

MCDONALDS CORP
Form 10-Q
May 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2008

OR

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

Commission File Number 1-5231

McDONALD S CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of

Incorporation or Organization)

McDonald s Plaza

Oak Brook, Illinois
(Address of Principal Executive Offices)

36-2361282
(I.R.S. Employer

Identification No.)

60523
(Zip Code)

(630) 623-3000

(Registrant s Telephone Number, Including Area Code)

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

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Yes No

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

Large accelerated filer

Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

1,133,525,530

(Number of shares of common stock

outstanding as of March 31, 2008)

MCDONALD S CORPORATION

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The following trademarks used herein are the property of McDonald's Corporation or the Company: McDonald's and Happy Meal. All other trademarks are property of their respective owners.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEET

In millions, except per share data	(unaudited) March 31, 2008	December 31, 2007
Assets		
Current assets		
Cash and equivalents	\$ 2,922.2	\$ 1,981.3
Accounts and notes receivable	895.9	1,053.8
Inventories, at cost, not in excess of market	114.5	125.3
Prepaid expenses and other current assets	393.0	421.5
Total current assets	4,325.6	3,581.9
Other assets		
Investments in and advances to affiliates	1,256.6	1,156.4
Goodwill, net	2,371.5	2,301.3
Miscellaneous	1,379.0	1,367.4
Total other assets	5,007.1	4,825.1
Property and equipment		
Property and equipment, at cost	33,450.5	32,203.7
Accumulated depreciation and amortization	(11,861.2)	(11,219.0)
Net property and equipment	21,589.3	20,984.7
Total assets	\$ 30,922.0	\$ 29,391.7
Liabilities and shareholders' equity		
Current liabilities		
Notes payable	\$ 1,070.0	\$ 1,126.6
Accounts payable	579.6	624.1
Income taxes	16.2	
Other taxes	309.5	248.0
Accrued interest	187.2	148.4
Accrued payroll and other liabilities	1,300.5	1,486.9
Current maturities of long-term debt	220.3	864.5
Total current liabilities	3,683.3	4,498.5
Long-term debt	10,443.6	7,310.0
Other long-term liabilities	1,363.4	1,342.5
Deferred income taxes	1,017.5	960.9
Shareholders' equity		
Preferred stock, no par value; authorized 165.0 million shares; issued none		
Common stock, \$.01 par value; authorized 3.5 billion shares; issued 1,660.6 million shares	16.6	16.6
Additional paid-in capital	4,308.9	4,226.7
Retained earnings	26,981.8	26,461.5
Accumulated other comprehensive income	1,775.8	1,337.4
Common stock in treasury, at cost; 527.1 and 495.3 million shares	(18,668.9)	(16,762.4)
Total shareholders' equity	14,414.2	15,279.8
Total liabilities and shareholders' equity	\$ 30,922.0	\$ 29,391.7

See Notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

In millions, except per share data	Quarters Ended	
	2008	2007
Revenues		
Sales by Company-operated restaurants	\$ 3,998.8	\$ 3,913.8
Revenues from franchised and affiliated restaurants	1,616.0	1,378.9
Total revenues	5,614.8	5,292.7
Operating costs and expenses		
Company-operated restaurant expenses	3,339.6	3,293.3
Franchised restaurants occupancy expenses	299.8	275.7
Selling, general & administrative expenses	552.4	545.2
Impairment and other charges, net	0.5	2.6
Other operating (income) expense, net	(40.3)	(5.4)
Total operating costs and expenses	4,152.0	4,111.4
Operating income	1,462.8	1,181.3
Interest expense	128.5	97.2
Nonoperating (income) expense, net	(28.9)	(16.7)
Income from continuing operations before provision for income taxes	1,363.2	1,100.8
Provision for income taxes	417.1	334.3
Income from continuing operations	946.1	766.5
Income (loss) from discontinued operations (net of tax benefit of \$2.7)		(4.1)
Net income	\$ 946.1	\$ 762.4
Per common share basic:		
Continuing operations	\$ 0.83	\$ 0.64
Discontinued operations		
Net income	\$ 0.83	\$ 0.63
Per common share diluted:		
Continuing operations	\$ 0.81	\$ 0.63
Discontinued operations		
Net income	\$ 0.81	\$ 0.62
Dividends per common share	\$ 0.38	
Weighted-average shares outstanding basic	1,145.6	1,201.2
Weighted-average shares outstanding diluted	1,165.3	1,222.3

See Notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

In millions	Quarters Ended	
	March 31, 2008	2007
Operating activities		
Net income	\$ 946.1	\$ 762.4
Adjustments to reconcile to cash provided by operations		
Charges and credits:		
Depreciation and amortization	304.7	311.5
Deferred income taxes	12.8	(20.3)
Share-based compensation	35.1	37.0
Other	39.5	(75.8)
Changes in working capital items	140.3	(86.4)
Cash provided by operations	1,478.5	928.4
Investing activities		
Property and equipment expenditures	(405.1)	(408.9)
Purchases and sales of restaurant businesses and property sales	72.4	1.9
Other	15.2	1.5
Cash used for investing activities	(317.5)	(405.5)
Financing activities		
Notes payable and long-term financing issuances and repayments	2,095.5	330.2
Treasury stock purchases	(2,011.3)	(968.4)
Common stock dividends	(426.4)	
Proceeds from stock option exercises	108.6	370.4
Excess tax benefit on share-based compensation	32.4	47.9
Other	(80.2)	(17.5)
Cash used for financing activities	(281.4)	(237.4)
Effect of exchange rates on cash and cash equivalents	61.3	15.0
Cash and equivalents increase	940.9	300.5
Cash and equivalents at beginning of period	1,981.3	2,128.1
Cash and equivalents at end of period	\$ 2,922.2	\$ 2,428.6

See Notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**Basis of Presentation**

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Company's December 31, 2007 Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. The results for the quarter ended March 31, 2008 do not necessarily indicate the results that may be expected for the full year.

Certain prior period amounts have been reclassified to conform to current year presentation, including reclassifying results and amounts of Boston Market to discontinued operations as a result of the sale in August 2007.

The results of operations of McDonald's restaurant businesses purchased and sold were not material to the condensed consolidated financial statements for periods prior to purchase and sale.

Restaurant Information

The following table presents restaurant information by ownership type:

Restaurants at March 31,	2008	2007
Operated by franchisees*	20,635	18,766
Operated by the Company**	6,815	8,190
Operated by affiliates	3,989	4,106
Systemwide restaurants	31,439	31,062

* At March 31, 2008 and 2007 included 2,804 and 1,093 restaurants, respectively, operated by developmental licensees.

** The decrease is primarily due to the August 2007 Latam transaction.

Conversion of Certain Markets to Developmental License

In August 2007, the Company completed the sale of its businesses in Brazil, Argentina, Mexico, Puerto Rico, Venezuela and 13 other countries in Latin America and the Caribbean to a developmental licensee organization. The Company refers to these markets, which total about 1,600 restaurants, as "Latam". Under a developmental license, a local licensee owns the business, including the real estate, and uses his/her capital and local knowledge to build the McDonald's Brand and optimize sales and profitability over the long term. Under this arrangement, the Company collects a royalty, which varies by market, based on a percent of sales, but does not invest any capital.

The buyers of the Company's operations in Latam have entered into a 20-year master franchise agreement that requires the buyers, among other obligations, to pay monthly royalties commencing at a rate of approximately 5% of gross sales of the restaurants in these markets, substantially consistent with market rates for similar license arrangements.

Comprehensive Income

The following table presents the components of comprehensive income for the quarters ended March 31, 2008 and 2007:

Quarters Ended

In millions	March 31,	
	2008	2007
Net income	\$ 946.1	\$ 762.4
Other comprehensive income (loss):		
Foreign currency translation adjustments	421.8	89.0
Deferred hedging adjustments	31.5	4.4
Pension liability adjustment	(14.9)	1.8
Total other comprehensive income (loss)	438.4	95.2
Total comprehensive income	\$ 1,384.5	\$ 857.6
Per Common Share Information		

Diluted net income per common share is calculated using net income divided by diluted weighted-average shares outstanding. Diluted weighted-average shares outstanding included weighted-average shares outstanding plus the dilutive effect of share-based compensation, calculated using the treasury stock method, of 19.7 million shares and 21.1 million shares for the first quarter 2008 and 2007, respectively. Stock options that were not included in diluted weighted-average shares outstanding because they would have been antidilutive were 5.2 million shares for the first quarter 2008 and 6.0 million shares for the first quarter 2007.

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. The provisions of SFAS No. 157, as issued, were effective January 1, 2008. However, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which allows entities to defer the effective date of SFAS No. 157, for one year, for certain non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (i.e., at least annually). The Company adopted SFAS No. 157 as of January 1, 2008 and elected the deferral for non-financial assets and liabilities. The effect of adopting this standard was not significant.

Fair value is defined under SFAS No. 157 as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a three-level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

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

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

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability. Certain of the Company's derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves, option volatilities and