MCDONALDS CORP
Form 10-Q
November 03, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2006

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______

Commission File Number 1-5231

McDONALD S CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**36-2361282**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
McDonald s Plaza	
Oak Brook, Illinois	**60523**
(Address of Principal Executive Offices)	**(Zip Code)**

(630) 623-3000

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

1,236,748,530

(Number of shares of common stock

outstanding as of September 30, 2006)

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McDONALD S CORPORATION

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The following trademarks used herein are the

property of McDonald s Corporation and its

affiliates: Boston Market and McDonald s.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEET

In millions, except per share data	(unaudited) September 30, 2006	December 31, 2005
Assets		
Current assets		
Cash and equivalents	$ 4,282.7	$ 4,260.4
Accounts and notes receivable	812.5	795.9
Inventories, at cost, not in excess of market	144.5	147.0
Prepaid expenses and other current assets	596.0	646.4
Total current assets	5,835.7	5,849.7
Other assets		
Investments in and advances to affiliates	1,032.3	1,035.4
Goodwill	2,156.1	1,950.7
Miscellaneous	1,278.9	1,245.0
Total other assets	4,467.3	4,231.1
Property and equipment		
Property and equipment, at cost	31,359.8	29,897.2
Accumulated depreciation and amortization	(10,833.6)	(9,989.2)
Net property and equipment	20,526.2	19,908.0
Total assets	$ 30,829.2	$ 29,988.8
Liabilities and shareholders equity		
Current liabilities		
Notes payable	$ 165.0	$ 544.0
Accounts payable	603.4	689.4
Dividend payable	1,234.0	
Income taxes	296.4	567.6
Other taxes	244.3	233.5
Accrued interest	146.6	158.5
Accrued payroll and other liabilities	1,432.4	1,184.6
Current maturities of long-term debt	454.2	658.7
Total current liabilities	4,576.3	4,036.3
Long-term debt	8,569.4	8,937.4
Other long-term liabilities	1,154.3	892.3
Deferred income taxes	1,002.9	976.7
Shareholders equity		
Preferred stock, no par value; authorized 165.0 million shares; issued none		
Common stock, $.01 par value; authorized 3.5 billion shares; issued 1,660.6 million shares	16.6	16.6
Additional paid-in capital	3,228.2	2,797.6
Unearned ESOP compensation	(70.8)	(77.4)
Retained earnings	24,585.7	23,516.0
Accumulated other comprehensive income (loss)	(374.9)	(733.1)
Common stock in treasury, at cost; 423.9 and 397.4 million shares	(11,858.5)	(10,373.6)
Total shareholders equity	15,526.3	15,146.1
Total liabilities and shareholders equity	$ 30,829.2	$ 29,988.8

See notes to condensed Consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
In millions, except per share data	**2006**	**2005**	**2006**	**2005**
Revenues				
Sales by Company-operated restaurants	$ 4,433.6	$ 4,000.7	$ 12,489.4	$ 11,411.4
Revenues from franchised and affiliated restaurants	1,448.9	1,326.4	4,066.3	3,814.2
Total revenues	5,882.5	5,327.1	16,555.7	15,225.6
Operating costs and expenses				
Company-operated restaurant expenses	3,692.7	3,389.9	10,532.2	9,761.6
Franchised restaurants occupancy expenses	273.0	256.6	785.4	767.4
Selling, general & administrative expenses	580.8	547.3	1,726.6	1,605.0
Impairment and other charges (credits), net	17.3	(31.7)	125.5	(50.4)
Other operating expense, net	15.2	5.2	19.3	55.9
Total operating costs and expenses	4,579.0	4,167.3	13,189.0	12,139.5
Operating income	1,303.5	1,159.8	3,366.7	3,086.1
Interest expense	103.1	86.6	303.2	264.7
Nonoperating income, net	(28.1)	(12.6)	(84.2)	(29.9)
Gain on Chipotle IPO and secondary sales			(248.6)	
Income before provision for income taxes	1,228.5	1,085.8	3,396.3	2,851.3
Provision for income taxes	385.2	350.4	1,093.6	857.6
Net income	$ 843.3	$ 735.4	$ 2,302.7	$ 1,993.7
Net income per common share basic	$ 0.69	$ 0.59	$ 1.86	$ 1.58
Net income per common share diluted	$ 0.68	$ 0.58	$ 1.83	$ 1.56
Dividends declared per common share	$ 1.00	$ 0.67	$ 1.00	$ 0.67
Weighted average shares outstanding basic	1,230.4	1,253.9	1,239.7	1,260.6
Weighted average shares outstanding diluted	1,245.7	1,271.6	1,255.0	1,277.7

See notes to condensed Consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
In millions	**2006**	**2005**	**2006**	**2005**
Operating activities				
Net income	$ 843.3	$ 735.4	$ 2,302.7	$ 1,993.7
Adjustments to reconcile to cash provided by operations				
Noncash charges and credits:				
Depreciation and amortization	314.0	309.5	934.4	932.5
Deferred income taxes	(41.6)	(5.2)	(25.1)	(30.5)
Income taxes audit benefit				(178.8)
Impairment and other charges (credits), net	17.3	(31.7)	125.5	(50.4)
Gain on Chipotle IPO and secondary sales			(248.6)	
Share-based compensation	30.0	35.1	96.4	119.0
Other	37.7	32.9	66.0	96.7
Changes in working capital items	309.6	387.3	(246.4)	326.6
Cash provided by operations	1,510.3	1,463.3	3,004.9	3,208.8
Investing activities				
Property and equipment expenditures	(415.4)	(372.4)	(1,086.8)	(974.9)
Purchases and sales of restaurant businesses and sales of property	(12.3)	(81.5)	(26.9)	(69.7)
Sale of Chipotle shares and IPO proceeds, net			450.0	
Other	3.9	(28.0)	73.9	(86.3)
Cash used for investing activities	(423.8)	(481.9)	(589.8)	(1,130.9)
Financing activities				
Notes payable and long-term financing issuances and repayments	(312.8)	(406.8)	(1,337.9)	(607.0)
Treasury stock purchases	(8.7)	(117.3)	(1,832.4)	(1,128.6)
Proceeds from stock option exercises	233.3	280.3	602.2	582.0
Excess tax benefit on share-based compensation	20.1	8.5	58.4	27.4
Other	(26.1)	(9.6)	116.9	(34.4)
Cash used for financing activities	(94.2)	(244.9)	(2,392.8)	(1,160.6)
Cash and equivalents increase	992.3	736.5	22.3	917.3
Cash and equivalents at beginning of period	3,290.4	1,560.6	4,260.4	1,379.8
Cash and equivalents at end of period	$ 4,282.7	$ 2,297.1	$ 4,282.7	$ 2,297.1

See notes to condensed Consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Basis of Presentation

The accompanying condensed Consolidated financial statements should be read in conjunction with the Consolidated financial statements contained in the Company s December 31, 2005 Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. The results for the quarter and nine months ended September 30, 2006 do not necessarily indicate the results that may be expected for the full year.

