

MCDONALDS CORP
Form 10-Q
November 01, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
For the quarterly period ended September 30, 2012

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 60523
Oak Brook, Illinois (Zip Code)
(Address of Principal Executive Offices)
(630) 623-3000
(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

1,003,976,633
(Number of shares of common stock
outstanding as of September 30, 2012)

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McDONALD'S CORPORATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEET

| In millions, except per share data | (unaudited) September 30, 2012 | December 31, 2011 |
|---|--------------------------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and equivalents | \$2,178.5 | \$ 2,335.7 |
| Accounts and notes receivable | 1,277.3 | 1,334.7 |
| Inventories, at cost, not in excess of market | 109.1 | 116.8 |
| Prepaid expenses and other current assets | 643.0 | 615.8 |
| Total current assets | 4,207.9 | 4,403.0 |
| Other assets | | |
| Investments in and advances to affiliates | 1,460.3 | 1,427.0 |
| Goodwill | 2,744.2 | 2,653.2 |
| Miscellaneous | 1,660.4 | 1,672.2 |
| Total other assets | 5,864.9 | 5,752.4 |
| Property and equipment | | |
| Property and equipment, at cost | 37,320.2 | 35,737.6 |
| Accumulated depreciation and amortization | (13,568.5) | (12,903.1) |
| Net property and equipment | 23,751.7 | 22,834.5 |
| Total assets | \$33,824.5 | \$ 32,989.9 |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Accounts payable | \$833.6 | \$ 961.3 |
| Dividends payable | 770.0 | — |
| Income taxes | 123.6 | 262.2 |
| Other taxes | 374.6 | 338.1 |
| Accrued interest | 158.1 | 218.2 |
| Accrued payroll and other liabilities | 1,379.3 | 1,362.8 |
| Current maturities of long-term debt | 512.1 | 366.6 |
| Total current liabilities | 4,151.3 | 3,509.2 |
| Long-term debt | 12,752.0 | 12,133.8 |
| Other long-term liabilities | 1,557.1 | 1,612.6 |
| Deferred income taxes | 1,480.0 | 1,344.1 |
| 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 | 5,689.0 | 5,487.3 |
| Retained earnings | 37,882.5 | 36,707.5 |
| Accumulated other comprehensive income | 609.5 | 449.7 |
| Common stock in treasury, at cost; 656.6 and 639.2 million shares | (30,313.5) | (28,270.9) |
| Total shareholders' equity | 13,884.1 | 14,390.2 |
| Total liabilities and shareholders' equity | \$33,824.5 | \$ 32,989.9 |

See Notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME
(UNAUDITED)

| In millions, except per share data | Quarters Ended | | Nine Months Ended | |
|---|-----------------------|-----------|-----------------------|------------|
| | September 30, 2012 | 2011 | September 30, 2012 | 2011 |
| Revenues | | | | |
| Sales by Company-operated restaurants | \$4,838.4 | \$4,855.5 | \$13,944.1 | \$13,705.6 |
| Revenues from franchised restaurants | 2,314.0 | 2,310.8 | 6,670.8 | 6,477.7 |
| Total revenues | 7,152.4 | 7,166.3 | 20,614.9 | 20,183.3 |
| Operating costs and expenses | | | | |
| Company-operated restaurant expenses | 3,914.4 | 3,883.3 | 11,392.6 | 11,106.8 |
| Franchised restaurants—occupancy expenses | 383.4 | 376.2 | 1,134.3 | 1,103.5 |
| Selling, general & administrative expenses | 620.9 | 580.9 | 1,830.7 | 1,732.5 |
| Impairment and other charges (credits), net | 6.2 | (6.6) | 6.2 | (4.2) |
| Other operating (income) expense, net | (59.7) | (62.2) | (155.7) | (165.0) |
| Total operating costs and expenses | 4,865.2 | 4,771.6 | 14,208.1 | 13,773.6 |
| Operating income | 2,287.2 | 2,394.7 | 6,406.8 | 6,409.7 |
| Interest expense | 128.1 | 124.0 | 387.0 | 365.9 |
| Nonoperating (income) expense, net | 5.5 | 7.5 | 8.8 | 15.3 |
| Income before provision for income taxes | 2,153.6 | 2,263.2 | 6,011.0 | 6,028.5 |
| Provision for income taxes | 698.6 | 755.9 | 1,942.3 | 1,902.0 |
| Net income | \$1,455.0 | \$1,507.3 | \$4,068.7 | \$4,126.5 |
| Earnings per common share-basic | \$1.45 | \$1.47 | \$4.02 | \$3.98 |
| Earnings per common share-diluted | \$1.43 | \$1.45 | \$3.98 | \$3.94 |
| Dividends declared per common share | \$1.47 | \$1.31 | \$2.87 | \$2.53 |
| Weighted average shares outstanding-basic | 1,006.1 | 1,028.8 | 1,012.7 | 1,035.5 |
| Weighted average shares outstanding-diluted | 1,015.4 | 1,041.3 | 1,023.3 | 1,048.2 |
| Comprehensive income | \$1,779.7 | \$511.4 | \$4,228.5 | \$3,922.1 |
| See Notes to condensed consolidated financial statements. | | | | |

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| In millions | Quarters Ended | | Nine Months Ended | |
|--|-----------------------|-----------|-----------------------|------------|
| | September 30, 2012 | 2011 | September 30, 2012 | 2011 |
| Operating activities | | | | |
| Net income | \$1,455.0 | \$1,507.3 | \$4,068.7 | \$4,126.5 |
| Adjustments to reconcile to cash provided by operations | | | | |
| Charges and credits: | | | | |
| Depreciation and amortization | 371.9 | 358.3 | 1,102.5 | 1,047.5 |
| Deferred income taxes | 84.3 | 159.7 | 119.7 | 185.4 |
| Share-based compensation | 22.5 | 21.2 | 70.2 | 65.3 |
| Other | 32.0 | (1.4) | 4.3 | (51.0) |
| Changes in working capital items | 33.7 | 124.5 | (249.4) | (8.2) |
| Cash provided by operations | 1,999.4 | 2,169.6 | 5,116.0 | 5,365.5 |
| Investing activities | | | | |
| Capital expenditures | (753.2) | (692.3) | (2,053.6) | (1,791.4) |
| Sales and purchases of restaurant businesses and property sales | 47.8 | 54.1 | 110.7 | 252.8 |
| Other | (18.3) | (61.6) | (63.8) | (133.5) |
| Cash used for investing activities | (723.7) | (699.8) | (2,006.7) | (1,672.1) |
| Financing activities | | | | |
| Short-term borrowings and long-term financing issuances and repayments | (379.3) | 420.2 | 791.1 | 935.5 |
| Treasury stock purchases | (651.0) | (874.8) | (2,234.2) | (2,993.4) |
| Common stock dividends | (703.8) | (627.2) | (2,125.4) | (1,894.3) |
| Proceeds from stock option exercises | 83.3 | 79.5 | 233.0 | 265.4 |
| Excess tax benefit on share-based compensation | 33.0 | 25.8 | 101.6 | 83.2 |
| Other | (0.3) | (1.8) | (9.3) | (12.4) |
| Cash used for financing activities | (1,618.1) | (978.3) | (3,243.2) | (3,616.0) |
| Effect of exchange rates on cash and cash equivalents | 36.3 | (172.7) | (23.3) | (75.6) |
| Cash and equivalents increase (decrease) | (306.1) | 318.8 | (157.2) | 1.8 |
| Cash and equivalents at beginning of period | 2,484.6 | 2,070.0 | 2,335.7 | 2,387.0 |
| Cash and equivalents at end of period | \$2,178.5 | \$2,388.8 | \$2,178.5 | \$2,388.8 |
| 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, 2011 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, 2012 do not necessarily indicate the results that may be expected for the full year.

