

YUM BRANDS INC
Form 10-Q
July 22, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 for the quarterly period ended June 14, 2014

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 1-13163

YUM! BRANDS, INC.
(Exact name of registrant as specified in its charter)

North Carolina
(State or other jurisdiction of
incorporation or organization)

13-3951308
(I.R.S. Employer
Identification No.)

1441 Gardiner Lane, Louisville, Kentucky
(Address of principal executive offices)

40213
(Zip Code)

Registrant's telephone number, including area code: (502) 874-8300

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. Large accelerated filer: Accelerated filer: Non-accelerated filer: Smaller reporting company:

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

The number of shares outstanding of the Registrant's Common Stock as of July 16, 2014 was 439,649,074 shares.

YUM! BRANDS, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

YUM! BRANDS, INC. AND SUBSIDIARIES

(in millions, except per share data)

	Quarter ended		Year to date		
	6/14/2014	6/15/2013	6/14/2014	6/15/2013	
Revenues					
Company sales	\$2,758	\$2,474	\$5,050	\$4,573	
Franchise and license fees and income	446	430	878	866	
Total revenues	3,204	2,904	5,928	5,439	
Costs and Expenses, Net					
Company restaurant expenses					
Food and paper	886	805	1,611	1,485	
Payroll and employee benefits	620	590	1,113	1,080	
Occupancy and other operating expenses	824	769	1,457	1,365	
Company restaurant expenses	2,330	2,164	4,181	3,930	
General and administrative expenses	352	333	623	606	
Franchise and license expenses	34	34	67	64	
Closures and impairment (income) expenses	21	6	24	10	
Refranchising (gain) loss	(4) (32) (7) (49)
Other (income) expense	(8) 9	(10) 1	
Total costs and expenses, net	2,725	2,514	4,878	4,562	
Operating Profit	479	390	1,050	877	
Interest expense, net	29	32	62	63	
Income Before Income Taxes	450	358	988	814	
Income tax provision	112	82	251	202	
Net Income – including noncontrolling interests	338	276	737	612	
Net Income (loss) – noncontrolling interests	4	(5) 4	(6)
Net Income – YUM! Brands, Inc.	\$334	\$281	\$733	\$618	
Basic Earnings Per Common Share	\$0.75	\$0.62	\$1.64	\$1.36	
Diluted Earnings Per Common Share	\$0.73	\$0.61	\$1.61	\$1.33	
Dividends Declared Per Common Share	\$0.37	\$0.335	\$0.74	\$0.67	

See accompanying Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
YUM! BRANDS, INC. AND SUBSIDIARIES
(in millions)

	Quarter ended		Year to date	
	6/14/2014	6/15/2013	6/14/2014	6/15/2013
Net Income - including noncontrolling interests	\$338	\$276	\$737	\$612
Other comprehensive income (loss), net of tax				
Translation adjustments and gains (losses) from intra-entity transactions of a long-term investment nature				
Adjustments and gains (losses) arising during the year	(25	) 8	(62	) 3
Reclassification of adjustments and (gains) losses into Net Income	2	—	2	—
	(23	) 8	(60	) 3
Tax (expense) benefit	(1	) (1	) (3	) 6
	(24	) 7	(63	) 9
Changes in pension and post-retirement benefits				
Unrealized gains (losses) arising during the year	(5	) 8	(11) —
Reclassification of (gains) losses into Net Income	6	14	14	39
	1	22	3	39
Tax (expense) benefit	—	(8	) (1	) (16
	1	14	2	23
Changes in derivative instruments				
Unrealized gains (losses) arising during the year	(5	) 1	—	2
Reclassification of (gains) losses into Net Income	3	—	(1) —
	(2	) 1	(1	) 2
Tax (expense) benefit	—	(1	) —	(1
	(2	) —	(1	) 1
Other comprehensive income (loss), net of tax	(25	) 21	(62	) 33
Comprehensive Income - including noncontrolling interests	313	297	675	645
Comprehensive Income (loss) - noncontrolling interests	—	(3	) —	(4
Comprehensive Income - YUM! Brands, Inc.	\$313	\$300	\$675	\$649

See accompanying Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
YUM! BRANDS, INC. AND SUBSIDIARIES
(in millions)

	Year to date	
	6/14/2014	6/15/2013
Cash Flows – Operating Activities		
Net Income – including noncontrolling interests	\$737	\$612
Depreciation and amortization	320	300
Closures and impairment (income) expenses	24	10
Refranchising (gain) loss	(7	) (49
Deferred income taxes	(10	) (5
Equity income from investments in unconsolidated affiliates	(22	) (4
Distributions of income received from unconsolidated affiliates	7	12
Excess tax benefits from share-based compensation	(25	) (24
Share-based compensation expense	25	21
Changes in accounts and notes receivable	12	4
Changes in inventories	5	1
Changes in prepaid expenses and other current assets	(11	) (8
Changes in accounts payable and other current liabilities	(27	) (229
Changes in income taxes payable	96	62
Other, net	(40	) 26
Net Cash Provided by Operating Activities	1,084	729
Cash Flows – Investing Activities		
Capital spending	(408	) (472
Changes in short-term investments, net	(227	) 2
Proceeds from refranchising of restaurants	17	155
Acquisitions	(3	) (89
Other, net	7	(6
Net Cash Used in Investing Activities	(614	) (410
Cash Flows – Financing Activities		
Repayments of long-term debt	(5	) (4
Short-term borrowings by original maturity	—	55
More than three months - proceeds	—	—
More than three months - payments	—	—
Three months or less, net	—	—
Revolving credit facilities, three month or less, net	178	—
Repurchase shares of Common Stock	(300	) (329
Excess tax benefits from share-based compensation	25	24
Employee stock option proceeds	16	11
Dividends paid on Common Stock	(327	) (301
Other, net	(20	) (43
Net Cash Used in Financing Activities	(433	) (587
Effect of Exchange Rates on Cash and Cash Equivalents	(13	) (8
Net Increase (Decrease) in Cash and Cash Equivalents	24	(276
Cash and Cash Equivalents - Beginning of Period	573	776
Cash and Cash Equivalents - End of Period	\$597	\$500

See accompanying Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
YUM! BRANDS, INC. AND SUBSIDIARIES
(in millions)

	(Unaudited)	
	6/14/2014	12/28/2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$597	\$573
Accounts and notes receivable, net	352	319
Inventories	282	294
Prepaid expenses and other current assets	231	276
Short-term investments	234	10
Deferred income taxes	129	123
Advertising cooperative assets, restricted	57	96
Total Current Assets	1,882	1,691
Property, plant and equipment, net	4,425	4,459
Goodwill	875	889
Intangible assets, net	615	638
Investments in unconsolidated affiliates	49	53
Other assets	557	566
Deferred income taxes	407	399
Total Assets	\$8,810	\$8,695
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	\$1,836	\$1,929
Income taxes payable	190	169
Short-term borrowings	70	71
Advertising cooperative liabilities	57	96
Total Current Liabilities	2,153	2,265
Long-term debt	3,095	2,918
Other liabilities and deferred credits	1,200	1,244
Total Liabilities	6,448	6,427
Redeemable noncontrolling interest	36	39
Shareholders' Equity		
Common Stock, no par value, 750 shares authorized; 440 and 443 shares issued in 2014 and 2013, respectively	—	—
Retained earnings	2,258	2,102
Accumulated other comprehensive income (loss)	6	64
Total Shareholders' Equity – YUM! Brands, Inc.	2,264	2,166
Noncontrolling interests	62	63
Total Shareholders' Equity	2,326	2,229
Total Liabilities, Redeemable Noncontrolling Interest and Shareholders' Equity	\$8,810	\$8,695

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Tabular amounts in millions, except per share data)

Note 1 - Financial Statement Presentation

We have prepared our accompanying unaudited Condensed Consolidated Financial Statements (“Financial Statements”) in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by Generally Accepted Accounting Principles in the United States (“GAAP”) for complete financial statements. Therefore, we suggest that the accompanying Financial Statements be read in conjunction with the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013 (“2013 Form 10-K”). Except as disclosed herein, there has been no material change in the information disclosed in our Consolidated Financial Statements included in the 2013 Form 10-K.

YUM! Brands, Inc. and Subsidiaries (collectively referred to herein as “YUM” or the “Company”) comprises primarily the worldwide operations of KFC, Pizza Hut and Taco Bell (collectively the “Concepts”). References to YUM throughout these Notes to our Financial Statements are made using the first person notations of “we,” “us” or “our.”

YUM now consists of five reporting segments:

- YUM China (“China” or “China Division”) which includes all operations in mainland China
- YUM India (“India” or “India Division”) which includes all operations in India, Bangladesh, Nepal and Sri Lanka
- The KFC Division which includes all operations of the KFC concept outside of China Division and India Division
- The Pizza Hut Division which includes all operations of the Pizza Hut concept outside of China Division and India Division
- The Taco Bell Division which includes all operations of the Taco Bell concept outside of India Division

Previously, our reporting segments consisted of YUM Restaurants International, the United States, China and India. In the first quarter of 2014 we changed our management reporting structure to align our global operations outside of China and India by brand. As a result, our YUM Restaurants International and United States reporting segments were combined, and we began reporting this information by three new reporting segments: KFC Division, Pizza Hut Division and Taco Bell Division. China and India remain separate reporting segments. This new structure is designed to drive greater global brand focus, enabling us to more effectively share know-how and accelerate growth. While our consolidated results have not been impacted, we have restated our comparable segment information for consistent presentation.

YUM’s fiscal year ends on the last Saturday in December. The first three quarters of each fiscal year consist of 12 weeks and the fourth quarter consists of 16 weeks. Our subsidiaries operate on similar fiscal calendars except that China, India and certain other international subsidiaries operate on a monthly calendar with two months in the first quarter, three months in the second and third quarters and four months in the fourth quarter. International businesses within our KFC, Pizza Hut and Taco Bell divisions close approximately one month earlier to facilitate consolidated reporting.

