MCDONALDS CORP
Form 10-Q
August 05, 2015
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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, 2015
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	60523
(Address of Principal Executive Offices)	(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

941,810,237
(Number of shares of common stock
outstanding as of June 30, 2015)

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McDONALD'S CORPORATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEET

In millions, except per share data	(unaudited) June 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and equivalents	$3,998.5	$2,077.9
Accounts and notes receivable	1,178.6	1,214.4
Inventories, at cost, not in excess of market	102.3	110.0
Prepaid expenses and other current assets	692.8	783.2
Total current assets	5,972.2	4,185.5
Other assets		
Investments in and advances to affiliates	860.3	1,004.5
Goodwill	2,627.5	2,735.3
Miscellaneous	1,796.7	1,798.6
Total other assets	5,284.5	5,538.4
Property and equipment		
Property and equipment, at cost	38,391.9	39,126.1
Accumulated depreciation and amortization	(14,700.7)	(14,568.6)
Net property and equipment	23,691.2	24,557.5
Total assets	$34,947.9	$34,281.4
Liabilities and shareholders’ equity		
Current liabilities		
Accounts payable	$840.1	$860.1
Income taxes	62.4	166.8
Other taxes	348.6	330.0
Accrued interest	168.2	233.7
Accrued payroll and other liabilities	1,341.5	1,157.3
Total current liabilities	2,760.8	2,747.9
Long-term debt	17,901.6	14,989.7
Other long-term liabilities	2,112.4	2,065.9
Deferred income taxes	1,612.2	1,624.5
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	6,363.2	6,239.1
Retained earnings	43,681.6	43,294.5
Accumulated other comprehensive income	(2,110.0)	(1,519.7)
Common stock in treasury, at cost; 718.8 and 697.7 million shares	(37,390.5)	(35,177.1)
Total shareholders’ equity	10,560.9	12,853.4
Total liabilities and shareholders’ equity	$34,947.9	$34,281.4

See Notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF NET INCOME (UNAUDITED)

In millions, except per share data	Quarters Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Revenues				
Sales by Company-operated restaurants	$4,261.1	$4,785.9	$8,175.2	$9,276.4
Revenues from franchised restaurants	2,236.6	2,395.8	4,281.4	4,605.6
Total revenues	6,497.7	7,181.7	12,456.6	13,882.0
Operating costs and expenses				
Company-operated restaurant expenses	3,596.3	3,969.8	6,950.6	7,736.9
Franchised restaurants—occupancy expenses	411.0	427.6	814.6	844.7
Selling, general & administrative expenses	592.4	629.2	1,175.2	1,249.6
Other operating (income) expense, net	48.7	(33.9)	281.4	(74.2)
Total operating costs and expenses	4,648.4	4,992.7	9,221.8	9,757.0
Operating income	1,849.3	2,189.0	3,234.8	4,125.0
Interest expense	149.2	137.9	296.5	273.4
Nonoperating (income) expense, net	(12.3)	(20.4)	(28.2)	(3.2)
Income before provision for income taxes	1,712.4	2,071.5	2,966.5	3,854.8
Provision for income taxes	510.0	684.4	952.6	1,262.9
Net income	$1,202.4	$1,387.1	$2,013.9	$2,591.9
Earnings per common share-basic	$1.26	$1.40	$2.10	$2.62
Earnings per common share-diluted	$1.26	$1.40	$2.09	$2.61
Dividends declared per common share	$0.85	$0.81	$1.70	$1.62
Weighted average shares outstanding-basic	953.2	987.4	956.9	988.5
Weighted average shares outstanding-diluted	957.6	993.2	961.7	994.6

See Notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Quarters Ended June 30,		Six Months Ended June 30,	
In millions	2015	2014	2015	2014
Net income	$1,202.4	$1,387.1	$2,013.9	$2,591.9
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments:				
Gain (loss) recognized in accumulated other comprehensive income (AOCI), including net investment hedges	389.2	113.5	(590.5)	91.2
Reclassification of (gain) loss to net income	0.2	2.1	0.2	15.2
Foreign currency translation adjustments-net of tax benefit (expense) of $67.0, $(0.2), $(92.9) and $17.2	389.4	115.6	(590.3)	106.4
Cash flow hedges:				
Gain (loss) recognized in AOCI	(10.2)	(16.7)	12.0	13.5
Reclassification of (gain) loss to net income	(9.4)	7.3	(14.7)	(6.1)
Cash flow hedges-net of tax benefit (expense) of $11.0, $4.4, $1.5 and $(2.8)	(19.6)	(9.4)	(2.7)	7.4
Defined benefit pension plans:				
Gain (loss) recognized in AOCI	—	—	(1.4)	6.5
Reclassification of (gain) loss to net income	2.2	1.4	4.1	4.0
Defined benefit pension plans-net of tax benefit (expense) of $0.0, $0.0, $0.6 and $(4.4)	2.2	1.4	2.7	10.5
Total other comprehensive income (loss), net of tax	372.0	107.6	(590.3)	124.3
Comprehensive income (loss)	$1,574.4	$1,494.7	$1,423.6	$2,716.2

See Notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

In millions	Quarters Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Operating activities				
Net income	$1,202.4	$1,387.1	$2,013.9	$2,591.9
Adjustments to reconcile to cash provided by operations				
Charges and credits:				
Depreciation and amortization	392.2	413.2	778.3	823.6
Deferred income taxes	2.8	(14.8)	15.3	(38.8)
Share-based compensation	27.7	26.5	47.7	51.8
Other	19.2	9.0	262.1	63.7
Changes in working capital items	(130.8)	(334.0)	95.7	(97.9)
Cash provided by operations	1,513.5	1,487.0	3,213.0	3,394.3
Investing activities				
Capital expenditures	(415.9)	(589.6)	(808.5)	(1,158.4)
Sales and purchases of restaurant businesses and property sales	51.0	79.2	98.6	157.9
Other	18.4	(104.7)	14.2	(222.8)
Cash used for investing activities	(346.5)	(615.1)	(695.7)	(1,223.3)
Financing activities				
Net short-term borrowings	(293.8)	(68.3)	(38.8)	236.4
Long-term financing issuances	4,227.3	1,536.1	4,227.8	1,536.4
Long-term financing repayments	(501.4)	(1.0)	(1,046.7)	(541.1)
Treasury stock purchases	(1,555.4)	(703.5)	(2,161.8)	(1,143.0)
Common stock dividends	(811.0)	(800.6)	(1,627.3)	(1,602.3)
Proceeds from stock option exercises	36.6	75.3	135.2	161.7
Excess tax benefit on share-based compensation	6.0	21.5	25.4	56.5
Other	(20.7)	(8.5)	(19.5)	(8.7)
Cash provided by (used for) financing activities	1,087.6	51.0	(505.7)	(1,304.1)
Effect of exchange rates on cash and cash equivalents	109.1	3.9	(91.0)	5.0
Cash and equivalents increase	2,363.7	926.8	1,920.6	871.9
Cash and equivalents at beginning of period	1,634.8	2,743.8	2,077.9	2,798.7
Cash and equivalents at end of period	$3,998.5	$3,670.6	$3,998.5	$3,670.6

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, 2014 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, 2015 do not necessarily indicate the results that may be expected for the full year.

Restaurant Information

The following table presents restaurant information by ownership type:

Restaurants at June 30,	2015	2014
Conventional franchised	20,903	20,481
Developmental licensed	5,293	4,943
Foreign affiliated	3,516	3,570
Total Franchised	29,712	28,994
Company-operated	6,656	6,689
Systemwide restaurants	36,368	35,683

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

Per Common Share Information

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation, calculated using the treasury stock method, of 4.4 million shares and 5.8 million shares for the quarters 2015 and 2014, respectively, and 4.8 million shares and 6.1 million shares for the six months 2015 and 2014, respectively. Stock options that would have been antidilutive and therefore were not included in the calculation of diluted weighted-average shares totaled 9.5 million shares and 4.8 million shares for the quarters 2015 and 2014, respectively, and 10.0 million shares and 5.9 million shares for the six months 2015 and 2014, respectively.

Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value. Fair value disclosures are reflected in a three-level hierarchy, maximizing the use of observable inputs and minimizing the use of unobservable inputs. The Company did not have any significant changes to the valuation techniques used to measure fair value as described in the Company's December 31, 2014 Annual Report on Form 10-K.

At June 30, 2015, the fair value of the Company's debt obligations was estimated at $18.7 billion, compared to a carrying amount of $17.9 billion. The fair value was based upon quoted market prices, Level 2 within the valuation hierarchy. The carrying amounts of cash and equivalents, short-term investments and notes receivable approximate fair value.

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Financial Instruments and Hedging Activities

The Company is exposed to global market risks, including the effect of changes in interest rates and foreign currency fluctuations. The Company uses foreign currency denominated debt and derivative instruments to mitigate the impact of these changes. The Company does not hold or issue derivatives for trading purposes.

