MCDONALDS CORP
Form 10-Q
November 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

OR

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

Commission File Number 1-5231

McDONALD S CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

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)

(630) 623-3000

(Registrant s Telephone Number, Including Area Code)

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

Yes x No ¨

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

Large accelerated filer 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

1,056,506,714

(Number of shares of common stock

outstanding as of September 30, 2010)

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEET

	(unaudited)	
	September 30,	**December 31,**
In millions, except per share data	**2010**	**2009**
Assets		
Current assets		
Cash and equivalents	**$ 2,495.0**	$ 1,796.0
Accounts and notes receivable	**1,013.6**	1,060.4
Inventories, at cost, not in excess of market	**103.6**	106.2
Prepaid expenses and other current assets	**564.3**	453.7
Total current assets	**4,176.5**	3,416.3
Other assets		
Investments in and advances to affiliates	**1,295.9**	1,212.7
Goodwill	**2,521.5**	2,425.2
Miscellaneous	**1,697.1**	1,639.2
Total other assets	**5,514.5**	5,277.1
Property and equipment		
Property and equipment, at cost	**33,760.8**	33,440.5
Accumulated depreciation and amortization	**(12,283.3)**	(11,909.0)
Net property and equipment	**21,477.5**	21,531.5
Total assets	**$ 31,168.5**	$ 30,224.9
Liabilities and shareholders equity		
Current liabilities		
Accounts payable	**$ 596.5**	$ 636.0
Dividends payable	**643.4**	
Income taxes	**104.2**	202.4
Other taxes	**274.1**	277.4
Accrued interest	**149.6**	195.8
Accrued payroll and other liabilities	**1,419.6**	1,659.0
Current maturities of long-term debt	**78.9**	18.1
Total current liabilities	**3,266.3**	2,988.7
Long-term debt	**11,357.1**	10,560.3
Other long-term liabilities	**1,570.4**	1,363.1
Deferred income taxes	**1,336.9**	1,278.9
Shareholders equity		
Preferred stock, no par value; authorized 165.0 million shares; issued none		
Common stock, $.01 par value; authorized 3.5 billion shares; issued 1,660.6 million shares	**16.6**	16.6
Additional paid-in capital	**5,108.3**	4,853.9

Retained earnings	**32,568.9**	31,270.8
Accumulated other comprehensive income	**703.8**	747.4
Common stock in treasury, at cost; 604.1 and 583.9 million shares	**(24,759.8)**	(22,854.8)
Total shareholders equity	**13,637.8**	14,033.9
Total liabilities and shareholders equity	**$ 31,168.5**	$ 30,224.9

See Notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
In millions, except per share data	**2010**	**2009**	**2010**	**2009**
Revenues				
Sales by Company-operated restaurants	**$ 4,246.6**	$ 4,093.6	**$ 12,063.1**	$ 11,428.5
Revenues from franchised restaurants	**2,058.3**	1,953.1	**5,797.4**	5,342.8
Total revenues	**6,304.9**	6,046.7	**17,860.5**	16,771.3
Operating costs and expenses				
Company-operated restaurant expenses	**3,354.0**	3,299.8	**9,679.7**	9,379.6
Franchised restaurants occupancy expenses	**344.4**	338.6	**1,018.0**	953.3
Selling, general & administrative expenses	**556.3**	549.6	**1,667.5**	1,578.4
Impairment and other charges (credits), net	**3.6**	(1.5)	**41.2**	0.9
Other operating (income) expense, net	**(49.9)**	(72.6)	**(161.8)**	(155.6)
Total operating costs and expenses	**4,208.4**	4,113.9	**12,244.6**	11,756.6
Operating income	**2,096.5**	1,932.8	**5,615.9**	5,014.7
Interest expense	**114.8**	117.8	**333.9**	358.0
Nonoperating (income) expense, net	**7.2**	(6.0)	**15.3**	(34.4)
Gain on sale of investment		(0.6)		(94.9)
Income before provision for income taxes	**1,974.5**	1,821.6	**5,266.7**	4,786.0
Provision for income taxes	**586.1**	560.6	**1,562.7**	1,451.8
Net income	**$ 1,388.4**	$ 1,261.0	**$ 3,704.0**	$ 3,334.2
Earnings per common share basic:	**$ 1.31**	$ 1.16	**$ 3.46**	$ 3.04
Earnings per common share diluted:	**$ 1.29**	$ 1.15	**$ 3.42**	$ 3.00
Dividends declared per common share	**$ 1.16**	$ 1.05	**$ 2.26**	$ 2.05
Weighted-average shares outstanding basic	**1,061.0**	1,084.5	**1,069.7**	1,097.1
Weighted-average shares outstanding diluted	**1,074.9**	1,098.2	**1,083.9**	1,111.6

See Notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
In millions	**2010**	**2009**	**2010**	**2009**
Operating activities				
Net income	**$ 1,388.4**	$ 1,261.0	**$ 3,704.0**	$ 3,334.2
Adjustments to reconcile to cash provided by operations				
Charges and credits:				
Depreciation and amortization	**312.7**	311.9	**942.1**	898.5
Deferred income taxes	**12.1**	59.4	**5.5**	148.5
Gain on sale of investment		(0.6)		(94.9)
Share-based compensation	**20.0**	25.9	**64.7**	85.9
Impairment and other charges (credits), net	**3.6**	(1.5)	**41.2**	0.9
Other	**83.3**	(29.2)	**175.7**	41.4
Changes in working capital items	**124.3**	195.3	**(317.4)**	(41.5)
Cash provided by operations	**1,944.4**	1,822.2	**4,615.8**	4,373.0
Investing activities				
Property and equipment expenditures	**(523.1)**	(470.8)	**(1,319.4)**	(1,318.9)
Purchases and sales of restaurant businesses and property sales	**86.3**	42.1	**157.0**	120.4
Proceeds on sale of investment, net		9.8		144.9
Other	**(9.2)**	(22.4)	**(64.7)**	(59.2)
Cash used for investing activities	**(446.0)**	(441.3)	**(1,227.1)**	(1,112.8)
Financing activities				
Notes payable and long-term financing issuances and repayments, net	**478.9**	(99.0)	**752.1**	645.0
Treasury stock purchases	**(798.1)**	(768.7)	**(2,156.5)**	(2,373.7)
Common stock dividends	**(583.5)**	(541.2)	**(1,764.6)**	(1,642.4)
Proceeds from stock option exercises	**107.1**	40.5	**363.0**	157.6
Excess tax benefit on share-based compensation	**28.9**	7.9	**92.6**	35.8
Other	**(21.2)**	(27.6)	**(5.2)**	(36.0)
Cash used for financing activities	**(787.9)**	(1,388.1)	**(2,718.6)**	(3,213.7)
Effect of exchange rates on cash and cash equivalents	**119.0**	47.6	**28.9**	91.1
Cash and equivalents increase	**829.5**	40.4	**699.0**	137.6
Cash and equivalents at beginning of period	**1,665.5**	2,160.6	**1,796.0**	2,063.4
Cash and equivalents at end of period	**$ 2,495.0**	$ 2,201.0	**$ 2,495.0**	$ 2,201.0

See Notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Basis of Presentation

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Company s December 31, 2009 Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. The results for the quarter and nine months ended September 30, 2010 do not necessarily indicate the results that may be expected for the full year.

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

Restaurant Information

The following table presents restaurant information by ownership type:

Restaurants at September 30,	**2010**	2009
Conventional franchised	**19,179**	18,799
Developmental licensed	**3,377**	3,095
Affiliated	**3,648**	4,081
Total Franchised	**26,204**	25,975
Company-operated	**6,257**	6,303
Systemwide restaurants	**32,461**	32,278

Comprehensive Income

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

	Quarters Ended September 30,		**Nine Months Ended September 30,**	
In millions	**2010**	2009	**2010**	2009
Net income	**$ 1,388.4**	$ 1,261.0	**$ 3,704.0**	$ 3,334.2
Other comprehensive income (loss):				
Foreign currency translation adjustments	**1,000.9**	507.5	**(48.0)**	824.7
Deferred hedging adjustments	**(20.0)**	(10.6)	**1.8**	(34.9)
Pension liability adjustment	**1.8**		**2.6**	1.0
Total other comprehensive income (loss)	**982.7**	496.9	**(43.6)**	790.8
Total comprehensive income	**$ 2,371.1**	$ 1,757.9	**$ 3,660.4**	$ 4,125.0

Income Tax Uncertainties

The Internal Revenue Service (the IRS) is in the final stages of its examination of the Company s U.S. federal income tax returns for 2007 and 2008. In connection with this examination, the Company has received notices of proposed adjustment from the IRS primarily related to certain foreign tax credit and transfer pricing matters that could result in an additional tax liability of about $600 million, excluding interest and potential penalties. The IRS could raise similar issues for the 2009 and 2010 tax years.

We believe that the Company has properly reported taxable income and paid taxes in accordance with applicable laws and that the IRS proposed adjustments are inconsistent with applicable income tax laws, Treasury Regulations and relevant case law. We believe the adjustments are not justified and intend to pursue all available remedies. The Company cannot predict with certainty the timing of resolution; however, the Company does not believe the resolution will have a material impact on its results of operations or cash flows.

Per Common Share Information

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation calculated using the treasury stock method, of 13.9 million shares and 13.7 million shares for the third quarter 2010 and 2009, respectively, and 14.2 million shares and 14.5 million shares for the nine months ended September 30, 2010 and 2009, respectively. Stock options that

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were not included in diluted weighted-average shares because they would have been antidilutive were 10.0 million shares and 10.1 million shares for the third quarter and nine months ended September 30, 2009, respectively.

Fair Value Measurements

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

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

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

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

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability.

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

Certain Financial Assets and Liabilities Measured at Fair Value

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

In millions	**Level 1**	**Level 2**	**Level 3**	**Carrying Value**
Cash equivalents	$ 619.9			$ 619.9
Investments	123.5*			123.5
Derivative receivables	101.3*	$ 112.8		214.1
Total assets at fair value	**$ 844.7**	**$ 112.8**		**$ 957.5**
Derivative payables		$ (13.3)		$ (13.3)
Total liabilities at fair value		**$ (13.3)**		**$ (13.3)**

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

Certain Financial Assets and Liabilities not Measured at Fair Value

At September 30, 2010, the fair value of the Company s debt obligations was estimated at $13.0 billion, compared to a carrying amount of $11.4 billion. This fair value was estimated using various pricing models or discounted cash flow analyses that incorporated quoted market prices, and is similar to Level 2 within the valuation hierarchy. The carrying amount for both cash and equivalents and notes receivable approximate fair value.

