

MCDONALDS CORP  
Form 10-Q  
August 05, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2010

**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)

<b>Delaware</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>36-2361282</b> (I.R.S. Employer Identification No.)
<b>One McDonald s Plaza</b>  <b>Oak Brook, Illinois</b> (Address of Principal Executive Offices)	<b>60523</b> (Zip Code)
<b>(630) 623-3000</b>	

(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

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to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (do not check if a smaller reporting company) Smaller reporting company

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

Yes  No

**1,064,338,416**

(Number of shares of common stock

outstanding as of June 30, 2010)

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CONDENSED CONSOLIDATED BALANCE SHEET**

	(unaudited)	
	June 30,	December 31,
	2010	2009
<b>In millions, except per share data</b>		
<b>Assets</b>		
<b>Current assets</b>		
Cash and equivalents	\$ 1,665.5	\$ 1,796.0
Accounts and notes receivable	964.1	1,060.4
Inventories, at cost, not in excess of market	94.4	106.2
Prepaid expenses and other current assets	442.5	453.7
<b>Total current assets</b>	<b>3,166.5</b>	<b>3,416.3</b>
<b>Other assets</b>		
Investments in and advances to affiliates	1,212.5	1,212.7
Goodwill	2,413.9	2,425.2
Miscellaneous	1,589.5	1,639.2
<b>Total other assets</b>	<b>5,215.9</b>	<b>5,277.1</b>
<b>Property and equipment</b>		
Property and equipment, at cost	31,897.2	33,440.5
Accumulated depreciation and amortization	(11,604.2)	(11,909.0)
<b>Net property and equipment</b>	<b>20,293.0</b>	<b>21,531.5</b>
<b>Total assets</b>	<b>\$ 28,675.4</b>	<b>\$ 30,224.9</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 578.0	\$ 636.0
Income taxes	27.0	202.4
Other taxes	246.2	277.4
Accrued interest	150.5	195.8
Accrued payroll and other liabilities	1,246.2	1,659.0
Current maturities of long-term debt	334.9	18.1
<b>Total current liabilities</b>	<b>2,582.8</b>	<b>2,988.7</b>
<b>Long-term debt</b>	<b>10,291.3</b>	<b>10,560.3</b>
<b>Other long-term liabilities</b>	<b>1,424.8</b>	<b>1,363.1</b>
<b>Deferred income taxes</b>	<b>1,244.7</b>	<b>1,278.9</b>
<b>Shareholders' equity</b>		
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	5,028.7	4,853.9
Retained earnings	32,406.7	31,270.8
Accumulated other comprehensive income (loss)	(278.9)	747.4
Common stock in treasury, at cost; 596.3 and 583.9 million shares	(24,041.3)	(22,854.8)

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<b>Total shareholders equity</b>	<b>13,131.8</b>	14,033.9
<b>Total liabilities and shareholders equity</b>	<b>\$ 28,675.4</b>	\$ 30,224.9

See Notes to condensed consolidated financial statements.

**Table of Contents****CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**

In millions, except per share data	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<b>Revenues</b>				
Sales by Company-operated restaurants	\$ 4,013.4	\$ 3,850.2	\$ 7,816.5	\$ 7,334.9
Revenues from franchised restaurants	1,932.1	1,797.0	3,739.1	3,389.7
<b>Total revenues</b>	<b>5,945.5</b>	<b>5,647.2</b>	<b>11,555.6</b>	<b>10,724.6</b>
<b>Operating costs and expenses</b>				
Company-operated restaurant expenses	3,214.8	3,159.3	6,325.7	6,079.8
Franchised restaurants occupancy expenses	334.3	318.0	673.6	614.7
Selling, general & administrative expenses	564.9	531.5	1,111.2	1,028.8
Impairment and other charges (credits), net	6.8	1.2	37.6	2.4
Other operating (income) expense, net	(20.6)	(44.3)	(111.9)	(83.0)
<b>Total operating costs and expenses</b>	<b>4,100.2</b>	<b>3,965.7</b>	<b>8,036.2</b>	<b>7,642.7</b>
<b>Operating income</b>	<b>1,845.3</b>	<b>1,681.5</b>	<b>3,519.4</b>	<b>3,081.9</b>
Interest expense	108.1	119.3	219.1	240.2
Nonoperating (income) expense, net	1.9	(12.0)	8.1	(28.4)
Gain on sale of investment		(17.8)		(94.3)
<b>Income before provision for income taxes</b>	<b>1,735.3</b>	<b>1,592.0</b>	<b>3,292.2</b>	<b>2,964.4</b>
Provision for income taxes	509.5	498.3	976.6	891.2
<b>Net income</b>	<b>\$ 1,225.8</b>	<b>\$ 1,093.7</b>	<b>\$ 2,315.6</b>	<b>\$ 2,073.2</b>
<b>Earnings per common share basic:</b>	<b>\$ 1.14</b>	<b>\$ 1.00</b>	<b>\$ 2.16</b>	<b>\$ 1.88</b>
<b>Earnings per common share diluted:</b>	<b>\$ 1.13</b>	<b>\$ 0.98</b>	<b>\$ 2.13</b>	<b>\$ 1.85</b>
<b>Dividends declared per common share</b>	<b>\$ 0.55</b>	<b>\$ 0.50</b>	<b>\$ 1.10</b>	<b>\$ 1.00</b>
<b>Weighted-average shares outstanding basic</b>	<b>1,072.1</b>	<b>1,097.3</b>	<b>1,074.1</b>	<b>1,103.4</b>
<b>Weighted-average shares outstanding diluted</b>	<b>1,085.9</b>	<b>1,111.4</b>	<b>1,088.1</b>	<b>1,118.2</b>

See Notes to condensed consolidated financial statements.