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

In millions	Derivative Assets June 30, 2015	Derivative Assets December 31, 2014	Derivative Liabilities June 30, 2015	Derivative Liabilities December 31, 2014
Total derivatives designated as hedging instruments	$82.2	$108.2	$(41.0)	$(42.3)
Total derivatives not designated as hedging instruments	119.3	137.9	(7.3)	(7.9)
Total derivatives	$201.5	$246.1	$(48.3)	$(50.2)

The following table presents the pretax amounts affecting income and other comprehensive income ("OCI") for the six months ended June 30, 2015 and 2014, respectively:

In millions	Gain (Loss) Recognized in Accumulated OCI 2015	Gain (Loss) Recognized in Accumulated OCI 2014	Gain (Loss) Reclassified into Income from Accumulated OCI 2015	Gain (Loss) Reclassified into Income from Accumulated OCI 2014	Gain (Loss) Recognized in Income on Derivative[(1)] 2015	Gain (Loss) Recognized in Income on Derivative[(1)] 2014
Cash Flow Hedges	$19.3	$19.1	$23.4	$8.9	$20.3	$2.0
Net Investment Hedges	$491.2	$(15.0)	$(0.2)	$(15.2)		
Undesignated derivatives					$0.5	$3.8

(1) Includes amounts excluded from effectiveness testing, ineffectiveness, and undesignated gains (losses).

• Fair Value Hedges

The Company enters into fair value hedges which convert a portion of its fixed-rate debt into floating-rate debt by use of interest rate swaps. At June 30, 2015, $2.2 billion of the Company's outstanding fixed-rate debt was effectively converted. For the six months ended June 30, 2015, the Company recognized a $2.9 million gain on fair value interest rate swaps, which was exactly offset by a corresponding loss in the fair value of the hedged debt instruments.

• Cash Flow Hedges

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. To protect against the reduction in value of forecasted foreign currency cash flows (such as royalties denominated in foreign currencies), the Company uses foreign currency forwards and foreign currency options to hedge a portion of anticipated exposures. The hedges cover the next 17 months for certain exposures and are denominated in various currencies. As of June 30, 2015, the Company had derivatives outstanding with an equivalent notional amount of $422.6 million that hedged a portion of forecasted foreign currency denominated royalties.

The Company uses cross-currency swaps to hedge the risk of cash flows associated with certain foreign currency denominated debt, including forecasted interest payments, and has elected cash flow hedge accounting. The hedges cover periods up to 21 months and have an equivalent notional amount of $141.8 million.

Based on market conditions at June 30, 2015, the $28.3 million in cumulative cash flow hedging gains, after tax, is not expected to have a significant effect on earnings over the next 12 months.

• Net Investment Hedges

The Company primarily uses foreign currency denominated debt (third party and intercompany) to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of OCI and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in OCI. As of June 30, 2015, $6.5 billion of the Company's third party foreign currency denominated debt, $3.6 billion of intercompany foreign currency denominated debt and $296.4 million of derivatives were designated to hedge investments in certain foreign subsidiaries and affiliates.

• Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by its derivative counterparties. The Company did not have significant exposure to any individual counterparty at June 30, 2015 and has master agreements that contain netting arrangements. For financial reporting purposes, the Company presents gross derivative balances in the financial statements and supplementary data, including for counterparties subject to netting arrangements.

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Segment Information

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

	Quarters Ended June 30,		Six Months Ended June 30,	
In millions	2015	2014	2015	2014
Revenues				
U.S.	$2,174.2	$2,249.0	$4,152.3	$4,303.1
Europe	2,412.6	2,913.3	4,576.8	5,625.5
APMEA	1,574.0	1,664.3	3,098.7	3,283.1
Other Countries & Corporate	336.9	355.1	628.8	670.3
Total revenues	$6,497.7	$7,181.7	$12,456.6	$13,882.0
Operating Income				
U.S.	$925.8	$980.5	$1,657.6	$1,801.3
Europe	685.9	853.6	1,286.8	1,606.1
APMEA	258.7	348.3	327.2	693.4
Other Countries & Corporate	(21.1)	6.6	(36.8)	24.2
Total operating income	$1,849.3	$2,189.0	$3,234.8	$4,125.0

On May 4, 2015, the Company announced a worldwide business restructuring that will combine markets with similar characteristics, challenges, and opportunities for growth into four segments effective July 1, 2015, as follows:

- U.S. - the Company’s largest segment, accounting for more than 40% of the Company’s 2014 operating income;
- International Lead Markets - established markets including Australia, Canada, France, Germany and the UK, which operate within similar economic and competitive dynamics, offer similar growth opportunities and collectively represented about 40% of the Company’s 2014 operating income;
- High-Growth Markets - markets with relatively higher restaurant expansion and franchising potential including China, Italy, Poland, Russia, Korea, Spain, Switzerland and the Netherlands. Together these markets accounted for about 10% of the Company’s 2014 operating income; and
- Foundational Markets and Corporate - the remaining markets in the McDonald’s system, each of which has the potential to operate under a largely franchised model. Corporate activities will also be reported within this segment.

Recently Issued Accounting Standards

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance codified in ASC 606, "Revenue Recognition - Revenue from Contracts with Customers," which amends the guidance in former ASC 605, "Revenue Recognition." In July 2015, the FASB made a decision to defer by one year the effective date of its new standard to January 1, 2018, although early adoption is permitted as of January 1, 2017. The Company is currently evaluating the impact of the provisions of ASC 606.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This update requires that debt issuance costs be recorded in the balance sheet as a direct reduction of the debt liability rather than as an asset and amortization of debt issuance costs be recorded as interest expense. The provisions of this update are effective as of January 1, 2016, although early adoption is permitted for financial statements that have not been previously issued. This update is not expected to significantly impact the Company.

Subsequent Events

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

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

Overview

The Company franchises and operates McDonald’s restaurants. Of the 36,368 restaurants in 119 countries at June 30, 2015, 29,712 were licensed to franchisees (including 20,903 franchised to conventional franchisees, 5,293 licensed to developmental licensees and 3,516 licensed to foreign affiliates ("affiliates") – primarily Japan) and 6,656 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 business, 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 enabling restaurant performance levels that are among the highest in the industry. In certain circumstances, the Company participates in reinvestment for conventional franchised restaurants in an effort to accelerate implementation of certain initiatives and grow the business.

Under our developmental license arrangement, licensees provide capital for the entire business, including the real estate interest, and the Company has no capital invested. In addition, the Company has an equity investment in a limited number of affiliates that invest in real estate and operate or franchise restaurants within a market.

We view ourselves primarily as a franchisor and believe franchising is paramount to both delivering great, locally-relevant customer experiences and driving profitability. Franchising enables an individual to own a restaurant business and maintain control over personnel, purchasing, marketing and pricing decisions, while also benefiting from the financial strength and global experience of McDonald's. However, directly operating restaurants is important to being a credible franchisor and is essential to providing Company personnel with restaurant operations experience. In our Company-operated restaurants, and in collaboration with franchisees, we further develop and refine operating standards, marketing concepts and product and pricing strategies, so that only those that we believe are most beneficial are introduced in the restaurants. We continually review, and as appropriate adjust, our mix of Company-operated and franchised (conventional franchised, developmental licensed and foreign affiliated) restaurants to help optimize overall performance.

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

The business was managed as distinct geographic segments through June 30, 2015. Significant reportable segments included the United States ("U.S."), Europe, and Asia/Pacific, Middle East and Africa ("APMEA"). In addition, throughout this report we present “Other Countries & Corporate” that includes operations in Canada and Latin America, as well as Corporate activities. For the six months ended June 30, 2015, the U.S., Europe and APMEA segments accounted for 33%, 37% and 25% of total revenues, respectively.

Strategic Direction

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

Our recent results remain disappointing and we are focused on the urgent need to reset and turn around the business. In our effort to shape McDonald's future as a modern, progressive burger company and increase our relevance with customers, our priorities are threefold - driving operational growth, returning excitement to our brand and unlocking financial value.

The immediate priority for our business is restoring growth under a new organizational structure and ownership mix designed to provide greater focus on the customer, improve our operating fundamentals and drive a recommitment to

running great restaurants. As we turn around our business, we will look to create more excitement around the brand and ensure that we build on our rich heritage of positively impacting the communities we serve.

Beginning July 1, 2015, McDonald’s will operate under the new organizational structure with the following four segments that combine markets with similar characteristics, challenges, and opportunities for growth:

- U.S. - the Company’s largest segment, accounting for more than 40% of the Company’s 2014 operating income;
- International Lead Markets - established markets including Australia, Canada, France, Germany, and the UK, which operate within similar economic and competitive dynamics, offer similar growth opportunities and collectively represented about 40% of the Company’s 2014 operating income;

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- High-Growth Markets - markets with relatively higher restaurant expansion and franchising potential including China, Italy, Poland, Russia, Korea, Spain, Switzerland and the Netherlands. Together these markets accounted for about 10% of the Company’s 2014 operating income; and
- Foundational Markets and Corporate - the remaining markets in the McDonald’s system, each of which has the potential to operate under a largely franchised model. Corporate activities will also be reported within this segment.

