MCDONALDS CORP
Form 10-K
February 26, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-5231

McDONALD S CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**36-2361282**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)

One McDonald s Plaza

Oak Brook, Illinois	**60523**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code: (630) 623-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $.01 par value	New York Stock Exchange
8-7/8% Debentures due 2011	New York Stock Exchange
6-3/8% Debentures due 2028	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer x 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 x

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2009 was $62,710,000,131.

The number of shares outstanding of the registrant s common stock as of January 31, 2010 was 1,075,960,799.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant s 2010 definitive proxy statement which will be filed no later than 120 days after December 31, 2009.

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McDONALD S CORPORATION

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

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PART I

ITEM 1. Business

McDonald s Corporation, the registrant, together with its subsidiaries, is referred to herein as the Company.

a. General development of business

During 2009, there have been no material changes to the Company s corporate structure or in its method of conducting business. In 2009, the Company has continued the process it began in 2005 to realign certain subsidiaries to develop a corporate structure within its geographic segments that better reflects the operation of the McDonald s worldwide business.

b. Financial information about segments

Segment data for the years ended December 31, 2009, 2008 and 2007 are included in Part II, Item 8, page 44 of this Form 10-K.

c. Narrative description of business

General

The Company franchises and operates McDonald s restaurants in the food service industry. These restaurants serve a varied, yet limited, value-priced menu (see Products) in more than 100 countries around the world.

All restaurants are operated either by the Company or by franchisees, including conventional franchisees under franchise arrangements, and foreign affiliated markets and developmental licensees under license agreements.

The Company s operations are designed to assure consistency and high quality at every restaurant. When granting franchises or licenses, the Company is selective and generally is not in the practice of franchising to passive investors.

Under the 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. In certain circumstances, the Company participates in reinvestment for conventional franchised restaurants. A discussion regarding site selection is included in Part I, Item 2, page 6 of this Form 10-K.

Conventional franchisees contribute to the Company s revenue stream through the payment of rent and royalties based upon a percent of sales, with specified minimum rent payments, along with initial fees received upon the opening of a new restaurant or the granting of a new franchise term. The conventional franchise arrangement typically lasts 20 years, and franchising practices are generally consistent throughout the world. Over 70% of franchised restaurants operate under conventional franchise arrangements.

The Company has an equity investment in a limited number of foreign affiliated markets, referred to as affiliates. The largest of these affiliates is Japan, where there are 3,714 restaurants. The Company receives a royalty based on a percent of sales in these markets.

Under a developmental license arrangement, licensees provide capital for the entire business, including the real estate interest. While the Company has no capital invested, it receives a royalty based on a percent of sales, as well as initial fees. During 2007, the Company sold its businesses in Brazil, Argentina, Mexico, Puerto Rico, Venezuela and 13 other countries in Latin America and the Caribbean, which totaled 1,571 restaurants, to a developmental licensee organization. These markets are referred to as Latam.

The Company and its franchisees purchase food, packaging, equipment and other goods from numerous independent suppliers. The Company has established and strictly enforces high quality standards and product specifications. The Company has quality assurance labs around the world to ensure that its high standards are consistently met. The quality assurance process not only involves ongoing product reviews, but also on-site inspections of suppliers facilities. Further, a quality assurance board, composed of the Company s technical, safety and supply chain specialists, provides strategic global leadership for all aspects of food quality and safety. In addition, the Company works closely with suppliers to encourage innovation, assure best practices and drive continuous improvement. Leveraging scale, supply chain infrastructure and risk management strategies, the Company also collaborates with suppliers toward a goal of achieving competitive, predictable food and paper costs over the long term.

Independently owned and operated distribution centers, approved by the Company, distribute products and supplies to most McDonald s restaurants. In addition, restaurant personnel are trained in the proper storage, handling and preparation of products and in the delivery of customer service.

McDonald s global brand is well known. Marketing, promotional and public relations activities are designed to promote McDonald s brand image and differentiate the Company from competitors. Marketing and promotional efforts focus on value, food taste, menu choice and the customer experience. The Company endeavors to continuously improve its social and environmental performance to achieve long-term sustainability, which benefits McDonald s and the communities it serves.

In February 2009, the Company sold its minority ownership interest in Redbox Automated Retail, LLC. and in April 2008, the Company sold its minority ownership interest in U.K.-based Pret A Manger. The Company operated Boston Market in the U.S., prior to its sale in August 2007.

Products

McDonald s restaurants offer a substantially uniform menu, although there may be geographic variations. In addition, McDonald s tests new products on an ongoing basis.

McDonald s menu includes hamburgers and cheeseburgers, Big Mac, Quarter Pounder with Cheese, Filet-O-Fish, several chicken sandwiches, Chicken McNuggets, Chicken Selects, Snack Wraps, french fries, premium salads, shakes, McFlurry desserts, sundaes, soft serve cones, pies, cookies, soft drinks, coffee, McCafé beverages and other beverages. In addition, the restaurants sell a variety of other products during limited-time promotions.

McDonald s restaurants in the U.S. and many international markets offer a full or limited breakfast menu. Breakfast offerings may include Egg McMuffin, Sausage McMuffin with Egg, McGriddles, biscuit and bagel sandwiches, hotcakes and muffins.

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Intellectual property

The Company owns or is licensed to use valuable intellectual property including trademarks, service marks, patents, copyrights, trade secrets and other proprietary information. The Company considers the trademarks McDonald s and The Golden Arches Logo to be of material importance to its business. Depending on the jurisdiction, trademarks and service marks generally are valid as long as they are used and/or registered. Patents, copyrights and licenses are of varying remaining durations.

Seasonal operations

The Company does not consider its operations to be seasonal to any material degree.

Working capital practices

Information about the Company s working capital practices is incorporated herein by reference to Management s discussion and analysis of financial condition and results of operations for the years ended December 31, 2009, 2008 and 2007 in Part II, Item 7, pages 10 through 28, and the Consolidated statement of cash flows for the years ended December 31, 2009, 2008 and 2007 in Part II, Item 8, page 32 of this Form 10-K.

Customers

The Company s business is not dependent upon either a single customer or small group of customers.

Backlog

Company-operated restaurants have no backlog orders.

Government contracts

No material portion of the business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. government.

Competition

McDonald s restaurants compete with international, national, regional and local retailers of food products. The Company competes on the basis of price, convenience, service, menu variety and product quality in a highly fragmented global restaurant industry.

In measuring the Company s competitive position, management reviews data compiled by Euromonitor International, a leading source of market data with respect to the global restaurant industry. The Company s primary competition, which management refers to as the Informal Eating Out (IEO) segment, includes the following restaurant categories defined by Euromonitor International: quick-service eating establishments, casual dining full-service restaurants, 100% home delivery/takeaway providers, street stalls or kiosks, specialist coffee shops and self-service cafeterias. The IEO segment excludes establishments that primarily serve alcohol and full-service restaurants other than casual dining.

Based on data from Euromonitor International, the global IEO segment was composed of approximately 5.9 million outlets and generated $875 billion in annual sales in 2008, the most recent year for which data is available. McDonald s global 2008 restaurant business accounted for approximately 0.5% of those outlets and about 8% of the sales.

