MCDONALDS CORP
Form 10-Q
August 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2009

OR

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

Commission File Number 1-5231

McDONALD S CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**36-2361282**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
One McDonald s Plaza	
Oak Brook, Illinois (Address of Principal Executive Offices)	**60523** (Zip Code)

(630) 623-3000

(Registrant s Telephone Number, Including Area Code)

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

to such filing requirements for the past 90 days.

Yes x No ¨

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

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

Large accelerated filer x Accelerated filer ¨

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

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

Yes ¨ No x

1,091,348,341

(Number of shares of common stock

outstanding as of June 30, 2009)

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEET

In millions, except per share data	(unaudited) June 30, 2009	December 31, 2008
Assets		
Current assets		
Cash and equivalents	$ 2,160.6	$ 2,063.4
Accounts and notes receivable	930.5	931.2
Inventories, at cost, not in excess of market	102.6	111.5
Prepaid expenses and other current assets	403.3	411.5
Total current assets	3,597.0	3,517.6
Other assets		
Investments in and advances to affiliates	1,129.2	1,222.3
Goodwill	2,339.4	2,237.4
Miscellaneous	1,387.4	1,229.7
Total other assets	4,856.0	4,689.4
Property and equipment		
Property and equipment, at cost	32,210.4	31,152.4
Accumulated depreciation and amortization	(11,456.3)	(10,897.9)
Net property and equipment	20,754.1	20,254.5
Total assets	$ 29,207.1	$ 28,461.5
Liabilities and shareholders equity		
Current liabilities		
Notes payable	$ 50.0	
Accounts payable	489.8	$ 620.4
Income taxes	100.2	
Other taxes	260.0	252.7
Accrued interest	179.3	173.8
Accrued payroll and other liabilities	1,306.6	1,459.2
Current maturities of long-term debt	457.6	31.8
Total current liabilities	2,843.5	2,537.9
Long-term debt	10,492.9	10,186.0
Other long-term liabilities	1,539.9	1,410.1
Deferred income taxes	1,086.2	944.9
Shareholders equity		
Preferred stock, no par value; authorized 165.0 million shares; issued none		
Common stock, $.01 par value; authorized 3.5 billion shares; issued 1,660.6 million shares	16.6	16.6
Additional paid-in capital	4,697.9	4,600.2
Retained earnings	29,927.3	28,953.9
Accumulated other comprehensive income	395.2	101.3

Common stock in treasury, at cost; 569.3 and 545.3 million shares	(21,792.4)	(20,289.4)
Total shareholders equity	13,244.6	13,382.6
Total liabilities and shareholders equity	$ 29,207.1	$28,461.5

See Notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
In millions, except per share data	**2009**	**2008**	**2009**	**2008**
Revenues				
Sales by Company-operated restaurants	$ 3,850.2	$ 4,296.0	$ 7,334.9	$ 8,294.8
Revenues from franchised restaurants	1,797.0	1,779.3	3,389.7	3,395.3
Total revenues	5,647.2	6,075.3	10,724.6	11,690.1
Operating costs and expenses				
Company-operated restaurant expenses	3,159.3	3,535.2	6,079.8	6,874.8
Franchised restaurants occupancy expenses	318.0	315.3	614.7	615.1
Selling, general & administrative expenses	531.5	598.7	1,028.8	1,151.1
Impairment and other charges, net	1.2	0.5	2.4	1.0
Other operating (income) expense, net	(44.3)	(28.6)	(83.0)	(68.9)
Total operating costs and expenses	3,965.7	4,421.1	7,642.7	8,573.1
Operating income	1,681.5	1,654.2	3,081.9	3,117.0
Interest expense	119.3	146.3	240.2	274.8
Nonoperating (income) expense, net	(12.0)	(30.8)	(28.4)	(59.7)
Gain on sale of investment	(17.8)	(160.1)	(94.3)	(160.1)
Income before provision for income taxes	1,592.0	1,698.8	2,964.4	3,062.0
Provision for income taxes	498.3	508.3	891.2	925.4
Net income	$ 1,093.7	$ 1,190.5	$ 2,073.2	$ 2,136.6
Net income per common share basic:	$ 1.00	$ 1.05	$ 1.88	$ 1.88
Net income per common share diluted:	$ 0.98	$ 1.04	$ 1.85	$ 1.85
Dividends declared per common share	$ 0.50	$ 0.375	$ 1.00	$ 0.750
Weighted-average shares outstanding basic	1,097.3	1,128.9	1,103.4	1,137.2
Weighted-average shares outstanding diluted	1,111.4	1,148.8	1,118.2	1,157.1

See Notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
In millions	**2009**	**2008**	**2009**	**2008**
Operating activities				
Net income	$ 1,093.7	$ 1,190.5	$ 2,073.2	$ 2,136.6
Adjustments to reconcile to cash provided by operations				
Charges and credits:				
Depreciation and amortization	304.4	314.3	586.6	619.0
Deferred income taxes	38.8	(33.7)	89.1	(20.9)
Gain on sale of investment	(17.8)	(160.1)	(94.3)	(160.1)
Share-based compensation	29.6	25.7	60.0	60.8
Other	(8.0)	13.1	73.0	52.6
Changes in working capital items	(20.6)	(87.8)	(236.8)	52.5
Cash provided by operations	1,420.1	1,262.0	2,550.8	2,740.5
Investing activities				
Property and equipment expenditures	(434.4)	(482.0)	(848.1)	(887.1)
Purchases and sales of restaurant businesses and property sales	24.2	109.0	78.3	181.4
Proceeds on sale of investment, net	125.3	229.4	135.1	229.4
Other	(18.0)	(30.8)	(36.8)	(15.6)
Cash used for investing activities	(302.9)	(174.4)	(671.5)	(491.9)
Financing activities				
Notes payable and long-term financing issuances and repayments	276.9	(575.6)	744.0	1,519.9
Treasury stock purchases	(792.5)	(787.1)	(1,605.0)	(2,798.4)
Common stock dividends	(547.8)	(421.6)	(1,101.2)	(848.0)
Proceeds from stock option exercises	79.6	138.1	117.1	246.7
Excess tax benefit on share-based compensation	12.4	30.0	27.9	62.4
Other	(34.5)	(56.5)	(8.4)	(136.7)
Cash used for financing activities	(1,005.9)	(1,672.7)	(1,825.6)	(1,954.1)
Effect of exchange rates on cash and cash equivalents	70.6	5.4	43.5	66.7
Cash and equivalents increase (decrease)	181.9	(579.7)	97.2	361.2
Cash and equivalents at beginning of period	1,978.7	2,922.2	2,063.4	1,981.3
Cash and equivalents at end of period	$ 2,160.6	$ 2,342.5	$ 2,160.6	$ 2,342.5

See Notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Basis of Presentation

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Company s December 31, 2008 Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. The results for the quarter and six months ended June 30, 2009 do not necessarily indicate the results that may be expected for the full year.

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

Restaurant Information

The following table presents restaurant information by ownership type:

Restaurants at June 30,	**2009**	**2008**
Conventional franchised	**18,645**	17,899
Developmental licensed	**3,084**	2,811
Affiliated	**4,072**	4,089
Total Franchised	**25,801**	24,799
Company-operated	**6,357**	6,690
Systemwide restaurants	**32,158**	31,489

Comprehensive Income

The following table presents the components of comprehensive income for the quarters and six months ended June 30, 2009 and 2008:

	Quarters Ended		**Six Months Ended**	
	June 30,		**June 30,**	
In millions	**2009**	**2008**	**2009**	**2008**
Net income	$ 1,093.7	$ 1,190.5	$ 2,073.2	$ 2,136.6
Other comprehensive income:				
Foreign currency translation adjustments	715.6	52.9	317.2	474.7
Deferred hedging adjustments	(17.5)	(16.5)	(24.3)	15.0
Pension liability adjustment	0.7	0.8	1.0	(14.1)
Total other comprehensive income	698.8	37.2	293.9	475.6
Total comprehensive income	$ 1,792.5	$ 1,227.7	$ 2,367.1	$ 2,612.2

Per Common Share Information

Diluted net income 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 14.1 million shares and 19.9 million shares for the second quarter 2009 and 2008, respectively, and 14.8 million shares and 19.9 million shares for the six months ended June 30, 2009 and 2008, respectively. Stock options that were not included in diluted weighted-average shares because they would have been antidilutive were 10.2 million shares for the quarter ended June 30, 2009 and 10.3 million shares and 5.1 million shares for the six months ended June 30, 2009 and 2008, respectively.