As we restructure our organization and instill greater customer focus, the turnaround effort will be governed by stronger financial discipline, faster decision making and clear management accountability. The enhancements to McDonald’s operating approach will be accompanied by plans to further optimize the Company’s restaurant ownership mix, deliver savings on selling, general and administrative expenses and accelerate cash returned to shareholders.

Under the initial steps of our turnaround plan, the Company previously announced its intention to:

- Accelerate the pace of refranchising by increasing the global franchised percentage to about 90% by the end of 2018 through refranchising about 3,500 restaurants. In conjunction with our refranchising plans, we will take a market-by-market approach, set higher financial screens for markets operating company-operated restaurants, and leverage both conventional and developmental licensee structures across the segments. Our new, more heavily-franchised business model will generate more stable and predictable revenue and cash flow streams and will require a less resource-intensive support structure;
- Deliver approximately $300 million in net annual savings on selling, general and administrative expenses, which will be realized by the end of 2017, in connection with the Company's organizational restructure, refranchising strategy, and more stringent discipline around spending throughout the organization; and
- Return $8 to $9 billion to shareholders in 2015 and to reach the top end of its 3-year $18 to $20 billion cash return to shareholders target by the end of 2016.

We continue to evaluate additional ideas to further drive shareholder value through actions that deliver sustainable long-term growth.

Financial Performance

Our overall financial performance continues to be largely reflective of our top-line results. Global comparable sales decreased 0.7% for the quarter and 1.5% for the six months, reflecting negative guest traffic in all major segments, with the largest impact coming from the U.S. and Japan. On a consolidated basis, comparable guest counts decreased 4.4% for the six months. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. Typically, pricing has a greater impact on average check than product mix. The goal is to achieve a relatively balanced contribution from both guest counts and average check.

U.S. comparable sales decreased 2.0% for the quarter and 2.3% for the six months, reflecting negative guest traffic as the featured products and promotions did not achieve expected consumer response amid ongoing competitive activity. The U.S. is focused on creating a better experience for customers by concentrating on value, service and menu. This includes efforts to develop a long-term national value platform, simplify the menu and menu boards, and enhance the quality of our menu offerings.

In Europe, comparable sales increased 1.2% for the quarter and 0.3% for the six months driven by solid performance in the U.K. and Germany, partly offset by negative results in France. The Company continues to target opportunities to improve critical aspects of its business amidst ongoing macro-economic headwinds across parts of the segment.

In APMEA, comparable sales decreased 4.5% for the quarter and 6.3% for the six months primarily due to the impact of prolonged, broad-based consumer perception issues in Japan along with negative performance in China and other Asian markets, partly offset by strong performance in Australia. The Company continues to aggressively execute brand recovery efforts related to the 2014 supplier issue. We expect China to return to a normalized level of performance for the second half of the year, but we expect results in Japan will be challenged for the foreseeable future.

Second Quarter and Six Months 2015 Operating Results Included:

- Global comparable sales decrease of 0.7% for the quarter and 1.5% for the six months, reflecting negative guest traffic in all major segments
- Consolidated revenues decrease of 10% (increase of 1% in constant currencies) for the quarter and decrease of 10% (flat in constant currencies) for the six months

- Consolidated operating income decrease of 16% (6% in constant currencies) for the quarter and decrease of 22% (13% in constant currencies) for the six months, partly reflecting the impact of first and second quarter strategic charges of $195 million and $45 million, respectively
- Diluted earnings per share of $1.26 for the quarter and $2.09 for the six months, a decrease of 10% (1% in constant currencies) and 20% (11% in constant currencies), respectively. In constant currencies and excluding the impact of the first and second quarter strategic charges, earnings per share for the six months would have decreased $0.08 or 3%

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- Returned $2.5 billion to shareholders through share repurchases and dividends, bringing the year-to-date return to shareholders to $3.9 billion in connection with our 3-year target to return $18-20 billion to shareholders by the end of 2016.

Outlook

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

Looking ahead to third quarter, we expect positive global comparable sales led by growth in our newly-created International Lead Markets segment and China's continuing recovery from the 2014 APMEA supplier issue.

2015

- Changes in Systemwide sales are driven by comparable sales and net restaurant unit expansion. The Company expects net restaurant additions to add approximately 2 percentage points to 2015 Systemwide sales growth (in constant currencies), most of which will be due to the 829 net restaurants (981 net traditional openings less 152 net satellite closings) added in 2014.
- 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 change in comparable sales for the U.S. would change annual diluted earnings per share by about 4 cents.
- With about 75% of McDonald's grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company's commodity costs. For the full year 2015, the total basket of goods cost is expected to increase 1.5%-2.5% in the U.S.
- The Company expects full-year 2015 selling, general and administrative expenses to increase approximately 2%-4% in constant currencies. Fluctuations between quarters may occur.
- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full-year 2015 to increase about 10% compared with 2014 due to higher average debt balances.
- A significant part of the Company's operating income is generated outside the U.S., and about 40% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 70% of the Company's operating income outside the U.S. If all four of these currencies moved by 10% in the same direction, the Company's annual diluted earnings per share would change by about 25 cents.
- The Company expects the effective income tax rate for the full-year 2015 to be at the high end of the existing 31%-33% range. Some volatility may be experienced between the quarters resulting in a quarterly tax rate outside of the annual range.
- The Company expects capital expenditures for 2015 to be approximately $2.0 billion. About half of this amount will be used to open new restaurants. The Company expects to open more than 1,000 restaurants including about 450 restaurants in affiliated and developmental licensee markets where the Company does not fund any capital expenditures. The Company expects net additions of about 300 restaurants, reflecting 700 restaurant closings. The remaining capital will be used to reinvest in existing locations.

Long-term

Under the initial steps of its global turnaround plan, the Company expects to:

- return $8 to $9 billion to shareholders in 2015 and to reach the top end of its 3-year $18 to $20 billion cash return to shareholders target by the end of 2016 through a combination of dividends and share repurchases.
- refranchise about 3,500 restaurants with franchised restaurants accounting for approximately 90% of global restaurants by the end of 2018.
- achieve net annual savings on selling, general and administrative expenses of about $300 million, which will be realized by the end of 2017, in connection with the Company's organizational restructure, refranchising strategy, and more stringent discipline around spending throughout the organization.

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

- Information in constant currency is calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results excluding the effect of foreign currency translation and bases incentive compensation plans on these results because they believe this better represents the Company’s underlying business trends.
- Systemwide sales include sales at all restaurants, whether operated by the Company or by franchisees. While franchised sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company’s financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base.
- Comparable sales represent sales at all restaurants and comparable guest counts represent the number of transactions at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimaging or remodeling, rebuilding, road construction and natural disasters. Comparable sales exclude the impact of currency translation. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. Typically, pricing has a greater impact on average check than product mix. Management reviews the increase or decrease in comparable sales and comparable guest counts compared with the same period in the prior year to assess business trends.

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CONSOLIDATED OPERATING RESULTS

Dollars in millions, except per share data	Quarter Ended June 30, 2015		Six Months Ended June 30, 2015	
	Amount	Increase/ (Decrease)	Amount	Increase/ (Decrease)
Revenues				
Sales by Company-operated restaurants	$4,261.1	(11)%	$8,175.2	(12)%
Revenues from franchised restaurants	2,236.6	(7)	4,281.4	(7)
Total revenues	6,497.7	(10)	12,456.6	(10)
Operating costs and expenses				
Company-operated restaurant expenses	3,596.3	(9)	6,950.6	(10)
Franchised restaurants—occupancy expenses	411.0	(4)	814.6	(4)
Selling, general & administrative expenses	592.4	(6)	1,175.2	(6)
Other operating (income) expense, net	48.7	n/m	281.4	n/m
Total operating costs and expenses	4,648.4	(7)	9,221.8	(5)
Operating income	1,849.3	(16)	3,234.8	(22)
Interest expense	149.2	8	296.5	8
Nonoperating (income) expense, net	(12.3)	40	(28.2)	n/m
Income before provision for income taxes	1,712.4	(17)	2,966.5	(23)
Provision for income taxes	510.0	(25)	952.6	(25)
Net income	$1,202.4	(13)%	$2,013.9	(22)%
Earnings per common share-basic	$1.26	(10)%	$2.10	(20)%
Earnings per common share-diluted	$1.26	(10)%	$2.09	(20)%

n/m Not meaningful

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Supplemental Information

In May 2015, the Company announced the initial steps of its turnaround plan, including a restructuring of its business from geographic segments into four segments that combine markets with similar characteristics, challenges, and opportunities for growth, effective July 1, 2015. Recast summary financial information for the years 2010 to 2014 and quarters ended March 31, 2014 to June 30, 2015 will be provided prior to release of the Company’s results for the quarter and nine months ended September 30, 2015.