Our preparation of the accompanying Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The accompanying Financial Statements include all normal and recurring adjustments considered necessary to present fairly, when read in conjunction with our 2013 Form 10-K, our financial position as of June 14, 2014, and the results of our operations and comprehensive income for the quarters and years to date ended June 14, 2014 and June 15, 2013, and cash flows for the years to date ended June 14, 2014 and June 15, 2013. Our results of operations, comprehensive income and cash flows for these interim periods are not necessarily indicative of the results to be expected for the full year.

Our significant interim accounting policies include the recognition of certain advertising and marketing costs, generally in proportion to revenue, and the recognition of income taxes using an estimated annual effective tax rate.

We have reclassified certain items in the Financial Statements for the prior periods to be comparable with the classification for the quarter and year to date ended June 14, 2014. These reclassifications had no effect on previously reported Net Income - YUM! Brands, Inc.

Note 2 - Earnings Per Common Share (“EPS”)

	Quarter ended		Year to date	
	2014	2013	2014	2013
Net Income – YUM! Brands, Inc.	\$334	\$281	\$733	\$618
Weighted-average common shares outstanding (for basic calculation)	446	454	446	454
Effect of dilutive share-based employee compensation	9	10	10	10
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	455	464	456	464
Basic EPS	\$0.75	\$0.62	\$1.64	\$1.36
Diluted EPS	\$0.73	\$0.61	\$1.61	\$1.33
Unexercised employee stock options and stock appreciation rights (in millions) excluded from the diluted EPS computation ^(a)	5.9	6.0	6.1	5.2

^(a) These unexercised employee stock options and stock appreciation rights were not included in the computation of diluted EPS because to do so would have been antidilutive for the periods presented.

Note 3 - Shareholders' Equity

Under the authority of our Board of Directors, we repurchased shares of our Common Stock during the years to date ended as indicated below. All amounts exclude applicable transaction fees.

Authorization Date	Shares Repurchased (thousands)		Dollar Value of Shares Repurchased		Remaining Dollar Value of Shares that may be Repurchased
	2014	2013	2014	2013	2014
November 2012	2,737	4,778	\$203	\$324	\$—
November 2013	1,270	—	97	—	653
Total	4,007	4,778	\$300	\$324	\$653

Amount excludes the effect of \$20 million in share repurchases (0.3 million shares) with trade dates prior to 2013 and cash settlement dates during 2013 and includes the effect of \$15 million in share repurchases (0.2 million shares) with trade dates prior to June 15, 2013 and cash settlement dates subsequent to June 15, 2013.

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Changes in accumulated other comprehensive income ("OCI") are presented below.

	Translation Adjustments and Gains (Losses) From Intra-Entity Transactions of a Long-Term Nature	Pension and Post-Retirement Benefits	Derivative Instruments	Total	
Balance at December 28, 2013, net of tax	\$ 170	\$(97	) \$(9	) \$64
Gains (losses) arising during the year classified into accumulated OCI, net of tax	(61) (7) —	(68)
(Gains) losses reclassified from accumulated OCI, net of tax	2	9	(1	) 10
OCI, net of tax	(59) 2	(1) (58)
Balance at June 14, 2014, net of tax	\$ 111	\$(95	) \$(10	) \$6

Note 4 - Other (Income) Expense

	Quarter ended		Year to date		
	2014	2013	2014	2013	
Equity (income) loss from investments in unconsolidated affiliates	\$(9	) \$3	\$(22	) \$(4)
Foreign exchange net (gain) loss and other	1	6	12	5	
Other (income) expense	\$(8	) \$9	\$(10	) \$1	

Note 5 - Supplemental Balance Sheet Information

Accounts and Notes Receivable, net

The Company's receivables are primarily generated as a result of ongoing business relationships with our franchisees and licensees as a result of royalty and lease agreements. Trade receivables consisting of royalties from franchisees and licensees are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts and notes receivable on our Condensed Consolidated Balance Sheets.

	6/14/2014	12/28/2013	
Accounts and notes receivable, gross	\$367	\$330	
Allowance for doubtful accounts	(15) (11)
Accounts and notes receivable, net	\$352	\$319	

Property, Plant and Equipment, net

	6/14/2014	12/28/2013	
Property, plant and equipment, gross	\$7,979	\$7,850	
Accumulated depreciation and amortization	(3,554) (3,391)
Property, plant and equipment, net	\$4,425	\$4,459	

Assets held for sale at June 14, 2014 and December 28, 2013 total \$12 million and \$16 million, respectively, and are included in Prepaid expenses and other current assets on our Condensed Consolidated Balance Sheets.

Noncontrolling Interests

Noncontrolling interests primarily include the ownership interests of minority shareholders of the entities that operate KFC restaurants in Beijing and Shanghai, China. The redeemable noncontrolling interest comprises the 7% ownership interest in Little Sheep that continues to be held by the Little Sheep founding shareholders, and is classified outside of permanent equity on our Condensed Consolidated Balance Sheets due to redemption rights held by the founding Little Sheep shareholders. A reconciliation of the beginning and ending carrying amount of the equity attributable to noncontrolling interests is as follows:

	Noncontrolling Interests	Redeemable Noncontrolling Interest
Balance at December 28, 2013	\$63	\$39
Net Income (loss) – noncontrolling interests	5	(1)
Currency translation adjustments	(2)	(2)
Dividends declared	(4)	—
Balance at June 14, 2014	\$62	\$36

Note 6 - Income Taxes

	Quarter ended		Year to date	
	2014	2013	2014	2013
Income tax provision	\$112	\$82	\$251	\$202
Effective tax rate	24.9 %	22.7 %	25.4 %	24.8 %

Our effective tax rate was lower than the U.S. federal statutory rate of 35% primarily due to the majority of our income being earned outside of the U.S. where tax rates are generally lower than the U.S. rate.

Additionally, our 2013 quarterly and year to date effective tax rates were favorably impacted by the resolution of uncertain tax positions in certain tax jurisdictions.

On June 23, 2010, the Company received a Revenue Agent Report ("RAR") from the Internal Revenue Service ("IRS") relating to its examination of our U.S. federal income tax returns for fiscal years 2004 through 2006. The IRS has proposed an adjustment to increase the taxable value of rights to intangibles used outside the U.S. that YUM transferred to certain of its foreign subsidiaries. The proposed adjustment would result in approximately \$700 million of additional taxes plus net interest to date of approximately \$270 million for fiscal years 2004-2006. On January 9, 2013, the Company received a RAR from the IRS for fiscal years 2007 and 2008. As expected, the IRS proposed an adjustment similar to their proposal for 2004-2006 that would result in approximately \$270 million of additional taxes plus net interest to date of approximately \$45 million for fiscal years 2007 and 2008. Furthermore, the Company expects the IRS to make similar claims for years subsequent to fiscal 2008. The potential additional taxes for 2009 through 2013, computed on a similar basis to the 2004-2008 additional taxes, would be approximately \$140 million plus net interest to date of approximately \$10 million.

We believe we have properly reported our taxable income and paid taxes consistent with all applicable laws and intend to vigorously defend our position, including through litigation, if we are unable to settle with the IRS through administrative proceedings. Based on recent discussions with the IRS, the Company now believes it is likely it will reach a settlement with the IRS on this issue during 2014. The Company may record additional reserves related to this

issue as these settlement discussions continue. However, the Company continues to believe that its full year effective tax rate will be within the previously communicated range of 26%-28%, inclusive of any additional reserves that might be recorded as a result of these settlement discussions. Additionally, any cash payments that are made in 2014 upon potential settlement of this matter are not expected to significantly impact our ability to fund our planned discretionary spending with our expected cash flows from operations.

While the Company believes it will reach a settlement regarding this matter with the IRS during 2014, there can be no assurance that a settlement will be reached. If a settlement is not reached and increases to our reserves are deemed necessary in future years

due to developments related to this issue, such increases could have a material adverse effect on our operating results as they are recorded.

Note 7 - Reportable Operating Segments

We identify our operating segments based on management responsibility, which changed beginning the first quarter of 2014. See Note 1. We have restated our comparable segment information for consistent presentation in this Form 10-Q. The following tables summarize Revenues, Operating Profit (loss) and Identifiable Assets for each of our reportable operating segments:

	Quarter ended		Year to date	
	2014	2013	2014	2013
Revenues				
China	\$1,709	\$1,449	\$3,088	\$2,600
KFC Division	754	703	1,418	1,362
Pizza Hut Division	265	267	532	534
Taco Bell Division	439	452	830	890
India	37	33	60	53
	\$3,204	\$2,904	\$5,928	\$5,439
	Quarter ended		Year to date	
	2014	2013	2014	2013
Operating Profit (loss)				
China ^(a)	\$194	\$68	\$479	\$222
KFC Division	155	145	318	310
Pizza Hut Division	63	80	147	179
Taco Bell Division	109	111	193	211
India	(1	) (4	) (4	) (6
Corporate and Other unallocated ^(b)	(41	) (10	) (83	) (39
Operating Profit	\$479	\$390	\$1,050	\$877
Interest expense, net	(29	) (32	) (62	) (63
Income Before Income Taxes	\$450	\$358	\$988	\$814
			6/14/2014	12/28/2013
Identifiable Assets				
China ^(c)			\$3,861	\$3,720
KFC Division			2,488	2,432
Pizza Hut Division			715	723
Taco Bell Division			1,012	1,017
India			108	99
Corporate and unallocated ^(d)			626	704
			\$8,810	\$8,695

(a) Includes equity income from investments in unconsolidated affiliates. See Note 4.

(b) Primarily Corporate G&A and refranchising gains and (losses).

