination of the cooperation agreement essentially resulted in its material breach of the asset transfer agreement with Yellow River JV and as a result, Shanxi TV is responsible to return RMB 45 million (approximately $6,929,900) to Yellow River JV that it paid to Shanxi TV. CIETAC further approved of a RMB 0.8 million (approximately $123,200) attorney fee and a RMB115,084.30 (approximately $17,700) arbitration fee against Shanxi TV. The payment of the above fees should be made by Shanxi TV within 30 days after the issuance of the arbitral awards. As of the date of this report, Shanxi TV has not made the payment, and enforcement actions were filed with a local Shanxi court in May 2016. Shanxi TV subsequently applied to the court to withdraw the arbitral awards, but the court rejected such applications in August 2016. In September 2016, Yellow River JV applied to continue the enforcement procedure. Such enforcement actions are still pending. Therefore, in the opinion of the management, no adjustment was made for the reversal of impairment during the year ended December 31, 2016.

NOTE 5 – PROGRAM RIGHTS AND INTANGIBLE ASSETS, NET

	December 31, 2016	December 31, 2015
Program rights	$ 20,692	$ 20,692
Less: accumulated amortization	(20,692)	(20,692)
	$ -	$ -
Intangible assets	$ 7,120,088	$ 7,120,088
Less: accumulated amortization	(613,119)	(613,119)
Less: impairment charges	(6,506,969)	(6,506,969)
	$ -	$ -

Program rights represent (1) programs that were contributed by the PRC TV Stations to the JV Tech Cos as capital, and (2) programs purchased by the JV Tech Cos from the PRC TV Stations in accordance with the joint venture and asset transfer agreements, respectively. Program rights are carried at cost and are amortized over their expected useful life of one year. There was no amortization of program rights in 2013 as the program rights were fully amortized during 2009. The programs included in program rights are those originally produced by the PRC TV Stations and the JV Tech Co's have ownership of the program rights pursuant to the joint venture and asset transfer agreements.

Intangible assets represent the contractual right to operate the advertising business. Intangible assets are evaluated periodically to determine if expected cash flow generate from the advertising business is sufficient to cover the unamortized portion of the intangible assets. To the extent that expected cash flow is insufficient, the intangible assets are written down to their net realizable value.

Intangible assets are expected to be amortized on a systematic basis over the lives of the Exclusive Cooperation Agreements of 30 years for Taiyuan JV. The Company assessed the recoverability of intangible assets and due to the uncertainties on the dispute with Shanxi TV Station the Company had wholly impaired the intangible assets of $6,506,969 for the year ended December 31, 2011.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – DIVIDEND PAYABLE

	December 31, 2016	December 31, 2015
Dividend Payable	$1,403,988	$1,169,513

The dividends for preferred shares are cumulative. Dividend payable was based on 5% annual rate of issued preferred shares.

NOTE 7 – OTHER PAYABLES TO TV STATIONS

	December 31, 2016	December 31, 2015
Other payable to Kunming TV Station	77,175	77,175
Other payable to China YR TV Station	1,054,003	1,130,598
	$1,131,178	$1,207,773

As of December 31, 2016 and 2015, other payable to Kunming Television Station represents payable of $77,175 to be paid by ANT due to the late payment of capital contribution to Kunming Tech Co.

Other payable to China YR TV Station mainly represents reimbursement of YR TV Station’s cost of purchase of TV programs and broadcasting and administrative expenses.

NOTE 8 – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31, 2016	December 31, 2015
Accrued expenses	$ 15,000	$ 15,000
Accrued salary	857	915
	$ 15,857	$ 15,915

NOTE 9 – RELATED PARTY TRANSACTIONS

Due to related parties

Amounts due to related parties consist of advances made to the Company or payments made behalf on the Company to finance development stage activities and other costs. The amounts due to related parties for such advances were non-interest bearing and had no stated repayment terms. Amounts due to related parties for such advances totaled $59,750 as of December 31, 2016 and 2015.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – INCOME TAX

The income tax expense in the consolidated statements of operations consisted of:

	December 31, 2016	December 31, 2015
BVI Enterprise Income Tax	$ -	$ -
Hong Kong Profits Tax	-	-
PRC Enterprise Income Tax	-	-
Income taxes, net	$ -	$ -

The enterprise income tax is reported on a separate entity basis.

BVI

China Networks International Holdings, Ltd. and China Networks Media, Ltd. were incorporated in the British Virgin Islands and is not subject to income taxes under the current laws of the British Virgin Islands.

