

MCDONALDS CORP
Form 10-Q
May 06, 2011
Table of Contents

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 March 31, 2011

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
(State or Other Jurisdiction of
Incorporation or Organization)

36-2361282
(I.R.S. Employer
Identification No.)

One McDonald s Plaza

Oak Brook, Illinois
(Address of Principal Executive Offices)

60523
(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 No

Edgar Filing: MCDONALDS CORP - Form 10-Q

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

1,037,576,718

(Number of shares of common stock

outstanding as of March 31, 2011)

Table of Contents

MCDONALD S CORPORATION

INDEX

	Page Reference
Part I. Financial Information	
Item 1 <u>Financial Statements</u>	
<u>Condensed consolidated balance sheet, March 31, 2011 (unaudited) and December 31, 2010</u>	3
<u>Condensed consolidated statement of income (unaudited), quarters ended March 31, 2011 and 2010</u>	4
<u>Condensed consolidated statement of cash flows (unaudited), quarters ended March 31, 2011 and 2010</u>	5
<u>Notes to condensed consolidated financial statements (unaudited)</u>	6
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
Item 4 <u>Controls and Procedures</u>	26
Part II. Other Information	
Item 1 <u>Legal Proceedings</u>	27
Item 1A <u>Risk Factors</u>	27
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
Item 6 <u>Exhibits</u>	28
<u>Signature</u>	31

All trademarks used herein are the property of their respective owners and are used with permission.

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

In millions, except per share data	(unaudited) March 31, 2011	December 31, 2010
Assets		
Current assets		
Cash and equivalents	\$ 1,939.9	\$ 2,387.0
Accounts and notes receivable	1,160.3	1,179.1
Inventories, at cost, not in excess of market	111.5	109.9
Prepaid expenses and other current assets	612.5	692.5
Total current assets	3,824.2	4,368.5
Other assets		
Investments in and advances to affiliates	1,317.5	1,335.3
Goodwill	2,669.6	2,586.1
Miscellaneous	1,624.1	1,624.7
Total other assets	5,611.2	5,546.1
Property and equipment		
Property and equipment, at cost	35,575.5	34,482.4
Accumulated depreciation and amortization	(12,930.7)	(12,421.8)
Net property and equipment	22,644.8	22,060.6
Total assets	\$ 32,080.2	\$ 31,975.2
Liabilities and shareholders equity		
Current liabilities		
Short-term borrowings	\$ 597.3	
Accounts payable	700.9	\$ 943.9
Income taxes	363.7	111.3
Other taxes	312.7	275.6
Accrued interest	159.9	200.7
Accrued payroll and other liabilities	1,200.5	1,384.9
Current maturities of long-term debt	919.1	8.3
Total current liabilities	4,254.1	2,924.7
Long-term debt	10,524.3	11,497.0
Other long-term liabilities	1,544.5	1,586.9
Deferred income taxes	1,303.7	1,332.4
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	5,259.9	5,196.4
Retained earnings	34,386.2	33,811.7
Accumulated other comprehensive income	1,254.2	752.9
Common stock in treasury, at cost; 623.0 and 607.0 million shares	(26,463.3)	(25,143.4)
Total shareholders equity	14,453.6	14,634.2
Total liabilities and shareholders equity	\$ 32,080.2	\$ 31,975.2

See Notes to condensed consolidated financial statements.

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

In millions, except per share data	Quarters Ended	
	March 31,	
	2011	2010
Revenues		
Sales by Company-operated restaurants	\$ 4,152.7	\$ 3,803.1
Revenues from franchised restaurants	1,958.9	1,807.0
Total revenues	6,111.6	5,610.1
Operating costs and expenses		
Company-operated restaurant expenses	3,416.7	3,110.9
Franchised restaurants occupancy expenses	354.3	339.3
Selling, general & administrative expenses	563.6	546.3
Impairment and other charges (credits), net		30.8
Other operating (income) expense, net	(48.9)	(91.3)
Total operating costs and expenses	4,285.7	3,936.0
Operating income	1,825.9	1,674.1
Interest expense	120.1	111.0
Nonoperating (income) expense, net	6.9	6.2
Income before provision for income taxes	1,698.9	1,556.9
Provision for income taxes	489.9	467.1
Net income	\$ 1,209.0	\$ 1,089.8
Earnings per common share-basic	\$ 1.16	\$ 1.01
Earnings per common share-diluted	\$ 1.15	\$ 1.00
Dividends declared per common share	\$ 0.61	\$ 0.55
Weighted-average shares outstanding-basic	1,042.4	1,076.0
Weighted-average shares outstanding-diluted	1,054.6	1,090.1

See Notes to condensed consolidated financial statements.

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

In millions	Quarters Ended	
	2011	March 31, 2010
Operating activities		
Net Income	\$ 1,209.0	\$ 1,089.8
Adjustments to reconcile to cash provided by operations		
Charges and credits:		
Depreciation and amortization	339.1	317.9
Deferred income taxes	(13.0)	(6.3)
Share-based compensation	24.0	25.9
Impairment and other charges (credits), net		30.8
Other	(9.7)	36.2
Changes in working capital items	3.7	(71.6)
Cash provided by operations	1,553.1	1,422.7
Investing activities		
Property and equipment expenditures	(508.7)	(401.8)
Purchases and sales of restaurant businesses and property sales	(8.8)	34.8
Other	(1.7)	(23.4)
Cash used for investing activities	(519.2)	(390.4)
Financing activities		
Short-term borrowings and long-term financing issuances and repayments	429.3	49.2
Treasury stock purchases	(1,370.6)	(477.2)
Common stock dividends	(635.1)	(592.0)
Proceeds from stock option exercises	61.7	160.7
Excess tax benefit on share-based compensation	21.8	40.9
Other	(19.4)	10.0
Cash used for financing activities	(1,512.3)	(808.4)
Effect of exchange rates on cash and cash equivalents	31.3	(12.6)
Cash and equivalents increase (decrease)	(447.1)	211.3
Cash and equivalents at beginning of period	2,387.0	1,796.0
Cash and equivalents at end of period	\$ 1,939.9	\$ 2,007.3

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, 2010 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 ended March 31, 2011 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:

Restaurants at March 31,	2011	2010
Conventional franchised	19,306	19,021
Developmental licensed	3,529	3,206
Foreign affiliated	3,563	4,020
Franchised	26,398	26,247
Company-operated	6,407	6,241
Systemwide restaurants	32,805	32,488
Comprehensive Income		

The following table presents the components of comprehensive income for the quarters ended March 31, 2011 and 2010:

In millions	Quarters Ended	
	March 31,	
	2011	2010
Net income	\$ 1,209.0	\$ 1,089.8
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of hedging	483.7	(242.8)
Cash flow hedging adjustments	(3.5)	7.5
Pension liability adjustment	21.1	0.8
Total other comprehensive income (loss)	501.3	(234.5)
Total comprehensive income	\$ 1,710.3	\$ 855.3
Per Common Share Information		

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 12.2 million shares and 14.1 million shares for the first quarter 2011 and 2010, respectively. Stock options that were not included in diluted weighted-average shares because they would have been antidilutive were 3.9 million shares for the first quarter 2011 and none for the first quarter 2010.

