TW Holdings, Inc. 1991 Annual Report

Our goal is to be the best food service company in the world by the year 2000.

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MISSION
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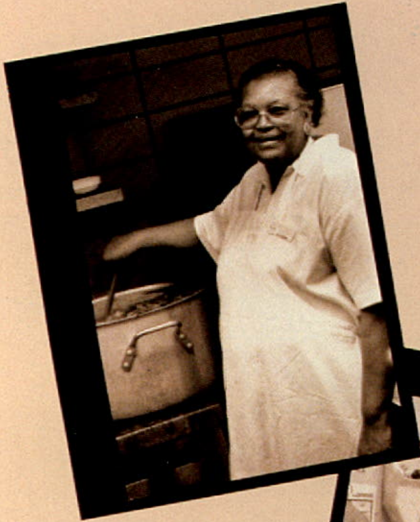
Our goal is to be
the best food service
company in the world
by the year 2000.

Mission 2000 is a
total commitment
by all employees to
achieving this goal.
By listening,
identifying changes,
and taking actions
through education,
leadership and
innovation, we will
assure customer
satisfaction and
continued growth
of our people and
our company.

About Our Company



Eating out — or ordering out — has become a way of life with most Americans. As they do when purchasing other "necessities," our customers have very clear notions of value and service. We must live up to, or hopefully exceed, these expectations.

Some simple terms best describe our business: fresh food, fast and courteous service, reasonable prices, attractive facilities, nationwide, around the clock.

Everything we do at TW Services is designed to support the people featured in this report and all the other members of our customer service team. In this annual report, you will see photographs of some of our service employees performing the key task in our business: serving our customers.

A wholly-owned subsidiary of TW Holdings, TW Services, Inc. is the fourth largest food service company in the United States, serving millions of customers each day. Our 112,000 employees are dedicated to the satisfaction of the customers they serve at work, school, on vacation, at major sporting events and at home.

TW Services' restaurant operations are Denny's, Hardee's, Quincy's Family Steakhouse and El Pollo Loco. Our Canteen division is one of the largest contract food, vending and recreation services companies in the United States. The company's 1991 revenues were $3.6 billion.

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Shareholder Letter

1991 was a challenging year for our industry and our company. Nevertheless, we believe we are a stronger and more competitive company today than ever before as a result of actions taken during the year.

1991 Performance

TW Holdings' revenues decreased 0.2 percent to $3.6 billion in 1991. Operating cash flow, or EBITDA (earnings before interest, taxes, depreciation and amortization), decreased 1.1 percent to $441.8 million, compared with the same 1990 period. Business unit income declined 4.7 percent to $292.9 million, compared with $307.4 million in 1990. Business unit income is operating income before additional amortization, depreciation and other expenses related to the acquisition of TW Services by TW Holdings in July 1989. The company reported a net loss of $67.6 million in 1991, compared with a loss of $67.8 million in 1990.

Overall, we are positioned to come through the recession in good condition. Financial results were improving in the second half of the year. The restaurant segment of our business had increases in revenues, operating cash flow and margins, a solid performance for adverse conditions. Canteen's new business accounts were the highest one-year total, although overall results were adversely affected by employment reductions at its business and industry clients. Our liquidity is sufficient to meet the cash flow needs, the interest rate environment is favorable and our operations are managing their costs well.

Throughout the recession, we have continued to reinvest in our businesses and in our people. We have set a number of programs in motion that will continue to strengthen our competitive position. Capital expenditures were $130.3 million in 1991 compared with $145.1 million in 1990. We anticipate increased levels of capital expenditures in 1992 as part of our ongoing program to sustain, grow and modernize each of our concepts.

We actively continue to consider ways in which we might improve our financial position. We are hopeful that with the easing of the recession and improving company operations we will be able to capitalize on new opportunities to deleverage in 1992.

Competing In the 90s

We have been convinced for some time that the recession and the widespread discounting in the restaurant industry — and retailing businesses in general — are part of a larger picture. Service businesses in general must become more efficient — and their employees more productive than ever before. With low inflation, we can't expect to look to menu price increases for growth. Nor can we be successful without a clear focus on the customer.

Customer Focus

We are striving to achieve strong top line growth by providing consistent customer satisfaction. Operating systems and procedures, training, restaurant design and construction all must support total customer satisfaction.

New products give customers a reason to come back frequently. In 1991 we introduced nearly 150 new products and product enhancements company wide — more than ever before.

We are also complementing our ongoing market research activities with other means of listening — really listening — to what our customers are telling us. During 1991, we began the rollout of toll free customer response lines in all of our restaurant concepts and in selected Canteen locations. We expect to complete this process in 1992. With this new system in place, we receive more rapid customer reaction to new products and promo-

tions. We are also able to deal more quickly with customer complaints, usually within 24 hours.

Customer research and marketing considerations now play more significant roles in site selection than in the past. Today we are bringing more marketing expertise and market intelligence to bear on new-unit decisions than we have in the past.

Controlling Overhead Costs

No service organization can be successful today without staying lean in overhead and supervisory expenses. While this concept is definitely not a new one for us, we are looking at the way we work at all levels of the company.

In addition to normal function-justification programs in support departments, we are looking for opportunities to broaden the responsibilities of restaurant leaders. This effort, of course, requires that we enhance the responsibilities of restaurant and food service general managers. Our objective is to reduce the number of layers in the organization to shorten the distance between the customer and our senior leaders.

Improving Effectiveness

We must continuously find ways to improve the effectiveness of our organization. In TW Holdings' first annual report two years ago, we said that one of our key goals for the future would be to unite our five concepts under a common philosophy, or culture, to build our business.

One significant decision we announced in late 1990 was to bring our leadership and our support functions together in Spartanburg, closing the Canteen and Denny's headquarters in Chicago and Irvine, California, respectively. In December 1991, we completed this process nearly one year ahead of schedule.

We also felt that the best way to bring people together is to unite them with a sense of common purpose. The company's goal is to become the best food service company in the world by the year 2000. When we first discussed this goal, we recognized we wouldn't become the best by doing things the way we have always done them. We were far from perfect in many important areas.

Our 112,000 employees know a great deal about the food service business. To unlock this knowledge, and allow it to flow freely throughout our company, we launched Mission 2000 last summer. We have eight teams of employees representing our support center and five concepts, who are listening to customers, employees and suppliers to identify our best opportunities for profitable, sustained growth. The employees on these teams represent all levels of our company. We have been impressed by their enthusiasm and their intelligence.

The Mission 2000 teams have completed what we call the "listening" phase of the process and they are about to develop strategic initiatives resulting from the knowledge that we have gained. As we move forward, we will be paying particular attention to three critical areas:

Marketing. We have been successful as an operations oriented company. To be successful in the future, we recognize that we need to become a more market driven organization responsive to rapid changes in the marketplace. At the same time, we intend to maintain the same level of operational proficiency that helped build our company.

Systems. We need to better utilize systems of all kinds — information, communications, processing, distribution, financial — to manage our business more effectively and establish a clear competitive advantage in customer service. As a company —

and as an industry — we have only begun to use technology of all kinds to improve the productivity of our service personnel. The computer point of sale system, which will be completely rolled out in Denny's this year, and a new hand held computer we are testing for use by Canteen's vending route service employees are just a start for us. We have seen the benefits of investing in technology and we need to do more.

Education. Genuine employee empowerment enables our people to become more productive through personal growth and development. We will be looking for the best ways to broaden our traditional notions of training to include management skills, company values and passing on the considerable know-how that exists in our company.

Achieving Peak Performance

Coupled with the changes we believe are necessary to the healthy development of our business is a sharper focus on performance than ever before. We will not be afraid to eliminate a product, close an unprofitable store, slow our growth, or sell an asset after a realistic assessment of the facts.

We recognize that performance is the key to deleveraging. As a result, we know we have to perform. And we will.

Management & Board

Several key leaders of the company were promoted in 1991. H. Stephen McManus became executive vice president-restaurant operations; William H. Burton III and James R. Kibler became senior vice presidents and chief operating officers of the Quincy's and Hardee's divisions, respectively; and Robert L. Wynn III was named senior vice president and general counsel.

A. Ray Biggs and George E. Moseley were named vice president and chief financial officer and vice president and corporate secretary, respectively.

Two individuals who contributed a great deal to the success of Spartan Food Systems, Inc. and, since 1989, to TW Holdings, retired in 1991. Louis P. Howell, formerly senior vice president and general counsel, and William P. Phillips, formerly senior vice president and chief operating officer of the Quincy's division, will be remembered for their many years of dedication and service to our company. We wish them well.

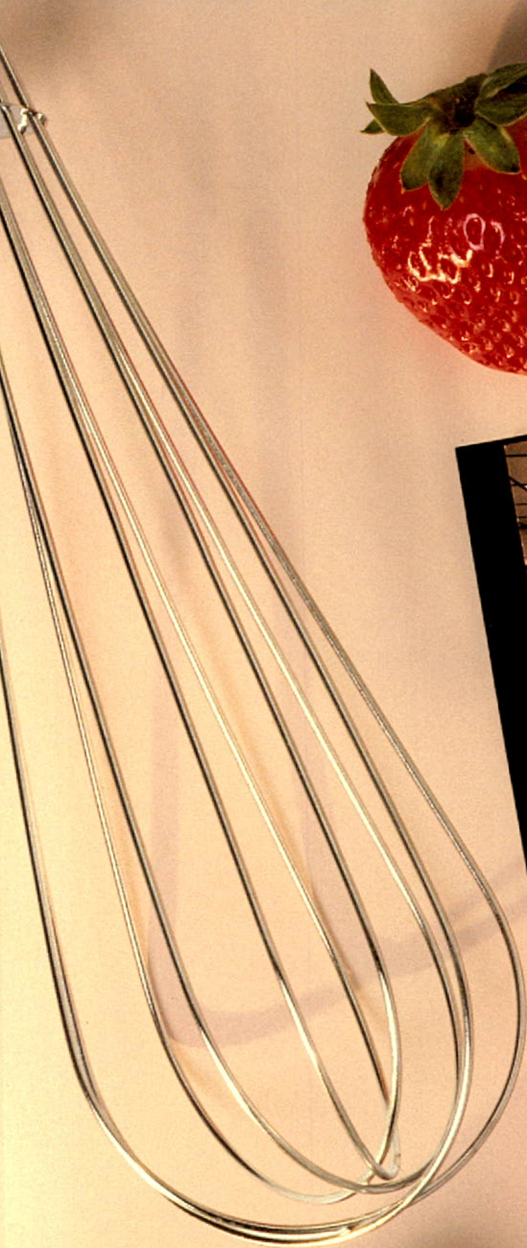
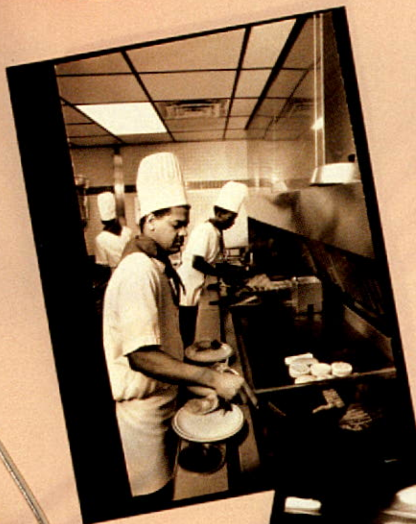
We are pleased to report that Roger E. Birk, retired president, Federal National Mortgage Association, has been appointed a director of TW Holdings, expanding the board to eight members.

Outlook

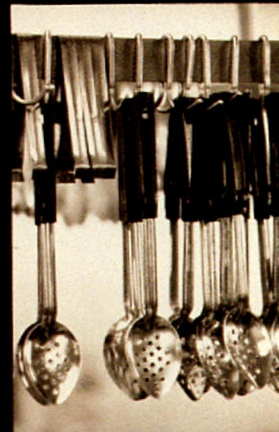
With the important steps taken in 1991 to build a company well suited to today's competitive environment, we approach the coming year with confidence. We are optimistic that the positive trends that began in the second half of 1991 will continue in 1992.

Paul E. Tierney, Jr.
Chairman
March 12, 1992

Jerome J. Richardson
President and
Chief Executive Officer

Denny's



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Denny's

The Denny's trademark has never been stronger and we have resumed expansion of company owned restaurants.

Denny's restaurants are familiar landmarks throughout the U.S. where every day, around the clock, millions of customers enjoy moderately priced meals. At the end of 1991, there were 996 company-operated Denny's restaurants, 326 operated by franchisees and another 69 by foreign licensees.

The Denny's trademark has never been stronger. The reasons for this include an array of new products, greater emphasis on operations, remodeled restaurants, a widely acclaimed advertising campaign featuring the Corlick Sisters, and most recently, a return to growth of company-operated restaurants.

Performance

In 1991, Denny's revenues rose 1.6 percent to $1.43 billion and business unit income rose 6.5 percent from the prior year to $140.2 million. Denny's average unit sales rose 2.0 percent to $1.23 million, while average check increased 4.2 percent to $4.31. Traffic declined 1.9 percent in 1991 compared with 1990. Much of this decline in traffic is attributable to adverse economic and restaurant industry factors.

Indicative of Denny's recent momentum, the 30 highest average net weekly sales in its history occurred in 1990 and 1991, 15 in each year. Denny's has also experienced 18 consecutive quarters of business unit income growth over the prior years.

Variety

From its origins as a "California coffee shop" known for its breakfast service, Denny's has evolved into a full service family restaurant. While developing new products aimed specifically at its traditional breakfast and late night customers, Denny's has given particular attention to providing lunch and dinner customers with more choices.

Denny's has rolled out new signature Grand Slam entrees at breakfast, lunch and dinner. We have realized margin increases and guest check average increases since the introduction of these products. Building on the baseball theme, Denny's will introduce in 1992 a "Base Hit" value menu featuring a $2.99 breakfast, $3.99 lunch and $4.99 dinner.