Management also on occasion benchmarks McDonald s against the entire restaurant industry, including the IEO segment defined above and all other full-service restaurants. Based on data from Euromonitor International, the restaurant industry was composed of approximately 12.6 million outlets and generated about $1.85 trillion in annual sales in 2008. McDonald s global restaurant business accounted for approximately 0.2% of those outlets and about 4% of the sales.

Research and development

The Company operates research and development facilities in the U.S., Europe and Asia. While research and development activities are important to the Company s business, these expenditures are not material. Independent suppliers also conduct research activities that benefit the Company, its franchisees and suppliers (collectively referred to as the System).

Environmental matters

Increased focus by U.S. and overseas governmental authorities on environmental matters is likely to lead to new governmental initiatives, particularly in the area of climate change. While we cannot predict the precise nature of these initiatives, we expect that they may impact our business both directly and indirectly. Although the impact would likely vary by world region and/or market, we believe that adoption of new regulations may increase costs, including for the Company, its franchisees and suppliers. Also, there is a possibility that governmental initiatives, or actual or perceived effects of changes in weather patterns or climate, could have a direct impact on the operations of our restaurants or the operations of our suppliers in ways which we cannot predict at this time.

The Company continually monitors developments related to environmental matters and plans to respond to governmental initiatives in a timely and appropriate manner. At this time, the Company has already undertaken its own initiatives relating to preservation of the environment, including the development of means of monitoring and reducing energy use, in many of its markets.

Number of employees

The Company s number of employees worldwide, including Company-operated restaurant employees, was approximately 385,000 as of year-end 2009.

d. Financial information about geographic areas

Financial information about geographic areas is incorporated herein by reference to Management s discussion and analysis of financial condition and results of operations in Part II, Item 7, pages 10 through 28 and Segment and geographic information in Part II, Item 8, page 44 of this Form 10-K.

e. Available information

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (Exchange Act). The Company therefore files periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549,

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or by calling the SEC at (800) SEC-0330. In addition, the SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements and other information.

Financial and other information can also be accessed on the investor section of the Company s website at www.aboutmcdonalds.com. The Company makes available, free of charge, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

Copies of financial and other information are also available free of charge by calling (630) 623-7428 or by sending a request to McDonald s Corporation Shareholder Services, Department 720, One McDonald s Plaza, Oak Brook, Illinois 60523.

Also posted on McDonald s website are the Company s Corporate Governance Principles, the charters of McDonald s Audit Committee, Compensation Committee and Governance Committee, the Company s Standards of Business Conduct, the Code of Ethics for Chief Executive Officer and Senior Financial Officers and the Code of Conduct for the Board of Directors. Copies of these documents are also available free of charge by calling (630) 623-7428 or by sending a request to McDonald s Corporation Shareholder Services, Department 720, One McDonald s Plaza, Oak Brook, Illinois 60523.

Information on the Company s website is not incorporated into this Form 10-K or the Company s other securities filings and is not a part of them.

ITEM 1A. Risk Factors and Cautionary Statement Regarding Forward-Looking Statements

This report includes forward-looking statements about our plans and future performance, including those under Outlook for 2010. 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. W 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 our ability to remain relevant to our customers and a brand they trust. Meeting customer expectations is complicated by the risks inherent in our operating environment. The informal eating out (IEO) segment of the restaurant industry, although largely mature in our major markets, is highly fragmented and competitive. The current economic environment has caused the IEO segment to contract in many markets, including some of our major markets, and this may continue. The current economic environment has increased consumer focus on value, heightening pricing pressures across the industry, which could affect our ability to continue to grow sales despite the strength of our Brand and value proposition. We have the added challenge of the cultural, economic and regulatory differences that exist among the more than 100 countries where we operate. Regulatory and similar initiatives around the world have also become more wide-ranging and prescriptive and affect how we operate and our results. In

particular, increasing focus on nutritional content and on the production, processing and preparation of food from field to front counter presents challenges for our Brand.

The risks we face 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, particularly as the global economy emerges from recession.

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 our products, 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 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, our products and promotions (including the premiums we offer, such as our Happy Meal toys) or the reliability of our supply chain and the safety of the ingredients we use, 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 products and to roll out new products and product line extensions, as well as the impact of our competitors actions, including in response to our product improvements and introductions, and our ability to continue robust product development and manage the complexity of our restaurant operations;

Our ability to achieve an overall product mix that differentiates the McDonald s experience and balances consumer value with margin expansion, particularly in markets where pricing or cost pressures are significant or have been exacerbated by challenging economic conditions;

The impact of our pricing, marketing and promotional plans on sales and margins and our ability to adjust our 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;

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Our ability to drive restaurant improvements and to motivate our restaurant personnel 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 remodeling and rebuilding efforts, which remain a priority notwithstanding the current period of slow economic growth and challenging credit markets, are targeted at the elements of the restaurant experience that will best accomplish our goals to enhance the relevance of our Brand and achieve an efficient allocation of our capital resources;

Our ability to maintain alignment with franchisees on operating, promotional and capital-intensive initiatives;

The risks to our Brand if a franchisee defaults in its obligations (particularly requirements to pay royalties, make capital investments and open new restaurants), experiences food safety or other operational problems or projects a brand image inconsistent with our values, all of which are more significant risks if a franchisee controls a large number of restaurants as is the case in Latin America; and

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

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, restaurant closings or sales of Company-operated restaurants. Some macroeconomic conditions could have an even more wide-ranging and prolonged impact. The current environment has been characterized by slowing economies, rising unemployment, declining wages, constrained credit and volatile financial markets. These conditions have significantly affected consumer spending and habits. Moreover, the timing and strength of a 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 affect our ability to manage the impact of these conditions are the following:

Whether our strategies will permit us to compete effectively and make continued market share gains, 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, including hedging strategies, to preserve and, where possible, expand our margins;

Our ability to manage the impact of fluctuations in foreign exchange rates, changes in interest rates and governmental actions to manage national economic conditions such as credit availability, consumer spending, unemployment levels and inflation rates;

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 the potential impact of union organizing efforts on day-to-day operations of our restaurants;

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, Russia and India, 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 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 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 advertising 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 on environmental matters, such as climate change, the

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reduction of greenhouse gases and water consumption, including as a result of initiatives that effectively impose a tax on carbon emissions, such as the proposed cap and trade legislation pending in the U.S. Congress;

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 advertising or other communications;

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, mandatory healthcare benefits and unlawful workplace discrimination;

The impact of the current economic conditions on unemployment levels and consumer confidence and the effect of initiatives to stimulate economic recovery and to further regulate financial markets (including through changes in taxation) on the cost and availability of funding for the Company and its franchisees, inflation and foreign exchange rates;

Disruptions in our operations or price volatility in a market that can result from governmental actions, such as price 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 risks associated with information security and the use of cashless payments, such as increased investment in technology, the costs of compliance with privacy, consumer protection and other laws, the impact on our margins as the use of cashless payments increases, the potential costs associated with alleged security breaches and the loss of consumer confidence that may result; and

The impact of changes in financial reporting requirements, accounting principles or practices, related legal or regulatory interpretations or our critical accounting estimates, changes in tax accounting or tax laws (or interpretations thereof), and the impact of settlements of adjustments proposed by the Internal Revenue Service 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 current uncertain global economic conditions and market volatility;

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;

- 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 financial condition are affected by our ownership mix.