The results of operations of restaurant businesses purchased and sold were not material to the condensed Consolidated financial statements for periods prior to purchase and sale.

Recently Issued Accounting Standards

In June 2006, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) Issue 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences* (EITF 06-2). Under EITF 06-2, compensation costs associated with a sabbatical should be accrued over the requisite service period, assuming certain conditions are met. The Company expects to adopt EITF 06-2 effective January 1, 2007, as required. We cannot reasonably estimate the impact of adoption at this time.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, which is an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective as of the beginning of 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings. We are currently evaluating the impact of adopting FIN 48 on our financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The Company expects to adopt SFAS 157 effective January 1, 2008, as required. We cannot reasonably estimate the impact of adoption at this time.

Comprehensive Income

The following table presents the components of comprehensive income for the quarters and nine months ended September 30, 2006 and 2005:

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
In millions	**2006**	**2005**	**2006**	**2005**
Net income	$ 843.3	$ 735.4	$ 2,302.7	$ 1,993.7
Other comprehensive income (loss):				
Foreign currency translation adjustments	(19.1)	38.1	359.4	(490.6)
Deferred hedging adjustments	10.4	(6.0)	(1.2)	(4.9)
Total other comprehensive income (loss)	(8.7)	32.1	358.2	(495.5)
Total comprehensive income	**$ 834.6**	**$ 767.5**	**$ 2,660.9**	**$ 1,498.2**

Per Common Share Information

Diluted net income per common share is calculated using net income divided by diluted weighted average shares outstanding. Diluted weighted average shares outstanding included weighted average shares outstanding plus the dilutive effect of share-based employee compensation, calculated using the treasury stock method, of 15.3 million shares and 17.7 million shares for the third quarter 2006 and 2005, respectively, and 15.3 million shares and 17.1 million shares for the nine months ended September 30, 2006 and 2005, respectively. Stock options that were not included in diluted weighted average shares outstanding because they would have been antidilutive were 23.4 million shares and 45.6 million shares for the third quarter 2006 and 2005, respectively, and 40.5 million shares and 45.6 million shares for the nine months ended September 30, 2006 and 2005, respectively.

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Share-based Compensation

Third quarter 2006 results included pretax expense of $30.0 million related to share-based compensation (stock options and restricted stock units) compared with $35.1 million in third quarter 2005. For the nine months 2006, results included pretax expense of $96.4 million related to share-based compensation compared with $119.0 million in the nine months 2005. For the full year 2006, the Company expects pretax share-based compensation expense to be approximately $125 million compared with $154.1 million in 2005.

Chipotle Transactions

In first quarter 2006, Chipotle Mexican Grill completed an IPO of 6.1 million shares resulting in net proceeds of $120.9 million to Chipotle and a gain to McDonald s of $32.0 million to reflect an increase in the carrying value of the Company s investment as a result of Chipotle selling shares in the public offering. Concurrently with the IPO, McDonald s sold 3.0 million Chipotle shares, resulting in net proceeds to the Company of $61.4 million and an additional gain of $19.2 million. In second quarter 2006, McDonald s sold an additional 4.5 million Chipotle shares, resulting in net proceeds to the Company of $267.7 million and a gain of $197.4 million, while still retaining majority ownership.

In October 2006, the Company completely separated from Chipotle through a tax-free exchange of its remaining Chipotle shares for McDonald s common stock. McDonald s accepted 18.6 million shares of McDonald s common stock in exchange for the 16.5 million shares of Chipotle class B common stock held by McDonald s and will record a tax-free gain of about $500 million in the fourth quarter. As a result of the complete disposition of Chipotle, the Company will reflect Chipotle s results of operations and transaction gains as discontinued operations for all periods presented beginning in the fourth quarter 2006.

Segment Information

The Company primarily franchises and operates McDonald s restaurants in the food service industry. In addition, the Company operates certain non-McDonald s brands that are not material to the Company s overall results.

The following table presents the Company s revenues and operating income by geographic segment. The APMEA segment represents McDonald s restaurant operations in Asia/Pacific, Middle East and Africa. The Other segment represents non-McDonald s brands.

	Quarters Ended September 30,		**Nine Months Ended September 30,**	
In millions	**2006**	**2005**	**2006**	**2005**
Revenues				
U.S.	$ 1,911.1	$ 1,804.7	$ 5,546.2	$ 5,165.7
Europe	2,062.6	1,832.4	5,626.6	5,318.2
APMEA	804.7	738.2	2,272.3	2,125.3
Latin America	431.7	352.7	1,193.4	941.0
Canada	293.1	255.5	811.4	697.7
Other	379.3	343.6	1,105.8	977.7
Total revenues	$ 5,882.5	$ 5,327.1	$ 16,555.7	$ 15,225.6
Operating income (loss)				
U.S.	$ 688.3	$ 642.0	$ 2,007.9	$ 1,820.1
Europe	505.0	419.7	1,184.4	1,091.0
APMEA	112.3	129.0	273.1	283.2
Latin America	22.0	9.9	25.4	21.0
Canada	63.8	49.8	153.4	121.9
Other	14.6	4.0	38.9	12.4
Corporate	(102.5)	(94.6)	(316.4)	(263.5)
Total operating income	$ 1,303.5	$ 1,159.8	$ 3,366.7	$ 3,086.1

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

Overview

The Company primarily franchises and operates McDonald s restaurants. In addition, the Company operates certain non-McDonald s brands that are not material to the Company s overall results. Of the more than 30,000 McDonald s restaurants in over 100 countries, more than 18,000 are operated by franchisees/licensees, over 4,000 are operated by affiliates and over 8,000 are operated by the Company. In general, the Company owns the land and building or secures long-term leases for both Company-operated and franchised restaurant sites. This ensures long-term occupancy rights, helps control related costs and improves alignment with franchisees.