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

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

Financial Instruments and Hedging Activities

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

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

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

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

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

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

In millions	**Asset Derivatives**			**Liability Derivatives**		
	Balance Sheet Classification	**September 30, 2010**	December 31, 2009	**Balance Sheet Classification**	**September 30, 2010**	December 31, 2009
Derivatives designated as hedging instruments						
Foreign currency options	Prepaid expenses and other current assets	**$ 11.9**	$ 13.2	Accrued payroll and other liabilities	**$ (1.8)**	
Interest rate exchange agreements	Prepaid expenses and other current assets	**0.6**	1.4	Accrued payroll and other liabilities		
Forward foreign currency exchange agreements	Prepaid expenses and other current assets	**4.3**	0.3	Accrued payroll and other liabilities	**(7.7)**	(0.1)
Foreign currency options	Miscellaneous other assets		5.4	Other long-term liabilities		
Interest rate exchange agreements	Miscellaneous other assets	**89.2**	67.3	Other long-term liabilities		(3.4)

Total derivatives designated as hedging instruments		**$**	**106.0**	$	87.6		**$**	**(9.5)**	$	(3.5)
Derivatives not designated as hedging instruments										
Forward foreign currency exchange agreements	Prepaid expenses and other current assets	**$**	**5.4**	$	9.3	Accrued payroll and other liabilities	**$**	**(3.8)**	$	(5.4)
Derivatives hedging supplemental benefit plan liabilities	Miscellaneous other assets		**101.3**		79.6	Other long-term liabilities				
Foreign currency exchange agreements	Miscellaneous other assets		**1.4**			Other long-term liabilities				(0.5)
Total derivatives not designated as hedging instruments		**$**	**108.1**	$	88.9		**$**	**(3.8)**	$	(5.9)
Total derivatives		**$**	**214.1**	$	176.5		**$**	**(13.3)**	$	(9.4)

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

In millions

Derivatives in Fair Value Hedging Relationships	(Gain) Loss Recognized in Income on Derivative		Hedged Items in Fair Value Hedging Relationships	(Gain) Loss Recognized in Income on Related Hedged Items	
	2010	2009		**2010**	2009
Interest rate exchange agreements	**$(24.5)**	$3.5	Fixed-rate debt	**$24.5**	$(3.5)

Derivatives in Cash Flow Hedging Relationships	(Gain) Loss Recognized in Accumulated OCI on Derivative (Effective Portion)		(Gain) Loss Reclassified from Accumulated OCI into Income (Effective Portion)		(Gain) Loss Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing and Ineffective Portion)	
	2010	2009	**2010**	2009	**2010**	2009
Foreign currency options	**$(12.3)**	$4.6	**$(11.1)**	$(42.3)	**$21.3**	$25.1
Interest rate exchange agreements[(1)]		(1.8)	**(0.5)**	(1.7)	**(0.3)**	
Forward foreign currency exchange agreements	**(1.5)**	1.6	**0.6**	(6.1)	**0.8**	
Total	**$(13.8)**	$4.4	**$(11.0)**	$(50.1)	**$21.8**	$25.1

Derivatives in Net Investment Hedging Relationships	(Gain) Loss Recognized in Accumulated OCI on Derivative (Effective Portion)	
	2010	2009
Foreign currency denominated debt	**$86.8**	$116.2
Forward foreign currency exchange agreements	**4.3**	
Total	**$91.1**	$116.2

Derivatives Not Designated as Hedging Instruments	(Gain) Loss Recognized in Income on Derivative

	2010	2009
Forward foreign currency exchange agreements	**$(7.5)**	$(5.1)
Derivatives hedging supplemental benefit plan liabilities[2]	**(15.7)**	5.4
Foreign currency options	**(0.7)**	(0.2)
Foreign currency exchange agreements	**(1.9)**	
Total	**$(25.8)**	$0.1

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

(1) The amount of (gain) loss reclassified from accumulated OCI into income is recorded in interest expense.

(2) The amount of (gain) loss recognized in income on the derivatives used to hedge the supplemental benefit plan liabilities is recorded in selling, general & administrative expenses.

Fair Value Hedging Strategy

The Company enters into fair value hedges to reduce the exposure to changes in the fair values of certain liabilities. The fair value hedges the Company enters into consist of interest rate exchange agreements which convert a portion of its fixed-rate debt into floating-rate debt. All of the Company s interest rate exchange agreements meet the shortcut method requirements. Accordingly, changes in the fair values of the interest rate exchange agreements are exactly offset by changes in the fair value of the underlying debt. No ineffectiveness has been recorded to net income related to interest rate exchange agreements designated as fair value hedges for the nine month period ended September 30, 2010. A total of $2.1 billion of the Company s outstanding fixed-rate debt was effectively converted to floating-rate debt resulting from the use of interest rate exchange agreements.