(c) Includes investments in 4 unconsolidated affiliates totaling \$49 million and \$53 million as of June 14, 2014 and December 28, 2013, respectively.

(d) Primarily includes cash, deferred tax assets and property, plant and equipment, net, related to our office facilities.

Note 8 - Pension Benefits

We sponsor qualified and supplemental (non-qualified) noncontributory defined benefit pension plans covering certain full-time salaried and hourly U.S. employees. The most significant of these plans, the YUM Retirement Plan, is funded. We fund our other U.S. plans as benefits are paid. The YUM Retirement Plan and our most significant non-qualified plan in the U.S. are closed to new salaried participants. We also sponsor various defined benefit pension plans covering certain of our non-U.S. employees, the most significant of which are in the UK. During 2013, our Pizza Hut UK plan was frozen such that existing participants can no longer earn future service credits. Our KFC UK plan was frozen to future service credits in 2011.

The components of net periodic benefit cost associated with our significant U.S. pension plans and significant international pension plans are as follows:

	U.S. Pension Plans		International Pension Plans	
	Quarter ended			
	2014	2013	2014	2013
Service cost	\$4	\$5	\$—	\$—
Interest cost	13	12	3	2
Expected return on plan assets	(13	) (13	) (4	) (2
Amortization of net loss	4	12	—	—
Amortization of prior service cost	—	1	—	—
Net periodic benefit cost	\$8	\$17	\$(1) \$—
Additional loss (gain) recognized due to:				
Settlement ^(a)	\$2	\$—	\$—	\$—
Curtailment	\$—	\$—	\$—	\$—
	U.S. Pension Plans		International Pension Plans	
	Year to date			
	2014	2013	2014	2013
Service cost	\$8	\$10	\$—	\$—
Interest cost	25	25	5	4
Expected return on plan assets	(26	) (27	) (7	) (5
Amortization of net loss	8	26	—	1
Amortization of prior service cost	—	1	—	—
Net periodic benefit cost	\$15	\$35	\$(2) \$—
Additional loss (gain) recognized due to:				
Settlement ^(a)	\$5	\$10	\$—	\$—
Curtailment ^(b)	\$—	\$—	\$—	\$(5

(a) Losses are a result of settlement transactions from a non-funded plan which exceeded the sum of annual service and interest costs for that plan. These losses were recorded in General and administrative ("G&A") expenses.

(b) During 2013, our Pizza Hut UK Plan recorded a curtailment gain within G&A expenses as a result of terminating future service credits for all participants.

Note 9 - Fair Value Measurements

As of June 14, 2014 the carrying values of cash and cash equivalents, short-term investments (primarily 6 month term deposits outside of the U.S.), accounts receivable and accounts payable approximated their fair values because of the short-term nature of these instruments. The fair value of notes receivable net of allowances and lease guarantees less subsequent amortization approximates their carrying value. The Company's debt obligations, excluding capital leases, were estimated to have a fair value of \$3.1 billion (Level 2), compared to their carrying value of \$2.8 billion. We estimated the fair value of debt using market quotes and calculations based on market rates.

The Company has interest rate swaps accounted for as fair value hedges, foreign currency forwards accounted for as cash flow hedges and other investments, all of which are required to be measured at fair value on a recurring basis. Interest rate swaps are used to reduce our exposure to interest rate risk and lower interest expense for a portion of our fixed-rate debt, and foreign currency forwards are used to reduce our exposure to cash flow volatility arising from foreign currency fluctuations associated with certain foreign currency denominated intercompany short-term receivables and payables. The fair value of these swaps, forwards and other investments were not material as of June 14, 2014 or December 28, 2013. In addition certain of the Company's assets, such as property, plant and equipment, goodwill and intangible assets, are measured at fair value on a non-recurring basis if determined to be impaired. During the quarter and year to date ended June 14, 2014, we recorded restaurant-level impairment (Level 3) of \$14 million and \$15 million, respectively. During the quarter and year to date ended June 15, 2013, we recorded restaurant-level impairment (Level 3) of \$5 million. The remaining net book value of the assets measured at fair value as of June 14, 2014, subsequent to these impairments, was not significant.

Note 10 - Recently Adopted Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-05, Foreign Currency Matters, (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05), to resolve a diversity in accounting for the cumulative translation adjustment of foreign currency upon derecognition of a foreign subsidiary or group of assets. ASU 2013-05 requires the parent to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Further, ASU 2013-05 clarified that the parent should apply the guidance in Subtopic 810-10 if there is a sale of an investment in a foreign entity, including both (1) events that result in the loss of a controlling financial interest in a foreign entity and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. ASU 2013-05 was effective for the Company during the quarter ended March 22, 2014. The adoption of this standard has not had an impact on our Condensed Consolidated Financial Statements.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11), to require that in certain cases, an unrecognized tax benefit, or portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when such items exist in the same taxing jurisdiction. ASU 2013-11 was effective for the Company during the quarter ended March 22, 2014. The adoption of this standard did not have a significant impact on our Condensed Consolidated Financial Statements.

Note 11 - Guarantees, Commitments and Contingencies

Lease Guarantees

As a result of having (a) assigned our interest in obligations under real estate leases as a condition to the refranchising of certain Company restaurants; (b) contributed certain Company restaurants to former unconsolidated affiliates; and (c) guaranteed certain other leases, we are frequently contingently liable on lease agreements. These leases have varying terms, the latest of which expires in 2065. As of June 14, 2014, the potential amount of undiscounted payments we could be required to make in the event of non-payment by the primary lessees was approximately \$675 million. The present value of these potential payments discounted at our pre-tax cost of debt at June 14, 2014 was approximately \$600 million. Our franchisees are the primary lessees under the vast majority of these leases. We generally have cross-default provisions with these franchisees that would put them in default of their franchise agreement in the event of non-payment under the lease. We believe these cross-default provisions significantly reduce the risk that we will be required to make payments under these leases. Accordingly, the liability recorded for our probable exposure under such leases as of June 14, 2014 was not material.

Other Franchise Guarantees

We have agreed to provide guarantees of \$39 million on behalf of franchisees for several financing programs related to specific initiatives. The total loans outstanding under these financing programs were \$65 million as of June 14, 2014.

Legal Proceedings

We are subject to various claims and contingencies related to lawsuits, real estate, environmental and other matters arising in the normal course of business. An accrual is recorded with respect to claims or contingencies for which a loss is determined to be probable and reasonably estimable.

In early 2013, four putative class action complaints were filed in the U.S. District Court for the Central District of California against the Company and certain executive officers alleging claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Plaintiffs alleged that defendants made false and misleading statements concerning the Company's current and future business and financial condition. The four complaints were subsequently consolidated and transferred to the U.S. District Court for the Western District of Kentucky. On August 5, 2013, lead plaintiff, Frankfurt Trust Investment GmbH, filed a Consolidated Class Action Complaint ("Amended Complaint") on behalf of a putative class of all persons who purchased the Company's stock between February 6, 2012 and February 4, 2013 (the "Class Period"). The Amended Complaint no longer includes allegations relating to misstatements regarding the Company's business or financial condition and instead alleges that, during the Class Period, defendants purportedly omitted information about the Company's supply chain in China, thereby inflating the prices at which the Company's securities traded. On October 4, 2013, the Company and individual defendants filed a motion to dismiss the Amended Complaint. Briefing on the motion to dismiss is complete. The Company denies liability and intends to vigorously defend against all claims in the Amended Complaint. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

On January 24, 2013, Bert Bauman, a purported shareholder of the Company, submitted a letter demanding that the Board of Directors initiate an investigation of alleged breaches of fiduciary duties by directors, officers and employees of the Company. The breaches of fiduciary duties are alleged to have arisen primarily as a result of the failure to implement proper controls in connection with the Company's purchases of poultry from suppliers to the Company's China operations. Subsequently, similar demand letters by other purported shareholders were submitted. Those letters were referred to a special committee of the Board of Directors (the "Special Committee") for consideration. The Special Committee, upon conclusion of an independent inquiry of the matters described in the letters, unanimously determined that it is not in the best interests of the Company to pursue the claims described in the letters and, accordingly, rejected each shareholder's demand.

On May 9, 2013, Mr. Bauman filed a putative derivative action in Jefferson Circuit Court, Commonwealth of Kentucky against certain current and former officers and directors of the Company asserting breach of fiduciary duty, waste of corporate assets and unjust enrichment in connection with an alleged failure to implement proper controls in the Company's purchases of poultry from suppliers to the Company's China operations and with an alleged scheme to mislead investors about the Company's growth prospects in China. By agreement of the parties, the matter is temporarily stayed pending the outcome of the motion to dismiss the securities class action. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

On February 14, 2013, Jennifer Zona, another purported shareholder of the Company, submitted a demand letter similar to the demand letters described above. On May 21, 2013, Ms. Zona filed a putative derivative action in the U.S. District Court for the Western District of Kentucky against certain officers and directors of the Company

asserting claims similar to those asserted by Mr. Bauman. The case was subsequently reassigned to the same judge that the securities class action is before. On October 14, 2013, the Company filed a motion to dismiss on the basis of the Special Committee's findings. By agreement of the parties, the matter is temporarily stayed pending the outcome of the motion to dismiss the securities class action. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

On May 17, 2013, Sandra Wollman, another purported shareholder of the Company, submitted a demand letter similar to the demand letters described above. On December 9, 2013, Ms. Wollman filed a putative derivative action in the U.S. District Court for the Western District of Kentucky against certain current and former officers and directors of the Company asserting claims similar to those asserted by Mr. Bauman and Ms. Zona. By agreement of the parties, the matter was consolidated with the Zona action and is temporarily stayed pending the outcome of the motion to dismiss the securities class action. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

Taco Bell was named as a defendant in a number of putative class action suits filed in 2007, 2008, 2009 and 2010 alleging violations of California labor laws including unpaid overtime, failure to timely pay wages on termination, failure to pay accrued vacation wages, failure to pay minimum wage, denial of meal and rest breaks, improper wage statements, unpaid business expenses, wrongful termination, discrimination, conversion and unfair or unlawful business practices in violation of California Business & Professions Code §17200. Some plaintiffs also seek penalties for alleged violations of California's Labor Code under California's Private Attorneys General Act as well as statutory "waiting time" penalties and allege violations of California's Unfair Business Practices Act. Plaintiffs seek to represent a California state-wide class of hourly employees.