While we view ourselves primarily as a franchisor, we continually review our restaurant ownership mix (that is our mix between Company-operated, conventional franchise, joint venture or developmental license) to deliver a great customer experience and drive long-term profitability, with a focus on underperforming markets and markets where direct restaurant operation by us is less attractive due to market size, business conditions or legal considerations. Company-operated restaurants are important to our success in both mature and developing markets. In our Company-operated restaurants, along with input from our franchisees, we can develop and refine operating standards, marketing concepts and product and pricing strategies, so that we introduce Systemwide only those that we believe are most beneficial. In addition, we firmly believe that owning restaurants is paramount to being a credible franchisor. Our Company-operated business also helps to facilitate changes in restaurant ownership as warranted by strategic considerations, the financial health of franchisees or other factors.

Revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates. These fees primarily include rent, service fees and/or royalties that are based on a percent of sales, with specified minimum rent payments. Fees vary by type of site, amount of Company investment and local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise/license agreements that generally have 20-year terms.

The business is managed as distinct geographic segments: United States; Europe; Asia/Pacific, Middle East and Africa (APMEA); Latin America; and Canada. The U.S. and Europe segments account for approximately 70% of total revenues. In addition, throughout this report we present a segment entitled Other that includes non-McDonald s brands (e.g., Boston Market and Chipotle Mexican Grill (Chipotle)). In October 2006, the Company completely separated from Chipotle through a tax-free exchange of its remaining Chipotle shares for McDonald s common stock. This will allow the Company to remain focused on the core McDonald s restaurant business as the opportunities are significant.

Strategic Direction and Financial Performance

Over the past few years, the Company has remained aligned and focused on executing the Plan to Win, a combination of customer-centric initiatives designed to deliver operational excellence and leadership marketing leveraged around five drivers of exceptional customer experiences people, products, place, price and promotion. In line with our commitment to revitalize the brand by executing the Plan to Win, we have exercised greater financial discipline, delivered against the targets laid out in our revitalization plan and achieved many significant milestones. Our resulting financial strength and substantial cash generating ability is a testament to System alignment and focus on growing our existing restaurant business. Our progress has created the opportunity to return even greater amounts of cash flow to shareholders through dividends and share repurchases after funding investments in our business that offer solid returns.

Strategic initiatives aligned behind McDonald s Plan to Win are strengthening our competitive position and delivering positive results worldwide. We generated impressive third quarter 2006 results as we continue to raise the bar on operations excellence and leadership marketing to broaden consumer relevance. For the quarter, global comparable sales were at their highest quarterly level in two years, and we delivered higher margins across all segments of the business. These results validate the strength of our Plan to Win and the power of growing by being better, not just bigger.

In the U.S., we continue to enhance the McDonald s experience by providing innovative menu options, added conveniences and contemporary restaurant locations that are in touch with customers lifestyles. The stability of McDonald s U.S. performance is a testament to the strength and flexibility of the McDonald s System.

In Europe, we generated another quarter of strong operating results driven by robust quarterly sales, more customer visits and the highest Company-operated margins since 2001. We are encouraged by Europe s progress and confident that our strategies to further strengthen the McDonald s Brand through marketing, value and menu initiatives that resonate with consumers will continue to drive growth over the long-term.

We remain committed to returning value to shareholders through share repurchase and dividends. During the first nine months of 2006, we repurchased 53.2 million shares of McDonald s stock for $1.8 billion. In addition, we increased our annual dividend for 2006 nearly 50% to

$1.00 per share from $0.67 per share in 2005, totaling about $1.2 billion. This increase reflects confidence in the ongoing strength of our business and the reliability of our substantial cash flow.

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In January 2006, we outlined our intent to transfer ownership in 15 to 20 countries, with about 1,500 restaurants, to developmental licensees over the next three years. Under a developmental license, a local entrepreneur owns the business, including controlling the real estate, and uses his/her capital and local knowledge to build the Brand and optimize sales and profitability over the long term. Under this arrangement, McDonald s collects a royalty, which varies by market, based on a percentage of sales, but generally does not invest any capital. We have successfully used the developmental license structure for more than 15 years, and currently have it in place in about 35 countries. In addition to the financial benefits the Company achieves when markets are developmentally licensed such as reduced capital spending, improved returns and a stable stream of royalties, this strategy allows our management to focus most of its time and energy on the markets that have the largest impact on our results.

As part of the ongoing review of our ownership mix, we increased the number of markets being considered for potential conversion. In aggregate, the markets we are now considering include approximately 2,300 restaurants and, in 2005, represented $2.5 billion in sales, $150 million in selling, general & administrative expenses, a nominal operating loss including impairment and other charges of $21 million, capital expenditures of $100 million and slightly negative free cash flow (cash from operations less capital expenditures). As appropriate, we may license some of these markets as a group to a single developmental licensee. These 2,300 restaurants are mostly Company-operated and represent about $3 billion in combined net investment, which includes approximately $800 million in accumulated currency translation losses reflected in shareholders equity on our balance sheet.

If we are able to complete these transactions, we do not anticipate recovering either the $800 million in historical currency translation losses or most of the remaining $2.2 billion in net book value in the form of sales proceeds. We will continue impairment testing for these assets annually and as otherwise required by applicable accounting standards. In particular, our annual impairment testing for these assets is based on the assumption that these markets will continue to be operated under the existing ownership structure until it becomes probable that a transaction will occur within 12 months, and we can reasonably estimate our sales proceeds. The timing and amount of any losses will depend on the circumstances of each transaction and could be significant. In 2006, we have completed the transfer of four markets (121 restaurants) to developmental licensees and recorded pretax losses totaling $30.2 million.