Our refranchising strategy involves a shift to a greater percentage of franchised restaurants. The decision to own restaurants or to operate under franchise or license agreements is driven by many factors whose interrelationship is complex and changing. When we refranchise a restaurant, it reduces consolidated revenues as Company-operated sales shift to franchised sales, where we receive rent and/or royalties. It also reduces Company-operated margin dollars while increasing franchised margin dollars, with the impact on margin percentages varying based on sales and operating costs of the refranchised restaurants. Our refranchising strategy can also expose us to risks, including the following:

- Whether the franchisees we select will have the experience and financial resources in the relevant markets to be effective operators of McDonald s restaurants;

- Potential ongoing payment obligations as a result of our retention of any contingent liabilities in connection with refranchising transactions, such as the indemnification obligations we may incur as a result of the Latam transaction; and

- The risk that our contractual and other rights and remedies to protect against defaults by our counterparties will be limited by local law, costly to exercise or otherwise subject to limitations or litigation that may impair our ability to prevent or mitigate any adverse impact on our Brand or on the financial performance we expect under our franchising and developmental license agreements.

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Our results can be adversely affected by disruptions or events, such as the impact of severe weather conditions and natural disasters.

Severe weather conditions, natural disasters, terrorist activities, health epidemics or pandemics or the prospect of these events can have an adverse impact on consumer spending and confidence levels or on 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 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The Company owns and leases real estate primarily in connection with its restaurant business. The Company identifies and develops sites that offer convenience to customers and long-term sales and profit potential to the Company. To assess potential, the Company analyzes traffic and walking patterns, census data and other relevant data. The Company s experience and access to advanced technology aid in evaluating this information. The Company generally owns the land and building or secures long-term leases for restaurant sites, which ensures long-term occupancy rights and helps control related costs. Restaurant profitability for both the Company and franchisees is important; therefore, ongoing efforts are made to control average development costs through construction and design efficiencies, standardization and by leveraging the Company s global sourcing network. Additional information about the Company s properties is included in Management s discussion and analysis of financial condition and results of operations in Part II, Item 7, pages 10 through 28 and in Financial statements and supplementary data in Part II, Item 8, pages 29 through 47 of this Form 10-K.

ITEM 3. Legal Proceedings

The Company has pending a number of lawsuits that have been filed from time to time in various jurisdictions. These lawsuits cover a broad variety of allegations spanning the Company s entire business. The following is a brief description of the more significant of these categories of lawsuits. In addition, the Company is subject to various federal, state and local regulations that impact various aspects of its business, as discussed below. While the Company does not believe that any such claims, lawsuits or regulations will have a material adverse effect on its financial condition or results of operations, unfavorable rulings could occur. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on net income for the period in which the ruling occurs or for future periods.

Obesity

On or about February 17, 2003, two minors, by their parents and guardians, filed an Amended Complaint against McDonald s Corporation in the United States District Court for the Southern District of New York (Case No. 02 Civ. 7821) *(Ashley Pelman, a child under the age of 18 years, by her mother and natural*

guardian, Roberta Pelman, and Jazlen Bradley, a child under the age of 18 years, by her father and natural guardian, Israel Bradley, v. McDonald s Corporation) seeking class action status on behalf of individuals in New York under the age of 18 (and their parents and/or guardians), who became obese or developed other adverse health conditions allegedly from eating McDonald s products. On September 3, 2003, the Court dismissed all counts of the complaint with prejudice. On January 25, 2005, following an appeal by the plaintiffs, the Second Circuit Court of Appeals vacated the District Court s decision to dismiss alleged violations of Section 349 of the New York Consumer Protection Act as set forth in Counts I-III of the amended complaint.

On December 12, 2005, the plaintiffs filed their Second Amended Complaint. In this complaint, the plaintiffs alleged that McDonald s Corporation: (1) engaged in a deceptive advertising campaign to be perceived to be less nutritionally detrimental-than-in-fact ; (2) failed to disclose adequately its use of certain additives and ingredients; and (3) failed to provide nutritional information about its products. Plaintiffs seek unspecified compensatory damages; an order directing defendants to label their individual products specifying the fat, salt, sugar, cholesterol and dietary content; an order prohibiting marketing to certain individuals; funding of an educational program to inform children and adults of the dangers of eating certain foods sold by defendants; and attorneys fees and costs.

The Company believes that it has substantial legal and factual defenses to the plaintiffs claims and intends to defend this lawsuit vigorously.

Allergens

Plaintiffs have filed numerous complaints against the Company (and in some instances our franchisee or a franchisee s operating company), alleging that McDonald s misrepresented its french fries and hash browns as free of wheat, gluten and/or milk, when the french fries and hash browns allegedly contain derivatives of wheat, gluten and/or milk. The complaints include claims for violation of state consumer fraud acts, unfair competition or deceptive trade practices acts, strict liability, failure to warn, negligence, breach of express and implied warranties, fraud and fraudulent concealment, negligent misrepresentation and concealment, unjust enrichment, and false advertising. They seek to recover unspecified compensatory and punitive damages, restitution and disgorgement of profits, and attorneys fees.

On December 2, 2009, the previously identified case, *Debra Moffatt v. McDonald s Corporation* (MDL Case No. 06-cv-4467), which was one of several cases pending in the Northern District of Illinois that were combined into one action, was resolved along with the other cases that made up the consolidated action.

Franchising

A substantial number of McDonald s restaurants are franchised to independent entrepreneurs operating under contractual arrangements with the Company. In the course of the franchise relationship, occasional disputes arise between the Company and its franchisees relating to a broad range of subjects including, but not limited to, quality, service and cleanliness issues, contentions regarding grants or terminations of franchises, delinquent payments of rents and fees, and franchisee claims for additional franchises or rewrites of franchises. Additionally, occasional disputes arise between the Company and individuals who claim they should have been granted a McDonald s franchise.

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Suppliers

The Company and its affiliates and subsidiaries do not supply, with minor exceptions outside the U.S., food, paper or related items to any McDonald s restaurants. The Company relies upon numerous independent suppliers that are required to meet and maintain the Company s high standards and specifications. On occasion, disputes arise between the Company and its suppliers which include, by way of example, compliance with product specifications and the Company s business relationship with suppliers. In addition, disputes occasionally arise on a number of issues between the Company and individuals or entities who claim that they should be (or should have been) granted the opportunity to supply products or services to the Company s restaurants.

Employees

Hundreds of thousands of people are employed by the Company and in restaurants owned and operated by subsidiaries of the Company. In addition, thousands of people from time to time seek employment in such restaurants. In the ordinary course of business, disputes arise regarding hiring, firing, promotion and pay practices, including wage and hour disputes, alleged discrimination and compliance with employment laws.

Customers

Restaurants owned by subsidiaries of the Company regularly serve a broad segment of the public. In so doing, disputes arise as to products, service, incidents, advertising, nutritional and other disclosures as well as other matters common to an extensive restaurant business such as that of the Company.

Intellectual Property

The Company has registered trademarks and service marks, patents and copyrights, some of which are of material importance to the Company s business. From time to time, the Company may become involved in litigation to protect its intellectual property and defend against the alleged use of third party intellectual property.