Cash Flow Hedging Strategy

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

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

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

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

The hedges typically cover the next 12-15 months for certain exposures and are denominated in various currencies. As of September 30, 2010, the Company had derivatives outstanding with an equivalent notional amount of $517.9 million that were used to hedge a portion of forecasted foreign currency denominated royalties.

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

The Company recorded after tax adjustments related to cash flow hedges to the deferred hedging adjustment component of accumulated OCI in shareholders equity. The Company recorded a net increase of $1.8 million for the nine months ended September 30, 2010 and a net decrease of $34.9 million for the nine months ended September 30, 2009. Based on interest rates and foreign currency exchange rates at September 30, 2010, no significant amount of the $18.3 million in cumulative deferred hedging gains, after tax, at September 30, 2010, will be recognized in earnings over the next 12 months as the underlying hedged transactions are realized.

Hedge of Net Investment in Foreign Operations Strategy

The Company primarily uses foreign currency denominated debt to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders equity in the foreign currency translation component of OCI and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in OCI. As of September 30, 2010, a total of $3.8 billion of the Company s outstanding foreign currency denominated debt was designated to hedge investments in certain foreign subsidiaries and affiliates.

Credit Risk

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

Impairment and Other Charges (Credits), Net

In the first quarter 2010, McDonald s Japan (a 50%-owned affiliate) announced plans to close approximately 430 restaurants by mid-2011 in conjunction with the strategic review of the market s restaurant portfolio. These actions are designed to enhance the brand image, overall profitability and returns of the market. For the nine months 2010, the Company recorded after tax impairment charges of $36.8 million related to its share of restaurant closing costs in Japan. These charges primarily consist of asset writeoffs and lease termination costs.

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Gain on Sale of Investment

In 2009, the Company sold its minority ownership interest in Redbox Automated Retail, LLC to Coinstar, Inc. (Coinstar), the majority owner, for total consideration of $139.8 million. In connection with the sale, in first quarter 2009, the Company received initial consideration valued at $51.6 million consisting of 1.5 million shares of Coinstar common stock at an agreed to value of $41.6 million and $10 million in cash with the balance of the purchase price deferred. In second quarter 2009, the Company sold all of its holdings in the Coinstar common stock for $46.8 million and received $78.4 million in cash from Coinstar as deferred consideration, and in third quarter 2009, the Company received $9.8 million in cash from Coinstar as final consideration. As a result of the transaction, the Company recognized a nonoperating pretax gain of $0.6 million for the third quarter 2009 and $94.9 million (after tax $58.8 million or $0.05 per share) for the nine months.

Segment Information

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

	Quarters Ended September 30,		**Nine Months Ended September 30,**	
In millions	**2010**	**2009**	**2010**	**2009**
Revenues				
U.S.	**$ 2,120.9**	$ 2,049.7	**$ 6,074.5**	$ 5,970.3
Europe	**2,499.3**	2,541.7	**7,070.8**	6,753.9
APMEA	**1,333.3**	1,125.9	**3,735.8**	3,182.9
Other Countries & Corporate	**351.4**	329.4	**979.4**	864.2
Total	**$ 6,304.9**	$ 6,046.7	**$ 17,860.5**	$ 16,771.3
Operating income				
U.S.	**$ 930.3**	$ 865.6	**$ 2,634.8**	$ 2,426.0
Europe	**796.7**	770.9	**2,071.3**	1,879.7
APMEA	**341.1**	279.2	**886.7**	723.4
Other Countries & Corporate	**28.4**	17.1	**23.1**	(14.4)
Total	**$ 2,096.5**	$ 1,932.8	**$ 5,615.9**	$ 5,014.7

Variable Interest Entities and Consolidation

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

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

Subsequent Events

The Company evaluated subsequent events through the date the financial statements were issued and filed with the Securities and Exchange Commission. In October 2010, the Company made a prepayment of the full principal amount outstanding under a syndicated term loan in the amount of 40 billion Japanese Yen ($479.0 million at September 30, 2010). This floating-rate loan was due to mature in 2014. The Company incurred no additional fees resulting from the early termination and recognized no gain or loss. The Company expects to refinance this amount. There were no other subsequent events that required recognition or disclosure.

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

Overview

The Company franchises and operates McDonald s restaurants. Of the 32,461 restaurants in 117 countries at September 30, 2010, 26,204 were operated by franchisees (including 19,179 operated by conventional franchisees, 3,377 operated by developmental licensees and 3,648 operated by foreign affiliated markets (affiliates) primarily in Japan) and 6,257 were operated by the Company. Under our conventional franchise arrangement, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and décor of their restaurant businesses, and by reinvesting in the business over time. The Company owns the land and building or secures long-term leases for both Company-operated and conventional franchised restaurant sites. This maintains long-term occupancy rights, helps control related costs and assists in alignment with franchisees. In certain circumstances, the Company participates in reinvestment for conventional franchised restaurants. Under our developmental license arrangement, licensees provide capital for the entire business, including the real estate interest, and the Company has no capital invested. In addition, the Company has an equity investment in a limited number of affiliates that invest in real estate and operate or franchise restaurants within a market.

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

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

In the first quarter 2010, McDonald s Japan (a 50%-owned affiliate) announced plans to close approximately 430 restaurants by mid-2011 in conjunction with the strategic review of the market s restaurant portfolio. These actions are designed to enhance the brand image, overall profitability and returns of the market. For the nine months 2010, the Company recorded after tax impairment charges of $36.8 million related to its share of restaurant closing costs in Japan.