These matters were consolidated, and the consolidated case is styled In Re Taco Bell Wage and Hour Actions. The In Re Taco Bell Wage and Hour Actions plaintiffs filed a consolidated complaint in June 2009, and in March 2010 the court approved the parties' stipulation to dismiss the Company from the action. Plaintiffs filed their motion for class certification on the vacation and final pay claims in December 2010, and on September 26, 2011 the court issued its order denying the certification of the vacation and final pay claims. Plaintiffs then sought to certify four separate meal and rest break classes. On January 2, 2013, the court rejected three of the proposed classes but granted certification with respect to the late meal break class. The parties thereafter agreed on a list of putative class members, and the class notice and opportunity to opt out of the litigation were mailed on January 21, 2014. Per the order of the court, plaintiffs filed a second amended complaint to clarify the class claims. Plaintiffs also filed a motion for partial summary judgment. Taco Bell filed motions to strike and to dismiss, as well as a motion to alter or amend the second amended complaint.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. We have provided for a reasonable estimate of the possible loss relating to this lawsuit. However, in view of the inherent uncertainties of litigation, there can be no assurance that this lawsuit will not result in losses in excess of those currently provided for in our Condensed Consolidated Financial Statements. A reasonable estimate of the amount of any possible loss or range of loss in excess of that currently provided for in our Condensed Consolidated Financial Statements cannot be made at this time.

On May 16, 2013, a putative class action styled Bernardina Rodriguez v. Taco Bell Corp. was filed in California Superior Court. The plaintiff seeks to represent a class of current and former California hourly restaurant employees alleging various violations of California labor laws including failure to provide meal and rest periods, failure to pay hourly wages, failure to provide accurate written wage statements, failure to timely pay all final wages, and unfair or unlawful business practices in violation of California Business & Professions Code §17200. This case appears to be duplicative of the In Re Taco Bell Wage and Hour Actions case described above. Taco Bell removed the case to federal court and, on June 25, 2013, plaintiff filed a first amended complaint to include a claim seeking penalties for alleged violations of California's Labor Code under California's Private Attorneys General Act. Taco Bell's motion to dismiss or stay the action in light of the In Re Taco Bell Wage and Hour Actions case was denied on October 30, 2013. In April 2014 the parties stipulated to address the sufficiency of plaintiff's legal theory as to her meal break claim before conducting full discovery. On April 23, 2014, the court approved the stipulation and set a hearing for cross-summary judgment motions on September 10, 2014.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

In December 2002, Taco Bell was named as the defendant in a class action lawsuit filed in the U.S. District Court for the Northern District of California styled Moeller, et al. v. Taco Bell Corp. In August 2003, plaintiffs filed an amended complaint alleging, among other things, that Taco Bell has discriminated against the class of people who use wheelchairs or scooters for mobility by failing to make its restaurants in California accessible to the class. Plaintiffs contended that queue rails and other architectural and structural elements of the Taco Bell restaurants relating to the

path of travel and use of the facilities by persons with mobility-related disabilities did not comply with the U.S. Americans with Disabilities Act (the “ADA”), the Unruh Civil Rights Act (the “Unruh Act”), and the California Disabled Persons Act (the “CDPA”). Plaintiffs requested: (a) an injunction ordering Taco Bell to comply with the ADA and its implementing regulations; (b) that the court declare Taco Bell in violation of the ADA, the Unruh Act, and the CDPA; and (c) monetary relief under the Unruh Act or CDPA. Plaintiffs, on behalf of the class, sought the minimum statutory damages per offense of either \$4,000 under the Unruh Act or \$1,000 under the CDPA for each aggrieved member of the class. Plaintiffs contended that there may have been more than 100,000 individuals in the class. In February 2004, the court granted plaintiffs’ motion for class certification. The class included claims for injunctive relief and minimum statutory damages.

In May 2007, a hearing was held on plaintiffs’ Motion for Partial Summary Judgment, which sought a judicial declaration that Taco Bell was in violation of accessibility laws as to three specific issues: indoor seating, queue rails and door opening force. In August 2007, the court granted plaintiffs’ motion in part with regard to dining room seating. In addition, the court granted plaintiffs’ motion in part with regard to door opening force at some restaurants (but not all) and denied the motion with regard to queue lines.

In December 2009, the court denied Taco Bell's motion for summary judgment on the ADA claims and ordered plaintiffs to select one restaurant to be the subject of a trial. Following the trial, the court issued Findings of Fact and Conclusions of Law in October 2011 ruling that plaintiffs established that classwide injunctive relief was warranted with regard to maintaining compliance as to corporate Taco Bell restaurants in California. The court declined to order injunctive relief at the time. The court also found that twelve specific items at the exemplar store were once out of compliance with applicable state and/or federal accessibility standards.

Taco Bell filed a motion to decertify the class in August 2011, and in July 2012 the court granted Taco Bell's motion to decertify the previously certified state law damages class but denied Taco Bell's motion to decertify the ADA injunctive relief class. In September 2012, the court set a discovery and briefing schedule concerning the trials of the four individual plaintiffs' state law damages claims, which the court stated would be tried before holding further proceedings regarding the possible issuance of an injunction. The court subsequently issued an order modifying its October 2011 Findings of Facts and Conclusions of Law deleting the statement that an injunction was warranted. Plaintiffs appealed that order, and on June 24, 2013 the Ninth Circuit Court of Appeals dismissed plaintiff's appeal. On January 15, 2014, plaintiffs filed a motion seeking issuance of a classwide injunction, and Taco Bell filed a motion to dismiss both the individual and class ADA claims based on a lack of jurisdiction.

On April 24, 2014, the parties agreed to settle this matter. On June 4, 2014, the court granted preliminary approval of the settlement and set the final approval hearing for September 24, 2014. The proposed settlement amount has been accrued in our Condensed Consolidated Financial Statements, and, if the settlement is approved by the court, the associated cash payments will not be material.

In July 2009, a putative class action styled Mark Smith v. Pizza Hut, Inc. was filed in the U.S. District Court for the District of Colorado. The complaint alleged that Pizza Hut did not properly reimburse its delivery drivers for various automobile costs, uniforms costs, and other job-related expenses and seeks to represent a class of delivery drivers nationwide under the Fair Labor Standards Act (FLSA) and Colorado state law. In January 2010, plaintiffs filed a motion for conditional certification of a nationwide class of current and former Pizza Hut, Inc. delivery drivers. However, in March 2010, the court granted Pizza Hut's pending motion to dismiss for failure to state a claim, with leave to amend. Plaintiffs subsequently filed an amended complaint, which dropped the uniform claims but, in addition to the federal FLSA claims, asserted state-law class action claims under the laws of sixteen different states. Pizza Hut filed a motion to dismiss the amended complaint, and plaintiffs sought leave to amend their complaint a second time. In August 2010, the court granted plaintiffs' motion to amend. Pizza Hut filed another motion to dismiss the Second Amended Complaint. In July 2011, the court granted Pizza Hut's motion with respect to plaintiffs' state law claims but allowed the FLSA claims to go forward. Plaintiffs filed their Motion for Conditional Certification in August 2011, and the court granted plaintiffs' motion in April 2012. The opt-in period closed on August 23, 2012, and 6,049 individuals opted in. On February 28, 2014, Pizza Hut filed a motion to decertify the collective action, along with a motion for partial summary judgment seeking an order from the court that the FLSA does not require Pizza Hut to reimburse certain fixed costs that delivery drivers would have incurred regardless of their employment with Pizza Hut.

Pizza Hut denies liability and intends to vigorously defend against all claims in this lawsuit. We have provided for a reasonable estimate of the possible loss relating to this lawsuit. However, in view of the inherent uncertainties of litigation, there can be no assurance that this lawsuit will not result in losses in excess of those currently provided for in our Condensed Consolidated Financial Statements. A reasonable estimate of the amount of any possible loss or range of loss in excess of that currently provided for in our Condensed Consolidated Financial Statements cannot be made at this time.

We are engaged in various other legal proceedings and have certain unresolved claims pending, the ultimate liability for which, if any, cannot be determined at this time. However, based upon current information and consultation with

legal counsel, we expect that the final disposition of such proceedings and claims will not have a material adverse effect, individually or in the aggregate, on our Condensed Consolidated Financial Statements.

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

Introduction and Overview

Yum! Brands, Inc. ("YUM" or the "Company") operates, franchises or licenses a worldwide system of over 40,000 restaurants in more than 125 countries and territories, primarily through the concepts of KFC, Pizza Hut and Taco Bell. These three concepts are the global leaders in the chicken, pizza and Mexican-style food categories, respectively. Of the more than 40,000 restaurants, 20% are operated by the Company and 80% are operated by franchisees, licensees or unconsolidated affiliates.

