

VERITAS SOFTWARE CORP /DE/

Form 10-K/A

March 17, 2003

Table of Contents

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

FORM 10-K/ A
Amendment No. 1

(Mark One)

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

For the fiscal year ended December 31, 2001

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 0-26247

VERITAS SOFTWARE CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

77-0507675
(I.R.S. Employer
Identification No.)

350 Ellis Street
Mountain View, California
(Address of Principal Executive Offices)

94043
(Zip Code)

Registrant's Telephone Number, including Area Code: (650) 527-8000

Securities to be registered pursuant to Section 12(b) of the Act: None

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

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

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As of February 28, 2002, 406,738,273 shares of the Registrant's common stock were outstanding. The aggregate market value of the common stock held by non-affiliates of the Registrant as of February 28, 2002 was approximately \$14.4 billion.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's definitive proxy statement, delivered to stockholders in connection with the Registrant's Annual Meeting of Stockholders held on May 14, 2002, are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

EXPLANATORY NOTE

PART II

Item 6. Selected Financial Data

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

Item 8. Financial Statements and Supplementary Data

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

SIGNATURES

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE
LOSS

CONSOLIDATED STATEMENTS OF CASH FLOWS

EXHIBIT 23.01

EXHIBIT 23.02

EXHIBIT 99.01

Table of Contents

EXPLANATORY NOTE

On January 17, 2003, VERITAS Software Corporation (the Company) announced that it would restate its accounting for transactions with AOL Time Warner (AOL) entered into in September 2000. The transactions involved a software and services purchase by AOL at a stated value of \$50.0 million and the purchase by the Company of advertising services from AOL at a stated value of \$20.0 million. The Company originally recorded \$36.9 million of revenue in 2000 and has been recognizing the remaining \$13.1 million in revenue over a three-year support period. The purchase of advertising services at a stated value of \$20.0 million was recorded as an expense as the services were provided in 2000 and 2001.

The Company has conducted an internal review of the AOL transactions and other contemporaneous customer-vendor transactions to determine if the fair value of goods and services purchased and sold could be reasonably determined. The Company has determined that the fair value of the goods and services purchased and sold in the AOL transactions could not be reasonably determined and has accordingly restated its financial results to reflect a reduction in revenues and expenses of \$20.0 million. The Company is also restating two additional contemporaneous transactions involving software licenses and the purchase of on-line advertising services entered into in 2000 to reflect an additional reduction in revenues and expenses of \$977,000. The periods affected by the restatement include fiscal years ended December 31, 2000 and 2001. In fiscal year 2000, the restatement reduces revenue by \$19.9 million and increases net loss and net loss per share by \$8.6 million and \$0.02, respectively. In fiscal year 2001, the restatement reduces revenue by \$0.4 million and decreases net loss and net loss per share by \$9.0 million and \$0.02, respectively. Additionally, as of December 31, 2001, the deferred revenue balance was reduced by \$0.7 million. The restated financial results for 2000 and 2001 are contained in this Amendment No. 1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2001. The Company has determined that the restatement described above does not affect the Company's previously filed quarterly reports on Form 10-Q for quarters ended March 31, 2002 through September 30, 2002.

This report is being filed to amend and restate the following items contained in our Annual Report on Form 10-K originally filed with the Securities and Exchange Commission on March 28, 2002:

Item 6 (Selected Financial Data),

Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations),

Item 8 (Financial Statements and Supplementary Data), and

Item 14 (Exhibits, Financial Statement Schedules, and Reports on Form 8-K).

In order to preserve the nature and character of the disclosures set forth in such Items as originally filed, this report continues to speak as of the date of the original filing, and the Company has not updated the disclosures in this report to speak as of a later date. All information contained in this Amendment No. 1 is subject to updating and supplementing as provided in our reports filed with the Securities and Exchange Commission subsequent to the date of the original filing of the Annual Report on Form 10-K.

Table of Contents**TABLE OF CONTENTS****PART II**

Item 6.	Selected Financial Data	3
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	4
Item 8.	Financial Statements and Supplementary Data	32

PART IV

Item 14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	35
	Signatures	44
	Financial Statements	47

Item 6. Selected Financial Data

The following selected consolidated financial data are derived from our consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and notes thereto, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. As described in Note 20 to our consolidated financial statements, we have restated our consolidated financial statements as of December 31, 2000 and 2001 and for the years ended December 31, 2000 and 2001.

Years Ended December 31,

	2001	2000	1999	1998	1997
	(As restated)(1)	(As restated)(1)			
		(In thousands, except per share data)			
Consolidated Statement of Operations Data:					
Total net revenue	\$ 1,491,928	\$ 1,187,441	\$ 596,112	\$ 210,865	\$ 121,125
Amortization of developed technology	63,086	62,054	35,659		
Amortization of goodwill and other intangibles	886,651	879,032	510,943		
Stock-based compensation	8,949				
Acquisition and restructuring costs (reversals)	(5,000)	(4,260)	11,000		8,490
In-process research and development			104,200	600	
Income (loss) from operations	(548,053)	(567,100)	(475,237)	53,668	20,076
Net income (loss)	(642,329)	(628,385)	(502,958)	51,648	22,749
Net income (loss) per share basic	\$ (1.61)	\$ (1.57)	\$ (1.59)	\$ 0.24	\$ 0.11
Net income (loss) per share diluted	\$ (1.61)	\$ (1.57)	\$ (1.59)	\$ 0.22	\$ 0.10
Number of shares used in computing per share amounts basic	399,016	400,034	316,892	211,558	205,300
Number of shares used in computing per share amounts diluted	399,016	400,034	316,892	232,519	222,716

Table of Contents

	December 31,				
	2001	2000	1999	1998	1997
	(As restated)(1)	(As restated)(1)	(In thousands, except per share data)		
Consolidated Balance Sheet Data:					
Working capital	\$ 1,545,276	\$ 916,084	\$ 630,440	\$ 198,069	\$ 187,667
Total assets	3,798,376	4,073,278	4,233,277	349,117	241,880
Long-term obligations	444,408	429,176	451,044	100,000	100,000
Accumulated deficit	(1,803,088)	(1,160,759)	(532,374)	(29,416)	(81,064)
Stockholders equity	2,723,893	2,973,978	3,393,061	169,854	104,193

(1) See Note 20 to the consolidated financial statements.

In 1999, we acquired the Network & Storage Management Group business of Seagate Software, Inc., TeleBackup Systems, Inc. and NuView, Inc. Because we accounted for these three acquisitions using the purchase method of accounting, we recorded developed technology, goodwill and other intangible assets of approximately \$3,754.9 million in total. Until December 31, 2001, these assets were being amortized over their estimated useful life of four years, and resulted in amortization charges of approximately \$234.8 million per quarter. In 1999, we recorded one-time non-cash charges of \$104.2 million related to the write-off of in-process research and development, and we also recorded a one-time restructuring charge of \$11.0 million related primarily to costs for our duplicative facilities that we planned to vacate, of which \$4.3 million was reversed in 2000 as a result of lower actual exit costs than originally estimated with respect to our duplicative facilities. In 2001, we recorded a stock-based compensation charge of \$8.9 million mainly related to the acceleration of certain stock options held by our former chief executive officer and we reversed \$5.0 million of net attorneys' fees originally accrued in relation to the Delaware lawsuit captioned *In Re Seagate Technology, Inc. Shareholders Litigation*, which we will not have to pay as a result of a Delaware Chancery Court ruling that approved the settlement of the lawsuit.

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

This annual report on Form 10-K, including the following sections, contains forward-looking statements that involve numerous risks and uncertainties, including effects of business combinations and acquisitions, new and critical accounting policies, products and services revenue, revenue mix, products and services gross margin, expense and amortization estimates, liquidity, and commitments under leases. In some cases, forward-looking statements are identified by words such as believe, anticipate, expect, intend, plan, will, may and similar expressions. In addition, these forward-looking statements include statements regarding our expectations, beliefs, plans, intentions or strategies regarding the future. All these forward-looking statements are based on information available to us at this time, and we assume no obligation to update any of these statements. The actual results that we achieve may differ materially from those anticipated by any forward-looking statement due to risks and uncertainties including those described below under Factors That May Affect Future Results.

As described in Note 20 to our consolidated financial statements, we have restated our consolidated financial statements as of December 31, 2000 and 2001 and for the years ended December 31, 2000 and 2001.