Restaurant Information

The following table presents restaurant information by ownership type:

| | | |
|------------------------------|--------|--------|
| Restaurants at September 30, | 2012 | 2011 |
| Conventional franchised | 19,673 | 19,367 |
| Developmental licensed | 4,143 | 3,803 |
| Foreign affiliated | 3,654 | 3,581 |
| Total Franchised | 27,470 | 26,751 |
| Company-operated | 6,540 | 6,393 |
| Systemwide restaurants | 34,010 | 33,144 |

The results of operations of restaurant businesses purchased and sold in transactions with franchisees were not material either individually or in the aggregate to the condensed consolidated financial statements for the periods prior to purchase and sale.

Comprehensive Income

The following table presents the components of comprehensive income for the quarters and nine months 2012 and 2011:

| In millions | Quarters Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| Net income | \$1,455.0 | \$1,507.3 | \$4,068.7 | \$4,126.5 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments, net of hedging | 316.1 | (992.1) | 142.0 | (218.5) |
| Cash flow hedging adjustments | 7.8 | (4.6) | 15.8 | (8.6) |
| Pension liability adjustment | 0.8 | 0.8 | 2.0 | 22.7 |
| Total other comprehensive income (loss) | 324.7 | (995.9) | 159.8 | (204.4) |
| Total comprehensive income | \$1,779.7 | \$511.4 | \$4,228.5 | \$3,922.1 |

In June 2011, the Financial Accounting Standards Board issued an update to Topic 220—Comprehensive Income of the Accounting Standards Codification (ASC). The update is intended to increase the prominence of other comprehensive income in the financial statements. The guidance requires that the Company presents components of comprehensive income in either one continuous statement or two separate consecutive statements and no longer permits the presentation of comprehensive income in the Consolidated statement of shareholders' equity. The Company adopted this new guidance effective January 1, 2012, as required, and included comprehensive income in the Condensed consolidated statement of net income and comprehensive income (unaudited) for interim reporting.

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 9.3 million shares and 12.5 million shares for the quarters 2012 and 2011, respectively, and 10.6 million shares and 12.7 million shares for the nine months 2012 and 2011, respectively. Stock options that would have been antidilutive and therefore were not included in the calculation

of diluted weighted-average shares totaled 4.7 million shares for the quarter and nine months 2012 and none for the quarter and nine months 2011.

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Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis, and certain non-financial assets and liabilities on a nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Fair value disclosures are reflected in a three-level hierarchy, maximizing the use of observable inputs and minimizing the use of unobservable inputs.

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

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

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

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

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

Certain Financial Assets and Liabilities Measured at Fair Value

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

| In millions | Level 1 | Level 2 | Level 3 | Carrying Value |
|---------------------------------|---------|-----------|---------|----------------|
| September 30, 2012 | | | | |
| Cash equivalents | \$346.1 | | | \$346.1 |
| Investments | 157.0 * | | | 157.0 |
| Derivative assets | 137.0 * | \$76.7 | | 213.7 |
| Total assets at fair value | \$640.1 | \$76.7 | | \$716.8 |
| Derivative liabilities | | \$(18.0) | | \$(18.0) |
| Total liabilities at fair value | | \$(18.0) | | \$(18.0) |
| December 31, 2011 | | | | |
| Cash equivalents | \$581.7 | | | \$581.7 |
| Investments | 132.4 * | | | 132.4 |
| Derivative assets | 154.5 * | \$71.1 | | 225.6 |
| Total assets at fair value | \$868.6 | \$71.1 | | \$939.7 |
| Derivative liabilities | | \$(15.6) | | \$(15.6) |
| Total liabilities at fair value | | \$(15.6) | | \$(15.6) |

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

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, 2012, no material fair value adjustments or fair value

measurements were required for non-financial assets or liabilities.

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At September 30, 2012, the fair value of the Company's debt obligations was estimated at \$15.4 billion, compared to a carrying amount of \$13.3 billion. The fair value was based on quoted market prices, Level 2 within the valuation hierarchy. The carrying amount for both cash and equivalents and notes receivable approximate fair value.

Financial Instruments and Hedging Activities

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 swaps, foreign currency forwards, foreign currency options, cross-currency swaps, and commodity forwards, further explained in the "Fair Value," "Cash Flow" and "Net Investment" hedge sections.

The Company also enters into certain derivatives that are not designated as hedging instruments. The Company has entered into equity 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 foreign currency forwards to mitigate the change in fair value of certain foreign currency denominated assets and liabilities. Since these derivatives are not designated for hedge accounting, the changes in the fair value of these derivatives are recognized immediately in nonoperating (income) expense together with the currency gain or loss from the hedged balance sheet position. A portion of the Company's foreign currency options (more fully described in the "Cash Flow" hedge 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 for hedge accounting) 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 | Derivative Assets | | Derivative Liabilities | | | |
|---|---|--------------------|------------------------|---------------------------------------|--------------------|-------------------|
| | Balance Sheet Classification | September 30, 2012 | December 31, 2011 | Balance Sheet Classification | September 30, 2012 | December 31, 2011 |
| Derivatives designated as hedging instruments | | | | | | |
| Foreign currency | Prepaid expenses and other current assets | \$ 6.9 | \$ 6.7 | Accrued payroll and other liabilities | \$(1.4) | \$(0.3) |
| Interest rate | Prepaid expenses and other current assets | 9.6 | 9.4 | | | |
| Commodity | Miscellaneous other assets | 13.4 | — | | | |
| Foreign currency | Miscellaneous other assets | 2.3 | 0.7 | Other long-term liabilities | (12.0) | (0.3) |
| Interest rate | Miscellaneous other assets | 39.7 | 46.0 | Other long-term liabilities | — | (14.0) |
| Total derivatives designated as hedging instruments | | \$ 109.9 | \$ 62.8 | | \$(13.4) | \$(14.6) |
| Derivatives not designated as hedging instruments | | | | | | |
| Foreign currency | Prepaid expenses and other current assets | \$ 4.8 | \$ 8.3 | Accrued payroll and other liabilities | \$(4.6) | \$(1.0) |
| Equity | Miscellaneous other assets | 137.0 | 154.5 | | | |
| | | \$ 141.8 | \$ 162.8 | | \$(4.6) | \$(1.0) |

Total derivatives not designated as hedging
instruments

| | | | | |
|----------------------|----------|----------|------------|------------|
| Total derivatives | \$ 213.7 | \$ 225.6 | \$ (18.0) | \$ (15.6) |
|----------------------|----------|----------|------------|------------|

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The following table presents the pretax amounts affecting income and OCI for the nine months 2012 and 2011, 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 | |
|---|--|----------|--|--|-------|
| | 2012 | 2011 | | 2012 | 2011 |
| Interest rate | \$(6.1) | \$(6.8) | Fixed-rate debt | \$6.1 | \$6.8 |

| 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) | |
|--|---|----------|---|----------|---|----------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Commodity | \$13.4 | \$— | \$— | \$— | \$— | \$— |
| Foreign currency | 5.1 | (4.3) | (7.6) | (3.2) | (10.8) | (6.1) |
| Interest rate ⁽¹⁾ | (4.6) | (10.5) | 0.4 | 1.7 | — | — |
| Total | \$13.9 | \$(14.8) | \$(7.2) | \$(1.5) | \$(10.8) | \$(6.1) |

| Net Investment Hedging Relationships | Gain (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion) | | Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | | Derivatives Not Designated as Hedging Instruments | Gain (Loss) Recognized in Income on Derivative | |
|---|---|----------|---|----------|---|--|----------|
| | 2012 | 2011 | 2012 | 2011 | | 2012 | 2011 |
| Foreign currency denominated debt | \$34.8 | \$(73.6) | \$— | \$— | Foreign Currency | \$(9.0) | \$(5.6) |
| Foreign currency derivatives ⁽²⁾ | (9.5) | (9.4) | — | (8.2) | Equity ⁽³⁾ | (11.5) | 16.9 |
| Total | \$25.3 | \$(83.0) | \$— | \$(8.2) | Interest Rate Total | — | 1.5 |
| | | | | | | \$(20.5) | \$12.8 |

Gains (losses) recognized in income on derivatives are recorded in “Nonoperating (income) expense, net” 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) reclassified from accumulated OCI into income is recorded in Impairment and other charges (credits), net.

(3) 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 Hedges

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 swaps that convert a portion of its fixed-rate debt into floating-rate debt. All of the Company’s interest rate swaps meet the shortcut method requirements.