Government Regulations

Local, state and federal governments have adopted laws and regulations involving various aspects of the restaurant business including, but not limited to, advertising, franchising, health, safety, environment, zoning and employment. The Company strives to comply with all applicable existing statutory and administrative rules and cannot predict the effect on its operations from the issuance of additional requirements in the future.

ITEM 4. Submission of Matters to a Vote of Shareholders

None.

The following are the Executive Officers of our Company (as of the date of this filing):

Jose Armario, 50, is Group President McDonald s Canada and Latin America, a position he has held since February 2008. He previously served as President, McDonald s Latin America from December 2003 to February 2008 and served as Senior

Vice President and International Relationship Partner from July 2001 through November 2003. Mr. Armario has been with the Company for 13 years.

Peter J. Bensen, 47, is Corporate Executive Vice President and Chief Financial Officer, a position he has held since January 2008. From April 2007 through December 2007, he served as Corporate Senior Vice President Controller. Prior to that time, Mr. Bensen served as Corporate Vice President Assistant Controller from February 2002 through March 2007. Mr. Bensen has been with the Company for 13 years.

Mary N. Dillon, 48, is Corporate Executive Vice President Global Chief Marketing Officer. She has served in that position since joining the Company in October 2005. Prior to joining the Company, she was Division President of Quaker Foods, a division of PepsiCo, from 2004 to October 2005. Prior to that role, Ms. Dillon served as Vice President of Marketing, Quaker Foods from 2002 to 2004. Ms. Dillon has been with the Company for four years.

Timothy J. Fenton, 52, is President, McDonald s Asia/Pacific, Middle East and Africa, a position he has held since January 2005. From May 2003 to January 2005, he served as President, East Division for McDonald s USA. Prior to that time, he served as Senior Vice President, International Relationship Partner from September 1999 through May 2003. Mr. Fenton has been with the Company for 36 years.

Janice Fields, 54, is President, McDonald s USA, a position she has held since January 2010. She previously served as Executive Vice President and Chief Operations Officer for McDonald s USA from August 2006 to January 2010, and President, Central Division of McDonald s USA from May 2003 to August 2006. Ms. Fields has been with the Company for 31 years.

Richard Floersch, 52, is Corporate Executive Vice President and Chief Human Resources Officer. Mr. Floersch joined the Company in November 2003. He previously served as Senior Vice President of Human Resources for Kraft Foods from 1998 through 2003. Mr. Floersch has been with the Company for six years.

Denis Hennequin, 51, is President of McDonald s Europe, a position he has held since July 2005. From January 2005 to July 2005, he served as Senior Vice President and International Relationship Partner. From January 2004 to January 2005, he served as Vice President of McDonald s Europe. Prior to that time, he served as President and Managing Director of McDonald s France from December 1996 to January 2004. Mr. Hennequin has been with the Company for 25 years.

Kevin M. Ozan, 46, is Corporate Senior Vice President Controller, a position he has held since February 2008. From May 2007 to January 2008, he served as Corporate Vice President Assistant Controller. Prior to that time, he served as a Senior Director in the following areas: Investor Relations (May 2006 to April 2007), Chicago Region Finance (August 2004 to April 2006), and Corporate Controller Group (March 2002 to August 2004). Mr. Ozan has been with the Company for 12 years.

Gloria Santona, 59, is Corporate Executive Vice President, General Counsel and Secretary, a position she has held since July 2003. From June 2001 to July 2003, she served as Corporate Senior Vice President, General Counsel and Secretary. Ms. Santona has been with the Company for 32 years.

James A. Skinner, 65, is Vice Chairman and Chief Executive Officer, a post to which he was elected in November 2004, and also has served as a Director since that date. He served as Vice

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Chairman from January 2003 to November 2004. Mr. Skinner has been with the Company for 38 years.

Jeffrey P. Stratton, 54, is Corporate Executive Vice President Chief Restaurant Officer, a position he has held since January 2005. He previously served as U.S. Executive Vice President, Chief Restaurant Officer from January 2004 to December 2004. Prior to that time, he served as Senior Vice President, Chief Restaurant Officer of McDonald s USA from May 2002 to January 2004. Mr. Stratton has been with the Company for 36 years.

Donald Thompson, 46, is President and Chief Operating Officer, a position to which he was elected in January 2010. He previously served as President, McDonald s USA, from August 2006 to January 2010, as Executive Vice President and Chief Operations Officer for McDonald s USA from January 2005 to August 2006, as Executive Vice President, Restaurant Solutions Group from May 2004 through January 2005, and President, West Division, from October 2001 through May 2004. Mr. Thompson has been with the Company for 19 years.

PART II

ITEM 5. Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Company s common stock trades under the symbol MCD and is listed on the New York Stock Exchange in the U.S.

The following table sets forth the common stock price ranges on the New York Stock Exchange and dividends declared per common share:

Dollars per share		***2009***			*2008*	
	High	*Low*	*Dividend*	*High*	*Low*	*Dividend*
Quarter:						
First	**64.46**	**50.44**	**0.50**	59.48	49.36	0.375
Second	**61.01**	**51.76**	**0.50**	61.76	55.14	0.375
Third	**59.59**	**53.88**	**1.05***	67.00	55.55	0.875*
Fourth	**64.75**	**56.03**		64.02	45.79	
Year	**64.75**	**50.44**	**2.05**	67.00	45.79	1.625

*

Includes a $0.50 and $0.375 per share dividend declared and paid in third quarter of 2009 and 2008, respectively, and a $0.55 and $0.50 per share dividend declared in third quarter and paid in fourth quarter of 2009 and 2008, respectively.

The number of shareholders of record and beneficial owners of the Company s common stock as of January 31, 2010 was estimated to be 1,198,000.

Given the Company s returns on equity, incremental invested capital and assets, management believes it is prudent to reinvest in the business in markets with acceptable returns and/or opportunity for long-term growth and use excess cash flow to return cash to shareholders through dividends, share repurchases or a combination of both. The Company has paid dividends on common stock for 34 consecutive years through 2009 and has increased the dividend amount at least once every year. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company s Board of Directors.

*Issuer purchases of equity securities**

The following table presents information related to repurchases of common stock the Company made during the three months ended December 31, 2009:

Period	*Total number of shares purchased*	*Average price paid per share*	*Total number of shares purchased as part of publicly announced programs*(1)	*Approximate dollar value of shares that may yet be purchased under the programs*(1)
October 1-31, 2009	4,229,113	$58.52	4,229,113	$9,752,533,000
November 1-30, 2009	1,095,178	61.74	1,095,178	9,684,918,000
December 1-31, 2009	2,407,192	62.33	2,407,192	9,534,888,000
Total	7,731,483	$60.16	7,731,483	$9,534,888,000

* *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.*

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ITEM 6. Selected Financial Data