The McDonald s System is energized by our current momentum and we remain intent on further enhancing every element of the Brand experience to capture the tremendous opportunities that lie ahead. Our results confirm that our strategy of growing by improving our existing restaurants and focusing on the Plan to Win is the right strategy for McDonald s, our customers and our shareholders. Our long-term goals remain unchanged: average annual Systemwide sales and revenue growth of 3% to 5%, average annual operating income growth of 6% to 7%, and annual returns on incremental invested capital in the high teens. These goals exclude the impact of foreign currency translation.

Operating Highlights Included:

- Consolidated revenues increased 10% (8% in constant currencies) for the quarter and 9% (8% in constant currencies) for the nine months.
- Global comparable sales increased 5.8% for the quarter and 5.5% for the nine months.
- Company-operated and franchised restaurant margins improved in all geographic segments for the third consecutive quarter.
- Operating income increased 12% (10% in constant currencies) for the quarter and 9% as reported and in constant currencies for the nine months.
- Earning per share increased 17% (16% in constant currencies) for the quarter and 17% (18% in constant currencies) for the nine months.
- Cash provided by operations totaled $3 billion for the nine months.

The Company repurchased $1.8 billion or 53.2 million shares of its stock during the nine months.

Outlook

While the Company does not provide specific guidance on earnings per share, the following information is provided to assist in analyzing the Company s results.

McDonald s expects net restaurant additions to add about one percentage point to sales growth in 2006 (in constant currencies). Most of this anticipated growth will result from restaurants opened in 2005. In 2006, McDonald s expects to open about 675 traditional McDonald s restaurants and 100 satellite restaurants and close about 300 traditional restaurants and 125 satellite restaurants.

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The Company does not provide specific guidance on changes in comparable sales. However, as a perspective, assuming no change in cost structure, a 1 percentage point increase in U.S. comparable sales would increase annual earnings per share by about 2 cents to 2.5 cents. Similarly, an increase of 1 percentage point in Europe s comparable sales would increase annual earnings per share by about 1.5 cents to 2 cents.

The Company expects full-year 2006 selling, general & administrative expenses to decline as a percent of revenues and to be relatively flat as a percent of Systemwide sales, compared with 2005.

A significant part of the Company s operating income is from outside the U.S., and about 80% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro and the British Pound. If the Euro and the British Pound both move 10% in the same direction compared with 2005, the Company s annual earnings per share would change about 6 cents to 7 cents. Based on current rates, foreign currency translation is expected to have a minimal impact on earnings for the full year 2006.

The Company plans to return to pre-HIA debt and cash levels as we pay down debt. The late 2005 borrowings, used to fund dividend payments to repatriate earnings back to the U.S. parent-company, resulted in a temporary increase in both cash and debt on our Consolidated balance sheet. However, our net debt position (gross debt outstanding less cash available for investment) has improved significantly. For 2006, the Company expects its net debt principal repayments to be at least $1.4 billion. The Company expects interest expense in 2006 to increase approximately 12% to 14% compared with 2005, based on current interest and foreign currency exchange rates. This increase will be offset by the related higher interest income from cash available for investing.

McDonald s expects the effective income tax rate for the full year 2006 and 2007 to be approximately 31% to 33%, although some volatility may be experienced between the quarters in the normal course of business.

The Company expects capital expenditures for 2006 to be approximately $1.8 billion. In 2007, capital expenditures are expected to be approximately $1.8 billion to $1.9 billion.

We expect to return at least $10 billion to shareholders through dividends and share repurchases in 2006 through 2008 and intend to continue to reduce shares outstanding. Through September 2006, the Company repurchased $1.8 billion of its common stock and declared dividends totaling about $1.2 billion. In October 2006, McDonald s accepted 18.6 million shares of McDonald s common stock in exchange for the remaining 16.5 million shares of Chipotle class B common stock held by McDonald s. We anticipate total shares outstanding at the end of 2006 to decline by about 5% from year-end 2005, including the effect of the Chipotle exchange offer.

The Following Definitions Apply to These Terms as Used Throughout This Form 10-Q:

Constant currency results are calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results excluding the effect of foreign currency translation and bases certain compensation plans on these results because it believes they better represent the Company s underlying business trends.

Systemwide sales include sales at all restaurants, including those operated by the Company, franchisees and affiliates. Management believes Systemwide sales information is useful in analyzing the Company s revenues because franchisees and affiliates pay rent, service fees and/or royalties that generally are based on a percent of sales with specified minimum rent payments.

Comparable sales represent sales at all McDonald s restaurants, including those operated by the Company, franchisees and affiliates, in operation at least thirteen months including those temporarily closed, excluding the impact of currency translation. Some of the reasons restaurants may be closed include road construction, reimaging or remodeling, and natural disasters. Management reviews the increase or decrease in comparable sales compared with the same period in the prior year to assess business trends.

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CONSOLIDATED OPERATING RESULTS

Dollars in millions, except per share data	Quarter Ended September 30, 2006		Nine Months Ended September 30, 2006	
	Amount	% Increase	Amount	% Increase / (Decrease)
Revenues				
Sales by Company-operated restaurants	$ 4,433.6	11	$ 12,489.4	9
Revenues from franchised and affiliated restaurants	1,448.9	9	4,066.3	7
Total revenues	5,882.5	10	16,555.7	9
Operating costs and expenses				
Company-operated restaurant expenses	3,692.7	9	10,532.2	8
Franchised restaurants occupancy expenses	273.0	6	785.4	2
Selling, general & administrative expenses	580.8	6	1,726.6	8
Impairment and other charges (credits), net	17.3	n/m	125.5	n/m
Other operating expense, net	15.2	n/m	19.3	(65)
Total operating costs and expenses	4,579.0	10	13,189.0	9
Operating income	1,303.5	12	3,366.7	9
Interest expense	103.1	19	303.2	15
Nonoperating income, net	(28.1)	n/m	(84.2)	n/m
Gain on Chipotle IPO and secondary sales			(248.6)	n/m
Income before provision for income taxes	1,228.5	13	3,396.3	19
Provision for income taxes	385.2	10	1,093.6	28
Net income	$ 843.3	15	$ 2,302.7	15
Net income per common share basic	$ 0.69	17	$ 1.86	18
Net income per common share diluted	$ 0.68	17	$ 1.83	17

n/m Not meaningful

Net Income and Diluted Net Income per Common Share

For the quarter, net income was $843.3 million and diluted net income per common share was $0.68. The 2006 results included $13.1 million after tax ($0.01 per share) of impairment and other charges primarily in Asia/Pacific, Middle East and Africa (APMEA), which included an additional loss on the transfer of the Company s ownership interest in Thailand to a developmental licensee and a goodwill impairment charge in South Korea.

