YUM BRANDS INC
Form 10-Q
July 20, 2010

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

FORM 10-Q

(Mark One)
[ü] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 12, 2010

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to _________________

Commission file number 1-13163

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

| | |
|---|---|
| North Carolina<br>(State or other jurisdiction of incorporation or organization) | 13-3951308<br>(I.R.S. Employer Identification No.) |
| 1441 Gardiner Lane, Louisville, Kentucky<br>(Address of principal executive offices) | 40213<br>(Zip Code) |

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [√] No [ ]

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

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

The number of shares outstanding of the Registrant's Common Stock as of July 12, 2010 was 467,001,090 shares.

YUM! BRANDS, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
YUM! BRANDS, INC. AND SUBSIDIARIES
(in millions, except per share data)

| | Quarter | | Year to date | |
|---|---|---|---|---|
| Revenues | 6/12/10 | 6/13/09 | 6/12/10 | 6/13/09 |
| Company sales | $ 2,220 | $ 2,152 | $ 4,216 | $ 4,070 |
| Franchise and license fees and income | 354 | 324 | 703 | 623 |
| Total revenues | 2,574 | 2,476 | 4,919 | 4,693 |
| | | | | |
| Costs and Expenses, Net | | | | |
| Company restaurants | | | | |
| Food and paper | 699 | 693 | 1,324 | 1,304 |
| Payroll and employee benefits | 503 | 505 | 964 | 962 |
| Occupancy and other operating expenses | 652 | 630 | 1,222 | 1,172 |
| Company restaurant expenses | 1,854 | 1,828 | 3,510 | 3,438 |
| General and administrative expenses | 283 | 281 | 528 | 536 |
| Franchise and license expenses | 24 | 25 | 47 | 45 |
| Closures and impairment (income) expenses | 12 | 22 | 16 | 26 |
| Refranchising (gain) loss | (10) | 1 | 53 | (13) |
| Other (income) expense | (10) | (75 ) | (20) | (84 ) |
| Total costs and expenses, net | 2,153 | 2,082 | 4,134 | 3,948 |
| Operating Profit | 421 | 394 | 785 | 745 |
| Interest expense, net | 42 | 43 | 83 | 96 |
| Income Before Income Taxes | 379 | 351 | 702 | 649 |
| Income tax provision | 90 | 45 | 168 | 124 |
| Net Income – including noncontrolling interest | 289 | 306 | 534 | 525 |
| Net Income – noncontrolling interest | 3 | 3 | 7 | 4 |
| Net Income – YUM! Brands, Inc. | $ 286 | $ 303 | $ 527 | $ 521 |
| | | | | |
| Basic Earnings Per Common Share | $ 0.61 | $ 0.65 | $ 1.11 | $ 1.11 |
| | | | | |
| Diluted Earnings Per Common Share | $ 0.59 | $ 0.63 | $ 1.09 | $ 1.08 |
| | | | | |
| Dividends Declared Per Common Share | $ 0.21 | $ 0.38 | $ 0.42 | $ 0.38 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Year to date 6/12/10 | 6/13/09 |
|---|---|---|
| Cash Flows – Operating Activities | | |
| Net Income – including noncontrolling interest | $ 534 | $ 525 |
| Depreciation and amortization | 256 | 246 |
| Closures and impairment (income) expenses | 16 | 26 |
| Refranchising (gain) loss | 53 | (13) |
| Contributions to defined benefit pension plans | (19) | (92) |
| Gain upon consolidation of a former unconsolidated affiliate in China | — | (68) |
| Deferred income taxes | (78) | (29) |
| Equity income from investments in unconsolidated affiliates | (20) | (17) |
| Distributions of income received from unconsolidated affiliates | 8 | 8 |
| Excess tax benefits from share-based compensation | (23) | (43) |
| Share-based compensation expense | 24 | 26 |
| Changes in accounts and notes receivable | 28 | (2) |
| Changes in inventories | (19) | 15 |
| Changes in prepaid expenses and other current assets | 2 | (18) |
| Changes in accounts payable and other current liabilities | 29 | (140) |
| Changes in income taxes payable | 54 | 15 |
| Other, net | (12) | 56 |
| Net Cash Provided by Operating Activities | 833 | 495 |
| | | |
| Cash Flows – Investing Activities | | |
| Capital spending | (327) | (342) |
| Proceeds from refranchising of restaurants | 83 | 63 |
| Acquisition of restaurants from franchisees | (2) | (22) |
| Acquisitions and investments | — | (56) |
| Sales of property, plant and equipment | 13 | 8 |
| Other, net | (6) | (7) |
| Net Cash Used in Investing Activities | (239) | (356) |
| | | |
| Cash Flows – Financing Activities | | |
| Repayments of long-term debt | (8) | (144) |
| Revolving credit facilities, three months or less, net | (5) | 108 |
| Short-term borrowings by original maturity | | |
| More than three months - proceeds | — | — |
| More than three months - payments | — | — |
| Three months or less, net | (3) | 4 |
| Repurchase shares of Common Stock | (247) | — |