Impact of Foreign Currency Translation

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

IMPACT OF FOREIGN CURRENCY TRANSLATION

Dollars in millions, except per share data

			Currency Translation Benefit/ (Cost)
Quarters Ended June 30,	2015	2014	2015
Revenues	$6,497.7	$7,181.7	$(747.1)
Company-operated margins	664.8	816.1	(88.9)
Franchised margins	1,825.6	1,968.2	(172.5)
Selling, general & administrative expenses	592.4	629.2	42.0
Operating income	1,849.3	2,189.0	(213.0)
Net income	1,202.4	1,387.1	(130.7)
Earnings per share-diluted	$1.26	$1.40	$(0.13)

			Currency Translation Benefit/ (Cost)
Six Months Ended June 30,	2015	2014	2015
Revenues	$12,456.6	$13,882.0	$(1,447.8)
Company-operated margins	1,224.6	1,539.5	(160.1)
Franchised margins	3,466.8	3,760.9	(314.9)
Selling, general & administrative expenses	1,175.2	1,249.6	81.9
Operating income	3,234.8	4,125.0	(370.3)
Net income	2,013.9	2,591.9	(215.3)
Earnings per share-diluted	$2.09	$2.61	$(0.23)

The impact of foreign currency translation on consolidated operating results for the quarter and six months reflected the strengthening of the U.S. dollar against the Euro, Australian Dollar, Russian Ruble and most other currencies.

Net Income and Diluted Earnings per Common Share

For the quarter, net income decreased 13% (4% in constant currencies) to $1,202.4 million, and diluted earnings per share decreased 10% (1% in constant currencies) to $1.26. Foreign currency translation had a negative impact of $0.13 on diluted earnings per share.

For the six months, net income decreased 22% (14% in constant currencies) to $2,013.9 million, and diluted earnings per share decreased 20% (11% in constant currencies) to $2.09. Foreign currency translation had a negative impact of

$0.23 on diluted earnings per share.

For the quarter and six months, results were negatively impacted by lower Company-operated margins, weaker results in Japan, and approximately $45 million of restructuring charges incurred to optimize the Company's global operating structure in connection with the Company's turnaround plan announced in early May. The six months was also negatively impacted by strategic charges of $195 million recognized in the first quarter.

Results for the quarter and six months benefited from a lower effective tax rate recognized in the quarter. In addition, diluted earnings per share for both periods benefited from a decrease in diluted weighted average shares outstanding due to share repurchases.

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In constant currencies and excluding the impact of the first and second quarter strategic charges, earnings per share for the six months would have decreased $0.08 or 3%.
During the quarter, the Company repurchased 17.4 million shares of its stock for $1.7 billion, bringing total purchases for the six months to 24.0 million shares or $2.3 billion. In addition, the Company paid a quarterly dividend of $0.85 per share or $811.0 million, bringing the total dividends paid for the six months to $1.6 billion.
Revenues
Revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales along with minimum rent payments and initial fees. Revenues from franchised restaurants that are licensed to affiliates and developmental licensees include a royalty based on a percent of sales and generally include initial fees.
The Company is accelerating the pace of refranchising to optimize its restaurant ownership mix, generate more stable and predictable revenue and cash flow streams, and operate with a less resource-intensive support structure. The shift to a greater percentage of franchised restaurants negatively impacts consolidated revenues as Company-operated sales shift to franchised sales, where the Company receives rent and/or royalty revenue based on a percentage of sales.
REVENUES
Dollars in millions

Quarters Ended June 30,	2015	2014	(Decrease)		Inc/ (Dec) Excluding Currency Translation	
Company-operated sales						
U.S.	$1,074.2	$1,133.4	(5	)%	(5	)%
Europe	1,688.3	2,074.2	(19	)	3	
APMEA	1,313.8	1,387.1	(5	)	(1	)
Other Countries & Corporate	184.8	191.2	(3	)	9	
Total	$4,261.1	$4,785.9	(11	)%	0	%
Franchised revenues						
U.S.	$1,100.0	$1,115.6	(1	)%	(1	)%
Europe	724.3	839.1	(14	)	4	
APMEA	260.2	277.2	(6	)	7	
Other Countries & Corporate	152.1	163.9	(7	)	10	
Total	$2,236.6	$2,395.8	(7	)%	2	%
Total revenues						
U.S.	$2,174.2	$2,249.0	(3	)%	(3	)%
Europe	2,412.6	2,913.3	(17	)	3	
APMEA	1,574.0	1,664.3	(5	)	1	
Other Countries & Corporate	336.9	355.1	(5	)	9	
Total	$6,497.7	$7,181.7	(10	)%	1	%

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Six Months Ended June 30,	2015	2014	(Decrease)	Inc/ (Dec) Excluding Currency Translation
Company-operated sales				
U.S.	$2,064.4	$2,174.3	(5)%	(5)%
Europe	3,183.0	4,000.0	(20)	2
APMEA	2,587.8	2,744.0	(6)	(1)
Other Countries & Corporate	340.0	358.1	(5)	7
Total	$8,175.2	$9,276.4	(12)%	(1)%
Franchised revenues				
U.S.	$2,087.9	$2,128.8	(2)%	(2)%
Europe	1,393.8	1,625.5	(14)	3
APMEA	510.9	539.1	(5)	6
Other Countries & Corporate	288.8	312.2	(8)	10
Total	$4,281.4	$4,605.6	(7)%	2 %
Total revenues				
U.S.	$4,152.3	$4,303.1	(4)%	(4)%
Europe	4,576.8	5,625.5	(19)	2
APMEA	3,098.7	3,283.1	(6)	0
Other Countries & Corporate	628.8	670.3	(6)	8
Total	$12,456.6	$13,882.0	(10)%	0 %

Consolidated revenues decreased 10% (increased 1% in constant currencies) for the quarter and decreased 10% (flat in constant currencies) for the six months. The constant currency results reflected the impact of expansion, mostly offset by negative comparable sales and the impact of refranchising.

- In the U.S., revenues decreased for the quarter and six months due to negative comparable sales, reflecting negative comparable guest counts, and the impact of refranchising.
- In Europe, the constant currency revenues increased for the quarter and six months reflecting a benefit from expansion, primarily in Russia, and positive comparable sales in the U.K. and Germany. This was partly offset by negative comparable sales in France and Russia and the impact of refranchising.
- In APMEA, the constant currency revenues for the quarter and six months benefited from expansion in the segment and strong comparable sales in Australia. This benefit was mostly offset by negative comparable sales, primarily in China and Japan due to the ongoing impact from the 2014 supplier issue, and the impact of refranchising.

The following table presents the percent change in comparable sales for the quarters and six months ended June 30, 2015 and 2014:

COMPARABLE SALES

	Increase/ (Decrease)			
	Quarters Ended June 30,		Six Months Ended June 30,*	
	2015	2014	2015	2014
U.S.	(2.0)%	(1.5)%	(2.3)%	(1.6)%
Europe	1.2	(1.0)	0.3	0.2
APMEA	(4.5)	1.1	(6.3)	1.0
Other Countries & Corporate	6.9	5.6	6.6	5.8
Total	(0.7)%	(0.1)%	(1.5)%	0.2 %

* On a consolidated basis, comparable guest counts decreased 4.4% and 3.0% for the six months 2015 and 2014, respectively.

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The following table presents the percent change in Systemwide sales for the quarter and six months ended June 30, 2015:

SYSTEMWIDE SALES

	Quarter Ended June 30, 2015		Six Months Ended June 30, 2015	
	(Decrease)	Inc/ (Dec) Excluding Currency Translation	(Decrease)	Inc/ (Dec) Excluding Currency Translation
U.S.	(1)%	(1)%	(1)%	(1)%
Europe	(15)	4	(16)	3
APMEA	(10)	(1)	(11)	(3)
Other Countries & Corporate	(10)	9	(11)	9
Total	(8)%	1 %	(9)%	1 %

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

FRANCHISED SALES

Dollars in millions

Quarters Ended June 30,	2015	2014	(Decrease)	Inc/ (Dec) Excluding Currency Translation
U.S.	$8,002.4	$8,058.3	(1)%	(1)%
Europe	4,084.2	4,730.0	(14)	4
APMEA	2,772.0	3,171.3	(13)	(1)
Other Countries & Corporate	1,756.6	1,974.2	(11)	9
Total*	$16,615.2	$17,933.8	(7)%	2 %

Six Months Ended June 30,	2015	2014	(Decrease)	Inc/ (Dec) Excluding Currency Translation
U.S.	$15,249.8	$15,396.4	(1)%	(1)%
Europe	7,864.2	9,132.2	(14)	3
APMEA	5,445.2	6,280.1	(13)	(3)
Other Countries & Corporate	3,404.6	3,841.8	(11)	9
Total*	$31,963.8	$34,650.5	(8)%	1 %

* Sales from developmental licensed restaurants and foreign affiliated markets where the Company earns a royalty based on a percent of sales totaled $2,989.4 million and $3,569.9 million for the quarters 2015 and 2014, respectively, and $5,932.7 million and $7,118.4 million for the six months 2015 and 2014, respectively. Results for both periods were impacted by negative comparable sales and the weaker Yen in Japan, and many weaker currencies in Latin America. The remaining balance of franchised sales is derived from conventional franchised restaurants where the Company earns rent and royalties based primarily on a percent of sales.