Fair Value Measurements

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. Fair value is defined 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. Fair value disclosures are reflected in a three-level hierarchy, maximizing the use of observable inputs and minimizing the use of

unobservable inputs.

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.

Table of Contents

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 by the valuation hierarchy as defined in the fair value guidance:

In millions	Level 1	Level 2	Level 3	Carrying Value
<i>March 31, 2011</i>				
Cash equivalents	\$ 403.9			\$ 403.9
Investments	137.7*			137.7
Derivative assets	114.9*	\$ 70.3		185.2
Total assets at fair value	\$ 656.5	\$ 70.3		\$ 726.8
Derivative liabilities		\$ (21.3)		\$ (21.3)
Total liabilities at fair value		\$ (21.3)		\$ (21.3)
<i>December 31, 2010</i>				
Cash equivalents	\$ 722.5			\$ 722.5
Investments	131.6*			131.6
Derivative assets	104.4*	\$ 88.5		192.9
Total assets at fair value	\$ 958.5	\$ 88.5		\$ 1,047.0
Derivative liabilities		\$ (8.4)		\$ (8.4)
Total liabilities at fair value		\$ (8.4)		\$ (8.4)

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

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 March 31, 2011, no material fair value adjustments or fair value measurements were required for non-financial assets or liabilities.

Certain Financial Assets and Liabilities not Measured at Fair Value

At March 31, 2011, the fair value of the Company's debt obligations was estimated at \$12.9 billion, compared to a carrying amount of \$12.0 billion. This fair value was estimated using various pricing models or discounted cash flow analyses that incorporated quoted market prices, and is similar to Level 2 within the valuation hierarchy. The carrying amount for both cash and equivalents and notes receivable approximate fair value.

Financial Instruments and Hedging Activities

Edgar Filing: MCDONALDS CORP - Form 10-Q

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.

Table of Contents

The Company documents its risk management objective and strategy for undertaking hedging transactions, as well as all relationships between hedging instruments and hedged items. 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 equity derivative contracts to mitigate 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 currency 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:

<i>In millions</i>	<i>Balance Sheet</i>	Derivative Assets		<i>Balance Sheet</i>	Derivative Liabilities	
		March 31, 2011	December 31, 2010		March 31, 2011	December 31, 2010
	<i>Classification</i>			<i>Classification</i>		
Derivatives designated as hedging instruments						
Foreign currency	Prepaid expenses and other current assets	\$ 2.7	\$ 7.5	Accrued payroll and other liabilities	\$ (7.7)	\$ (4.6)
Interest rate	Prepaid expenses and other current assets	3.7	0.5			
Interest rate	Miscellaneous other assets	53.4	72.1	Other long-term liabilities	(6.4)	(0.3)
Total derivatives designated as hedging instruments		\$ 59.8	\$ 80.1		\$ (14.1)	\$ (4.9)
Derivatives not designated as hedging instruments						
Foreign currency	Prepaid expenses and other current assets	\$ 10.7	\$ 6.0	Accrued payroll and other liabilities	\$ (10.0)	\$ (3.8)
Equity	Prepaid expenses and other current assets	114.9	104.4			
Foreign currency	Miscellaneous other assets	2.6	2.7			
Total derivatives not designated as hedging instruments		\$ 128.2	\$ 113.1		\$ (10.0)	\$ (3.8)
Total derivatives ¹		\$ 188.0	\$ 193.2		\$ (24.1)	\$ (8.7)

(1) The fair value of derivatives is presented on a gross basis. Accordingly, the 2011 and 2010 total asset and liability fair values do not agree with the values provided in the Fair Value Measurements note because that disclosure reflects netting adjustments related to specific counterparties of \$2.8 million and \$0.3 million, respectively.

Table of Contents

The following table presents the pretax amounts affecting income and OCI for the three months ended March 31, 2011 and 2010, respectively:

In millions		(Gain) Loss Recognized in Income on Derivative		(Gain) Loss Recognized in Income on Related Hedged Items		
Derivatives in	2011	2010	Hedged Items in		2011	2010
Fair Value			Fair Value			
Hedging			Hedging			
Relationships			Fixed-rate debt Relationships			
Interest rate	\$ 21.5	\$ (11.8)			\$ (21.5)	\$ 11.8
Derivatives in	2011	2010	(Gain) Loss Recognized in Accumulated OCI on Derivative (Effective Portion)		(Gain) Loss Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing and Ineffective Portion)	
Cash flow			Reclassified from Accumulated OCI into Income (Effective Portion)			
Hedging			2011	2010	2011	2010
Foreign currency	\$ 4.0	\$ (12.8)	\$ (0.9)	\$ (1.0)	\$ 4.5	\$ 8.8
Interest rate ⁽¹⁾			(0.6)	(0.2)		
Total	\$ 4.0	\$ (12.8)	\$ (1.5)	\$ (1.2)	\$ 4.5	\$ 8.8
Net Investment	(Gain) Loss Recognized in Accumulated OCI on Derivative (Effective Portion)		Derivatives Not Designated as		(Gain) Loss Recognized in Income on Derivative	
Hedging Relationships	2011	2010	Hedging Instruments		2011	2010
Foreign currency denominated debt	\$ 112.5	\$ (116.9)	Foreign Currency		\$ 2.0	\$ (5.3)
Foreign currency derivatives	7.4		Equity ⁽²⁾		0.8	(6.0)
Total	\$ 119.9	\$ (116.9)	Total		\$ 2.8	\$ (11.3)

(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 three months ended March 31, 2011. A total of \$2.4 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.

Table of Contents

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 months for certain exposures and are denominated in various currencies. As of March 31, 2011, the Company had derivatives outstanding with an equivalent notional amount of \$258.6 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 decrease of \$3.5 million for the three months ended March 31, 2011 and a net increase of \$7.5 million for the three months ended March 31, 2010. Based on interest rates and foreign currency exchange rates at March 31, 2011, no significant amount of the \$11.5 million in cumulative deferred hedging gains, after tax, at March 31, 2011, 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 March 31, 2011, a total of \$4.3 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 March 31, 2011 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 March 31, 2011, 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 its counterparties were required to post collateral on their liability positions.