6-Year Summary

Dollars in millions, except per share data	***2009***	*2008*	*2007*	*2006*	*2005*	*2004*
Company-operated sales	**$ 15,459**	16,561	16,611	15,402	14,018	13,055
Franchised revenues	**$ 7,286**	6,961	6,176	5,493	5,099	4,834
Total revenues	**$ 22,745**	23,522	22,787	20,895	19,117	17,889
Operating income	**$ 6,841**(1)	6,443	3,879(4)	4,433(7)	3,984	3,554(10)
Income from continuing operations	**$ 4,551**(1,2)	4,313(3)	2,335(4,5)	2,866(7)	2,578(9)	2,287(10)
Net income	**$ 4,551**(1,2)	4,313(3)	2,395(4,5,6)	3,544(7,8)	2,602(9)	2,279(10)
Cash provided by operations	**$ 5,751**	5,917	4,876	4,341	4,337	3,904
Cash used for investing activities	**$ 1,655**	1,625	1,150	1,274	1,818	1,383
Capital expenditures	**$ 1,952**	2,136	1,947	1,742	1,607	1,419
Cash used for (provided by) financing activities	**$ 4,421**	4,115	3,996	5,460	(442)	1,634
Treasury stock repurchased	**$ 2,854**	3,981	3,949	3,719	1,228	605
Common stock cash dividends	**$ 2,235**	1,823	1,766	1,217	842	695
Financial position at year end:						
Total assets	**$ 30,225**	28,462	29,392	28,974	29,989	27,838
Total debt	**$ 10,578**	10,218	9,301	8,408	10,137	9,220
Total shareholders equity	**$ 14,034**	13,383	15,280	15,458	15,146	14,201
Shares outstanding *in millions*	**1,077**	1,115	1,165	1,204	1,263	1,270
Per common share:						
Income from continuing operations diluted	**$ 4.11**(1,2)	3.76(3)	1.93(4,5)	2.29(7)	2.02(9)	1.80(10)
Net income diluted	**$ 4.11**(1,2)	3.76(3)	1.98(4,5,6)	2.83(7,8)	2.04(9)	1.79(10)
Dividends declared	**$ 2.05**	1.63	1.50	1.00	.67	.55
Market price at year end	**$ 62.44**	62.19	58.91	44.33	33.72	32.06
Company-operated restaurants	**6,262**	6,502	6,906	8,166	8,173	8,179
Franchised restaurants	**26,216**	25,465	24,471	22,880	22,593	22,317
Total Systemwide restaurants	**32,478**	31,967	31,377	31,046	30,766	30,496
Franchised sales(11)	**$ 56,928**	54,132	46,943	41,380	38,913	37,052

(1) Includes net pretax income of $65.2 million ($87.0 million after tax or $0.08 per share) primarily related to the resolution of certain liabilities retained in connection with the 2007 Latin America developmental license transaction.

(2) Includes income of $58.8 million ($0.06 per share-basic, $0.05 per share-diluted) due to the sale of the Company s minority ownership interest in Redbox Automated Retail, LLC.

(3) Includes income of $109.0 million ($0.09 per share) due to the sale of the Company s minority ownership interest in U.K.- based Pret A Manger.

(4)

Includes pretax operating charges of $1.7 billion ($1.32 per share) related to impairment and other charges primarily as a result of the Company s sale of its businesses in 18 Latin American and Caribbean markets to a developmental licensee (see Latam transaction note to the consolidated financial statements for further details).

(5) *Includes a tax benefit of $316.4 million ($0.26 per share) resulting from the completion of an Internal Revenue Service (IRS) examination of the Company s 2003-2004 U.S. federal tax returns.*

(6) *Includes income of $60.1 million ($0.05 per share) related to discontinued operations primarily from the sale of the Company s investment in Boston Market.*

(7) *Includes pretax operating charges of $134 million ($98 million after tax or $0.08 per share) related to impairment and other charges.*

(8) *Includes income of $678 million ($0.54 per share) related to discontinued operations primarily resulting from the disposal of our investment in Chipotle.*

(9) *Includes a net tax benefit of $73 million ($0.05 per share) comprised of $179 million ($0.14 per share) of income tax benefit resulting from the completion of an IRS examination of the Company s 2000-2002 U.S. tax returns, partly offset by $106 million ($0.09 per share) of incremental tax expense resulting from the decision to repatriate certain foreign earnings under the Homeland Investment Act (HIA).*

(10) *Includes pretax operating charges of $130 million related to impairment and $121 million ($12 million related to 2004 and $109 million related to prior years) for a correction in the Company s lease accounting practices and policies, as well as a nonoperating gain of $49 million related to the sale of the Company s interest in a U.S. real estate partnership, for a total pretax expense of $202 million ($148 million after tax or $0.12 per share).*

(11) *While franchised sales are not recorded as revenues by the Company, management believes they are 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.*

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

DESCRIPTION OF THE BUSINESS

The Company franchises and operates McDonald s restaurants. Of the 32,478 restaurants in 117 countries at year-end 2009, 26,216 were operated by franchisees (including 19,020 operated by conventional franchisees, 3,160 operated by developmental licensees and 4,036 operated by foreign affiliated markets (affiliates) primarily in Japan) and 6,262 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. We continually review our mix of Company-operated and franchised (conventional franchised, developmental licensed and affiliated) restaurants to help maximize 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 may 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 35%, 41% and 19% of total revenues, respectively. France, Germany and the United Kingdom (U.K.),

collectively, account for approximately 55% of Europe s revenues; and Australia, China and Japan (a 50%-owned affiliate accounted for under the equity method), collectively, account for over 50% of APMEA s revenues. These six markets along with the U.S. and Canada are referred to as major markets throughout this report and comprise over 70% of total revenues.

The Company continues to focus its management and financial resources on the McDonald s restaurant business as we believe opportunities remain for long-term growth. Accordingly, in 2009, the Company sold its minority ownership interest in Redbox Automated Retail, LLC (Redbox) for total consideration of $140 million. In 2008, the Company sold its minority ownership interest in U.K.-based Pret A Manger for cash proceeds of $229 million. In connection with both sales, the Company recognized nonoperating gains. During 2007, the Company sold its investment in Boston Market. As a result of the disposal, Boston Market s results of operations and transaction gain are reflected as discontinued operations. As of December 31, 2009, the Company had disposed of all non-McDonald s restaurant businesses.

In analyzing business trends, management considers a variety of performance and financial measures, including comparable sales and comparable guest count growth, Systemwide sales growth, restaurant margins and returns.

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.

Comparable sales and comparable guest counts are key performance indicators used within the retail industry and are indicative of acceptance of the Company s initiatives as well as local economic and consumer trends. Increases or decreases in comparable sales and comparable guest counts represent the percent change in sales and transactions, respectively, from the same period in the prior year for all restaurants in operation at least thirteen months, including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimaging or remodeling, rebuilding, road construction and natural disasters. Comparable sales exclude the impact of currency translation. McDonald s reports on a calendar basis and therefore the comparability of the same month, quarter and year with the corresponding period of the prior year will be impacted by the mix of days. The number of weekdays and weekend days in a given timeframe can have a positive or negative impact on comparable sales and guest counts. The Company refers to these impacts as calendar shift/trading day adjustments. In addition, the timing of holidays can impact comparable sales and guest counts. These impacts vary geographically due to consumer spending patterns and have the greatest effect on monthly comparable sales and guest counts while the annual impacts are typically minimal. In 2008, there was an incremental full day of sales and guest counts due to leap year.

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

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basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base.