Overview

VERITAS is a leading independent supplier of storage software products and services. Storage software includes storage management and data protection software as well as clustering, replication and storage area networking software. We develop and sell products for most popular operating systems, including various versions of UNIX (including Linux) and Windows. We also develop and sell products that support a wide variety of servers, storage devices, databases and network solutions. Customers use our software solutions in a wide variety of industries, and include many leading global corporations and e-commerce businesses. We also provide a full range of services to assist our customers in assessing, architecting and implementing their storage software solutions.

Table of Contents

We derive user license fee revenue from shipments of our software products to end-user customers through a combination of original equipment manufacturers, direct sales channels and indirect sales channels such as resellers, value-added resellers, hardware distributors, application software vendors and systems integrators. Some original equipment manufacturers incorporate our products into their products, some bundle our products with their products and some license our products to third parties as optional products. In general, we receive a user license fee for each sublicense of our products granted by an original equipment manufacturer licenses to its customer.

Our services revenue consists of fees derived from maintenance, technical support, consulting and training services. Original equipment manufacturer maintenance agreements covering our products provide for technical and emergency support and minor unspecified product upgrades for a fixed annual fee. Maintenance agreements covering products that are licensed through channels other than original equipment manufacturers provide for technical support and unspecified product upgrades for an annual fee based on the number of user licenses purchased and the level of service subscribed.

International sales and operations

Our international sales are generated primarily through our international sales subsidiaries. International revenue, most of which is collectible in foreign currencies, accounted for approximately 29% of our total revenue in 2001, 25% of our total revenue in 2000 and 24% of our total revenue in 1999. Our international revenue increased 46% to \$430.2 million in 2001 from \$294.4 million in 2000, and 103% in 2000 from \$144.9 million in 1999.

We believe that our success depends upon continued expansion of our international operations. We currently have sales and service offices and resellers located in North America, Europe, Asia-Pacific, South America and the Middle East, and a development center in India. International expansion will require us to establish additional foreign offices, hire additional personnel and recruit new international resellers, resulting in the diversion of significant management attention and the expenditure of financial resources. To the extent that we are unable to meet these additional requirements, growth in international sales will be limited, which would have an adverse effect on our business, operating results and financial condition.

Seagate Technology transaction

On November 22, 2000, we completed a multi-party transaction with Seagate Technology, which we refer to as Seagate, and Suez Acquisition Company (Cayman) Limited, which we refer to as SAC, a company formed by a group of private equity firms led by Silver Lake Partners. The transaction was structured as a leveraged buyout of Seagate pursuant to which Seagate sold all of its operating assets to SAC, and SAC assumed and indemnified Seagate and us for substantially all liabilities arising in connection with those operating assets. We did not acquire Seagate's disc drive business or any other Seagate operating business. At the closing, and after the operating assets and liabilities of Seagate had been transferred to SAC, a wholly-owned subsidiary of ours merged with and into Seagate, following which Seagate became our wholly-owned subsidiary and was renamed VERITAS Software Technology Corporation.

We issued approximately 109.4 million shares of our common stock to the Seagate stockholders in exchange for approximately 128.1 million shares of our common stock and certain non-operating assets and liabilities held by Seagate. The transaction resulted in a decrease of approximately 18.7 million shares of our outstanding common stock. At the closing of the transaction, we recorded the non-operating assets and liabilities assumed from Seagate at their fair values. In addition, we accrued \$40.0 million of direct transaction costs.

Table of Contents

Acquisition-related costs are summarized below (in millions):

	Direct Transaction Costs
Provision accrued at transaction date	\$ 40.0
Cash payments	(8.6)
Balance at December 31, 2000	31.4
Cash payments	(26.0)
Reversals	(5.0)
Balance at December 31, 2001	\$ 0.4

In 2001, we reversed \$5.0 million of net attorneys' fees originally accrued in relation to the Delaware lawsuit captioned *In re Seagate Technology, Inc. Shareholders Litigation*, which we will not have to pay as a result of a Delaware Chancery Court ruling that approved the settlement of the lawsuit and the subsequent distribution of \$50.0 million of additional consideration to the former Seagate stockholders that was paid by SAC. We anticipate that the remaining \$0.4 million of accrued acquisition-related costs will be utilized in 2002.

For the year ended December 31, 2000, the transaction had no impact on our consolidated statement of operations. For the year ended December 31, 2001, the transaction had the following significant impacts on our consolidated statement of operations:

reversal of acquisition and restructuring costs of \$5.0 million; and

additional provision for income taxes of \$30.1 million.

Considering the impacts on our consolidated statement of operations, net of tax, and the impacts of the decrease of approximately 18.7 million shares of our common stock outstanding on the number of shares used in computing the net loss per share, the transaction resulted in incremental net losses per share of \$0.13 the year ended December 31, 2001 and \$0.01 for the year ended 2000. We expect the transaction to be accretive when we reach profitability.

As of December 31, 2000 and 2001, the transaction had impacts on our consolidated balance sheet. The impacts on our assets and liabilities were:

As of December 31, 2000

other non-current assets included \$70.0 million of indemnification receivable from SAC and \$4.0 million for our ownership in Gadzoox Networks, Inc.;

accrued acquisition and restructuring costs included \$31.4 million of direct transaction costs; and

deferred and other income taxes included an additional \$132.0 million, which was net of a deferred tax asset of \$3.0 million related to our ownership in Gadzoox Networks, Inc.

As of December 31, 2001

other current assets included \$21.3 million of indemnification receivable from SAC;

other non-current assets included \$18.0 million of indemnification receivable from SAC;

accrued acquisition and restructuring costs included \$0.4 million of direct transaction costs;

income taxes payable included an additional \$21.3 million; and

deferred and other income taxes included an additional \$113.1 million.

As of December 31, 2001 and 2000, deferred and other income taxes payable recorded in connection with the Seagate transaction totaled \$134.4 million and \$135.0 million, respectively, and related to certain tax

Table of Contents

liabilities that we expect to pay after the merger. Certain of Seagate's federal and state tax returns for various fiscal years are under examination by tax authorities. In 2001, we recorded a reduction of \$30.7 million in tax liabilities and indemnification receivable from SAC due to certain settlements entered into with tax authorities. Also, we recorded a provision for income taxes of \$30.1 million due to changes in estimates of the amount and timing of other tax liabilities for years under examination. We believe that adequate amounts for tax liabilities have been provided for any final assessments that may result from these examinations.

Business combinations*NSMG acquisition*

On May 28, 1999, we acquired the Network & Storage Management Group business of Seagate Software, Inc., which we refer to as NSMG. The NSMG business developed and marketed software products and provided related services enabling information technology professionals to manage distributed network resources and to secure and protect enterprise data. We accounted for the NSMG acquisition using the purchase method of accounting, and have been incurring charges of \$221.5 million per quarter primarily related to the amortization of developed technology, goodwill and other intangibles over their estimated useful life of four years. The total NSMG purchase price was \$3,464.5 million and included \$3,151.4 million for the issuance of 155.6 million shares of our common stock, \$269.7 million for the exchange of options to purchase 15.6 million shares of our common stock and \$43.4 million of acquisition-related costs. The purchase price was allocated, based on an independent valuation, to goodwill of \$3,015.8 million, distribution channels of \$233.8 million, original equipment manufacturer agreements of \$23.4 million, developed technology of \$233.7 million, assembled workforce of \$12.8 million, trademarks of \$22.8 million, in-process research and development of \$101.2 million, net deferred tax liabilities of \$179.5 million, other intangibles of \$1.5 million and tangible net liabilities assumed of \$1.0 million. For each of 2001 and 2000, we recorded \$827.6 million for the amortization of goodwill and other intangibles, and \$58.4 million for the amortization of developed technology related to this acquisition. For 1999, we recorded \$482.5 million for the amortization of goodwill and other intangibles, and \$34.1 million for the amortization of developed technology related to this acquisition. The results of operations of the acquired business are included in our consolidated financial statements from the date of acquisition.

Acquisition-related costs consisted of direct transaction costs of \$20.0 million, operating lease commitments on duplicative facilities of \$8.2 million and involuntary termination benefits of \$15.2 million. Non-cash charges included in the acquisition-related costs approximated \$11.7 million.