Impairment and Other Charges (Credits), Net

In the first quarter 2010, the Company recorded after tax impairment charges of \$30.0 million related to its share of strategic restaurant closing costs in Japan. These charges primarily consisted of asset writeoffs and lease termination costs.

Table of Contents**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	
	March 31, 2011	2010
Revenues		
U.S.	\$ 1,925.8	\$ 1,876.7
Europe	2,440.0	2,245.4
APMEA	1,400.5	1,191.3
Other Countries & Corporate	345.3	296.7
Total revenues	\$ 6,111.6	\$ 5,610.1
Operating Income		
U.S.	\$ 793.0	\$ 809.4
Europe	675.3	601.0
APMEA	348.0	272.1
Other Countries & Corporate	9.6	(8.4)
Total operating income	\$ 1,825.9	\$ 1,674.1
Debt Financing		

Short-term borrowings consist of outstanding balances on line of credit agreements at certain subsidiaries outside the U.S., denominated in various currencies at local market rates of interest. At December 31, 2010, Short-term borrowings and Current maturities of long-term debt included a reclassification to Long-term debt of \$1.2 billion as they were supported by a line of credit agreement expiring in March 2012, more than 12 months from the balance sheet date. As of March 31, 2011, this reclassification can no longer be made since the line of credit expires within 12 months of the balance sheet date. This line of credit remained unused at March 31, 2011 and December 31, 2010.

Subsequent Events

The Company evaluated subsequent events through the date the financial statements were issued and filed with the Securities and Exchange Commission. There were no subsequent events that required recognition or disclosure.

Table of Contents

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 32,805 restaurants in 117 countries at March 31, 2011, 26,398 were licensed to franchisees (including 19,306 franchised to conventional franchisees, 3,529 licensed to developmental licensees and 3,563 licensed to foreign affiliates (affiliates) primarily Japan) and 6,407 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 and/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 in the restaurants. We continually review, and as appropriate adjust, our mix of Company-operated and franchised (conventional franchised, developmental licensed and foreign affiliated) restaurants to help optimize overall performance.

The Company's 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 restaurants licensed to affiliates and developmental licensees include a royalty based on a percent of sales, and generally include initial fees. Fees vary by type of site, amount of Company investment, if any, 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. 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 32%, 40% and 23% of total revenues, respectively.

Strategic Direction and Financial Performance

The strength of the alignment among the Company, its franchisees and suppliers (collectively referred to as the System) has been key to McDonald's success. This business model enables McDonald's to deliver consistent, 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 concentrates on being better, not just bigger provides a common framework for our global business yet allows for local adaptation. Through the focus on the five elements of our Plan to Win People, Products, Place, Price and Promotion we have enhanced the restaurant experience for customers worldwide and grown comparable sales and customer visits in each of the last seven years. This Plan, combined with financial discipline, has delivered strong results for our shareholders.

The Company's growth priorities under the Plan to Win include: optimizing the menu with the right food and beverage offerings, modernizing the customer experience by upgrading every aspect of our restaurants from service to designs, and broadening our accessibility through continued convenience and value initiatives. The combination of all of these efforts successfully resonated with consumers, driving increases in comparable sales and customer visits in many countries despite challenging global economies. As a result, every area of the world contributed to global comparable sales, which increased 4.2% for the first quarter 2011.

Table of Contents

Growth in comparable sales is driven by the System's ability to optimize guest count growth, product mix shifts and menu price changes. Pricing actions reflect local market conditions, with a view to preserving margins, while continuing to drive guest counts and market share gains. The goal is to achieve comparable sales growth with a balanced contribution from price and guest count increases. In the current economic environment, our menu pricing strategy is focused on increasing prices in a manner that seeks to maintain guest count momentum while mitigating some of the impact of the inflationary cost increases affecting our Company-operated restaurants.

In the U.S., first quarter 2011 comparable sales of 2.9% were driven by beverages, including the McCafé line-up, the new Fruit & Maple Oatmeal and featured products including the 20-piece Chicken McNuggets and the Chipotle BBQ Bacon Angus burger. Ongoing U.S. priorities include building key categories from chicken and beef to beverages and breakfast, a focus on operational excellence and interior and exterior reimagining, as well as expanded hours and everyday value.

Europe's emphasis on everyday affordability, classic core menu favorites, signature food events and restaurant reimagining contributed to 5.7% comparable sales growth for the first quarter 2011. Europe's strategic priorities include increasing local relevance by complementing our tiered menu with a variety of limited-time food events as well as new snack and dessert options, upgrading the customer and employee experience through ongoing restaurant reimagining and by building brand transparency. While we have not seen any significant changes in consumer behavior as a result of government-initiated austerity measures, we continue to closely monitor consumer reactions and remain confident that our business model will continue to drive profitable growth.

APMEA's focus on limited-time offerings, particularly at the lunch daypart, restaurant reimagining and service initiatives around drive-thru, delivery and extended operating hours contributed to first quarter 2011 comparable sales growth of 3.2%. In addition, breakfast contributed to the results for the quarter through a combination of compelling value and a focus on strong menu offerings. APMEA will continue to execute initiatives that best support the goal to be customers' first choice for eating out by focusing on menu variety, value, restaurant experience and convenience.

Our business in Japan was impacted by the devastation from the natural disasters and continues to face some challenges. Two hundred eighty-five restaurants were closed due to the natural disasters of which less than 40 remain temporarily closed. The disasters had a minor effect on our overall consolidated revenues and operating income.

Operating Highlights Included:

Global comparable sales increased 4.2% for the quarter

Consolidated operating income increased 9% (7% in constant currencies) for the quarter

Diluted earnings per share were \$1.15 for the quarter, up 15% (12% in constant currencies). Foreign currency translation had a positive impact of \$0.03 on diluted earnings per share

For the three months ended March 31, 2011, the Company repurchased 18.4 million shares for \$1.4 billion and paid total dividends of \$0.61 per share or \$635.1 million

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 approximately 1.5 percentage points to 2011 Systemwide sales growth (in constant currencies), most of which will be due to the 541 net traditional restaurants added in 2010.

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

Edgar Filing: MCDONALDS CORP - Form 10-Q

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 2011, the total basket of goods cost is expected to increase 4-4.5% in the U.S. and Europe.