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Fair Value Measurements

In 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. The provisions of SFAS No. 157, as issued, were effective January 1, 2008. However, in February 2008, the FASB deferred the effective date of SFAS No. 157 for one year for certain non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (i.e., at least annually). The Company adopted the required provisions of SFAS No. 157 related to debt and derivatives as of January 1, 2008 and adopted the remaining required provisions for non-financial assets and liabilities as of January 1, 2009. The effect of adopting this standard was not significant in either period.

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

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

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

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

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

Certain of the Company s derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves, option volatilities and currency rates, classified as Level 2 within the valuation hierarchy. In accordance with the requirements of SFAS No. 157, derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or the Company.

The following table presents financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2009 by SFAS No. 157 valuation hierarchy:

				Carrying
In millions	**Level 1**	**Level 2**	**Level 3**	**Value**
Cash equivalents	$ 662.8			$ 662.8
Investments	93.4*			93.4
Derivative receivables	79.2*	$ 111.3		190.5
Total assets at fair value	**$ 835.4**	**$ 111.3**		**$ 946.7**
Derivative payables		$ (63.2)		$ (63.2)
Total liabilities at fair value		**$ (63.2)**		**$ (63.2)**

* Represents 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 June 30, 2009, no material fair value adjustments or fair value measurements were required for non-financial assets or liabilities.

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Certain Financial Assets and Liabilities not Measured at Fair Value

In April 2009, the FASB issued FASB Staff Position FSP FAS No. 107-1 and APB No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This guidance requires a publicly traded company to include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods.

At June 30, 2009, the fair value of the Company s debt obligations was estimated at $11.6 billion, compared to a carrying amount of $11.0 billion. This fair value was estimated using various pricing models or discounted cash flow analyses that incorporated quoted market prices and are similar to Level 2 inputs within the SFAS No. 157 valuation hierarchy. The Company has no current plans to retire a significant amount of its debt prior to maturity.

The carrying amounts for both cash and equivalents and notes receivable approximate fair value. No fair value was estimated for non-interest bearing security deposits by franchisees, because these deposits are an integral part of the overall franchise arrangements.

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 amends and expands the previous disclosure requirements of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), to provide more qualitative and quantitative information on how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The Company adopted SFAS No. 161 as of January 1, 2009 on a prospective basis; accordingly, disclosures related to interim periods prior to the date of adoption have not been presented. The adoption had no impact on our consolidated financial statements, besides the additional disclosures.

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 formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking hedging transactions. The Company s derivatives that are designated as hedging instruments under SFAS No. 133 consist mainly of interest rate exchange agreements, forward foreign currency exchange agreements and foreign currency options. Interest rate exchange agreements are entered into to manage the interest rate risk associated with the Company s fixed and floating-rate borrowings. Forward foreign currency exchange agreements and foreign currency options are entered into to mitigate the risk that forecasted foreign currency cash flows (such as royalties denominated in foreign currencies) will be adversely affected by changes in foreign currency exchange rates. Certain foreign currency denominated debt is used, in part, to protect the value of the Company s investments in certain foreign subsidiaries and affiliates from changes in foreign currency exchange rates.

The Company also enters into certain derivatives that are not designated as hedging instruments under SFAS No. 133. The Company has entered into derivative contracts to hedge market-driven changes in certain of its supplemental benefit plan liabilities. Changes in the fair value of these derivatives are recorded in selling, general & administrative expenses. In addition, the Company uses forward foreign currency exchange agreements to mitigate the change in fair value of certain foreign denominated assets and liabilities. Since these derivatives are not designated as hedging instruments under SFAS No. 133, the changes in the fair value of these hedges are recognized immediately in nonoperating (income) expense together with the translation gain or loss from the hedged balance sheet position. A portion of the Company s foreign currency options (more fully described in the Cash Flow Hedging Strategy section) are undesignated as hedging instruments under SFAS No. 133 as the underlying foreign currency royalties are earned.

All derivative instruments designated as hedging instruments under SFAS No. 133 are classified as fair value, cash flow or net investment hedges. All derivatives (including those not designated as hedging instruments under SFAS No. 133) 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.

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The following table presents the fair values of derivative instruments included on the consolidated balance sheet as of June 30, 2009:

In millions	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under SFAS No. 133				
Foreign currency options	Prepaid expenses and other current assets	$19.3	Accrued payroll and other liabilities	$
Interest rate exchange agreements	Prepaid expenses and other current assets	4.3	Accrued payroll and other liabilities	
Forward foreign currency exchange agreements	Prepaid expenses and other current assets		Accrued payroll and other liabilities	
Foreign currency options	Miscellaneous other assets	4.8	Other long-term liabilities	
Interest rate exchange agreements	Miscellaneous other assets	68.7	Other long-term liabilities	(2.1)
Total derivatives designated as hedging instruments under SFAS No. 133		$97.1		$(2.1)
Derivatives not designated as hedging instruments under SFAS No. 133				
Forward foreign currency exchange agreements	Prepaid expenses and other current assets	$14.2	Accrued payroll and other liabilities	$(61.1)
Derivatives hedging supplemental benefit plan	Miscellaneous other assets	79.2	Other long-term liabilities	
Total derivatives not designated as hedging instruments under SFAS No. 133		$93.4		$(61.1)
Total derivatives		$190.5		$(63.2)

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The following table presents the pretax amounts affecting income and other comprehensive income for the six month period ended June 30, 2009:

In millions:

Derivatives in SFAS No. 133 Fair Value Hedging Relationships	(Gain) Loss Recognized in Income on Derivative	Hedged Items in SFAS No. 133 Fair Value Hedge Relationships	(Gain) Loss Recognized in Income on Related Hedged Items
Interest rate exchange agreements	$9.5	Fixed-rate debt	$(9.5)

Derivatives in SFAS No. 133 Cash Flow Hedging Relationships	(Gain) Loss Recognized in Accumulated OCI on Derivative (Effective Portion)	(Gain) Loss Reclassified from Accumulated OCI into Income (Effective Portion)	(Gain) Loss Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing and Ineffective Portion)
Foreign currency options	$1.0	$(32.0)	$16.4
	(1.4)	(1.1)	
Interest rate exchange agreements[1]	0.9	(4.3)	
Forward foreign currency exchange agreements	$0.5	$(37.4)	$16.4
Total			

Derivatives in SFAS No. 133 Net Investment Hedging Relationships	(Gain) Loss Recognized in Accumulated OCI on Derivative (Effective Portion)
Foreign currency denominated debt	$(46.2)

Derivatives Not Designated as Hedging Instruments under SFAS No. 133	(Gain) Loss Recognized in Income on Derivative
Forward foreign currency exchange agreements	$26.5
	5.3
Derivatives hedging supplemental benefit plan[2]	(0.1)
Foreign currency options	
Total	$ 31.7

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

[1] The amount of (gain) loss reclassified from accumulated OCI into income is recorded in interest expense.
[2] The amount of (gain) loss recognized in income on the derivatives used to hedge the supplemental benefit plan liabilities is recorded in selling, general & administrative expenses.

Fair Value Hedging Strategy

The Company enters into fair value hedges to reduce the exposure to changes in the fair values of certain liabilities. The fair value hedges the Company enters into consist of interest rate exchange agreements which convert a portion of its fixed-rate debt into floating-rate debt. All of the Company s interest rate exchange agreements meet the shortcut method requirements under SFAS No. 133. Accordingly, changes in the fair values of the interest rate exchange agreements are exactly offset by changes in the fair value of the underlying debt. No ineffectiveness has been recorded to net income related to interest rate exchange agreements designated as fair value hedges for the six month period ended June 30, 2009. A total of $1.4 billion of the Company s outstanding fixed-rate debt was effectively converted to floating-rate debt resulting from the use of interest rate exchange agreements.

Cash Flow Hedging Strategy

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

The Company uses interest rate exchange agreements to effectively convert a portion of floating-rate debt into fixed-rate debt and the agreements are designed to reduce the impact of interest rate changes on future interest expense. At June 30, 2009, a total of $103.8 million of the Company s outstanding floating-rate debt was effectively converted to fixed-rate debt resulting from the use of interest rate exchange agreements.

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

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

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Although the fair value changes in the foreign currency options may fluctuate over the period of the contract, the Company s total loss on a foreign currency option will not exceed 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.

The hedges typically cover the next 12-15 months of exposure and are denominated in various currencies. As of June 30, 2009, the Company had derivatives outstanding with an equivalent notional amount of $584.8 million that were used to hedge forecasted foreign currency denominated royalties.