Also in keeping with its baseball theme, Denny's plans to continue the very successful hologram baseball card collection introduced in 1991.

Through its well-publicized birthday promotion, Denny's served more than 3.5 million free meals to customers on their birthdays in 1991. The good news is that these customers brought an average of 1.2 to 1.4 paying guests with them. That's about 8 million additional customers. In 1992, the introduction of a birthday menu will further establish Denny's as the place to celebrate this special occasion.

To appeal to younger customers, Denny's introduced

a promotion in 1991 featuring the popular Jetsons cartoon characters. The promotion, which is continuing in 1992, also includes educational materials and games.

A program is underway to increase service of Denny's Bake Shop Pies, produced by the company's Portion-Trol division. Initial pie sales have exceeded our expectations.

We are reinvesting in existing Denny's restaurants to continuously freshen up their appearance and provide an attractive setting for our customers. We remodeled 121 restaurants this year and plan to complete another 125 in 1992, bringing the total since 1989 to 503.

Service

Denny's is adapting to changing customer preferences for service. Our service personnel are trained to provide the kind of service customers want, whether it's a leisurely family dinner, a quick business lunch, a rest stop on a vacation trip, or a late night breakfast after the theater.

Since 1989, Denny's has become well-known for its Ten Minute Service Guarantee. In October 1991, we began testing a new concept built on our Ten Minute Service Guarantee. It's called the Denny's Dash. This program includes a separate express service menu and express check out service coupled with the existing Ten Minute Guarantee between 5 a.m. and 10 p.m. We believe this Dash program will strengthen Denny's distinct identity in the customer's mind and will be very difficult for our competitors to match.

In response to customer suggestions, Denny's has also begun tests of carryout service.

Denny's is the undisputed market leader in late night service, a growing market that represents about 21 percent of Denny's total revenues. We have developed "Denny's Til Dawn" menus and promotional programs to pay special attention to this segment of our business.

To improve overall efficiency, we have been installing new state-of-the-art restaurant point of sale systems in Denny's restaurants. We expect this program will be fully implemented by the end of 1992. With this system, Denny's managers are able to spend less time handling paperwork and more on serving customers. The system also has control features that help improve margins.

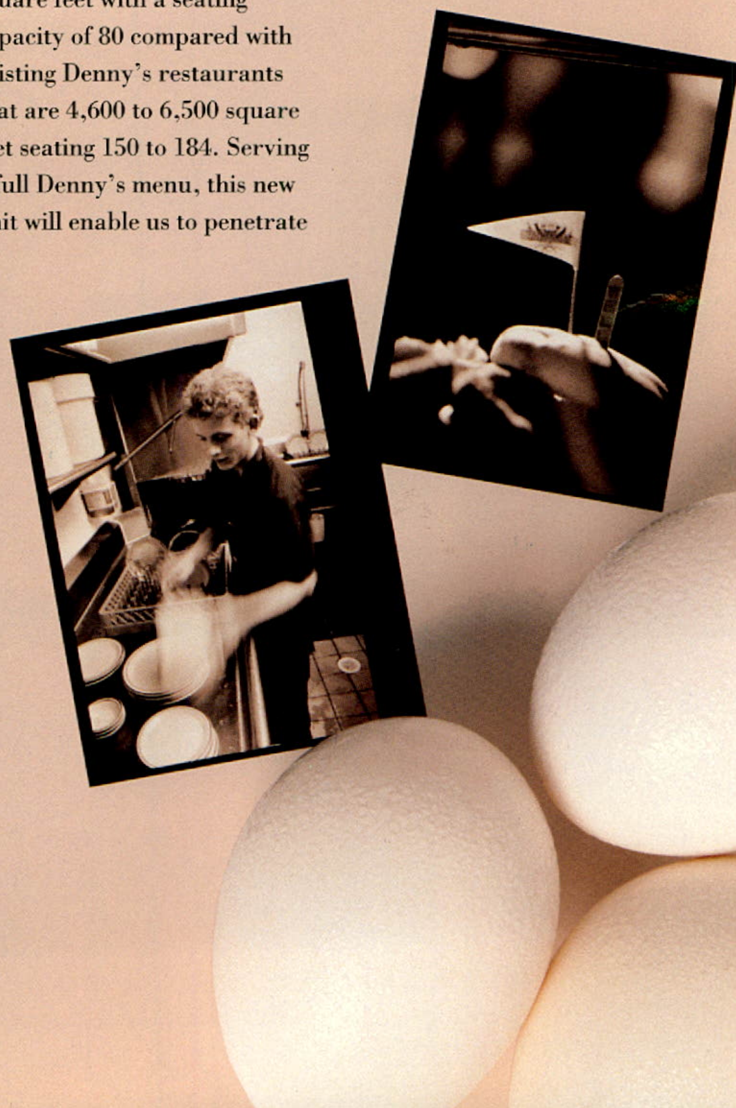
Growth

Since 1987, we have concentrated on remodeling Denny's restaurants. In 1991, we resumed expansion of Denny's company-operated restaurants, since there are still many markets in the U.S. where customers will welcome the Denny's trademark.

To this end, we have begun a stepped up capital investment program at Denny's. In 1991, four new Denny's restaurants opened, primarily in the Southeast, and plans are to increase that number to 30 in 1992. Several of these will be a new scaled down unit — 2,735 square feet with a seating capacity of 80 compared with existing Denny's restaurants that are 4,600 to 6,500 square feet seating 150 to 184. Serving a full Denny's menu, this new unit will enable us to penetrate smaller markets where we have never taken the Denny's trademark before. It also has a higher sales to investment ratio compared with larger Denny's restaurants.

Denny's may also grow through the acquisition of smaller, regional chains that could be converted to the Denny's concept.

Franchise growth is also expected to increase in 1992 when we anticipate that approximately 50 franchised restaurants will be added to the Denny's system compared with 24 in 1991.



Hardee's has an opportunity to build traffic at lunch and dinner with new products.

Hardee's

The Hardee's division of TW Services is the largest franchisee of Hardee's Food Systems with 500 restaurants in 11 states. It owns and operates about 12 percent of the Hardee's system.

Hardee's serves a variety of breakfast biscuits, hamburgers, salads, roast beef sandwiches, frozen yogurt and, starting in 1991, fresh fried chicken was rolled out in certain markets.

Our Hardee's division celebrated its 30th anniversary on October 19. Although this is a time of major challenges, Hardee's faces these challenges with some advantages.

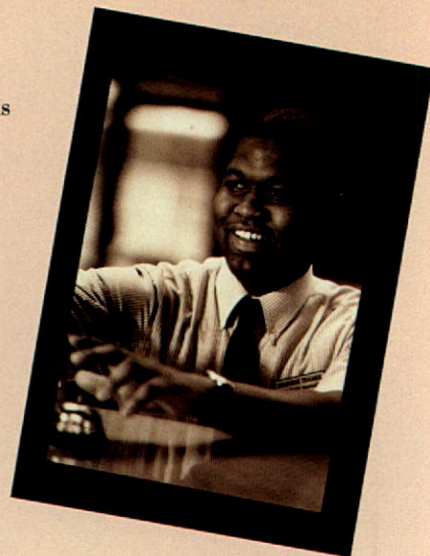
Hardee's is the leader in the breakfast market with approximately 40 percent of its sales in this time period. The breakfast market has continued strong through the recession and the value pricing environment. Hardee's also enjoys a leading position in the Southeast markets, particularly in smaller communities where it is perceived as a homegrown brand.

Performance

In 1991, the Hardee's division achieved a 3.0 percent increase in revenues to $525.5 million with a 0.6 percent decrease in business unit income to $71.5 million. Hardee's average unit sales decreased 1.4 percent to $1.06 million with a 2.8 percent increase in average check to $2.72. Traffic was down 4.2 percent compared with 1990. While Hardee's trends were generally negative through the first half of 1991, results strengthened in the second half, particularly in the fourth quarter.

Variety

Our Hardee's division has an opportunity to build traffic at lunch and dinner with new products.



Without a doubt, our most exciting product opportunity is Hardee's new fresh fried chicken. Until now, Hardee's has lacked a product to convince customers that fast food is an appropriate choice for this traditional sit-down meal. Fried chicken is a key long term opportunity for carryout and dinner sales.

After very successful tests, fresh fried chicken was rolled out in 20 restaurants in Huntsville, Alabama in October. We are already experiencing incremental increases in unit sales at these locations by 7 to 8 percent. Of our Hardee's restaurants, 157 have no major chicken chain competition within a five mile radius. We believe chicken is a major opportunity for us to build dinner traffic. In 1992, Hardee's plans to increase the number of restaurants serving chicken to approximately 250.

New products are critical in offering a change of pace to the fast food consumer and increasing market share versus the wide range of competitors in this market. Some are permanent additions to the menu. Others are limited time products.

Hardee's recently added grits and breakfast platters to the breakfast menu.

In light of Americans' increasing demand for sub sandwiches, we successfully added a series of deli sub sandwiches to the Hardee's menu in October.

Hardee's is also looking beyond new products to build recognition of its trademark among customers. Our construction, marketing and operations departments are working with Hardee's Food Systems to develop a new look for Hardee's. This program will include everything the customer sees — packaging, uniforms, decor and building design. We are committed to developing a clear and effective brand image for Hardee's.

The theme of Hardee's advertising in 1992 is, "Are you ready for some real food?" This campaign, featuring Hank Williams, Jr., emphasizes Hardee's preparation of fresh products in each restaurant every day.

Service

In addition to quality products, our Hardee's customers are interested in quick service. Over the past several years, we have concentrated on improving speed of service for drive-through window customers. Drive-through service accounts for slightly more than half of Hardee's sales.

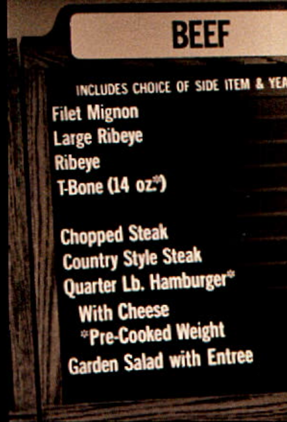
We have also extended hours until 1 a.m. or 2 a.m. in 173 restaurants. Sixty-three of our Hardee's restaurants are now open 24 hours on weekends.

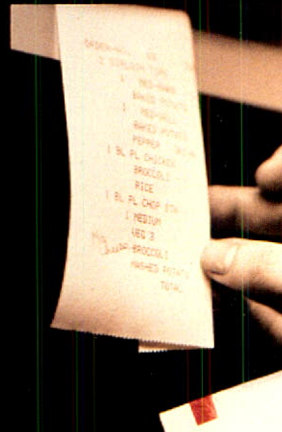
One important ingredient in providing excellent customer service is retention of our service personnel. We are particularly proud that in 1991 Hardee's restaurant management turnover was 19.1 percent, one of the lowest turnover rates in the industry.

Growth

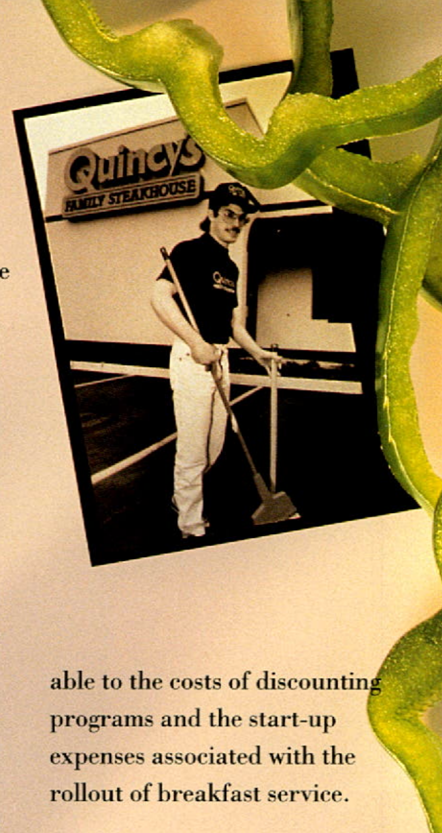
In 1991, we opened 17 Hardee's restaurants. In 1992, we expect to open 23 new restaurants, all in the Southeast. Among these will be three new express drive-through units which have no seating area and two drive-through windows. Particularly well suited for high traffic areas, these limited-menu express units allow the most efficient utilization of higher cost sites and help us provide fast service for our customers.

Maintaining and refurbishing our existing restaurants is also a high priority at Hardee's. In 1991, we remodeled 30 restaurants.





Quincy's



Quincy's Family Steakhouse is one of the leading family steak house chains in the Southeast, with 216 restaurants in 10 states at year-end 1991. In addition to its steak entrees, Quincy's serves chicken, seafood, soup and salad, a breakfast buffet and country sideboard buffet.

Quincy's has successfully broadened its appeal as a family restaurant offering good value.

Performance

In 1991, Quincy's achieved sales of $283.3 million, a 0.6 percent increase over 1990. Business unit income declined 13.3 percent to $25.0 million compared with 1990. Quincy's average unit sales decreased 0.3 percent to $1.32 million. Restaurant traffic declined 0.7 percent while average check rose 0.4 percent to $5.40. In addition to the impact of the recession, much of Quincy's decline in income is attributable to the costs of discounting programs and the start-up expenses associated with the rollout of breakfast service.