**Table of Contents****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

<b>In millions</b>	<b>Quarters Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2010</b>	<b>2009</b>	<b>June 30, 2010</b>	<b>2009</b>
<b>Operating activities</b>				
Net income	\$ 1,225.8	\$ 1,093.7	\$ 2,315.6	\$ 2,073.2
Adjustments to reconcile to cash provided by operations				
Charges and credits:				
Depreciation and amortization	311.5	304.4	629.4	586.6
Deferred income taxes	(0.3)	38.8	(6.6)	89.1
Gain on sale of investment		(17.8)		(94.3)
Share-based compensation	18.8	29.6	44.7	60.0
Impairment and other charges (credits), net	6.8	1.2	37.6	2.4
Other	56.2	(9.2)	92.4	70.6
Changes in working capital items	(370.1)	(20.6)	(441.7)	(236.8)
<b>Cash provided by operations</b>	<b>1,248.7</b>	<b>1,420.1</b>	<b>2,671.4</b>	<b>2,550.8</b>
<b>Investing activities</b>				
Property and equipment expenditures	(394.5)	(434.4)	(796.3)	(848.1)
Purchases and sales of restaurant businesses and property sales	35.9	24.2	70.7	78.3
Proceeds on sale of investment, net		125.3		135.1
Other	(32.1)	(18.0)	(55.5)	(36.8)
<b>Cash used for investing activities</b>	<b>(390.7)</b>	<b>(302.9)</b>	<b>(781.1)</b>	<b>(671.5)</b>
<b>Financing activities</b>				
Notes payable and long-term financing issuances and repayments, net	224.0	276.9	273.2	744.0
Treasury stock purchases	(881.2)	(792.5)	(1,358.4)	(1,605.0)
Common stock dividends	(589.1)	(547.8)	(1,181.1)	(1,101.2)
Proceeds from stock option exercises	95.2	79.6	255.9	117.1
Excess tax benefit on share-based compensation	22.8	12.4	63.7	27.9
Other	6.0	(34.5)	16.0	(8.4)
<b>Cash used for financing activities</b>	<b>(1,122.3)</b>	<b>(1,005.9)</b>	<b>(1,930.7)</b>	<b>(1,825.6)</b>
<b>Effect of exchange rates on cash and cash equivalents</b>	<b>(77.5)</b>	<b>70.6)</b>	<b>(90.1)</b>	<b>43.5)</b>
Cash and equivalents increase (decrease)	(341.8)	181.9	(130.5)	97.2
Cash and equivalents at beginning of period	2,007.3	1,978.7	1,796.0	2,063.4
<b>Cash and equivalents at end of period</b>	<b>\$ 1,665.5</b>	<b>\$ 2,160.6</b>	<b>\$ 1,665.5</b>	<b>\$ 2,160.6</b>

See Notes to condensed consolidated financial statements.

**Table of Contents****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, 2009 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 six months ended June 30, 2010 do not necessarily indicate the results that may be expected for the full year.

The results of operations of McDonald's restaurant businesses purchased and sold were not material, on either an individual or aggregate basis, to the condensed consolidated financial statements for periods prior to purchase and sale.

**Restaurant Information**

The following table presents restaurant information by ownership type:

<b>Restaurants at June 30,</b>	<b>2010</b>	<b>2009</b>
Conventional franchised	<b>19,059</b>	18,645
Developmental licensed	<b>3,327</b>	3,084
Affiliated	<b>3,823</b>	4,072
Total Franchised	<b>26,209</b>	25,801
Company-operated	<b>6,257</b>	6,357
Systemwide restaurants	<b>32,466</b>	32,158
<b>Comprehensive Income</b>		

The following table presents the components of comprehensive income for the quarters and six months ended June 30, 2010 and 2009:

<b>In millions</b>	<b>Quarters Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income	<b>\$ 1,225.8</b>	\$ 1,093.7	<b>\$ 2,315.6</b>	\$ 2,073.2
Other comprehensive income (loss):				
Foreign currency translation adjustments	<b>(806.1)</b>	715.6	<b>(1,048.9)</b>	317.2
Deferred hedging adjustments	<b>14.3</b>	(17.5)	<b>21.8</b>	(24.3)
Pension liability adjustment		0.7	<b>0.8</b>	1.0
Total other comprehensive income (loss)	<b>(791.8)</b>	698.8	<b>(1,026.3)</b>	293.9
<b>Total comprehensive income</b>	<b>\$ 434.0</b>	\$ 1,792.5	<b>\$ 1,289.3</b>	\$ 2,367.1
<b>Per Common Share Information</b>				

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation calculated using the treasury stock method, of 13.8 million shares and 14.1 million shares for the second quarter 2010 and 2009, respectively, and 14.0 million shares and 14.8 million shares for the six months ended June 30, 2010 and 2009, respectively. Stock options that were not included in diluted weighted-average shares because they would have been antidilutive were 10.2 million shares and 10.3 million shares for the second quarter and six months ended June 30, 2009, respectively.





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The Company measures certain financial assets and liabilities at fair value on a recurring basis, and certain non-financial assets and liabilities on a nonrecurring basis. The guidance provided by the Financial Accounting Standards Board (FASB) in the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification (ASC) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The guidance also establishes a three-level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market.

Level 2 inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability. Certain of the Company's derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves, option volatilities and currency rates, classified as Level 2 within the valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or the Company.

***Certain Financial Assets and Liabilities Measured at Fair Value***

The following table presents financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 by the valuation hierarchy as defined in the fair value guidance:

				Carrying
In millions	Level 1	Level 2	Level 3	Value
Cash equivalents	\$ 278.3			\$ 278.3
Investments	114.5*			114.5
Derivative receivables	84.0*	\$ 147.4		231.4
<b>Total assets at fair value</b>	<b>\$ 476.8</b>	<b>\$ 147.4</b>		<b>\$ 624.2</b>
Derivative payables		\$ (8.1)		\$ (8.1)
<b>Total liabilities at fair value</b>		<b>\$ (8.1)</b>		<b>\$ (8.1)</b>

\* Includes long-term investments and derivatives that hedge market driven changes in liabilities associated with the Company's supplemental benefit plans.

***Certain Financial Assets and Liabilities not Measured at Fair Value***

At June 30, 2010, the fair value of the Company's debt obligations was estimated at \$11.9 billion, compared to a carrying amount of \$10.6 billion. This fair value was estimated using various pricing models or discounted cash flow analyses that incorporated quoted market prices, and

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is similar to Level 2 within the valuation hierarchy. The Company has no current plans to retire a significant amount of its debt prior to maturity. The carrying amount for both cash and equivalents and notes receivable approximate fair value.

### *Non-Financial Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). At June 30, 2010, no material fair value adjustments or fair value measurements were required for non-financial assets or liabilities.

### **Financial Instruments and Hedging Activities**

The FASB guidance on disclosures in the Derivatives and Hedging Topic of the FASB ASC requires qualitative and quantitative information on how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows.

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The Company is exposed to global market risks, including the effect of changes in interest rates and foreign currency fluctuations. The Company uses foreign currency denominated debt and derivative instruments to mitigate the impact of these changes. The Company does not use derivatives with a level of complexity or with a risk higher than the exposures to be hedged and does not hold or issue derivatives for trading purposes.

The Company documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedging transactions. The Company's derivatives that are designated as hedging instruments consist mainly of interest rate exchange agreements, forward foreign currency exchange agreements and foreign currency options. Interest rate exchange agreements are entered into to manage the interest rate risk associated with the Company's fixed and floating-rate borrowings. Forward foreign currency exchange agreements and foreign currency options are entered into to mitigate the risk that forecasted foreign currency cash flows (such as royalties denominated in foreign currencies) will be adversely affected by changes in foreign currency exchange rates. Certain foreign currency denominated debt is used, in part, to protect the value of the Company's investments in certain foreign subsidiaries and affiliates from changes in foreign currency exchange rates.

The Company also enters into certain derivatives that are not designated as hedging instruments. The Company has entered into derivative contracts to hedge market-driven changes in certain of its supplemental benefit plan liabilities. Changes in the fair value of these derivatives are recorded in selling, general & administrative expenses together with the changes in the supplemental benefit plan liabilities. In addition, the Company uses forward foreign currency exchange agreements and foreign currency exchange agreements to mitigate the change in fair value of certain foreign currency denominated assets and liabilities. Since these derivatives are not designated as hedging instruments, the changes in the fair value of these hedges are recognized immediately in nonoperating (income) expense together with the translation gain or loss from the hedged balance sheet position. A portion of the Company's foreign currency options (more fully described in the Cash Flow Hedging Strategy section) are undesignated as hedging instruments as the underlying foreign currency royalties are earned.