Acquisition-related costs are summarized below (in millions):

	Direct transaction costs	Operating lease commitments on duplicative facilities	Involuntary termination benefits	Total
Provision accrued at acquisition date	\$ 20.0	\$ 8.2	\$ 15.2	\$ 43.4
Cash payments	(17.4)	(0.3)	(1.8)	(19.5)
Non-cash charges	—	—	(11.7)	(11.7)
Balance at December 31, 1999.	2.6	7.9	1.7	12.2
Cash payments	(1.9)	(1.9)	(0.9)	(4.7)
Balance at December 31, 2000.	0.7	6.0	0.8	7.5
Cash payments	(0.7)	(0.2)	(0.3)	(1.2)
Balance at December 31, 2001.	\$ —	\$ 5.8	\$ 0.5	\$ 6.3

The remaining acquisition-related costs accrual of \$6.3 million is anticipated to be utilized primarily for servicing operating lease payments or negotiated buyout of operating lease commitments, the lease terms of which will expire at various times through the year 2013.

Table of Contents

In addition, we recorded a restructuring charge of \$11.0 million in 1999 as a result of the NSMG acquisition. This restructuring charge related to exit costs with respect to duplicative facilities that we planned to vacate, which include \$0.9 million of write-off of redundant equipment and leasehold improvements, and involuntary termination benefits. Involuntary termination benefits relate to the salary and fringe benefit expense for terminated employees in research and development. The involuntarily terminated employees represented 2% of the global workforce. In the fourth quarter of 2000, as a result of lower actual exit costs than originally estimated with respect to duplicative facilities, we reversed \$4.3 million of the restructuring charge.

Restructuring costs are summarized below (in millions):

	Cancellation of facilities leases and other contracts	Involuntary termination benefits	Write off of redundant equipment and leasehold improvements	Total
Provision accrued at acquisition date	\$ 8.8	\$ 1.3	\$ 0.9	\$ 11.0
Cash payments		(0.9)		(0.9)
Non-cash charges			(0.9)	(0.9)
	—	—	—	—
Balance at December 31, 1999	8.8	0.4		9.2
Cash payments	(0.2)			(0.2)
Reversal	(3.9)	(0.4)		(4.3)
	—	—	—	—
Balance at December 31, 2000	\$ 4.7	\$	\$	\$ 4.7
Cash payments				
	—	—	—	—
Balance at December 31, 2001	\$ 4.7	\$	\$	\$ 4.7

The remaining restructuring charge accrual of \$4.7 million is anticipated to be utilized for servicing operating lease payments or negotiated buyout of operating lease commitments, the lease terms of which will expire at various times through the year 2012.

TeleBackup acquisition

On June 1, 1999, we acquired TeleBackup Systems, Inc., which we refer to as TeleBackup. TeleBackup designed, developed and marketed software products for local and remote backup and recovery of electronic information stored on networked, remote and mobile personal computers. We accounted for the TeleBackup acquisition using the purchase method of accounting, and we have been incurring charges of \$9.0 million per quarter, primarily related to the amortization of developed technology, goodwill and other intangibles over their estimated useful life of four years. The total purchase price for TeleBackup was \$143.1 million and included \$134.1 million related to the issuance of 6.8 million shares of our common stock, \$2.8 million for the issuance of options to purchase 0.2 million shares of our common stock and \$6.2 million in acquisition-related costs. The purchase price was allocated, based on an independent valuation, to goodwill of \$133.1 million, distribution channels of \$1.0 million, original equipment manufacturer agreements of \$2.1 million, developed technology of \$6.6 million, assembled workforce of \$0.3 million, trademarks of \$1.3 million, in-process research and development of \$1.9 million, net deferred tax liabilities of \$3.0 million and tangible net liabilities assumed of \$0.2 million. For each of 2001 and 2000, we recorded \$34.5 million for amortization of goodwill and other intangibles, and \$1.7 million for the amortization of developed technology related to this acquisition. For 1999, we recorded \$20.1 million for amortization of goodwill and other intangibles, and \$1.0 million for the amortization of developed technology related to this acquisition. The results of operations of the acquired business are included in our consolidated financial statements from the date of acquisition.

The acquisition costs of \$6.2 million consist primarily of direct transaction costs and involuntary termination benefits.

Table of Contents

Acquisition-related costs are summarized below (in millions):

	Direct transaction costs	Involuntary termination benefits	Total
Provision accrued at acquisition date	\$ 5.6	\$ 0.6	\$ 6.2
Cash payments	(5.1)	(0.2)	(5.3)
	<u>0.5</u>	<u>0.4</u>	<u>0.9</u>
Balance at December 31, 1999			
Cash payments	(0.2)	(0.4)	(0.6)
	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>
Balance at December 31, 2000			
Cash payments	(0.3)		(0.3)
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Balance at December 31, 2001			

NuView acquisition

On August 10, 1999, we acquired certain assets of NuView, Inc., which we refer to as NuView, for a total cost of approximately \$67.9 million. We accounted for the acquisition using the purchase method of accounting, and we have been incurring charges of \$4.3 million per quarter primarily related to the amortization of developed technology, goodwill and other intangibles over their estimated useful life of four years. The purchase price included \$47.7 million related to the issuance of our common stock, \$0.8 million for the issuance of options to purchase our common stock, \$0.2 million in acquisition-related costs and \$19.2 million paid in cash. The purchase price was allocated, based on an independent valuation, to goodwill of \$62.6 million, developed technology of \$2.4 million, assembled workforce of \$0.6 million, trademarks of \$0.3 million, covenant-not-to-compete of \$0.9 million and in-process research and development of \$1.1 million. For each of 2001 and 2000, we recorded \$16.5 million for amortization of goodwill and other intangibles, and \$0.6 million for the amortization of developed technology related to this acquisition. For 1999, we recorded \$8.1 million for amortization of goodwill and other intangibles, and \$0.3 million for the amortization of developed technology related to this acquisition. The results of operations of the acquired business are included in our consolidated financial statements from the date of acquisition.

Other acquisitions

In 2001, we completed three acquisitions of privately held companies for a total cost of approximately \$78.2 million. We accounted for these acquisitions using the purchase method of accounting. The purchase price included \$76.3 million payable in cash, of which \$64.7 was paid as of December 31, 2001, and \$1.9 million in acquisition-related costs, of which \$1.1 million was paid at December 31, 2001. The remaining cash payments of \$11.6 million will be made throughout March 2003 and the remaining acquisition-related costs accrual of \$0.8 million in direct transaction costs is anticipated to be paid by the end of 2002. The purchase price was allocated to goodwill of \$65.9 million, developed technology of \$12.7 million, other intangibles of \$1.7 million, and net of tangible liabilities assumed of \$2.1 million. For 2001, we recorded \$7.5 million for the amortization of goodwill and other intangibles, and \$1.0 million for the amortization of developed technology. The identifiable intangible assets are amortized over their estimated useful lives of two to four years. The results of operations of the acquired businesses are included in our consolidated financial statements from the respective dates of acquisition.

Accounting pronouncements affecting the accounting treatment of previous business combinations

For the years ended December 31, 2001, 2000 and 1999 we incurred net losses due to the amortization of developed technology, goodwill and other intangibles mainly related to the acquisitions of the NSMG business, TeleBackup and NuView. From all of our acquisitions, we incurred charges of \$949.7 million in 2001, \$941.1 million in 2000 and \$546.6 million in 1999 related to the amortization of developed technology, goodwill and other intangibles. On January 1, 2002, upon adoption of newly issued Statement of Financial Accounting Standards, or SFAS, 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible*

Table of Contents

Assets, the total quarterly charges related to the amortization of developed technology, goodwill and other intangibles has changed. Because of this change, we expect to become profitable in 2002. Refer to the *New Accounting Pronouncements* section for a discussion on the impacts of the adoption of SFAS 141 and SFAS 142 on our financial statements.

Critical Accounting Policies

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and other significant areas that involve management's judgments and estimates. These significant accounting policies are:

Revenue recognition;

Impairment of long-lived assets;

Accounting for income taxes; and

Impairment of strategic investments.

These policies, and our procedures related to these policies, are described in detail below and under specific areas within the discussion and analysis of our financial condition and result of operations. In addition, please refer to Note 1 of the notes to the consolidated financial statements for further discussion of our accounting policies.

Revenue Recognition.

We derive revenue from primarily two sources: software licenses and services. Service revenue includes contracts for software maintenance and technical support, consulting and training.