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Restaurant Margins

FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS

Dollars in millions

Quarters Ended June 30,	Percent 2015	Percent 2014	Amount 2015	Amount 2014	(Decrease)	Inc/ (Dec) Excluding Currency Translation
Franchised						
U.S.	82.9 %	83.8 %	$911.6	$934.4	(2)%	(2)%
Europe	77.6	78.0	561.8	654.6	(14)	4
APMEA	85.3	86.1	221.9	238.6	(7)	6
Other Countries & Corporate	85.6	85.7	130.3	140.6	(7)	10
Total	81.6 %	82.2 %	$1,825.6	$1,968.2	(7)%	2 %
Company-operated						
U.S.	16.5 %	18.3 %	$177.2	$207.9	(15)%	(15)%
Europe	18.1	18.6	306.3	385.7	(21)	(1)
APMEA	11.6	13.7	152.2	190.7	(20)	(14)
Other Countries & Corporate	15.7	16.6	29.1	31.8	(8)	3
Total	15.6 %	17.1 %	$664.8	$816.1	(19)%	(8)%

Six Months Ended June 30,	Percent 2015	Percent 2014	Amount 2015	Amount 2014	(Decrease)	Inc/ (Dec) Excluding Currency Translation
Franchised						
U.S.	82.1 %	83.2 %	$1,715.1	$1,770.5	(3)%	(3)%
Europe	76.8	77.5	1,070.9	1,259.4	(15)	2
APMEA	85.1	86.2	434.7	464.7	(6)	5
Other Countries & Corporate	85.2	85.3	246.1	266.3	(8)	10
Total	81.0 %	81.7 %	$3,466.8	$3,760.9	(8)%	1 %
Company-operated						
U.S.	15.9 %	17.8 %	$328.3	$388.0	(15)%	(15)%
Europe	17.3	17.8	550.1	713.7	(23)	(4)
APMEA	11.4	13.9	295.6	381.2	(22)	(17)
Other Countries & Corporate	14.9	15.8	50.6	56.6	(11)	1
Total	15.0 %	16.6 %	$1,224.6	$1,539.5	(20)%	(10)%

Franchised margin dollars decreased $142.6 million or 7% (increased 2% in constant currencies) for the quarter and decreased $294.1 million or 8% (increased 1% in constant currencies) for the six months.

- In the U.S., the franchised margin percent decreased for the quarter and six months primarily due to higher lease expense and negative comparable sales.
- In Europe, the franchised margin percent decreased for the quarter and six months primarily due to the impact of refranchising and higher lease expense. The quarter also benefited from positive comparable sales performance.
- In APMEA, the franchised margin percent decreased for the quarter and six months partly due to weaker operating performance in Japan, which reduced Japan's favorable contribution to the segment's margin percent. In addition, higher lease expense and refranchising negatively impacted the margin percent, partly offset by strong comparable sales performance in Australia.

Refranchising activity for both periods had a dilutive effect on the franchised margin percent, but resulted in higher franchised margin dollars.

Company-operated margin dollars decreased $151.3 million or 19% (8% in constant currencies) for the quarter and decreased $314.9 million or 20% (10% in constant currencies) for the six months.

- In the U.S., the Company-operated margin percent decreased for the quarter and six months due to the impact of negative comparable guest counts and higher labor and, to a lesser extent, commodity costs. These pressures were partly offset by a higher average check.

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- In Europe, the Company-operated margin percent decreased for the quarter and six months primarily due to weaker results in Russia, reflecting the impact of currency and inflationary pressures on commodity costs.
- In APMEA, the Company-operated margin percent decreased for the quarter and six months primarily due to higher commodity and labor costs in China and other Asian markets. The ongoing, but lessening, impact from the 2014 supplier issue continued to pressure sales in China.

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

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

	Quarters Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Food & paper	33.9 %	33.6 %	33.9 %	33.6 %
Payroll & employee benefits	26.3	25.8	26.6	26.0
Occupancy & other operating expenses	24.2	23.5	24.5	23.8
Total expenses	84.4 %	82.9 %	85.0 %	83.4 %
Company-operated margins	15.6 %	17.1 %	15.0 %	16.6 %

Selling, General & Administrative Expenses

Selling, general and administrative expenses decreased $36.8 million or 6% (increased 1% in constant currencies) for the quarter and decreased $74.4 million or 6% (increased 1% in constant currencies) for the six months. The constant currency increase reflects higher incentive-based compensation, marketing and technology costs, mostly offset by the benefit from comparison to prior year costs related to the first quarter 2014 Winter Olympics and the second quarter 2014 Worldwide Convention.

For the six months, selling, general and administrative expenses as a percent of revenues increased to 9.4% for 2015 compared with 9.0% for 2014, and as a percent of Systemwide sales increased to 2.9% for 2015 compared with 2.8% for 2014, as weaker foreign currencies are having a bigger impact on revenues and sales.

Other Operating (Income) Expense, Net

OTHER OPERATING (INCOME) EXPENSE, NET

Dollars in millions

	Quarters Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Gains on sales of restaurant businesses	$(39.3)	$(21.9)	$(63.9)	$(50.9)
Equity in earnings of unconsolidated affiliates	24.3	(14.4)	87.7	(30.9)
Asset dispositions and other (income) expense, net	63.7	2.4	257.6	7.6
Total	$48.7	$(33.9)	$281.4	$(74.2)

Gains on sales of restaurant businesses increased for the quarter and six months, primarily in the U.S.

Equity in earnings of unconsolidated affiliates decreased for the quarter and six months primarily due to results in Japan, reflecting negative operating performance and the impact of closing under-performing restaurants in the first quarter.

Asset dispositions and other expense increased for the quarter primarily due to restructuring charges of approximately $45 million. In addition, the six months included first quarter strategic charges of $195 million related to asset write-offs resulting from the decision to close under-performing restaurants, mostly in the U.S. and China, other asset write-offs as part of the refranchising initiative and U.S. restructuring charges.

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Operating Income

OPERATING INCOME

Dollars in millions

Quarters Ended June 30,	2015	2014	(Decrease)	(Decrease) Excluding Currency Translation
U.S.	$925.8	$980.5	(6)%	(6)%
Europe	685.9	853.6	(20)	(2)
APMEA	258.7	348.3	(26)	(16)
Other Countries & Corporate	(21.1)	6.6	n/m	(28)
Total	$1,849.3	$2,189.0	(16)%	(6)%

Six Months Ended June 30,	2015	2014	(Decrease)	(Decrease) Excluding Currency Translation
U.S.	$1,657.6	$1,801.3	(8)%	(8)%
Europe	1,286.8	1,606.1	(20)	(3)
APMEA	327.2	693.4	(53)	(47)
Other Countries & Corporate	(36.8)	24.2	n/m	(49)
Total	$3,234.8	$4,125.0	(22)%	(13)%

n/m Not meaningful

Operating income decreased $339.7 million or 16% (6% in constant currencies) for the quarter and decreased $890.2 million or 22% (13% in constant currencies) for the six months, partly reflecting the impact of first and second quarter strategic charges of $195 million and $45 million, respectively.

- In the U.S., operating income for the quarter and six months decreased primarily due to lower restaurant margin dollars, reflecting soft, top-line performance and cost pressures. In addition, the six months included restructuring and restaurant closing charges.
- In Europe, constant currency operating income decreased for the quarter and six months primarily due to lower other operating income, including restructuring charges incurred in the second quarter, and lower Company-operated margin dollars in Russia, partly offset by higher franchised margin dollars.
- In APMEA, the constant currency operating income decrease for the quarter and six months reflected negative operating performance in Japan and lower Company-operated margin dollars, partly offset by higher franchised margin dollars. In addition, the six months included strategic charges related to the impact from restaurant closings and other management actions.
- Combined Operating Margin

Combined operating margin is defined as operating income as a percent of total revenues. Combined operating margin was 26.0% and 29.7% for the six months 2015 and 2014, respectively.

Interest Expense

Interest expense increased 8% (14% in constant currencies) for the quarter and increased 8% (15% in constant currencies) for the six months primarily due to higher average debt balances, partly offset by weaker foreign currencies.