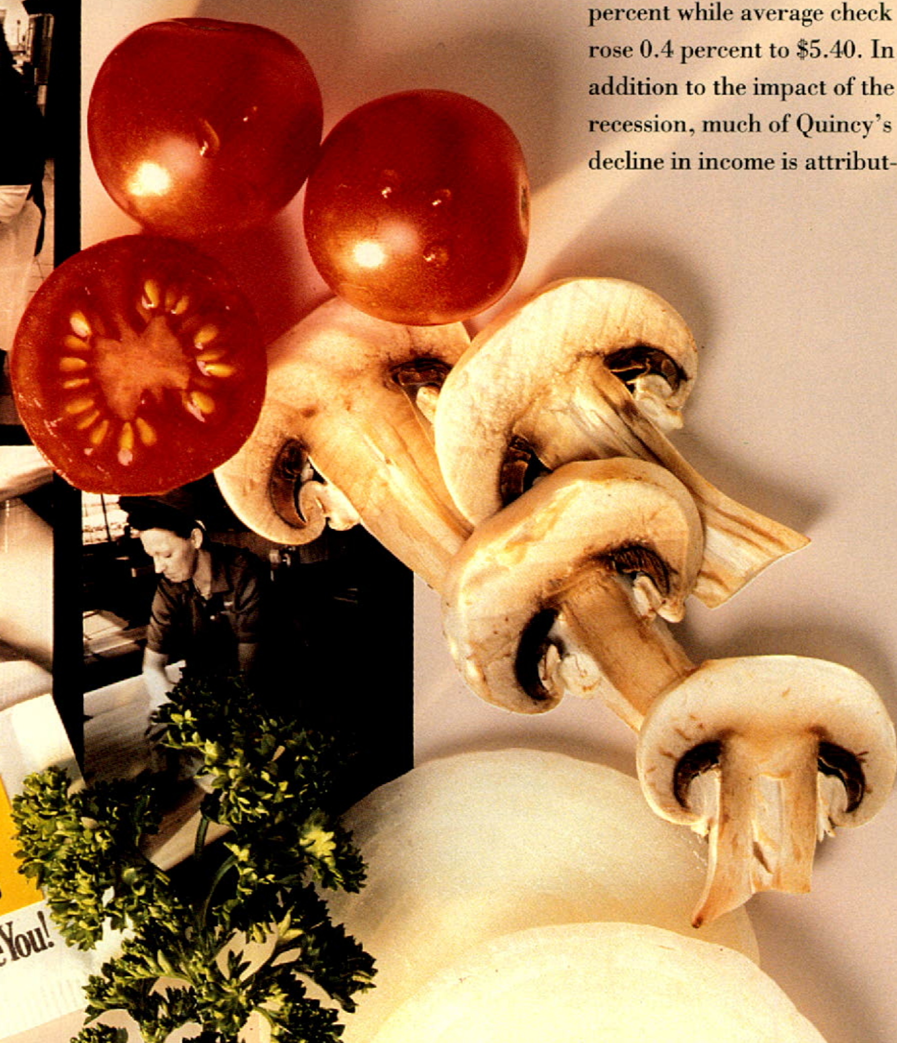
Variety

Quincy's has successfully broadened its appeal from a family steak house concept to a family restaurant perceived by its customers as providing excellent value.

Quincy's fresh baked yeast roll has helped to separate Quincy's from its competitors in the consumer's mind. Our research has shown that even the aroma of the yeast rolls cooking helps build a special identity for Quincy's.

The major new product program in Quincy's is breakfast, which has been introduced systemwide. In most Quincy's restaurants, breakfast is served on weekends. In selected high traffic areas, Quincy's is offering breakfast seven days a week.

Many other products are being developed at Quincy's. In 1991, we introduced grilled trout and began to expand the bakery concept to include cookies and muffins. In addition, Quincy's is adding



new specialty salads and a specialty hot bar.

At lunch, Quincy's introduced its Blue Plate Special in 1991. For $3.99, customers ordering the Blue Plate choose one meat item and three vegetables from a selection of five meats and 11 vegetables with options changing daily.

Quincy's has successfully developed a series of holiday promotions throughout the year, each with appropriate menu offerings. These popular events include an Easter Country Sideboard buffet, a Fourth of July Barbecue Bash and a New Year's Eve celebration.

Service

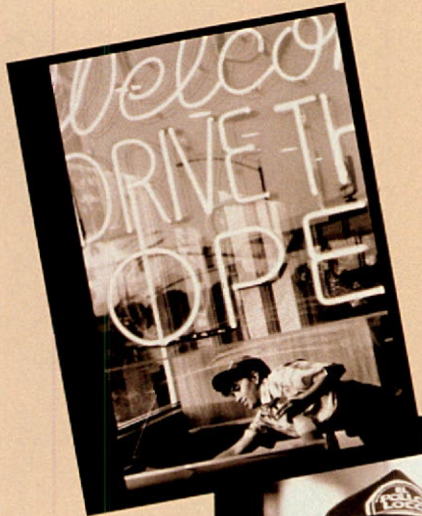
To accommodate busy lunch customers, Quincy's recently introduced a nine-minute service guarantee on select lunch entrees. If the meal is not delivered to the table in nine minutes or less, it's free of charge.

Growth

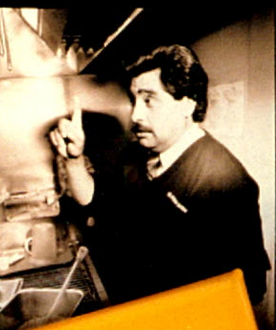
We opened four new units in 1991 and plan to open another five in 1992.

The new Quincy's units are larger, up to 348 seats, and feature a new decor, double front service lines, a bakery in the dining room, and a yeast-roll production area that is open to customer view.

Given the level of customer acceptance of the Quincy's concept outside our established Southeast market, we now feel it is expandable to other areas of the U.S.



El Pollo Loco has expanded its menu to include a variety of new products.



El Pollo Loco

El Pollo Loco is a California based chain of restaurants serving char-broiled chicken prepared with a proprietary marinade. With 111 company-operated restaurants and 83 franchised restaurants, primarily in California, El Pollo Loco has expanded its menu to include a variety of new products and has recently begun tests of various steak items to broaden its appeal.

Performance

El Pollo Loco's revenues decreased 3.9 percent in 1991 to $100.9 million from $105.0 million in 1990. Business unit income declined to $1.8 million from $8.7 million in the prior year. The average El Pollo Loco restaurant sales declined 10.8 percent to $808,000. Average check declined 6.8 percent to $6.87 and traffic decreased 4 percent. 1991 was a year of repositioning at El Pollo Loco. While only a small proportion of TW's total cash flow, El Pollo Loco has a proprietary chicken product that has demonstrated strong customer appeal.

Variety

In 1991, El Pollo Loco focused attention on expanding its menu to introduce portable products. We successfully introduced a new flame-broiled chicken taco and a new flame-broiled chicken burrito with the majority of these sales representing incremental increases to our base business. In October, El Pollo Loco introduced three new varieties of its flame-broiled chicken sandwiches, more than doubling sandwich sales.

To increase menu variety, El Pollo Loco is planning to introduce steak products in 1992. We are currently rolling out steak burritos and tacos and are planning to offer them systemwide by the end of the first quarter of

1992. Quesadillas, nachos and "hot wings" are among the many other products being tested by El Pollo Loco.

To appeal to group gatherings and increase take out business, El Pollo Loco is also emphasizing the large meal side of the menu. El Pollo Loco is one of the few quick service concepts whose business is evenly balanced between lunch and dinner. We recently added 16, 24 and 32 piece meals to our menu and are planning several promotions in 1992 that feature these large meals.

Service

To increase distribution points and create additional meal occasions, El Pollo Loco is testing alternative forms of distribution including delivery, school lunch programs and university food courts. We are also investigating mobile retail units and special event catering through the Canteen division.

Growth

We have elected to slow down development of new El Pollo Loco restaurants while repositioning this concept. The El Pollo Loco concept performs exceptionally well in the Los Angeles area but has proved to be less successful in other markets. Therefore, in 1992 we plan to concentrate on this core market, opening two company and seven franchise restaurants, all in the Los Angeles area.

Canteen

Canteen is one of the largest contract food, vending and recreation services companies in the United States. With more than 1,500 food service and more than 9,000 vending locations and concession operations at numerous stadiums, arenas, national and state parks, Canteen serves millions of Americans each day at work and during leisure activities.

Performance

In 1991, Canteen's revenues declined 3.3 percent to $1.28 billion. Its business unit income decreased 8.2 percent to $68.3 million from $74.5 million in 1990. During 1991, a number of industrial and white collar accounts in Canteen's food and vending business continued to experience lower utilization levels due to work force reductions. Nevertheless, annualized new business bookings during the year exceeded $112 million, the highest one-year total ever for Canteen. More than 30 percent of this new business is in targeted markets that are believed to be less sensitive to economic downturns. For the year, Canteen's retention of existing business exceeded 95 percent.

Variety

One of the major challenges facing each Canteen account is to provide customers with an increasing variety of choices every day. In its corporate food service accounts, for example, Canteen often competes with nearby restaurants and delis for the customer's food dollar.

Canteen has developed many new products to serve these customers. In 1991, Canteen introduced a new lean hamburger, a grilled chicken sandwich and 12 additional varieties of Pazzelli's Pizzas. Products scheduled for introduction in 1992 include a new yeast roll, seasoned trout, low-fat steak sandwich, and beef fajita strips. Limited time promotions planned for 1992 include Buffalo-style hot wings, Philly-style steak sandwiches and a catfish 'n hushpuppy feast.

Growth

Canteen's major growth thrust will be in the four contract food service markets described below and in recreation services where we believe that there is considerable potential. For the most part, our target food service markets are ones that have not been extensively penetrated by contract food service companies.

Health care is a $15.4 billion market that is 90 percent self-operated. Canteen serves 93 accounts in 9 regions. We will concentrate our new business sales efforts in the regions where we already have groups of health care accounts to take advantage of existing operations support systems. In addition, we have targeted four additional geographic "hubs" to be developed in 1992.

School food service is a $5.1 billion market that is 75 percent self-operated. Canteen serves 69 school districts in 12 regions. We are

implementing a new nutrition education program and are introducing 10 new signature school food menu items. We have targeted 10 Canteen regions around the country to enter this market in 1992.

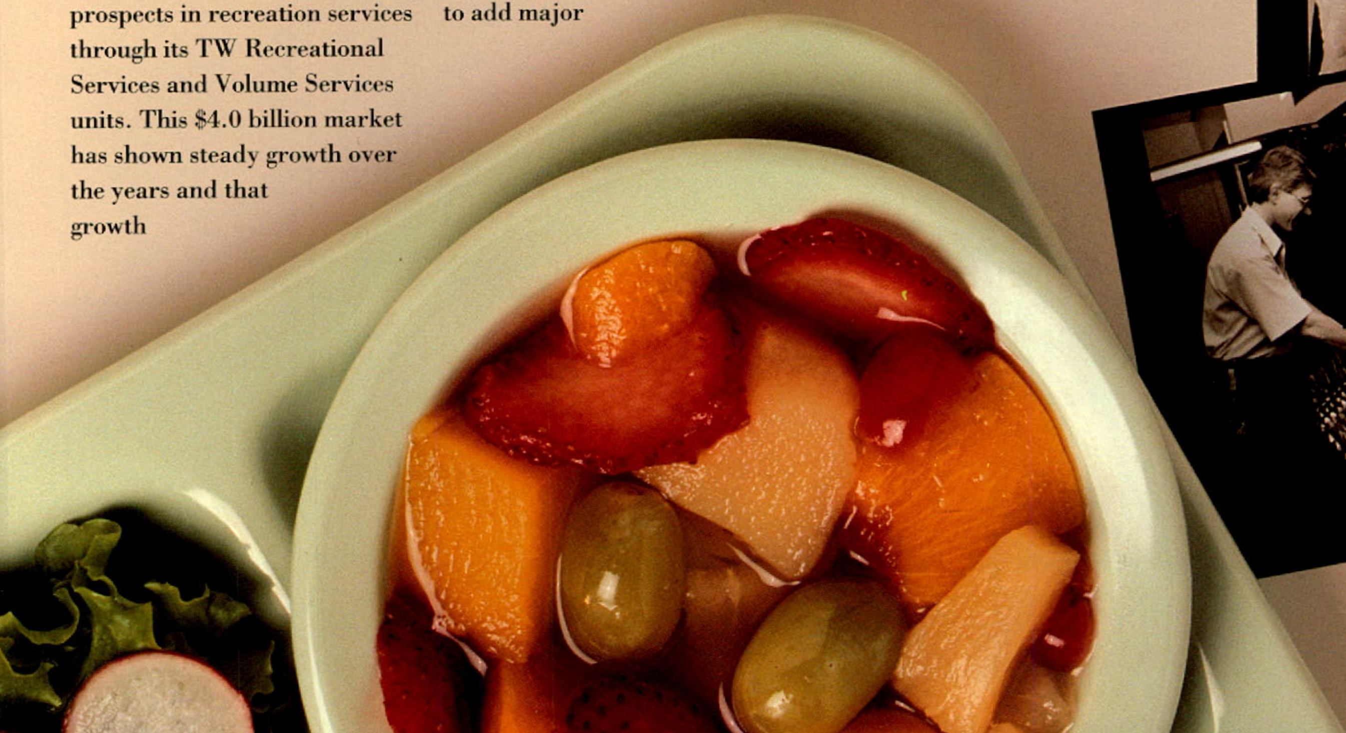
Colleges and universities comprise a $7.2 billion market that is 56 percent self-operated. Canteen has 94 facilities in 10 regions. Canteen's major focus is in community college cash operations which are closely related to our core contract food service business.

Food service at correctional facilities is a $12.4 billion market that is 80 percent self-operated. Canteen is a leader in this market segment serving 24 facilities in seven regions. We are concentrating on city and county jails, the fastest growing segment of the corrections market. We will also continue our efforts at the state and federal prison level.