Accordingly, changes in the fair values of the interest rate swaps 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 swaps designated as fair value hedges for the nine months 2012. A total of \$1.9 billion of the Company’s outstanding fixed-rate debt was

effectively converted to floating-rate debt resulting from the use of interest rate swaps.

Cash Flow Hedges

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 swaps, foreign currency forwards, foreign currency options, cross currency swaps, and commodity forwards.

The Company periodically uses interest rate swaps to effectively convert a portion of floating-rate debt, including forecasted debt issuances, into fixed-rate debt and the agreements are intended to reduce the impact of interest rate changes on future interest expense. At September 30, 2012, none of the Company's anticipated debt issuances were effectively converted to fixed-rate resulting from the use of interest rate swaps.

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

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

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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 collars, which limit the potential gains and lower the upfront premium paid, to protect against currency movements.

The hedges cover the next 18 months for certain exposures and are denominated in various currencies. As of September 30, 2012, the Company had derivatives outstanding with an equivalent notional amount of \$623.1 million that were used to hedge a portion of forecasted foreign currency denominated royalties.

The Company excludes the time value of foreign currency options 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 cash flow hedging 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 uses cross-currency swaps to hedge the risk of cash flows associated with certain foreign-currency denominated debt, including forecasted interest payments, and has elected cash flow hedge accounting. The hedges cover periods up to 54 months and have an equivalent notional amount of \$199.6 million.

The Company manages its exposure to the variability of cash flows for energy-related transactions in certain markets by entering into commodity forwards and has elected cash flow hedge accounting as appropriate. The hedges cover periods up to 22 years and have an equivalent notional amount of \$490.5 million.

The Company recorded after tax adjustments to the cash flow hedging component of accumulated OCI in shareholders' equity. The Company recorded a net increase of \$15.8 million for the nine months 2012 and a net decrease of \$8.6 million for the nine months 2011. Based on interest rates, foreign exchange rates, and commodity prices at September 30, 2012, the \$20.4 million in cumulative cash flow hedging gains, after tax, at September 30, 2012, is not expected to have a significant effect on earnings over the next 12 months.

Net Investment Hedges

The Company uses foreign currency denominated debt (third party and intercompany) and derivatives 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 are also recorded in OCI. As of September 30, 2012, a total of \$4.1 billion of the Company's foreign currency denominated debt and \$514.9 million million of derivatives were 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, 2012 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, 2012, 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.

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Segment Information

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

| In millions | Quarters Ended | | Nine Months Ended | |
|-----------------------------|----------------|-----------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Revenues | | | | |
| U.S. | \$2,256.5 | \$2,229.9 | \$6,601.1 | \$6,324.4 |
| Europe | 2,793.1 | 2,904.2 | 8,069.8 | 8,166.7 |
| APMEA | 1,693.6 | 1,601.6 | 4,798.1 | 4,511.8 |
| Other Countries & Corporate | 409.2 | 430.6 | 1,145.9 | 1,180.4 |
| Total revenues | \$7,152.4 | \$7,166.3 | \$20,614.9 | \$20,183.3 |
| Operating Income | | | | |
| U.S. | \$973.8 | \$986.8 | \$2,817.2 | \$2,731.8 |
| Europe | 848.7 | 917.1 | 2,355.2 | 2,425.8 |
| APMEA | 443.2 | 431.2 | 1,185.9 | 1,144.8 |
| Other Countries & Corporate | 21.5 | 59.6 | 48.5 | 107.3 |
| Total operating income | \$2,287.2 | \$2,394.7 | \$6,406.8 | \$6,409.7 |
| Subsequent Events | | | | |

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

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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 34,010 restaurants in 119 countries at September 30, 2012, 27,470 were licensed to franchisees (including 19,673 franchised to conventional franchisees, 4,143 licensed to developmental licensees and 3,654 licensed to foreign affiliates (affiliates) – primarily Japan) and 6,540 were operated by the Company. Under our conventional franchise arrangement, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and décor of their restaurant businesses, and by reinvesting in the business over time. The Company owns the land and building or secures long-term leases for both Company-operated and conventional franchised restaurant sites. This maintains long-term occupancy rights, helps control related costs and assists in alignment with franchisees. In certain circumstances, the Company participates in reinvestment for conventional franchised restaurants. Under our developmental license arrangement, licensees provide capital for the entire business, including the real estate interest, and the Company has no capital invested. In addition, the Company has an equity investment in a limited number of affiliates that invest in real estate and operate and/or franchise restaurants within a market.

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

The Company’s revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales along with minimum rent payments, and initial fees. Revenues from restaurants licensed to affiliates and developmental licensees include a royalty based on a percent of sales, and generally include initial fees. Fees vary by type of site, amount of Company investment, if any, and local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise/license agreements that generally have 20-year terms.

The business is managed as distinct geographic segments. Significant reportable segments include the United States (U.S.), Europe, and Asia/Pacific, Middle East and Africa (APMEA). In addition, throughout this report we present “Other Countries & Corporate” that includes operations in Canada and Latin America, as well as Corporate activities. For the nine months ended September 30, 2012, the U.S., Europe and APMEA segments accounted for 32%, 39% and 23% of total revenues, respectively.

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. 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 concentrates on being better, not just bigger—provides a common framework for our global business while allowing for local adaptation. Through the execution of multiple initiatives surrounding the five elements of our Plan to Win—People, Products, Place, Price and Promotion—we have enhanced the restaurant experience for customers worldwide and grown comparable sales and customer visits in each of the last eight years. This Plan, combined with financial discipline, has delivered strong results for our shareholders.

The Company’s growth priorities under the Plan to Win include: optimizing the menu with the right food and beverage offerings, modernizing the customer experience by upgrading nearly every aspect of our restaurants from service to designs, and broadening our accessibility through continued convenience and value initiatives. The combination of all of these efforts drove increases in comparable sales and customer visits in many countries despite global economic and competitive challenges and a relatively flat or contracting Informal Eating Out (IEO) market. Overall results also

reflected sales and cost pressures, some of which were the result of planned strategic decisions, including actions taken to enhance our value platforms, and invest in technology and our Olympic sponsorship.

We expect our revenues and operating income will remain under pressure at least for the next few quarters. Our near-term focus is on increasing guest counts and market share by emphasizing exceptional value across the menu, including products offered at an affordable entry price point that may negatively impact average check. We plan to build on this foundation by featuring premium products and promotions that encourage purchases of higher margin products and generate a higher average check.

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Every area of the world contributed to global comparable sales, which increased 1.9% and 4.1% for the quarter and nine months 2012, respectively. On a consolidated basis, comparable guest counts increased 2.2% for the nine months 2012. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. Generally, our goal is to achieve a balanced contribution from both guest counts and average check.

U.S. comparable sales increased 1.2% for the quarter and 4.4% for the nine months amid broad competitive activity. During both periods, the U.S. showcased beverages, breakfast and classic core favorites; featured everyday value; and continued to upgrade McDonald's existing restaurant base with fresh, modern designs. Ongoing U.S. initiatives include optimizing the menu with premium product additions; modernizing our restaurants through reimaging and technology enhancements; and broadening accessibility with all-day everyday value and expanded operating hours. Europe's emphasis on everyday affordability, premium product innovation and restaurant reimaging contributed to 1.8% comparable sales growth for the quarter and 3.4% for the nine months. Europe's strategic priorities include increasing local relevance by providing value across the menu complemented by a variety of promotional food events; enhancing the customer experience through ongoing restaurant reimaging and technology initiatives; and reducing our impact on the environment with energy management tools.

APMEA's comparable sales increase of 1.4% for the quarter and 2.5% for the nine months reflected the segment's unique value platforms, menu variety and convenience strategies. APMEA will continue efforts to become our customers' first choice for eating out by providing compelling value and menu variety and by focusing on the restaurant experience through convenience initiatives, such as expanding delivery service and extended operating hours. In addition, APMEA will grow by opening approximately 750 new restaurants, reimaging existing restaurants and elevating customer service and operations to drive efficiencies.