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Nonoperating (Income) Expense, Net

NONOPERATING (INCOME) EXPENSE, NET
Dollars in millions

	Quarters Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest Income	$(1.7)	$(7.4)	$(4.0)	$(10.8)
Foreign currency and hedging activity	(19.0)	(5.5)	(34.9)	6.5
Other (income) expense, net	8.4	(7.5)	10.7	1.1
Total	$(12.3)	$(20.4)	$(28.2)	$(3.2)

Income Taxes

The effective income tax rate was 29.8% and 33.0% for the quarters 2015 and 2014 and 32.1% and 32.8% for the six months 2015 and 2014, respectively. The lower effective tax rate for the quarter was primarily due to a lower tax cost associated with the Company's ongoing foreign cash repatriation.

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 $3.2 billion and exceeded capital expenditures by $2.4 billion for the six months 2015. Cash provided by operations decreased $181.3 million compared with the six months 2014, primarily due to lower operating results.

Cash used for investing activities totaled $695.7 million for the six months 2015, a decrease of $527.6 million compared with the six months 2014, primarily due to lower capital expenditures and a decrease in other investing activities partly related to short-term time deposits.

Cash used for financing activities totaled $505.7 million for the six months 2015, a decrease of $798.4 million compared with the six months 2014, primarily due to an increase in net long-term debt issuances, partly offset by higher treasury stock purchases.

Debt obligations at June 30, 2015 totaled $17.9 billion compared with $15.0 billion at December 31, 2014. The increase was primarily due to bond issuances of $4.2 billion, partly offset by bond repayments of $1.0 billion.

Recently Issued Accounting Standards

Revenue Recognition

In May 2014, the Financial Accounting Standards Board issued guidance codified in Accounting Standards Codification (ASC) 606, "Revenue Recognition - Revenue from Contracts with Customers," which amends the guidance in former ASC 605, "Revenue Recognition." In July 2015, the FASB made a decision to defer by one year the effective date of its new standard to January 1, 2018, although early adoption is permitted as of January 1, 2017. The Company is currently evaluating the impact of the provisions of ASC 606.

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." This update requires that debt issuance costs be recorded in the balance sheet as a direct reduction of the debt liability rather than as an asset and amortization of debt issuance costs be recorded as interest expense. The provisions of this update are effective as of January 1, 2016, although early adoption is permitted for financial statements that have not been previously issued. This update is not expected to significantly impact the Company.

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Risk Factors and Cautionary Statement Regarding Forward-Looking Statements

The information in this report includes forward-looking statements about our plans and future performance, including those under Outlook. These statements use such words as “may,” “will,” “expect,” “believe” and “plan.” They reflect our expectations and speak only as of the date of this report. We do not undertake to update them. Our expectations (or the underlying assumptions) may change or not be realized, and you should not rely unduly on forward-looking statements. Our business results are subject to a variety of risks that are reflected in the following considerations and factors that we believe are most likely to affect our performance.

If we do not successfully design and execute our business strategies, we may not be able to increase revenues or market share.

To drive future results, our business strategies must be effective in achieving market share gains while at the same time delivering operating income growth. These strategies are aligned around the priorities that represent our greatest opportunities to drive results. Whether we successfully execute these strategies depends mainly on our System’s ability to:

- Continue to innovate and differentiate in all aspects of the McDonald’s experience in a way that balances value with profitability;
- Reinvest in our restaurants and identify and develop restaurant sites consistent with our System’s plans for net growth of System-wide restaurants;
- Provide clean and friendly environments that deliver a consistent McDonald's experience and demonstrate high service levels;
- Drive restaurant improvements that achieve optimal capacity, particularly during peak mealtime hours; and
- Manage the complexity of our restaurant operations.

If we are unsuccessful in executing our strategies, or if our strategies do not yield the desired results, our business, financial condition and results of operations may suffer.

If our announced turnaround plans are not successful in driving improved performance, our results may suffer.

In May 2015, we announced the first steps in our turnaround plan to drive operational growth, return excitement to the brand and unlock financial value as we work to become a modern progressive burger company. Our immediate priorities include restoring growth under a new organizational structure and optimizing the Company’s restaurant ownership mix through accelerated refranchising to provide greater focus on the customer, and delivering cost savings. If our turnaround plans are not successful, take longer than initially projected, are not executed effectively, or result in a less effective management structure, our operations and financial results could be adversely affected.

In addition, the turnaround plan presents various risks to the McDonald’s System and increase the chances that existing risks described elsewhere in this section will have an adverse effect.

We face intense competition in our markets, which could hurt our business.

We compete primarily in the IEO segment, which is highly competitive. In some of our major markets, IEO segments have remained stagnant in recent periods, have experienced only modest growth or have declined. As a result, we are facing sustained, intense competition from both traditional and other competitors, which include many non-traditional market participants such as convenience stores and coffee shops. In addition, in recent periods we have experienced emerging and growing competition from the fast casual category of restaurants. We expect our environment to continue to be highly competitive and in any particular reporting period our results may be impacted by new actions of our competition, which may have a short- or long-term impact.

We compete on the basis of product choice, quality, affordability, service and location. In particular, we believe our ability to compete successfully in the current market environment depends on our ability to improve existing products, develop new products, price our products appropriately, manage the complexity of our restaurant operations and respond effectively to our competitors’ actions. Recognizing these dependencies, we have intensified our focus in recent periods on strategies to achieve these goals, including the turnaround plans described above, and we will likely continue to modify our strategies and implement new strategies in the future. There can be no assurance these strategies will be effective, and some strategies may be effective at improving some metrics while adversely affecting other metrics.

If we do not anticipate and address evolving consumer preferences, our business could suffer.

Our continued success depends on our System's ability to anticipate and respond effectively to continuously shifting consumer demographics, trends in food sourcing, food preparation and consumer preferences in the IEO segment. We must continuously adapt to deliver a relevant experience for our customers amidst a highly competitive, value-driven operating environment. We continue to implement initiatives designed to more aggressively address these shifts. There is no assurance that such initiatives will be successful and, if they are not, our financial results could be adversely impacted.

If our pricing, promotional and marketing plans are not effective, our results may be negatively impacted.

Our results depend on the impact of our pricing, promotional and marketing plans and our System's ability to adjust these plans to respond quickly to economic and competitive conditions. Our existing or future pricing strategies and the value proposition they represent

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will continue to be important components of our overall plan, may not be successful and could negatively impact sales and margins. The promotion of our menu offerings may yield results below desired levels.
Additionally, we operate in an increasingly complex and costly advertising environment. Our marketing and advertising programs may not be successful and we may fail to attract and retain customers. We have increased our emphasis on digital offerings and customer loyalty initiatives, and our success depends in part on whether we can effectively execute such offerings and initiatives in a way that will enhance customer engagement. If our pricing, promotional and marketing plans are not successful, or are not as successful as those of our competitors, our sales, guest counts and market share could decrease.
Failure to preserve the value and relevance of our brand could have a negative impact on our financial results.
To be successful in the future, we believe we must preserve, enhance and leverage the value of our brand. Brand value is based in part on consumer perceptions on a variety of factors, including the nutritional content and preparation of our food, our business practices and the manner in which we source the commodities we use. Consumer acceptance of our offerings is subject to change for a variety of reasons. For example, nutritional, health and other scientific studies and conclusions, which constantly evolve and often have contradictory implications, drive popular opinion, litigation and regulation (including initiatives intended to drive consumer behavior) in ways that affect the IEO segment or perceptions of our brand and could be material to our business. Perceptions may also be affected by activist campaigns to promote adverse perceptions of the quick-service category of the IEO segment or our brand and/or our operations, or to promote or threaten specific economic action involving the industry, us, our suppliers or franchisees. If we are unsuccessful in addressing such adverse perceptions, our brand and our financial results may suffer.
Additionally, the ongoing relevance of our brand may depend on the success of our sustainability initiatives to support our brand ambition of good food, good people and good neighbor, which will require System-wide coordination and alignment. If we are not effective in achieving our stated sustainability goals and addressing these and other matters of social responsibility in a way that inspires trust and confidence, trust in our brand could suffer. In particular, business incidents that erode consumer trust, particularly if such incidents receive considerable publicity or result in litigation, can significantly reduce brand value and have a negative impact on our financial results.
Unfavorable general economic conditions could adversely affect our business and financial results.
Our results of operations are substantially affected by economic conditions, which can vary significantly by market and can impact consumer disposable income levels and spending habits. Economic conditions can also be impacted by a variety of factors including hostilities, epidemics and actions taken by governments to manage national economic matters, whether through austerity or stimulus measures and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers. Many major economies, both advanced and developing, continue to face weak economies, high unemployment rates and other ongoing economic issues. Continued adverse economic conditions or adverse changes in economic conditions in our markets could pressure our operating performance, and our business and financial results may suffer.
Supply chain interruptions may increase costs or reduce revenues.
We depend on the effectiveness of our supply chain management to assure reliable and sufficient product supply, including on favorable terms. The products we sell are sourced from a wide variety of suppliers in countries around the world. Supply chain interruptions, including due to lack of supply or price increases, can adversely affect us or the suppliers and franchisees that are also part of our System and whose performance has a significant impact on our results. Such shortages or disruptions could be caused by factors beyond the control of our suppliers or us, including inclement weather, natural disasters, increased demand, problems in production or distribution, disruptions in third party logistics or transportation systems, the inability of our suppliers to obtain credit, or food safety warnings or advisories. If we experience interruptions in our supply chain, our costs could increase and it could limit the availability of products critical to our operations.
Food safety concerns may have an adverse effect on our business.
Our ability to increase sales and profits depends on our System's ability to meet expectations for safe food and on our ability to manage the potential impact on McDonald's of food-borne illnesses and food or product safety issues that may arise in the future. Food safety is a top priority, and we dedicate substantial resources to ensure that our customers enjoy safe food products. However, food safety events, including instances of food-borne illness, have