As permitted under SFAS No. 133, the Company excludes the time value of foreign currency options, as well as the discount or premium points on forward foreign currency exchange agreements from its effectiveness assessment on its cash flow hedges. As a result, changes in the fair value of the derivatives due to these components, as well as the ineffectiveness of the hedges, are recognized in earnings currently. The effective portion of the gains or losses on the derivatives is reported in the deferred hedging adjustment component of accumulated other comprehensive income in shareholders equity and reclassified into earnings in the same period or periods in which the hedged transaction affects earnings.

Based on interest rates and foreign currency exchange rates at June 30, 2009, the majority of the $24 million in cumulative deferred hedging gains, after tax, included in accumulated other comprehensive income in shareholders equity at June 30, 2009, will be recognized in earnings over the next 12 months as the underlying hedged transactions are realized.

Hedge of Net Investment in Foreign Operations Strategy

The Company uses foreign currency denominated debt to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders equity in the foreign currency translation component of accumulated other comprehensive income and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in accumulated other comprehensive income. As of June 30, 2009, a total of $3.5 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 June 30, 2009 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 June 30, 2009, neither the Company nor its counterparties were required to post collateral on any derivative position.

Gain on Sale of Investment

In February 2009, the Company sold its minority ownership interest in Redbox Automated Retail, LLC (Redbox) to Coinstar, Inc., the majority owner, for a value of at least $134 million. In connection with the sale, the Company received initial consideration valued at $51.6 million consisting of 1.5 million shares of Coinstar common stock at an agreed to value of $41.6 million and $10 million in cash with the balance of the purchase price deferred. In April, the Company sold all of its holdings in the Coinstar common stock for $46.8 million. In second quarter, the Company received $78.4 million in cash from Coinstar as deferred consideration. As of June 30, 2009 there was a receivable of approximately $9 million remaining from Coinstar for additional deferred consideration due by October 30, 2009.

As a result of the transaction, the Company recognized a nonoperating pretax gain of $17.8 million in the second quarter 2009 and $94.3 million for the six months.

In second quarter 2008, the Company sold its minority ownership interest in U.K.-based Pret A Manger. As a result of the sale, the Company received cash proceeds of $229.4 million and recognized a nonoperating pretax gain of $160.1 million.

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Segment Information

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

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
In millions	**2009**	**2008**	**2009**	**2008**
Revenues				
U.S.	**$ 2,044.2**	$ 2,066.2	**$ 3,920.6**	$ 3,962.8
Europe	**2,264.0**	2,606.2	**4,212.2**	4,981.8
APMEA	**1,047.9**	1,057.9	**2,057.0**	2,090.3
Other Countries & Corporate	**291.1**	345.0	**534.8**	655.2
Total revenues	**$ 5,647.2**	$ 6,075.3	**$ 10,724.6**	$ 11,690.1
Operating income				
U.S.	**$ 834.9**	$ 796.3	**$ 1,560.4**	$ 1,478.8
Europe	**618.9**	671.8	**1,108.8**	1,249.0
APMEA	**230.6**	191.3	**444.2**	408.8
Other Countries & Corporate	**(2.9)**	(5.2)	**(31.5)**	(19.6)
Total operating income	**$ 1,681.5**	$ 1,654.2	**$ 3,081.9**	$ 3,117.0

Subsequent Events

The Company evaluated subsequent events through the date the financial statements were issued and filed with the Securities and Exchange Commission, which was August 6, 2009. There were no subsequent events that required recognition or disclosure.

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

Overview

The Company franchises and operates McDonald s restaurants. Of the 32,158 restaurants in 118 countries at June 30, 2009, 25,801 were operated by franchisees (including 18,645 operated by conventional franchisees, 3,084 operated by developmental licensees and 4,072 operated by foreign affiliated markets (affiliates) primarily in Japan) and 6,357 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. Under our developmental license arrangement, licensees provide capital for the entire business, including the real estate interest, while the Company has no capital invested. In addition, the Company has an equity investment in a limited number of foreign affiliates that invest in real estate and operate or franchise restaurants within a market.

We view ourselves primarily as a franchisor and continually review our mix of Company-operated and franchised (conventional franchised, developmental licensed and affiliated) restaurants to deliver a great customer experience and drive profitability. In most cases, franchising is the best way to achieve both goals. Although direct restaurant operation is more capital-intensive relative to franchising and results in lower restaurant margins as a percent of revenues, Company-operated restaurants are important to our success in both mature and developing markets. In our Company-operated restaurants, and in collaboration with our franchisees, we further develop and refine operating standards, marketing concepts and product and pricing strategies, so that only those that we believe are most beneficial are introduced Systemwide. In addition, we firmly believe that owning restaurants is paramount to being a credible franchisor and essential to providing Company personnel with restaurant operations experience. Our Company-operated business also helps to facilitate strategic changes in restaurant ownership.

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 royalties 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 approximately 35%, 40% and 20% of total revenues, respectively.

In February 2009, the Company sold its minority ownership interest in Redbox Automated Retail, LLC (Redbox) to Coinstar, Inc., the majority owner, for a value of at least $134 million. In connection with the sale, the Company received initial consideration valued at $51.6 million consisting of 1.5 million shares of Coinstar common stock at an agreed to value of $41.6 million and $10 million in cash with the balance of the purchase price deferred. In April, the Company sold all of its holdings in the Coinstar common stock for $46.8 million. In second quarter, the Company received $78.4 million in cash from Coinstar as deferred consideration. As of June 30, 2009 there was a receivable of approximately $9 million remaining from Coinstar for additional deferred consideration due by October 30, 2009.

As a result of the transaction, the Company recognized a nonoperating pretax gain of $17.8 million in the second quarter 2009 and $94.3 million for the six months.

In second quarter 2008, the Company sold its minority ownership interest in U.K.-based Pret A Manger. As a result of the sale, the Company received cash proceeds of $229.4 million and recognized a nonoperating pretax gain of $160.1 million

Strategic Direction and Financial Performance

McDonald s customer-centered Plan to Win which is focused on being better, not just bigger provides a common framework for our restaurants yet allows for local adaptation. The Plan facilitates the execution of multiple initiatives surrounding the five factors of exceptional customer experiences people, products, place, price and promotion. Through the execution of these initiatives, we have enhanced the McDonald s experience for customers worldwide, growing sales and guest counts in each of the last five years. This Plan, coupled with financial discipline, has delivered strong results for shareholders. Our continued commitment and ability to deliver a relevant restaurant experience that provides consumers with a broad range of quality menu choices, affordable prices and unmatched convenience is driving operating performance. In the second quarter and first six months of 2009, our results were driven by positive comparable sales in every geographic segment.

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The U.S. business gained market share with a balanced focus on classic menu favorites, beverage value offerings and the national launch of the McCafé premium coffee line-up. These factors contributed to solid comparable sales and an operating income increase of 5% for the second quarter and 6% for the six months.

Europe delivered strong comparable sales of 6.9% for the quarter and 5.1% for the six months. Alignment behind Europe s key priorities of enhancing local relevance, upgrading the customer and employee experience and building brand transparency continues to deliver results. Europe reported a constant currency increase in operating income of 10% for the quarter and 6% for the six months.

APMEA reported a constant currency increase in operating income of 34% for the quarter and 22% for the six months driven by an emphasis on core menu favorites, convenience, value and breakfast, along with a sharp focus on improving operations and customer service.

The Company remains committed to returning value to shareholders through share repurchases and dividends. During the second quarter 2009, the Company repurchased 14.4 million shares of its stock for $807.2 million, bringing the total repurchases for 2009 to 29.0 million shares or $1.6 billion. During the second quarter 2009, the Company paid a quarterly dividend of $0.50 per share or $547.8 million, bringing the total dividends paid for 2009 to $1.1 billion. For the full years 2007 and 2008 and first six months of 2009 combined, the Company returned $14.3 billion toward the $15 billion to $17 billion targeted cash return to shareholders by the end of 2009. Given our strong balance sheet and operating performance, we will likely end the year in the upper half of this range. On July 22, McDonald s Board of Directors declared a quarterly cash dividend of $0.50 per share of common stock, payable on September 15, 2009 to shareholders of record at the close of business on September 1, 2009.

The Company continues to optimize its restaurant ownership mix, cash flow and returns through its refranchising strategy. The Company expects to refranchise 1,000 to 1,500 Company-operated restaurants between 2008 and 2010, primarily in its major markets. For the full year 2008 and first six months of 2009 combined, the Company refranchised about 865 restaurants. This shift to a greater percentage of franchised restaurants is expected to negatively impact consolidated revenues as Company-operated sales shift to franchised sales, where we receive rent and/or royalties. In addition, the Company expects a decrease in Company-operated margin dollars and an increase in franchised margin dollars. The impact on margin percentages will vary based on sales and operating costs of refranchised restaurants.