Third quarter 2005 net income was $735.4 million and diluted net income per common share was $0.58. The 2005 results included income of $20.8 million after tax ($0.02 per share) primarily related to the transfer of the Company s ownership interest in Turkey to a developmental licensee.

For the nine months 2006, net income was $2,302.7 million and diluted net income per common share was $1.83. Results included the following items: operating expense of $89.5 million after tax ($0.08 per share) primarily related to a limited number of restaurant closings in the U.K. in conjunction with an overall restaurant portfolio review, costs to buy out certain litigating franchisees in Brazil, and losses related to the transfer of the Company s ownership interests in Thailand and Bulgaria to developmental licensees; nonoperating income of $173.4 million after tax ($0.14 per share) due to the IPO of Chipotle Mexican Grill and the secondary sales of Chipotle shares; and $13.5 million ($0.01 per share) of incremental tax expense primarily related to the one-time impact from a tax law change in Canada.

For the nine months 2005, net income was $1,993.7 million and diluted net income per common share was $1.56. The results for 2005 included $0.03 per share of income primarily related to the transfer of the Company s ownership interest in Turkey to a developmental licensee and a favorable adjustment to certain liabilities established in prior years due to lower than originally anticipated employee-related and lease termination costs. In addition, 2005 results included a tax benefit of $178.8 million due to a favorable audit settlement of the Company s 2000-2002 U.S. tax returns, partly offset by $112.0 million of incremental tax expense resulting from the decision to repatriate approximately $3 billion in foreign earnings under the Homeland Investment Act (HIA), which in combination, benefited net income per common share by an additional $0.05 per share.

During the nine months 2006, the Company repurchased 53.2 million shares for $1.8 billion.

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Diluted weighted average shares outstanding for the third quarter and nine months 2006 decreased primarily due to treasury stock purchases exceeding stock option exercises in 2005 and 2006.

Impact of Foreign Currency Translation on Reported Results

IMPACT OF FOREIGN CURRENCY TRANSLATION ON REPORTED RESULTS

Dollars in millions, except per share data

	Reported Amount		Currency Translation Benefit / (Loss)
Quarters ended September 30,	**2006**	2005	**2006**
Revenues	**$5,882.5**	$5,327.1	**$127.6**
Combined operating margins*	**1,875.2**	1,644.4	**35.0**
Selling, general & administrative expenses	**580.8**	547.3	**(8.8)**
Operating income	**1,303.5**	1,159.8	**24.2**
Net income	**843.3**	735.4	**13.3**
Net income per common share diluted	**0.68**	0.58	**0.01**

* Reflects both franchised and Company-operated margin dollars and excludes non-McDonald s brands

Foreign currency translation had a positive impact on consolidated revenues, operating income, net income and diluted net income per common share for the quarter, primarily driven by the stronger Euro, the British Pound and the Canadian Dollar.

	Reported Amount		Currency Translation Benefit / (Loss)
Nine months ended September 30,	**2006**	2005	**2006**
Revenues	**$16,555.7**	$15,225.6	**$ 71.5**
Combined operating margins*	**5,107.8**	4,593.9	**1.2**
Selling, general & administrative expenses	**1,726.6**	1,605.0	**(3.3)**
Operating income	**3,366.7**	3,086.1	**(8.4)**
Net income	**2,302.7**	1,993.7	**(3.8)**
Net income per common share diluted	**1.83**	1.56	**(0.01)**

* Reflects both franchised and Company-operated margin dollars and excludes non-McDonald s brands

Foreign currency translation had a positive impact on consolidated revenues for the nine months primarily due to the stronger Brazilian Real and the Canadian Dollar, partly offset by the weaker Euro and British Pound. Foreign currency translation had a slightly negative impact on operating income, net income and diluted net income per common share for the nine months due to the weakening of several major currencies, partly offset by the stronger Canadian Dollar.

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Revenues

Revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates. These fees primarily include rent, service fees and/or royalties that are based on a percent of sales, with specified minimum rent payments.

REVENUES

Dollars in millions

Quarters Ended September 30,	2006	2005	% Inc	% Inc Excluding Currency Translation
Company-operated sales				
U.S.	**$ 1,124.4**	$ 1,066.5	5	5
Europe	**1,580.5**	1,412.6	12	7
APMEA*	**708.2**	645.3	10	8
Latin America	**406.1**	329.9	23	20
Canada	**238.5**	205.1	16	8
Other**	**375.9**	341.3	10	10
Total	**$ 4,433.6**	$ 4,000.7	11	8
Franchised and affiliated revenues				
U.S.	**$ 786.7**	$ 738.2	7	7
Europe	**482.1**	419.8	15	10
APMEA*	**96.5**	92.9	4	6
Latin America	**25.6**	22.8	12	11
Canada	**54.6**	50.4	8	1
Other**	**3.4**	2.3	48	48
Total	**$ 1,448.9**	$ 1,326.4	9	7
Total revenues				
U.S.	**$ 1,911.1**	$ 1,804.7	6	6
Europe	**2,062.6**	1,832.4	13	8
APMEA*	**804.7**	738.2	9	8
Latin America	**431.7**	352.7	22	20
Canada	**293.1**	255.5	15	7
Other**	**379.3**	343.6	10	10
Total	**$ 5,882.5**	$ 5,327.1	10	8