The Company expects full-year 2011 selling, general & administrative expenses to decrease about 2% in constant currencies. In addition, fluctuations will be experienced between quarters due in part to certain items in 2010, such as the Vancouver Winter Olympics in February, the biennial Worldwide Owner/Operator Convention in April and higher performance-based incentive compensation primarily recorded in the second half of 2010.

Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full year 2011 to increase approximately 6-8% compared with 2010.

Table of Contents

A significant part of the Company's operating income is generated outside the U.S., and about 45% 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 65% of the Company's operating income outside the U.S. If all four of these currencies moved by 10% in the same direction, the Company's annual diluted earnings per share would change by about 20 cents.

The Company expects the effective income tax rate for the full-year 2011 to be 30% to 32%. Some volatility may be experienced between the quarters resulting in a quarterly tax rate that is outside the annual range.

The Company expects capital expenditures for 2011 to be approximately \$2.5 billion. About half of this amount will be used to open new restaurants. The Company expects to open about 1,100 restaurants including about 400 restaurants in affiliated and developmental licensee markets, such as Japan and Latin America, where the Company does not fund any capital expenditures. The Company expects net additions of about 750 restaurants. The remaining capital will be used for reinvestment in existing restaurants. Over half of this reinvestment will be used to reimage approximately 2,200 locations worldwide, some of which will require no capital investment from the Company.

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, whether 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	
	March 31, 2011	
	Amount	% Increase
Revenues		
Sales by Company-operated restaurants	\$ 4,152.7	9
Revenues from franchised restaurants	1,958.9	8
Total revenues	6,111.6	9
Operating costs and expenses		
Company-operated restaurant expenses	3,416.7	10
Franchised restaurants occupancy expenses	354.3	4
Selling, general & administrative expenses	563.6	3
Impairment and other charges (credits), net		n/m
Other operating (income) expense, net	(48.9)	46
Total operating costs and expenses	4,285.7	9
Operating income	1,825.9	9
Interest expense	120.1	8
Nonoperating (income) expense, net	6.9	11
Income before provision for income taxes	1,698.9	9
Provision for income taxes	489.9	5
Net income	\$ 1,209.0	11
Earnings per common share-basic	\$ 1.16	15
Earnings per common share-diluted	\$ 1.15	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 currency 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)
Quarters Ended March 31,	2011	2010	2011
Revenues	\$ 6,111.6	\$ 5,610.1	\$ 127.9
Company-operated margins	736.0	692.2	18.6
Franchised margins	1,604.6	1,467.7	21.7
Selling, general & administrative expenses	563.6	546.3	(6.8)
Operating income	1,825.9	1,674.1	35.9
Net income	1,209.0	1,089.8	24.8
Earnings per share-diluted	1.15	1.00	0.03

Foreign currency translation had a positive impact on consolidated operating results for the quarter driven by stronger global currencies, led by the Australian Dollar, partly offset by the weaker Euro.

Net Income and Diluted Earnings per Common Share

For the first quarter 2011, net income was \$1,209.0 million and diluted earnings per share were \$1.15. Foreign currency translation had a positive impact of \$0.03 on diluted earnings per share.

For the first quarter 2010, net income was \$1,089.8 million and diluted earnings per share were \$1.00. Results included after tax impairment charges of \$30.0 million or \$0.03 per share related to the Company's share of strategic restaurant closing costs in Japan.

During the first quarter 2011, the Company repurchased 18.4 million shares of its stock for \$1,375.0 million and paid a quarterly dividend of \$0.61 per share or \$635.1 million.

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	
				Excluding
				Currency
Quarters Ended March 31,	2011	2010	% Inc	Translation
<i>Company-operated sales</i>				
U.S.	\$ 1,004.6	\$ 987.3	2	2
Europe	1,758.6	1,622.6	8	7
APMEA	1,181.0	1,017.9	16	9
Other Countries & Corporate	208.5	175.3	19	13
Total	\$ 4,152.7	\$ 3,803.1	9	7
<i>Franchised revenues</i>				
U.S.	\$ 921.2	\$ 889.4	4	4
Europe	681.4	622.8	9	9
APMEA	219.5	173.4	27	16
Other Countries & Corporate	136.8	121.4	13	7
Total	\$ 1,958.9	\$ 1,807.0	8	7
<i>Total revenues</i>				
U.S.	\$ 1,925.8	\$ 1,876.7	3	3
Europe	2,440.0	2,245.4	9	8
APMEA	1,400.5	1,191.3	18	10
Other Countries & Corporate	345.3	296.7	16	10
Total	\$ 6,111.6	\$ 5,610.1	9	7

Consolidated revenues increased 9% (7% in constant currencies) for the quarter. The constant currency growth was driven by positive comparable sales and expansion.

In the U.S., revenues increased for the quarter primarily due to positive comparable sales. Comparable sales were driven by beverages, including the McCafé line-up, the new Fruit & Maple Oatmeal and featured products including the 20-piece Chicken McNuggets and the Chipotle BBQ Bacon Angus burger.

In Europe, the constant currency increase in revenues for the quarter was primarily driven by comparable sales increases in the U.K., Russia (which is entirely Company-operated), France and Germany, as well as expansion in Russia.

In APMEA, the constant currency increase in revenues for the quarter was primarily driven by comparable sales increases in China, Australia and many other markets, as well as expansion in China. In addition, a contractual increase in the royalty rate for Japan contributed to the increase.

Table of Contents

The following table presents the percent change in comparable sales for the quarters ended March 31, 2011 and 2010:

COMPARABLE SALES	% Increase Quarters Ended March 31,*	
	2011	2010
U.S.	2.9	1.5
Europe	5.7	5.2
APMEA	3.2	5.7
Other Countries & Corporate	7.8	12.3
Total	4.2	4.2

* On a consolidated basis, comparable guest counts increased 3.6% and 3.3% for the quarters ended March 31, 2011 and 2010, respectively.

The following table presents the percent change in Systemwide sales for the quarter ended March 31, 2011:

SYSTEMWIDE SALES	Quarter Ended March 31, 2011	
	% Inc	% Inc
		Excluding
		Currency
	% Inc	Translation
U.S.	4	4
Europe	9	8
APMEA	12	4
Other Countries & Corporate	16	10
Total	8	6

Franchised sales are not recorded as revenues by the Company, but are the basis on which the Company calculates and records franchised revenues and are indicative of the health of the franchisee base. The following table presents Franchised sales and the related increases:

FRANCHISED SALES

Dollars in millions

Quarters Ended March 31,	2011	2010	% Inc	Translation	% Inc
					Excluding
					Currency
U.S.	\$ 6,714.6	\$ 6,463.5	4	4	
Europe	3,863.1	3,550.8	9	9	
APMEA	3,023.4	2,737.2	10	2	
Other Countries & Corporate	1,685.9	1,452.4	16	10	
Total*	\$ 15,287.0	\$ 14,203.9	8	5	

Edgar Filing: MCDONALDS CORP - Form 10-Q

- * For the quarters, sales from developmental licensed restaurants or foreign affiliated markets where the Company earns a royalty based on a percent of sales were \$3,423.6 million and \$3,066.4 million in 2011 and 2010, respectively. 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.