We apply the provisions of Statement of Position (SOP) 97-2, *Software Revenue Recognition* (as amended by SOP 98-4 and SOP 98-9) and related interpretations to all transactions to recognize revenue.

For software arrangements involving multiple elements, we allocate and defer revenue for the undelivered elements based on their relative fair value and recognize the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. The determination of fair value of each undelivered element in multiple element arrangements is based on the price charged when the same element is sold separately. For the maintenance and technical support elements, we use historical renewal rates to determine the price when sold separately.

A typical arrangement includes software licenses, software media, and maintenance. Some arrangements include training and consulting. Software licenses are sold as site licenses or on a per copy basis. Site licenses give the customer the right to copy the software on a limited or unlimited basis during a specified term.

Maintenance includes updates (unspecified products upgrades and enhancements) on a when-and-if-available basis, telephone support, and bug fixes or patches. Maintenance revenue is recognized ratably over the maintenance term. Training consists of courses taught by our instructors at our facility or at the customer's site. Various courses are offered specific to the license products. Training fees are based on a per course basis and revenue is recognized when the customer has completed the course. Consulting consists primarily of product installation, which does not involve customization of the software. Installation services provided by us are not mandatory. Installation can be performed by us, the customer or a third party. Consulting fees are based on a daily rate.

We have analyzed all of the elements included in our multiple-element arrangements and determined that we have fair value to allocate revenue to the maintenance, training and consulting. Accordingly, assuming all other revenue recognition criteria are met, revenue from perpetual licenses is recognized upon delivery of the software license and media using the residual method in accordance with SOP 98-9. Revenue from maintenance is recognized ratably over the maintenance term. Revenue for consulting and training is recognized as the services are performed.

Table of Contents

We define revenue recognition criteria as follows:

Persuasive Evidence of an Arrangement Exists. It is our customary practice to have a written contract, which is signed by both the customer and us, or a purchase order or amendment to the written contract from those customers that have previously negotiated a standard end-user license arrangement or volume purchase agreement, prior to recognizing revenue on an arrangement.

Delivery Has Occurred. Our software is physically delivered to our customers, with standard transfer terms as FOB shipping point. If undelivered products or services exist that are essential to the functionality of the delivered product in an arrangement, delivery is not considered to have occurred.

The Vendor's Fee is Fixed or Determinable. The fee our customers pay for the products is negotiated at the outset of an arrangement, and is generally based on the specific volume of product to be delivered. Therefore, except in cases where we grant extended payment terms to a specific customer, the fees are considered to be fixed or determinable at the inception of the arrangement. Arrangements with payment terms extending beyond 90 days from the invoice date are not considered to be fixed or determinable. Revenue from such arrangements is recognized as the fees become due and payable.

Collection is Probable. Probability of collection is assessed on a customer-by-customer basis. We typically sell to customers where we have a history of successful collection. New customers are subjected to a credit review process that evaluates the customers' financial position and ultimately their ability to pay. If it is determined from the outset of an arrangement that collection is not probable based upon our review process, revenue is recognized on a cash-collected basis.

Additionally, we generally recognize revenue from licensing of software products through our indirect sales channel when the reseller, value added reseller, hardware distributor, application software vendor or system integrator sells the software products to its customers. For licensing of our software to original equipment manufacturers, royalty revenue is recognized when the original equipment manufacturer reports to us the sale of software to an end user customer. In addition to license royalties, some original equipment manufacturers pay an annual flat fee and/or support royalties for the right to sell maintenance to the end user. We recognize revenue from original equipment manufacturer support royalties/fees ratably over the term of the support agreement.

Our arrangements do not generally include acceptance clauses. However, if an arrangement includes an acceptance provision, we defer the revenue and recognize it upon acceptance, except for government contracts, as acceptance terms are standard. Acceptance occurs upon the earlier of receipt of a written customer acceptance or expiration of the acceptance period.

Impairment of long-lived assets.

We review our long-lived assets, including property and equipment, goodwill and other intangibles, for impairment when events or changes in facts and circumstances indicate that their carrying amount may not be recoverable. Events or changes in facts and circumstances that we consider as impairment indicators include the following:

Significant underperformance of our corporation relative to expected operating results;

&>	1,266.7		\$ 1,209.0
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of hedging		352.5	483.7
Cash flow hedging adjustments		(3.5)	(3.5)
Pension liability adjustment		0.5	21.1
		349.5	501.3

Total other
comprehensive
income (loss)

Total comprehensive income	\$	1,616.2	\$ 1,710.3
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In June 2011, the Financial Accounting Standards Board issued an update to Topic 220 Comprehensive Income of the Accounting Standards Codification (ASC). The update is intended to increase the prominence of other comprehensive income in the financial statements. The guidance requires that the Company presents components of comprehensive income in either one continuous statement or two separate consecutive statements and no longer permits the presentation of comprehensive income in the Consolidated statement of shareholders' equity. The Company adopted this new guidance effective January 1, 2012, as required, and included comprehensive income in the Condensed consolidated statement of net income and comprehensive income (unaudited) for interim reporting.

Per Common Share Information

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation, calculated using the treasury stock method, of 11.8 million shares and 12.2 million shares for the first quarter 2012 and 2011, respectively. Stock options that were not included in the calculation of diluted weighted-average shares because they would have been antidilutive were 4.7 million shares and 3.9 million shares for the first quarter 2012 and 2011, respectively.

Fair Value Measurements

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

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

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

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

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability. Certain of the Company's derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves, option volatilities and currency rates, classified as Level 2 within the valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or the Company.

Certain Financial Assets and Liabilities Measured at Fair Value

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

In millions	Level 1	Level 2	Level 3	Carrying Value
<i>March 31, 2012</i>				
Cash equivalents	\$ 429.0			\$ 429.0
Investments	144.6*			144.6
Derivative assets	151.7*	\$ 63.3		215.0
Total assets at fair value	\$ 725.3	\$ 63.3		\$ 788.6
Derivative liabilities		\$ (7.0)		\$ (7.0)
Total liabilities at fair value		\$ (7.0)		\$ (7.0)

December 31, 2011

Cash equivalents	\$ 581.7			\$ 581.7
Investments	132.4*			132.4
Derivative assets	154.5*	\$ 71.1		225.6
Total assets at fair value	\$ 868.6	\$ 71.1		\$ 939.7
Derivative liabilities		\$ (15.6)		\$ (15.6)
Total liabilities at fair value		\$ (15.6)		\$ (15.6)

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

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

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). At March 31, 2012, no material fair value adjustments or fair value measurements were required for non-financial assets or liabilities.

Certain Financial Assets and Liabilities not Measured at Fair Value

At March 31, 2012, the fair value of the Company's debt obligations was estimated at \$14.4 billion, compared to a carrying amount of \$12.8 billion. The fair value was based on quoted market prices, Level 2 within the valuation hierarchy. The carrying amount for both cash and equivalents and notes receivable approximate fair value.

Financial Instruments and Hedging Activities

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

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

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

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

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

<i>In millions</i>	Derivative Assets			Derivative Liabilities		
	<i>Balance Sheet Classification</i>	March 31, 2012	December 31, 2011	<i>Balance Sheet Classification</i>	March 31, 2012	December 31, 2011
Derivatives designated as hedging instruments						
Foreign currency				Accrued payroll and other		
	Prepaid expenses and other current assets	\$ 5.3	\$ 6.7	liabilities	\$ (0.2)	\$ (0.3)
Interest rate	Prepaid expenses and other current assets	21.2	9.4			
	Miscellaneous other assets	1.1	0.7	Other long-term liabilities	(3.9)	(0.3)
Foreign currency	Miscellaneous other assets	30.1	46.0	Other long-term liabilities		(14.0)
Interest rate		\$ 57.7	\$ 62.8		\$ (4.1)	\$ (14.6)
Total derivatives designated as hedging instruments						
Derivatives not designated as hedging instruments						
Foreign currency	Prepaid expenses and other current assets	\$ 5.6	\$ 8.3	Accrued payroll and other liabilities	\$ (2.9)	\$ (1.0)
Equity	Miscellaneous other assets	151.7	154.5			
Total derivatives not designated as hedging instruments		\$ 157.3	\$ 162.8		\$ (2.9)	\$ (1.0)
Total derivatives		\$ 215.0	\$ 225.6		\$ (7.0)	\$ (15.6)