Operating Highlights Included:

- Global comparable sales increased 4.8% for the quarter and 4.6% for the six months
- Consolidated operating income increased 2% (11% in constant currencies) for the quarter and decreased 1% (increased 8% in constant currencies) for the six months
- Combined operating margin increased 200 basis points to 28.7% for the six months
- Net income per share was $0.98 for the quarter and $1.85 for the six months, including negative impact from foreign currency translation of $0.09 per share and $0.17 per share for the quarter and six months, respectively. The quarter and six months also included incremental income related primarily to the sale of Redbox Automated Retail, LLC of $0.01 per share and $0.05 per share, respectively. Results for the quarter and six months of 2008 included a $0.10 per share gain from the Company s sale of its minority interest in Pret A Manger
- During the six months, the Company returned $2.7 billion to shareholders through share repurchases and dividends

Outlook

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

Changes in Systemwide sales are driven by comparable sales and net restaurant unit expansion. The Company expects net restaurant additions to add nearly 2 percentage points to 2009 Systemwide sales growth (in constant currencies), most of which will be due to the 709 net traditional restaurants added in 2008.

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 net income per share by about 3 cents.

With about 75% of McDonald s grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company s commodity costs. For the full year 2009, the total basket of goods is expected to rise 3% to 3.5% in both the U.S. and Europe. Some volatility may be experienced between quarters in the normal course of business.

The Company expects full-year 2009 selling, general & administrative expenses to decline, in constant currencies, although fluctuations will be experienced between quarters due to certain items in 2008 such as the biennial Worldwide Owner/Operator Convention and the Beijing Summer Olympics.

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Based on current interest and foreign currency exchange rates, the Company expects interest expense in 2009 to decrease approximately 5% to 10% compared with 2008. Interest income in 2009 is expected to decrease about 75% compared with 2008 primarily due to lower average interest rates.

A significant part of the Company s operating income is generated outside the U.S., and about 45% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 70% of the Company s operating income outside the U.S. If all four of these currencies moved by 10% in the same direction compared with 2008, the Company s annual net income per share would change by about 12 to 15 cents. Due to the strengthening of the U.S. Dollar relative to virtually all foreign currencies, full year 2009 revenues and net income per share will likely be negatively impacted by foreign currency translation. If foreign currency rates approximate current levels, currency translation is expected to negatively impact full year 2009 revenues and net income per share by $1.6 billion and $0.21 per share, respectively.

The Company expects the effective income tax rate for the full-year 2009 to be approximately 29% to 31%. Some volatility may be experienced between the quarters resulting in a quarterly tax rate that is outside the annual range.

The Company expects capital expenditures for 2009 to be approximately $2.1 billion. About half of this amount will be reinvested in existing restaurants while the rest will primarily be used to open about 1,000 restaurants (950 traditional and 50 satellites). The Company expects net additions of about 650 restaurants (750 net traditional additions and 100 net satellite closings). These restaurant numbers include new unit openings (about 300 restaurants) in affiliated and developmental licensed markets, such as Japan and Latin America, where the Company does not fund any capital expenditures.

For 2007 through 2009, the Company expects to return $15 billion to $17 billion to shareholders through share repurchases and dividends, subject to business and market conditions. For the full years 2007 and 2008 and first six months of 2009 combined, the Company returned $14.3 billion to shareholders. Given our strong balance sheet and operating performance, we will likely end the year in the upper half of this range.

The Company continually reviews its restaurant ownership structures to optimize cash flow and returns and to enhance local relevance. The Company expects to refranchise 1,000 to 1,500 Company-operated restaurants between 2008 and 2010, primarily in its major markets, and will continue to utilize its developmental license strategy. For the full year 2008 and first six months of 2009 combined, the Company refranchised about 865 restaurants, primarily in its major markets.

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

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

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

Comparable sales represent sales at all restaurants and comparable guest counts represent the number of transactions at all restaurants, including those operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed. Comparable sales exclude the impact of currency translation. Some of the reasons restaurants may be temporarily closed include reimaging or remodeling, rebuilding, road construction and natural disasters. 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 our comparable sales and guest counts. In addition, the timing of holidays can also impact comparable sales and guest counts.

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CONSOLIDATED OPERATING RESULTS

Dollars in millions, except per share data	Quarter Ended June 30, 2009		Six Months Ended June 30, 2009	
	Amount	% Increase / (Decrease)	Amount	% Increase / (Decrease)
Revenues				
Sales by Company-operated restaurants	$ 3,850.2	(10)	$ 7,334.9	(12)
Revenues from franchised restaurants	1,797.0	1	3,389.7	
Total revenues	5,647.2	(7)	10,724.6	(8)
Operating costs and expenses				
Company-operated restaurant expenses	3,159.3	(11)	6,079.8	(12)
Franchised restaurants occupancy expenses	318.0	1	614.7	
Selling, general & administrative expenses	531.5	(11)	1,028.8	(11)
Impairment and other charges, net	1.2	n/m	2.4	n/m
Other operating (income) expense, net	(44.3)	(55)	(83.0)	(20)
Total operating costs and expenses	3,965.7	(10)	7,642.7	(11)
Operating income	1,681.5	2	3,081.9	(1)
Interest expense	119.3	(18)	240.2	(13)
Nonoperating (income) expense, net	(12.0)	61	(28.4)	52
Gain on sale of investment	(17.8)	89	(94.3)	41
Income before provision for income taxes	1,592.0	(6)	2,964.4	(3)
Provision for income taxes	498.3	(2)	891.2	(4)
Net income	$ 1,093.7	(8)	$ 2,073.2	(3)
Net income per common share basic:	$ 1.00	(5)	$ 1.88	
Net income per common share diluted:	$ 0.98	(6)	$ 1.85	

n/m Not meaningful

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Impact of Foreign Currency Translation

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

IMPACT OF FOREIGN CURRENCY TRANSLATION

In millions, except per share data

Quarters Ended June 30,	**2009**	2008	Currency Translation Benefit / (Cost) **2009**
Revenues	**$ 5,647.2**	$ 6,075.3	**$(643.4)**
Company-operated margins	**690.9**	760.8	**(87.8)**
Franchised margins	**1,479.0**	1,464.0	**(111.4)**
Selling, general & administrative expenses	**531.5**	598.7	**38.8**
Operating income	**1,681.5**	1,654.2	**(161.1)**
Net income	**1,093.7**	1,190.5	**(98.7)**
Net income per common share diluted	**0.98**	1.04	**(0.09)**

IMPACT OF FOREIGN CURRENCY TRANSLATION

In millions, except per share data

Six Months Ended June 30,	**2009**	2008	Currency Translation Benefit / (Cost) **2009**
Revenues	**$ 10,724.6**	$ 11,690.1	**$(1,285.8)**
Company-operated margins	**1,255.1**	1,420.0	**(160.3)**
Franchised margins	**2,775.0**	2,780.2	**(220.4)**
Selling, general & administrative expenses	**1,028.8**	1,151.1	**81.8**
Operating income	**3,081.9**	3,117.0	**(299.0)**
Net income	**2,073.2**	2,136.6	**(185.0)**
Net income per common share diluted	**1.85**	1.85	**(0.17)**

Foreign currency translation had a negative impact on consolidated operating results for the quarter and six months as the U.S. Dollar strengthened against most currencies of foreign markets in which we operate, primarily the Euro, British Pound, Australian Dollar, Russian Ruble and Canadian Dollar.

Net Income and Diluted Net Income per Common Share

For the second quarter and six months ended June 30, 2009, net income was $1,093.7 million and $2,073.2 million, respectively, and diluted net income per share was $0.98 and $1.85, respectively. Results benefited by an after tax gain of $11.1 million, or $0.01 per share, for the quarter and $58.5 million, or $0.05 per share, for the six months, related to the sale of the Company s minority interest in Redbox. Results were negatively impacted due to the effect of foreign currency translation by $0.09 per share and $0.17 per share for the quarter and six months, respectively.

For the second quarter and six months ended June 2008, net income was $1,190.5 million and $2,136.6 million, respectively, and diluted net income per share was $1.04 and $1.85, respectively. Both periods benefited by an after tax gain of $109.0 million or $0.10 per share due to the

sale of the Company s minority interest in Pret A Manger.

During the second quarter 2009, the Company repurchased 14.4 million shares of its stock for $807.2 million, bringing the total repurchases for 2009 to 29.0 million shares or $1.6 billion. During the second quarter 2009, the Company paid a quarterly dividend of $0.50 per share or $547.8 million, bringing the total dividends paid for 2009 to $1.1 billion.