In 2009, the Company sold its minority ownership interest in Redbox Automated Retail, LLC (Redbox) to Coinstar, Inc., the majority owner, and recognized a nonoperating pretax gain of $0.6 million in the third quarter 2009 and $94.9 million for the nine months. The Company had disposed of all non-McDonald s restaurant businesses as of December 31, 2009.

Strategic Direction and Financial Performance

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

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

The Company is pursuing initiatives in three key areas: service enhancement, restaurant reimaging and menu innovation. These initiatives include leveraging technology to make it easier for restaurant staff to quickly and accurately serve customers, executing our interior and exterior reimaging plans and innovating at every tier of our menu to deliver great taste and value to customers. These efforts successfully resonated with consumers, driving increases in sales and customer visits in many countries despite challenging global economies and informal eating-out markets that are declining or experiencing only modest growth. As a result, every area of the world contributed to global comparable sales and operating income growth, which increased 6.0% and 8%, respectively, for the third quarter, and 5.1% and 12%, respectively, for the nine months.

The U.S. business continued to deliver increased sales and traffic through customer-focused initiatives that provide variety and value. U.S. operating income increased 7% for the third quarter and 9% for the nine months as sales were driven by McCafé Frappés and Smoothies, value-based beverages, classic core menu favorites and the everyday affordability of the Dollar Menu. Ongoing U.S. strategies include strengthening the core menu and value offerings; aggressively pursuing new growth opportunities in beverages,

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breakfast, chicken and snacking options; elevating the brand experience by updating technology with a new point of sale system; enhancing restaurant employee retention and productivity; and initiating a multi-year program to contemporize the interiors and exteriors of our restaurants through reimaging.

Europe s emphasis on providing signature menu favorites across all price-tiers, reimaging to create a more inviting restaurant experience, unique menu promotions, and extending convenience with expanded operating hours contributed to constant currency operating income growth of 12% for the quarter and 13% for the nine months. Europe s strategic priorities include upgrading the customer and employee experience, enhancing local relevance and building brand transparency.

APMEA s focus on compelling value, daypart expansion and core menu extensions contributed to constant currency operating income growth of 15% for the third quarter and 11% for the nine months. APMEA will continue to execute initiatives that best support the goal to be customers first choice for eating out: convenience, core menu, branded affordability, improved operations and reimaging.

Operating Highlights Included:

- Global comparable sales increased 6.0% for the quarter and 5.1% for the nine months
- Consolidated operating income increased 8% (11% in constant currencies) for the quarter and 12% (11% in constant currencies) for the nine months
- Diluted earnings per share were $1.29 for the quarter and $3.42 for the nine months, up 12% (15% in constant currencies) and 14% (13% in constant currencies), respectively. Foreign currency translation had a negative impact of $0.03 per share on diluted earnings per share for the quarter and a positive impact of $0.03 per share for the nine months
- For the nine months ended September 30, 2010, the Company repurchased 31.9 million shares for $2.2 billion and paid total dividends of $1.65 per share or nearly $1.8 billion
- The quarterly cash dividend increased 11% to $0.61 per share the equivalent of $2.44 per share annually effective for the fourth quarter 2010

Outlook

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

- Changes in Systemwide sales are driven by comparable sales and net restaurant unit expansion. The Company expects net restaurant additions to add nearly 1.5 percentage points to 2010 Systemwide sales growth (in constant currencies), most of which will be due to the 609 net traditional restaurants added in 2009.
- The Company does not generally provide specific guidance on changes in comparable sales. However, as a perspective, assuming no change in cost structure, a 1 percentage point increase in comparable sales for either the U.S. or Europe would increase annual diluted earnings per share by about 3 cents.

With about 75% of McDonald s grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company s commodity costs. For the full year 2010, the total basket of goods cost is expected to decrease 3-4% in the U.S. and to decrease 2-3% in Europe, reflecting favorable comparisons in the first nine months of this year.

The Company expects full-year 2010 selling, general & administrative expenses to increase by about 3%, in constant currencies, compared with 2009.

Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full year 2010 to decrease approximately 4% compared with 2009.

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

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

The Company expects capital expenditures for 2010 to be approximately $2.3 billion. About half of this amount will be reinvested in existing restaurants, including the reimaging of approximately 1,800 locations worldwide. The rest will primarily be used to open new restaurants. The Company expects to open 1,000 restaurants including about 350 restaurants in affiliated and developmental licensed markets, such as Japan and Latin America, where the Company does not fund any capital expenditures. The Company expects net additions of about 275 restaurants, which reflects the strategic closing of restaurants by McDonald s Japan.