| | | | | |
|---|---|---|---|---|
| Excess tax benefits from share-based compensation | | 23 | | 43 |
| Employee stock option proceeds | | 44 | | 77 |
| Dividends paid on Common Stock | | (197) | | (175) |
| Other, net | | (19) | | 5 |
| Net Cash Used in Financing Activities | | (412) | | (82) |
| Effect of Exchange Rates on Cash and Cash Equivalents | | (5) | | (6) |
| Net Increase in Cash and Cash Equivalents | | 177 | | 51 |
| Change in Cash and Cash Equivalents due to consolidation of an entity in China | | — | | 17 |
| Cash and Cash Equivalents - Beginning of Period | | 353 | | 216 |
| Cash and Cash Equivalents - End of Period | $ | 530 | $ | 284 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | (Unaudited) 6/12/10 | 12/26/09 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $ 530 | $ 353 |
| Accounts and notes receivable, net | 260 | 239 |
| Inventories | 138 | 122 |
| Prepaid expenses and other current assets | 340 | 314 |
| Deferred income taxes | 107 | 81 |
| Advertising cooperative assets, restricted | 89 | 99 |
| Total Current Assets | 1,464 | 1,208 |
| | | |
| Property, plant and equipment, net | 3,694 | 3,899 |
| Goodwill | 613 | 640 |
| Intangible assets, net | 444 | 462 |
| Investments in unconsolidated affiliates | 132 | 144 |
| Other assets | 529 | 544 |
| Deferred income taxes | 269 | 251 |
| Total Assets | $ 7,145 | $ 7,148 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable and other current liabilities | $ 1,338 | $ 1,413 |
| Income taxes payable | 69 | 82 |
| Short-term borrowings | 717 | 59 |
| Advertising cooperative liabilities | 89 | 99 |
| Total Current Liabilities | 2,213 | 1,653 |
| | | |
| Long-term debt | 2,518 | 3,207 |
| Other liabilities and deferred credits | 1,188 | 1,174 |
| Total Liabilities | 5,919 | 6,034 |
| | | |
| Shareholders' Equity | | |
| Common Stock, no par value, 750 shares authorized; 467 shares and 469 shares issued in 2010 and 2009, respectively | 87 | 253 |
| Retained earnings | 1,325 | 996 |
| Accumulated other comprehensive income (loss) | (263) | (224 ) |
| Total Shareholders' Equity – YUM! Brands, Inc. | 1,149 | 1,025 |
| Noncontrolling interest | 77 | 89 |
| Total Shareholders' Equity | 1,226 | 1,114 |
| Total Liabilities and Shareholders' Equity | $ 7,145 | $ 7,148 |

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(Tabular amounts in millions, except per share data)

Note 1 - Financial Statement Presentation

We have prepared our accompanying unaudited Condensed Consolidated Financial Statements ("Financial Statements") in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by Generally Accepted Accounting Principles ("GAAP") in the United States ("U.S.") for complete financial statements. Therefore, we suggest that the accompanying Financial Statements be read in conjunction with the Consolidated Financial Statements and Notes thereto included in our annual report on Form 10-K for the fiscal year ended December 26, 2009 ("2009 Form 10-K"). Except as disclosed herein, there has been no material change in the information disclosed in the Notes to our Consolidated Financial Statements included in the 2009 Form 10-K.