Return on incremental invested capital (ROIIC) is a measure reviewed by management over one-year and three-year time periods to evaluate the overall profitability of the business units, the effectiveness of capital deployed and the future allocation of capital. The return is calculated by dividing the change in operating income plus depreciation and amortization (numerator) by the adjusted cash used for investing activities (denominator), primarily capital expenditures. The calculation assumes a constant average foreign exchange rate over the periods included in the calculation.

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.

We have exceeded our long-term, constant currency financial targets of average annual Systemwide sales growth of 3% to 5%; average annual operating income growth of 6% to 7%; and annual returns on incremental invested capital in the high teens every year since the Plan s implementation in 2003, after adjusting 2007 for the Latin America developmental license transaction. Given the size and scope of our global business, we believe these financial targets are realistic and sustainable, while keeping us focused on making the best decisions for the long-term benefit of shareholders.

In 2009, we continued to elevate the customer experience by remaining focused on the Company s key global success factors of branded affordability, menu variety and beverage choice, convenience and daypart expansion, ongoing restaurant reinvestment and operations excellence. Locally-relevant initiatives around these factors successfully resonated with consumers driving increases in sales, customer visits and market share in many countries despite challenging global economies and a contracting informal eating out market. As a result, each reportable segment contributed to 2009 global comparable sales and guest counts, which increased 3.8% and 1.4%, respectively.

In the U.S., we grew sales and market share with comparable sales up for the 7th consecutive year, rising 2.6% in 2009. This performance was the result of a continued focus on classic menu favorites such as the Big Mac and Quarter Pounder, increased emphasis on everyday affordability, and the national marketing launch of the new McCafé premium coffees and premium Angus Third Pounder. Complementing these efforts were our strategies

related to convenient locations, extended hours, efficient drive-thru service and value-oriented local beverage promotions. In conjunction with the introduction of the McCafé premium coffees, reinvestment was needed in many restaurants to accommodate the new equipment required to prepare these beverages as well as facilitate the national introduction of smoothies and frappés in mid-2010. In most cases, this reinvestment involved expanding and optimizing the efficiency of the drive-thru booth, enabling us to better serve even more customers faster.

In Europe, comparable sales rose 5.2%, marking the 6th consecutive year of comparable sales increases. This performance reflected Europe s strategic priorities to upgrade the customer and employee experience, enhance local relevance, and build brand transparency. Initiatives surrounding these priorities encompassed: leveraging our tiered menu featuring locally relevant selections of premium, classic core and everyday affordable menu offerings as well as dessert and limited-time food promotions; and reimaging nearly 900 restaurants including adding about 290 McCafés an upscale area with coffeehouse-style ambiance inside an existing McDonald s restaurant. In addition, we addressed growing interest in portable snack offerings with platforms such as the Little Tasters in the U.K., launched breakfast in Germany and increased our convenience with extended hours. In order to support greater menu variety, we completed the roll-out of a new more efficient kitchen operating system in substantially all of our European restaurants. Finally, we enhanced customer trust in our brand through communications that emphasized the quality and origin of McDonald s food and our sustainable business practices.

In APMEA, we continued to execute our four growth platforms of breakfast, convenience, core menu and value. Comparable sales rose 3.4% primarily due to the ongoing momentum of our business in Australia where multiple initiatives surrounding menu variety including the launch of the premium Angus burger, greater convenience and reimaging further strengthened our brand relevance. In addition, across the segment, we enhanced our convenience by increasing the number of restaurants open 24-hours to over 4,600, expanding delivery service to more than 1,300 locations including about 300 in China, and enhancing drive-thru efficiency. We sustained the momentum of our breakfast business, currently in about 75% of our restaurants, by increasing customer awareness and visit frequency with the launch of premium roast coffee in key markets like Japan and China and promoting it through successful sampling programs. We continued to appeal to customers with branded affordability menus, especially our value lunch platforms, and highlighted classic menu favorites like the Quarter Pounder.

Our customer-centered strategies seek to optimize price, product mix and promotion as a means to drive sales and profits. This approach is complemented by a focus on driving operating efficiencies and effectively managing restaurant-level costs by leveraging our scale, supply chain infrastructure and risk management practices. Our ability to successfully execute our strategies in every area of the world contributed to improved profitability as measured by combined operating margin of 30.1% in 2009, an improvement of 2.7 percentage points over 2008.

Strong global performance positively impacted cash from operations, which totaled $5.8 billion in 2009. Our substantial cash flow, strong credit rating and continued access to credit provide us significant flexibility to fund capital expenditures as well as return cash to shareholders. About $2.0 billion of cash

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from operations was invested in our business primarily to open 868 restaurants (511 net, after 357 closings) and reimage about 1,850 existing locations. After these capital expenditures, we returned our free cash flow to shareholders through dividends and share repurchases. In 2009, we returned $5.1 billion consisting of $2.2 billion in dividends and $2.9 billion in share repurchases. This brought the total return to shareholders to $16.6 billion under our $15 billion to $17 billion target for 2007 through 2009.

Cash from operations continues to benefit from our evolution toward a more heavily franchised business model as the rent and royalty income received from owner/operators is a very stable revenue stream that has relatively low costs, and is less capital-intensive. In addition, we believe locally-owned and operated restaurants help us maximize brand performance and are at the core of our competitive advantage, making McDonald s not just a global brand but also a locally-relevant one. To that end, for 2008 and 2009 combined, we refranchised about 1,100 restaurants, increasing the percent of restaurants franchised worldwide to 81%. Refranchising impacts our consolidated financial statements as follows:

- Consolidated revenues are initially reduced because we collect rent and royalty as a percent of sales from a refranchised restaurant instead of 100% of its sales.
- Company-operated margin dollars decline while franchised margin dollars increase.
- Margin percentages are affected depending on the sales and cost structures of the restaurants refranchised.
- Other operating (income) expense fluctuates as we recognize gains and/or losses resulting from sales of restaurants.
- Combined operating margin percent improves.
- Return on average assets increases primarily due to a decrease in average asset balances.

HIGHLIGHTS FROM THE YEAR INCLUDED:

- Comparable sales grew 3.8% and guest counts rose 1.4%, building on 2008 increases of 6.9% and 3.1%, respectively.
- Growth in combined operating margin of 2.7 percentage points from 27.4% in 2008 to 30.1% in 2009.
- Operating income increased 6% (10% in constant currencies).
- Net income per share was $4.11, an increase of 9% (13% in constant currencies).
- Cash provided by operations totaled $5.8 billion.
- The Company increased the quarterly cash dividend per share 10% to $0.55 for the fourth quarter bringing the current annual dividend rate to $2.20 per share.

One-year ROIIC was 38.0% and three-year ROIIC was 42.9% for the period ended December 31, 2009.

OUTLOOK FOR 2010

We will continue to drive success in 2010 and beyond by remaining focused on our better, not just bigger strategy and the key drivers of exceptional customer experiences People, Products, Place, Price and Promotion. Our global System is energized by our ongoing momentum, strong competitive position and growth opportunities.

We intend to further differentiate our brand, increase customer visits and grow market share by pursuing initiatives in three key areas: service enhancement, restaurant reimaging and menu innovation. These efforts will include leveraging technology to make it easier for restaurant staff to quickly and accurately serve customers, accelerating our interior and exterior reimaging efforts and innovating at every tier of our menu to deliver great taste and value to customers. As we execute along these priorities and remain disciplined in operations and financial management, we expect to increase McDonald s brand relevance, widen our competitive lead and, in turn, grow sales, profits and returns. As we do so, we are confident we can meet or exceed the long-term constant currency financial targets previously discussed despite expectations for a continued challenging global economic environment in 2010.