Hong Kong

Advertising Networks Limited incorporate in Hong Kong and is subject to Hong Kong profits tax on its taxable income derived from trade or business carried out in Hong Kong at 16.5% for the years ended December 2016 and 2015. However, as the Company has not generated any revenue or income, no provision for Hong Kong profits tax has been made.

PRC

The Company periodically evaluates the likelihood of the realization of deferred tax assets, and adjusts the carrying amount of the deferred tax assets by the valuation allowance to the extent the future realization of the deferred tax assets is not judged to be more likely than not. The Company considers many factors when assessing the likelihood of future realization of the Company's deferred tax assets, including its recent cumulative earnings experience by taxing jurisdiction, expectations of future taxable income or loss, the carryforward periods available to the Company for tax reporting purposes, and other relevant factors. At December 31, 2016 and 2015, based on the weight of available evidence, the Company determined that it was unlikely that the Company's deferred tax assets would be realized and have provided for a full valuation allowance associated with the net deferred tax assets.

	December 31, 2016	December 31, 2015
Deferred Tax Assets and Liabilities:		
Net operating loss carry forwards	$ 73,323	$ 154,423
Valuation allowance	(73,323)	(154,423)
Net deferred tax assets	$ -	$ -

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The PRC entities are subject to PRC income tax at the statutory tax rate of 25%.

The Company adopted ASC 740 "Income Taxes", which prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken in the tax return. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures.

At December 31, 2016, Company's management considered that the Company had no uncertain tax positions that affected its consolidated financial position and results of operations or cash flow, and will continue to evaluate for the uncertain position in future.

For the years ended as at December 31, 2016 and 2015, Company's income tax is nil and nil, respectively.

NOTE 11 – SHAREHOLDERS' EQUITY

The Company had authorized common stocks of 500,000,000 at $0.0001 per stock. As of December 31, 2016 and 2015, the issued and outstanding of common stocks is 83,158,778. There is no issuance of common stocks during the year of 2016 and 2015.

For Class A Preferred Shares, each Class A Preferred Share is convertible to one Ordinary Share and the Preferred Shares are redeemable at the Company's option in whole or in part for an aggregate sum of $16,000,000. Each Class A Preferred Share is entitled to receive a cumulative dividend, which will be accrued at a rate of 5% per annum, and will be payable semi-annually on June 30 and December 31, and in arrears in cash or at the Company's option, in Ordinary Shares of the Company at a 5% discount to the trailing 10-day volume-weighted average trading price of the Company's Ordinary Shares on the principal trading market.

The Class A Preferred Shares have a liquidation preference of an aggregate of $16,000,000 upon the sale or liquidation of the Company. If the closing price of the Company's ordinary shares on the principal trading market on which they are quoted is less than $0.50 upon the 24 month anniversary of the transaction contemplated by the Exchange Agreement, then the liquidation preference may increase by 31.25% per Class A Preferred Share and the rights to convert into ordinary shares some or all of the Class A Preferred Shares held by such holder at such holder's option, at any time, at a ratio of one Ordinary Share for each Class A Preferred Share. There is no action taken by the preferred share stockholder. As of December 31, 2016, the liquidation preference is $4,689,506.

The number of Class A Preferred Shares outstanding as of December 31, 2016 has not been confirmed by the stock transfer agent as of date of this report. The difference in shares balance if any is considered not to be material by the management of the Company.

For the years ended December 31, 2016 and 2015, the cumulative dividend arrears were $1,403,988 and $1,169,513 respectively. The Company plans to settle the accrued dividend by issuance of stock to the preferred shareholder. The Company follows ASC505-10 to recognize dividend on preferred share by charged against retained earnings even if the Company has an accumulated deficit.

As of December 31, 2016 and 2015, the issued and outstanding of Class A Preferred Shares is 4,689,506. There is no redemption during the year.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – CONCENTRATIONS, RISK AND UNCERTAINTIES

As at December 31, 2016, there is no accounts receivable due from customers. The Company did not have any concentrations of business for both customers and suppliers for the year ended December 31, 2016 due to the minimal operations.

Credit risk on cash and cash equivalents – The Company maintains its cash and cash equivalents in accounts with major financial institutions in the United States of America and the PRC, in the form of demand deposits and money market accounts. At December 31, 2016, the uninsured balances amounted to approximately $0.12 million. The Company has not experienced any losses on its deposits of cash and cash equivalents.