The Company is focused on the following key growth strategies:

• Building Powerful Brands Through Superior Marketing, Breakthrough Innovation and Compelling Value with a Foundation Built on Winning Food and World Class Operations

• Driving Aggressive Unit Expansion Everywhere, Especially in Emerging Markets, and Building Leading Brands in Every Significant Category in China and India

• Creating Industry Leading Returns Through Franchising and Disciplined Use of Capital, Maximizing Long-term Shareholder Value

YUM now consists of five reporting segments:

- YUM China ("China" or "China Division") which includes all operations in mainland China
- YUM India ("India" or "India Division") which includes all operations in India, Bangladesh, Nepal and Sri Lanka
- The KFC Division which includes all operations of the KFC concept outside of China Division and India Division
- The Pizza Hut Division which includes all operations of the Pizza Hut concept outside of China Division and India Division
- The Taco Bell Division which includes all operations of the Taco Bell concept outside of India Division

Previously, our reporting segments consisted of YUM Restaurants International, the United States, China and India. In the first quarter of 2014 we changed our management reporting structure to align our global operations outside of China and India by brand. As a result, our YUM Restaurants International and United States reporting segments were combined, and we began reporting this information by three new reporting segments: KFC Division, Pizza Hut Division and Taco Bell Division. China and India remain separate reporting segments. This new structure is designed to drive greater global brand focus, enabling us to more effectively share know-how and accelerate growth. While our consolidated results have not been impacted, we have restated our comparable segment information for consistent presentation.

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the unaudited Condensed Consolidated Financial Statements ("Financial Statements"), the Cautionary Note Regarding Forward-Looking Statements and our Annual Report on Form 10-K for the fiscal year ended December 28, 2013 ("2013 Form 10-K"). References to YUM throughout this discussion are made in first person notations of "we," "us" or "our."

We intend for this MD&A to provide the reader with information that will assist in understanding our results of operations, including performance metrics that management uses to assess the Company's performance. Throughout this MD&A, we commonly discuss the following performance metrics:

The Company provides certain percentage changes excluding the impact of foreign currency translation (“FX”). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the foreign currency translation impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.

System sales growth includes the results of all restaurants regardless of ownership, including company-owned, franchise, unconsolidated affiliate and license restaurants that operate our concepts, except for non-company-owned restaurants for which we do not receive a sales-based royalty. Sales of franchise, unconsolidated affiliate and license restaurants typically generate ongoing franchise and license fees for the Company (typically at a rate of 4% to 6% of restaurant sales). Franchise, unconsolidated affiliate and license restaurant sales are not included in Company sales on the Condensed Consolidated Statements of Income; however, the franchise and license fees are included in the Company’s revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.

Same-store sales growth is the estimated growth in system sales of all restaurants that have been open and in the YUM system one year or more.

Company Restaurant profit ("Restaurant profit") is defined as Company sales less expenses incurred directly by our company-owned restaurants in generating Company sales. Company restaurant margin as a percentage of sales is defined as Restaurant profit divided by Company sales. Within the company restaurant margin analysis, Store portfolio actions represent the net impact of new unit openings, acquisitions, refranchising and store closures, and Other primarily represents the impact of same-store sales as well as the impact of changes in costs such as inflation/deflation.

Operating margin is defined as Operating Profit divided by Total revenues.

In addition to the results provided in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") throughout this MD&A, the Company provides non-GAAP measurements which present operating results on a basis before items that we have deemed Special. The Company uses earnings before Special Items as a key performance measure of results of operations for the purpose of evaluating performance internally and Special Items are not included in any of our segment results. This non-GAAP measurement is not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of earnings before Special Items provides additional information to investors to facilitate the comparison of past and present operations, excluding those items that the Company does not believe are indicative of our ongoing operations due to their size and/or nature.

All Note references herein refer to the accompanying Notes to the Financial Statements. Tabular amounts are displayed in millions of U.S. dollars except per share and unit count amounts, or as otherwise specifically identified. Percentages may not recompute due to rounding.

Results of Operations

Our ongoing earnings growth model, which includes the ongoing earnings growth rates described within each of our reportable segment sections below, is expected to generate EPS growth of at least 10% annually. Our 2014 EPS excluding Special Items is expected to grow at least 20% due in large part to our expectations that China Division Operating Profit for 2014 will grow at a rate significantly above the ongoing growth rate of 15%, as indicated in the China Division discussion. Details of our 2014 Guidance by division as presented on December 2, 2013 can be found online at <http://yum.com>.

The Consolidated Results of Operations for the quarters and years to date ended June 14, 2014 and June 15, 2013 are presented below:

	Quarter ended			Year to date		
	2014	2013	% B/(W)	2014	2013	% B/(W)
Company sales	\$2,758	\$2,474	12	\$5,050	\$4,573	10
Franchise and license fees and income	446	430	4	878	866	1
Total revenues	\$3,204	\$2,904	10	\$5,928	\$5,439	9
Restaurant profit	\$428	\$310	38	\$869	\$643	35
Restaurant margin %	15.5	% 12.5	% 3.0 ppts.	17.2	% 14.0	% 3.2 ppts.
G&A expenses	\$352	\$333	(6)	\$623	\$606	(3)
Franchise and license expenses	34	34	(1)	67	64	(5)
Closures and impairment (income) expenses	21	6	NM	24	10	NM
Refranchising (gain) loss	(4)	(32)	(89)	(7)	(49)	(86)
Other (income) expense	(8)	9	NM	(10)	1	NM
Operating Profit	\$479	\$390	23	\$1,050	\$877	20
Interest expense, net	29	32	12	62	63	3
Income tax provision	112	82	(38)	251	202	(25)
Effective Tax Rate	24.9	% 22.7	% (2.2) ppts.	25.4	% 24.8	% (0.6) ppts.
Net Income – including noncontrolling interests	\$338	\$276	22	\$737	\$612	20
Net Income (loss) – noncontrolling interests	4	(5)	NM	4	(6)	NM
Net Income – YUM! Brands, Inc.	\$334	\$281	19	\$733	\$618	19
Diluted earnings per share ^(a)	\$0.73	\$0.61	21	\$1.61	\$1.33	21
Diluted earnings per share before Special Items ^(a)	\$0.73	\$0.56	30	\$1.60	\$1.26	27

(a) See Note 2 for the number of shares used in this calculation.

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	Quarter ended			Year to date		
	2014	2013		2014	2013	
System Sales Growth, reported	4	% —	%	3	% —	%
System Sales Growth, excluding FX	6	% 1	%	5	% 1	%

Unit Count	6/14/2014	6/15/2013	% Increase (Decrease)
Franchise & License	31,452	30,877	2
Company-owned	8,236	7,793	6
Unconsolidated Affiliates	731	679	8
	40,419	39,349	3

Special Items

Special Items, along with the reconciliation to the most comparable GAAP financial measure, are presented below.

Detail of Special Items	Quarter ended		Year to date	
	2014	2013	2014	2013
U.S. Refranchising gain (loss) ^(a)	\$1	\$28	\$3	\$45
Total Special Items Income (Expense)	1	28	3	45
Tax Benefit (Expense) on Special Items ^(b)	—	(9)	(1)	(15)
Special Items Income (Expense), net of tax	\$1	\$19	\$2	\$30
Average diluted shares outstanding	455	464	456	464
Special Items diluted EPS	\$—	\$0.05	\$0.01	\$0.07

Reconciliation of Operating Profit Before Special Items to Reported Operating Profit

Operating Profit before Special Items	\$478	\$362	\$1,047	\$832
Special Items Income (Expense)	1	28	3	45
Reported Operating Profit	\$479	\$390	\$1,050	\$877

Reconciliation of EPS Before Special Items to Reported EPS

Diluted EPS before Special Items	\$0.73	\$0.56	\$1.60	\$1.26
Special Items EPS	—	0.05	0.01	0.07
Reported EPS	\$0.73	\$0.61	\$1.61	\$1.33

Reconciliation of Effective Tax Rate Before Special Items to Reported Effective Tax Rate

Effective Tax Rate before Special Items	24.9	% 22.1	% 25.4	% 24.4	%
Impact on Tax Rate as a result of Special Items ^(b)	—	% 0.6	% —	% 0.4	%
Reported Effective Tax Rate	24.9	% 22.7	% 25.4	% 24.8	%

U.S. refranchising gains and losses have not historically been allocated to our segments for performance reporting (a) purposes due to the scope of our U.S. refranchising program in recent years and the volatility in associated gains and losses. The 2013 gains primarily relate to sales of Taco Bell restaurants in the U.S.

(b) The tax benefit (expense) was determined based upon the impact of the nature, as well as the jurisdiction of the respective individual components within Special Items.

Quarter Highlights

The following quarterly highlights are variances versus the same period a year ago and exclude the impact of Special Items. System sales and Operating Profit in the quarterly highlights below exclude the impact of foreign currency translation.

Worldwide system sales grew 6%. Worldwide restaurant margin increased 3.0 percentage points to 15.5%, and worldwide operating profit increased 34%.

Total international development was 298 new restaurants; 78% of this development occurred in emerging markets.

China Division system sales increased 21%, driven by 7% unit growth and 15% same-store sales growth. Restaurant margin increased 6.2 percentage points to 16.8%. Operating profit increased 188%.

KFC Division system sales increased 5%, driven by 1% unit growth and 2% same-store sales growth. Restaurant margin increased 0.3 percentage points to 12.9%. Operating profit increased 12%.

Pizza Hut Division system sales declined 1%, as 2% unit growth was offset by a 3% same-store sales decline. Restaurant margin decreased 6.4 percentage points to 7.2%. Operating profit decreased 22%.

Taco Bell Division system sales increased 3%, driven by 1% unit growth and 2% same-store sales growth. Restaurant margin decreased 2.7 percentage points to 17.7%. Operating profit decreased 2%.

India Division system sales increased 18%, driven by 25% unit growth which was partially offset by a 2% same-store sales decline.

Worldwide effective tax rate increased to 24.9% from 22.1%.

Foreign currency translation negatively impacted operating profit by \$7 million.