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Revenues

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

REVENUES

Dollars in millions

Quarters Ended June 30,	**2009**	2008	% Inc / (Dec)	% Inc / (Dec) Excluding Currency Translation
Company-operated sales				
U.S.	**$ 1,115.5**	$ 1,195.0	(7)	(7)
Europe	**1,651.6**	1,959.6	(16)	4
APMEA	**901.2**	913.6	(1)	7
Other Countries & Corporate	**181.9**	227.8	(20)	(8)
Total	**$ 3,850.2**	$ 4,296.0	(10)	1
Franchised revenues				
U.S.	**$ 928.7**	$ 871.2	7	7
Europe	**612.4**	646.6	(5)	11
APMEA	**146.7**	144.3	2	16
Other Countries & Corporate	**109.2**	117.2	(7)	7
Total	**$ 1,797.0**	$ 1,779.3	1	9
Total revenues				
U.S.	**$ 2,044.2**	$ 2,066.2	(1)	(1)
Europe	**2,264.0**	2,606.2	(13)	6
APMEA	**1,047.9**	1,057.9	(1)	8
Other Countries & Corporate	**291.1**	345.0	(16)	(3)
Total	**$ 5,647.2**	$ 6,075.3	(7)	4

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REVENUES

Dollars in millions

Six Months Ended June 30,	**2009**	2008	% Inc / (Dec)	% Inc / (Dec) Excluding Currency Translation
Company-operated sales				
U.S.	**$ 2,159.0**	$ 2,305.1	(6)	(6)
Europe	**3,065.3**	3,745.2	(18)	2
APMEA	**1,776.9**	1,809.2	(2)	8
Other Countries & Corporate	**333.7**	435.3	(23)	(9)
Total	**$ 7,334.9**	$ 8,294.8	(12)	1
Franchised revenues				
U.S.	**$ 1,761.6**	$ 1,657.7	6	6
Europe	**1,146.9**	1,236.6	(7)	9
APMEA	**280.1**	281.1		16
Other Countries & Corporate	**201.1**	219.9	(9)	8
Total	**$ 3,389.7**	$ 3,395.3		8
Total revenues				
U.S.	**$ 3,920.6**	$ 3,962.8	(1)	(1)
Europe	**4,212.2**	4,981.8	(15)	4
APMEA	**2,057.0**	2,090.3	(2)	9
Other Countries & Corporate	**534.8**	655.2	(18)	(3)
Total	**$ 10,724.6**	$ 11,690.1	(8)	3

Consolidated revenues decreased 7% (increased 4% in constant currencies) for the quarter and decreased 8% (increased 3% in constant currencies) for the six months. The constant currency growth was driven by positive comparable sales in all segments, partly offset by the impact of the refranchising strategy in certain of the Company s major markets. As a result of refranchising, franchised restaurants represent 80% of systemwide restaurants at June 30, 2009 compared with 79% at June 30, 2008.

In the U.S., the decrease in revenues for the quarter and six months was due to the impact of the refranchising strategy, mostly offset by an increase in comparable sales driven by our iconic core products, beverage value offerings, the introduction of McCafé premium coffees, and everyday value.

In Europe, the constant currency increase in revenues for the quarter and six months was primarily due to strong comparable sales in Russia (which is entirely Company-operated), the U.K. and France. These increases were partly offset by the impact of the refranchising strategy, primarily in the U.K. and Germany.

In APMEA, the constant currency increase in revenues for the quarter and six months was primarily driven by strong comparable sales in Australia and other Asian markets as well as expansion in China, partly offset by negative comparable sales in China.

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The following table presents the percent change in comparable sales for the quarters and six months ended June 30, 2009 and 2008:

COMPARABLE SALES

	% Increase			
	Quarters Ended		**Six Months Ended**	
	June 30,		**June 30,***	
	2009	2008	**2009**	2008
U.S.	**3.5**	3.4	**4.1**	3.2
Europe	**6.9**	7.4	**5.1**	9.1
APMEA	**4.4**	8.8	**4.9**	9.1
Other Countries & Corporate	**4.7**	12.0	**4.5**	13.6
Total	**4.8**	6.1	**4.6**	6.7

* On a consolidated basis, comparable guest counts increased 1.3% and 3.3% for the six months ended June 30, 2009 and 2008, respectively.

The following table presents the percent change in Systemwide sales for the quarter and six months ended June 30, 2009:

SYSTEMWIDE SALES

	Quarter Ended		**Six Months Ended**	
	June 30, 2009		**June 30, 2009**	
	% Inc / (Dec)	% Inc Excluding Currency Translation	% Inc / (Dec)	% Inc Excluding Currency Translation
U.S.	4	4	5	5
Europe	(9)	9	(11)	7
APMEA	3	8	4	9
Other Countries & Corporate	(8)	6	(10)	6
Total	(1)	7	(1)	6

The following tables present franchised sales, which are not recorded in the income statement, and the related percentage change for the quarters and six months ended June 30, 2009 and 2008:

FRANCHISED SALES

Dollars in millions

			% Inc /	% Inc Excluding Currency
Quarters Ended June 30,	**2009**	2008	(Dec)	Translation
U.S.	**$ 6,808.6**	$ 6,394.1	6	6
Europe	**3,513.4**	3,690.7	(5)	12
APMEA	**2,300.6**	2,184.0	5	9
Other Countries & Corporate	**1,352.1**	1,437.6	(6)	9
Total*	**$ 13,974.7**	$ 13,706.4	2	8

* Included $2,751.7 million and $2,669.1 million of sales in 2009 and 2008, respectively, derived from developmental licensee restaurants or foreign affiliated markets where the Company earns a royalty based on sales. The remaining balance of franchised sales is derived from conventional franchised restaurants where the Company earns rent and royalties based on sales.

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FRANCHISED SALES

Dollars in millions

Six Months Ended June 30,	**2009**	2008	% Inc / (Dec)	% Inc Excluding Currency Translation
U.S.	**$ 13,062.5**	$ 12,197.7	7	7
Europe	**6,580.9**	7,047.7	(7)	10
APMEA	**4,581.0**	4,312.8	6	9
Other Countries & Corporate	**2,530.0**	2,733.7	(7)	9
Total*	**$ 26,754.4**	$ 26,291.9	2	8

* Included $5,480.7 million and $5,236.3 million of sales in 2009 and 2008, respectively, derived from developmental licensee restaurants or foreign affiliated markets where the Company earns a royalty based on sales. The remaining balance of franchised sales is derived from conventional franchised restaurants where the Company earns rent and royalties based on sales.

Restaurant Margins

FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS

Dollars in millions

Quarters Ended June 30,	**Percent**		**Amount**		% Inc / (Dec)	% Inc / (Dec) Excluding Currency Translation
	2009	2008	**2009**	2008		
Franchised						
U.S.	**83.5**	83.6	**$ 775.0**	$ 727.8	6	6
Europe	**78.2**	78.3	**478.8**	506.1	(5)	10
APMEA	**89.5**	89.0	**131.4**	128.5	2	15
Other Countries & Corporate	**85.9**	86.6	**93.8**	101.6	(8)	7
Total	**82.3**	82.3	**$ 1,479.0**	$ 1,464.0	1	9
Company-operated						
U.S.	**19.6**	19.1	**$ 218.8**	$ 227.6	(4)	(4)
Europe	**18.1**	18.0	**298.6**	353.2	(15)	4
APMEA	**16.2**	15.6	**145.7**	142.0	3	13
Other Countries & Corporate	**15.3**	16.6	**27.8**	38.0	(27)	(15)
Total	**17.9**	17.7	**$ 690.9**	$ 760.8	(9)	2

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FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS

Dollars in millions

Six Months Ended June 30,	Percent		Amount		% Inc / (Dec)	% Inc / (Dec) Excluding Currency Translation
	2009	2008	**2009**	2008		
Franchised						
U.S.	**83.0**	82.9	**$ 1,461.9**	$ 1,374.0	6	6
Europe	**77.5**	78.1	**889.1**	966.1	(8)	8
APMEA	**89.8**	89.0	**251.7**	250.3	1	15
Other Countries & Corporate	**85.7**	86.3	**172.3**	189.8	(9)	7
Total	**81.9**	81.9	**$ 2,775.0**	$ 2,780.2		8
Company-operated						
U.S.	**19.0**	18.4	**$ 409.6**	$ 424.8	(4)	(4)
Europe	**16.8**	17.1	**515.0**	639.5	(19)	(1)
APMEA	**16.0**	16.1	**284.1**	290.4	(2)	8
Other Countries & Corporate	**13.9**	15.0	**46.4**	65.3	(29)	(16)
Total	**17.1**	17.1	**$ 1,255.1**	$ 1,420.0	(12)	

Franchised margin dollars increased $15.0 million or 1% ($126.4 million or 9% in constant currencies) for the quarter and decreased $5.2 million (increased $215.2 million or 8% in constant currencies) for the six months. Positive comparable sales in every segment and the refranchising strategy were the primary drivers of the constant currency growth in franchised margin dollars in both periods.