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REVENUES

Dollars in millions

Nine Months Ended September 30,	2006	2005	% Inc	% Inc Excluding Currency Translation
Company-operated sales				
U.S.	**$ 3,273.4**	$ 3,043.4	8	8
Europe	**4,346.1**	4,103.0	6	7
APMEA*	**1,994.0**	1,855.4	7	7
Latin America	**1,117.2**	876.1	28	21
Canada	**662.7**	561.7	18	9
Other**	**1,096.0**	971.8	13	13
Total	**$ 12,489.4**	$ 11,411.4	9	9
Franchised and affiliated revenues				
U.S.	**$ 2,272.8**	$ 2,122.3	7	7
Europe	**1,280.5**	1,215.2	5	7
APMEA*	**278.3**	269.9	3	7
Latin America	**76.2**	64.9	17	14
Canada	**148.7**	136.0	9	1
Other**	**9.8**	5.9	66	66
Total	**$ 4,066.3**	$ 3,814.2	7	7
Total revenues				
U.S.	**$ 5,546.2**	$ 5,165.7	7	7
Europe	**5,626.6**	5,318.2	6	7
APMEA*	**2,272.3**	2,125.3	7	7
Latin America	**1,193.4**	941.0	27	21
Canada	**811.4**	697.7	16	8
Other**	**1,105.8**	977.7	13	13
Total	**$ 16,555.7**	$ 15,225.6	9	8

* APMEA represents Asia/Pacific, Middle East and Africa

** Other represents non-McDonald s brands

Consolidated revenues increased 10% (8% in constant currencies) for the quarter and 9% (8% in constant currencies) for the nine months, primarily due to positive global comparable sales.

In the U.S., the increase in revenues for the quarter and nine months was primarily driven by our popular breakfast menu featuring Premium Roast Coffee, new products like our Asian Salad and Snack Wrap, and continued focus on everyday value.

Europe s constant currency increase in revenues for the quarter and nine months was primarily due to strong comparable sales in France, Germany and Russia (which is entirely Company-operated). Both periods also benefited from positive comparable sales in the U.K., offset by the impact of the market s Company-operated restaurant closings in the first quarter 2006 and restaurant sales to franchisees and affiliates throughout the year.

In APMEA, the constant currency increase in revenues for the quarter and nine months was primarily driven by the consolidation of Malaysia for financial reporting purposes, due to an increase in the Company s ownership during the first quarter 2006, expansion in China and positive comparable sales in most markets. For the nine months, the increase was partly offset by the 2005 conversion of the Philippines and Turkey (about 325 restaurants) to developmental licensee structures under which the Company receives a royalty based on a percent of sales.

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The following table presents the percent change in comparable sales for the quarters and nine months ended September 30, 2006 and 2005:

COMPARABLE SALES McDONALD S RESTAURANTS*

	% Increase / (Decrease)			
	Quarters Ended September 30,		Nine Months Ended September 30,	
	2006	2005	**2006**	2005
U.S.	**4.1**	3.7	**4.9**	4.5
Europe	**7.6**	5.1	**5.3**	2.6
APMEA	**6.1**	3.5	**5.8**	3.4
Latin America	**15.4**	11.6	**14.6**	12.5
Canada	**4.5**	(1.1)	**5.2**	(1.2)
McDonald s Restaurants	**5.8**	4.1	**5.5**	3.8

* Excludes non-McDonald s brands

The following table presents the percent change in Systemwide sales for the quarter and nine months ended September 30, 2006:

SYSTEMWIDE SALES

	Quarter Ended September 30, 2006		Nine Months Ended September 30, 2006	
	% Inc	% Inc Excluding Currency Translation	% Inc	% Inc Excluding Currency Translation
U.S.	5	5	6	6
Europe	14	9	5	6
APMEA	6	8	4	8
Latin America	20	17	21	16
Canada	12	5	14	6
Other	10	10	13	13
Total sales	8	7	6	7

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Operating Margins

FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS

McDONALD S RESTAURANTS

Dollars in millions

Quarters ended September 30,	Percent		Amount		% Inc	% Inc Excluding Currency Translation
	2006	2005	**2006**	2005		
Franchised						
U.S.	**82.3**	81.8	**$ 647.5**	$ 604.0	7	7
Europe	**78.6**	78.1	**378.7**	327.8	16	11
APMEA	**89.1**	87.3	**86.0**	81.1	6	8
Latin America	**71.9**	68.2	**18.4**	15.5	19	17
Canada	**78.9**	78.0	**43.1**	39.3	10	2
Total	**81.2**	80.6	**$ 1,173.7**	$ 1,067.7	10	8
Company-operated						
U.S.	**19.0**	18.7	**$ 213.1**	$ 199.2	7	7
Europe	**18.3**	16.1	**289.7**	227.3	27	22
APMEA	**13.9**	12.4	**98.1**	79.7	23	22
Latin America	**14.3**	11.6	**58.0**	38.2	52	49
Canada	**17.9**	15.7	**42.6**	32.3	32	23
Total	**17.3**	15.8	**$ 701.5**	$ 576.7	22	19

Nine Months Ended September 30,	Percent		Amount		% Inc	% Inc Excluding Currency Translation
	2006	2005	**2006**	2005		
Franchised						
U.S.	**82.2**	81.3	**$ 1,868.5**	$ 1,726.2	8	8
Europe	**77.4**	76.8	**990.7**	933.3	6	7
APMEA	**87.7**	86.4	**244.2**	233.3	5	9
Latin America	**71.5**	67.7	**54.5**	43.9	24	21
Canada	**77.7**	77.0	**115.6**	104.6	11	2
Total	**80.7**	79.9	**$ 3,273.5**	$ 3,041.3	8	8
Company-operated						
U.S.	**19.0**	18.6	**$ 622.5**	$ 566.8	10	10
Europe	**16.2**	14.7	**701.9**	602.6	16	17
APMEA	**12.8**	11.2	**254.3**	207.7	22	23
Latin America	**13.2**	11.2	**147.5**	97.8	51	46
Canada	**16.3**	13.8	**108.1**	77.7	39	29
Total	**16.1**	14.9	**$ 1,834.3**	$ 1,552.6	18	17

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Franchised margin dollars increased $106.0 million or 10% (8% in constant currencies) for the quarter and $232.2 million or 8% as reported and in constant currencies for the nine months. The U.S. and Europe segments accounted for more than 85% of the franchised margin dollars in both periods.