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

Quarters Ended March 31,	Percent		Amount		% Inc/ (Dec)	Excluding Currency Translation
	2011	2010	2011	2010		
<i>Franchised</i>						
U.S.	82.8	82.3	\$ 762.3	\$ 732.1	4	4
Europe	77.7	76.7	529.5	478.0	11	11
APMEA	89.2	88.8	195.9	154.0	27	17
Other Countries & Corporate	85.5	85.4	116.9	103.6	13	7
Total	81.9	81.2	\$ 1,604.6	\$ 1,467.7	9	8
<i>Company-operated</i>						
U.S.	19.5	20.4	\$ 196.2	\$ 201.3	(3)	(3)
Europe	17.2	17.3	303.1	280.0	8	7
APMEA	17.5	18.0	206.8	183.0	13	6
Other Countries & Corporate	14.4	15.9	29.9	27.9	7	2
Total	17.7	18.2	\$ 736.0	\$ 692.2	6	4

Franchised margin dollars increased \$136.9 million or 9% (8% in constant currencies) for the quarter.

In the U.S. and Europe, the franchised margin percent increased for the quarter primarily due to positive comparable sales.

In APMEA, the franchised margin percent increased for the quarter primarily driven by a contractual increase in the royalty rate for Japan in addition to positive comparable sales.

Company-operated margin dollars increased \$43.8 million or 6% (4% in constant currencies) for the quarter.

In the U.S., the Company-operated margin percent decreased for the quarter primarily due to higher commodity and other costs including labor, partly offset by positive comparable sales.

In Europe, the Company-operated margin percent decreased slightly for the quarter primarily due to higher commodity and labor costs, offset by positive comparable sales.

In APMEA, the Company-operated margin percent for the quarter reflected higher labor and commodity costs, offset by positive comparable sales. The acceleration of new restaurant openings in China negatively impacted the segment's margin percent. Similar to other markets, new restaurants in China initially open with lower margins that grow significantly over time.

Table of Contents

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

	Quarters Ended	
	March 31,	
	2011	2010
Food & paper	33.6	32.9
Payroll & employee benefits	25.9	26.0
Occupancy & other operating expenses	22.8	22.9
Total expenses	82.3	81.8
Company-operated margins	17.7	18.2
Selling, General & Administrative Expenses		

Selling, general & administrative expenses increased 3% (2% in constant currencies) for the quarter as a result of the timing of certain expenses in 2011, partially offset by the 2010 Vancouver Olympics. Selling, general & administrative expenses as a percent of revenues decreased to 9.2% for 2011 compared with 9.7% for 2010, and as a percent of Systemwide sales decreased to 2.9% for 2011 compared with 3.0% for 2010.

Impairment and Other Charges (Credits), Net

In the first quarter 2010, the Company recorded after tax impairment charges of \$30.0 million related to its share of the strategic restaurant closing costs in Japan.

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

Dollars in millions

	Quarters Ended	
	March 31,	
	2011	2010
Gains on sales of restaurant businesses	\$ (11.9)	\$ (27.6)
Equity in earnings of unconsolidated affiliates	(37.2)	(46.1)
Asset dispositions and other (income) expense	0.2	(17.6)
Total	\$ (48.9)	\$ (91.3)

Gains on sales of restaurant businesses for the quarter reflected fewer refranchised sites in 2011 compared with 2010.

Equity in earnings of unconsolidated affiliates for the quarter decreased primarily due to the negative impact of the natural disaster in Japan as well as a contractual increase in Japan's royalty rate. In addition, a decline in the number of unconsolidated restaurants contributed to the decrease.

Asset dispositions and other (income) expense reflected gains on partnership dissolutions in the U.S. in 2010.

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

			% Inc/ (Dec)	Excluding Currency
Quarters Ended March 31,	2011	2010	(Dec)	Translation
U.S.	\$ 793.0	\$ 809.4	(2)	(2)
Europe	675.3	601.0	12	12
APMEA	348.0	272.1	28	18
Other Countries & Corporate	9.6	(8.4)	n/m	n/m
Total	\$ 1,825.9	\$ 1,674.1	9	7
n/m Not meaningful				

In the U.S., operating results decreased for the quarter primarily due to lower other operating income, which negatively impacted the growth rate by 4 percentage points, mostly offset by higher franchised margin dollars.

In Europe, constant currency operating results for the quarter reflected stronger operating performance in the U.K., France, Russia and Germany.

In APMEA, constant currency operating results for the quarter were driven primarily by stronger operating results in Australia and most other markets, partially offset by lower gains on sales of restaurant businesses primarily in Australia. The Company's share of impairment charges in 2010 related to the strategic restaurant closings in Japan positively impacted the 2011 constant currency growth rate by 12 percentage points for the quarter.

Combined Operating Margin

Combined operating margin is defined as operating income as a percent of total revenues. Combined operating margin for the first quarter 2011 and 2010 was 29.9% and 29.8%, respectively.

Interest Expense

Interest expense increased for the quarter reflecting higher average debt balances partly offset by lower average interest rates.

Nonoperating (Income) Expense, Net**NONOPERATING (INCOME) EXPENSE, NET***Dollars in millions*

	Quarters Ended March 31,	
	2011	2010
Interest Income	\$ (7.8)	\$ (4.6)
Foreign currency and hedging activity	0.5	3.5
Other expense	14.2	7.3
Total	\$ 6.9	\$ 6.2

Income Taxes

The effective income tax rate was 28.8% for first quarter 2011 compared with 30.0% for first quarter 2010. The effective tax rate for the first quarter 2011 reflects a nonrecurring deferred tax benefit related to certain foreign operations, partially offset by lower tax benefits related to certain foreign tax credits.

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.

Table of Contents

Cash provided by operations totaled \$1.6 billion and exceeded capital expenditures by \$1.0 billion for the first quarter 2011. Cash provided by operations increased \$130.4 million compared with the first quarter 2010 primarily due to stronger operating results and changes in working capital.

Cash used for investing activities totaled \$0.5 billion for the first quarter 2011, an increase of \$128.8 million over the first quarter 2010, primarily as a result of higher capital expenditures.