The following table presents the pretax amounts affecting income and OCI for the three months ended March 31, 2012 and 2011, respectively:

In millions

Derivatives in	Gain (Loss)		Hedged Items in	Gain (Loss)		
	Recognized in Income on Derivative			Recognized in Income on Related Hedged Items		
Fair Value			Fair Value			
Hedging			Hedging			
Relationships	2012	2011	Relationships	2012	2011	
Interest rate	\$ (4.1)	\$ (21.5)	Fixed-rate debt	\$ 4.1	\$ 21.5	
Derivatives in	Gain (Loss)		Gain (Loss)	Gain (Loss)		
	Recognized in Accumulated OCI on Derivative (Effective Portion)			Reclassified from Accumulated OCI into Income (Effective Portion)		Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing and Ineffective Portion)
Cash flow						
Hedging						
Relationships	2012	2011	2012	2011	2012	2011
Foreign currency	\$ (5.2)	\$ (4.0)	\$ (4.7)	\$ 0.9	\$ (2.5)	\$ (4.5)
Interest rate ⁽¹⁾	(4.6)		0.3	0.6		
Total	\$ (9.8)	\$ (4.0)	\$ (4.4)	\$ 1.5	\$ (2.5)	\$ (4.5)
Net Investment	Gain (Loss)		Derivatives Not	Gain (Loss)		
	Recognized in Accumulated OCI on Derivative (Effective portion)			Recognized in Income on Derivative		
Hedging Relationships	2012	2011	Designated as Hedging Instruments	2012	2011	
Foreign currency denominated debt	\$ (1.5)	\$ (112.5)	Foreign Currency	\$ (1.1)	\$ (2.0)	
Foreign currency derivatives		(7.4)	Equity ⁽²⁾	(2.7)	(0.8)	
Total	\$ (1.5)	\$ (119.9)	Total	\$ (3.8)	\$ (2.8)	

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

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

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

Fair Value Hedges

The Company enters into fair value hedges to reduce the exposure to changes in the fair values of certain liabilities. The fair value hedges the Company enters into consist of interest rate swaps which convert a portion of its fixed-rate debt into floating-rate debt. All of the Company's interest rate swaps meet the shortcut method requirements. Accordingly, changes in the fair values of the interest rate swaps are exactly offset by changes in the fair value of the underlying debt. No ineffectiveness has been recorded to net income related to interest rate swaps designated as fair value hedges for the three months ended March 31, 2012. A total of \$1.8 billion of the Company's outstanding fixed-rate debt was effectively converted to floating-rate debt resulting from the use of interest rate swaps.

Cash Flow Hedges

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

The Company periodically uses interest rate swaps to effectively convert a portion of floating-rate debt, including forecasted debt issuances, into fixed-rate debt and the agreements are intended to reduce the impact of interest rate changes on future interest expense. At March 31, 2012, none of the Company's anticipated debt issuances were effectively converted to fixed-rate resulting from the use of interest rate swaps.

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

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

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

The hedges cover the next 15 months for certain exposures and are denominated in various currencies. As of March 31, 2012, the Company had derivatives outstanding with an equivalent notional amount of \$291.4 million that were used to hedge a portion of forecasted foreign currency denominated royalties.

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

The Company recorded after tax adjustments to the cash flow hedging component of accumulated OCI in shareholders' equity. The Company recorded a net decrease of \$3.5 million for the three months ended March 31, 2012 and 2011. Based on interest rates and foreign exchange rates at March 31, 2012, the \$1.1 million in cumulative cash flow hedging gains, after tax, at March 31, 2012, is not expected to have a significant effect on earnings over the next 12 months.

Net Investment Hedges

The Company primarily uses foreign currency denominated debt (third party and intercompany) to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of OCI and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which are also recorded in OCI. As of March 31, 2012, a total of \$4.8 billion of the Company's outstanding foreign currency denominated debt was designated to hedge investments in certain foreign subsidiaries and affiliates.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by the counterparties to its hedging instruments. The counterparties to these agreements consist of a diverse group of financial institutions. The Company continually monitors its positions and the credit ratings of its counterparties and adjusts positions as appropriate. The Company did not have significant exposure to any individual counterparty at March 31, 2012 and has master agreements that contain netting arrangements. Some of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At March 31, 2012, neither the Company nor its counterparties were required to post collateral on any derivative position, other than on hedges of certain of the Company's supplemental benefit plan liabilities where its counterparties were required to post collateral on their liability positions.

Segment Information

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

In millions	Quarters Ended	
	March 31,	
	2012	2011
Revenues		
U.S.	\$ 2,102.3	\$ 1,925.8
Europe	2,535.5	2,440.0
APMEA	1,556.6	1,400.5
Other Countries & Corporate	352.2	345.3
Total revenues	\$ 6,546.6	\$ 6,111.6
Operating Income		
U.S.	\$ 871.3	\$ 793.0
Europe	699.3	675.3
APMEA	383.9	348.0
Other Countries & Corporate	10.1	9.6
Total operating income	\$ 1,964.6	\$ 1,825.9
Subsequent Events		

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

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

Overview

The Company franchises and operates McDonald's restaurants. Of the 33,517 restaurants in 119 countries at March 31, 2012, 27,074 were licensed to franchisees (including 19,487 franchised to conventional franchisees, 3,965 licensed to developmental licensees and 3,622 licensed to foreign affiliates (affiliates) primarily Japan) and 6,443 were operated by the Company. Under our conventional franchise arrangement, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and décor of their restaurant businesses, and by reinvesting in the business over time. The Company owns the land and building or secures long-term leases for both Company-operated and conventional franchised restaurant sites. This maintains long-term occupancy rights, helps control related costs and assists in alignment with franchisees. In certain circumstances, the Company participates in reinvestment for conventional franchised restaurants. Under our developmental license arrangement, licensees provide capital for the entire business, including the real estate interest, and the Company has no capital invested. In addition, the Company has an equity investment in a limited number of affiliates that invest in real estate and operate and/or franchise restaurants within a market.

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

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

The business is managed as distinct geographic segments. Significant reportable segments include the United States (U.S.), Europe, and Asia/Pacific, Middle East and Africa (APMEA). In addition, throughout this report we present Other Countries & Corporate that includes operations in Canada and Latin America, as well as Corporate activities. The U.S., Europe and APMEA segments account for 32%, 39% and 24% of total revenues, respectively.

Strategic Direction and Financial Performance

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

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

The Company's growth priorities under the Plan to Win include: optimizing the menu with the right food and beverage offerings, modernizing the customer experience by upgrading nearly every aspect of our restaurants from service to designs, and broadening our accessibility through continued convenience and value initiatives. The combination of all of these efforts successfully resonated with consumers, driving increases in comparable sales and customer visits in many countries despite a challenging global economy and relatively flat or contracting Informal Eating Out (IEO) market. As a result, for the first quarter 2012 every area of the world contributed to global comparable sales and guest counts, which increased 7.3% and 4.8%, respectively.

Growth in comparable sales is driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. Generally, the goal is to achieve a balanced contribution from both guest counts and average check.

In the U.S., first quarter 2012 comparable sales of 8.9% were driven by the ongoing popularity of McDonald's core favorites, menu innovations such as Chicken McBites, the enhanced customer experience of McDonald's reimaged restaurants and favorable weather. Ongoing U.S. initiatives include balancing core menu classics with new products and promotional food events; providing everyday value; modernizing our restaurants through the major remodel program and technology enhancements; and broadening accessibility with expanded hours and additional staffing at peak hours. Despite ongoing sales momentum in the U.S., we expect to face continued cost pressures that will impact Company-operated margins at least through the second quarter.

Europe's emphasis on everyday affordability, premium product innovation and restaurant reimaging contributed to 5.0% comparable sales growth for the first quarter 2012. Europe's strategic priorities include increasing local relevance by complementing our tiered menu with a variety of promotional food events, enhancing the customer experience through ongoing restaurant reimaging and technology initiatives, and reducing our impact on the environment with energy management tools. Although our European business will continue to face headwinds due to economic uncertainty and government-initiated austerity measures, we remain confident that our business model will continue to drive profitable growth.