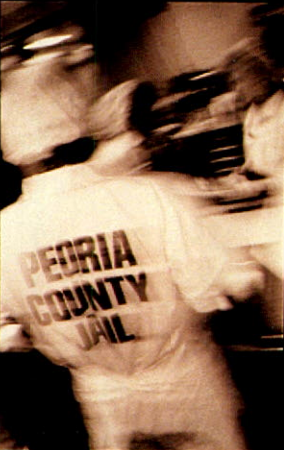
In addition to these target markets, management believes Canteen has excellent growth prospects in recreation services through its TW Recreational Services and Volume Services units. This $4.0 billion market has shown steady growth over the years and that growth is expected to continue. Over 70 percent of this market is either self-operated or managed by a regional operator. TW Recreational Services is already a major factor in this market as the largest concessionaire to the National Park Service. Volume Services is one of the largest concessions operators, serving customers at many stadiums, arenas, amphitheaters and similar facilities around the United States.

Volume Services increased its account base 17 percent in 1991 and has begun to offer various ancillary services such as parking and security. New contracts booked this year include the Sacramento Convention Center, the Peoria Civic Center, the Worcester, Mass., Auditorium, and the Dole Catering Center in Honolulu. Over the next few years we expect this unit to continue rapid growth. For example, we are making a special effort to add major and minor league baseball parks to our client list. In 1991, we added five new contracts in this market. Volume Services is also working with TW Services' restaurant divisions to feature abbreviated Hardee's and Denny's concepts at the facilities it serves.

TW Recreational Services is achieving good growth with particular emphasis on state and national facilities. During 1991, we opened Maumee Bay Lodge (part of the Ohio State Parks) and will assume responsibility for the golf course operation during 1992. We were also successful in extending our contract with the National Park Service at Yellowstone Park for an additional 10 years.



Canteen is growing in health care, schools, corrections and recreation markets.



Consolidated Financial Statement

Summary Historical Consolidated Financial Data

(In millions, except per share amounts)

	Successor (1)			Predecessor (1)		
	Year Ended December 31, **1991**	Year Ended December 31, **1990**	July 21 to December 31, **1989**(2)	January 1 to July 20, **1989**	Year Ended December 31, **1988**	Year Ended December 31, **1987**(3)
Operating data:						
Operating revenues	$3,617.9	$3,626.5	$1,517.9	$1,916.8	$3,268.4	$2,206.0
Operating income	224.3	238.3	27.0	105.1	215.7	161.0
Income (loss) from continuing operations	(67.6)	(67.8)	(77.1)	20.8	50.7	57.6
Earnings (loss) per common share: Continuing operations	(0.61)	(0.61)	(0.70)	0.43	1.03	1.18
Discontinued operations	—	—	—	(0.02)	0.07	(.02)
Net income (loss)	(0.61)	(0.61)	(0.70)	0.41	1.10	0.97
Cash dividends per common share (4)	—	—	—	0.05	0.10	0.10
Balance sheet data (at end of period):						
Working capital (deficiency) (5)	(356.6)	(318.4)	(616.4)	—	(71.1)	(76.8)
Net property and equipment	1,447.6	1,490.4	1,519.6	—	1,012.2	1,010.8
Total assets	3,384.8	3,495.5	3,632.2	—	2,039.9	2,053.3
Long-term debt	2,261.3	2,305.7	1,948.0	—	1,031.9	1,017.7

(1) Certain amounts for the four years ended December 31, 1990 have been reclassified to conform to the 1991 presentation.

(2) TW Holdings acquired TW Services as of July 20, 1989 in a business combination accounted for as a purchase. As a result of the acquisition, the financial data for the Successor periods are presented on a different basis of accounting than that of the Predecessor periods and, therefore, are not directly comparable.

(3) Data include the operations of Denny's since its acquisition on September 11, 1987.

(4) The Company is prohibited from paying dividends under the terms of its indebtedness.

(5) A negative working capital position is not unusual for restaurant operating companies and most other food service companies. The decline in working capital at December 31, 1989 is principally the result of classifying a portion of the Company's acquisition financing as a current liability. The reduction in the working capital deficit at December 31, 1990 is due principally to the refinancing of that acquisition debt to long-term during 1990. The increase in the working capital deficiency at December 31, 1991 is attributable primarily to an increase in current maturities of long-term debt.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Summary Historical Consolidated Financial Data and the Consolidated Financial Statements and Notes thereto and other more detailed financial information appearing elsewhere herein. In particular, refer to the Introduction to the Notes to the Consolidated Financial Statements for discussion of the 1989 transaction whereby TW Services was acquired by TW Holdings.

Results of Operations

During 1991, the Company sold Preferred Meal Systems, Inc. In 1990, it sold American Medical Services, Inc., The Rowe Corporation, and Milnot Company. These entities have been treated as Discontinued Operations for all periods in the accompanying Consolidated Financial Statements and for purposes of the discussion below.

1991 Compared to 1990

Operating revenues decreased by approximately $8.6 million (0.2%) in 1991. This decline was primarily attributable to a decrease of $43.4 million (3.3%) in revenues from Canteen's contract food service operations, which continued to reflect the adverse impact of the nation's economic recession on employment levels at many of the industrial facilities served by Canteen. This decrease was offset, however, by a $34.8 million (1.5%) increase in revenues from restaurant operations, of which $22.1 million was attributable to Denny's. A 4.2% increase in the average check at Denny's, partially offset by a 1.9% decrease in customer traffic, resulted in a 2% increase in average unit sales. Hardee's accounted for $15.0 million of the increase in restaurant operating revenues, primarily due to a 17 unit increase in the number of restaurants in the group. On a per unit basis, a 2.8% increase in the average check was insufficient to offset a 4.2% decline in customer traffic, resulting in a 1.4% decrease in average unit sales. Similarly, Quincy's, which experienced an overall revenue increase of $1.8 million due to a 4 unit increase in the number of restaurants, experienced a decrease in average unit sales of 0.3% due to a 0.7% decline in customer traffic (principally attributable to declines in lunch and dinner traffic, mitigated, in part, by the completed rollout of Quincy's breakfast buffet) that was only partly offset by a 0.4% increase in the average check. Revenues of El Pollo Loco, which account for only 4.3% of total restaurant operating revenues, declined by $4.1 million, primarily due to a 10.8% decline in average unit sales and an 8 unit decrease in the number of Company-owned units as El Pollo Loco sought to concentrate on operations in its major market areas. In addition, the number of franchised units decreased by 31 during 1991. In general, while restaurant operating revenues were higher, customer traffic at all of the Company's restaurants was adversely affected by the effects of the Persian Gulf war and recessionary pressures on consumers and by the decision not to engage in substantial price discounting initiated at many competing restaurant chains.

The Company's overall operating expenses increased by $5.5 million in 1991. Denny's operating expenses increased by $12.0 million (0.9%), due principally to a $3.7 million increase in advertising costs and a $5.3 million increase in depreciation and amortization. Hardee's operating expenses increased by $15.0 million (3.3%), due principally to a $9.3 million increase in payroll and benefits which was partially offset by a $1.6 million decrease in product costs. Quincy's operating expenses increased by $6.3 million (2.4%), due principally to a $4.8 million increase in payroll and benefits. El Pollo Loco's operating expense increased by $3.7 million, due principally to a $1.2 million increase in payroll and benefits. Factors affecting the Company's increases in payroll and benefits include an increase in the minimum wage in April of 1991, programs to enhance customer service, the introduction of new menu items and increased costs of health care benefits. The total increase of $37.0 million in restaurant operating expenses was offset by a $37.3 million decrease in operating expenses of Canteen, which was due principally to a $25.1 million decrease in product costs and an $11.2 million decrease in payroll and benefits. Corporate operating expenses increased by $5.8 million in 1991, to $15.9 million, principally due to the consolidation of and reclassification of expenses associated with certain support functions which had been included in the restaurants' and Canteen's operating expenses in 1990.

1991 Compared to 1990 *(Continued)*

Interest and debt expense decreased by $5.2 million in 1991, to $309.1 million, due to lower interest costs on outstanding variable rate indebtedness and to principal repayments made during the course of the year. Interest expense for 1991 and 1990 includes $81.5 million and $81.2 million, respectively, of non-cash charges related to the accretion of original issue discount on the Company's Senior Subordinated Discount Debentures Due 2001 and the amortization of deferred financing costs.

1990 Compared to 1989

Operating revenues increased by approximately $191.8 million (5.6%) to $3.6 billion in 1990. The increase was attributable almost entirely to a $191.3 million (9.1%) increase in revenues from restaurant operations. Although Canteen's contract food service revenues increased slightly to $1.32 billion in 1990, its results reflected lower levels of employment at many industrial plants at which it operates contract food service facilities. The increase in revenues from restaurant operations was primarily attributable to Denny's, which reported a revenue increase of $123.0 million. A 4.1% increase in both average check and customer traffic resulted in an 8.3% increase in average unit sales. Hardee's accounted for $43.3 million of the overall increase in restaurant operating revenues, attributable primarily to an 18 unit increase in the number of restaurants operated. On a per unit basis, a 3.5% increase in average check and a 0.1% increase in customer traffic resulted in a 3.6% increase in average unit sales. Quincy's accounted for $18.2 million of the increase in restaurant operating revenues. A 4.6% increase in customer traffic and a 1.5% increase in average check resulted in a 6.2% increase in average unit sales. Quincy's increased revenues included $5.4 million related to the continued rollout of the weekend breakfast buffet; at December 31, 1990, 138 units were participating in this program as compared to 29 units at the end of 1989. Revenues of El Pollo Loco, which accounted for only 4.6% of total restaurant operating revenues, increased $6.8 million due to the addition of 18 Company-owned restaurants and 26 additional franchised units. An 11.9% decrease in traffic was only partially offset by a 1.6% increase in average check, which resulted in a 10.5% decrease in average unit sales. The disappointing results of El Pollo Loco reflect intense competition in the fast food markets in which it operates.

The Company's operating expenses, excluding depreciation and amortization and costs associated with the acquisition of TW Services, increased by $141.4 million (4.7%) in 1990. Denny's operating expenses, excluding depreciation and amortization, increased $88.7 million (7.8%), due principally to increased product costs of $70.0 million and payroll and benefits increases of $26.0 million. Hardee's operating expenses, excluding depreciation and amortization, increased by $39.5 million (10.2%), including product cost increases of $14.9 million principally due to higher average sales and increases in payroll and benefits of $14.0 million due primarily to an 18 unit increase in the number of restaurants operated. Quincy's operating expenses, excluding depreciation and amortization, increased by $11.6 million (5.1%) due to product cost increases of $4.7 million and increases in payroll and benefits of $5.5 million. El Pollo Loco's operating expenses, excluding depreciation and amortization, increased $9.6 million (11.8%) in 1990 due to the addition of 18 new Company-owned restaurants. Canteen's operating expenses, excluding depreciation and amortization, decreased by $4.8 million or 0.4% in 1990. The Company estimates that during 1990, the effects of the internal reorganization and staff reduction at Canteen resulted in a cost savings to the Company of approximately $17.0 million over what would otherwise have been incurred during the year. Corporate operating expenses, excluding depreciation and amortization, decreased by $3.2 million in 1990, from $10.4 million in 1989.

1990 Compared to 1989 *(Continued)*

As a result of the acquisition of TW Services in 1989, operating expenses related to depreciation and amortization increased to $209.9 million in 1990, as compared to $165.7 million in 1989. Operations in 1990 include a full year's effect of stepped-up non-cash depreciation and amortization charges of $68.3 million; whereas, 1989 includes stepped-up depreciation and amortization charges for the period July 21 through December 31 of $27.1 million. Included in operating expenses during 1989 are non-recurring acquisition-related expenses of $100.0 million for employee-related costs and short-term acquisition financing costs.

Consolidated operating income increased in 1990 to $238.3 million from $132.1 million in 1989. The increase was the result of the non-recurring acquisition-related expenses in 1989 of $100.0 million which were offset by $41.2 million of additional depreciation and amortization charges related to a full year's effect of the acquisition in 1990, compared to only five months of 1989.

Interest and debt expense increased in 1990 to $314.3 million from $180.1 million in 1989 due to financings associated with the acquisition of TW Services and a full year's effect of such financings in 1990 compared to approximately five months in 1989. Interest and debt expense for 1990 and 1989 include $81.2 million and $7.6 million, respectively, of non-cash charges related to the accretion of discount on the Company's Senior Subordinated Discount Debentures Due 2001 and the amortization of deferred financing costs for the Company's debt.

Liquidity and Capital Resources

Historically, the Company has met its liquidity needs and capital requirements with internally generated funds and external borrowings. The Company expects to continue to rely on internally generated funds, supplemented by available working capital advances under its bank credit facility and other external borrowings, as its primary sources of liquidity and believes that funds from these sources will continue to be sufficient to meet the Company's working capital, debt service and capital expenditure requirements.

Although the Company reported net losses in 1991 and 1990, those losses have been attributable in major part to non-cash charges, consisting principally of depreciation of tangible assets and amortization of identifiable intangible assets, goodwill, and original issue discount, net of deferred tax benefits. The following table sets forth, for each of the years indicated, a calculation of the Company's cash available for debt repayment and capital expenditures:

	1991	*1990*
	(In Millions)	
Net loss	$ (67.6)	$ (67.8)
Non-cash charges	280.8	269.3
Changes in certain working capital items	(26.7)	7.1
Increase in other liabilities	2.2	10.4
Cash available for debt repayment and capital expenditures	$188.7	$219.0

The decrease of $30.3 million in available cash in 1991 from that in 1990 resulted principally from $24.0 million of cash expenditures incurred during 1991 in connection with the consolidation and relocation of support functions for Denny's and Canteen, most of which are non-recurring and are expected to result in a reduction of the cost of support functions and enhanced coordination of the Company's overall operations.