YUM! Brands, Inc. and Subsidiaries (collectively referred to as "YUM" or the "Company") comprise the worldwide operations of KFC, Pizza Hut, Taco Bell, Long John Silver's ("LJS") and A&W All-American Food Restaurants ("A&W") (collectively the "Concepts"). References to YUM throughout these Notes to our Financial Statements are made using the first person notations of "we," "us" or "our."

YUM's business consists of three reporting segments: YUM Restaurants China ("China Division"), YUM Restaurants International ("YRI" or "International Division") and United States. The China Division includes mainland China ("China") and YRI includes the remainder of our international operations.

At the beginning of 2010 we began reporting information for our Thailand and KFC Taiwan businesses within our International Division as a result of changes to our management reporting structure. These businesses now report to the President of YRI, whereas previously they reported to the President of the China Division. While this reporting change did not impact our consolidated results, segment information for previous periods has been restated to be consistent with the current period presentation throughout the Financial Statements and Notes thereto. For the quarter and year to date ended June 13, 2009 this restatement resulted in a decrease in Company sales of $64 million and $111 million, respectively, for the China Division. For the quarter and year to date ended June 13, 2009, this restatement resulted in an insignificant impact on and a decrease to operating profit of $3 million, respectively, for the China Division. Any impact of the restatement on the China Division reported figures was offset by the impact to the International Division reported figures.

Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every five or six years. The first three quarters of each fiscal year consist of 12 weeks and the fourth quarter consists of 16 weeks in fiscal years with 52 weeks and 17 weeks in fiscal years with 53 weeks. Our subsidiaries operate on similar fiscal calendars except that certain international subsidiaries operate on a monthly calendar, with two months in the first quarter, three months in the second and third quarters and four months in the fourth quarter. All of our international businesses except China close one period or one month earlier to facilitate consolidated reporting.

As discussed in Note 4, in the quarter ended June 13, 2009 we began consolidating the entity that operates the KFCs in Shanghai, China. The increase in cash related to the consolidation of this entity's cash balance ($17 million) is presented as a single line item on our Condensed Consolidated Statement of Cash Flows.

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

In our opinion, the accompanying Financial Statements include all normal and recurring adjustments considered necessary to present fairly, when read in conjunction with our 2009 Form 10-K, our financial position as of June 12, 2010, and the results of our operations for the quarters and years to date ended June 12, 2010 and June 13, 2009 and cash flows for the years to date ended June 12, 2010 and June 13, 2009. Our results of operations and cash flows for these interim periods are not necessarily indicative of the results to be expected for the full year.

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

Note 2 - Earnings Per Common Share ("EPS")

| | Quarter ended | | Year to date | |
|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | 6/12/10 | 6/13/09 |
| Net Income – YUM! Brands, Inc. | $ 286 | $ 303 | $ 527 | $ 521 |
| Weighted-average common shares outstanding (for basic calculation) | 473 | 470 | 474 | 468 |
| Effect of dilutive share-based employee compensation | 12 | 13 | 11 | 13 |
| Weighted-average common and dilutive potential common shares outstanding (for diluted calculation) | 485 | 483 | 485 | 481 |
| Basic EPS | $ 0.61 | $ 0.65 | $ 1.11 | $ 1.11 |
| Diluted EPS | $ 0.59 | $ 0.63 | $ 1.09 | $ 1.08 |
| Unexercised employee stock options and stock appreciation rights (in millions) excluded from the diluted EPS computation(a) | 0.9 | 13.9 | 4.7 | 14.6 |

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

Note 3 - Shareholders' Equity

Under the authority of our Board of Directors, we repurchased shares of our Common Stock during the year to date ended June 12, 2010, as indicated below. All amounts exclude applicable transaction fees. We had no share repurchases in the year to date ended June 13, 2009.

| | | Shares Repurchased (thousands) | Dollar Value of Shares Repurchased | Remaining Dollar Value of Shares that may be Repurchased |
|---|---|---|---|---|
| Authorization Date | Authorization Expiration Date | 2010 | 2010 | 2010 |
| September 2009 | September 2010 | 6,848 | $ 252 | $ 48 |
| March 2010 | March 2011 | — | — | 300 |
| Total | | 6,848 | $ 252 (a) | $ 348 |

(a) Amount includes the effect of $5 million in share repurchases (0.1 million shares) with trade dates prior to June 12, 2010 but with settlement dates subsequent to June 12, 2010.