China Division

The China Division has 6,387 units, predominately KFC and Pizza Hut Casual Dining restaurants which are the leading quick service and casual dining restaurant brands, respectively, in mainland China. Additionally, the Company operates a majority of the distribution system for its restaurants in China which we believe provides a significant competitive advantage. Given this strong competitive position, a growing economy and a population of approximately 1.4 billion in mainland China, the Company is rapidly adding KFC and Pizza Hut Casual Dining restaurants, accelerating the development of Pizza Hut Home Service (home delivery), integrating the Little Sheep brand (hot pot) we acquired in 2012 and testing the additional restaurant concept of East Dawning (Chinese food). Our ongoing earnings growth model in China includes low double-digit percentage unit growth, mid-single digit same-store sales growth and moderate margin improvement, which we expect to drive annual Operating Profit growth of 15%.

The China Division's 2014 Operating Profit is expected to grow at a rate significantly above our 15% target due to KFC China recovering from significant sales declines in 2013. See our 2013 Form 10-K for additional discussion.

Quarter ended		% B/(W)		Year to date		% B/(W)	
2014	2013	Reported	Ex FX	2014	2013	Reported	Ex FX

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Company Sales	\$1,683	\$1,429	18	18	\$3,039	\$2,562	19	18
Franchise and license fees and income	26	20	38	38	49	38	32	30
Total revenues	\$1,709	\$1,449	18	19	\$3,088	\$2,600	19	18
Restaurant profit	\$283	\$152	88	88	\$600	\$340	77	75
Restaurant margin %	16.8	% 10.6	% 6.2	ppts. 6.2	ppts. 19.8	% 13.2	% 6.6	ppts. 6.5
G&A expenses	\$102	\$90	(15)	(15)	\$164	\$145	(14)	(13)
Operating Profit	\$194	\$68	188	188	\$479	\$222	116	113

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	Quarter ended		Year to date	
	2014	2013	2014	2013
System Sales Growth, reported	21	% (10)%	20	% (9)%
System Sales Growth, excluding FX	21	% (12)%	19	% (10)%
Same-Store Sales Growth %	15	% (20)%	12	% (20)%

Unit Count	6/14/2014	6/15/2013	% Increase
			(Decrease)
Company-owned	5,138	4,790	7
Unconsolidated Affiliates	731	679	8
Franchise & License	518	513	1
	6,387	5,982	7

	12/28/2013	New Builds	Closures	Refranchised	6/14/2014
Company-owned	5,026	202	(64)	(26)	5,138
Unconsolidated Affiliates	716	19	(4)	—	731
Franchise & License	501	6	(15)	26	518
Total	6,243	227	(83)	—	6,387

Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

Income / (Expense)	Quarter ended				2014
	2013	Store Portfolio Actions	Other	FX	
Company sales	\$1,429	\$96	\$166	\$(8)	\$1,683
Cost of sales	(469)	(27)	(37)	2)	(531)
Cost of labor	(319)	(19)	—	1)	(337)
Occupancy and other	(489)	(31)	(15)	3)	(532)
Restaurant profit	\$152	\$19	\$114	\$(2)	\$283
	10.6	%			16.8
					%
Income / (Expense)	Year to date				2014
	2013	Store Portfolio Actions	Other	FX	
Company sales	\$2,562	\$191	\$258	\$28	\$3,039
Cost of sales	(844)	(54)	(42)	(9)	(949)
Cost of labor	(550)	(33)	11	(6)	(578)
Occupancy and other	(828)	(57)	(20)	(7)	(912)
Restaurant profit	\$340	\$47	\$207	\$6	\$600
	13.2	%			19.8
					%

The increase in Company sales and Restaurant profit for the quarter associated with store portfolio actions was driven by net new unit growth. Significant other factors impacting Company sales and/or Restaurant profit for the quarter were company same-store sales growth of 12%, labor efficiencies and lower advertising expense, partially offset by wage rate inflation of 9%. Excluding the impact of Little Sheep, Restaurant margin would have been 17.4% in the

quarter ended June 14, 2014.

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The year to date increase in Company sales and Restaurant profit associated with store portfolio actions was driven by net new unit growth. Significant other factors impacting year to date Company sales and/or Restaurant profit were company same-store sales growth of 10%, labor efficiencies, lapping higher prior year promotional activities and lower advertising expense, partially offset by wage rate inflation of 8%. Excluding the impact of Little Sheep, Restaurant margin would have been 20.4% in the year to date ended June 14, 2014.

Franchise and License Fees and Income

The increase in Franchise and license fees and income for the quarter and year to date, excluding the impact of foreign currency translation, was driven by the impact of same-store sales growth and refranchising.

G&A Expenses

The increase in G&A expenses for the quarter and year to date, excluding the impact of foreign currency translation, was driven by compensation costs due to higher headcount and wage inflation.

Operating Profit

The increase in Operating Profit for the quarter and year to date, excluding the impact of foreign currency translation, was driven by the impact of same-store sales growth, net new unit growth and lower restaurant operating costs, partially offset by higher G&A and Closure and impairment expenses.

KFC Division

The KFC Division has 13,906 units, approximately 70% of which are located outside the U.S. The KFC Division has experienced significant unit growth in emerging markets, which comprise approximately 35% and 50% of the Division's units and profits, respectively, as of the end of 2013. Additionally, 91% of the KFC Division units were operated by franchisees and licensees as of the end of 2013. Our ongoing earnings growth model for the KFC Division includes mid single-digit percentage net unit and same-store sales growth for our emerging markets and flat net unit growth and low single-digit same-store sales growth for our developed markets. This combined with restaurant margin improvement and leverage of our G&A structure is expected to drive annual Operating Profit growth of 10%.

	Quarter ended				Year to date			
	2014	2013	% B/(W)		2014	2013	% B/(W)	
			Reported	Ex FX			Reported	Ex FX
Company sales	\$558	\$514	9	11	\$1,027	\$972	6	9
Franchise and license fees and income	196	189	3	7	391	390	—	4
Total revenues	\$754	\$703	7	10	\$1,418	\$1,362	4	8
Restaurant profit	\$72	\$64	11	13	\$133	\$124	6	9
Restaurant margin %	12.9	% 12.6	% 0.3	ppts. 0.2	12.9	% 12.9	% —	ppts. —
G&A expenses	\$94	\$92	—	(2)	\$170	\$173	2	—
Operating Profit	\$155	\$145	7	12	\$318	\$310	3	8
					Quarter ended		Year to date	
					2014	2013	2014	2013
System Sales Growth, reported					2	% 1	% —	% 1
System Sales Growth, excluding FX					5	% 4	% 5	% 4

Same-Store Sales Growth %	2	% 2	% 2	% 1	%
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Unit Count	6/14/2014	6/15/2013	% Increase (Decrease)
Franchise & License	12,624	12,472	1
Company-owned	1,282	1,239	3
	13,906	13,711	1

	12/28/2013	New Builds	Closures	Refranchised	Acquired	6/14/2014
Franchise & License	12,647	153	(179)	) 4	(1	) 12,624
Company-owned	1,257	38	(10)	) (4	) 1	1,282
Total	13,904	191	(189)	) —	—	13,906

Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

Income / (Expense)	Quarter ended				
	2013	Store Portfolio Actions	Other	FX	2014
Company sales	\$514	\$35	\$23	\$(14)	) \$558
Cost of sales	(180)	) (13)	) (8)	) 7	(194)
Cost of labor	(123)	) (8)	) (6)	) 2	(135)
Occupancy and other	(147)	) (13)	) (1)	) 4	(157)
Restaurant profit	\$64	\$1	\$8	\$(1)	) \$72
	12.6	%			12.9 %
Income / (Expense)	Year to date				
	2013	Store Portfolio Actions	Other	FX	2014
Company sales	\$972	\$66	\$24	\$(35)	) \$1,027
Cost of sales	(339)	) (25)	) (9)	) 15	(358)
Cost of labor	(233)	) (15)	) (7)	) 6	(249)
Occupancy and other	(276)	) (23)	) 2	10	(287)
Restaurant profit	\$124	\$3	\$10	\$(4)	) \$133
	12.9	%			12.9 %

The increase in Company sales for the quarter and year to date associated with store portfolio actions was driven by net new unit growth and the impact of the acquisition of restaurants in Turkey from an existing franchisee in April 2013, partially offset by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales growth of 4% for the quarter and 2% year to date.

Franchise and License Fees and Income

The increase in Franchise and license fees and income for the quarter, excluding the impact of foreign currency translation, was driven by international growth in same-store sales and net new units.

The year to date increase in Franchise and license fees and income, excluding the impact of foreign currency translation, was driven by international growth in net new units and same-store sales, partially offset by lapping transfer and renewal fees from a major franchise ownership change in 2013.

G&A Expenses

The increase in G&A expenses for the quarter, excluding the impact of foreign currency translation, was driven primarily by higher headcount in strategic international markets and the impact of the Turkey acquisition, partially offset by lower pension costs in the U.S.

Year to date G&A expenses, excluding the impact of foreign currency translation, were even with the prior year. Higher headcount in strategic international markets and the impact of the Turkey acquisition were offset by lower pension costs in the U.S.

Operating Profit

The increase in Operating Profit for the quarter and year date, excluding the impact of foreign currency translation, was driven by same-store sales growth and net new units. Additionally, year to date Operating Profit was negatively impacted by 2% due to lapping transfer and renewal fees from a major franchise ownership change in 2013.

Pizza Hut Division

The Pizza Hut Division has 13,338 units, approximately 60% of which are located in the U.S. The Pizza Hut Division operates as one brand that uses multiple distribution channels including delivery, dine-in and express (e.g. airports). Emerging markets comprise approximately 20% of both units and profits for the Division as of the end of 2013. Additionally, 94% of the Pizza Hut Division units were operated by franchisees and licensees as of the end of 2013. Our ongoing earnings growth model for the Pizza Hut Division includes mid single-digit percentage net unit and same-store sales growth for our emerging markets and low single-digit percentage net unit and same-store sales growth for our developed markets. This combined with restaurant margin improvement and leverage of our G&A structure is expected to drive annual Operating Profit growth of 8%.