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

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

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

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

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CONSOLIDATED OPERATING RESULTS

Dollars in millions, except per share data	Quarter Ended September 30, 2010		Nine Months Ended September 30, 2010	
	Amount	% Increase / (Decrease)	Amount	% Increase / (Decrease)
Revenues				
Sales by Company-operated restaurants	$ 4,246.6	4	$ 12,063.1	6
Revenues from franchised restaurants	2,058.3	5	5,797.4	9
Total revenues	6,304.9	4	17,860.5	6
Operating costs and expenses				
Company-operated restaurant expenses	3,354.0	2	9,679.7	3
Franchised restaurants occupancy expenses	344.4	2	1,018.0	7
Selling, general & administrative expenses	556.3	1	1,667.5	6
Impairment and other charges (credits), net	3.6	n/m	41.2	n/m
Other operating (income) expense, net	(49.9)	31	(161.8)	(4)
Total operating costs and expenses	4,208.4	2	12,244.6	4
Operating income	2,096.5	8	5,615.9	12
Interest expense	114.8	(3)	333.9	(7)
Nonoperating (income) expense, net	7.2	n/m	15.3	n/m
Gain on sale of investment		n/m		n/m
Income before provision for income taxes	1,974.5	8	5,266.7	10
Provision for income taxes	586.1	5	1,562.7	8
Net income	$ 1,388.4	10	$ 3,704.0	11
Earnings per common share basic:	$ 1.31	13	$ 3.46	14
Earnings per common share diluted:	$ 1.29	12	$ 3.42	14

n/m Not meaningful

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Impact of Foreign Currency Translation

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

IMPACT OF FOREIGN CURRENCY TRANSLATION

In millions, except per share data

			Currency Translation Benefit / (Cost)
Quarters Ended September 30,	**2010**	2009	**2010**
Revenues	**$ 6,304.9**	$ 6,046.7	**$ (101.5)**
Company-operated margins	**892.6**	793.8	**(11.4)**
Franchised margins	**1,713.9**	1,614.5	**(41.1)**
Selling, general & administrative expenses	**556.3**	549.6	**7.6**
Operating income	**2,096.5**	1,932.8	**(43.6)**
Net income	**1,388.4**	1,261.0	**(30.5)**
Earnings per common share diluted	**1.29**	1.15	**(0.03)**

IMPACT OF FOREIGN CURRENCY TRANSLATION

In millions, except per share data

			Currency Translation Benefit / (Cost)
Nine Months Ended September 30,	**2010**	2009	**2010**
Revenues	**$ 17,860.5**	$ 16,771.3	**$ 254.2**
Company-operated margins	**2,383.4**	2,048.9	**40.8**
Franchised margins	**4,779.4**	4,389.5	**14.3**
Selling, general & administrative expenses	**1,667.5**	1,578.4	**(17.3)**
Operating income	**5,615.9**	5,014.7	**42.4**
Net income	**3,704.0**	3,334.2	**26.6**
Earnings per common share diluted	**3.42**	3.00	**0.03**

Foreign currency translation had a negative impact on consolidated operating results for the quarter due to the weaker Euro and British Pound, partly offset by the stronger Australian Dollar and Canadian Dollar. Foreign currency translation had a positive impact on consolidated operating results for the nine months driven by the stronger Australian Dollar and Canadian Dollar, partly offset by the weaker Euro.

Net Income and Diluted Earnings per Common Share

For the third quarter and nine months ended September 30, 2010, net income was $1,388.4 million and $3,704.0 million, respectively, and diluted earnings per share were $1.29 and $3.42, respectively. Results for the nine months included after tax impairment charges of $36.8 million, or $0.03 per share, related to restaurant closings in Japan in conjunction with the first quarter strategic review of the market s restaurant portfolio. Foreign currency translation had a negative impact of $0.03 per share on diluted earnings per share for the quarter and a positive impact of $0.03 per share for the nine months.

For the third quarter and nine months ended September 30, 2009, net income was $1,261.0 million and $3,334.2 million, respectively, and diluted earnings per share were $1.15 and $3.00, respectively. Results benefited from an after tax gain of $58.8 million, or $0.05 per share, for the nine months due to the sale of the Company s minority interest in Redbox.

During the third quarter 2010, the Company repurchased 11.1 million shares of its stock for $797.0 million, bringing the total repurchases for 2010 to 31.9 million shares or $2.2 billion. During the third quarter 2010, the Company paid a quarterly dividend of $0.55 per share or $583.5 million, bringing the total dividends paid for 2010 to nearly $1.8 billion. The Company also declared a

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fourth quarter 2010 dividend of $0.61 per share, reflecting an increase of 11%. The Company expects total cash returned to shareholders to be approximately $5 billion for 2010.

Revenues

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

REVENUES

Dollars in millions

Quarters Ended September 30,	**2010**	2009	% Inc / (Dec)	% Inc / (Dec) Excluding Currency Translation
Company-operated sales				
U.S.	**$ 1,100.8**	$ 1,093.2	1	1
Europe	**1,806.6**	1,833.9	(1)	4
APMEA	**1,134.7**	964.0	18	13
Other Countries & Corporate	**204.5**	202.5	1	(4)
Total	**$ 4,246.6**	$ 4,093.6	4	5
Franchised revenues				
U.S.	**$ 1,020.1**	$ 956.5	7	7
Europe	**692.7**	707.8	(2)	7
APMEA	**198.6**	161.9	23	15
Other Countries & Corporate	**146.9**	126.9	16	16
Total	**$ 2,058.3**	$ 1,953.1	5	8
Total revenues				
U.S.	**$ 2,120.9**	$ 2,049.7	3	3
Europe	**2,499.3**	2,541.7	(2)	5
APMEA	**1,333.3**	1,125.9	18	13
Other Countries & Corporate	**351.4**	329.4	7	3
Total	**$ 6,304.9**	$ 6,046.7	4	6