Cash used for financing activities totaled \$1.5 billion for the first quarter 2011, an increase of \$703.9 million primarily due to higher treasury stock purchases and lower proceeds from stock option exercises, partly offset by higher net debt issuances.

Debt obligations at March 31, 2011 totaled \$12.0 billion compared with \$11.5 billion at December 31, 2010. The increase in 2011 was primarily due to net issuances of \$429.3 million and the impact of changes in exchange rates on foreign currency denominated debt of \$129.2 million.

Risk Factors and Cautionary Statement Regarding Forward-Looking Statements

The information in this report includes forward-looking statements about our plans and future performance, including those under Outlook. These statements use such words as may, will, expect, believe and plan. They reflect our expectations and speak only as of the date of this report. We do not undertake to update them. Our expectations (or the underlying assumptions) may change or not be realized, and you should not rely unduly on forward-looking statements.

Our business and execution of our strategic plan, the Plan to Win, are subject to risks. The most important of these is whether we can remain relevant to our customers and a brand they trust. Meeting customer expectations is complicated by the risks inherent in our operating environment. The IEO segment of the restaurant industry, although largely mature in our major markets, is highly fragmented and competitive. The IEO segment has been contracting in many markets, including some major markets, due to uncertain economic conditions, and this may continue. Persistently high unemployment rates in many markets have also increased consumer focus on value and heightened pricing pressures across the industry. Combined with increasing pressure on commodity and labor costs, these circumstances could affect restaurant sales and margin growth despite the strength of our brand and value proposition. We have the added challenge of the cultural, economic and regulatory differences that exist within and among the more than 100 countries where we operate. Initiatives we undertake may not have universal appeal among different segments of our customer base and can drive unanticipated changes in guest counts and customer perceptions. Our operations, plans and results are also affected by regulatory and similar initiatives around the world, notably the focus on nutritional content and the production, processing and preparation of food from field to front counter, as well as industry marketing practices.

These risks can have an impact both in the near- and long-term and are reflected in the following considerations and factors that we believe are most likely to affect our performance.

Our ability to remain a relevant and trusted brand and to increase sales depends largely on how well we execute the Plan to Win.

The Plan to Win addresses the key drivers of our business and results people, products, place, price and promotion. The quality of our execution depends mainly on the following:

Our ability to anticipate and respond effectively to trends or other factors that affect the IEO segment and our competitive position in the diverse markets we serve, such as spending patterns, demographic changes, trends in food preparation, consumer preferences and publicity about us, all of which can drive popular perceptions of our business or affect the willingness of other companies to enter into site, supply or other arrangements or alliances with us;

The risks associated with our franchise business model, including whether our franchisees and developmental licensees will have the experience and financial resources to be effective operators and remain aligned with us on operating, promotional and capital-intensive initiatives and the potential impact on us if they experience food safety or other operational problems or project a brand image inconsistent with our values, particularly if our contractual and other rights and remedies are limited by local law or otherwise, costly to exercise or subject to litigation;

Edgar Filing: MCDONALDS CORP - Form 10-Q

Our ability to drive restaurant improvements and to motivate our restaurant personnel and our franchisees to achieve sustained high service levels so as to improve consumer perceptions of our ability to meet expectations for quality food served in clean and friendly environments;

Whether our restaurant reimagining and rebuilding plans, which remain a priority, are targeted at the elements of the restaurant experience that will best accomplish our goals and whether we can complete our plans as and when projected;

Table of Contents

The success of our initiatives to support menu choice, physical activity and nutritional awareness and to address these and other matters of social responsibility in a way that communicates our values effectively and inspires trust and confidence;

Our ability to respond effectively to adverse perceptions about the quick-service category of the IEO segment or about our products, promotions and premiums, such as Happy Meals (collectively, our products), or the reliability of our supply chain and the safety of our products, and our ability to manage the potential impact on McDonald's of food-borne illnesses or product safety issues;

The success of our plans to improve existing menu items and to roll out new menu items, as well as the impact of our competitors' actions, including in response to our menu changes and product introductions, and our ability to continue robust menu development and manage the complexity of our restaurant operations;

Our ability to differentiate the McDonald's experience in a way that balances consumer value with margin expansion, particularly in markets where pricing or cost pressures are significant or have been exacerbated by the current challenging economic and operating environment;

The impact of pricing, marketing and promotional plans on sales and margins and our ability to adjust these plans to respond quickly to changing economic conditions;

The impact of events such as boycotts or protests, labor strikes and supply chain interruptions (including due to lack of supply or price increases) that can adversely affect us directly or adversely affect the vendors, franchisees and others that are also part of the McDonald's System and whose performance has a material impact on our results;

Our ability to recruit and retain qualified local personnel to manage our operations and growth in certain developing markets;

Our ability to leverage promotional or operating successes in individual markets into other markets in a timely and cost-effective way; and

The costs and operational risks associated with our increasing reliance on information technology (including our point-of-sale and other in-store technology systems or platforms), such as the need for increasing investments to upgrade and maintain our systems, the potential for system failures or programming errors and the impact on our margins as the use of cashless payments becomes more widespread.

Our results and financial condition are affected by global and local market conditions, which can adversely affect our sales, margins and net income.

Our results of operations are substantially affected not only by global economic conditions, but also by local operating and economic conditions, which can vary substantially by market. Unfavorable conditions can depress sales in a given market or daypart (e.g., breakfast). To mitigate the impact of these conditions, we may take promotional or other actions that adversely affect our margins, limit our operating flexibility or result in charges or restaurant closings. Some macroeconomic conditions could have an even more wide-ranging and prolonged impact. The current environment has been characterized by weak economies, persistently high unemployment rates and continuing uncertainty in financial and credit markets. These conditions have significantly affected consumer confidence and spending. Moreover, the strength of the current recovery is uncertain in many of our most important markets, and growth in consumer spending generally lags improvement in the broader economy. The key factors that can affect our operations, plans and results in this environment are the following:

Whether our strategies will permit us to compete effectively and make continued market share gains despite the uncertain economic outlook, while at the same time achieving sales and operating income within our targeted long-term average annual range of growth;

The effectiveness of our supply chain management to assure reliable and sufficient product supply on favorable terms;

The impact on consumer disposable income levels and spending habits of governmental actions to manage national economic matters, whether through austerity or stimulus measures and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers;

Table of Contents

The impact on restaurant sales and margins of recent significant increases in gasoline and commodity prices, which we expect will continue to be volatile and may increase further, and the impact of pricing, hedging and other actions that we, franchisees and suppliers may take to address this environment;

The impact on our margins of labor costs given our labor-intensive business model, the long-term trend toward higher wages in both mature and developing markets and any potential impact of union organizing efforts;

The impact of foreign exchange and interest rates on our financial condition and results;

Whether we are able to identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants from year to year, and whether new sites are as profitable as expected;

The challenges and uncertainties associated with operating in developing markets, such as China and Russia, which may entail a relatively higher risk of political instability, economic volatility, crime, corruption and social and ethnic unrest, all of which are exacerbated in many cases by a lack of an independent and experienced judiciary and uncertainties in how local law is applied and enforced, including in areas most relevant to commercial transactions and foreign investment; and

The nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment charges that reduce our earnings.