Highlights from the Quarter and Nine Months 2012 Included:

- Global comparable sales increased 1.9% for the quarter and 4.1% for the nine months, with positive comparable sales in each geographic segment.

- Consolidated revenues were flat (up 4% in constant currencies) for the quarter and increased 2% (6% in constant currencies) for the nine months.

- Consolidated operating income decreased 4% (flat in constant currencies) for the quarter and were flat (increased 4% in constant currencies) for the nine months.

Diluted earnings per share were \$1.43 for the quarter and \$3.98 for the nine months, decreased 1% (increased 4% in constant currencies) and up 1% (5% in constant currencies), respectively. Foreign currency translation negatively impacted diluted earnings per share by \$0.08 for the quarter and \$0.16 for the nine months.

- For the nine months, the Company repurchased 24.1 million shares for \$2.3 billion and paid total dividends of \$2.1 billion.

- The quarterly cash dividend increased 10% to \$0.77 per share - the equivalent of \$3.08 annually - effective for the fourth quarter 2012.

Outlook

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

Changes in Systemwide sales are driven by comparable sales and net restaurant unit expansion. The Company expects net restaurant additions to add approximately 2 percentage points to 2012 Systemwide sales growth (in constant currencies), most of which will be due to the 872 net traditional restaurants added in 2011.

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 3-4 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 2012, the total basket of goods cost is expected to increase 3.5-4.5% in the U.S. and 2.5-3.5% in Europe.

- The Company expects full-year 2012 selling, general & administrative expenses to increase approximately 6% in constant currencies, driven by certain technology investments, primarily to accelerate future restaurant capabilities,

and costs related to the 2012 Worldwide Owner/Operator Convention in the second quarter and the 2012 London Olympics in the third quarter. The Company expects the magnitude of the increase to be confined to 2012.

Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full year 2012 to increase between 4% and 6% compared with 2011.

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A significant part of the Company's operating income is generated outside the U.S., and about 35% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 65% of the Company's operating income outside the U.S. If all four of these currencies moved by 10% in the same direction, the Company's annual diluted earnings per share would change by about 24 cents.

The Company expects the effective income tax rate for the full-year 2012 to be 31% to 33%. 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 2012 to be approximately \$2.9 billion. About half of this amount will be used to open new restaurants. The Company expects to open more than 1,300 restaurants including about 450 restaurants in affiliated and developmental licensee markets, such as Japan and Latin America, where the Company does not fund any capital expenditures. The Company expects net additions of about 900 restaurants. The remaining capital will be used for reinvestment in existing restaurants. Nearly half of this reinvestment will be used to reimage more than 2,400 locations worldwide, some of which will require no capital investment from the Company.

The Following Definitions Apply to these Terms as Used Throughout this Form 10-Q:

Information in constant currency is calculated by translating current year results at prior year average exchange rates.

Management reviews and analyzes business results excluding the effect of foreign currency translation and bases incentive compensation plans on these results because they believe this better represents the Company's underlying business trends.

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

Comparable sales represent sales at all restaurants and comparable guest counts represent the number of transactions at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimagining or remodeling, rebuilding, road construction and natural disasters. Comparable sales exclude the impact of currency translation. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. 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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| Dollars in millions, except per share data | Quarter Ended September 30, 2012 | | Nine Months Ended September 30, 2012 | |
|---|-------------------------------------|---------------------------|---|---------------------------|
| | Amount | % Increase/ (Decrease) | Amount | % Increase/ (Decrease) |
| Revenues | | | | |
| Sales by Company-operated restaurants | \$4,838.4 | 0 | \$13,944.1 | 2 |
| Revenues from franchised restaurants | 2,314.0 | 0 | 6,670.8 | 3 |
| Total revenues | 7,152.4 | 0 | 20,614.9 | 2 |
| Operating costs and expenses | | | | |
| Company-operated restaurant expenses | 3,914.4 | 1 | 11,392.6 | 3 |
| Franchised restaurants—occupancy expenses | 383.4 | 2 | 1,134.3 | 3 |
| Selling, general & administrative expenses | 620.9 | 7 | 1,830.7 | 6 |
| Impairment and other charges (credits), net | 6.2 | n/m | 6.2 | n/m |
| Other operating (income) expense, net | (59.7) | 4 | (155.7) | 6 |
| Total operating costs and expenses | 4,865.2 | 2 | 14,208.1 | 3 |
| Operating income | 2,287.2 | (4) | 6,406.8 | 0 |
| Interest expense | 128.1 | 3 | 387.0 | 6 |
| Nonoperating (income) expense, net | 5.5 | (25) | 8.8 | (42) |
| Income before provision for income taxes | 2,153.6 | (5) | 6,011.0 | 0 |
| Provision for income taxes | 698.6 | (8) | 1,942.3 | 2 |
| Net income | \$1,455.0 | (3) | \$4,068.7 | (1) |
| Earnings per common share-basic | \$1.45 | (1) | \$4.02 | 1 |
| Earnings per common share-diluted | \$1.43 | (1) | \$3.98 | 1 |
| 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-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 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

Dollars in millions, except per share data

| | | | Currency Translation Benefit/ (Cost) |
|--|-----------|-----------|---|
| Quarters Ended September 30, | 2012 | 2011 | 2012 |
| Revenues | \$7,152.4 | \$7,166.3 | \$ (317.0) |
| Company-operated margins | 924.0 | 972.2 | (44.5) |
| Franchised margins | 1,930.6 | 1,934.6 | (84.0) |
| Selling, general & administrative expenses | 620.9 | 580.9 | 17.1 |
| Operating income | 2,287.2 | 2,394.7 | (111.5) |
| Net income | 1,455.0 | 1,507.3 | (73.9) |
| Earnings per share-diluted | 1.43 | 1.45 | (0.08) |

| | | | Currency Translation Benefit/ (Cost) |
|--|------------|------------|---|
| Nine Months Ended September 30, | 2012 | 2011 | 2012 |
| Revenues | \$20,614.9 | \$20,183.3 | \$ (724.9) |
| Company-operated margins | 2,551.5 | 2,598.8 | (99.2) |
| Franchised margins | 5,536.5 | 5,374.2 | (185.8) |
| Selling, general & administrative expenses | 1,830.7 | 1,732.5 | 40.4 |
| Operating income | 6,406.8 | 6,409.7 | (244.7) |
| Net income | 4,068.7 | 4,126.5 | (167.5) |
| Earnings per share-diluted | 3.98 | 3.94 | (0.16) |

Foreign currency translation had a negative impact on consolidated operating results for the quarter and nine months primarily due to the weaker Euro, along with most other currencies.

Net Income and Diluted Earnings per Common Share

For the quarter, net income decreased 3% (increased 1% in constant currencies) to \$1,455.0 million and diluted earnings per share decreased 1% (increased 4% in constant currencies) to \$1.43. Foreign currency translation had a negative impact of \$0.08 per share on diluted earnings per share.

For the nine months, net income decreased 1% (increased 3% in constant currencies) to \$4,068.7 million and diluted earnings per share increased 1% (5% in constant currencies) to \$3.98. Foreign currency translation had a negative impact of \$0.16 per share on diluted earnings per share.

For the quarter and nine months, net income and diluted earnings per share growth in constant currencies were positively impacted by franchised margin dollars and a decrease in diluted weighted average shares outstanding, partly offset by higher selling, general and administrative expenses. The quarter also benefited from a lower effective income tax rate, while the nine months were negatively impacted by a higher effective income tax rate.

During the quarter, the Company repurchased 6.7 million shares of its stock for \$596.8 million, bringing total repurchases for the nine months to 24.1 million shares or \$2.3 billion. In addition, the Company paid a quarterly dividend of \$0.70 per share or \$703.8 million, bringing the total dividends paid for the nine months to \$2.1 billion. The Company also declared a fourth quarter 2012 dividend of \$0.77 per share, reflecting an increase of 10%, and expects total cash returned to shareholders to be at least \$5.5 billion for 2012.