In the U.S., the increases in the franchised margin percent for the quarter and nine months were primarily driven by strong comparable sales.

Europe s franchised margin percent for the quarter and nine months improved due to positive comparable sales, partly offset by higher rent expense in several markets.

Company-operated margin dollars increased $124.8 million or 22% (19% in constant currencies) for the quarter and $281.7 million or 18% (17% in constant currencies) for the nine months. The U.S. and Europe segments accounted for more than 70% of the Company-operated margin dollars in both periods.

In the U.S., the Company-operated margin percent increased for the quarter and nine months due to positive comparable sales, partly offset by higher labor costs primarily due to a higher average hourly rate, and higher utilities. In addition, the margin percent increase for the nine months was partly offset by higher commodity costs. Commodity costs are expected to be relatively flat for the remainder of the year. The fourth quarter 2006 margin percent comparison to the prior year will be negatively impacted by an adjustment of about 100 basis points recorded in the fourth quarter 2005 to reduce certain performance-based compensation.

Europe s Company-operated margin percent increased for the quarter and nine months primarily due to strong comparable sales, partly offset by higher labor costs throughout the segment. In addition, initiatives in the U.K. such as the closing of certain underperforming restaurants in the first quarter and the sale of restaurants to franchisees and affiliates throughout the year, contributed to the increases. Commodity costs are expected to continue to be relatively flat for the remainder of the year.

In APMEA, the Company-operated margin percent for the quarter and nine months reflected improved results in China, Hong Kong and Taiwan.

The following table presents margin components as a percent of sales:

COMPANY-OPERATED RESTAURANT EXPENSES AND MARGINS AS A PERCENT OF SALES

McDONALD S RESTAURANTS

	Quarters Ended September 30,		**Nine Months Ended September 30,**	
	2006	2005	**2006**	2005
Food & paper	**33.1**	34.0	**33.2**	34.0
Payroll & employee benefits	**25.4**	25.7	**26.0**	26.2
Occupancy & other operating expenses	**24.2**	24.5	**24.7**	24.9
Total expenses	**82.7**	84.2	**83.9**	85.1
Company-operated margins	**17.3**	15.8	**16.1**	14.9

Selling, General & Administrative Expenses

Selling, general & administrative expenses increased 6% for the quarter (5% in constant currencies) and 8% for the nine months (7% in constant currencies) due to higher employee-related costs, including performance-based compensation expense. In addition, the increase for the nine months reflected costs related to our biennial worldwide operator convention and our sponsorship of the winter Olympics. Selling, general &

administrative expenses as a percent of revenues were 10.4% for the nine months of 2006 compared with 10.5% in 2005 and as a percent of Systemwide sales were 4.0% for both 2006 and 2005.

Impairment and Other Charges (Credits), Net

In the third quarter 2006, the Company recorded $17.3 million of expense primarily related to the following items: an additional loss on the transfer of the Company s ownership interest in Thailand to a developmental licensee ($7.1 million) and a goodwill impairment charge in South Korea ($6.7 million).

For the nine months of 2006, the Company recorded $125.5 million of expense primarily related to the following items: the closing of 25 restaurants in the U.K. in conjunction with an overall restaurant portfolio review ($41.8 million); costs to buy out certain litigating franchisees in Brazil ($29.3 million); a loss on the transfer of the Company s ownership interest in Thailand to a developmental licensee ($21.8 million); asset write-offs and other charges in APMEA ($17.5 million); a loss on the transfer of the Company s ownership interest in Bulgaria to a developmental licensee ($7.5 million); and a goodwill impairment charge in South Korea ($6.7 million).

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The third quarter 2005 included $31.7 million of income primarily due to a $25.4 million benefit as a result of a transfer of the Company s ownership interest in Turkey to a developmental licensee. The nine months 2005 totaled $50.4 million of income, which in addition to the gain in Turkey, included $18.7 million of income from a favorable adjustment to certain liabilities established in prior years due to lower than originally anticipated employee-related and lease termination costs.

Other Operating Expense, Net

OTHER OPERATING (INCOME) EXPENSE, NET

Dollars in millions

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2006	2005	**2006**	2005
Gains on sales of restaurant businesses	**$ (8.9)**	$ (11.2)	**$ (23.8)**	$ (33.2)
Equity in earnings of unconsolidated affiliates	**(30.9)**	(17.4)	**(59.2)**	(42.5)
Other expense	**55.0**	33.8	**102.3**	131.6
Total	**$ 15.2**	$ 5.2	**$ 19.3**	$ 55.9

Equity in earnings of unconsolidated affiliates increased in both periods of 2006, driven by improved results from our Japanese affiliate.

Other expense for the nine months 2005 reflected a $24.1 million charge related to a supply chain arrangement in Europe.

Operating Income

OPERATING INCOME

Dollars in millions

Quarters Ended September 30,	2006	2005	% Inc / (Dec)	% Inc / (Dec) Excluding Currency Translation
U.S.	**$ 688.3**	$ 642.0	7	7
Europe	**505.0**	419.7	20	15
APMEA	**112.3**	129.0	(13)	(11)
Latin America	**22.0**	9.9	n/m	n/m
Canada	**63.8**	49.8	28	19
Other	**14.6**	4.0	n/m	n/m
Corporate	**(102.5)**	(94.6)	(8)	(8)
Total operating income	**$ 1,303.5**	$ 1,159.8	12	10

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Nine months ended September 30,	**2006**	2005	**% Inc / (Dec)**	**% Inc / (Dec) Excluding Currency Translation**
U.S.	**$ 2,007.9**	$ 1,820.1	10	10
Europe	**1,184.4**	1,091.0	9	9
APMEA	**273.1**	283.2	(4)	1
Latin America	**25.4**	21.0	21	51
Canada	**153.4**	121.9	26	16
Other	**38.9**	12.4	n/m	n/m
Corporate	**(316.4)**	(263.5)	(20)	(20)
Total operating income	**$ 3,366.7**	$ 3,086.1	9	9

n/m Not meaningful

In the U.S., results increased for the quarter and nine months primarily due to higher combined operating margin dollars.