In the U.S., the franchised margin percent for the quarter and six months reflected positive comparable sales and for the quarter also reflected additional depreciation related to the Company s investment in the beverage initiative.

In Europe, the franchised margin percent for the quarter and six months was negatively impacted by the refranchising strategy, higher occupancy expenses and the cost of strategic brand and sales building initiatives partly offset by positive comparable sales.

In APMEA, the growth in the franchised margin percent for the quarter and six months was primarily a result of foreign currency translation, mostly due to the weakening Australian dollar. Because Australia s franchised margin percent is lower than the overall segment average, it had a less dilutive impact on the segment s margin percent.

Company-operated margin dollars decreased $69.9 million or 9% (increased $17.9 million or 2% in constant currencies) for the quarter and decreased $164.9 million or 12% ($4.6 million in constant currencies) for the six months. In both periods Company-operated margin dollars were negatively impacted by the refranchising strategy. The refranchising strategy had a positive impact on the margin percent for both periods.

In the U.S., the Company-operated margin percent increased for the quarter and six months due to positive comparable sales and the impact of the refranchising strategy, partly offset by higher commodity costs and for the quarter additional depreciation related to the beverage initiative.

Europe s Company-operated margin percent increased for the quarter due to positive comparable sales and refranchising, partly offset by higher commodity and labor costs. Local inflation and the impact of weaker currencies on the cost of certain imported products drove higher costs, primarily in Russia, and negatively impacted the Company-operated margin percent for the quarter and six months.

In APMEA, the Company-operated margin percent increased for the quarter primarily due to positive comparable sales partly offset by higher commodity and labor costs. China s margin improved in the quarter due in part to lower commodity costs.

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The following table presents margin components as a percent of sales:

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

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	**2009**	2008
Food & paper	**33.8**	33.5	**34.2**	33.4
Payroll & employee benefits	**25.8**	26.1	**25.9**	26.5
Occupancy & other operating expenses	**22.5**	22.7	**22.8**	23.0
Total expenses	**82.1**	82.3	**82.9**	82.9
Company-operated margins	**17.9**	17.7	**17.1**	17.1

Selling, General & Administrative Expenses

Selling, general & administrative expenses decreased 11% (5% in constant currencies) for the quarter and decreased 11% (4% in constant currencies) for the six months, due in part to expenses related to the Company s biennial Worldwide Owner/Operator Convention in second quarter 2008. Selling, general & administrative expenses as a percent of revenues decreased to 9.6% for the six months 2009 compared with 9.8% for 2008 and as a percent of Systemwide sales decreased to 3.0% for 2009 compared with 3.3% for 2008.

Other Operating (Income) Expense, Net

OTHER OPERATING (INCOME) EXPENSE, NET

In millions

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	**2009**	2008
Gains on sales of restaurant businesses	**$ (22.3)**	$ (30.2)	**$ (46.1)**	$ (43.3)
Equity in earnings of unconsolidated affiliates	**(33.9)**	(26.1)	**(63.3)**	(49.5)
Asset dispositions and other (income) expense	**11.9**	27.7	**26.4**	23.9
Total	**$ (44.3)**	$ (28.6)	**$ (83.0)**	$ (68.9)

Equity in earnings of unconsolidated affiliates for the quarter and six months reflected improved operating performance in Japan.

Asset dispositions and other expense for the quarter and six months reflected lower losses on restaurant closings and property disposals. The six months 2008 included income of $17.8 million due to the partial recovery of prior years sales taxes in the U.K.

Operating Income

OPERATING INCOME

Dollars in millions

Quarters ended June 30,	**2009**	2008	% Inc / (Dec)	% Inc Excluding Currency

				Translation
U.S.	**$ 834.9**	$ 796.3	5	5
Europe	**618.9**	671.8	(8)	10
APMEA	**230.6**	191.3	21	34
Other Countries & Corporate	**(2.9)**	(5.2)	44	n/m
Total	**$ 1,681.5**	$ 1,654.2	2	11

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OPERATING INCOME

Dollars in millions

Six Months ended June 30,	2009	2008	% Inc / (Dec)	% Inc Excluding Currency Translation
U.S.	**$ 1,560.4**	$ 1,478.8	6	6
Europe	**1,108.8**	1,249.0	(11)	6
APMEA	**444.2**	408.8	9	22
Other Countries & Corporate	**(31.5)**	(19.6)	(61)	n/m
Total	**$ 3,081.9**	$ 3,117.0	(1)	8

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

In Europe, constant currency operating results for the quarter and six months reflected strong operating performance in France and the U.K. In addition, Russia s strong results contributed to the quarter.

In APMEA, constant currency operating results for the quarter and six months were driven primarily by strong results in Australia. Growth in China also contributed to results for the quarter.

Combined Operating Margin

Combined operating margin is defined as operating income as a percent of total revenues. Combined operating margin for the six months 2009 and 2008 was 28.7% and 26.7%, respectively. In constant currencies, the 2009 combined operating margin increased 140 basis points.

Interest Expense

Interest expense for the quarter and six months decreased primarily due to lower average interest rates and weaker foreign currencies. Lower average debt levels also contributed to the decrease for the quarter.

Nonoperating (Income) Expense, Net

NONOPERATING (INCOME) EXPENSE, NET

In millions

	Quarters Ended June 30,		Six Months Ended June 30,	
	2009	2008	**2009**	2008
Interest income	**$ (4.6)**	$ (21.3)	**$ (10.3)**	$ (52.7)
Translation and hedging activity	**(13.0)**	(12.3)	**(25.1)**	(7.6)
Other expense	**5.6**	2.8	**7.0**	0.6
Total	**$ (12.0)**	$ (30.8)	**$ (28.4)**	$ (59.7)

Interest income declined for the quarter and six months primarily due to lower interest rates. Interest income in the six months 2008 included $11.6 million of interest on the partial recovery of prior years sales taxes in the U.K.

Translation and hedging activity included gains on the hedging of certain foreign-denominated cash flows.

Gain on Sale of Investment

In February 2009, the Company sold its minority ownership interest in Redbox to Coinstar, Inc., the majority owner, for a value of at least $134 million. In connection with the sale, the Company received initial consideration valued at $51.6 million consisting of 1.5 million shares of Coinstar common stock at an agreed to value of $41.6 million and $10 million in cash with the balance of the purchase price deferred. In April, the Company sold all of its holdings in the Coinstar common stock for $46.8 million. In second quarter, the Company received $78.4 million in cash from Coinstar as deferred consideration. As of June 30, 2009 there was a receivable of approximately $9 million remaining from Coinstar for additional deferred consideration due by October 30, 2009.

As a result of the transaction, the Company recognized a nonoperating pretax gain of $17.8 million in the second quarter 2009 and $94.3 million for the six months.

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In second quarter 2008, the Company sold its minority ownership interest in U.K.-based Pret A Manger. As a result of the sale, the Company received cash proceeds of $229.4 million and recognized a nonoperating pretax gain of $160.1 million.

Income Taxes

The effective income tax rate was 30.1% for the six months 2009 compared with 30.2% for the six months 2008 and 31.3% for second quarter 2009 compared with 29.9% for second quarter 2008.

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 $2.6 billion and exceeded capital expenditures by $1.7 billion for the six months 2009. Cash provided by operations decreased $189.7 million compared to six months 2008 primarily due to changes in working capital items, partly due to the receipt of $142.7 million in 2008 related to the completion of an Internal Revenue Service examination and higher incentive based compensation payments in 2009 for the 2008 performance year.

Cash used for investing activities totaled $671.5 million for the six months 2009, an increase of $179.6 million over the first six months of 2008, as a result of lower proceeds from sales of investments and properties and higher expenditures for purchases of restaurant businesses.

Cash used for financing activities totaled $1,825.6 million for six months 2009, a decrease of $128.5 million. Financing activities in 2009 reflected lower treasury stock purchases, partly offset by lower net debt issuances and higher dividends.

Debt obligations at June 30, 2009 totaled $11.0 billion compared with $10.2 billion at December 31, 2008. The increase in 2009 was primarily due to net issuances of $744 million. The Company issued debt in the first half of 2009 primarily to pre-fund debt maturing in the second half of the year.