NOTE 13 – OPERATING RISK AND MARKET RISK

Foreign currency risk

Substantially all of the Company’s transactions are denominated in Renminbi, but a substantial portion of its cash is kept in U.S. dollars. Although the Company believes that, in general, its exposure to foreign exchange risks should be limited, its cash flows and revenues will be affected by the foreign exchange rate between U.S. dollars and Renminbi. It is possible that the Chinese government may elect to loosen further its current controls over the extent to which the Renminbi is allowed to fluctuate in value in relation to foreign currencies. The Company’s business and the price of its ordinary shares could be negatively affected by a revaluation of the Renminbi against the U.S. dollar or by other fluctuations in prevailing Renminbi-U.S. dollar exchange rates.

Company’s operations are substantially in foreign countries

Substantially all of the Company’s operations are in China. The Company’s operations are subject to various political, economic, and other risks and uncertainties inherent in China. Among other risks, the Company’s operations are

subject to the risks of restrictions on transfer of funds; export duties, quotas, and embargoes; domestic and international customs and tariffs; changing taxation policies; foreign exchange restrictions; and political conditions and governmental regulations.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Operating Leases

In the normal course of business, the Company leases office space under operating leases agreements. The operating lease agreements generally contain renewal options that may be exercised at the Company's discretion after the completion of the base rental terms.

Rent expense for the year ended December 31, 2016 is nil.

The Company has no obligation under operating leases requiring minimum rentals.

CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – PARENT ONLY FINANCIAL STATEMENTS

As of December 31, 2016, the total restricted net assets exceeded 25% percentage of the Company’s consolidated net assets. As a result, parent only financial statements are prepared as follows:

Parent Only Balance Sheets

	December 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Loan receivable from CNM	$2,791,304	$2,791,304
Total current assets	2,791,304	2,791,304
TOTAL ASSETS	$2,791,304	$2,791,304
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Other payable	$1,418,988	$1,184,513
TOTAL LIABILITIES	1,418,988	1,184,513
EQUITY		
Class A Preferred Shares at $0.0005 par value; (50,000,000 shares authorized, 4,689,506 shares issued and outstanding at December 31, 2016 and 2015; liquidation preference of $4,689,506)	2,345	2,345
Common stock at $0.0001 par value; (500,000,000 shares authorized, 83,158,778 shares issued and outstanding at December 31, 2016, and 83,158,778 shares issued at December 31, 2015)	8,318	8,318
Additional paid-in capital	26,124,907	26,124,907
Accumulated deficit	(24,953,602)	(24,719,127)
Accumulated other comprehensive income	190,348	190,348
Total shareholders' equity	1,372,316	1,606,791

TOTAL LIABILITIES AND EQUITY	$2,791,304	$2,791,304

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CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – PARENT ONLY FINANCIAL STATEMENTS (CONT'D)

Condensed Parent Only Statements of Operations

	For the year ended December 31, 2016	For the year ended December 31, 2015
OPERATING EXPENSES		
General and administrative expense	$ -	$ 15,000
	-	15,000
LOSS FROM OPERATIONS	-	(15,000)
INCOME TAX	-	-
NET LOSS ATTRIBUTABLE TO CHINA NETWORKS INTERNATIONAL HOLDINGS, LTD.	-	(15,000)
Dividend on preferred stock	(234,475)	(234,475)
COMPREHENSIVE LOSS	$ (234,475)	$ (234,475)

Condensed Parent Only Statements of Cash Flows

	For the year ended December 31,	For the year ended December 31,

	2016	2015
Net cash used in operating activities	-	$ -
CASH - BEGINNING OF PERIOD	-	-
CASH - END OF PERIOD	-	$ -