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REVENUES

Dollars in millions

Nine Months Ended September 30,	**2010**	2009	% Inc / (Dec)	% Inc / (Dec) Excluding Currency Translation
Company-operated sales				
U.S.	**$ 3,173.1**	$ 3,252.2	(2)	(2)
Europe	**5,126.9**	4,899.2	5	5
APMEA	**3,186.4**	2,740.9	16	9
Other Countries & Corporate	**576.7**	536.2	8	(4)
Total	**$ 12,063.1**	$ 11,428.5	6	3
Franchised revenues				
U.S.	**$ 2,901.4**	$ 2,718.1	7	7
Europe	**1,943.9**	1,854.7	5	8
APMEA	**549.4**	442.0	24	11
Other Countries & Corporate	**402.7**	328.0	23	17
Total	**$ 5,797.4**	$ 5,342.8	9	8
Total revenues				
U.S.	**$ 6,074.5**	$ 5,970.3	2	2
Europe	**7,070.8**	6,753.9	5	6
APMEA	**3,735.8**	3,182.9	17	9
Other Countries & Corporate	**979.4**	864.2	13	4
Total	**$ 17,860.5**	$ 16,771.3	6	5

Consolidated revenues increased 4% (6% in constant currencies) for the quarter and 6% (5% in constant currencies) for the nine months. The constant currency growth was driven by positive comparable sales. The impact of refranchising on consolidated revenues is lessening because the number of Company-operated restaurants sold to franchisees has declined compared with the prior year, in line with our overall strategy. Franchised restaurants represent 81% of Systemwide restaurants at September 30, 2010, compared with 80% at September 30, 2009.

In the U.S., revenues increased for the quarter and nine months primarily due to positive comparable sales, partly offset by the impact of refranchising activity. Comparable sales were driven by McCafé Frappés and Smoothies, value-based beverages, classic core menu favorites and the everyday affordability of the Dollar Menu.

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

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

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

COMPARABLE SALES

	% Increase			
	Quarters Ended September 30,		**Nine Months Ended September 30,***	
	2010	2009	**2010**	2009
U.S.	**5.3**	2.5	**3.5**	3.5
Europe	**4.1**	5.8	**4.8**	5.4
APMEA	**8.1**	2.2	**6.2**	4.0
Other Countries & Corporate	**11.3**	6.1	**11.1**	5.1
Total	**6.0**	3.8	**5.1**	4.3

* On a consolidated basis, comparable guest counts increased 4.8% and 1.3% for the nine months ended September 30, 2010 and 2009, respectively.

The following table presents the percent change in Systemwide sales for the quarter and nine months ended September 30, 2010:

SYSTEMWIDE SALES

	Quarter Ended September 30, 2010		**Nine Months Ended September 30, 2010**	
	% Inc / (Dec)	% Inc Excluding Currency Translation	% Inc	% Inc Excluding Currency Translation
U.S.	6	6	4	4
Europe	(2)	6	5	7
APMEA	16	9	16	8
Other Countries & Corporate	10	13	15	13
Total	6	7	7	6

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

FRANCHISED SALES

Dollars in millions

Quarters Ended September 30,	**2010**	2009	% Inc / (Dec)	% Inc Excluding Currency Translation
U.S.	**$ 7,415.8**	$ 6,948.8	7	7
Europe	**3,960.4**	4,027.7	(2)	7

APMEA	**2,958.1**	2,578.4	15	7
Other Countries & Corporate	**1,725.0**	1,558.5	11	15
Total*	**$ 16,059.3**	$ 15,113.4	6	8

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FRANCHISED SALES

Dollars in millions

Nine Months Ended September 30,	2010	2009	% Inc	% Inc Excluding Currency Translation
U.S.	**$ 21,057.9**	$ 20,011.3	5	5
Europe	**11,105.8**	10,608.6	5	8
APMEA	**8,312.9**	7,159.4	16	7
Other Countries & Corporate	**4,734.4**	4,088.5	16	15
Total*	**$ 45,211.0**	$ 41,867.8	8	7

* For the quarters, sales from developmental licensee restaurants or foreign affiliated markets where the Company earns a royalty based on a percent of sales were $3,368.0 million and $3,046.6 million in 2010 and 2009, respectively, and for the nine months, were $9,379.7 million and $8,527.3 million in 2010 and 2009, respectively. The remaining balance of franchised sales is derived from conventional franchised restaurants where the Company earns rent and royalties based primarily on a percent of sales.