All derivative instruments designated as hedging instruments are classified as fair value, cash flow or net investment hedges. All derivatives (including those not designated as hedging instruments) are recognized on the Consolidated balance sheet at fair value and classified based on the instruments' maturity date. Changes in the fair value measurements of the derivative instruments are reflected as adjustments to other comprehensive income (OCI) and/or current earnings.

The following table presents the fair values of derivative instruments included on the Consolidated balance sheet:

In millions	Asset Derivatives			Liability Derivatives		
	Balance Sheet			Balance Sheet		
	Classification	June 30, 2010	December 31, 2009	Classification	June 30, 2010	December 31, 2009
Derivatives designated as hedging instruments						
Foreign currency options	Prepaid expenses and other current assets	\$ 33.7	\$ 13.2	Accrued payroll and other liabilities	\$ (1.1)	
Interest rate exchange agreements	Prepaid expenses and other current assets	0.5	1.4	Accrued payroll and other liabilities	(0.8)	
Forward foreign currency exchange agreements	Prepaid expenses and other current assets	3.7	0.3	Accrued payroll and other liabilities	(1.9)	(0.1)
Foreign currency options	Miscellaneous other assets	4.1	5.4	Other long-term liabilities		
Interest rate exchange agreements	Miscellaneous other assets	80.6	67.3	Other long-term liabilities		(3.4)
Total derivatives designated as hedging instruments		\$ 122.6	\$ 87.6		\$ (3.8)	\$ (3.5)

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Derivatives not designated as hedging instruments

Forward foreign currency exchange agreements	Prepaid expenses and other current assets	\$ 25.2	\$ 9.3	Accrued payroll and other liabilities	\$ (4.7)	\$ (5.4)
Derivatives hedging supplemental benefit plan liabilities	Miscellaneous other assets	84.0	79.6	Other long-term liabilities		
Foreign currency exchange agreements	Miscellaneous other assets			Other long-term liabilities		(0.5)
Total derivatives not designated as hedging instruments		\$ 109.2	\$ 88.9		\$ (4.7)	\$ (5.9)
Total derivatives <sup>(1)</sup>		\$ 231.8	\$ 176.5		\$ (8.5)	\$ (9.4)

(1) The fair value of derivatives is presented on a gross basis. Accordingly, the total asset and liability fair values at June 30, 2010 do not agree with the values provided in the Fair Value Measurements note, because that disclosure reflects netting adjustments of \$0.4 million.

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The following table presents the pretax amounts affecting income and OCI for the six months ended June 30, 2010 and 2009, respectively:

**In millions**

Derivatives in Fair Value	(Gain) Loss Recognized in Income on Derivative		Hedged Items in Fair Value		(Gain) Loss Recognized in Income on Related Hedged Items	
Hedging Relationships	<b>2010</b>	2009	Hedging Relationships		<b>2010</b>	2009
Interest rate exchange agreements	<b>\$(15.1)</b>	\$9.5	Fixed-rate debt		<b>\$15.1</b>	\$(9.5)
	(Gain) Loss		(Gain) Loss		(Gain) Loss	
	Recognized in Accumulated		Reclassified from		Recognized in Income on	
Derivatives in	OCI on Derivative		Accumulated OCI into		Derivative (Amount Excluded	
Cash Flow	(Effective Portion)		Income (Effective Portion)		and Ineffective Portion)	
Hedging Relationships	<b>2010</b>	2009	<b>2010</b>	2009	<b>2010</b>	2009
Foreign currency options	<b>\$(30.7)</b>	\$1.0	<b>\$(6.5)</b>	\$(32.0)	<b>\$15.0</b>	\$16.4
Interest rate exchange agreements <sup>(1)</sup>		(1.4)	<b>(0.3)</b>	(1.1)	<b>0.4</b>	
Forward foreign currency exchange agreements	<b>(10.0)</b>	0.9	<b>0.1</b>	(4.3)	<b>0.4</b>	
Total	<b>\$(40.7)</b>	\$0.5	<b>\$(6.7)</b>	\$(37.4)	<b>\$15.8</b>	\$16.4
	(Gain) Loss		Recognized in Accumulated			
Derivatives in	OCI on Derivative					
Net Investment	(Effective Portion)					
Hedging Relationships	<b>2010</b>	2009				
Foreign currency denominated debt	<b>\$(225.7)</b>	\$(46.2)				
Forward foreign currency exchange agreements	<b>4.3</b>					
Total	<b>\$(221.4)</b>	\$(46.2)				
	(Gain) Loss					
	Recognized in Income					
Derivatives Not Designated as	on Derivative					
Hedging Instruments	<b>2010</b>	2009				
Forward foreign currency exchange agreements	<b>\$(13.0)</b>	\$26.5				
Derivatives hedging supplemental benefit plan liabilities <sup>(2)</sup>	<b>(5.5)</b>	5.3				

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Foreign currency options	(0.8)	(0.1)
Foreign currency exchange agreements	(0.5)	
Total	\$(19.8)	\$31.7

(Gains) losses recognized in income on derivatives are recorded in nonoperating (income) expense unless otherwise noted.

- (1) The amount of (gain) loss reclassified from accumulated OCI into income is recorded in interest expense.
- (2) The amount of (gain) loss recognized in income on the derivatives used to hedge the supplemental benefit plan liabilities is recorded in selling, general & administrative expenses.

### ***Fair Value Hedging Strategy***

The Company enters into fair value hedges to reduce the exposure to changes in the fair values of certain liabilities. The fair value hedges the Company enters into consist of interest rate exchange agreements which convert a portion of its fixed-rate debt into floating-rate debt. All of the Company's interest rate exchange agreements meet the shortcut method requirements. Accordingly, changes in the fair values of the interest rate exchange agreements are exactly offset by changes in the fair value of the underlying debt. No ineffectiveness has been recorded to net income related to interest rate exchange agreements designated as fair value hedges for the six month period ended June 30, 2010. A total of \$2.0 billion of the Company's outstanding fixed-rate debt was effectively converted to floating-rate debt resulting from the use of interest rate exchange agreements.

### ***Cash Flow Hedging Strategy***

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. The types of cash flow hedges the Company enters into include interest rate exchange agreements, forward foreign currency exchange agreements and foreign currency options.

To protect against the reduction in value of forecasted foreign currency cash flows (such as royalties denominated in foreign currencies), the Company uses forward foreign currency exchange agreements and foreign currency options to hedge a portion of anticipated exposures.

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When the U.S. dollar strengthens against foreign currencies, the decline in present value of future foreign denominated royalties is offset by gains in the fair value of the forward foreign currency exchange agreements and/or foreign currency options. Conversely, when the U.S. dollar weakens, the increase in the present value of future foreign denominated royalties is offset by losses in the fair value of the forward foreign currency exchange agreements and/or foreign currency options.