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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, | 2012 | 2011 | % Inc/ (Dec) | % Inc/ (Dec) Excluding Currency Translation |
|--|------------|------------|-----------------|---|
| Company-operated sales | | | | |
| U.S. | \$1,152.6 | \$1,153.7 | 0 | 0 |
| Europe | 2,029.4 | 2,088.0 | (3) | 7 |
| APMEA | 1,423.6 | 1,353.6 | 5 | 6 |
| Other Countries & Corporate | 232.8 | 260.2 | (11) | (9) |
| Total | \$4,838.4 | \$4,855.5 | 0 | 4 |
| Franchised revenues | | | | |
| U.S. | \$1,103.9 | \$1,076.2 | 3 | 3 |
| Europe | 763.7 | 816.2 | (6) | 4 |
| APMEA | 270.0 | 248.0 | 9 | 11 |
| Other Countries & Corporate | 176.4 | 170.4 | 4 | 10 |
| Total | \$2,314.0 | \$2,310.8 | 0 | 5 |
| Total revenues | | | | |
| U.S. | \$2,256.5 | \$2,229.9 | 1 | 1 |
| Europe | 2,793.1 | 2,904.2 | (4) | 6 |
| APMEA | 1,693.6 | 1,601.6 | 6 | 7 |
| Other Countries & Corporate | 409.2 | 430.6 | (5) | (2) |
| Total | \$7,152.4 | \$7,166.3 | 0 | 4 |
| Nine Months Ended September 30, | | | | |
| | 2012 | 2011 | % Inc/ (Dec) | % Inc/ (Dec) Excluding Currency Translation |
| Company-operated sales | | | | |
| U.S. | \$3,394.6 | \$3,285.0 | 3 | 3 |
| Europe | 5,858.6 | 5,895.0 | (1) | 8 |
| APMEA | 4,032.5 | 3,809.3 | 6 | 6 |
| Other Countries & Corporate | 658.4 | 716.3 | (8) | (6) |
| Total | \$13,944.1 | \$13,705.6 | 2 | 5 |
| Franchised revenues | | | | |
| U.S. | \$3,206.5 | \$3,039.4 | 5 | 5 |
| Europe | 2,211.2 | 2,271.7 | (3) | 6 |
| APMEA | 765.6 | 702.5 | 9 | 10 |

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| | | | | |
|-----------------------------|------------|------------|----|-----|
| Other Countries & Corporate | 487.5 | 464.1 | 5 | 11 |
| Total | \$6,670.8 | \$6,477.7 | 3 | 6 |
| Total revenues | | | | |
| U.S. | \$6,601.1 | \$6,324.4 | 4 | 4 |
| Europe | 8,069.8 | 8,166.7 | (1 |) 7 |
| APMEA | 4,798.1 | 4,511.8 | 6 | 6 |
| Other Countries & Corporate | 1,145.9 | 1,180.4 | (3 |) 1 |
| Total | \$20,614.9 | \$20,183.3 | 2 | 6 |

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Consolidated revenues were flat (increased 4% in constant currencies) for the quarter and increased 2% (6% in constant currencies) for the nine months. The constant currency growth was driven primarily by positive comparable sales and expansion.

In the U.S., revenues increased for the quarter and nine months due to positive comparable sales. Everyday value offerings, menu variety and the enhanced customer experience provided by reimaged restaurants contributed to results, despite broad competitive activity.

In Europe, the constant currency increases in revenues for the quarter and nine months were primarily driven by strong comparable sales in Russia (which is entirely Company-operated) and the U.K., as well as expansion in Russia. France also contributed to the increase in revenues for both periods.

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

The following table presents the percent change in comparable sales for the quarters and nine months 2012 and 2011:
COMPARABLE SALES

| | % Increase | | | |
|-----------------------------|----------------|------|-------------------|------|
| | Quarters Ended | | Nine Months Ended | |
| | September 30, | | September 30, * | |
| | 2012 | 2011 | 2012 | 2011 |
| U.S. | 1.2 | 4.4 | 4.4 | 4.0 |
| Europe | 1.8 | 4.9 | 3.4 | 5.5 |
| APMEA | 1.4 | 3.4 | 2.5 | 3.9 |
| Other Countries & Corporate | 5.5 | 11.4 | 8.5 | 9.9 |
| Total | 1.9 | 5.0 | 4.1 | 4.9 |

* On a consolidated basis, comparable guest counts increased 2.2% and 3.4% for the nine months 2012 and 2011, respectively.

The following table presents the percent change in Systemwide sales for the quarter and nine months 2012:

SYSTEMWIDE SALES

| | Quarter Ended | | Nine Months Ended | |
|-----------------------------|--------------------|--------------------------------|--------------------|--------------------------------|
| | September 30, 2012 | | September 30, 2012 | |
| | % Inc | | % Inc | |
| | % Inc/ (Dec) | Excluding Currency Translation | % Inc/ (Dec) | Excluding Currency Translation |
| U.S. | 2 | 2 | 5 | 5 |
| Europe | (5) |)5 | (2) |)6 |
| APMEA | 4 | 6 | 7 | 7 |
| Other Countries & Corporate | 0 | 8 | 4 | 11 |
| Total | 0 | 4 | 3 | 6 |

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

FRANCHISED SALES

Dollars in millions

| Quarters Ended September 30, | 2012 | 2011 | % Inc/ (Dec) | % Inc Excluding Currency Translation |
|------------------------------|------------|------------|-----------------|---|
| U.S. | \$7,985.0 | \$7,802.5 | 2 | 2 |
| Europe | 4,351.4 | 4,653.8 | (6) |)4 |
| APMEA | 3,551.2 | 3,426.9 | 4 | 6 |
| Other Countries & Corporate | 2,090.5 | 2,070.7 | 1 | 10 |
| Total* | \$17,978.1 | \$17,953.9 | 0 | 4 |

| Nine Months Ended September 30, | 2012 | 2011 | % Inc/ (Dec) | % Inc Excluding Currency Translation |
|---------------------------------|------------|------------|-----------------|---|
| U.S. | \$23,282.6 | \$22,081.3 | 5 | 5 |
| Europe | 12,577.9 | 12,934.7 | (3) |)6 |
| APMEA | 10,180.4 | 9,530.1 | 7 | 7 |
| Other Countries & Corporate | 5,935.0 | 5,647.7 | 5 | 13 |
| Total* | \$51,975.9 | \$50,193.8 | 4 | 7 |

Sales from developmental licensed restaurants or foreign affiliated markets where the Company earns a royalty based on a percent of sales were \$4,032.1 million and \$4,105.8 million for the quarters 2012 and 2011, respectively, *and \$11,586.1 million and \$11,034.0 million for the nine months 2012 and 2011, 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.

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Restaurant Margins

FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS

Dollars in millions

| Quarters Ended September 30, | Percent | | Amount | | % Inc/ (Dec) | % Inc/ (Dec) Excluding Currency Translation |
|--|---------|------|-----------|-----------|-----------------|---|
| | 2012 | 2011 | 2012 | 2011 | | |
| Franchised | | | | | | |
| U.S. | 84.1 | 84.5 | \$928.8 | \$909.6 | 2 | 2 |
| Europe | 79.7 | 80.1 | 608.8 | 653.6 | (7) | 4 |
| APMEA | 89.1 | 89.9 | 240.7 | 223.0 | 8 | 10 |
| Other Countries & Corporate | 86.3 | 87.0 | 152.3 | 148.4 | 3 | 10 |
| Total | 83.4 | 83.7 | \$1,930.6 | \$1,934.6 | 0 | 4 |
| Company-operated | | | | | | |
| U.S. | 19.8 | 21.1 | \$228.2 | \$244.0 | (6) | (6) |
| Europe | 20.4 | 20.9 | 415.0 | 435.5 | (5) | 5 |
| APMEA | 16.9 | 18.4 | 240.2 | 248.5 | (3) | (3) |
| Other Countries & Corporate | 17.5 | 17.0 | 40.6 | 44.2 | (8) | (7) |
| Total | 19.1 | 20.0 | \$924.0 | \$972.2 | (5) | 0 |
| Percent | | | | | | |
| Amount | | | | | | |
| % Inc/ (Dec) | | | | | | |
| % Inc/ (Dec) Excluding Currency Translation | | | | | | |
| Nine Months Ended September 30, | 2012 | 2011 | 2012 | 2011 | % Inc/ (Dec) | % Inc/ (Dec) Excluding Currency Translation |
| Franchised | | | | | | |
| U.S. | 84.0 | 83.9 | \$2,692.0 | \$2,550.0 | 6 | 6 |
| Europe | 79.0 | 79.0 | 1,746.7 | 1,795.3 | (3) | 6 |
| APMEA | 88.8 | 89.4 | 680.0 | 627.8 | 8 | 9 |
| Other Countries & Corporate | 85.7 | 86.4 | 417.8 | 401.1 | 4 | 11 |
| Total | 83.0 | 83.0 | \$5,536.5 | \$5,374.2 | 3 | 6 |
| Company-operated | | | | | | |
| U.S. | 19.5 | 20.5 | \$661.1 | \$673.2 | (2) | (2) |
| Europe | 19.1 | 19.3 | 1,121.3 | 1,139.3 | (2) | 7 |
| APMEA | 16.3 | 17.6 | 659.2 | 671.8 | (2) | (2) |
| Other Countries & Corporate | 16.7 | 16.0 | 109.9 | 114.5 | (4) | (1) |
| Total | 18.3 | 19.0 | \$2,551.5 | \$2,598.8 | (2) | 2 |