Return on Average Assets

Return on average assets for the trailing 12 month period ended June 30, 2009 was 22.4% compared to 21.8% for the full year 2008. Return on average assets is computed as operating income for the most recent four quarters divided by average assets based on month-end balances. Operating income, as reported, does not include interest income; however, cash balances are included in average assets. The inclusion of cash balances in average assets reduced return on average assets by 1.9 percentage points in both 2009 and 2008.

In 2009, return on average assets benefited from improved operating results across all geographic segments. The Company will continue to concentrate restaurant openings and invest new capital in markets with acceptable returns or opportunities for long-term growth.

Accounting Changes

Fair Value Measurements

In 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*. This guidance defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This guidance does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. The provisions of the guidance, as issued, were effective January 1, 2008. However, in February 2008, the FASB deferred the effective date of the guidance for one year for certain non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (i.e., at least annually). The Company adopted the required provisions of the guidance related to debt and derivatives as of January 1, 2008 and adopted the remaining required provisions for non-financial assets and liabilities as of January 1, 2009. The effect of adopting this guidance was not significant in either period.

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This guidance amends and expands the previous disclosure requirements surrounding accounting for derivative instruments and hedging activities to provide more qualitative and quantitative information on how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under previous guidance and its related interpretations, and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The Company adopted the guidance as of January 1, 2009 on a prospective basis; accordingly, disclosures related to interim periods prior to the date of adoption have not been presented. The adoption had no impact on our consolidated financial statements, besides the additional disclosures.

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Interim Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued FASB Staff Position FSP FAS No. 107-1 and APB No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This guidance requires a publicly traded company to include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. The Company adopted the guidance for the second quarter 2009. The adoption had no impact on our consolidated financial statements, besides the additional disclosure.

Subsequent Events

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events.* This guidance requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Company adopted the guidance for the second quarter 2009. The adoption had no impact on our consolidated financial statements, besides the additional disclosure.

Risk Factors and Cautionary Statement Regarding Forward-Looking Statements

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 unde 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 our ability to remain relevant to our customers and a brand they trust. Meeting customer expectations is complicated by the risks inherent in our operating environment. The informal eating out segment of the restaurant industry, although largely mature in our major markets, is also highly fragmented and competitive. We have the added challenge of the cultural, economic and regulatory differences that exist among the more than 100 countries where we operate. We also face risk in adapting our business model in particular markets. The decision to own restaurants or to operate under franchise or license agreements is driven by many factors whose interrelationship is complex and changing. Regulatory and similar initiatives around the world have also become more wide-ranging and prescriptive and affect how we operate and our results. In particular, increasing focus on nutritional content and on the production, processing and preparation of food from field to front counter presents challenges for our Brand.

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 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 informal eating out market 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 our products, 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 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 segment of the informal eating out market, our products and promotions (including the premiums we offer, such as our Happy Meal toys) or the reliability of our supply chain and the safety of the ingredients we use, and our ability to manage the potential impact on McDonald s of food-borne illnesses or product safety issues;

The success of our plans to improve existing products and to roll out new products and product line extensions, as well as the impact of our competitors actions, including in response to our product improvements and introductions, and our ability to continue robust product development and manage the complexity of our restaurant operations;

Our ability to achieve an overall product mix that differentiates the McDonald s experience and balances consumer value with margin expansion, particularly in markets where cost or pricing pressures are significant or have been exacerbated by challenging economic conditions;

The impact of pricing, marketing and promotional plans on product sales and margins and on our ability to target these efforts effectively to maintain or expand market share and increase guest counts;

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 the 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 local personnel to manage our operations and growth in certain developing markets;

Our ability to drive restaurant improvements and to motivate our restaurant personnel to achieve sustained high service levels so as to improve consumer perceptions of our ability to meet expectations for quality food served in clean and friendly environments;

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Our ability to maintain alignment with our franchisees on capital-intensive and other operating and promotional initiatives;

The risks to our Brand if a franchisee or licensee defaults in its obligations (particularly requirements to pay royalties, make capital investments and open new restaurants), experiences food safety or other operational problems or otherwise projects a brand image inconsistent with our values, all of which become more significant risks if an agreement places a large number of restaurants under the control of a single franchisee or licensee as is the case in Latin America;

Whether our ongoing restaurant remodeling and rebuilding initiatives, which vary from year to year by market and type, are targeted at the elements of the restaurant experience that will best accomplish our goals to enhance the relevance of our Brand and achieve an efficient allocation of our capital resources; 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, which can adversely affect our sales, margins and net income.

Our results of operations are substantially affected not only by global economic conditions, but also by local operating and economic conditions, which can vary substantially by market. Unfavorable conditions can depress sales in a given market or daypart and may prompt promotional or other actions that adversely affect our margins, constrain our operating flexibility or result in charges, restaurant closings or sales of Company-operated restaurants. Some macroeconomic environments could have an even more wide-ranging and prolonged impact. For example, the current global recession has been characterized by slowing economies, rising unemployment, declining wages, constrained credit conditions and volatile financial markets. These conditions have significantly affected consumer habits and spending, including in our major markets and markets that we expect will be drivers of our long-term growth. If these conditions persist, they could adversely affect our results, depending on the timing and strength of a recovery.

Our ability to manage volatile commodity prices and the anticipated negative impact of fluctuations in foreign exchange rates on our 2009 results, as well as any impact of changes in interest rates and governmental actions to manage national economic conditions such as the availability of credit, consumer spending, unemployment levels and inflation rates;

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

Whether our pricing strategies will be effective to offset cost increases without affecting our ability to increase guest counts and market share;

Whether we are able to identify and develop restaurant sites, either directly or through licensees or other parties, consistent with our plans for net growth of Systemwide restaurants from year to year, and whether new sites are as profitable as expected;

The challenges and uncertainties associated with operating in developing markets, such as China, Russia and India, 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; and

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

Increasing 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 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, and the impact of new, potential or changing regulation that affects or restricts elements of our business, particularly those relating to advertising to children, nutritional content and product labeling and safety;

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 in ways that could be material to our business;

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The risks and costs of McDonald s nutritional labeling and other disclosure practices, particularly given differences among applicable legal requirements and practices within the restaurant industry with respect to testing and disclosure, ordinary variations in food preparation among our own restaurants, and the need to rely on the accuracy and completeness of information obtained from third party suppliers;

The risks and costs to us and on our supply chain of increased focus by U.S. and overseas governmental authorities on environmental matters, particularly in the area of climate change and the reduction of greenhouse gases, as well as related matters, such as water consumption;

The impact of litigation trends, particularly in our major markets, including class actions, labor and employment claims and landlord/tenant disputes, the relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings; and 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;

Adverse results of pending or future litigation, including litigation challenging the composition of our products or the appropriateness or accuracy of our advertising or other communications;

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, job classifications, mandatory healthcare benefits, unlawful workplace discrimination and immigration;

The impact of the current economic conditions on unemployment levels and consumer confidence and the effect of initiatives to stimulate economic recovery and to stabilize or further regulate financial markets on the cost and availability of funding for the Company and its franchisees, inflation and foreign exchange rates;

Disruptions in our operations or price volatility in a market that can result from governmental actions, such as price 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 risks associated with information security and the use of cashless payments, such as increased investment in technology, the costs of compliance with privacy, consumer protection and other laws, the impact on our margins as the use of cashless payments increases, the potential costs associated with alleged security breaches and the loss of consumer confidence that may result; and

The impact of changes in financial reporting requirements, accounting principles or practices, related legal or regulatory interpretations or our critical accounting estimates, changes in tax accounting or tax laws (or interpretations thereof), and the impact of settlements of 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.

Our results and financial condition are affected by our ownership mix and whether we can achieve a mix that optimizes margins and returns, while meeting our business needs and customer expectations.

Our refranchising strategy, which involves a shift to a greater percentage of franchised restaurants, affects our results. The shift reduces consolidated revenues as Company-operated sales shift to franchised sales, where we receive rent and/or royalties. It also reduces Company-operated margin dollars while increasing franchised margin dollars, with the impact on margin percentages varying based on sales and operating costs of the refranchised restaurants. Our refranchising strategy can also expose us to risks, including the following:

Whether the franchisees and licensees we select will have the experience and financial resources in the relevant markets to be effective operators of McDonald s restaurants;

Potential ongoing payment obligations as a result of our retention of any contingent liabilities in connection with refranchising transactions, such as the indemnification obligations we may incur as a result of the Latam transaction; and

The risk that our contractual and other rights and remedies to protect against defaults by our counterparties will be limited by local law, costly to exercise or otherwise subject to limitations or litigation that may impair our ability to prevent or mitigate any adverse impact on our Brand or on the financial performance we expect under our franchising and developmental license agreements.