Liquidity and Capital Resources *(Continued)*

The bank facility provides the Company with a revolving credit line of $150 million and a letter of credit facility of $175 million, subject to a combined limit of $250 million. Available borrowings under the revolving credit line are subject to a borrowing base formula measured by eligible inventory and accounts receivable. At December 31, 1991, approximately $83.2 million was available under the revolving credit line, of which $35.0 million had been borrowed. The Company is required by the terms of the bank facility to have no outstanding revolving credit borrowings for a period of 60 days in each year.

As a consequence of the Company's substantial indebtedness, most of which was incurred to finance the leveraged acquisition of TW Services in 1989, debt service has commanded and will continue to command a significant portion of the Company's cash flow. During 1991, total indebtedness increased by approximately $7.7 million as a result of accretion of original issue discount on the Company's Senior Subordinated Discount Debentures Due 2001 ($67.6 million) and capital leases and other financings ($20.8 million), offset by principal payments and a reduction of revolving credit borrowings ($80.7 million). Of the Company's total indebtedness outstanding at December 31, 1991, approximately $976.9 million bore interest at rates that fluctuate with variations in external reference rates (such as prime and LIBOR), of which $325.0 million was subject to interest rate exchange agreements. Accordingly, fluctuations in interest rates may materially affect the Company's debt service costs. The Company's outstanding publicly-held debt securities bear interest (or accrete) at rates substantially in excess of those currently payable on its outstanding bank debt. Its outstanding Senior Notes in the amount of $150 million, accrue interest at a rate of 14.75%, such notes having been issued, pursuant to contractual requirements, in exchange for $150 million in variable rate notes (then accruing interest at a rate of 11.56%) in April 1991. Its outstanding Senior Subordinated Discount Debentures Due 2001, of which approximately $712.1 million aggregate principal amount were issued in November 1989 at a price of approximately 43.4% of their principal amount, accrete at an annual rate of 17% through October 31, 1994, following which interest at that rate will become payable in cash. Those debentures, as well as $200 million of other publicly-held subordinated debt securities presently outstanding, are not callable until November 1994. Scheduled debt maturities of long-term indebtedness over the next five years are as follows:

	(In Millions)
1992	$125.5
1993	170.4
1994	194.2
1995	193.2
1996	225.5
Total:	$908.8

It is a principal objective of management to reduce the Company's debt service requirements through selective refinancing of indebtedness having higher interest rates or shorter maturities and through prepayment by application of internally generated funds and, if and when appropriate opportunities arise, proceeds from the sale of equity securities. The Company and its financial advisors are actively evaluating possible financing transactions and their effects on the Company. An amendment of the Company's agreement with its lending banks obtained in June 1991 permits the Company to apply up to $100 million of the proceeds from future equity financings to reduce its outstanding subordinated indebtedness.

Liquidity and Capital Resources *(Continued)*

The Company's principal capital requirements are those associated with opening new restaurants and expanding its contract food service business, as well as those associated with remodeling and maintaining its existing restaurants and facilities. During 1991, total capital expenditures were approximately $130.3 million, of which approximately $21.6 million were used to open new restaurants, $36.3 million were applied to expand the contract food service business and $72.4 million were expended to upgrade and maintain existing facilities. Of these expenditures, approximately $20.8 million were financed through capital leases and secured borrowings. Capital expenditures during 1992 are expected to total approximately $171.2 million, of which approximately $50.6 million is expected to be externally financed. The June 1991 amendment of the Company's agreements with its lending banks enhanced its ability to engage in certain financing activities, including sale-and-leaseback financing of food service facilities, and to make acquisitions for cash and assumed debt.

The Company's bank credit agreement and public-debt indentures contain a number of covenants that limit certain activities. These covenants, among other things, restrict the Company's ability to pay dividends, incur additional indebtedness, further encumber its assets, and purchase or sell assets. In addition, the bank agreements contain certain financial covenants, continued compliance with which will require the Company to improve its operating results in 1992. The Company's ability to achieve such results will depend, in part, on increasing the average unit sales of the Company's existing restaurant operations, opening additional restaurants and expanding Canteen's volume and customer base, all of which are consistent with the Company's operating goals.

The Company is able to operate with a substantial working capital deficiency because (i) restaurant operations and most other food service operations are conducted primarily on a cash (and cash equivalent) basis with a low level of accounts receivable, (ii) rapid turnover permits a limited investment in inventories and (iii) accounts payable for food, beverages and supplies usually become due after the receipt of cash from the related sales. At December 31, 1991, the Company's working capital deficiency was $356.6 million as compared with $318.4 million at the end of 1990, the difference being attributable primarily to an increase at year end 1991 in current maturities of long-term debt.

In December 1990, the Financial Accounting Standards Board issued its Statement of Financial Accounting Standards No. 106 ("Employees' Accounting for Post-Retirement Benefits Other Than Pensions"), which requires accrual of the anticipated cost of those benefits during the years that the employees render their services. The Company utilized the principles included in initial drafts of this standard to record such costs at the time of the acquisition of TW Services in 1989. As a consequence, the effect of the new standard on the Company's financial statements is not expected to be material. The Company is required to comply fully with the provisions of the new standard by 1993.

Statements of Consolidated Income (Loss)

Statements of Consolidated Income (Loss)

(In thousands except per share amounts)

	Successor			Predecessor
	Year Ended December 31, ***1991***	*Year Ended December 31,* ***1990***	*July 21 to December 31,* ***1989***	*January 1 to July 20,* ***1989***
Operating revenues	$3,617,934	$3,626,502	$1,517,907	$1,916,808
Operating expenses:				
Product cost	1,259,777	1,296,952	535,969	683,651
Payroll & benefits	1,256,236	1,238,722	511,530	678,975
Depreciation & amortization expense	218,132	209,875	90,177	75,550
Commissions and royalities	123,833	119,601	56,646	61,290
Other	535,667	523,022	226,680	282,186
Merger-related costs and unusual items (Note 11)	—	—	69,933	30,051
	3,393,645	3,388,172	1,490,935	1,811,703
Operating income	224,289	238,330	26,972	105,105
Other charges (credits):				
Interest and debt expense (Note 7)	309,098	314,314	117,543	62,530
Other — net	865	1,824	(5,238)	4,154
	309,963	316,138	112,305	66,684
Income (loss) from continuing operations before income taxes and discontinued operations	(85,674)	(77,808)	(85,333)	38,421
Provision (benefit) for income taxes (Note 2)	(18,099)	(9,995)	(8,183)	17,644
Income (loss) from continuing operations	(67,575)	(67,813)	(77,150)	20,777
Loss from discontinued operations	—	—	—	(918)
Net income (loss)	$ (67,575)	$ (67,813)	$ (77,150)	$ 19,859
Earnings (loss) per common share (Note 4):				
Continuing operations	$ (0.61)	$ (0.61)	$ (0.70)	$ 0.43
Discontinued operations	—	—	—	(0.02)
Net income (loss)	$ (0.61)	$ (0.61)	$ (0.70)	$ 0.41
Average Outstanding and Equivalent Common Shares	111,059	110,000	110,000	48,861

See notes to consolidated financial statements.

Consolidated Balance Sheets

Consolidated Balance Sheets
(In thousands)

	December 31, **1991**	*December 31,* **1990**
Assets		
Current Assets:		
Cash and temporary cash investments	$ 19,158	$ 23,330
Receivables, less allowance for doubtful accounts of: 1991 — $10,678; 1990 — $7,540 (Note 7)	64,422	66,913
Merchandise and supply inventories (Note 7)	99,741	93,102
Net assets held for sale (Note 12)	—	14,545
Other	6,928	11,803
	190,249	209,693
Property:		
Property owned (at cost) (Note 7):		
Land	267,823	264,328
Buildings and improvements	831,493	791,055
Merchandising equipment	193,513	180,955
Other property and equipment	407,711	374,380
Total property owned	1,700,540	1,610,718
Less accumulated depreciation	340,058	201,169
Property owned — net	1,360,482	1,409,549
Buildings and improvements, vehicles, and other equipment held under capital leases (Note 8):	112,700	94,557
Less accumulated amortization	25,570	13,670
Property held under capital leases — net	87,130	80,887
	1,447,612	1,490,436
Other Assets:		
Goodwill (Note 1)	1,337,450	1,373,320
Other intangible assets (Note 1)	265,707	279,735
Deferred financing costs (Note 1)	102,354	102,070
Other	41,396	40,255
	1,746,907	1,795,380
	$3,384,768	$3,495,509

See notes to consolidated financial statements.

Consolidated Balance Sheets

(In thousands)
(Continued)

	December 31, **1991**	*December 31,* **1990**
Liabilities		
Current Liabilities:		
Short-term borrowings (Note 7)	$ 35,000	$ 60,000
Current maturities of long-term debt (Note 7)	125,472	48,300
Accounts payable	116,369	121,441
Accrued salaries and vacations	56,957	60,147
Accrued insurance	69,110	61,213
Accrued taxes	38,287	34,068
Accrued interest	22,595	25,355
Other	83,094	117,606
	546,884	528,130
Long-Term Liabilities:		
Debt, less current maturities (Note 7)	2,261,261	2,305,746
Deferred income taxes (Note 2)	227,551	254,587
Liability for self-insured claims	67,105	64,812
Other non-current liabilities and deferred credits (Note 5)	204,990	203,006
	2,760,907	2,828,151
Commitments and Contingent Liabilities (Notes 6, 7, 8)		
Shareholders' Equity (Note 3):		
Capital stock:		
$0.10 par value 250,000 shares authorized; 1991 — 111,849 issued and outstanding; 1990 — 110,000 issued and outstanding	11,185	11,000
Paid-in capital	291,711	286,572
Deficit	(225,919)	(158,344)
	76,977	139,228
	$3,384,768	$3,495,509

See notes to consolidated financial statements.

Statements of Consolidated Cash Flows

Statements of Consolidated Cash Flows
Increase (decrease) in cash and cash equivalents
(In thousands)

	Successor			*Predecessor*
	Year Ended December 31, **1991**	*Year Ended December 31,* **1990**	*July 21 to December 31,* **1989**	*January 1 to July 20,* **1989**
Cash Flows from Operating Activities:				
Net income (loss) from continuing operations	$ (67,575)	$ (67,813)	$ (77,150)	$ 20,777
Adjustments to Reconcile Net Income (Loss) to Cash Flow from Operating Activities:				
Depreciation and amortization of property	162,658	153,670	65,313	62,090
Amortization of goodwill	35,775	35,812	15,970	10,139
Amortization of other intangible assets	19,699	20,394	8,894	3,321
Amortization of deferred financing costs	13,910	23,807	3,692	—
Interest accretion	67,573	57,423	3,943	—
Deferred income tax provision (benefit)	(27,036)	(23,529)	(2,120)	7,512
Other	8,192	1,709	(4,216)	(5,366)
Changes in Assets and Liabilities Net of Effects from Acquisition:				
Decrease (increase) in assets:				
Receivables	(2,067)	5,669	(8,373)	6,664
Inventories	(6,890)	3,458	(806)	(843)
Other current assets	4,750	(3,673)	(4,606)	(7,070)
Increase (decrease) in liabilities:				
Accounts payable	(5,698)	(3,793)	8,600	13,705
Accrued salary and vacations	(1,645)	(1,033)	10,194	(10,198)
Taxes payable	4,219	(5,286)	2,070	16,190
Other accrued liabilities	(19,395)	11,749	(43,204)	26,863
Other noncurrent liabilities and deferred credits	2,223	10,399	41,809	(23,213)
Net cash flows from operating activities	188,693	218,963	20,010	120,571
Cash Flows from Investing Activities:				
Purchase of property and equipment	(109,484)	(135,723)	(72,169)	(83,852)
Proceeds from disposition of assets held for sale	5,170	32,332	—	—
Proceeds from dispositions of property and equipment	3,732	20,536	9,019	8,941
Litigation settlement of equity investment	—	—	(13,522)	—
Proceeds from sale of equity investment	—	5,632	19,200	—
Cost of acquisition	—	—	(1,291,068)	—
Other long-term assets	(2,719)	(2,162)	(12,969)	(19,035)
Net cash flows used in investing activities	(103,301)	(79,385)	(1,361,509)	(93,946)

Statements of Consolidated Cash Flows

(Continued)

	Successor			Predecessor
	Year Ended December 31, **1991**	*Year Ended December 31,* **1990**	*July 21 to December 31,* **1989**	*January 1 to July 20,* **1989**
Cash Flows from Financing Activities:				
Net borrowings under credit agreements	(25,000)	40,000	20,000	—
Long-term debt incurred:				
Issued in connection with acquisition	—	—	2,190,000	—
Issued in connection with refinancings	—	397,500	—	—
Deferred financing costs	(8,870)	(30,945)	(98,524)	—
Other, net	—	7	2,716	—
Long-term debt payments	(55,700)	(530,561)	(868,257)	(3,638)
Redemption of cumulative participating stock	—	—	(50,700)	—
Cash dividends on capital stock	—	—	(283)	(2,443)
Sale of common stock	—	—	146,232	6,048
Stock issuance costs	—	—	(11,294)	—
Other	6	—	(11)	(7,553)
Net cash flows from (used in) financing activities	(89,564)	(123,999)	1,329,879	(7,586)
Increase (Decrease) in Cash and Cash Equivalents	(4,172)	15,579	(11,620)	19,039
Cash and Cash Equivalents at:				
Beginning of Period	23,330	7,751	19,371	332
End of Period	$ 19,158	$ 23,330	$ 7,751	$ 19,371
Supplemental Cash Flow Information:				
Income taxes paid	$ 12,755	$ 12,744	$ 2,924	$ 7,734
Interest paid	$ 221,254	$ 230,963	$ 110,131	$ 64,390
Non-cash financing activities:				
Capital lease obligations	$ 19,220	$ 9,364	$ 3,933	$ 2,638
Debt Assumed	$ 1,594	$ —	$ —	$ —
Issuance of Capital Stock	$ 5,324	$ —	$ —	$ —

A reconciliation of the cash acquisition cost of TWS to the purchase cost follows (in thousands):

Total purchase cost including financing and stock acquisition and issuance costs, and dividends	$1,694,861
Less:	
Non-cash issuance of TWH stock and debt for TWS common stock	248,638
Financing and stock acquisition and issuance costs	141,960
Exchange of debt for accrued dividends	13,195
Cash Acquisition Cost of TWS	$1,291,068

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Introduction

On December 5, 1989, the stockholders of TW Services, Inc. (Predecessor) approved and adopted the Agreement of Merger, dated as of June 6, 1989 and as amended and restated as of July 19, 1989 and as further amended on November 9, 1989 (Merger Agreement), among TW Holdings, Inc. (TWH, Successor or the Company) and TW Food Services, Inc. (TWFS) and TWS. TWH and TWFS were organized for the purpose of effecting the acquisition of TWS. TWFS was subsequently merged into TW Services, Inc.