Although the fair value changes in the foreign currency options may fluctuate over the period of the contract, the Company's total loss on a foreign currency option is limited to the upfront premium paid for the contract. However, the potential gains on a foreign currency option are unlimited as the settlement value of the contract is based upon the difference between the exchange rate at inception of the contract and the spot exchange rate at maturity. In limited situations, the Company uses foreign currency option collars, which limit the potential gains and lower the upfront premium paid, to protect against currency movements.

The hedges typically cover the next 12-15 months for certain exposures and are denominated in various currencies. As of June 30, 2010, the Company had derivatives outstanding with an equivalent notional amount of \$527.7 million that were used to hedge a portion of forecasted foreign currency denominated royalties.

The Company excludes the time value of foreign currency options, as well as the discount or premium points on forward foreign currency exchange agreements from its effectiveness assessment on its cash flow hedges. As a result, changes in the fair value of the derivatives due to these components, as well as the ineffectiveness of the hedges, are recognized in earnings currently. The effective portion of the gains or losses on the derivatives is reported in the deferred hedging adjustment component of OCI in shareholders' equity and reclassified into earnings in the same period or periods in which the hedged transaction affects earnings.

The Company recorded after tax adjustments related to cash flow hedges to the deferred hedging adjustment component of accumulated OCI in shareholders' equity. The Company recorded a net increase of \$21.8 million for the six months ended June 30, 2010 and a net decrease of \$24.3 million for the six months ended June 30, 2009. Based on interest rates and foreign currency exchange rates at June 30, 2010, the majority of the \$38.3 million in cumulative deferred hedging gains, after tax, at June 30, 2010, will be recognized in earnings over the next 12 months as the underlying hedged transactions are realized.

### ***Hedge of Net Investment in Foreign Operations Strategy***

The Company primarily uses foreign currency denominated debt to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of OCI and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in OCI. As of June 30, 2010, a total of \$3.2 billion of the Company's outstanding foreign currency denominated debt was designated to hedge investments in certain foreign subsidiaries and affiliates.

### ***Credit Risk***

The Company is exposed to credit-related losses in the event of non-performance by the counterparties to its hedging instruments. The counterparties to these agreements consist of a diverse group of financial institutions. The Company continually monitors its positions and the credit ratings of its counterparties and adjusts positions as appropriate. The Company did not have significant exposure to any individual counterparty at June 30, 2010 and has master agreements that contain netting arrangements. Some of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At June 30, 2010, neither the Company nor its counterparties were required to post collateral on any derivative position, other than on hedges of certain of the Company's supplemental benefit plan liabilities where our counterparty was required to post collateral on its liability positions.

### **Impairment and Other Charges (Credits), Net**

In the first quarter, McDonald's Japan (a 50%-owned affiliate) announced plans to close approximately 430 restaurants by mid-2011 in conjunction with the strategic review of the market's restaurant portfolio. These actions are designed to enhance the brand image, overall profitability and returns of the market. For the six months 2010, the Company recorded after tax impairment charges of \$35.3 million related to its share of restaurant closing costs in Japan. These charges primarily consist of asset writeoffs and lease termination costs.





**Table of Contents****Gain on Sale of Investment**

In 2009, the Company sold its minority ownership interest in Redbox Automated Retail, LLC to Coinstar, Inc. (Coinstar), the majority owner, for total consideration of \$139.8 million. In connection with the sale, in first quarter 2009, the Company received initial consideration valued at \$51.6 million consisting of 1.5 million shares of Coinstar common stock at an agreed to value of \$41.6 million and \$10 million in cash with the balance of the purchase price deferred. In second quarter 2009, the Company sold all of its holdings in the Coinstar common stock for \$46.8 million and received \$78.4 million in cash from Coinstar as deferred consideration, and in third quarter 2009, the Company received \$9.8 million in cash from Coinstar as final consideration. As a result of the transaction, the Company recognized a nonoperating pretax gain of \$17.8 million (after tax \$11.1 million or \$0.01 per share) for the second quarter 2009 and \$94.3 million (after tax \$58.5 million or \$0.05 per share) for the six months. For the full year 2009, the Company recognized a cumulative gain of \$94.9 million (after tax \$58.8 million or \$0.05 per share).

**Segment Information**

The Company franchises and operates McDonald's restaurants in the food service industry. The following table presents the Company's revenues and operating income by geographic segment. The APMEA segment represents operations in Asia/Pacific, Middle East and Africa. Other Countries & Corporate represents operations in Canada and Latin America, as well as Corporate activities.

In millions	Quarters Ended		Six Months Ended	
	June 30, 2010	2009	June 30, 2010	2009
<b>Revenues</b>				
U.S.	\$ 2,076.9	\$ 2,044.2	\$ 3,953.6	\$ 3,920.6
Europe	2,326.1	2,264.0	4,571.5	4,212.2
APMEA	1,211.2	1,047.9	2,402.5	2,057.0
Other Countries & Corporate	331.3	291.1	628.0	534.8
<b>Total</b>	<b>\$ 5,945.5</b>	<b>\$ 5,647.2</b>	<b>\$ 11,555.6</b>	<b>\$ 10,724.6</b>
<b>Operating income</b>				
U.S.	\$ 895.1	\$ 834.9	\$ 1,704.5	\$ 1,560.4
Europe	673.6	618.9	1,274.6	1,108.8
APMEA	273.5	230.6	545.6	444.2
Other Countries & Corporate	3.1	(2.9)	(5.3)	(31.5)
<b>Total</b>	<b>\$ 1,845.3</b>	<b>\$ 1,681.5</b>	<b>\$ 3,519.4</b>	<b>\$ 3,081.9</b>

**Variable Interest Entities and Consolidation**

In June 2009, the FASB issued amendments to the guidance on variable interest entities and consolidation, codified primarily in the Consolidation Topic of the FASB ASC. This guidance modifies the method for determining whether an entity is a variable interest entity as well as the methods permitted for determining the primary beneficiary of a variable interest entity. In addition, this guidance requires ongoing reassessments of whether a company is the primary beneficiary of a variable interest entity and enhanced disclosures related to a company's involvement with a variable interest entity. The Company adopted this guidance as of January 1, 2010.

The Company evaluates its business relationships such as those with franchisees, joint venture partners, developmental licensees, suppliers, and advertising cooperatives to identify potential variable interest entities. Generally, these businesses qualify for a scope exception under the consolidation guidance. The Company has concluded that consolidation of any such entities is not appropriate for the periods presented. As a result, the adoption did not have any impact on our consolidated financial statements.

**Subsequent Events**

The Company evaluated subsequent events through the date the financial statements were issued and filed with the Securities and Exchange Commission. In August 2010, the Company issued \$450 million of 10-year U.S. Dollar-denominated notes at a coupon rate of 3.5% and \$300 million of 30-year U.S. Dollar-denominated bonds at a coupon rate of 4.875%. There were no other subsequent events that required recognition or disclosure.