occurred in the food industry in the past, and could occur in the future. In 2014, food quality issues were discovered at a supplier to McDonald’s and other food companies in China. As a consequence of this issue, results in China, Japan and certain other markets were negatively impacted due to lost sales and profitability, including expenses associated with rebuilding customer trust. Any future instances of food tampering, food contamination or food-borne illness could adversely affect our brand and reputation as well as our revenues and profits.

Our franchise business model presents a number of risks.

Our success relies in part on the financial success and cooperation of our franchisees, yet we have limited influence over their operations. Our restaurant margins arise from two sources: company-operated restaurants and franchised restaurants. Our franchisees manage their businesses independently, and therefore are responsible for the day-to-day operation of their restaurants. The revenues we realize from franchised restaurants are largely dependent on the ability of our franchisees to grow their sales. Our franchisees may not

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experience sales growth, and our revenues and margins could be negatively affected as a result. If sales trends worsen for franchisees, their financial results may deteriorate, which could result in, among other things, restaurant closures or delayed or reduced payments to us.

Our success also depends on the willingness and ability of our independent franchisees to implement major initiatives, which may include financial investment, and to remain aligned with us on operating, promotional and capital-intensive reinvestment plans. The ability of our franchisees to contribute to the achievement of our plans is dependent in large part on the availability of funding at reasonable interest rates and may be negatively impacted by the financial markets in general or by the creditworthiness of our franchisees or the Company. Our operating performance could also be negatively affected if our franchisees experience food safety or other operational problems or project a brand image inconsistent with our values, particularly if our contractual and other rights and remedies are limited, costly to exercise or subject to litigation. If franchisees do not successfully operate restaurants in a manner consistent with our required standards, the brand's image and reputation could be harmed, which in turn could hurt our business and operating results.

Our ownership mix also affects our results and financial condition. The decision to own restaurants or to operate under franchise or license agreements is driven by many factors whose interrelationship is complex and changing. Our ability to achieve the benefits of our refranchising strategy, which involves a shift to a greater percentage of franchised restaurants, will depend on various factors, including our ability to identify franchisees that meet our rigorous standards, the performance of our existing franchisees and whether the resulting ownership mix supports our financial objectives.

Changes in commodity and other operating costs could adversely affect our results of operations.

The profitability of our company-operated restaurants depends in part on our ability to anticipate and react to changes in commodity costs, including food, paper, supply, fuel, utilities, distribution and other operating costs. Any volatility in certain commodity prices could adversely affect our operating results by impacting restaurant profitability. The commodity market for some of the ingredients we use, such as beef and chicken, is particularly volatile and is subject to significant price fluctuations due to seasonal shifts, climate conditions, industry demand, international commodity markets, food safety concerns, product recalls, government regulation and other factors, all of which are beyond our control and, in many instances, unpredictable. We can only partially address future price risk through hedging and other activities, and therefore increases in commodity costs could have an adverse impact on our profitability.

The global scope of our operations subjects us to risks that could negatively affect our business.

We face differing cultural, regulatory and economic environments that exist within and among the more than 100 countries where McDonald's restaurants operate, and our ability to achieve our business objectives depends on our success in these environments. Meeting customer expectations is complicated by the risks inherent in our global operating environment, and our global success is partially dependent on our System's ability to leverage operating successes across markets. Our initiatives may not have broad appeal with our customer base and could drive unanticipated changes in customer perceptions and guest counts.

Disruptions in our operations or price volatility in a market can also result from governmental actions, such as price, foreign exchange or import-export controls, increased tariffs, government-mandated closure of our or our suppliers' operations and asset seizures. The cost and disruption of responding to governmental investigations or actions, whether or not they have merit, may impact our results. Our international success depends in part on the effectiveness of our strategies and brand-building initiatives to reduce our exposure to such governmental actions. Our results of operations and financial condition are also affected by fluctuations in currency exchange rates, which may adversely affect reported earnings.

Additionally, we face challenges and uncertainties associated with operating in developing markets, which may entail a relatively higher risk of political instability, economic volatility, crime, corruption and social and ethnic unrest. Such challenges 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. If we are unable to effectively manage the risks associated with our international operations, it could have a material adverse effect on our business and financial condition.

Challenges with respect to talent management could harm our business.

Our success depends in part on our System's ability to recruit and retain qualified personnel to work in our restaurants. Increased costs associated with recruiting and retaining such qualified personnel, whether because of the trend toward higher statutory minimum wages and social expenses or because of voluntary increases in wages necessitated by labor market conditions, could have a negative impact on the margins of our company-operated restaurants. Additionally, economic action, such as boycotts, protests, work stoppages or campaigns by labor organizations, could adversely affect us or the franchisees and suppliers that are also part of the McDonald's System and whose performance has a material impact on our results.

We are also impacted by the costs and other effects of compliance with U.S. and overseas regulations affecting our workforce, which includes our staff and employees working in our company-operated restaurants. These regulations are increasingly focused on wage and hour, healthcare, immigration, retirement and other employee benefits and unlawful workplace discrimination. Our potential exposure to reputational and other harm regarding our workplace practices or conditions or those of our independent franchisees or suppliers (or perceptions thereof) could have a negative impact on our business.

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Information technology system failures or interruptions or breaches of our network security may interrupt our operations.
We are increasingly reliant on our technological systems (e.g., point-of-sale and other in-store systems or platforms) to conduct our business, and any failure of these systems could significantly impact our operations. Despite our implementation of security measures, our technology systems could become vulnerable to damage, disability or failures due to theft, fire, power loss, telecommunications failure or other catastrophic events. If these systems were to fail, and we were unable to recover in a timely way, we could experience an interruption in our operations. We may also not fully realize the benefits of the significant investments we are making to enhance the customer experience through digital engagement and social media.
Furthermore, security breaches involving our systems or those of third party providers may occur, such as unauthorized access, denial of service, computer viruses and other disruptive problems caused by hackers. Our information technology systems contain personal, financial and other information that is entrusted to us by our customers and employees as well as financial, proprietary and other confidential information related to our business. An actual or alleged security breach could result in system disruptions, shutdowns, theft or unauthorized disclosure of confidential information. The occurrence of any of these incidents could result in adverse publicity, loss of consumer confidence, reduced sales and profits, and criminal penalties or civil liabilities.
Increasing regulatory complexity may adversely affect restaurant operations and our financial results.
Our regulatory environment worldwide exposes us to complex compliance and similar risks that could affect our operations and results in material ways. In many of our markets, including the United States and countries in Europe, we are subject to increasing regulation, which has increased our cost of doing business. We are affected by the cost, compliance and other risks associated with the often conflicting and highly prescriptive regulations we face, including where inconsistent standards imposed by multiple governmental authorities can adversely affect our business and increase our exposure to litigation or governmental investigations or proceedings.
Our success depends in part on our ability to manage the impact of new, potential or changing regulations that can affect our business plans. These regulations may relate to product packaging, marketing and the nutritional content and safety of our food and other products, labeling and other disclosure practices, ordinary variations in food preparation among our own restaurants, and the need to rely on the accuracy and completeness of information from third-party suppliers (particularly given varying requirements and practices for testing and disclosure).
Additionally, we are keenly aware of and working to manage the risks and costs to us, our franchisees and our supply chain of the effects of climate change, greenhouse gases, energy and water resources. The increased public focus, including by governmental and non-governmental organizations, on these and other environmental sustainability matters (e.g., packaging and waste, animal health and welfare, deforestation and land use) and the increased pressure to make commitments, set targets or establish additional goals and take actions to meet them, could expose us to market, operational and execution costs or risks. If we are unable to effectively manage the risks associated with our complex regulatory environment, it could have a material adverse effect on our business and financial condition.
We are subject to increasing legal complexity and could be party to litigation that could adversely affect us.
Increasing legal complexity will continue to affect our operations and results in material ways. We could be subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations, employment and personal injury claims, landlord/tenant disputes, disputes with current or former suppliers, claims by current or former franchisees, and intellectual property claims (including claims that we infringed another party's trademarks, copyrights, or patents). Inconsistent standards imposed by governmental authorities can adversely affect our business and increase our exposure to litigation.
Litigation involving our relationship with franchisees and the legal distinction between our franchisees and us for employment law purposes, if determined adversely, could increase costs, negatively impact the business prospects of our franchisees and subject us to incremental liability for their actions. We are also subject to the legal and compliance risks associated with privacy, data collection, protection and management, in particular as it relates to information we collect when we provide optional technology-related services to franchisees.
Our operating results could also be affected by the following:
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- The relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings;
- The cost and other effects of settlements, judgments or consent decrees, 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 and preparation of our products, or the appropriateness or accuracy of our marketing or other communication practices; and
- The scope and terms of insurance or indemnification protections that we may have.