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EXHIBIT INDEX

Exhibit No.	**Description**
1.1	Amended and Restated Memorandum and Articles of Association of the Company [incorporated by reference to Exhibit 99.1 to the Company's Report on Form 6-K, filed April 23, 2010 (SEC File No. 001-34395)]
2.1	Specimen Ordinary Share Certificate [incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-4 (SEC File No. 333-157026)]
2.2	Form of Debenture [incorporated by reference to Exhibit 99.4 to the Company's Report on Form 6-K, filed April 23, 2010 (SEC File No. 001-34395)]
4.1	Securities Purchase Agreement, dated April 13, 2010 [incorporated by reference to Exhibit 99.2 to the Company's Report on Form 6-K, filed April 23, 2010 (SEC File No. 001-34395)]
4.2	Amendatory Agreement, dated April 13, 2010 [incorporated by reference to Exhibit 99.3 to the Company's Report on Form 6-K, filed April 23, 2010 (SEC File No. 001-34395)]
4.3	Security Agreement, dated April 13, 2010 [incorporated by reference to Exhibit 99.5 to the Company's Report on Form 6-K, filed April 23, 2010 (SEC File No. 001-34395)]
4.4	Guaranty dated April 13, 2010 [incorporated by reference to Exhibit 99.6 to the Company's Report on Form 6-K, filed April 23, 2010 (SEC File No. 001-34395)]
4.5	Exchange and Amendatory Agreement, dated April 13, 2010 [incorporated by reference to Exhibit 99.6 to the Company's Report on Form 6-K, filed April 23, 2010 (SEC File No. 001-34395)]
4.6	Form of Lock-up Agreement between Alyst Acquisition Corp., the Company and each of Kerry Propper, MediaInv. and Li Shuangqing [incorporated by reference to Exhibit C to the Company's Report on Form 6-K, filed July 2, 2009 (SEC File No. 001-34395)]
4.7	Form of Service Agreement between Advertising Networks Ltd. and Li Shuangqing [incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-4 (SEC File No. 333-157026)]
4.8	Framework Agreement between Advertising Networks Ltd. and China Yellow River Television Station, dated January 26, 2008 [incorporated by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-4 (SEC File No. 333-157026)]
4.9	Supplementary Agreement between China Yellow River Television Station and Advertising Networks Ltd., dated May 22, 2008 [incorporated by reference to Exhibit 10.10 of the Company's Registration Statement on Form S-4 (SEC File No. 333-157026)]
4.10	Exclusive Services Agreement between Shanxi Yellow River and Advertising Networks Cartoon Technology Co., Ltd and Taiyuan Advertising Networks Advertising Co., Ltd, dated July 17, 2008 [incorporated by reference to Exhibit 10.11 of the Company's Registration Statement on Form S-4 (SEC File No. 333-157026)]
4.11	Exclusive Cooperation Agreement between China Yellow River Television Station and Shanxi Yellow River and Advertising Networks Cartoon Technology Co., Ltd., dated July 17, 2008 [incorporated by reference to Exhibit 10.12 of the Company's Registration Statement on Form S-4 (SEC File No. 333-157026)]
4.12	Asset Transfer Agreement between China Yellow River Television Station and Shanxi Yellow River and Advertising Networks Cartoon Technology Co., Ltd., dated July 17, 2008 [incorporated by reference to Exhibit 10.13 of the Company's Registration Statement on Form S-4 (SEC File No. 333-157026)]
4.13	Equity Joint Venture Contract between China Yellow River Television Station and Advertising Networks Ltd., dated May 23, 2008 [incorporated by reference to Exhibit 10.14 of the Company's

	Registration Statement on Form S-4 (SEC File No. 333-157026)]
4.14	Framework Agreement between Advertising Networks Limited and Kunming Television Station, dated February 23, 2008, incorporated by reference to Exhibit 10.15 of the Company's Registration Statement on Form S-4 (SEC File No. 333-157026).
4.15	Supplementary Agreement between Kunming Television Station and Advertising Networks Limited, dated May 23, 2008 [incorporated by reference to Exhibit 10.16 of the Company's Registration Statement on Form S-4 (SEC File No. 333-157026)]
4.16	Exclusive Services Agreement between Kunming Taishi Information Cartoon Co., Ltd. and Kunming Kaishi Advertising Co., Ltd., dated August 6, 2008 [incorporated by reference to Exhibit 10.17 of the Company's Registration Statement on Form S-4 (SEC File No. 333-157026)]
4.17	Exclusive Cooperation Agreement between Kunming Television Station and Kunming Taishi Information Cartoon Co., Ltd., dated August 6, 2008 [incorporated by reference to Exhibit 10.18 of the Company's Registration Statement on Form S-4 (SEC File No. 333-157026)]
4.18	Asset Transfer Agreement between Kunming Television Station and Kunming Taishi Information Cartoon Co., Ltd., dated August 11, 2008 [incorporated by reference to Exhibit 10.19 of the Company's Registration Statement on Form S-4 (SEC File No. 333-157026)]
4.19	Equity Joint Venture Contract between Kunming Television Station and Advertising Networks Ltd., dated May 14, 2008 [incorporated by reference to Exhibit 10.20 of the Company's Registration Statement on Form S-4 (SEC File No. 333-157026)]
4.20	Form of 2008 Omnibus Securities and Incentive Plan [incorporated by reference to Annex H of the Company's proxy statement/prospectus included in the Registration Statement on Form S-4 (SEC File No. 333-157026)]
8.1	List of the Company's subsidiaries*
12.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-1(a)*
12.2	Certification of Acting Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-1(a)*
13.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
13.2	Certification of Acting Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101	Interactive data files pursuant to Rule 405 of Regulation S-T*

*Filed herewith.