In the U.S., our strategies include strengthening our core menu and value offerings, aggressively pursuing new growth opportunities in chicken, breakfast, beverages and snacking options, and elevating the brand experience. Our initiatives include highlighting the enduring appeal of core menu classics such as the Big Mac, emphasizing the value our menu offers all-day-long including the new breakfast value menu, and encouraging the trial of new products with the Mac Snack Wrap and by mid-year frappés and smoothies. In addition, our plans to elevate the brand experience encompass updating our technology with a new point of sale system, enhancing restaurant manager and crew retention and productivity, and initiating a multi-year program to contemporize the interiors and exteriors of our restaurants through reimaging, completing about 500 in 2010. These efforts combined with the convenience of our locations, optimized drive-thru service, free wireless service and longer operating hours will further reinforce McDonald s position as an easy, enjoyable eating-out experience.

Our plans for Europe are focused on building market share as we continue to execute along Europe s three key priorities. This includes upgrading our restaurant ambiance by reimaging approximately 1,000 restaurants, primarily in France and the U.K., as we make progress toward our goal to reimage more than 85% of our restaurants by the end of 2011. In addition, we expect to leverage technologies such as self-order kiosks, hand-held order devices and drive-thru customer order displays to enhance the customer experience and help speed service. We will further enhance our local relevance by complementing our tiered-menu with limited-time food events as well as new snack and dessert options. Finally, we will remain approachable and accessible as we continue to educate consumers about the quality and origin of our food and communicate our sustainable business practices.

In APMEA, we will execute initiatives that best support our goal to be customers first choice for eating out: convenience, core menu, branded affordability, improved operations and reimaging. Our convenience initiatives include leveraging the success of 24-hour or extended operating hours, expanding delivery service and building drive-thru traffic. At the same time, we will continue to elevate the role of our classic core and breakfast menus, complementing both with locally-relevant food news. We will maximize the impact of our everyday affordability platforms with mid-tier and value lunch programs and intensify our focus on operations to drive efficiencies. In addition, we will accelerate our reimaging efforts using a set of standard interior and exterior designs. Finally, given its size and long-term

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potential, we will continue to aggressively open new restaurants in China with a goal of opening about 600 restaurants over the next three years.

We will continue to evaluate opportunities to optimize our mix of Company-operated and franchised restaurants and expect to refranchise restaurants when and where appropriate. As previously discussed, our evolution toward a more heavily franchised, less capital-intensive business model has favorable implications for the strength and stability of our cash flow, the amount of capital we invest and long-term returns. As a result, we expect free cash flow cash from operations less capital expenditures will continue to grow in the future. We remain committed to returning all this cash to shareholders via dividends and share repurchases over the long term.

We will remain disciplined financially as we seek to maximize the impact of all of our spending from selling, general & administrative expenses to capital expenditures. In making capital allocation decisions, our goal is to elevate the McDonald s experience to drive sustainable growth in sales and market share while earning strong returns. To that end, about half of the $2.4 billion of planned 2010 capital expenditures will be invested to reimage existing restaurants with the other half primarily used to build new locations.

McDonald s does not provide specific guidance on net income per share. The following information is provided to assist in analyzing the Company s results:

Changes in Systemwide sales are driven by comparable sales and net restaurant unit expansion. The Company expects net restaurant additions to add nearly 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 net income 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 be relatively flat in the U.S. and Europe. Some volatility may be experienced between quarters in the normal course of business, with more favorable comparisons in the first half of the year.

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

Based on current interest and foreign currency exchange rates, the Company expects interest expense in 2010 to increase slightly compared with 2009.

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 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 net income per share would change by about 17 to 19 cents. At current foreign currency rates, the Company expects foreign currency translation to positively impact full year 2010 revenues and net income per share, with most of the benefit occurring in the first half of the year.

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.

McDonald s Japan (a 50%-owned affiliate) announced plans to close approximately 430 restaurants over the next 12-18 months in conjunction with the strategic review of the market s real estate portfolio. These actions are designed to enhance the customer experience, overall profitability and returns of the market. As a result of these closures, McDonald s Corporation expects to record after tax impairment charges totaling approximately $40 million to $50 million, primarily in the first half of the year.

The Company expects capital expenditures for 2010 to be approximately $2.4 billion. About half of this amount will be reinvested in existing restaurants, including the reimaging of over 2,000 locations worldwide. The rest will primarily be used to open about 1,000 restaurants (975 traditional and 25 satellites). These restaurant numbers include new unit openings (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 (475 net traditional additions and 150 net satellite closings), which reflect the McDonald s Japan closings.

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Consolidated Operating Results

Operating results

	2009		2008		2007
		Increase/		Increase/	
Dollars in millions, except per share data	*Amount*	*(decrease)*	*Amount*	*(decrease)*	*Amount*
Revenues					
Sales by Company-operated restaurants	**$ 15,459**	**(7)%**	$ 16,561	%	$ 16,611
Revenues from franchised restaurants	**7,286**	**5**	6,961	13	6,176
Total revenues	**22,745**	**(3)**	23,522	3	22,787
Operating costs and expenses					
Company-operated restaurant expenses	**12,651**	**(7)**	13,653	(1)	13,742
Franchised restaurants occupancy expenses	**1,302**	**6**	1,230	8	1,140
Selling, general & administrative expenses	**2,234**	**(5)**	2,355		2,367
Impairment and other charges (credits), net	**(61)**	**nm**	6	nm	1,670
Other operating (income) expense, net	**(222)**	**(35)**	(165)	nm	(11)
Total operating costs and expenses	**15,904**	**(7)**	17,079	(10)	18,908
Operating income	**6,841**	**6**	6,443	66	3,879
Interest expense	**473**	**(9)**	523	27	410
Nonoperating (income) expense, net	**(24)**	**69**	(78)	25	(103)
Gain on sale of investment	**(95)**	**41**	(160)	nm	
Income from continuing operations before provision for income taxes	**6,487**	**5**	6,158	72	3,572
Provision for income taxes	**1,936**	**5**	1,845	49	1,237
Income from continuing operations	**4,551**	**6**	4,313	85	2,335
Income from discontinued operations (net of taxes of $35)					60
Net income	**$ 4,551**	**6 %**	$ 4,313	80%	$ 2,395
Income per common share diluted					
Continuing operations	**$ 4.11**	**9 %**	$ 3.76	95%	$ 1.93
Discontinued operations					0.05
Net income	**$ 4.11**	**9 %**	$ 3.76	90%	$ 1.98
Weighted-average common shares outstanding diluted	**1,107.4**		1,146.0		1,211.8

nm Not meaningful.

In August 2007, the Company completed the sale of its businesses in Brazil, Argentina, Mexico, Puerto Rico, Venezuela and 13 other countries in Latin America and the Caribbean, which totaled 1,571 restaurants, to a developmental licensee organization. The Company refers to these markets as Latam. As a result of the Latam transaction, the Company receives royalties in these markets instead of a combination of Company-operated sales and franchised rents and royalties.