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 current uncertain global economic conditions and market volatility;

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;

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Trading activity in our common stock or trading activity in our derivative instruments with respect to our common stock or debt securities, which can reflect market commentary or expectations (including commentary that may be unreliable or incomplete in some cases) about our business, our creditworthiness or investor confidence generally; actions by shareholders and others seeking to influence our business strategies; sales of large blocks of our stock or portfolio rebalancing activities 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, dividend rate or changes in our debt levels that may affect our credit ratings, interest expense, ability to obtain funding on favorable terms or our operating or financial flexibility, especially if lenders impose new operating or financial covenants; 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 can be adversely affected by disruptions or events, such as the impact of severe weather conditions and natural disasters.

Severe weather conditions, terrorist activities, health epidemics or pandemics or the prospect of these events can have an adverse impact on consumer spending and confidence levels or on 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, 2008 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 June 30, 2009. 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 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 June 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

Allergens

Plaintiffs have filed numerous complaints against the Company (and in some instances our franchisee or a franchisee s operating company), alleging that McDonald s misrepresented its french fries and hash browns as free of wheat, gluten and/or milk, when the french fries and hash browns allegedly contain derivatives of wheat, gluten and/or milk. The complaints include claims for violation of state consumer fraud acts, unfair competition or deceptive trade practices acts, strict liability, failure to warn, negligence, breach of express and implied warranties, fraud and fraudulent concealment, negligent misrepresentation and concealment, unjust enrichment, and false advertising. They seek to recover unspecified compensatory and punitive damages, restitution and disgorgement of profits, and attorneys fees.

A number of these cases are pending in the Federal District Court for the Northern District of Illinois. Some of the cases pending in the Northern District of Illinois have been combined into one action that seeks to form a national class of consumers, generally defined as individuals who purchased McDonald s french fries and hash browns and who have allergies or sensitivities to consumption of wheat and/or dairy products. The first case of this type, *Debra Moffatt v. McDonald s Corporation* (MDL Case No. 06-cv-4467), was filed on February 17, 2006. On May 6, 2009, the Court denied the consolidated plaintiffs motion for class certification. The other cases pending in the Northern District of Illinois seek damages only for an individual plaintiff or a minor child on whose behalf the action was brought and have been transferred and assigned to the same federal judge.

The previously identified case that was pending in the Circuit Court of Palm Beach County, Florida, *Annalise Chimiak v. McDonald s Corporation and R&L Partnership* (Case No. 2006CA3337), has been resolved. The remainder of the cases (all of which seek damages only for an individual plaintiff) are pending in state courts. Two of these cases are pending in the Circuit Court of Palm Beach County, Florida and have been consolidated for pretrial purposes. The remaining cases are pending in state courts in Illinois, Texas and Virginia.

The Company believes that it has substantial legal and factual defenses to the plaintiffs claims and intends to defend its interests vigorously.

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 June 30, 2009:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased Under the Program *	Maximum Dollar Amount that May Yet Be Purchased Under the Program *
April 1-30, 2009	4,608,188	$54.97	4,608,188	$3,362,314,000
May 1-31, 2009	4,783,817	$54.52	4,783,817	3,101,502,000
June 1-30, 2009	5,043,090	$58.11	5,043,090	2,808,459,000
Total	14,435,095	$55.92	14,435,095	$2,808,459,000

* On September 12, 2007, 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. As of June 30, 2009, the maximum dollar amount that may yet be purchased under the program was $2,808,459,000. 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.

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Item 4. Submission of Matters to a Vote of Security Holders

(a) The 2009 Annual Meeting of Shareholders was held on May 27, 2009.

(b) See Item 4(c) below.

(c) At the 2009 Annual Meeting of Shareholders, the shareholders voted on the following matters: (1) the election of four directors to serve until the 2012 Annual Meeting of Shareholders; (2) the approval of the appointment of an independent registered public accounting firm for 2009; (3) the approval of performance goals for certain qualified performance-based awards under the McDonald s Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan; (4) the approval of the McDonald s Corporation 2009 Cash Incentive Plan; (5) a shareholder proposal relating to a shareholder vote on executive compensation; and (6) a shareholder proposal relating to the use of cage-free eggs. The voting results were as follows:

(1) In the election of directors, each nominee was elected by a vote of the shareholders as follows:

Director	FOR	AGAINST	ABSTAIN
Robert A. Eckert	908,170,380	38,175,543	1,868,623
Enrique Hernandez, Jr.	891,152,732	54,730,850	2,330,964
Jeanne P. Jackson	932,045,335	14,203,661	1,965,550
Andrew J. McKenna	899,530,656	46,654,889	2,029,001

Additional directors, whose terms of office as directors continued after the Annual Meeting of Shareholders, are as follows:

Term Expiring in 2010	Terms Expiring in 2011
Ralph Alvarez	Susan E. Arnold
Walter E. Massey	Richard H. Lenny
John W. Rogers, Jr.	Cary D. McMillan
Roger W. Stone	Sheila A. Penrose
Miles D. White	James A. Skinner

(2) The proposal to approve the appointment of an independent registered public accounting firm to serve as independent auditors for 2009 was approved by shareholders as follows:

FOR	AGAINST	ABSTAIN
936,097,635	10,511,517	1,605,394

(3) The proposal to approve performance goals for certain qualified performance-based awards under the McDonald s Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan was approved by shareholders as follows:

FOR	AGAINST	ABSTAIN
900,537,798	43,202,453	4,474,295

(4) The proposal to approve the McDonald s Corporation 2009 Cash Incentive Plan was approved by shareholders as follows:

FOR	AGAINST	ABSTAIN
905,506,323	37,549,339	5,158,884

(5) The shareholder proposal relating to a shareholder vote on executive compensation was not approved by shareholders as follows:

FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
348,537,776	393,524,983	50,990,908	155,927,674

(6) The shareholder proposal relating to the use of cage-free eggs was not approved by shareholders as follows:

FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
38,951,294	620,952,673	133,149,700	155,928,573

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Item 6. Exhibits

Exhibit Number		Description
(3)	(a)	Restated Certificate of Incorporation, effective as of March 24, 1998, incorporated herein by reference from Form 8-K, dated April 17, 1998.
	(b)	By-Laws, as amended and restated with effect as of December 4, 2008, incorporated herein by reference from Form 8-K, dated December 4, 2008.
(4)		Instruments defining the rights of security holders, including Indentures: *
	(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.
	(c)	Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 33-12364), filed March 3, 1987.
(10)		Material Contracts
	(a)	Directors Deferred Compensation Plan, effective as of January 1, 2008, incorporated herein by reference from Form 8-K, dated November 28, 2007.**
	(b)	McDonald s Excess Benefit and Deferred Bonus Plan, effective January 1, 2008, as amended and restated July 8, 2008, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2008.**
		(i) First Amendment to the McDonald s Excess Benefit and Deferred Bonus Plan, effective as of October 21, 2008, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2008.**
	(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.**
		(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.**
		(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.**

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(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) 1999 Non-Employee Director Stock Option Plan, as amended and restated September 12, 2000, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2000.**

(g) 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.**

(h) McDonald s Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, filed herewith.**

(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.**

(i) Form of McDonald s Corporation Tier I Change of Control Employment Agreement, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2008.**

(j) McDonald s Corporation 2009 Cash Incentive Plan, effective as of May 27, 2009, filed herewith.**

(k) Form of Stock Option Grant Notice, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2005.**

(l) Form of Restricted Stock Unit Award Notice, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2005.**

(m) McDonald s Corporation Severance Plan, effective January 1, 2008, incorporated by reference from Form 8-K, dated November 28, 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.**

(n) Employment Contract between Denis Hennequin and the Company, dated February 26, 2007, incorporated herein by reference from Form 10-K, for the year ended December 31, 2006.**

(o) 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.**

(p) Relocation Agreement between Timothy Fenton and the Company, dated January 12, 2006, incorporated herein by reference from Form 10-K, for the year ended December 31, 2006.**

(q) Description of Restricted Stock Units granted to Andrew J. McKenna, filed herewith.**

(r) 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-Q, for the quarter ended June 30, 2008.**

(s) McDonald s Corporation Target Incentive Plan, effective as of January 1, 2008, incorporated herein by reference from Form 8-K, dated January 23, 2008.**

(t) Terms of equity compensation awards granted in the European Union pursuant to the Company s Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2008.**

(12) Computation of ratio of earnings to fixed charges.

(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.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.

*** In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be furnished and not filed .

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SIGNATURE

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

McDONALD S CORPORATION

(Registrant)

August 6, 2009

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