Franchised margin dollars decreased \$4.0 million or 0% (increased 4% in constant currencies) for the quarter and increased \$162.3 million or 3% (6% in constant currencies) for the nine months.

In the U.S., the franchised margin percent decreased for the quarter and increased only modestly for the nine months as comparable sales performance was offset by higher depreciation related to reimaging.

In Europe, the franchised margin percent decreased for the quarter and was flat for the nine months as positive comparable sales were offset by higher rent expense.

In APMEA, while the franchised margin dollars increased for the quarter and nine months, the margin percent decreased for both periods primarily due to the 2012 change in classification of certain amounts from revenues to restaurant occupancy expenses in Australia. Although the change in classification results in a decrease to the franchised margin percentage, there is no impact on the reported franchised margin dollars.

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Company-operated margin dollars decreased \$48.2 million or 5% (flat in constant currencies) for the quarter and \$47.3 million or 2% (increased 2% in constant currencies) for the nine months.

In the U.S., the Company-operated margin percent for the quarter and nine months decreased as positive comparable sales were more than offset by higher commodity and labor costs.

In Europe, despite strong comparable sales in Russia and the U.K., the Company-operated margin percent decreased for the quarter and nine months primarily due to higher labor and commodity costs.

In APMEA, the Company-operated margin percent for the quarter and nine months decreased as positive comparable sales were more than offset by higher labor and occupancy costs. Higher commodity costs also negatively impacted the margin percent for the nine months. In addition, acceleration of new restaurant openings in China negatively impacted the margin percent for the quarter and nine months. Similar to other markets, new restaurants in China initially open with lower margins that grow significantly over time.

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 | | Nine Months Ended | |
|--------------------------------------|----------------|------|-------------------|------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Food & paper | 33.8 | 33.7 | 34.1 | 33.7 |
| Payroll & employee benefits | 24.7 | 24.5 | 25.2 | 25.2 |
| Occupancy & other operating expenses | 22.4 | 21.8 | 22.4 | 22.1 |
| Total expenses | 80.9 | 80.0 | 81.7 | 81.0 |
| Company-operated margins | 19.1 | 20.0 | 18.3 | 19.0 |

Selling, General & Administrative Expenses

Selling, general & administrative expenses increased 7% (10% in constant currencies) for the quarter and 6% (8% in constant currencies) for the nine months primarily due to higher employee costs, the 2012 London Olympics, and higher technology related costs. The nine months were further impacted by the 2012 Worldwide Owner/Operator Convention.

For the nine months, selling, general & administrative expenses as a percent of revenues increased to 8.9% for 2012 compared with 8.6% for 2011, and as a percent of Systemwide sales increased to 2.8% for 2012 compared with 2.7% for 2011.

Other Operating (Income) Expense, Net

OTHER OPERATING (INCOME) EXPENSE, NET

Dollars in millions

| | Quarters Ended | | Nine Months Ended | |
|--|----------------|-----------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Gains on sales of restaurant businesses | \$(38.6) | \$(15.8) | \$(79.6) | \$(42.4) |
| Equity in earnings of unconsolidated affiliates | (37.4) | (47.1) | (111.4) | (126.9) |
| Asset dispositions and other (income) expense, net | 16.3 | 0.7 | 35.3 | 4.3 |
| Total | \$(59.7) | \$(62.2) | \$(155.7) | \$(165.0) |

Gains on sales of restaurant businesses for the quarter and nine months increased primarily due to sales of restaurants in China to developmental licensees.

The decrease in equity in earnings of unconsolidated affiliates for the quarter and nine months reflects lower operating results in Japan and other markets, as well as fewer joint partnerships in the U.S.

Asset dispositions and other expense increased for the quarter and nine months primarily due to higher gains on unconsolidated partnership dissolutions in the U.S. in 2011.

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Operating Income
OPERATING INCOME
Dollars in millions

| Quarters Ended September 30, | 2012 | 2011 | % Inc/ (Dec) | % Inc/ (Dec) Excluding Currency Translation |
|---------------------------------|-----------|-----------|-----------------|---|
| | | | | |
| U.S. | \$973.8 | \$986.8 | (1) | (1) |
| Europe | 848.7 | 917.1 | (7) | 3 |
| APMEA | 443.2 | 431.2 | 3 | 4 |
| Other Countries & Corporate | 21.5 | 59.6 | (64) | (46) |
| Total | \$2,287.2 | \$2,394.7 | (4) | 0 |
| | | | | |
| Nine Months Ended September 30, | 2012 | 2011 | % Inc/ (Dec) | % Inc/ (Dec) Excluding Currency Translation |
| | | | | |
| U.S. | \$2,817.2 | \$2,731.8 | 3 | 3 |
| Europe | 2,355.2 | 2,425.8 | (3) | 6 |
| APMEA | 1,185.9 | 1,144.8 | 4 | 4 |
| Other Countries & Corporate | 48.5 | 107.3 | (55) | (30) |
| Total | \$6,406.8 | \$6,409.7 | 0 | 4 |

Consolidated operating income decreased 4% (flat in constant currencies) for the quarter and was flat (increased 4% in constant currencies) for the nine months. The impact of the challenging global operating and economic environment, evolving value offerings and increased costs pressured operating income for both periods.

In the U.S., operating results decreased for the quarter as higher franchised margin dollars were more than offset by lower Company-operated margin dollars and lower other operating income. Operating results increased for the nine months due to higher franchised margin dollars, partially offset by lower other operating income.

In Europe, constant currency operating results increased for the quarter and nine months driven by higher margin dollars, primarily due to stronger operating performance in Russia and the U.K. and, to a lesser extent, France. The quarter's operating results were partly offset by weaker performance in Germany. Operating results for both periods were negatively impacted by higher selling, general and administrative expenses, primarily due to the 2012 London Olympics.

In APMEA, constant currency operating results increased for the quarter and nine months primarily due to higher franchised margin dollars and gains on sales of restaurants in China to developmental licensees, offset by higher selling, general and administrative expenses mostly due to higher employee costs, and lower Company-operated margin dollars.

Combined Operating Margin

Combined operating margin is defined as operating income as a percent of total revenues. Combined operating margin was 31.1% and 31.8% for the nine months 2012 and 2011, respectively, as positive comparable sales were more than offset by higher restaurant expenses and planned increases in selling, general and administrative expenses.

Interest Expense

Interest expense increased 3% for the quarter and 6% for the nine months primarily due to higher average debt balances, partly offset by lower average interest rates.