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Comprehensive income was as follows:

| | Quarter ended | | Year to date | |
|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | 6/12/10 | 6/13/09 |
| Net Income – YUM! Brands, Inc. | $ 286 | $ 303 | $ 527 | $ 521 |
| Foreign currency translation adjustment | (16) | 73 | (47) | 65 |
| Changes in fair value of derivatives, net of tax | 10 | (12) | 34 | 1 |
| Reclassification of derivative (gains) losses to Net Income, net of tax | (13) | 12 | (35) | 7 |
| Reclassification of pension actuarial losses to Net Income, net of tax | 5 | 3 | 9 | 5 |
| Total comprehensive income | $ 272 | $ 379 | $ 488 | $ 599 |

A reconciliation of the beginning and ending carrying amount of the equity attributable to noncontrolling interests is as follows:

| | |
|---|---|
| Noncontrolling interest as of December 26, 2009 | $ 89 |
| Net Income – noncontrolling interest | 7 |
| Dividends declared | (19 ) |
| Noncontrolling interest as of June 12, 2010 | $ 77 |

Note 4 - Items Affecting Comparability of Net Income and Cash Flows

U.S. Business Transformation

As part of our plan to transform our U.S. business we took several measures in 2010 and 2009 ("the U.S. business transformation measures"). These measures include: expansion of our U.S. refranchising; charges relating to General and Administrative ("G&A") productivity initiatives and realignment of resources (primarily severance and early retirement costs); and investments in our U.S. Brands made on behalf of our franchisees such as equipment purchases.

In the quarter and year to date ended June 12, 2010, we recorded a pre-tax refranchising gain of $5 million and a pre-tax refranchising loss of $51 million, respectively, in the U.S. In the quarter and year to date ended June 13, 2009, we recorded pre-tax gains of $1 million and $15 million, respectively, from refranchising in the U.S. The loss recorded in the year to date ended June 12, 2010 is the net result of gains from 71 restaurants sold and non-cash impairment charges related to our offers to refranchise restaurants in the U.S. in the quarter ended March 20, 2010, principally a substantial portion of our Company operated KFC restaurants. See the Facility Actions section for further detail.

In connection with our G&A productivity initiatives and realignment of resources we recorded pre-tax charges of $2 million and $5 million in the quarters ended June 12, 2010 and June 13, 2009, respectively, and pre-tax charges of $5 million and $9 million in the years to date ended June 12, 2010 and June 13, 2009, respectively. The unpaid current liability for the severance portion of these charges was $3 million as of June 12, 2010. Severance payments in the quarter and year to date ended June 12, 2010 totaled approximately $2 million and $4 million, respectively.

Additionally, the Company recognized a reduction to Franchise and license fees and income of $4 million and $31 million pre-tax, in the quarter and year to date ended June 13, 2009, respectively, related to investments in our U.S. Brands. These investments reflect our reimbursements to KFC franchisees for installation costs of ovens for the national launch of Kentucky Grilled Chicken. The reimbursements were recorded as a reduction to franchise and license fees and income as we would not have provided the reimbursements absent the ongoing franchise relationship.

We are not including the impacts of these U.S. business transformation measures in our U.S. segment for performance reporting purposes as we do not believe they are indicative of our ongoing operations. Additionally , we are not including the depreciation reduction of $3 million for the quarter ended June 12, 2010 arising from the impairment of the KFCs offered for sale in the quarter ended March 20, 2010 within our U.S. segment for performance reporting purposes. Rather, we are recording such reduction as a credit within unallocated Occupancy and other operating expenses resulting in depreciation expense for these restaurants continuing to be recorded in the U.S. segment at the rate at which it was prior to the impairment charge being recorded.