Restaurant Margins

FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS

Dollars in millions

Quarters Ended September 30,	Percent		Amount		% Inc / (Dec)	% Inc Excluding Currency Translation
	2010	2009	**2010**	2009		
Franchised						
U.S.	**84.1**	83.4	**$ 858.0**	$ 797.4	8	8
Europe	**79.5**	79.5	**550.4**	562.6	(2)	7
APMEA	**89.8**	89.5	**178.3**	144.9	23	15
Other Countries & Corporate	**86.5**	86.4	**127.2**	109.6	16	17
Total	**83.3**	82.7	**$ 1,713.9**	$ 1,614.5	6	9
Company-operated						
U.S.	**22.0**	19.3	**$ 242.0**	$ 211.3	15	15
Europe	**22.0**	20.4	**397.3**	374.7	6	12
APMEA	**18.9**	18.0	**214.0**	173.5	23	18
Other Countries & Corporate	**19.2**	16.9	**39.3**	34.3	15	8
Total	**21.0**	19.4	**$ 892.6**	$ 793.8	12	14

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FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS

Dollars in millions

Nine Months Ended September 30,	Percent		Amount		% Inc	% Inc Excluding Currency Translation
	2010	2009	**2010**	2009		
Franchised						
U.S.	**83.5**	83.1	**$ 2,422.7**	$ 2,259.3	7	7
Europe	**78.2**	78.3	**1,520.2**	1,451.7	5	8
APMEA	**89.2**	89.7	**490.1**	396.6	24	10
Other Countries & Corporate	**86.0**	86.0	**346.4**	281.9	23	18
Total	**82.4**	82.2	**$ 4,779.4**	$ 4,389.5	9	9
Company-operated						
U.S.	**21.6**	19.1	**$ 684.6**	$ 620.9	10	10
Europe	**19.9**	18.2	**1,021.3**	889.7	15	16
APMEA	**18.0**	16.7	**574.3**	457.6	26	17
Other Countries & Corporate	**17.9**	15.1	**103.2**	80.7	28	14
Total	**19.8**	17.9	**$ 2,383.4**	$ 2,048.9	16	14

Franchised margin dollars increased $99.4 million or 6% (9% in constant currencies) for the quarter and $389.9 million or 9% (9% in constant currencies) for the nine months. Positive comparable sales were the primary driver of the constant currency growth in franchised margin dollars and percent.

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

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

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

Company-operated margin dollars increased $98.8 million or 12% (14% in constant currencies) for the quarter and $334.5 million or 16% (14% in constant currencies) for the nine months. Positive comparable sales and lower commodity costs were the primary drivers of the constant currency growth in Company-operated margin dollars and percent.

In the U.S., the Company-operated margin percent increased for the quarter and nine months primarily due to lower commodity costs as well as positive comparable sales, partly offset by higher labor costs, particularly in the third quarter.

In Europe, the Company-operated margin percent increased for the quarter and nine months primarily due to positive comparable sales. Also contributing were slightly lower commodity costs, offset by higher labor costs.

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

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

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Food & paper	**32.4**	33.1	**32.6**	33.8
Payroll & employee benefits	**24.8**	25.1	**25.3**	25.6
Occupancy & other operating expenses	**21.8**	22.4	**22.3**	22.7
Total expenses	**79.0**	80.6	**80.2**	82.1
Company-operated margins	**21.0**	19.4	**19.8**	17.9

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Selling, General & Administrative Expenses

Selling, general & administrative expenses increased 1% (3% in constant currencies) for the quarter and increased 6% (5% in constant currencies) for the nine months. Expenses in 2010 included costs related to the Vancouver Winter Olympics in February and the Company s biennial Worldwide Owner/Operator Convention in April. Selling, general & administrative expenses as a percent of revenues decreased to 9.3% for the nine months 2010 compared with 9.4% for 2009, and as a percent of Systemwide sales, decreased to 2.9% for 2010 compared with 3.0% for 2009.

Impairment and Other Charges (Credits), Net

In the first quarter 2010, McDonald s Japan (a 50%-owned affiliate) announced plans to close approximately 430 restaurants by mid-2011 in conjunction with the strategic review of the market s restaurant portfolio. These actions are designed to enhance the brand image, overall profitability and returns of the market. For the nine months 2010, the Company recorded after tax impairment charges of $36.8 million related to its share of restaurant closing costs in Japan.

Other Operating (Income) Expense, Net

OTHER OPERATING (INCOME) EXPENSE, NET

In millions

	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	**2010**	2009
Gains on sales of restaurant businesses	**$ (22.5)**	$ (32.5)	**$ (61.1)**	$ (78.6)
Equity in earnings of unconsolidated affiliates	**(49.6)**	(54.9)	**(131.3)**	(118.2)
Asset dispositions and other expense	**22.2**	14.8	**30.6**	41.2
Total	**$ (49.9)**	$ (72.6)	**$ (161.8)**	$ (155.6)

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

Equity in earnings of unconsolidated affiliates for the nine months reflected improved operating performance in Japan, partly offset by a reduction in the number of unconsolidated affiliate restaurants worldwide. Impairment charges relating to Japan are recorded separately in Impairment and Other Charges (Credits), Net.

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Operating Income

OPERATING INCOME

Dollars in millions

Quarters ended September 30,	**2010**	2009	% Inc	% Inc Excluding Currency Translation
U.S.	**$ 930.3**	$ 865.6	7	7
Europe	**796.7**	770.9	3	12
APMEA	**341.1**	279.2	22	15
Other Countries & Corporate	**28.4**	17.1	66	69
Total	**$ 2,096.5**	$ 1,932.8	8	11

OPERATING INCOME

Dollars in millions

Nine Months ended September 30,	**2010**	2009	% Inc	% Inc Excluding Currency Translation
U.S.	**$ 2,634.8**	$ 2,426.0	9	9
Europe	**2,071.3**	1,879.7		