The merger was the final step in the acquisition of TWH and its affiliates to acquire all the capital stock of Predecessor. The first step was a cash tender offer pursuant to which TWFS purchased on July 20, 1989, 30,000,000 shares of TWS stock for $34 per share, which combined with its previous holdings, resulted in TWFS owning approximately 80% of the outstanding shares of TWS stock. At the merger date, each outstanding share of TWS common stock previously purchased became converted into the right to receive, at the option of the holder thereof, $34 in cash, $30 cash plus one share of common stock of TWH or $26 cash plus two shares of common stock of TWH. 15,547,498 shares of TWH stock were issued to the remaining TWS shareholders as a result of the shareholders' elections.

The acquisition has been accounted for under the purchase method of accounting as of July 20, 1989. Accordingly, TWH has allocated its total purchase cost of approximately $1.7 billion to the assets and liabilities of TWS based upon their respective fair values, which were determined by valuations and other studies that were finalized during 1990. Based upon the final allocation, the statement of consolidated income (loss) and retained earnings of Successor reflect amortization of goodwill over a life of 40 years, which will result in annual amortization of $35.6 million for such goodwill. Because of the purchase price allocation, the accompanying consolidated financial statements of Successor are not directly comparable to those of Predecessor.

Note 1
Summary of Significant Accounting Policies

Accounting policies and methods of their application that significantly affect the determination of financial position, cash flows and results of operations are as follows:

(a) *Consolidated Financial Statements.* The Consolidated Financial Statements include the accounts of TWH, TW Services, Inc., and all its subsidiaries for all periods since their acquisition. Certain 1990 and 1989 amounts have been reclassified to conform to the 1991 presentation.

(b) *Property and Depreciation.* Property and equipment owned are depreciated principally on the straight-line method over its estimated useful life. Property held under capital leases (at capitalized value) is amortized over its estimated useful life, limited generally by the lease period. The following estimated useful service lives were in effect during 1991, 1990 and 1989:

Merchandising equipment — Principally five to ten years
Buildings — Fifteen to forty years
Other equipment — Two to ten years
Leasehold improvements — Estimated useful life limited by the lease period.

(c) *Inventories.* Merchandise and supply inventories are valued primarily at the lower of average cost or market.

(d) *Income Taxes.* Income taxes are accounted for under the provisions of Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" which was issued in February 1992, and superseded SFAS 96. Income taxes are calculated on a consolidated basis and allocated to each company based on the separate return attributes of each company. The current income tax liability is allocated to the Company's subsidiaries based on the ratio of each subsidiary's current federal income tax liability, as if each subsidiary were filing separately, to the sum of all such separate returns based subsidiary federal income tax liabilities. See Note 2 for a further description of the accounting for income taxes.

(e) *Goodwill.* The excess of cost over the fair value of net assets of companies acquired is being amortized over a 40-year period on the straight-line method.

(f) *Other Intangible Assets.* The other intangible assets, net of $46,384,000 and $26,685,000 of accumulated amortization at December 31, 1991 and 1990, respectively, consist primarily of costs allocated in the acquisition to tradenames, franchise and other operating agreements. Such assets are being amortized on the straight-line basis over the useful lives of the franchise and other agreements and over 40 years for tradenames.

(g) *Deferred Financing Costs.* Costs related to the issuance of debt are deferred and amortized as a component of interest expense over the terms of the respective debt issues using the interest method.

(h) *Insurance.* The Company is primarily self insured for general liability and workers compensation risks supplemented by stop loss type insurance policies. The liabilities for estimated incurred losses are discounted at 11% to their present value based on expected loss payment patterns determined by independent actuaries. The total discounted self-insurance liabilities recorded at December 31, 1991 and 1990 were $107.3 million and $104.3 million, respectively. The related undiscounted amounts at such dates were $134.2 million and $130.8 million, respectively.

(i) *Statements of Consolidated Cash Flows.* For purposes of the Statements of Consolidated Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Note 1
Summary of Significant Accounting Policies *(Continued)*

(j) *Postretirement benefits.* The FASB issued a standard in December, 1990 which requires that postretirement benefits be recognized as the services of the employees are rendered rather than when paid. Successor utilized the principles included in previous drafts of the Standard to record an estimate of such costs at acquisition date. As a result, the effect of the new standard on the Company's financial statements is not expected to be material.

Note 2
Income Taxes

The Company adopted SFAS 96 for its initial reporting period beginning July 21, 1989. SFAS 109, which was issued in February 1992, amended and superseded SFAS 96. The Company adopted SFAS 109 upon its issuance and has retroactively applied its provisions to all periods since the acquisition. Adoption of SFAS 109 did not have a material effect on the Company's Successor consolidated financial statements. SFAS 109 requires an asset and liability approach to account for income taxes, which can result in recording tax provisions or benefits in periods different than the periods in which such taxes were paid or benefits realized. Predecessor accounted for taxes under the deferred method whereby income taxes were provided for timing differences in reporting certain income and expense items for income tax and financial accounting purposes.

A summary of the provision (benefit) for income taxes is as follows:

	Successor			*Predecessor*
	Year Ended December 31, ***1991***	*Year Ended December 31,* ***1990***	*July 21 to December 31,* ***1989***	*January 1 to July 20,* ***1989***
	(In Thousands)			
Current:				
Federal	$ 4,374	$ 6,777	$(10,961)	$ 6,296
State, Foreign and Other	4,563	6,757	4,898	3,836
	8,937	13,534	(6,063)	10,132
Deferred:				
Federal	(24,183)	(20,274)	(1,834)	6,942
State, Foreign and Other	(2,853)	(3,255)	(286)	570
	(27,036)	(23,529)	(2,120)	7,512
Provision (benefit) for income taxes	$(18,099)	$ (9,995)	$ (8,183)	$17,644
Provision (benefit) related to income (loss) from:				
Continuing operations	$(18,099)	$ (9,995)	$ (8,183)	$17,644
Discontinued operations	—	—	—	(780)
Provision (benefit) for income taxes	$(18,099)	$ (9,995)	$ (8,183)	$16,864

Note 2
Income Taxes
(Continued)

The deferred federal tax provision for the year ended December 31, 1991 includes recognition of the effect of alternative minimum tax credit carryforwards and regular tax net operating loss carryforwards created in 1991 of approximately $4.4 million and $4.2 million, respectively.

The following represents the approximate tax effect of each significant type of temporary difference and carryforward giving rise to the deferred income tax liability:

	December 31,	
	1991	**1990**
	(In Thousands)	
Depreciation of fixed assets	$298,396	$318,853
Amortization of intangible assets	93,423	98,294
Self-insurance reserves	(45,304)	(43,661)
Capitalized leases	(14,967)	(14,312)
Other accruals and reserves	(73,850)	(82,986)
Gross deferred income tax liability	257,698	276,188
Less reduction of gross deferred income tax liability for the effect of:		
Alternative minimum tax credit carryforwards	(21,171)	(16,850)
General business credit carryforwards	(4,751)	(4,751)
Net operating loss carryforwards	(4,225)	—
Total deferred income tax liability	$227,551	$254,587

The difference between the statutory federal income tax rate and the effective tax rate is as follows:

	Successor			Predecessor
	Year Ended December 31, **1991**	Year Ended December 31, **1990**	July 21 to December 31, **1989**	January 1 to July 20, **1989**
Statutory rate	34%	34%	34%	34%
Differences:				
State, foreign, and other taxes, net of federal income tax benefit	(1)	(2)	(3)	6
Amortization of goodwill	(14)	(16)	(7)	10
Alternative minimum tax rate differential	—	(8)	(10)	—
General business credit and investment tax credit recapture	—	—	—	(4)
Other net permanent differences between the tax return and the statement of consolidated income	2	5	(4)	—
Effective tax rate	21%	13%	10%	46%

At December 31, 1991, the Company has available to reduce taxes that become payable in the future general business credit carryforwards of approximately $4.7 million which expire in approximately 2000 and alternative minimum tax (AMT) credits of $21.2 million. The AMT credits may be carried forward indefinitely. In addition, the Company has available regular tax net operating loss carryforwards of $12.4 million expiring in 2006.

Note 3
Shareholders' Equity

	Total Other Equity	*Retained Earnings*	*Total Shareholders' Equity*
		(In Thousands)	
Predecessor:			
Balance December 31, 1988	$244,453	$ 256,696	$501,149
Activity:			
Net Income for the period January 1, 1989 to July 20, 1989	—	19,859	19,859
Dividends on Common Stock	—	(2,443)	(2,443)
Issuance of Common Stock	4,609	—	4,609
Other, net	1,439	—	1,439
Balance at Acquisition	$250,501	$ 274,112	$524,613
Successor:			
Initial capitalization at July 20, 1989 — Issuance of Common Stock, net	$297,572	—	$297,572
Activity:			
Net loss for the period July 21, 1989 to December 31, 1989	—	(77,150)	(77,150)
Other	—	(13,381)	(13,381)
Balance December 31, 1989	297,572	(90,531)	207,041
Activity:			
Net Loss	—	(67,813)	(67,813)
Balance December 31, 1990	297,572	(158,344)	139,228
Activity:			
Net Loss	—	(67,575)	(67,575)
Issuance of Capital Stock	5,324	—	5,324
Balance December 31, 1991	$302,896	$(225,919)	$ 76,977

For the Successor period in 1989, "other", represents dividends on Cumulative Participating Stock which was outstanding for a portion of the Successor period.

Note 4
Earnings (Loss) Per Common Share

The 10% convertible debentures, which are convertible into the common stock of the Company (see Note 7), are considered an "other potentially dilutive security" which may become dilutive in the future and be included in the calculation of fully diluted earnings (loss) per share. The stock options issued to management are common stock equivalents.

Earnings (loss) per common share during the Successor periods have been based on the weighted average number of TWH shares outstanding, after giving effect to the permanent capital structure which was consummated with the reorganization and merger on December 6, 1989. The options and debentures have been omitted from the calculation because they have an antidilutive effect on earnings (loss) per share data.

Note 5 Employee Benefit Plans

The Company maintains several defined benefit plans which cover a substantial number of employees. Benefits are based upon each employee's years of service and average salary. The Company's funding policy is based on the minimum amount required under the Employee Retirement Income Security Act of 1974. The Company also maintains defined contribution plans.

Total net pension cost of defined benefit plans for the years ended December 31, 1991, 1990, and 1989 amounted to $4,576,000, $3,579,000, and $3,842,000, respectively, of which $3,172,000, $2,175,000, and $2,252,000, related to funded defined benefit plans and $1,404,000, $1,404,000, and $1,590,000, related to nonqualified unfunded supplemental defined benefit plans for executives. As of December 31, 1991 and 1990, the accrued pension liability related to these unfunded plans was $8,457,000 and $7,953,000, respectively, which approximated the projected benefit obligation.

The components of net pension cost of the funded defined benefit plans in 1991, 1990, and 1989 determined under SFAS 87 follow:

	Successor			*Predecessor*
	Year Ended December 31, ***1991***	*Year Ended December 31,* ***1990***	*July 21 to December 31,* ***1989***	*January 1 to July 20,* ***1989***
	(In Thousands)			
Service cost-benefits earned during the year	$ 4,006	$ 3,730	$ 1,502	$ 2,061
Interest cost on projected benefit obligations	6,330	5,783	2,275	3,098
Actual return on plan assets	(15,350)	(996)	(1,905)	(9,568)
Net amortization and deferral	8,186	(6,342)	(863)	5,652
Net pension cost	$ 3,172	$ 2,175	$ 1,009	$ 1,243

The following table sets forth the funded status of the plans and amounts recognized in the Company's statement of financial position for its defined benefit plans:

	December 31,	
	1991	***1990***
	(In Thousands)	
Actuarial present value of accumulated benefit obligations:		
Vested benefits	$68,115	$63,128
Non-vested benefits	1,946	1,887
Accumulated benefit obligations	$70,061	$65,015
Plan assets at fair value	$87,942	$74,941
Projected benefit obligation	81,954	75,278
Plan assets (less than) in excess of projected benefit obligation	5,988	(337)
Unrecognized net loss from past experience different from that assumed	158	7,327
Unrecognized prior service cost	785	938
Unrecognized net asset at January 1, being recognized over 15 years	(863)	(1,054)
Prepaid pension costs	$ 6,068	$ 6,874

Note 5
Employee Benefit Plans
(Continued)

Significant assumptions used in determining net pension cost and funded status information for all the periods shown above are as follows:

Discount rate	8.5%
Rates of salary progression	4.0–6.0%
Long-term rates of return on assets	8.5–10.0%

In addition, the Company has defined contribution plans including an employee savings plan under which it makes matching contributions, with certain limitations. Amounts charged to income under these plans were $4,265,000 and $5,103,000 for the years ended December 31, 1991 and 1990, respectively, $1,667,000 for the period from July 21, 1989 through December 31, 1989, and $3,436,000 for the period from January 1, 1989 through July 20, 1989.