	Quarter ended				Year to date			
	2014	2013	% B/(W)		2014	2013	% B/(W)	
			Reported	Ex FX			Reported	Ex FX
Company sales	\$142	\$144	(1)	(1)	\$282	\$282	—	1
Franchise and license fees and income	123	123	(2)	(1)	250	252	(1)	—
Total revenues	\$265	\$267	(1)	(1)	\$532	\$534	—	—
Restaurant profit	\$10	\$19	(47)	(48)	\$25	\$40	(37)	(37)
Restaurant margin %	7.2	% 13.6	% (6.4) ppts.	(6.5) ppts.	9.0	% 14.3	% (5.3) ppts.	(5.4) ppts.
G&A expenses	\$58	\$54	(7)	(8)	\$107	\$96	(12)	(13)
Operating Profit	\$63	\$80	(22)	(22)	\$147	\$179	(18)	(17)
					Quarter ended		Year to date	
					2014	2013	2014	2013
System Sales Growth, reported					(2)%	1	% (2)%	1
System Sales Growth, excluding FX					(1)%	2	% —	% 2
Same-Store Sales Growth %					(3)%	—	% (2)%	(1)%
							% Increase	
Unit Count					6/14/2014	6/15/2013	(Decrease)	
Franchise & License					12,588	12,381	2	
Company-owned					750	719	4	

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	12/28/2013	New Builds	Closures	Refranchised	Acquired	Other	6/14/2014
Franchise & License	12,601	156	(161)	1	(8)	(1)	12,588
Company-owned	732	22	(11)	(1)	8	—	750
Total	13,333	178	(172)	—	—	(1)	13,338

Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

Income / (Expense)	Quarter ended				2014
	2013	Store Portfolio Actions	Other	FX	
Company sales	\$144	\$4	\$(6)	\$—	\$142
Cost of sales	(41)	(1)	(1)	—	(43)
Cost of labor	(44)	(1)	1	—	(44)
Occupancy and other	(40)	(1)	(4)	—	(45)
Restaurant profit	\$19	\$1	\$(10)	\$—	\$10
	13.6	%			7.2
					%
Income / (Expense)	Year to date				2014
	2013	Store Portfolio Actions	Other	FX	
Company sales	\$282	\$10	\$(9)	\$(1)	\$282
Cost of sales	(79)	(3)	(3)	—	(85)
Cost of labor	(85)	(3)	1	—	(87)
Occupancy and other	(78)	(4)	(4)	1	(85)
Restaurant profit	\$40	\$—	\$(15)	\$—	\$25
	14.3	%			9.0
					%

The increase in Company sales for the quarter and year to date associated with store portfolio actions was driven by the impact of the acquisition of restaurants in Turkey from an existing franchisee in April 2013 and net new unit growth, partially offset by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were higher self-insurance costs, company same-store sales declines of 4% for the quarter and 3% year to date and commodity inflation, primarily in the U.S.

Franchise and License Fees and Income

The decrease in Franchise and license fees and income for the quarter, excluding the impact of foreign currency translation, was driven by same-store sales declines, partially offset by net new unit growth.

Year to date Franchise and license fees and income, excluding the impact of foreign currency translation, was even with prior year, with the impact of net new unit growth offset by same-store sales declines.

G&A Expenses

The increase in G&A expenses for the quarter, excluding the impact of foreign currency translation, was driven by strategic investments in international G&A and higher litigation costs, partially offset by lower pension costs in the

U.S.

The year to date increase in G&A expenses, excluding the impact of foreign currency translation, was driven by strategic investments in international G&A, lapping a pension curtailment gain in the first quarter of 2013 related to our UK pension plan and higher litigation costs, partially offset by lower pension costs in the U.S.

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Operating Profit

Operating Profit for the quarter was negatively impacted by 13% due to higher self-insurance and litigation costs, as well as strategic investments in international G&A. Excluding these items, the decrease in Operating Profit was driven by same-store sales declines and commodity inflation, partially offset by lower pension costs in the U.S. and net new unit growth.

Year to date Operating Profit was negatively impacted by 7% due to higher self-insurance and litigation costs, as well as strategic investments in international G&A. Excluding these items and the impact of foreign currency translation, the decrease in Operating Profit was driven by same-store sales declines and commodity inflation and lapping a pension curtailment gain in the first quarter of 2013 related to our UK pension plan, partially offset by lower pension costs in the U.S. and net new unit growth.

Taco Bell Division

The Taco Bell Division has 6,074 units, the vast majority of which are in the U.S. The Company owns 15% of the Taco Bell units in the U.S., where the brand has historically achieved high restaurant margins and returns. While we believe expansion of Taco Bell outside of the U.S. is a long-term growth driver, our current ongoing earnings model only includes U.S.-generated growth, which includes low single-digit percentage net unit growth, mid-single-digit same-store sales growth and leverage of our G&A structure, which we expect to drive annual Operating Profit growth of 6%.

	Quarter ended				Year to date				
	2014	2013	% B/(W)		2014	2013	% B/(W)		
			Reported	Ex FX			Reported	Ex FX	
Company sales	\$342	\$358	(5)	(5)	\$648	\$711	(9)	(9)	
Franchise and license fees and income	97	94	4	5	182	179	2	2	
Total revenues	\$439	\$452	(3)	(3)	\$830	\$890	(7)	(7)	
Restaurant profit	\$61	\$74	(17)	(17)	\$109	\$138	(21)	(21)	
Restaurant margin %	17.7	% 20.4	% (2.7) ppts.	(2.7) ppts.	16.7	% 19.3	% (2.6) ppts.	(2.6) ppts.	
G&A expenses	\$43	\$48	7	7	\$88	\$93	5	5	
Operating Profit	\$109	\$111	(2)	(2)	\$193	\$211	(9)	(9)	
					Quarter ended		Year to date		
					2014	2013	2014	2013	
System Sales Growth, reported					3	% 3	% 2	% 5	%
System Sales Growth, excluding FX					3	% 3	% 2	% 5	%
Same-Store Sales Growth %					2	% 2	% 1	% 4	%
							% Increase		
Unit Count					6/14/2014	6/15/2013	(Decrease)		
Franchise & License					5,181	5,064	2		
Company-owned					893	923	(3)		
					6,074	5,987	1		
Franchise & License		12/28/2013	New Builds	Closures	Other		6/14/2014		
		5,157	56	(35) 3		5,181		

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Company-owned	891	2	—	—	893
Total	6,048	58	(35) 3	6,074

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Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

Income / (Expense)	Quarter ended			
	2013	Store Portfolio Actions	Other	2014
Company sales	\$358	\$(22	) \$6	\$342
Cost of sales	(102	) 6	(8	) (104
Cost of labor	(100	) 5	(5	) (100
Occupancy and other	(82	) 6	(1	) (77
Restaurant profit	\$74	\$(5	) \$(8	) \$61
	20.4	%		17.7 %
Income / (Expense)	Year to date			
	2013	Store Portfolio Actions	Other	2014
Company sales	\$711	\$(57	) \$(6	) \$648
Cost of sales	(203	) 17	(10	) (196
Cost of labor	(205	) 17	(4	) (192
Occupancy and other	(165	) 15	(1	) (151
Restaurant profit	\$138	\$(8	) \$(21	) \$109
	19.3	%		16.7 %

The decrease in Company sales and Restaurant profit for the quarter associated with store portfolio actions was driven by refranchising. Significant other factors impacting Company sales and/or Restaurant profit for the quarter were commodity inflation and higher food and labor costs due to the launch of breakfast in the U.S., partially offset by company same-store sales growth of 2%.

The year to date decrease in Company sales and Restaurant profit associated with store portfolio actions was driven by refranchising. Significant other factors impacting year to date Company sales and/or Restaurant profit were commodity inflation and higher food and labor costs due to the launch of breakfast in the U.S. Year to date company same-store sales were even.

Franchise and License Fees and Income

The increase in Franchise and license fees and income for the quarter, excluding the impact of foreign currency translation, was driven by same-store sales growth and refranchising.

The year to date increase in Franchise and license fees and income was driven by refranchising and net new unit growth, partially offset by franchise incentives provided in the first quarter of 2014 related to the launch of breakfast in the U.S.

G&A Expenses

The decrease in G&A expenses for the quarter and year to date was driven by lower pension costs and refranchising.

Operating Profit

The decrease in Operating Profit for the quarter was driven by higher restaurant operating costs, partially offset by same-store sales growth and net new unit growth.

Corporate G&A

The increase in Corporate G&A for the quarter was driven by higher incentive compensation costs.

The year to date decrease in Corporate G&A was driven by lower pension costs, including the lapping of a pension settlement charge of \$10 million in the first quarter of 2013, partially offset by higher incentive compensation costs.

Other Unallocated

The decreases in Other unallocated were driven by lapping quarterly and year to date franchising gains of \$32 million and \$49 million, respectively, in 2013.

Interest Expense, Net

The decrease in Interest expense, net for quarter and year to date was driven by lower interest rates on average borrowings in 2014.

Income Tax Provision

Our 2013 quarterly and year to date effective tax rates were favorably impacted by the resolution of uncertain tax positions in certain tax jurisdictions.

Significant Known Events, Trends or Uncertainties Expected to Impact Future Results

Potential Little Sheep Impairment

During 2013, as discussed further in our 2013 Form 10-K, we recorded impairment charges related to the Little Sheep trademark and goodwill. The inputs used in determining the fair values of the Little Sheep trademark and reporting unit in 2013 for purposes of calculating these impairment charges assumed increases in average-unit sales volumes and profit levels that would support future new unit development of the concept. Through the first two quarters of 2014, Little Sheep sales and profits have been below the amounts assumed in the 2013 fair value determinations.