APMEA's comparable sales increase of 5.5% in the first quarter 2012 reflected a strong execution of the segment's core menu, compelling value and convenience strategies. APMEA will continue efforts to become our customers' first choice for eating out by providing robust value platforms, focusing on menu variety and the restaurant experience, and executing convenience initiatives, such as expanding delivery service and extended operating hours. In addition, APMEA will grow our business by opening approximately 750 new restaurants and reimaging existing restaurants, while elevating the focus on service and operations to drive efficiencies.

Operating Highlights Included:

Global comparable sales increased 7.3% for the quarter, and benefited from one additional day due to leap year.

Consolidated operating income increased 8% (9% in constant currencies) for the quarter.

Diluted earnings per share was \$1.23 for the quarter, up 7% (8% in constant currencies). Foreign currency translation had a negative impact of \$0.01 on diluted earnings per share.

For the three months ended March 31, 2012, the Company repurchased 8.1 million shares for \$802.8 million and paid total dividends of \$0.70 per share or \$712.3 million.

Outlook

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

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

The Company does not generally provide specific guidance on changes in comparable sales. However, as a perspective, assuming no change in cost structure, a 1 percentage point increase in comparable sales for either the U.S. or Europe would increase annual diluted earnings per share by about 3-4 cents.

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With about 75% of McDonald's grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company's commodity costs. For the full year 2012, the total basket of goods cost is expected to increase 4.5-5.5% in the U.S. and 2.5-3.5% in Europe, with more pressure expected in the first half.

The Company expects full-year 2012 selling, general & administrative expenses to increase approximately 6% in constant currencies, driven by certain technology investments, primarily to accelerate future restaurant capabilities, and costs related to the 2012 Worldwide Owner/Operator Convention and Olympics. The Company expects the magnitude of the increase to be confined to 2012. Fluctuations will be experienced between quarters due to the timing of certain items such as the Worldwide Owner/Operator Convention in the second quarter and the Olympics in the third quarter.

Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full year 2012 to increase between 8% and 10% compared with 2011.

A significant part of the Company's operating income is generated outside the U.S., and about 40% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 65% of the Company's operating income outside the U.S. If all four of these currencies moved by 10% in the same direction, the Company's annual diluted earnings per share would change by about 24 cents.

The Company expects the effective income tax rate for the full-year 2012 to be 31% to 33%. Some volatility may be experienced between the quarters resulting in a quarterly tax rate that is outside the annual range.

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

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

Information in constant currency is calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results excluding the effect of foreign currency translation and bases incentive compensation plans on these results because they believe this better represents the Company's underlying business trends.

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

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

CONSOLIDATED OPERATING RESULTS

Dollars in millions, except per share data	Quarter Ended March 31, 2012	
	Amount	% Increase
Revenues		
Sales by Company-operated restaurants	\$ 4,432.2	7
Revenues from franchised restaurants	2,114.4	8
Total revenues	6,546.6	7
Operating costs and expenses		
Company-operated restaurant expenses	3,654.4	7
Franchised restaurants occupancy expenses	374.7	6
Selling, general & administrative expenses	592.5	5
Other operating (income) expense, net	(39.6)	19
Total operating costs and expenses	4,582.0	7
Operating income	1,964.6	8
Interest expense	128.9	7
Nonoperating (income) expense, net	(11.8)	n/m
Income before provision for income taxes	1,847.5	9
Provision for income taxes	580.8	19
Net income	\$ 1,266.7	5
Earnings per common share-basic	\$ 1.24	7
Earnings per common share-diluted	\$ 1.23	7
n/m Not meaningful		

Impact of Foreign Currency Translation

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

IMPACT OF FOREIGN CURRENCY TRANSLATION

Dollars in millions, except per share data

Quarters Ended March 31,	2012	2011	Currency Translation Benefit/ (Cost) 2012
Revenues	\$ 6,546.6	\$ 6,111.6	\$ (74.6)
Company-operated margins	777.8	736.0	(8.8)
Franchised margins	1,739.7	1,604.6	(19.1)
Selling, general & administrative expenses	592.5	563.6	4.5
Operating income	1,964.6	1,825.9	(22.7)
Net income	1,266.7	1,209.0	(15.5)
Earnings per share-diluted	1.23	1.15	(0.01)

Foreign currency translation had a negative impact on consolidated operating results for the quarter driven by the weaker Euro.

Net Income and Diluted Earnings per Common Share

For the first quarter 2012, net income increased 5% (6% in constant currencies) to \$1,266.7 million and diluted earnings per share increased 7% (8% in constant currencies) to \$1.23. Foreign currency translation had a negative impact of \$0.01 per share on diluted earnings per share.

For the quarter, the growth rates on net income and diluted earnings per share were negatively impacted by an increase in the effective income tax rate, while the growth rate on diluted earnings per share benefited from a decrease in diluted weighted average shares outstanding.

During the quarter, the Company repurchased 8.1 million shares of its stock for \$802.8 million and paid a quarterly dividend of \$0.70 per share or \$712.3 million.

Revenues

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

REVENUES

Dollars in millions

Quarters Ended March 31,	2012	2011	% Inc/ (Dec)	% Inc/ (Dec) Excluding Currency Translation
<i>Company-operated sales</i>				
U.S.	\$ 1,089.6	\$ 1,004.6	8	8
Europe	1,834.6	1,758.6	4	9
APMEA	1,306.5	1,181.0	11	8
Other Countries & Corporate	201.5	208.5	(3)	(2)
Total	\$ 4,432.2	\$ 4,152.7	7	8
<i>Franchised revenues</i>				
U.S.	\$ 1,012.7	\$ 921.2	10	10
Europe	700.9	681.4	3	7
APMEA	250.1	219.5	14	10
Other Countries & Corporate	150.7	136.8	10	13
Total	\$ 2,114.4	\$ 1,958.9	8	9
<i>Total revenues</i>				
U.S.	\$ 2,102.3	\$ 1,925.8	9	9
Europe	2,535.5	2,440.0	4	8
APMEA	1,556.6	1,400.5	11	8
Other Countries & Corporate	352.2	345.3	2	4
Total	\$ 6,546.6	\$ 6,111.6	7	8

Consolidated revenues increased 7% (8% in constant currencies) for the quarter. The constant currency growth was driven primarily by strong comparable sales as well as expansion.

In the U.S., revenues increased for the quarter due to strong comparable sales. Comparable sales were driven by classic core favorites, menu innovations such as Chicken McBites, the enhanced customer experience due to reimaged restaurants and favorable weather.

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

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

The following table presents the percent change in comparable sales for the quarters ended March 31, 2012 and 2011:

COMPARABLE SALES

Quarters Ended March 31,*	% Increase	
	2012	2011
U.S.	8.9	2.9
Europe	5.0	5.7
APMEA	5.5	3.2
Other Countries & Corporate	11.6	7.8
Total	7.3	4.2

* On a consolidated basis, comparable guest counts increased 4.8% and 3.6% for the quarters ended March 31, 2012 and 2011, respectively. The following table presents the percent change in Systemwide sales for the quarter ended March 31, 2012:

SYSTEMWIDE SALES

Quarter Ended March 31, 2012	% Inc	% Inc
		Excluding Currency Translation
U.S.	10	10
Europe	4	8
APMEA	13	10
Other Countries & Corporate	10	14
Total	9	10

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

FRANCHISED SALES

Dollars in millions

Quarters Ended March 31,	2012	2011	% Inc	% Inc
				Excluding Currency Translation
U.S.	\$ 7,377.5	\$ 6,714.6	10	10
Europe	3,985.8	3,863.1	3	7
APMEA	3,425.7	3,023.4	13	11
Other Countries & Corporate	1,889.1	1,685.9	12	16
Total*	\$ 16,678.1	\$ 15,287.0	9	10

* Sales from developmental licensed restaurants or foreign affiliated markets where the Company earns a royalty based on a percent of sales were \$3,891.9 million and \$3,423.6 million in 2012 and 2011, respectively. The remaining balance of franchised sales is derived from conventional franchised restaurants where the Company earns rent and royalties based primarily on a percent of sales.