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

#### **Overview**

The Company franchises and operates McDonald's restaurants. Of the 32,466 restaurants in 117 countries at June 30, 2010, 26,209 were operated by franchisees (including 19,059 operated by conventional franchisees, 3,327 operated by developmental licensees and 3,823 operated by foreign affiliated markets (affiliates) primarily in Japan) and 6,257 were operated by the Company. Under our conventional franchise arrangement, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and décor of their restaurant businesses, and by reinvesting in the business over time. The Company owns the land and building or secures long-term leases for both Company-operated and conventional franchised restaurant sites. This maintains long-term occupancy rights, helps control related costs and assists in alignment with franchisees. In certain circumstances, the Company participates in reinvestment for conventional franchised restaurants. Under our developmental license arrangement, licensees provide capital for the entire business, including the real estate interest, and the Company has no capital invested. In addition, the Company has an equity investment in a limited number of affiliates that invest in real estate and operate or franchise restaurants within a market.

We view ourselves primarily as a franchisor and believe franchising is important to delivering great, locally-relevant customer experiences and driving profitability. However, directly operating restaurants is paramount to being a credible franchisor and is essential to providing Company personnel with restaurant operations experience. In our Company-operated restaurants, and in collaboration with franchisees, we further develop and refine operating standards, marketing concepts and product and pricing strategies, so that only those that we believe are most beneficial are introduced Systemwide. Accordingly, we continually review our mix of Company-operated and franchised restaurants to help maximize overall performance.

The business is managed as distinct geographic segments. Significant reportable segments include the United States (U.S.), Europe, and Asia/Pacific, Middle East and Africa (APMEA). In addition, throughout this report we present Other Countries & Corporate that includes operations in Canada and Latin America, as well as Corporate activities. The U.S., Europe and APMEA segments account for 34%, 40% and 21% of total revenues, respectively.

In 2010, McDonald's Japan (a 50%-owned affiliate) announced plans to close approximately 430 restaurants by mid-2011 in conjunction with the strategic review of the market's restaurant portfolio. These actions are designed to enhance the brand image, overall profitability and returns of the market. For the six months 2010, the Company recorded after tax impairment charges of \$35.3 million related to its share of restaurant closing costs in Japan. The Company does not expect to record significant charges related to these restaurant closings in the second half of 2010.

In 2009, the Company sold its minority ownership interest in Redbox Automated Retail, LLC (Redbox) to Coinstar, Inc., the majority owner, and recognized a nonoperating pretax gain of \$17.8 million for second quarter 2009 and \$94.3 million for the six months. The Company disposed of all non-McDonald's restaurant businesses as of December 31, 2009.

#### **Strategic Direction and Financial Performance**

The strength of the alignment between the Company, its franchisees and suppliers (collectively referred to as the System) has been key to McDonald's success over the years. This business model enables McDonald's to consistently deliver locally-relevant restaurant experiences to customers and be an integral part of the communities we serve. In addition, it facilitates our ability to identify, implement and scale innovative ideas that meet customers' changing needs and preferences.

McDonald's customer-focused Plan to Win which is centered around being better, not just bigger provides a common framework for our global business yet allows for local adaptation. Through the execution of multiple initiatives surrounding the five key drivers of exceptional customer experiences People, Products, Place, Price and Promotion we have enhanced the restaurant experience for customers worldwide and grown sales and customer visits in each of the last six years. This Plan, coupled with financial discipline, has delivered strong results for shareholders.

The Company is pursuing initiatives in three key areas: service enhancement, restaurant reimagining and menu innovation. These initiatives include leveraging technology to make it easier for restaurant staff to quickly and accurately serve customers, accelerating our interior and exterior reimagining efforts and innovating at every tier of our menu to deliver great taste and value to customers. These efforts successfully resonated with consumers driving increases in sales and customer visits in many countries despite challenging global economies and a flat informal eating-out market. As a result, every area of the world contributed to global comparable sales, which increased 4.8% for the second quarter and 4.5% for the six months.



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The U.S. business continued to deliver results by maintaining its commitment to high-quality food at a great value. U.S. operating income increased 7% for the second quarter and 9% for the six months as sales were driven by the beverage line-up, featuring the popular new Frappés and value-based beverages, as well as classic core menu favorites and the everyday affordability of the Dollar Menu. Ongoing U.S. strategies include strengthening the core menu and value offerings; aggressively pursuing new growth opportunities in beverages, breakfast, chicken and snacking options; elevating the brand experience by updating technology with a new point of sale system; enhancing restaurant employee retention and productivity; and initiating a multi-year program to contemporize the interiors and exteriors of our restaurants through reimagining.

For both the quarter and six months, Europe delivered strong comparable sales of 5.2% and a constant currency operating income increase of 14%. Europe's focus on contemporary and inviting décors, signature menu options and unique marketing promotions contributed to these results. Europe's strategic priorities include upgrading the customer and employee experience, enhancing local relevance and building brand transparency.

APMEA's emphasis on everyday affordability, daypart expansion and core menu extensions contributed to a constant currency operating income increase of 9% for the second quarter and six months. APMEA will continue to execute initiatives that best support the goal to be customers' first choice for eating out: convenience, core menu, branded affordability, improved operations and reimagining.

### **Operating Highlights Included:**

Global comparable sales increased 4.8% for the quarter and 4.5% for the six months

Consolidated operating income increased 10% (10% in constant currencies) for the quarter and 14% (11% in constant currencies) for the six months

Diluted earnings per share were \$1.13 for the quarter and \$2.13 for the six months, up 15% (15% in constant currencies) and 15% (12% in constant currencies), respectively. Foreign currency translation had no impact on diluted earnings per share for the quarter and a positive impact of \$0.05 per share for the six months

For the six months ended June 30, 2010, the Company repurchased 20.8 million shares for \$1.4 billion and paid total dividends of \$1.10 per share or nearly \$1.2 billion

### **Outlook**

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

Changes in Systemwide sales are driven by comparable sales and net restaurant unit expansion. The Company expects net restaurant additions to add 1.5 to 2 percentage points to 2010 Systemwide sales growth (in constant currencies), most of which will be due to the 609 net traditional restaurants added in 2009.

The Company does not generally provide specific guidance on changes in comparable sales. However, as a perspective, assuming no change in cost structure, a 1 percentage point increase in comparable sales for either the U.S. or Europe would increase annual diluted earnings per share by about 3 cents.

With about 75% of McDonald's grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company's commodity costs. For the full year 2010, the total basket of goods cost is expected to decrease 3-4% in the U.S. and to decrease 1-2% in Europe. Some volatility may be experienced between quarters in the normal

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course of business, with more favorable comparisons in the first half of this year.

The Company expects full year 2010 selling, general & administrative expenses to increase slightly, in constant currencies, although fluctuations will be experienced between quarters due to certain items in 2010 such as the Vancouver Winter Olympics in February and the biennial Worldwide Owner/Operator Convention in April.

Based on current interest and foreign currency exchange rates, the Company expects interest expense for full year 2010 to decrease 3-5% compared with 2009.

A significant part of the Company's operating income is generated outside the U.S., and about 40% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 70% of the Company's operating income outside the U.S. If all four of these currencies moved by 10% in the same direction compared with 2009, the Company's annual diluted earnings per share would change by about 17 to 19 cents. At current foreign currency rates, the Company expects foreign currency translation to negatively impact full year diluted earnings per share.