In Europe, operating results for the quarter and nine months reflected strong performance in France, Germany and many other markets, as well as improved results in the U.K. For the nine months 2006, results included impairment and other charges totaling $49.3 million and results for the nine months 2005 included a supply chain charge of $24.1 million.

In APMEA, results for the quarter and nine months 2006 included impairment and other charges totaling $15.2 million and $46.0 million, respectively. Results for the quarter and nine months 2005 included income of $25.4 million relating to the transfer of the Company s ownership interest in Turkey to a developmental licensee. These items, in combination, negatively impacted the constant currency operating income growth rate by 36 percentage points for the quarter and 27 percentage points for the nine months. Operating results for both periods were positively impacted by improved results in China and Japan.

In Latin America, results for the quarter and nine months 2006 reflected continued strong sales performance across most markets. The nine months 2006 included $30.2 million of impairment and other charges, primarily due to the buy out of certain litigating franchisees in Brazil.

Corporate results for the quarter and nine months 2006 reflected higher performance-based compensation. In addition, the nine months 2006 included costs related to our biennial worldwide operator convention. Results for the nine months 2005 included an $18.7 million favorable adjustment to certain liabilities established in prior years.

Interest Expense

For the quarter and nine months, interest expense increased primarily due to higher average debt levels as a result of activity related to HIA. In fourth quarter 2005, the Company repatriated approximately $3 billion of foreign historical earnings under HIA. The repatriation was funded through local borrowings in certain markets.

Nonoperating Income, Net

NONOPERATING (INCOME) EXPENSE, NET

Dollars in millions

	Quarters Ended September 30,		**Nine Months Ended September 30,**	
	2006	2005	**2006**	2005
Interest income	**$ (41.9)**	$ (18.7)	**$(113.9)**	$(46.3)
Translation (gain) / loss	**1.9**	0.9	**(1.5)**	10.1
Other expense	**11.9**	5.2	**31.2**	6.3

Total	**$ (28.1)**	$ (12.6)	**$ (84.2)**	$(29.9)

Interest income increased for both periods primarily due to higher cash levels.

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Chipotle Transactions

In first quarter 2006, Chipotle Mexican Grill completed an IPO of 6.1 million shares resulting in net proceeds of $120.9 million to Chipotle and a gain to McDonald s of $32.0 million to reflect an increase in the carrying value of the Company s investment as a result of Chipotle selling shares in the public offering. Concurrently with the IPO, McDonald s sold 3.0 million Chipotle shares, resulting in net proceeds to the Company of $61.4 million and an additional gain of $19.2 million. In second quarter 2006, McDonald s sold an additional 4.5 million Chipotle shares, resulting in net proceeds to the Company of $267.7 million and a gain of $197.4 million, while still retaining majority ownership.

In October 2006, the Company completely separated from Chipotle through a tax-free exchange of its remaining Chipotle shares for McDonald s common stock. McDonald s accepted 18.6 million shares of McDonald s common stock in exchange for the 16.5 million shares of Chipotle class B common stock held by McDonald s and will record a tax-free gain of about $500 million in the fourth quarter. As a result of the complete disposition of Chipotle, the Company will reflect Chipotle s results of operations and transaction gains as discontinued operations for all periods presented beginning in the fourth quarter 2006.

Income Taxes

The effective income tax rate was 31.4% for third quarter 2006 compared with 32.3% in 2005.

The effective income tax rate was 32.2% for nine months 2006 compared with 30.1% in 2005. The 2006 tax rate included net incremental tax expense of $13.5 million primarily relating to a one-time impact from a tax law change in Canada. The 2005 tax rate included a benefit of $178.8 million due to a favorable audit settlement of the Company s 2000-2002 U.S. tax returns, partly offset by expense of approximately $112.0 million related to the Company s decision to take advantage of the one-time opportunity provided under HIA. The net of both of these items benefited the 2005 nine month tax rate by about 2 percentage points.

Cash Flows and Financial Position

The Company generates significant cash from operations and has substantial credit capacity to fund operating and discretionary spending such as capital expenditures, debt repayments, dividends and share repurchases.

Cash provided by operations totaled $3,004.9 million and exceeded capital expenditures by $1,918.1 million for the nine months. Cash provided by operations decreased $203.9 million compared to the nine months in 2005 primarily due to higher income tax payments in 2006, partly offset by stronger operating results.

Cash used for investing activities totaled $589.8 million for the nine months, a decrease of $541.1 million. Higher capital spending was more than offset by the proceeds from the sales of Chipotle shares and IPO as well as the sales of short-term investments. Capital expenditures increased $111.9 million for the nine months consistent with the Company s strategy to increase investment in existing restaurants, primarily in the U.S.

Cash used for financing activities totaled $2,392.8 million for the nine months, an increase of $1,232.2 million primarily due to higher net debt repayments and share repurchases.

As a result of the above activity, the Company s cash balance increased $22.3 million from December 31, 2005 to $4,282.7 million at September 30, 2006. For the full year, the Company expects capital expenditures to be approximately $1.8 billion and debt repayments to be at least $1.4 billion. In addition, the Company will pay its annual dividend of approximately $1.2 billion in the fourth quarter. The Company expects to return at least $10 billion to shareholders through dividends and share repurchases in 2006 through 2008.

Debt obligations at September 30, 2006 totaled $9,188.6 million compared with $10,140.1 million at December 31, 2005. The decrease in 2006 was primarily due to net repayments of $1,337.9 million and SFAS No. 133 noncash fair value adjustments of $63.2 million, partially offset by the impact of changes in exchange rates on foreign currency-denominated debt of $412.8 million and the consolidation of Malaysia.

Recently Issued Accounting Standards

In June 2006, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) Issue 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences* (EITF 06-2). Under EITF 06-2, compensation costs associated with a sabbatical should be accrued over the requisite service period, assuming certain conditions are met. The Company expects to adopt EITF 06-2 effective January 1, 2007, as required. We cannot reasonably estimate the impact of adoption at this time.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, which is an interpretation of FASB Statement No. 109, *Accounting for Income*