Restaurant Margins**FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS***Dollars in millions*

Quarters Ended March 31,	Percent		Amount		% Inc	% Inc Excluding Currency Translation
	2012	2011	2012	2011		
<i>Franchised</i>						
U.S.	83.4	82.8	\$ 844.4	\$ 762.3	11	11
Europe	77.9	77.7	545.7	529.5	3	7
APMEA	88.6	89.2	221.6	195.9	13	10
Other Countries & Corporate	85.0	85.5	128.0	116.9	9	13
Total	82.3	81.9	\$ 1,739.7	\$ 1,604.6	8	10
<i>Company-operated</i>						
U.S.	18.8	19.5	\$ 204.7	\$ 196.2	4	4
Europe	17.5	17.2	321.7	303.1	6	11
APMEA	16.9	17.5	220.4	206.8	7	4
Other Countries & Corporate	15.4	14.4	31.0	29.9	4	6
Total	17.5	17.7	\$ 777.8	\$ 736.0	6	7

Franchised margin dollars increased \$135.1 million or 8% (10% in constant currencies) for the quarter.

In the U.S., the franchised margin percent increased for the quarter primarily due to strong comparable sales, partly offset by higher depreciation, mostly related to reimagining.

In Europe, the franchised margin percent increased for the quarter primarily due to positive comparable sales, partly offset by higher rent expense due to contractual escalations.

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

Company-operated margin dollars increased \$41.8 million or 6% (7% in constant currencies) for the quarter.

In the U.S., the Company-operated margin percent for the quarter decreased as strong comparable sales were more than offset by higher commodity costs, and to a lesser extent higher occupancy and labor costs.

In Europe, the Company-operated margin percent increased for the quarter primarily due to strong comparable sales, mostly offset by higher commodity and labor costs, and to a lesser extent occupancy costs.

In APMEA, the Company-operated margin percent for the quarter reflected strong comparable sales growth mostly offset by higher commodity, labor and occupancy costs. Acceleration of new restaurant openings in China negatively impacted the margin percent for the quarter. Similar to other markets, new restaurants in China initially open with lower margins that grow significantly over time.

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

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

Quarters Ended March 31,	2012	2011
Food & paper	34.3	33.6
Payroll & employee benefits	25.6	25.9
Occupancy & other operating expenses	22.6	22.8
Total expenses	82.5	82.3
Company-operated margins	17.5	17.7
Selling, General & Administrative Expenses		

Selling, general & administrative expenses increased 5% (6% in constant currencies) for the quarter primarily related to higher employee costs, including certain retirement benefits, and technology related costs.

Selling, general & administrative expenses as a percent of revenues decreased to 9.1% for 2012 compared with 9.2% for 2011, and as a percent of Systemwide sales decreased to 2.8% for 2012 compared with 2.9% for 2011.

Other Operating (Income) Expense, Net

OTHER OPERATING (INCOME) EXPENSE, NET

Dollars in millions

Quarters Ended March 31,	2012	2011
Gains on sales of restaurant businesses	\$ (15.7)	\$ (11.9)
Equity in earnings of unconsolidated affiliates	(40.4)	(37.2)
Asset dispositions and other (income) expense, net	16.5	0.2
Total	\$ (39.6)	\$ (48.9)

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

Operating Income

OPERATING INCOME

Dollars in millions

Quarters Ended March 31,	2012	2011	% Inc	% Inc Excluding Currency Translation
U.S.	\$ 871.3	\$ 793.0	10	10
Europe	699.3	675.3	4	8
APMEA	383.9	348.0	10	7
Other Countries & Corporate	10.1	9.6	5	44
Total	\$ 1,964.6	\$ 1,825.9	8	9

In the U.S., operating results increased for the quarter primarily due to higher franchised margin dollars.

In Europe, constant currency operating results increased for the quarter primarily due to stronger operating performance in Russia, the U.K. and Germany, driven by higher margin dollars.

In APMEA, constant currency operating results for the quarter were driven primarily by stronger operating results in Japan and Australia.

Combined Operating Margin

Combined operating margin is defined as operating income as a percent of total revenues. Combined operating margin for the first quarter 2012 and 2011 was 30.0% and 29.9%, respectively.

Interest Expense

Interest expense increased 7% for the first quarter 2012 primarily due to higher average debt balances.

Nonoperating (Income) Expense, Net**NONOPERATING (INCOME) EXPENSE, NET**

Dollars in millions

Quarters Ended March 31,	2012	2011
Interest Income	\$ (11.5)	\$ (7.8)
Foreign currency and hedging activity	0.5	0.5
Other (income) expense, net	(0.8)	14.2
Total	\$ (11.8)	\$ 6.9

Income Taxes

The effective income tax rate was 31.4% for the first quarter 2012 compared with 28.8% for the first quarter 2011. The effective income tax rate for the first quarter 2011 reflected a nonrecurring deferred tax benefit related to certain foreign operations.

Cash Flows and Financial Position

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

Cash provided by operations totaled \$1.6 billion and exceeded capital expenditures by \$1.0 billion for the first quarter 2012. Cash provided by operations increased \$80.4 million compared with the first quarter 2011 primarily due to stronger operating results.

Cash used for investing activities totaled \$597.4 million for the first quarter 2012, an increase of \$78.2 million over the first quarter 2011, as a result of higher capital expenditures.

Cash used for financing activities totaled \$1.1 billion for the first quarter 2012, a decrease of \$380.9 million primarily due to lower treasury stock purchases, partly offset by lower net debt issuances.

Debt obligations at March 31, 2012 totaled \$12.8 billion compared with \$12.5 billion at December 31, 2011. The increase in the first quarter 2012 was primarily due to net debt issuances of \$267.2 million.

Risk Factors and Cautionary Statement Regarding Forward-Looking Statements

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

Our business and execution of our strategic plan, the Plan to Win, are subject to risks. The most important of these is whether we can remain relevant to our customers and a brand they trust. Meeting customer expectations is complicated by the risks inherent in our global operating environment. The IEO segment of the restaurant industry, although largely mature in our major markets, is highly fragmented and competitive. The IEO segment has been contracting in many markets, including some major markets, due to unfavorable economic conditions, and this is expected to continue for the remainder of the year. Persistently high unemployment rates in many markets have also increased consumer focus on value and heightened pricing sensitivity. Combined with pressure on commodity, labor and occupancy costs, these circumstances affect restaurant sales and are expected to continue to pressure margins during 2012 in all operating segments, despite the strength of our brand and value proposition. We have the added challenge of the cultural, economic and regulatory differences that exist within and among the more than

100 countries where we operate. Initiatives we undertake may not have universal appeal among different segments of our customer base and can drive unanticipated changes in guest counts and customer perceptions. Our operations, plans and results are also affected by regulatory and similar initiatives around the world, notably the focus on nutritional content and the production, processing and preparation of food from field to front counter, as well as industry marketing practices.

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

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

The Plan to Win addresses the key drivers of our business and results people, products, place, price and promotion. The quality of our execution depends mainly on the following:

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

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

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

Whether we can complete our restaurant reimagining and rebuilding plans as and when projected and whether we are able to identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants, as well as sales and profitability targets;

The costs and risks associated with our increasing reliance on information technology (including our point-of-sale and other in-store technology systems or platforms), including the risk that we will not realize fully the benefits of our investments in technology, which we are accelerating, as well as the potential for system failures, programming errors, breaches of security involving our systems or those of third-party operators of our systems and the risks of litigation, depending on the scope, nature and enforceability of our rights and obligations under contracts relating to information technology;

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

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

The impact of social media and other mobile communications or photo applications that can be used to promote adverse perceptions of our operations or those of our suppliers, or to promote or threaten boycotts or other actions involving us or our suppliers, with significantly greater speed and scope than traditional media outlets;

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

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

The impact of pricing, marketing and promotional plans on sales and margins and our ability to adjust these plans to respond quickly to changing economic and competitive conditions;

The impact of events such as boycotts or protests, labor strikes and supply chain interruptions (including due to lack of supply or price increases) that can adversely affect us directly or adversely affect vendors, franchisees and others that are also part of the McDonald's System and whose performance has a material impact on our results;

Our ability to recruit and retain qualified personnel to manage our operations and growth, particularly in certain developing markets; and

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

Our results and financial condition are affected by global and local market conditions, and the current challenging economic environment can be expected to continue to pressure our results.