The Company expects the effective income tax rate for the full year 2010 to be approximately 29% to 31%. Some volatility may be experienced between the quarters resulting in a quarterly tax rate that is outside the annual range.

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The Company expects capital expenditures for the full year 2010 to be approximately \$2.4 billion. About half of this amount will be reinvested in existing restaurants, including the reimagining of over 2,000 locations worldwide. The rest will primarily be used to open new restaurants. The Company expects to open 1,000 restaurants including about 350 restaurants in affiliated and developmental licensed markets, such as Japan and Latin America, where the Company does not fund any capital expenditures. The Company expects net additions of about 325 restaurants, which reflects the strategic closing of restaurants by McDonald's Japan.

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

Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results in constant currencies and bases certain incentive compensation plans on these results because they believe this better represents the Company's underlying business trends.

Systemwide sales include sales at all restaurants, whether operated by the Company or by franchisees. While franchised sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base.

Comparable sales represent sales at all restaurants and comparable guest counts represent the number of transactions at all restaurants, including those operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimagining or remodeling, rebuilding, road construction and natural disasters. Comparable sales exclude the impact of currency translation. Management reviews the increase or decrease in comparable sales and comparable guest counts compared with the same period in the prior year to assess business trends. The number of weekdays and weekend days, referred to as the calendar shift/trading day adjustment, can impact comparable sales and guest counts. In addition, the timing of holidays can also impact comparable sales and guest counts.



**Table of Contents****CONSOLIDATED OPERATING RESULTS**

Dollars in millions, except per share data	Quarter Ended June 30, 2010		Six Months Ended June 30, 2010	
	Amount	% Increase / (Decrease)	Amount	% Increase / (Decrease)
<b>Revenues</b>				
Sales by Company-operated restaurants	\$ 4,013.4	4	\$ 7,816.5	7
Revenues from franchised restaurants	1,932.1	8	3,739.1	10
<b>Total revenues</b>	5,945.5	5	11,555.6	8
<b>Operating costs and expenses</b>				
Company-operated restaurant expenses	3,214.8	2	6,325.7	4
Franchised restaurants occupancy expenses	334.3	5	673.6	10
Selling, general & administrative expenses	564.9	6	1,111.2	8
Impairment and other charges (credits), net	6.8	n/m	37.6	n/m
Other operating (income) expense, net	(20.6)	53	(111.9)	(35)
<b>Total operating costs and expenses</b>	4,100.2	3	8,036.2	5
<b>Operating income</b>	1,845.3	10	3,519.4	14
Interest expense	108.1	(9)	219.1	(9)
Nonoperating (income) expense, net	1.9	n/m	8.1	n/m
Gain on sale of investment		n/m		n/m
<b>Income before provision for income taxes</b>	1,735.3	9	3,292.2	11
Provision for income taxes	509.5	2	976.6	10
<b>Net income</b>	\$ 1,225.8	12	\$ 2,315.6	12
<b>Earnings per common share basic:</b>	\$ 1.14	14	\$ 2.16	15
<b>Earnings per common share diluted:</b>	\$ 1.13	15	\$ 2.13	15

n/m Not meaningful

**Table of Contents****Impact of Foreign Currency Translation**

While changes in foreign currency exchange rates affect reported results, McDonald's mitigates exposures, where practical, by financing in local currencies, hedging certain foreign-denominated cash flows, and purchasing goods and services in local currencies. Management reviews and analyzes business results excluding the effect of foreign currency translation and bases certain incentive compensation plans on these results because they believe this better represents the Company's underlying business trends. Results excluding the effect of foreign currency translation (also referred to as constant currency) are calculated by translating current year results at prior year average exchange rates.

**IMPACT OF FOREIGN CURRENCY TRANSLATION**

*In millions, except per share data*

			Currency Translation Benefit / (Cost)
<b>Quarters Ended June 30,</b>	<b>2010</b>	2009	<b>2010</b>
Revenues	\$ 5,945.5	\$ 5,647.2	\$ 20.8
Company-operated margins	798.6	690.9	6.5
Franchised margins	1,597.8	1,479.0	(8.9)
Selling, general & administrative expenses	564.9	531.5	(0.2)
Operating income	1,845.3	1,681.5	(1.6)
Net income	1,225.8	1,093.7	(0.6)
Earnings per common share diluted	1.13	0.98	

**IMPACT OF FOREIGN CURRENCY TRANSLATION**

*In millions, except per share data*

			Currency Translation Benefit / (Cost)
<b>Six Months Ended June 30,</b>	<b>2010</b>	2009	<b>2010</b>
Revenues	\$ 11,555.6	\$ 10,724.6	\$ 355.7
Company-operated margins	1,490.8	1,255.1	52.2
Franchised margins	3,065.5	2,755.0	55.4
Selling, general & administrative expenses	1,111.2	1,028.8	(24.9)
Operating income	3,519.4	3,081.9	86.0
Net income	2,315.6	2,073.2	57.1
Earnings per common share diluted	2.13	1.85	0.05

Foreign currency translation had a minimal impact on consolidated operating results for the quarter due to the weaker Euro offset primarily by the stronger Australian Dollar and Canadian Dollar. Foreign currency translation had a positive impact on consolidated operating results for the six months, primarily driven by the stronger Australian Dollar and Canadian Dollar.

**Net Income and Diluted Earnings per Common Share**

For the second quarter and six months ended June 30, 2010, net income was \$1,225.8 million and \$2,315.6 million, respectively, and diluted earnings per share were \$1.13 and \$2.13, respectively. Results for the six months included after tax impairment charges of \$35.3 million or \$0.03 per share related to restaurant closings in Japan in conjunction with the previously announced strategic review of the market's restaurant portfolio. Foreign currency translation had no impact on diluted earnings per share for the quarter and a positive impact of \$0.05 per share for the six months.

For the second quarter and six months ended June 30, 2009, net income was \$1,093.7 million and \$2,073.2 million, respectively, and diluted earnings per share were \$0.98 and \$1.85, respectively. Results benefited by an after tax gain of \$58.5 million, or \$0.05 per share, for the six months due to the sale of the Company's minority interest in Redbox Automated Retail, LLC (Redbox).

During the second quarter 2010, the Company repurchased 14.1 million shares of its stock for nearly \$1.0 billion, bringing the total repurchases for 2010 to 20.8 million shares or \$1.4 billion. During the second quarter 2010, the Company paid a quarterly dividend of \$0.55 per share or \$589.1 million, bringing the total dividends paid for 2010 to nearly \$1.2 billion.

**Table of Contents****Revenues**

Revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales along with minimum rent payments and initial fees. Revenues from franchised restaurants that are licensed to affiliates and developmental licensees include a royalty based on a percent of sales and generally include initial fees.