Our accounting policies require us to review our goodwill and indefinite-lived intangible assets, including the Little Sheep trademark, for impairment on an annual basis in the fourth quarter or more often if an event occurs or circumstances change that indicate impairment might exist. If the negative Little Sheep business trends continue, it may result in a determination that the fair value of the Little Sheep trademark, reporting unit or both are currently less than their carrying value, requiring us to record further impairment in the second half of 2014. If such determination were made, we anticipate that any non-cash impairment would be recorded as a Special Item within our Financial Statements.

Internal Revenue Service Proposed Adjustment

On June 23, 2010 and January 9, 2013, the Company received Revenue Agent Reports from the Internal Revenue Service ("IRS") relating to its examination of our U.S. federal income tax returns for fiscal years 2004 through 2006 and 2007 through 2008, respectively. The IRS has proposed an adjustment to increase the taxable value of rights to intangibles used outside the U.S. that YUM transferred to certain of its foreign subsidiaries. The Company now believes it is likely it will reach a settlement with the IRS on this issue in 2014. See Note 6.

Liquidity and Capital Resources

Liquidity

Net cash provided by operating activities was \$1,084 million in 2014 versus \$729 million in 2013. The increase was primarily driven by higher operating profit before Special Items.

Operating in the QSR industry allows us to generate substantial cash flows from the operations of our company-owned stores and from our extensive franchise operations which require a limited YUM investment. Net cash provided by operating activities has exceeded \$2 billion annually since 2011. We expect these levels of net cash provided by operating activities to continue in the foreseeable future. However, unforeseen downturns in our business could adversely impact our cash flows from operations from the levels historically realized.

In the event our cash flows from operating activities are negatively impacted by business downturns, we believe we have the ability to temporarily reduce our discretionary spending without significant impact to our long-term business prospects. Our discretionary spending includes capital spending for new restaurants, acquisitions of restaurants from franchisees, repurchases of shares of our Common Stock and dividends paid to our shareholders.

Net cash used in investing activities was \$614 million in 2014 versus \$410 million in 2013. The increase was primarily driven by higher short-term investments and lower refranchising proceeds, partially offset by lapping the acquisition of restaurants in Turkey.

We invested \$408 million in capital spending, including \$209 million in China, \$118 million in the KFC Division, \$19 million in the Pizza Hut Division, \$51 million in the Taco Bell Division and \$6 million in India.

Net cash used in financing activities was \$433 million in 2014 versus \$587 million in 2013. The decrease was primarily driven by higher borrowings on our revolving credit facility.

We repurchased shares of our Common Stock for \$300 million. As of June 14, 2014, we had remaining capacity to repurchase up to \$653 million (excluding applicable transaction fees) of our outstanding Common Stock under the November 2013 authorization. See Note 3.

We paid cash dividends of \$327 million. Additionally, on May 1, 2014 our Board of Directors approved a cash dividend of \$0.37 per share of Common Stock, to be distributed on August 1, 2014 to shareholders of record at the close of business on July 11, 2014. The Company targets an ongoing annual dividend payout ratio of 35% to 40% of net income.

To the extent we have needed to repatriate international cash to fund our U.S. discretionary cash spending, including share repurchases, dividends and debt repayments, we have historically been able to do so in a tax efficient manner. If we experience an unforeseen decrease in our cash flows from our U.S. business or are unable to refinance future U.S. debt maturities, we may be required to repatriate future international earnings at tax rates higher than we have historically experienced.

Capital Resources

We fund our working capital requirements primarily through cash generated from operations, supplemented, as needed, by short-term bank borrowings. Our primary bank credit agreement comprises a \$1.3 billion syndicated senior unsecured revolving credit facility (the "Credit Facility") which matures in March 2017.

As of June 14, 2014, our unused Credit Facility totaled \$1.1 billion net of outstanding letters of credit of \$56 million and outstanding borrowings of \$178 million. The interest rate for borrowings under the Credit Facility ranges from 1.00% to 1.75% over the London Interbank Offered Rate. The Credit Facility is unconditionally guaranteed by our principal domestic subsidiaries and contains financial covenants relating to maintenance of leverage and fixed-charge coverage ratios and also contains affirmative and negative covenants including, among other things, limitations on certain additional indebtedness and liens, and certain other transactions specified in the agreement. Given the Company's strong balance sheet and cash flows we were able to comply with all debt covenant requirements as of June 14, 2014 with a considerable amount of cushion. Additionally, the Credit Facility contains cross-default provisions whereby our failure to make any payment on our indebtedness in a principal amount in excess of \$125 million, or the acceleration of the maturity of any such indebtedness, will constitute a default under the Credit Facility.

The majority of our remaining long-term debt primarily comprises Senior Unsecured Notes with varying maturity dates from 2014 through 2043 and interest rates ranging from 2.38% to 6.88%. These notes represent senior, unsecured obligations and rank

equally in right of payment with all of our existing and future unsecured unsubordinated indebtedness. Amounts outstanding under Senior Unsecured Notes were \$2.8 billion at June 14, 2014. Our Senior Unsecured Notes provide that the acceleration of the maturity of any of our indebtedness in a principal amount in excess of \$50 million will constitute a default under the Senior Unsecured Notes if such acceleration is not annulled, or such indebtedness is not discharged, within 30 days after notice.

Recently Adopted Accounting Pronouncements and New Accounting Pronouncements Not Yet Adopted

See Note 10 for details of recently adopted accounting pronouncements.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08), which limits dispositions that qualify for discontinued operations presentation to those that represent strategic shifts that have or will have a major effect on an entity's operations and financial results. Strategic shifts could include a disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of the business. ASU 2014-08 is effective prospectively for the Company in our first quarter of fiscal 2015, with early adoption permitted. We do not believe the adoption of this standard will have a significant impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. ASU 2014-09 is effective for the Company in our first quarter of fiscal 2017 with no early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes during the quarter ended June 14, 2014 to the disclosures made in Item 7A of the Company's 2013 Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on the evaluation, performed under the supervision and with the participation of the Company's management, including the Chairman and Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by the report.

Changes in Internal Control

There were no changes with respect to the Company's internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended June 14, 2014.

Cautionary Note Regarding Forward-Looking Statements

From time to time, in both written reports and oral statements, we present “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements often include words such as “may,” “will,” “estimate,” “intend,” “seek,” “expect,” “project,” “anticipate,” “believe,” “plan” or other similar terminology. These forward-looking statements are based on current expectations and assumptions and upon data available at the time of the statements and are neither predictions nor guarantees of future events or performance. The forward-looking statements are subject to risks and uncertainties, which may cause actual results to differ materially from those projected. Factors that could cause actual results and events to differ materially from our expectations and forward-looking statements include (i) the risks and uncertainties described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part I, Item 2 and any Risk Factors in Part II, Item 1A of this report, (ii) the risks and uncertainties

described in the Risk Factors included in Part I, Item 1A of our Form 10-K for the year ended December 28, 2013 and (iii) the factors described in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of our Form 10-K for the year ended December 28, 2013. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. We are not undertaking to update any of these statements.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
YUM! Brands, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of YUM! Brands, Inc. and Subsidiaries (YUM) as of June 14, 2014, the related condensed consolidated statements of income and comprehensive income for the quarters and years to date ended June 14, 2014 and June 15, 2013, and the related condensed consolidated statements of cash flows for the years to date ended June 14, 2014 and June 15, 2013. These interim condensed consolidated financial statements are the responsibility of YUM's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the interim condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of YUM as of December 28, 2013, and the related consolidated statements of income, comprehensive income, cash flows, and shareholders' equity, for the year then ended (not presented herein); and in our report dated February 18, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 28, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP
Louisville, Kentucky
July 22, 2014

PART II – Other Information and Signatures

Item 1. Legal Proceedings

Information regarding legal proceedings is incorporated by reference from Note 11 to the Company's Condensed Consolidated Financial Statements set forth in Part I of this report.

Item 1A. Risk Factors

We face a variety of risks that are inherent in our business and our industry, including operational, legal, regulatory and product risks. Such risks could cause our actual results to differ materially from our forward-looking statements, expectations and historical trends. There have been no material changes from the risk factors disclosed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 28, 2013.

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

The following table provides information as of June 14, 2014 with respect to shares of Common Stock repurchased by the Company during the quarter then ended:

Fiscal Periods	Total number of shares purchased (thousands)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (thousands)	Approximate dollar value of shares that may yet be purchased under the plans or programs (millions)
3/23/14-4/19/14	582	\$75.38	582	\$785
4/20/14-5/17/14	808	\$75.86	808	\$724
5/18/14-6/14/14	922	\$76.71	922	\$653
Total	2,312	\$76.08	2,312	\$653

In November 2012, our Board of Directors authorized share repurchases through May 2014 of up to \$1 billion (excluding applicable transaction fees) of our outstanding Common Stock. 1.0 million shares were repurchased during the quarter ended June 14, 2014, exhausting this authorization.

In November 2013, our Board of Directors authorized additional share repurchases through May 2015 of up to \$750 million (excluding applicable transaction fees) of our outstanding Common Stock. For the quarter ended June 14, 2014, 1.3 million shares were repurchased under this authorization.

Item 6. Exhibits

(a) Exhibit Index

EXHIBITS

Exhibit 15	Letter from KPMG LLP regarding Unaudited Interim Financial Information (Acknowledgement of Independent Registered Public Accounting Firm)
Exhibit 31.1	Certification of the Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of the Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

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

YUM! BRANDS, INC.
(Registrant)

Date: July 22, 2014

/s/ David E. Russell
Vice President, Finance and Corporate Controller
(Principal Accounting Officer)