Our results of operations are substantially affected by economic conditions, both globally and in local markets, and conditions can vary substantially by market. Unfavorable conditions can depress sales in a given market or daypart (e.g., breakfast). To mitigate the impact of these conditions, we may take promotional or other actions that adversely affect our margins, limit our operating flexibility or result in charges or restaurant closings. Some macroeconomic conditions have an even more wide-ranging and prolonged impact. The current global environment has been characterized by weak economies, persistently high unemployment rates, inflationary pressures and volatility in financial markets. Concerns about the ongoing Eurozone sovereign debt issues continue to affect both Europe and world markets. Widespread austerity measures in Europe are expected to continue to adversely affect consumer confidence, purchasing power and spending. This environment has also adversely affected business confidence and spending, and uncertainty about the long-term investment environment could further depress capital investment and economic activity. These unfavorable conditions are expected to persist for the remainder of the year. The key factors that can affect our operations, plans and results in this environment are the following:

Whether our strategies will be effective in enabling the continued market share gains that we have included in our plans, while at the same time enabling us to achieve our targeted operating income growth despite the current adverse economic conditions, resurgent competitors and a more costly and competitive advertising environment;

The effectiveness of our supply chain management to assure reliable and sufficient product supply on favorable terms;

The impact on consumer disposable income levels and spending habits of governmental actions to manage national economic matters, whether through austerity or stimulus measures and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers;

The impact on restaurant sales and margins of volatility in commodity and gasoline prices, which we expect will continue and may be exacerbated by developments involving the Middle East, and the effectiveness of pricing, hedging and other actions that we, franchisees and suppliers may take to address this environment;

The impact on our margins of labor costs given our labor-intensive business model, the long-term trend toward higher wages in both mature and developing markets and any potential impact of union organizing efforts;

The impact of foreign exchange and interest rates on our financial condition and results;

The challenges and uncertainties associated with operating in developing markets, which may entail a relatively higher risk of political instability, economic volatility, crime, corruption and social and ethnic unrest, all of which are exacerbated in many cases by a lack of an independent and experienced judiciary and uncertainties in how local law is applied and enforced, including in areas most relevant to commercial transactions and foreign investment;

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

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

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

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

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

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

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

The impact of nutritional, health and other scientific inquiries and conclusions, which constantly evolve and often have contradictory implications, but nonetheless drive popular opinion, litigation and regulation, including taxation, in ways that could be material to our business;

The risks and costs to us, our franchisees and our supply chain of increased focus by U.S. and overseas governmental and non-governmental organizations on sustainability matters, such as climate change, land use, energy and water resources, and animal welfare;

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

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

The increasing costs and other effects of compliance with U.S. and overseas regulations affecting our workforce and labor practices, including regulations relating to wage and hour practices, workplace conditions, immigration, healthcare, retirement and other employee benefits and unlawful workplace discrimination;

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

The legal and compliance risks and costs associated with privacy, consumer protection and other laws, the potential costs arising from alleged security breaches (including the loss of consumer confidence that may result and the risk of criminal penalties or civil liability to consumers or employees whose data is alleged to have been collected or used inappropriately) and potential challenges to the related intellectual property rights or to our use of that intellectual property; and

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

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

Many factors affect the volatility and price of our common stock in addition to our operating results and prospects. The most important of these, some of which are outside our control, are the following:

The continuing unfavorable global economic and extremely volatile market conditions;

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

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

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

An evaluation was conducted under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2012. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Such officers also confirm that there was no change in the Company's internal control over financial reporting during the quarter ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION
Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities***

The following table presents information related to repurchases of common stock the Company made during the three months ended March 31, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1 - 31, 2012	3,532,507	\$ 99.38	3,532,507	\$ 3,162,424,000
February 1 - 29, 2012	3,114,386	99.71	3,114,386	2,851,888,000
March 1 - 31, 2012	1,434,252	98.45	1,434,252	2,710,680,000
Total	8,081,145	\$ 99.34	8,081,145	\$ 2,710,680,000

* Subject to applicable law, the Company may repurchase shares directly in the open market, in privately negotiated transactions, or pursuant to derivative instruments and plans complying with Rule 10b5-1, among other types of transactions and arrangements.

- (1) On September 24, 2009, the Company's Board of Directors approved a share repurchase program that authorizes the purchase of up to \$10 billion of the Company's outstanding common stock with no specified expiration date.

Item 6. Exhibits

Exhibit Number	Description
(3)	<ul style="list-style-type: none"> (a) Restated Certificate of Incorporation, effective as of June 1, 2011, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2011. (b) By-Laws, as amended and restated with effect as of January 26, 2012, incorporated herein by reference from Form 8-K, filed January 31, 2012.
(4)	<p>Instruments defining the rights of security holders, including Indentures:*</p> <ul style="list-style-type: none"> (a) Senior Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996. (b) Subordinated Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
(10)	<p>Material Contracts</p> <ul style="list-style-type: none"> (a) Directors' Deferred Compensation Plan, effective as of January 1, 2008, incorporated herein by reference from Form 8-K, filed December 4, 2007.** (b) McDonald's Excess Benefit and Deferred Bonus Plan, effective January 1, 2011, as amended and restated March 22, 2010, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2010.** (c) McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Form 10-K, for the year ended December 31, 2001.** <ul style="list-style-type: none"> (i) First Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of January 1, 2002, incorporated herein by reference from Form 10-K, for the year ended December 31, 2002.** (ii) Second Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective January 1, 2005, incorporated herein by reference from Form 10-K, for the year ended December 31, 2004.** (d) 1975 Stock Ownership Option Plan, as amended and restated July 30, 2001, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2001.** <ul style="list-style-type: none"> (i) First Amendment to McDonald's Corporation 1975 Stock Ownership Option Plan, as amended and restated, effective as of February 14, 2007, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2007.** (e) 1992 Stock Ownership Incentive Plan, as amended and restated January 1, 2001, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2001.** <ul style="list-style-type: none"> (i) First Amendment to McDonald's Corporation 1992 Stock Ownership Incentive Plan, as amended and restated, effective as of February 14, 2007, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2007.** (f) McDonald's Corporation Executive Retention Replacement Plan, effective as of December 31, 2007 (as amended and restated on December 31, 2008), incorporated herein by reference from Form 10-K, for the year ended December 31, 2008.** (g) McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2009.** <ul style="list-style-type: none"> (i) First amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-K, for the year ended December 31, 2008.** (ii) Second Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan as amended, effective February 9, 2011, incorporated herein by reference from Form 10-K, for the year ended December 31, 2010.** (h) Form of McDonald's Corporation Tier I Change of Control Employment Agreement, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2008.**

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- (i) McDonald's Corporation 2009 Cash Incentive Plan, effective as of May 27, 2009, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2009.**

Exhibit Number	Description
(j)	Form of Executive Stock Option Grant Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Form 10-K, for the year ended December 31, 2011.**
(k)	Form of Executive Performance-based Restricted Stock Unit Award Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Form 10-K, for the year ended December 31, 2011.**
(l)	McDonald s Corporation Severance Plan, effective January 1, 2008, incorporated by reference from Form 8-K, filed December 4, 2007.**
(i)	First Amendment of McDonald s Corporation Severance Plan, effective as of October 1, 2008, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2008.**
(ii)	Second Amendment of McDonald s Corporation Severance Plan, effective as of December 5, 2011, incorporated herein by reference from Form 10-K, for the year ended December 31, 2011.**
(m)	Amended Assignment Agreement between Timothy Fenton and the Company, dated January 2008, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2008.**
(i)	2009 Amendment to the Amended Assignment Agreement between Timothy Fenton and the Company, effective as of January 1, 2009, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2009.**
(n)	Description of Restricted Stock Units granted to Andrew J. McKenna, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2011.**
(o)	Terms of the Restricted Stock Units granted pursuant to the Company s Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-K, for the year ended December 31, 2010.**
(p)	McDonald s Corporation Target Incentive Plan, effective as of January 1, 2008, incorporated herein by reference from Form 8-K, filed January 29, 2008.**
(q)	McDonald s Corporation Cash Performance Unit Plan 2010-2012, effective as of February 9, 2010, incorporated herein by reference from Form 8-K, filed February 16, 2010.**
(r)	Executive Supplement describing the special terms of equity compensation awards granted to certain executive officers, pursuant to the Company s Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2011.**
(s)	Transaction Settlement Agreement between Denis Hennequin and the Company dated December 20, 2010 incorporated herein by reference from Form 8-K, filed December 20, 2010.**
(12)	Computation of Ratios.

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

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

** Denotes compensatory plan.

SIGNATURE

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

McDONALD S CORPORATION

(Registrant)

/s/ Peter J. Bensen
Peter J. Bensen
Corporate Executive Vice President and

Chief Financial Officer

May 8, 2012