Increasing legal and regulatory complexity will continue to affect our operations and results in material ways.

Our legal and regulatory environment worldwide exposes us to complex compliance, litigation and similar risks that affect our operations and results in material ways. In many of our markets, including the United States and Europe, we are subject to increasing regulation, which has increased our cost of doing business. In developing markets, we face the risks associated with new and untested laws and judicial systems. Among the more important regulatory and litigation risks we face and must manage are the following:

The cost, compliance and other risks associated with the often conflicting and highly prescriptive regulations we face, especially in the United States where inconsistent standards imposed by local, state and federal authorities can adversely affect popular perceptions of our business and increase our exposure to litigation or governmental investigations or proceedings, and the impact of new, potential or changing regulation that affects or restricts elements of our business, particularly those relating to marketing to children, nutritional content and product labeling and safety;

The impact of nutritional, health and other scientific inquiries and conclusions, which constantly evolve and often have contradictory implications, but nonetheless drive popular opinion, litigation and regulation, including taxation, in ways that could be material to our business;

The risks and costs of McDonald's nutritional labeling and other disclosure practices, particularly given differences among applicable legal requirements and practices within the restaurant industry with respect to testing and disclosure, ordinary variations in food preparation among our own restaurants, and the need to rely on the accuracy and completeness of information obtained from third-party suppliers;

The risks and costs to us, our franchisees and our supply chain of increased focus by U.S. and overseas governmental authorities and non-governmental organizations on environmental matters, such as climate change, the reduction of greenhouse gases and water consumption, including as a result of initiatives that effectively impose a tax on carbon emissions;

Edgar Filing: MCDONALDS CORP - Form 10-Q

The impact of litigation trends, particularly in our major markets, including class actions, labor and employment claims and landlord/tenant disputes; the relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings; and the cost and other effects of settlements or judgments, which may require us to make disclosures or take other actions that may affect perceptions of our brand and products;

Adverse results of pending or future litigation, including litigation challenging the composition of our products, or the appropriateness or accuracy of our marketing or other communication practices;

The increasing costs and other effects of compliance with U.S. and overseas regulations affecting our workforce and labor practices, including regulations relating to wage and hour practices, immigration, healthcare, retirement and other employee benefits and unlawful workplace discrimination;

Table of Contents

Disruptions in our operations or price volatility in a market that can result from governmental actions, such as price, foreign exchange or import-export controls, increased tariffs or government-mandated closure of our or our vendors' operations, and the cost and disruption of responding to governmental investigations or proceedings, whether or not they have merit;

The legal and compliance risks associated with information technology, such as the costs of compliance with privacy, consumer protection and other laws, the potential costs associated with alleged security breaches (including the loss of consumer confidence that may result and the risk of criminal penalties or civil liability to consumers or employees whose data is alleged to have been collected or used inappropriately) and potential challenges to the associated intellectual property rights or to our use of that intellectual property; and

The impact of changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, changes in tax accounting or tax laws (or authoritative interpretations relating to any of these matters), and the impact of settlements of pending or any future adjustments proposed by the IRS or other taxing authorities in connection with our tax audits, all of which will depend on their timing, nature and scope.

The trading volatility and price of our common stock may be affected by many factors.

Many factors affect the volatility and price of our common stock in addition to our operating results and prospects. The most important of these, some of which are outside our control, are the following:

The continuing uncertain global economic and market conditions;

Governmental action or inaction in light of key indicators of economic activity or events that can significantly influence financial markets, particularly in the United States which is the principal trading market for our common stock, and media reports and commentary about economic or other matters, even when the matter in question does not directly relate to our business;

Changes in financial or tax reporting and accounting principles or practices that materially affect our reported financial condition and results and investor perceptions of our performance;

Trading activity in our common stock or trading activity in derivative instruments with respect to our common stock or debt securities, which can reflect market commentary (including commentary that may be unreliable or incomplete in some cases) or expectations about our business, our creditworthiness or investor confidence generally; actions by shareholders and others seeking to influence our business strategies; portfolio transactions in our stock by significant shareholders; or trading activity that results from the ordinary course rebalancing of stock indices in which McDonald's may be included, such as the S&P 500 Index and the Dow Jones Industrial Average;

The impact of our stock repurchase program, dividend rate or changes in our debt levels on our credit ratings, interest expense, ability to obtain funding on favorable terms or our operating or financial flexibility, especially if lenders impose new operating or financial covenants; and

The impact on our results of other corporate actions, such as those we may take from time to time as part of our continuous review of our corporate structure in light of business, legal and tax considerations.

Our results and prospects can be adversely affected by events such as severe weather conditions, natural disasters, hostilities and social unrest, among others.

Severe weather conditions, natural disasters, such as the recent events in Japan, hostilities and social unrest, terrorist activities, health epidemics or pandemics (or expectations about them) can adversely affect consumer spending and confidence levels or other factors that affect our results and prospects, such as commodity costs. Our receipt of proceeds under any insurance we maintain with respect to certain of these risks may be delayed or the proceeds may be insufficient to offset our losses fully.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the disclosure made in our Annual Report on Form 10-K for the year ended December 31, 2010 regarding this matter.

Table of Contents

Item 4. Controls and Procedures

An evaluation was conducted under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2011. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Such officers also confirm that there was no change in the Company's internal control over financial reporting during the quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

There were no material changes to the disclosure made in our Annual Report on Form 10-K for the year ended December 31, 2010 regarding these matters.