Based on approval by the Company s Board of Directors on April 17, 2007, the Company concluded Latam was held for sale as of that date in accordance with guidance on the impairment or disposal of long-lived assets. As a result, the Company recorded an impairment charge of $1.7

billion in 2007, substantially all of which was noncash. The charge included $896 million for the difference between the net book value of the Latam business and approximately $675 million in cash proceeds received. This loss in value was primarily due to a historically difficult economic environment coupled with volatility experienced in many of the markets included in this transaction. The charges also included historical foreign currency translation losses of $769 million recorded in shareholders equity.

The Company recorded a tax benefit of $62 million in 2007 in connection with this transaction. As a result of meeting the

held for sale criteria, the Company ceased recording depreciation expense with respect to Latam effective April 17, 2007. In connection with the sale, the Company agreed to indemnify the buyers for certain tax and other claims, certain of which are reflected as liabilities on McDonald s Consolidated balance sheet, totaling $97 million at December 31, 2009 and $142 million at December 31, 2008. The change in the balance was primarily a result of the resolution of certain of these liabilities as well as the impact of foreign currency translation. The Company mitigates the currency impact to income of these foreign currency denominated liabilities through the use of forward foreign exchange agreements.

The buyers of the Company s operations in Latam entered into a 20-year master franchise agreement that requires the buyers, among other obligations to (i) pay monthly royalties commencing at a rate of approximately 5% of gross sales of the restaurants in these markets, substantially consistent with market rates for similar license arrangements; (ii) commit to adding approximately 150 new McDonald s restaurants by the end of 2010 and pay an initial fee for each new restaurant opened; and (iii) commit to specified annual capital expenditures for existing restaurants.

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In addition to the consolidated operating results shown on the previous page, consolidated results for 2007 and adjusted growth rates for 2008 are presented in the following table excluding the impact of the Latam transaction. These results include the effect of foreign currency translation further discussed in the section titled Impact of foreign currency translation on reported results. While the Company has converted certain

other markets to a developmental license arrangement, management believes the Latam transaction and the associated charge are not indicative of ongoing operations due to the size and scope of the transaction. Management believes that the adjusted operating results better reflect the underlying business trends relevant to the periods presented.

Dollars in millions, except per share data	***2009***	*2008*	*2007*(1)	***Latam Transaction***(1)	*2007 Excluding Latam Transaction*	***2009 % Inc***	*2008 Adjusted % Inc*
Operating income	**$6,841**	$6,443	$3,879	**$(1,641)**	$5,520	**6**	17
Income from continuing operations	**4,551**	4,313	2,335	**(1,579)**	3,914	**6**	10
Income from discontinued operations			60		60		
Net income	**4,551**	4,313	2,395	**(1,579)**	3,974	**6**	9
Income per common share diluted							
Continuing operations(2,3)	**4.11**	3.76	1.93	**(1.30)**	3.23	**9**	16
Discontinued operations			0.05		0.05		
Net income(2,3)	**4.11**	3.76	1.98	**(1.30)**	3.28	**9**	15

nm Not meaningful.

(1) The results for the full year 2007 included impairment and other charges of $1,665 million, partly offset by a benefit of $24 million due to eliminating depreciation on the assets in Latam in mid-April 2007, and a tax benefit of $62 million.

(2) The following items impact the comparison of growth in diluted income per share from continuing operations and diluted net income per share for the year ended December 31, 2009 compared with 2008. On a net basis, these items positively impact the comparison by 1 percentage point:

2009

$0.08 per share after tax income primarily due to the resolution of certain liabilities retained in connection with the 2007 Latam transaction.

$0.05 per share after tax gain on the sale of the Company s minority ownership interest in Redbox.

2008

$0.09 per share after tax gain on the sale of the Company s minority ownership interest in Pret A Manger.

(3) The following items impact the comparison of adjusted growth in diluted income per share from continuing operations and diluted net income per share for the year ended December 31, 2008 compared with 2007. On a net basis, these items negatively impact the comparison by 7 and 6 percentage points, respectively:

2008

$0.09 per share after tax gain on the sale of the Company s minority ownership interest in Pret A Manger.

2007

$0.26 per share of income tax benefit resulting from the completion of an Internal Revenue Service (IRS) examination of the Company s 2003-2004 U.S. federal income tax returns; partly offset by

$0.02 per share of income tax expense related to the impact of a tax law change in Canada.

NET INCOME AND DILUTED NET INCOME PER COMMON SHARE

In 2009, net income and diluted net income per common share were $4.6 billion and $4.11. Results benefited by after tax income of $87 million or $0.08 per share primarily due to the resolution of certain liabilities retained in connection with the 2007 Latam transaction. Results also benefited by an after tax gain of $59 million or $0.05 per share due to the sale of the Company s minority ownership interest in Redbox. Results were negatively impacted by $0.15 per share due to the effect of foreign currency translation.

In 2008, net income and diluted net income per common share were $4.3 billion and $3.76. Results benefited by a $109 million or $0.09 per share after tax gain on the sale of the Company s minority ownership interest in Pret A Manger. Results also benefited by $0.09 per share due to the effect of foreign currency translation.

In 2007, net income and diluted net income per common share were $2.4 billion and $1.98. Income from continuing operations was $2.3 billion or $1.93 per share, which included $1.6 billion or $1.30 per share of net expense related to the Latam transaction. This reflects an impairment charge of $1.32 per share, partly offset by a $0.02 per share benefit due to eliminating depreciation on the assets in Latam in mid-April 2007 in accordance with accounting rules. In addition, 2007 results included a net tax benefit of $288 million or $0.24 per

share resulting from the completion of an IRS examination of the Company s 2003-2004 U.S. federal income tax returns, partly offset by the impact of a tax law change in Canada. Income from discontinued operations was $60 million or $0.05 per share.

The Company repurchased 50.3 million shares of its stock for $2.9 billion in 2009 and 69.7 million shares for $4.0 billion in 2008, driving reductions of over 3% and 4% of total shares outstanding, respectively, net of stock option exercises.

IMPACT OF FOREIGN CURRENCY TRANSLATION ON REPORTED RESULTS

While changing foreign currencies 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.

In 2009, foreign currency translation had a negative impact on consolidated operating results, primarily driven by the Euro, British Pound, Russian Ruble, Australian Dollar and Canadian Dollar. In 2008, foreign currency translation had a positive impact on consolidated operating results, driven by the stronger Euro and most other currencies, partly offset by the weaker British Pound. In 2007, foreign currency translation had a positive impact on consolidated operating results, primarily driven by the Euro, British Pound, Australian Dollar and Canadian Dollar.

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Impact of foreign currency translation on reported results

	Reported amount			Currency translation benefit/(cost)		
In millions, except per share data	***2009***	*2008*	*2007*	***2009***	*2008*	*2007*
Revenues	**$ 22,745**	$ 23,522	$ 22,787	**$ (1,340)**	$ 441	$ 988
Company-operated margins	**2,807**	2,908	2,869	**(178)**	63	129
Franchised margins	**5,985**	5,731	5,036	**(176)**	120	179
Selling, general & administrative expenses	**2,234**	2,355	2,367	**75**	(21)	(73)
Operating income	**6,841**	6,443	3,879			