Incentive compensation plans provide for awards to management employees based on meeting or exceeding certain levels of income as defined by such plans. The amounts charged to income under the plans were as follows: Successor — year ended December 31, 1991 — $2,605,000, year ended December 31, 1990 — $5,580,000, July 21, 1989 through December 31, 1989 — $2,644,000; Predecessor — January 1, 1989 through July 20, 1989 — $2,530,000. In addition to these incentive compensation plans, certain operations have incentive plans in place under which regional, divisional and local management participate.

The Merger Agreement required TWS to terminate the existing stock option plan and cancel all stock options. Under the Merger Agreement each participant received in settlement for the cancellation a cash amount equal to the excess of the offer price over the per share exercise price of the stock option.

In 1989, the Company adopted a new option plan (the 1989 Stock Option Plan) which permits a Committee of the Board of Directors to grant options to key employees of the Company and its subsidiaries to purchase up to 3,000,000 shares of common stock at a stated price established by the Committee. Such options are exercisable at such time or times either in whole or part, as determined by the Committee. At December 31, 1991 and 1990, there were options for 2,093,350 and 2,373,750 shares outstanding, respectively, at an option price of $4.00 per share, 837,340 of which were exercisable at December 31, 1991. No options were granted in 1991. The option agreements provide for forty percent of the shares under option to become exercisable beginning two years from the date of grant and an additional twenty percent each year thereafter until all the options are exercisable. If not exercised, the options expire ten years from the date of grant.

In 1990, the Board of Directors adopted a 1990 non-qualified Stock Option Plan (the 1990 Option Plan) for its directors who do not participate in management and are not affiliated with GTO (see Note 13). Such plan authorizes the issuance of up to 150,000 shares of common stock. The plan is substantially similar in all respects to the 1989 Option Plan described above. The Committee of the Board administering the 1990 Option Plan granted options for 150,000 shares as of July 31, 1990 at $5.81 per share, the market per share on the date of grant.

Note 6
Commitments and Contingencies

There are various claims and pending legal actions against or indirectly involving the Company, including actions concerned with financing matters, civil rights of employees, taxes, sales of franchise rights, and other matters. Certain of these are seeking damages in substantial amounts. The amounts of liability, if any, on these direct or indirect claims and actions at December 31, 1991, over and above any insurance coverage in respect to certain of them, are not specifically determinable at this time. It is the opinion of Management (including General Counsel), however, after considering a number of factors, including but not limited to the views of retained counsel, the nature of the litigation, the prior experience of the consolidated companies, and the amounts which the Company has accrued for known contingencies that the ultimate disposition of these matters will not materially affect the consolidated financial position or results of operations of the Company.

Note 7
Debt

Short-term borrowings of $35.0 million and $60.0 million at December 31, 1991 and 1990, respectively, represent advances under the working capital facility of the Bank Credit Agreement (Credit Agreement). Interest rates are variable and were based on prime or LIBOR, which accrue at 8.0% and 11.5% at December 31, 1991 and 1990, respectively. The Credit Agreement includes a working capital and letter of credit facility up to a total of $250.0 million with a working capital sublimit of $150.0 million and a letter of credit sublimit of $175.0 million. The availability of the working capital portion of the facility is limited by eligible inventory and accounts receivable. At December 31, 1991, approximately $48.2 million was available under this arrangement. Borrowings under the working capital and letter of credit facility are secured by certain inventory and accounts receivable and are guaranteed by the stock of certain operating subsidiaries. All borrowings under the working capital facility must be repaid for at least 60 consecutive days during each fiscal year. All amounts outstanding under the facility must be repaid by November 1, 1996.

Long-term debt consists of the following:

	December 31,	
	1991	***1990***
	(In Thousands)	
Bank Credit Agreement (a):		
Senior Term A loans, due in installments through 1996, interest varies with prime and LIBOR, at December 31, 1991 — 7.092%, December 31, 1990 — 10.814%	$ 791,938	$ 827,500
Term B facility, due November 1, 1997, interest varies with prime and LIBOR, at December 31, 1991 — 8.5625%, 1990 — 11.8763%	150,000	150,000
Debentures and Notes:		
Senior Notes due April 1, 1998 with fixed 14.75% interest rate at December 31, 1991, variable interest rate (varies with prime and LIBOR) at December 31, 1990 — 12.8119% (b)	150,000	150,000
Senior Subordinated Discount Debentures due 2001, net of discount of $263,264, and $330,837 at December 31, 1991 and 1990, respectively, semi-annual cash interest payments at a rate of 17% beginning November 1, 1994; yield to maturity 17% (c)	448,860	381,287
15% Subordinated Debentures due 2001, interest payable semi-annually	200,000	200,000
10% Convertible Junior Subordinated Debentures due 2014, interest payable semi-annually; convertible into Holdings common stock any time prior to maturity at $5.50 per share	100,000	100,000
Mortgage Notes Payable:		
10.25% Guaranteed Secured Bonds due 2000	222,000	225,000
11.03% Notes due 2000	160,000	160,000
10.51% Note, due December 1, 1993 (d)	11,824	12,500
Other notes payable, mature over various terms to 20 years, payable in monthly or quarterly installments with interest rates ranging from 6% to 13.25% (e)	28,453	24,806
Sundry indebtedness	1,218	4,804
Lease obligations (see Note 8)	122,440	118,149
Total	2,386,733	2,354,046
Less current maturities (f)	125,472	48,300
	$2,261,261	$2,305,746

Note 7
Debt
(Continued)

(a) The Senior Term A loan and Term B facility as provided in the Bank Credit Agreement are secured by the stock of the directly-owned subsidiaries.
(b) See Note 13.
(c) Subject to mandatory partial redemption of $178.0 million each on November 1, 1999 and November 1, 2000.
(d) Collateralized by an office building with a net book value of $26.9 million at December 31, 1991.
(e) Collateralized by restaurant properties with a net book value of $44.1 million at December 31, 1991.
(f) Aggregate annual maturities during the next five years of long-term debt are as follows (in thousands): 1992 — $125,472; 1993 — $170,363; 1994 — $194,239; 1995 — $193,255, and 1996 — $225,463.

The 10.25% guaranteed bonds are secured by, among other things, mortgage loans on 387 restaurants, a lien on the related restaurant equipment, assignment of intercompany lease agreements, the stock of the issuing subsidiaries and $6.2 million in letter of credit notes. At December 31, 1991, the restaurant properties and equipment had a net book value of $424.1 million. In addition, the bonds are insured with a financial guaranty insurance policy written by a company that engages exclusively in such coverage. Principal and interest on the bonds is payable semiannually beginning on May 15, 1991. Principal payments total $3.0 million annually through 1995; $13.0 million annually through 1999; and $158.0 million in 2000. The Company through its operating subsidiaries covenants that it will maintain the properties in good repair and expend annually to maintain the properties at least $12.9 million beginning in 1991 and increasing each year to $23.8 million in 2000.

The 11.03% mortgage notes are secured by a pool of cross collateralized mortgages on 240 restaurants with a net book value at December 31, 1991 of $234.0 million. In addition, the notes are collateralized by, among other things, a security interest in the restaurant equipment, the assignment of intercompany lease agreements and the stock of the issuing subsidiary. Interest on the notes is payable quarterly with the entire principal due at maturity in 2000. The notes are redeemable, in whole, at the issuer's option beginning in July, 1993. The Company through its operating subsidiary covenants that it will use each property as a food service facility, maintain the properties in good repair and expend at least $5.3 million per annum and not less than $33 million, in the aggregate, in any five year period to maintain the properties.

During 1991, the Company and its bank lending group agreed upon certain amendments to the Bank Credit Agreement including the Term B Loan. Such amendments provide the Company more flexibility to engage in certain financing activities, make acquisitions for cash or assumed debt and to expand the Company's ability to enter into sale/leaseback financing of food service properties.

As part of the amendments, the rights to receive shares of TWH Capital Stock that existed under original terms of the agreement were also settled. Of the 4,125,000 shares of TWH stock that were otherwise issuable under the terms of the credit facility, rights to receive 2,276,296 shares were canceled and the remaining 1,848,704 shares were issued to the lenders. The total cost associated with the amendments and value ascribed to the TWH stock issued was approximately $13.8 million and include approximately $5.3 million which has been recorded by the Company as capital stock and paid-in capital. Such cost will be deferred and amortized, as an adjustment of interest expense, over the remaining term of the credit facility.

At December 31, 1991, the Company has $325 million aggregate notional interest rate exchange agreements with remaining periods ranging from eleven to thirty-six months. The Company pays interest on such notional amount at fixed rates (average rate of 8.9% at December 31, 1991) and is paid interest at LIBOR based floating rates (5.0% at December 31, 1991) on like notional amount. All such agreements are accounted for as hedges and the related gains or losses are recognized in income as a component of interest expense.

Note 7
Debt
(Continued)

The Bank Credit Agreement and indentures under which the debt securities have been issued contain a number of restrictive covenants. Such covenants include, among other things, restrictions on the ability of TWS and its subsidiaries to incur indebtedness, create liens, engage in business activities which are not in the same field as the Company currently operates, mergers and acquisitions, capital expenditures, sales of assets, transactions with affiliates and it prohibits the payment of dividends. In addition, the Credit Agreement contains affirmative and negative financial covenants including provisions for the maintenance of minimum levels of working capital, net worth (as defined), earnings before interest, taxes, depreciation and amortization (EBITDA) and various other financial coverage ratios. Under the most restrictive provision of the Credit Agreement, the Company's EBITDA exceeded the required minimum by approximately $1.5 million. Such minimum requirement increases quarterly and will increase by a total of $45 million during 1992.

Included in interest expense is $13,687,000 in 1990 related to deferred financing costs expensed in connection with the refinancing of the senior asset and real estate bridge loan, and $3,050,000 in the 1989 Successor period related to deferred financing costs expensed due to certain indebtedness repaid upon the merger.

Note 8
Leases and Related Guarantees

The Company's operations utilize property, facilities, equipment and vehicles leased from others. In addition, certain owned and leased property, facilities and equipment are leased to others.

Buildings and facilities leased from others primarily are for restaurants and support facilities. At December 31, 1991, 886 restaurants were operated under lease arrangements which generally provide for a fixed basic rent, and, in some instances, contingent rental based on a percentage of gross operating profit or gross revenues. Initial terms of land and restaurant building leases generally are not less than twenty years exclusive of options to renew. Leases of other equipment primarily consist of merchandising equipment, computer systems and vehicles, etc.

As lessor, leasing operations principally consist of merchandising equipment under noncancelable leases for a term of eight years to franchised distributors of Canteen. Numerous miscellaneous sublease agreements also exist.

Information regarding the Company's leasing activities at December 31, 1991 is as follows:

	Capital Leases		*Operating Leases*
	Minimum Lease Payments	*Minimum Sublease Payments*	*Minimum Lease Payments Net of Sublease Rentals of Immaterial Amounts*
		(In Thousands)	
Year:			
1992	$ 26,177	$ 1,751	$ 41,340
1993	24,629	1,752	39,514
1994	23,332	1,734	37,786
1995	20,801	1,723	35,197
1996	18,343	1,657	32,202
Subsequent years	84,317	7,490	194,515
Total	197,599	$16,107	$380,554
Less imputed interest	75,159		
Present value of capital lease obligations	$122,440		

Note 8
Leases and Related Guarantees
(Continued)

The total rental expense included in the determination of operating income for the three years ended December 31, 1991, 1990 and 1989 is as follows:

	Successor			Predecessor
	*Year Ended December 31, **1991***	*Year Ended December 31, **1990***	*July 21 to December 31, **1989***	*January 1 to July 20, **1989***
	(In Thousands)			
Basic rents	$49,114	$49,273	$19,618	$25,906
Contingent rents	13,305	11,886	4,274	6,044
Total	$62,419	$61,159	$23,892	$31,950

Note 9
Quarterly Data
(unaudited)

The results for each quarter include all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for interim periods. The consolidated financial results on an interim basis are not necessarily indicative of future financial results on either an interim or an annual basis. Selected consolidated financial data for each quarter within 1991 and 1990 are as follows:

	First Quarter	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
	(In Thousands Except Per Share Amounts)			
Year Ended December 31, 1991:				
Operating revenues	$834,560	$924,913	$967,418	$891,043
Operating income	$ 34,150	$ 56,329	$ 75,381	$ 58,429
Net loss	$ (43,329)	$ (19,030)	$ (895)	$ (4,321)
Loss per common share	$ (0.39)	$ (0.17)	$ (0.01)	$ (0.04)
Year Ended December 31, 1990:				
Operating revenues	$850,624	$927,999	$957,558	$890,321
Operating income	$ 37,782	$ 63,912	$ 78,448	$ 58,188
Net loss	$ (46,055)	$ (12,747)	$ (3,309)	$ (5,702)
Loss per common share	$ (0.42)	$ (0.11)	$ (0.03)	$ (0.05)

Net loss in the fourth quarters of 1991 and 1990 were reduced by $8.6 million and $13.7 million, respectively, as a result of adjustments to the estimated effective income tax rate used in previous quarters.

Note 10
Business Segments

The Company's restaurant operations are concentrated in the western and southeastern United States and consist of *Hardee's, Quincy's, Denny's* and *El Pollo Loco* restaurants. The Company's restaurants include basic food concepts found in various segments of the food industry: fast-food hamburger restaurants, steak houses, family restaurants and char-broiled chicken restaurants. The Company's contract food service business is conducted by Canteen Corporation, which directly and through subsidiaries and independent franchised distributors, engages in vending and contract food and recreation service operations throughout the United States.