Item 1A. Risk Factors

This report contains certain forward-looking statements which reflect management's expectations regarding future events and operating performance and speak only as of the date hereof. These forward-looking statements involve a number of risks and uncertainties. These and other risks are noted in the Risk Factors and Cautionary Statement Regarding Forward-Looking Statements following Management's Discussion and Analysis.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities***

The following table presents information related to repurchases of common stock the Company made during the three months ended March 31, 2011:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1 - 31, 2011	11,043,686	\$ 74.52	11,043,686	\$ 6,063,382,000
February 1 - 28, 2011	4,105,942	\$ 74.96	4,105,942	\$ 5,755,617,000
March 1 - 31, 2011	3,254,244	\$ 75.03	3,254,244	\$ 5,511,451,000
Total	18,403,872	\$ 74.71	18,403,872	\$ 5,511,451,000

* Subject to applicable law, the Company may repurchase shares directly in the open market, in privately negotiated transactions, or pursuant to derivative instruments and plans complying with Rule 10b5-1, among other types of transactions and arrangements.

- (1) On September 24, 2009, the Company's Board of Directors approved a share repurchase program that authorizes the purchase of up to \$10 billion of the Company's outstanding common stock with no specified expiration date.

Table of Contents**Item 6. Exhibits**

Exhibit Number	Description
(3)	(a) Restated Certificate of Incorporation, effective as of December 8, 2010, incorporated herein by reference from Form 8-K, dated December 8, 2010.
	(b) By-Laws, as amended and restated with effect as of January 21, 2010, incorporated herein by reference from Form 8-K, dated January 20, 2010.
(4)	Instruments defining the rights of security holders, including Indentures:*
	(a) Senior Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
	(b) Subordinated Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
(10)	Material Contracts
	(a) Directors' Deferred Compensation Plan, effective as of January 1, 2008, incorporated herein by reference from Form 8-K, dated November 28, 2007.**
	(b) McDonald's Excess Benefit and Deferred Bonus Plan, effective January 1, 2011, as amended and restated March 22, 2010, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2010.**
	(c) McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Form 10-K, for the year ended December 31, 2001.**
	(i) First Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of January 1, 2002, incorporated herein by reference from Form 10-K, for the year ended December 31, 2002.**
	(ii) Second Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective January 1, 2005, incorporated herein by reference from Form 10-K, for the year ended December 31, 2004.**
	(d) 1975 Stock Ownership Option Plan, as amended and restated July 30, 2001, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2001.**
	(i) First Amendment to McDonald's Corporation 1975 Stock Ownership Option Plan, as amended and restated, effective as of February 14, 2007, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2007.**
	(e) 1992 Stock Ownership Incentive Plan, as amended and restated January 1, 2001, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2001.**
	(i) First Amendment to McDonald's Corporation 1992 Stock Ownership Incentive Plan, as amended and restated, effective as of February 14, 2007, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2007.**
	(f) 1999 Non-Employee Director Stock Option Plan, as amended and restated September 12, 2000, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2000.**
	(g) McDonald's Corporation Executive Retention Replacement Plan, effective as of December 31, 2007 (as amended and restated on December 31, 2008), incorporated herein by reference from Form 10-K, for the year ended December 31, 2008.**
	(h) McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, incorporated herein by reference from Form 10-Q for the quarter ended June 30, 2009.**
	(i) First amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-K, for the year ended December 31, 2008.**
	(ii) Second Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan as amended, effective February 9, 2011, incorporated herein by reference from Form 10-K, for the year ended December 31, 2010.**

Table of Contents

Exhibit Number	Description
(i)	Form of McDonald's Corporation Tier I Change of Control Employment Agreement, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2008.**
(j)	McDonald's Corporation 2009 Cash Incentive Plan, effective as of May 27, 2009, incorporated herein by reference from Form 10-Q for the quarter ended June 30, 2009.**
(k)	Form of Stock Option Grant Notice, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2005.**
(l)	Form of Restricted Stock Unit Award Notice, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2005.**
(m)	McDonald's Corporation Severance Plan, effective January 1, 2008, incorporated by reference from Form 8-K, dated November 28, 2007.**
	(i) First Amendment of McDonald's Corporation Severance Plan, effective as of October 1, 2008, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2008.**
(n)	Employment Contract between Denis Hennequin and the Company, effective October 1, 2010, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2010.**
(o)	Amended Assignment Agreement between Timothy Fenton and the Company, dated January 2008, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2008.**
	(i) 2009 Amendment to the Amended Assignment Agreement between Timothy Fenton and the Company, effective as of January 1, 2009, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2009.**
(p)	Description of Restricted Stock Units granted to Andrew J. McKenna, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2010.**
(q)	Terms of the Restricted Stock Units granted pursuant to the Company's Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-K, for the year ended December 31, 2010.**
(r)	McDonald's Corporation Target Incentive Plan, effective as of January 1, 2008, incorporated herein by reference from Form 8-K, dated January 23, 2008.**
(s)	European Prospectus Supplement describing the terms of equity compensation awards granted in the European Union pursuant to the Company's Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-K, for the year ended December 31, 2010.**
(t)	Letter Agreement between Ralph Alvarez and the Company dated December 18, 2009, incorporated herein by reference from Form 8-K, dated December 18, 2009.**
(u)	McDonald's Corporation Cash Performance Unit Plan 2010-2012, effective as of February 9, 2010, incorporated herein by reference from Form 8-K, dated February 9, 2010.**
(v)	Executive Supplement describing the special terms of equity compensation awards granted to certain executive officers, pursuant to the Company's Amended and Restated 2001 Omnibus Stock Ownership Plan, filed herewith.**
(w)	Transaction Settlement Agreement between Denis Hennequin and the Company dated December 20, 2010 incorporated herein by reference from Form 8-K, dated December 20, 2010.**
(12)	Computation of ratio of earnings to fixed charges.

Table of Contents

Exhibit Number	Description
(31.1)	Rule 13a-14(a) Certification of Chief Executive Officer.
(31.2)	Rule 13a-14(a) Certification of Chief Financial Officer.
(32.1)	Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)	Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(101.INS)	XBRL Instance Document.***
(101.SCH)	XBRL Taxonomy Extension Schema Document.***
(101.CAL)	XBRL Taxonomy Extension Calculation Linkbase Document.***
(101.DEF)	XBRL Taxonomy Extension Definition Linkbase Document.***
(101.LAB)	XBRL Taxonomy Extension Label Linkbase Document.***
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document.***

* Other instruments defining the rights of holders of long-term debt of the registrant, and all of its subsidiaries for which consolidated financial statements are required to be filed and which are not required to be registered with the Commission, are not included herein as the securities authorized under these instruments, individually, do not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. An agreement to furnish a copy of any such instruments to the Commission upon request has been filed with the Commission.

** Denotes compensatory plan.

*** In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be furnished and not filed.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

McDONALD S CORPORATION

(Registrant)

May 6, 2011

/s/ Peter J. Bensen

Peter J. Bensen
Corporate Executive Vice President and

Chief Financial Officer