**REVENUES**

*Dollars in millions*

			% Inc /	
				(Dec)
			% Inc /	Excluding
				Currency
<b>Quarters Ended June 30,</b>	<b>2010</b>	<b>2009</b>	<b>(Dec)</b>	<b>Translation</b>
<i>Company-operated sales</i>				
U.S.	<b>\$ 1,085.0</b>	\$ 1,115.5	(3)	(3)
Europe	<b>1,697.7</b>	1,651.6	3	6
APMEA	<b>1,033.8</b>	901.2	15	9
Other Countries & Corporate	<b>196.9</b>	181.9	8	(4)
Total	<b>\$ 4,013.4</b>	\$ 3,850.2	4	3
<i>Franchised revenues</i>				
U.S.	<b>\$ 991.9</b>	\$ 928.7	7	7
Europe	<b>628.4</b>	612.4	3	9
APMEA	<b>177.4</b>	146.7	21	9
Other Countries & Corporate	<b>134.4</b>	109.2	23	16
Total	<b>\$ 1,932.1</b>	\$ 1,797.0	8	8
<i>Total revenues</i>				
U.S.	<b>\$ 2,076.9</b>	\$ 2,044.2	2	2
Europe	<b>2,326.1</b>	2,264.0	3	6
APMEA	<b>1,211.2</b>	1,047.9	16	9
Other Countries & Corporate	<b>331.3</b>	291.1	14	3
Total	<b>\$ 5,945.5</b>	\$ 5,647.2	5	5

**Table of Contents****REVENUES***Dollars in millions*

			% Inc / (Dec)	% Inc / (Dec)	Excluding Currency
					Translation
<b>Six Months Ended June 30,</b>	<b>2010</b>	2009	(Dec)		
<i>Company-operated sales</i>					
U.S.	\$ 2,072.3	\$ 2,159.0	(4)		(4)
Europe	3,320.3	3,065.3	8		6
APMEA	2,051.7	1,776.9	15		7
Other Countries & Corporate	372.2	333.7	12		(4)
Total	\$ 7,816.5	\$ 7,334.9	7		3
<i>Franchised revenues</i>					
U.S.	\$ 1,881.3	\$ 1,761.6	7		7
Europe	1,251.2	1,146.9	9		9
APMEA	350.8	280.1	25		8
Other Countries & Corporate	255.8	201.1	27		18
Total	\$ 3,739.1	\$ 3,389.7	10		8
<i>Total revenues</i>					
U.S.	\$ 3,953.6	\$ 3,920.6	1		1
Europe	4,571.5	4,212.2	9		6
APMEA	2,402.5	2,057.0	17		7
Other Countries & Corporate	628.0	534.8	17		4
Total	\$ 11,555.6	\$ 10,724.6	8		4

Consolidated revenues increased 5% (5% in constant currencies) for the quarter and 8% (4% in constant currencies) for the six months. The constant currency growth was driven by positive comparable sales and expansion, partly offset by the impact of the refranchising strategy in certain of the Company's major markets. The Company continues to optimize its restaurant ownership mix, cash flow and returns through its refranchising strategy. The shift to a greater percentage of franchised restaurants negatively impacts consolidated revenues as Company-operated sales shift to franchised sales, where the Company receives rent and/or royalties based primarily on a percent of sales. Franchised restaurants represent 81% of Systemwide restaurants at June 30, 2010.

In the U.S., revenues increased for the quarter and six months primarily due to positive comparable sales, partly offset by the impact of the refranchising strategy. Comparable sales were driven by the beverage line-up, featuring the popular new Frappés and value-based beverages, as well as classic core menu favorites and the everyday affordability of the Dollar Menu.

In Europe, the constant currency increase in revenues for the quarter and six months was primarily driven by strong comparable sales in the U.K., France and Russia (which is entirely Company-operated) as well as expansion in Russia. These increases were partly offset by the impact of the refranchising strategy, primarily in the U.K.

In APMEA, the constant currency increase in revenues for the quarter and six months was primarily driven by comparable sales increases in Australia, China and most other markets, as well as expansion in China.

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The following table presents the percent change in comparable sales for the quarters and six months ended June 30, 2010 and 2009:

COMPARABLE SALES	% Increase			
	Quarters Ended		Six Months Ended	
	June 30,		June 30,*	
	2010	2009	2010	2009
U.S.	3.7	3.5	2.6	4.1
Europe	5.2	6.9	5.2	5.1
APMEA	4.6	4.4	5.1	4.9
Other Countries & Corporate	9.9	4.7	11.0	4.5
Total	4.8	4.8	4.5	4.6

\* On a consolidated basis, comparable guest counts increased 3.9% and 1.3% for the six months ended June 30, 2010 and 2009, respectively. The following table presents the percent change in Systemwide sales for the quarter and six months ended June 30, 2010:

**SYSTEMWIDE SALES**

	Quarter Ended		Six Months Ended	
	June 30, 2010		June 30, 2010	
	% Inc	% Inc	% Inc	% Inc
	Excluding	Excluding	Excluding	Excluding
	Currency	Currency	Currency	Currency
	% Inc	Translation	% Inc	Translation
U.S.	4	4	3	3
Europe	2	7	8	7
APMEA	14	7	16	8
Other Countries & Corporate	14	12	18	13
Total	6	6	8	6

The following table presents franchised sales, which are not recorded in the income statement, and the related percentage change for the quarters and six months ended June 30, 2010 and 2009:

**FRANCHISED SALES**

*Dollars in millions*

Quarters Ended June 30,	2010	2009	% Inc	% Inc
				Excluding
				Currency
				Translation
U.S.	\$ 7,178.6	\$ 6,808.6	5	5
Europe	3,594.6	3,513.4	2	8
APMEA	2,617.6	2,300.6	14	6
Other Countries & Corporate	1,557.0	1,352.1	15	14
Total*	\$ 14,947.8	\$ 13,974.7	7	7

**Table of Contents****FRANCHISED SALES***Dollars in millions*

				% Inc Excluding Currency
<b>Six Months Ended June 30,</b>	<b>2010</b>	<b>2009</b>	<b>% Inc</b>	<b>Translation</b>
U.S.	<b>\$ 13,642.1</b>	\$ 13,062.5	4	4
Europe	<b>7,145.4</b>	6,580.9	9	8
APMEA	<b>5,354.8</b>	4,581.0	17	8
Other Countries & Corporate	<b>3,009.4</b>	2,530.0	19	15
Total*	<b>\$ 29,151.7</b>	\$ 26,754.4	9	7

\* For the quarters, included \$2,945.3 million and \$2,751.7 million of sales in 2010 and 2009, respectively, and for the six months, included \$6,011.7 million and \$5,480.7 million of sales in 2010 and 2009, respectively, derived from developmental licensee restaurants or foreign affiliated markets where the Company earns a royalty based on sales. The remaining balance of franchised sales is derived from conventional franchised restaurants where the Company earns rent and royalties based primarily on a percent of sales.