A judgment significantly in excess of any applicable insurance coverage could materially adversely affect our financial condition or results of operations. Further, adverse publicity resulting from these claims may hurt our business.

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We may not be able to adequately protect our intellectual property or adequately ensure that we are not infringing the intellectual property of others, which could harm the value of the McDonald’s brand and our business.
The success of our business depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products in both domestic and international markets. We rely on a combination of trademarks, copyrights, service marks, trade secrets, patents and other intellectual property rights to protect our brand and branded products. We also license our intellectual property to franchisees and other third parties and we cannot assure you that they will not take actions that hurt the value of our intellectual property.
We have registered certain trademarks and have other trademark registrations pending in the United States and certain foreign jurisdictions. The trademarks that we currently use have not been registered in all of the countries outside of the United States in which we do business or may do business in the future and may never be registered in all of these countries. The steps we have taken to protect our intellectual property in the United States and foreign countries may not be adequate. In addition, the steps we have taken may not adequately ensure that we do not infringe the intellectual property of others and third parties may claim infringement by us in the future. In particular, we may be involved in intellectual property claims, including often aggressive or opportunistic attempts to enforce patents used in information technology systems, which might affect our operations and results. Any claim of infringement, whether or not it has merit, could be time-consuming, could result in costly litigation and could harm our business.
Changes in tax laws and unanticipated tax liabilities could adversely affect the taxes we pay and our profitability.
We are subject to income and other taxes in the United States and foreign jurisdictions, and our operations, plans and results are affected by tax and other initiatives around the world. In particular, we are affected by the impact of changes to tax laws or related authoritative interpretations, particularly if corporate tax reform becomes a key component of budgetary initiatives in the United States and elsewhere. We are also impacted by settlements of pending or any future adjustments proposed by the IRS or other taxing authorities in connection with our tax audits, all of which will depend on their timing, nature and scope. Any increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our financial results.
Changes in accounting standards or the recognition of impairment or other charges may adversely affect our future operations and results.
New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings. In assessing the recoverability of our long-lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. If our estimates or underlying assumptions change in the future, we may be required to record impairment charges. If we experience any such changes, they could have a significant effect on our reported results for the affected periods.
A decrease in our credit ratings or an increase in our funding costs could adversely affect our profitability.
We may be negatively affected by the impact of changes in our debt levels or our results of operations on our credit ratings, interest expense, availability of acceptable counterparties, ability to obtain funding on favorable terms or our operating or financial flexibility, especially if lenders impose new operating or financial covenants. Our operations may also be impacted by regulations affecting capital flows, financial markets or financial institutions, which can limit our ability to manage and deploy our liquidity or increase our funding costs. If any of these events were to occur, they could have a material adverse effect on our business and financial condition.
Trading volatility and price of our common stock may be affected by many factors.
Many factors affect the volatility and price of our common stock in addition to our operating results and prospects. The most important of these, some of which are outside our control, are the following:

- The continuing unpredictable global economic and market conditions;
- Governmental action or inaction in light of key indicators of economic activity or events that can significantly influence financial markets, particularly in the United States which is the principal trading market for our

common stock, and media reports and commentary about economic or other matters, even when the matter in question does not directly relate to our business;

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

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- The impact on our results of corporate actions and market and third-party perceptions and assessments of such actions, such as those we may take from time to time as part of our continuous review of our corporate structure and strategies in light of business, legal and tax considerations.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the disclosure made in our Annual Report on Form 10-K for the year ended December 31, 2014 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, 2015. Based on that evaluation, the CEO and CFO concluded that the Company’s disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Such officers also confirm that there was no change in the Company’s internal control over financial reporting during the quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings
There were no material changes to the disclosure made in our Annual Report on Form 10-K for the year ended December 31, 2014 regarding these matters.

Item 1A. Risk Factors
This report contains certain forward-looking statements which reflect management’s expectations regarding future events and operating performance and speak only as of the date hereof. These forward-looking statements involve a number of risks and uncertainties. These and other risks are noted in the Risk Factors and Cautionary Statement Regarding Forward-Looking Statements following Management’s Discussion and Analysis.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Issuer Purchases of Equity Securities*
The following table presents information related to repurchases of common stock the Company made during the three months ended June 30, 2015:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [(1)]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [(1)]
April 1 - 30, 2015	1,695,297	$96.18	1,695,297	$ 7,280,193,244
May 1 - 31, 2015	5,043,441	98.01	5,043,441	6,785,903,810
June 1 - 30, 2015	10,621,013	95.90	10,621,013	5,767,345,243
Total	17,359,751	$96.54	17,359,751	

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

(1) On May 21, 2014, the Company’s Board of Directors approved a share repurchase program, effective July 1, 2014, that authorizes the purchase of up to $10 billion of the Company’s outstanding common stock with no specified expiration date.

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Item 6. Exhibits

Exhibit Number		Description
(3)	(a)	Restated Certificate of Incorporation, effective as of June 14, 2012, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2012.
	(b)	By-Laws, as amended and restated with effect as of July 19, 2012, incorporated herein by reference from Form 8-K, filed July 20, 2012.
(4)	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.
(10)	Material Contracts	
	(a)	Directors' Deferred Compensation Plan, effective as of January 1, 2008, incorporated herein by reference from Form 8-K, filed December 4, 2007.**
	(b)	McDonald's Excess Benefit and Deferred Bonus Plan, effective January 1, 2011, as amended and restated March 22, 2010, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2010.**
	(c)	McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Form 10-K, for the year ended December 31, 2001.**
		(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)	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.**
		(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.**
	(e)	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.**

(f) McDonald’s Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2009.**

(i) First Amendment to the McDonald’s Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-K, for the year ended December 31, 2008.**

(ii) Second Amendment to the McDonald’s Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan as amended, effective February 9, 2011, incorporated herein by reference from Form 10-K, for the year ended December 31, 2010.**

(g) McDonald's Corporation 2012 Omnibus Stock Ownership Plan, effective June 1, 2012, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2012.**

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

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Exhibit Number			Description
	(i)		McDonald's Corporation Target Incentive Plan, effective January 1, 2013, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2013.**
	(j)		McDonald's Corporation Cash Performance Unit Plan, effective February 13, 2013, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2013.**
	(k)		Form of Executive Stock Option Grant Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Form 10-K, for the year ended December 31, 2011.**
	(l)		Form of Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Form 10-K, for the year ended December 31, 2011.**
	(m)		Form of Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2013.**
	(n)		Form of Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2013.**
	(o)		Form of Special CPUP Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2013.**
	(p)		McDonald’s Corporation Severance Plan, as amended and restated, effective July 1, 2015, filed herewith. **
	(q)		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.**
	(r)		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.**
	(s)		Description of Restricted Stock Units granted to Andrew J. McKenna, incorporated herein by reference from Form 10-Q, for the quarter ended June 30, 2014.**
	(t)		Assignment Agreement between Douglas Goare and the Company, effective January 1, 2012, incorporated herein by reference from Form 10-K, for the year ended December 31, 2013.**
	(u)		

Assignment Agreement between David Hoffmann and the Company, effective April 13, 2011, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2014.**

(i) 2015 Extension of the Assignment Agreement between David Hoffmann and the Company, dated as of January 7, 2015, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2015.**

(v) Form of 2014 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2014.**

(w) Retirement Agreement between Timothy Fenton and the Company, dated July 9, 2014, incorporated herein by reference from Form 10-Q, for the quarter ended September 30, 2014.**

(x) Retirement and Consulting Agreement between Donald Thompson and the Company, effective March 1, 2015, incorporated herein by reference from Form 8-K, filed on March 3, 2015.**

(y) Form of 2015 Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Form 10-Q, for the quarter ended March 31, 2015.**

(12) Computation of Ratios.

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

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

** Denotes compensatory plan.

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SIGNATURE

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

McDONALD'S CORPORATION
(Registrant)

August 5, 2015

/s/ Kevin M. Ozan
Kevin M. Ozan
Corporate Executive Vice President and
Chief Financial Officer