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

| | Quarters Ended | | Nine Months Ended | |
|---------------------------------------|----------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Interest Income | \$(5.0) | \$(10.3) | \$(23.0) | \$(27.6) |
| Foreign currency and hedging activity | 0.8 | 6.5 | 8.4 | 7.6 |
| Other (income) expense, net | 9.7 | 11.3 | 23.4 | 35.3 |
| Total | \$5.5 | \$7.5 | \$8.8 | \$15.3 |

Income Taxes

The effective income tax rate was 32.4% and 33.4% for the quarters 2012 and 2011, respectively, and 32.3% and 31.6% for the nine months 2012 and 2011, respectively. The 2011 effective income tax rate for the quarter reflected a non-cash deferred tax cost related to certain foreign operations. The 2011 effective income tax rate for the nine months also reflected a non-cash deferred tax benefit related to certain foreign operations.

Cash Flows and Financial Position

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

Cash provided by operations totaled \$5.1 billion and exceeded capital expenditures by \$3.1 billion for the nine months 2012. Cash provided by operations decreased \$249.5 million compared with the nine months 2011 primarily due to higher income tax payments.

Cash used for investing activities totaled \$2.0 billion for the nine months 2012, an increase of \$334.6 million compared with the nine months 2011 primarily due to higher planned capital expenditures in the U.S. and lower proceeds from sales of restaurant businesses, partly offset by fewer purchases of restaurant businesses.

Cash used for financing activities totaled \$3.2 billion for the nine months 2012, a decrease of \$372.8 million compared with the nine months 2011, primarily due to lower treasury stock purchases, partly offset by higher dividend payments and lower net debt issuances.

Debt obligations at September 30, 2012 totaled \$13.3 billion compared with \$12.5 billion at December 31, 2011. The increase was primarily due to net debt issuances of \$791.1 million.

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Risk Factors and Cautionary Statement Regarding Forward-Looking Statements

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

Our business and execution of our strategic plan, the Plan to Win, are subject to risks. The most important of these is whether we can remain relevant to our customers and a brand they trust. Meeting customer expectations is complicated by the risks inherent in our global operating environment. The IEO segment of the restaurant industry, although largely mature in our major markets, is highly fragmented and competitive. The IEO segment has been flat or contracting in many of our markets, including some of our major markets, due to unfavorable global economic conditions, and this environment is expected to continue. Persistently high unemployment rates in many of these markets, and declining economic growth rates or recessionary conditions in some of them, have also increased consumer focus on value and heightened pricing sensitivity. Combined with pressure on labor and occupancy costs and volatility in commodity prices, as well as aggressive competitive activity, these circumstances affect restaurant sales and are expected to continue to pressure margins during 2012 in all of our geographic segments. We have the added challenge of the cultural, economic and regulatory differences that exist within and among the more than 100 countries where we operate. Initiatives we undertake may not have universal appeal among different segments of our customer base and can drive unanticipated changes in guest counts and customer perceptions. Our operations, plans and results are also affected by regulatory and similar initiatives around the world, notably the focus on nutritional content and the production, processing and preparation of food “from field to front counter,” as well as industry marketing practices.

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

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

The Plan to Win addresses the key drivers of our business and results-people, products, place, price and promotion.

The quality of our execution depends mainly on the following:

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

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

Our ability to drive restaurant improvements that achieve optimal capacity, particularly during peak mealtime hours, and to motivate our restaurant personnel and our franchisees to achieve consistency and high service levels so as to improve consumer perceptions of our ability to meet expectations for quality food served in clean and friendly environments;

The success of our tiered approach to menu offerings and our ability to introduce new offerings, as well as the impact of our competitors' actions, including in response to our menu changes, and our ability to continue robust menu development and manage the complexity of our restaurant operations;

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

The impact of pricing, marketing and promotional plans on sales and margins and our ability to adjust these plans to respond quickly to changing economic and heightened competitive conditions;
Whether we can complete our restaurant reimagining and rebuilding plans as and when projected and whether we are able to identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants, as well as sales and profitability targets;

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The costs and risks associated with our increasing reliance on a limited number of information systems (e.g., point-of-sale and other in-store systems or platforms) we make available to franchisees along with related services, including the risk that we will not realize fully the benefits of the significant investments we are making; the potential for system failures, programming errors, security breaches involving our systems or those of third-party system operators; legal and tax risks associated with providing these services to franchisees, including those relating to data protection and management; and litigation risk involving intellectual property rights or our rights and obligations to others under related contractual arrangements;

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

Our ability to respond effectively to adverse perceptions about the quick-service category of the IEO segment or about our products (including their nutritional content and preparation), promotions and premiums, such as Happy Meals (collectively, our products), how we source the commodities we use, and our ability to manage the potential impact on McDonald's of food-borne illnesses or product safety issues;

The impact of campaigns by non-governmental organizations and other activists or the use of social media and other mobile communications and applications to promote adverse perceptions of our operations or those of our suppliers, or to promote or threaten boycotts or other actions involving us or our suppliers, with significantly greater speed and scope than traditional media outlets;

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 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 personnel to manage our operations and growth; 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, and the prolonged challenging economic environment can be expected to continue to pressure our results.

Our results of operations are substantially affected by economic conditions, both globally and in local markets, and conditions can also vary substantially by market. The current global environment has been characterized by persistently weak economies, high unemployment rates, inflationary pressures and volatility in financial markets. Many major economies, both advanced and developing, are also facing significant economic issues. These include, in the U.S., concerns about the federal deficit and the expected adverse effects of the automatic spending cuts and increased income tax rates, which become effective in 2013 absent further legislation. The Eurozone debt crisis is ongoing and continues to depress consumer and business confidence and spending in many markets. Important markets in Asia, which have been key drivers of global growth, have been experiencing declining growth rates, in part due to the economic situation in Europe. Uncertainty about the long-term investment environment could further depress capital investment and economic activity.

These conditions are adversely affecting sales and/or guest counts in many of our markets, including some of our major markets. To mitigate their impact, we have intensified our focus on value as a driver of guest counts through menu, pricing and promotional actions. These actions have adversely affected our margin percent, and margins will remain under pressure. The key factors that can affect our operations, plans and results in this environment are the following:

- Whether our strategies will be effective in enabling the continued market share gains that we have included in our plans, while at the same time enabling us to achieve our targeted operating income growth despite the current adverse economic conditions, resurgent competitors and a more costly and competitive advertising environment;
 - The effectiveness of our supply chain management to assure reliable and sufficient product supply on favorable terms;
- The impact on consumer disposable income levels and spending habits of governmental actions to manage national economic matters, whether through austerity or stimulus measures and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers;

- The impact on restaurant sales and margins of ongoing commodity price volatility (including beef and gasoline), and the effectiveness of pricing, hedging and other actions taken to address this environment;
- The impact on our margins of labor costs given our labor-intensive business model, the long-term trend toward higher wages and social expenses in both mature and developing markets and any potential impact of union organizing efforts;
- The impact of foreign exchange and interest rates on our financial condition and results;

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The impact of an exit from the Eurozone by any of the EU Member States, which could entail disruption to business as the existing Member State establishes a new currency, risks to supply chain as suppliers address challenges associated with redenomination, contractual disputes over the proper payment currency, risks to repatriation of funds if capital controls are implemented, and increased foreign exchange risk;

The challenges and uncertainties associated with operating in developing markets, 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;

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

The increasing focus on workplace practices and conditions, which may drive changes in practices or in the general commercial and regulatory environment that affect perceptions of our business or our cost of doing business; and

The impact of changes in our debt levels on our credit ratings, interest expense, availability of acceptable counterparties, ability to obtain funding on favorable terms or our operating or financial flexibility, especially if lenders impose new operating or financial covenants.