**Restaurant Margins****FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS***Dollars in millions*

<b>Quarters Ended June 30,</b>	<b>Percent</b>		<b>Amount</b>		<b>% Inc</b>	<b>% Inc Excluding Currency Translation</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>		
<i>Franchised</i>						
U.S.	<b>84.0</b>	83.5	<b>\$ 832.6</b>	\$ 775.0	7	7
Europe	<b>78.3</b>	78.2	<b>491.8</b>	478.8	3	9
APMEA	<b>88.9</b>	89.5	<b>157.8</b>	131.4	20	9
Other Countries & Corporate	<b>86.0</b>	85.9	<b>115.6</b>	93.8	23	17
Total	<b>82.7</b>	82.3	<b>\$ 1,597.8</b>	\$ 1,479.0	8	9
<i>Company-operated</i>						
U.S.	<b>22.2</b>	19.6	<b>\$ 241.3</b>	\$ 218.8	10	10
Europe	<b>20.3</b>	18.1	<b>344.0</b>	298.6	15	18
APMEA	<b>17.1</b>	16.2	<b>177.3</b>	145.7	22	14
Other Countries & Corporate	<b>18.3</b>	15.3	<b>36.0</b>	27.8	29	15
Total	<b>19.9</b>	17.9	<b>\$ 798.6</b>	\$ 690.9	16	15

**Table of Contents****FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS***Dollars in millions*

Six Months Ended June 30,	Percent		Amount		% Inc	% Inc Excluding Currency Translation
	2010	2009	2010	2009		
<i>Franchised</i>						
U.S.	<b>83.2</b>	83.0	<b>\$ 1,564.7</b>	\$ 1,461.9	7	7
Europe	<b>77.5</b>	77.5	<b>969.8</b>	889.1	9	9
APMEA	<b>88.9</b>	89.8	<b>311.8</b>	251.7	24	8
Other Countries & Corporate	<b>85.7</b>	85.7	<b>219.2</b>	172.3	27	19
Total	<b>82.0</b>	81.9	<b>\$ 3,065.5</b>	\$ 2,775.0	10	8
<i>Company-operated</i>						
U.S.	<b>21.4</b>	19.0	<b>\$ 442.6</b>	\$ 409.6	8	8
Europe	<b>18.8</b>	16.8	<b>624.0</b>	515.0	21	19
APMEA	<b>17.6</b>	16.0	<b>360.3</b>	284.1	27	16
Other Countries & Corporate	<b>17.2</b>	13.9	<b>63.9</b>	46.4	38	19
Total	<b>19.1</b>	17.1	<b>\$ 1,490.8</b>	\$ 1,255.1	19	15

Franchised margin dollars increased \$118.8 million or 8% (9% in constant currencies) for the quarter and \$290.5 million or 10% (8% in constant currencies) for the six months. Positive comparable sales and the refranchising strategy were the primary drivers of the constant currency growth in franchised margin dollars.

In the U.S., the franchised margin percent increased for the quarter and six months primarily due to positive comparable sales. For the six months, this increase was partly offset by additional depreciation related to the Company's investment in the beverage initiative.

In Europe, the franchised margin percent remained relatively flat for the quarter and six months as positive comparable sales were offset by higher occupancy expenses, the cost of strategic brand and sales building initiatives, and the refranchising strategy.

In APMEA, the franchised margin percent declined for the quarter and six months primarily driven by foreign currency translation, mostly due to the stronger Australian dollar.

Company-operated margin dollars increased \$107.7 million or 16% (15% in constant currencies) for the quarter and \$235.7 million or 19% (15% in constant currencies) for the six months. Positive comparable sales and lower commodity costs were the primary drivers of the constant currency growth in Company-operated margin dollars. The refranchising strategy negatively impacted Company-operated margin dollars and had a slightly positive impact on the Company-operated margin percent.

In the U.S., the Company-operated margin percent increased for the quarter and six months primarily due to lower commodity costs.

Europe's Company-operated margin percent increased for the quarter and six months due to positive comparable sales and lower commodity costs, partly offset by higher labor costs.

In APMEA, the Company-operated margin percent increased for the quarter and six months primarily due to positive comparable sales and lower commodity costs, partly offset by higher labor and other costs.





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The following table presents Company-operated restaurant margin components as a percent of sales:

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

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Food & paper	32.6	33.8	32.8	34.2
Payroll & employee benefits	25.4	25.8	25.6	25.9
Occupancy & other operating expenses	22.1	22.5	22.5	22.8
Total expenses	80.1	82.1	80.9	82.9
Company-operated margins	19.9	17.9	19.1	17.1
<b>Selling, General &amp; Administrative Expenses</b>				

Selling, general & administrative expenses increased 6% (6% in constant currencies) for the quarter and increased 8% (6% in constant currencies) for the six months. Expenses in 2010 included costs related to the Vancouver Winter Olympics in February and the Company's biennial Worldwide Owner/Operator Convention in April. For the six months 2010 compared with 2009, selling, general & administrative expenses as a percent of revenues and Systemwide sales remained flat at 9.6% and 3.0%, respectively.

**Impairment and Other Charges (Credits), Net**

In the first quarter, McDonald's Japan (a 50%-owned affiliate) announced plans to close approximately 430 restaurants by mid-2011 in conjunction with the strategic review of the market's restaurant portfolio. These actions are designed to enhance the brand image, overall profitability and returns of the market. For the six months 2010, the Company recorded after tax impairment charges of \$35.3 million related to its share of restaurant closing costs in Japan. The Company does not expect to record significant charges related to these restaurant closings in the second half of 2010.

**Other Operating (Income) Expense, Net****OTHER OPERATING (INCOME) EXPENSE, NET**

*In millions*

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Gains on sales of restaurant businesses	\$ (11.0)	\$ (22.3)	\$ (38.6)	\$ (46.1)
Equity in earnings of unconsolidated affiliates	(35.6)	(33.9)	(81.7)	(63.3)
Asset dispositions and other (income) expense	26.0	11.9	8.4	26.4
Total	\$ (20.6)	\$ (44.3)	\$ (111.9)	\$ (83.0)

Gains on sales of restaurant businesses for the quarter and six months reflected less than half the number of refranchised sites in 2010 compared with 2009.

Equity in earnings of unconsolidated affiliates for the six months reflected improved operating performance in Japan (impairment charges relating to Japan are recorded separately in Impairment and Other Charges (Credits), Net).

Asset dispositions and other expense for the quarter and six months reflected charges related to the Shrek glassware voluntary recall. The six months 2010 included gains on partnership dissolutions in the U.S. as the Company continues to optimize its restaurant ownership mix.



**Table of Contents****Operating Income****OPERATING INCOME***Dollars in millions*

				% Inc/(Dec)
				Excluding
				Currency
<b>Quarters ended June 30,</b>	<b>2010</b>	2009	% Inc	Translation
U.S.	<b>\$ 895.1</b>	\$ 834.9	7	7
Europe	<b>673.6</b>	618.9	9	14
APMEA	<b>273.5</b>	230.6	19	9
Other Countries & Corporate	<b>3.1</b>	(2.9)	n/m	(28)
Total	<b>\$ 1,845.3</b>	\$ 1,681.5	10	10

**OPERATING INCOME***Dollars in millions*

				% Inc
				Excluding
				Currency
<b>Six Months ended June 30,</b>	<b>2010</b>	2009	% Inc	Translation
U.S.	<b>\$ 1,704.5</b>	\$ 1,560.4	9	9
Europe	<b>1,274.6</b>			