Revenues and operating income by business segment for each of the last three years are as follows:

	Successor						*Predecessor*	
	Year Ended December 31, **1991**		*Year Ended December 31,* **1990**		*July 21 to December 31,* **1989**		*January 1 to July 20,* **1989**	
	Revenues	*Operating Income*	*Revenues*	*Operating Income*	*Revenues*	*Operating Income*	*Revenues*	*Operating Income*
	(In Thousands)							
Restaurants	$2,338,666	$194,223	$2,303,886	$196,468	$ 931,723	$ 74,393	$1,180,866	$112,928
Contract Food Service	1,279,268	45,913	1,322,616	51,954	586,184	26,497	735,942	29,336
Corporate, net	—	(15,847)	—	(10,092)	—	(3,985)	—	(7,108)
Merger-related costs and unusual item	—	—	—	—	—	(69,933)	—	(30,051)
Total	$3,617,934	$224,289	$3,626,502	$238,330	$1,517,907	$ 26,972	$1,916,808	$105,105

Depreciation/amortization expense and capital expenditures for each of the last three years are as follows:

	Depreciation/Amortization				*Capital Expenditures*			
	Year Ended	*Year Ended*	*Period Ended*		*Year Ended*	*Year Ended*	*Period Ended*	
	December 31, **1991**	*December 31,* **1990**	*December 31,* **1989**	*July 20,* **1989**	*December 31,* **1991**	*December 31,* **1990**	*December 31,* **1989**	*July 20,* **1989**
	(In Thousands)							
Restaurants	$146,850	$137,578	$55,743	$48,775	$ 93,690	$109,168	$62,180	$57,187
Contract Food Service	69,243	70,208	34,378	26,684	36,279	35,919	13,912	29,093
Other	2,039	2,089	56	91	329	—	10	210
Total	$218,132	$209,875	$90,177	$75,550	$130,298	$145,087	$76,102	$86,490

Note 10
Business Segments
(Continued)

Identifiable assets as of the specified dates are as follows:

	Year Ended December 31, 1991	Year Ended December 31, 1990	Period Ended December 31, 1989	Period Ended July 20, 1989
		(In Thousands)		
Restaurants	$2,632,140	$2,678,150	$2,832,886	$1,459,216
Contract Food Service	673,439	707,760	668,800	423,196
Other	79,189	109,599	130,494	82,465
Total	$3,384,768	$3,495,509	$3,632,180	$1,964,877

Note 11
Merger Related Costs and Unusual Items

Included in the reported results of operations of the Successor for the period from July 21 to December 31, 1989 are a total of $69,933,000 of merger related costs associated with the acquisition of the Company. These expenses include $18,853,000 of employee related costs, principally severance payments, fees of $5,258,000 paid to the Company's lending group to obtain waivers under its prior credit or loan agreements, fees of $34,747,000 paid to the Successor's lending group for bridge financing, fees of $4,027,000 paid to outside legal and financial advisors for costs associated with the acquisition and related financings and $7,048,000 in fees related to the liquidation of certain debt instruments.

Included in the reported results of operations of Predecessor for the period from January 1, to July 20, 1989 are a total of $30,051,000 of merger related costs associated with the acquisition of the Company. These expenses include $17,691,000 of employee related costs, principally payments for cancellation of the stock option plan, as well as fees of $360,000 paid to outside legal and financial advisors for cost related to the unsolicited tender offer.

Note 12
Discontinued Operations

As an integral part of acquisition financing in 1989, the Company divested itself of certain non-core businesses to liquidate the senior asset and real estate bridge loan. The estimated sales value of the businesses was recognized in the purchase price allocation and classified separately in current assets as assets held for sale. The operations of such non-core businesses subsequent to the acquisition were charged or credited, as appropriate, to the net assets held for sale with no gain or loss recognized in income. Prior to the acquisition, the operations of such non-core businesses have been presented as discontinued operations and prior period statements of income and related footnote amounts have been restated for the results of the discontinued operations. Revenues of the discontinued operations were $268,781,000 in 1989.

During 1991, the Company received net proceeds of $5.1 million on the disposition of Canteen's Preferred Meal Systems, Inc., the remaining asset held for sale. The net proceeds received were used to reduce principal on the Senior Term A loans.

In 1990, the Company received total net proceeds of $36.6 million on the disposition of Canteen's Rowe and Milnot operations and American Medical Services, Inc. (AMS). The net proceeds received were used to partially liquidate the senior asset and real estate bridge loan.

Note 13
Related Party Transactions

During 1991 and 1990, the Company paid annual advisory fees to Gollust, Tierney & Oliver, Incorporated (GTO) and Donaldson, Lufkin & Jenrette Securities Corporation (DLJ) of $1,000,000 and $200,000, respectively. GTO and its affiliated management entities are the majority shareholder of the Company and received various fees and dividends in 1989 totaling $34,699,000 in connection with the Acquisition. DLJ, which is a stockholder of the Company, received fees of $897,000 and $1,306,000 in 1991 and 1990, respectively, related to investment banking services and the disposition of certain non-core businesses of the Company. During 1989, fees of $55,332,000 were paid to DLJ for assistance in the financing of the Acquisition.

In connection with the final financing of the acquisition of TWS, the Company issued $100,000,000 in Senior Notes payable to DLJ Capital Corp. and $50,000,000 in Senior Notes to certain entities related to GTO in exchange for $48,500,000 of Series A Preferred Stock held by GTO. In 1991 in accordance with the terms of such notes, the Company exchanged the variable rate notes for substantially identical notes with a fixed interest rate of 14.75%. DLJ and GTO subsequently sold substantially all of such notes (the GTO general partners individually retained $8.1 million) to third parties. During 1991 and 1990, DLJ Capital Corporation and GTO received interest of $5,298,000 and $12,212,000, and $3,574,000 and $6,025,000, respectively, on such notes and other borrowings.

Responsibility for Preparation of Financial Statements

The management of TW Holdings, Inc. is responsible for the preparation of the financial statements and related notes included in this annual report to shareholders. The statements have been prepared in conformity with generally accepted accounting principles as considered appropriate in the circumstances and include amounts and estimates based on the best judgment of management. Financial data included elsewhere in this annual report is prepared on a basis consistent with such financial statements.

Management recognizes its responsibility for conducting its business affairs based on high ethical standards. Such standards are described in the Company's business conduct and conflict of interests policies.

In recognition of its responsibility for the integrity and objectivity of data in the financial statements, management maintains a system of internal accounting controls. This system is designed to provide reasonable assurance, giving due regard to the cost of implementing and maintaining the system, that transactions are executed in accordance with management's intention and authorization.

The system is supported by an internal auditing function that reports its findings to management regularly throughout the year. The Company's independent auditors are engaged to express an opinion on the annual financial statements. They objectively and independently review the performance of management in carrying out its responsibility for reporting operating results and financial condition. With the coordinated support of the internal auditors, they review and test the system of internal accounting controls and the data contained in the financial statements.

The Board of Directors' Audit Committee meets regularly with the independent auditors, management and internal auditors to review the work performed and discuss the Company's financial controls, audit and reporting practices. The independent auditors and the internal auditors have full and free access to the Committee, without the presence of management, to discuss any matters related to the Company's business.

Independent Auditors' Report

TW Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of TW Holdings, Inc., (the Company) and subsidiaries, as of December 31, 1991 and 1990 and the related statements of consolidated income (loss) and cash flows for the years ended December 31, 1991 and 1990 and for the period from July 21, 1989 through December 31, 1989 (Successor Periods) and for the period from January 1, 1989 through July 20, 1989 (Predecessor Period). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 1991 and 1990 and the results of their operations and their cash flows for the year ended December 31, 1991 and 1990 and for the period from July 21, 1989 through December 31, 1989 (Successor Periods) and the results of the Predecessor companies' operations and their cash flows for the period from January 1, 1989 through July 20, 1989 (Predecessor Period), in conformity with generally accepted accounting principles.

As more fully described in the introduction to the notes to consolidated financial statements, the Company acquired TW Services, Inc. as of July 20, 1989 in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial statements for the Successor Periods are presented on a different basis of accounting than that of the Predecessor Period, and therefore are not directly comparable.

Deloitte & Touche

Greenville, South Carolina
February 24, 1992

Officers and Directors

TW Holdings, Inc.

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General Partner of Gollust, Tierney & Oliver

James R. Barker
Chairman of the Board of Interlake Steamship Co.

Roger E. Birk
Retired President Federal National Mortgage Association

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Hamilton E. James
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Augustus K. Oliver
General Partner of Gollust, Tierney & Oliver

Jerome J. Richardson
President and Chief Executive Officer of TW Holdings, Inc. and TW Services, Inc.

L. Edwin Smart
Counsel, Hughes Hubbard & Reed

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Executive Vice President, Restaurant Operations

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E. Bernard Scott
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Donald H. Turner
Sr. Vice President, Human Resources

James C. Verney
Sr. Vice President, Chief Operating Officer El Pollo Loco Division

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Sr. Vice President & General Counsel

James W. Anderson
Vice President & Controller

A. Ray Biggs
Vice President & Chief Financial Officer

George E. Moseley
Vice President & Secretary

Karl H. Sedlarz
Vice President & Treasurer

Coleman J. Sullivan
Vice President, Communications

Canteen Corporation

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Sr. Vice President, Chief Operating Officer

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Chief Financial Officer

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Vice President, Sales & Marketing

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Vice President (President of Western Division)

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Sr. Vice President, Chief Operating Officer

James C. Verney
Sr. Vice President, Chief Operating Officer El Pollo Loco Division

Richard P. Berutti
Vice President

William G. Cox
Vice President Operations – Eastern Operations

James S. Filipiak
Chief Financial Officer

William H. Mitchell
Vice President, Development & Real Estate

Brock E. Partin
Vice President

Mark L. Shipman
Vice President Operations– Western Operations

Robert L. Wynn, III
Vice President, General Counsel & Secretary

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Sr. Vice President, Chief Operating Officer Quincy's Division

James R. Kibler
Sr. Vice President, Chief Operating Officer Hardee's Division

Kenneth M. Bessent
Chief Financial Officer

William H. Mitchell
Vice President, Development & Real Estate

George E. Moseley
Vice President, General Counsel & Secretary

Olin D. Thomson
Vice President, Construction

Joseph B. Traywick, II
Vice President, Administrative Services

Information for Shareholders

Annual Meeting

TW Holdings, Inc.'s Annual Meeting of Shareholders will be held on April 28, 1992 at the Spartanburg Memorial Auditorium, Spartanburg, South Carolina, at 10:00 a.m.

Debt Securities

14.75% Senior Notes Due 1998
Trustee and Transfer Agent: First Bank National Association ◆ St. Paul, Minnesota

17% Senior Subordinated Discount Debentures Due 2001
Trustee and Transfer Agent: First Trust National Association ◆ New York, New York

15% Subordinated Debentures Due 2001
Trustee and Transfer Agent: IBJ Schroder Bank & Trust Company ◆ New York, New York

10% Convertible Junior Subordinated Debentures Due 2014
Trustee and Transfer Agent: United States Trust Company of NY ◆ New York, New York

Shareholder Inquiries

Communications regarding Common Stock and public debt securities should be mailed to:
Corporate Secretary ◆ TW Holdings, Inc.
203 E. Main Street ◆ Spartanburg, South Carolina 29319-9725

Independent Auditors

Independent Auditors
Deloitte & Touche ◆ Greenville, South Carolina

Form 10K

Copies of TW Holdings, Inc.'s Form 10-K as filed with the Securities and Exchange Commission are available upon request, without charge, by writing:
Corporate Secretary ◆ TW Holdings, Inc.
203 E. Main Street ◆ Spartanburg, South Carolina 29319-9725

Common Stock

Transfer Agent and Registrar:
Continental Stock Transfer and Trust Company ◆ New York, New York

The Common Stock of the Company is currently traded on the NASDAQ National Market System using the symbol "TWFS." As of March 10, 1992, 111,848,704 shares of Common Stock were outstanding and there were approximately 10,500 record and beneficial shareholders. The Company is prohibited from paying dividends. The prices indicated below were obtained from the National Association of Securities Dealers.

	High	*Low*
1990:		
First Quarter	$4.50	$2.63
Second Quarter	4.94	2.75
Third Quarter	5.94	2.88
Fourth Quarter	3.75	2.44
1991:		
First Quarter	$4.63	$2.44
Second Quarter	4.38	2.94
Third Quarter	3.19	2.13
Fourth Quarter	3.75	2.25

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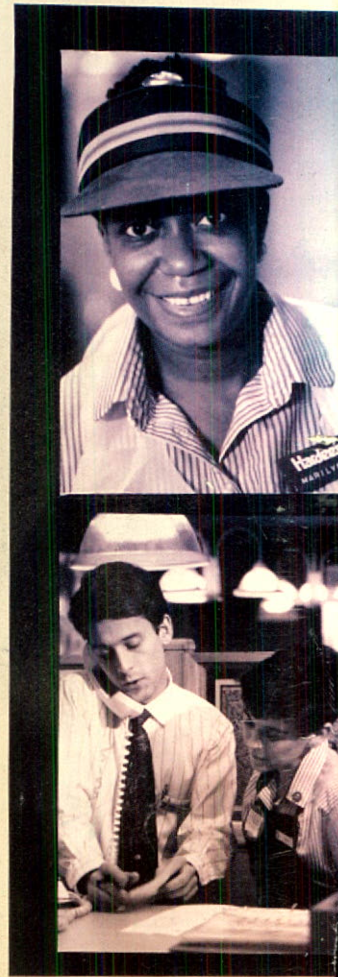
Spartanburg, SC 29319-9722
803/597-8000



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