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

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

The cost, compliance and other risks associated with the often conflicting and highly prescriptive regulations we face, especially in the United States where inconsistent standards imposed by local, state and federal authorities can adversely affect popular perceptions of our business and increase our exposure to litigation or governmental investigations or proceedings;

The impact of new, potential or changing regulation that can affect our business plans, such as those relating to product packaging, marketing and the nutritional content and safety of our food and other products, as well as the risks and costs of our labeling and other disclosure practices, particularly given varying legal requirements and practices for testing and disclosure within our industry, ordinary variations in food preparation among our own restaurants, and the need to rely on the accuracy and completeness of information from third-party suppliers;

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 impact of litigation trends, particularly in our major markets, including class actions, labor, employment and personal injury claims, franchisee litigation, landlord/tenant disputes and intellectual property claims (including often aggressive or opportunistic attempts to enforce patents used in information technology systems); the relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings; 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; and the scope and terms of insurance or indemnification protections that we may have;

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

The risks and costs to us, our franchisees and our supply chain of the effects of climate change, as well as of increased focus by U.S. and overseas governmental and non-governmental organizations on environmental sustainability matters (e.g., climate change, land use, energy and water resources, packaging and waste, and animal health and welfare) and the increased pressure to make commitments or set targets and take actions to meet them, which could expose the Company to market, operational and execution costs or risks, particularly when actions are undertaken Systemwide;

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, workplace conditions, healthcare, immigration, retirement and other employee benefits and unlawful workplace discrimination;

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

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The legal and compliance risks and costs associated with privacy, consumer data protection and similar laws, particularly as they apply to children, the potential costs (including the loss of consumer confidence) arising from alleged security breaches of our information systems, and the risk of criminal penalties or civil liability to consumers, employees or franchisees whose data is alleged to have been collected or used inappropriately; and

The impact of changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, changes in tax accounting or tax laws (or related authoritative interpretations), particularly if corporate tax reform becomes a key component of budgetary initiatives in the United States and elsewhere, and the impact of settlements of pending or any future adjustments proposed by the IRS or other taxing authorities in connection with our tax audits, all of which will depend on their timing, nature and scope.

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

Many factors affect the volatility and price of our common stock in addition to our operating results and prospects.

The most important of these, some of which are outside our control, are the following:

• The continuing unfavorable global economic and volatile market conditions;

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

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

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

• The impact of our stock repurchase program or dividend rate; and

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the disclosure made in our Annual Report on Form 10-K for the year ended December 31, 2011 regarding this matter.

Item 4. Controls and Procedures

An evaluation was conducted under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2012. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Such officers also confirm that there was no change in the Company's internal control over financial reporting during the quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

There were no material changes to the disclosure made in our Annual Report on Form 10-K for the year ended December 31, 2011 regarding these matters.

Item 1A. Risk Factors

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities*

The following table presents information related to repurchases of common stock the Company made during the nine months ended September 30, 2012:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾ | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾ |
|------------------------|----------------------------------|------------------------------|---|---|
| July 1 - 31, 2012 | 2,216,463 | \$89.48 | 2,216,463 | (1) |
| August 1 - 31, 2012 | 2,628,241 | 88.60 | 2,628,241 | \$ 9,767,148,708 |
| September 1 - 30, 2012 | 1,808,058 | 91.58 | 1,808,058 | 9,601,573,136 |
| Total | 6,652,762 | \$89.70 | 6,652,762 | (1) |

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.

On September 24, 2009, the Company's Board of Directors approved a share repurchase program that authorized the purchase of up to \$10 billion of the Company's outstanding common stock with no specified expiration date (2009 Program). On July 19, 2012, the Company's Board of Directors terminated the 2009 Program, effective July (1)31, 2012, and replaced it with a new share repurchase program, effective August 1, 2012 (2012 Program), that authorizes the purchase of up to \$10 billion of the Company's outstanding common stock with no specified expiration date. As of July 31, 2012, no further share repurchases may be made under the 2009 Program; future share repurchases will be made pursuant to the 2012 Program.

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Item 6. Exhibits

| Exhibit Number | Description |
|----------------|---|
| (3) | <ul style="list-style-type: none"> (a) Restated Certificate of Incorporation, effective as of June 14, 2012, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2012. (b) By-Laws, as amended and restated with effect as of July 19, 2012, incorporated herein by reference from Form 8-K, filed July 20, 2012. |
| (4) | <p>Instruments defining the rights of security holders, including Indentures:*</p> <ul style="list-style-type: none"> (a) Senior Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996. (b) Subordinated Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996. |
| (10) | <p>Material Contracts</p> <ul style="list-style-type: none"> (a) Directors' Deferred Compensation Plan, effective as of January 1, 2008, incorporated herein by reference from Form 8-K, filed December 4, 2007.** (b) McDonald's Excess Benefit and Deferred Bonus Plan, effective January 1, 2011, as amended and restated March 22, 2010, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2010.** (c) McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Form 10-K, for the year ended December 31, 2001.** <ul style="list-style-type: none"> (i) First Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of January 1, 2002, incorporated herein by reference from Form 10-K, for the year ended December 31, 2002.** (ii) Second Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective January 1, 2005, incorporated herein by reference from Form 10-K, for the year ended December 31, 2004.** (d) 1975 Stock Ownership Option Plan, as amended and restated July 30, 2001, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2001.** <ul style="list-style-type: none"> (i) First Amendment to McDonald's Corporation 1975 Stock Ownership Option Plan, as amended and restated, effective as of February 14, 2007, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2007.** (e) 1992 Stock Ownership Incentive Plan, as amended and restated January 1, 2001, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2001.** <ul style="list-style-type: none"> (i) |

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First Amendment to McDonald's Corporation 1992 Stock Ownership Incentive Plan, as amended and restated, effective as of February 14, 2007, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2007.**

- (f) McDonald's Corporation Executive Retention Replacement Plan, effective as of December 31, 2007 (as amended and restated on December 31, 2008), incorporated herein by reference from Form 10-K, for the year ended December 31, 2008.**
- (g) McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2009.**
 - (i) First amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-K, for the year ended December 31, 2008.**
 - (ii) Second Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan as amended, effective February 9, 2011, incorporated herein by reference from Form 10-K, for the year ended December 31, 2010.**
- (h) McDonald's Corporation 2012 Omnibus Stock Ownership Plan, effective June 1, 2012, filed herewith.**
- (i) Form of McDonald's Corporation Tier I Change of Control Employment Agreement, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2008.**

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| Exhibit Number | Description |
|----------------|---|
| (j) | McDonald's Corporation 2009 Cash Incentive Plan, effective as of May 27, 2009, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2009.** |
| (k) | Form of Executive Stock Option Grant Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Form 10-K, for the year ended December 31, 2011.** |
| (l) | Form of Executive Performance-based Restricted Stock Unit Award Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Form 10-K, for the year ended December 31, 2011.** |
| (m) | McDonald's Corporation Severance Plan, effective January 1, 2008, incorporated by reference from Form 8-K, filed December 4, 2007.** |
| (i) | First Amendment of McDonald's Corporation Severance Plan, effective as of October 1, 2008, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2008.** |
| (ii) | Second Amendment of McDonald's Corporation Severance Plan, effective as of December 5, 2011, incorporated herein by reference from Form 10-K, for the year ended December 31, 2011.** |
| (n) | Amended Assignment Agreement between Timothy Fenton and the Company, dated January 2008, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2008.** |
| (i) | 2009 Amendment to the Amended Assignment Agreement between Timothy Fenton and the Company, effective as of January 1, 2009, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2009.** |
| (o) | Description of Restricted Stock Units granted to Andrew J. McKenna, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2012** |
| (p) | Terms of the Restricted Stock Units granted pursuant to the Company's Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-K, for the year ended December 31, 2010.** |
| (q) | McDonald's Corporation Target Incentive Plan, effective as of January 1, 2008, incorporated herein by reference from Form 8-K, filed January 29, 2008.** |
| (r) | McDonald's Corporation Cash Performance Unit Plan 2010-2012, effective as of February 9, 2010, incorporated herein by reference from Form 8-K, filed February 16, 2010.** |
| (s) | Executive Supplement describing the special terms of equity compensation awards granted to certain executive officers, pursuant to the Company's Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Form |

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10-Q, for the quarter ended March 31, 2011.**

- (t) Transaction Settlement Agreement between Denis Hennequin and the Company dated December 20, 2010 incorporated herein by reference from Form 8-K, filed December 20, 2010.**

(12) Computation of Ratios.

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

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

**Denotes compensatory plan.

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SIGNATURE

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

McDONALD'S CORPORATION
(Registrant)

November 1, 2012

/s/ Peter J. Bensen
Peter J. Bensen
Corporate Executive Vice President and
Chief Financial Officer

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