Consolidation of a Former Unconsolidated Affiliate in China

On May 4, 2009 we acquired an additional 7% ownership in the entity that operates more than 200 KFCs in Shanghai, China for $12 million, increasing our ownership to 58%. The acquisition was driven by our desire to increase our management control over the entity and further integrate the business with the remainder of our KFC operations in China. Prior to our acquisition of this additional interest this entity was accounted for as an unconsolidated affiliate under the equity method of accounting due to the effective participation of our partners in the significant decisions of the entity that were made in the ordinary course of business. Concurrent with the acquisition we received additional rights in the governance of the entity, and thus we began consolidating the entity upon acquisition. As required by GAAP, we remeasured our previously held 51% ownership in the entity, which had a recorded value of $17 million at the date of acquisition, at fair value and recognized a gain of $68 million accordingly. This gain, which resulted in no related income tax expense, was recorded in Other (income) expense on our Condensed Consolidated Statements of Income during the quarter ended June 13, 2009 and was not allocated to any segment for performance reporting purposes.

Under the equity method of accounting, we previously reported our 51% share of the net income of the unconsolidated affiliate (after interest expense and income taxes) as Other (income) expense in the Condensed Consolidated Statements of Income. We also recorded a franchise fee for the royalty received from the stores owned by the unconsolidated affiliate. From the date of the acquisition we have reported the results of operations for the entity in the appropriate line items of our Condensed Consolidated Statements of Income. We no longer recorded franchise fee income for these restaurants nor did we report Other (income) expense as we did under the equity method of accounting. Net income attributable to our partner’s ownership percentage is recorded in Net Income – noncontrolling interest. For the quarter and year to date ended June 12, 2010 the consolidation of the existing restaurants upon acquisition increased Company sales by $46 million and $98 million, respectively, and decreased Franchise and license fees and income by $3 million and $6 million, respectively. For the quarter and year to date ended June 12, 2010, the consolidation of the existing restaurants upon acquisition increased Operating Profit by $1 million and $3 million, respectively.

The pro forma impact on our results of operations if the acquisition had been completed as of the beginning of 2009 would not have been significant.

Facility Actions

Refranchising (gain) loss, Store closure (income) costs and Store impairment charges by reportable segment are as follows:

| | Quarter ended June 12, 2010 | | | |
|---|---|---|---|---|
| | China Division | YRI | U.S. | Worldwide |
| Refranchising (gain) loss(a) | $ (4 ) | $ (1 ) | $ (5 ) | $ (10 ) |
| Store closure (income) costs(d) | $ — | $ (1) | $ — | $ (1) |
| Store impairment charges | 5 | 2 | 6 | 13 |
| Closure and impairment (income) expenses | $ 5 | $ 1 | $ 6 | $ 12 |

| | Quarter ended June 13, 2009 | | | |
|---|---|---|---|---|
| | China Division | YRI | U.S. | Worldwide |
| Refranchising (gain) loss(a) | $ — | $ 2 | $ (1 ) | $ 1 |
| Store closure (income) costs(d) | $ (1) | $ — | $ 2 | $ 1 |
| Store impairment charges | 4 | 5 | 12 | 21 |
| Closure and impairment (income) expenses | $ 3 | $ 5 | $ 14 | $ 22 |

| | Year to date ended June 12, 2010 | | | |
|---|---|---|---|---|
| | China Division | YRI | U.S. | Worldwide |
| Refranchising (gain) loss(a)(b)(c) | $ (4 ) | $ 6 | $ 51 | $ 53 |
| Store closure (income) costs(d) | $ — | $ (1) | $ 1 | $ — |
| Store impairment charges | 5 | 4 | 7 | 16 |
| Closure and impairment (income) expenses | $ 5 | $ 3 | $ 8 | $ 16 |

| | Year to date ended June 13, 2009 | | | |
|---|---|---|---|---|
| | China Division | YRI | U.S. | Worldwide |
| Refranchising (gain) loss(a) | $ — | $ 2 | $ (15 ) | $ (13 ) |
| Store closure (income) costs(d) | $ — | $ 1 | $ 3 | $ 4 |
| Store impairment charges | 4 | 5 | 13 | 22 |
| Closure and impairment (income) expenses | $ 4 | $ 6 | $ 16 | $ 26 |

(a) Refranchising (gain) loss is not allocated to segments for performance reporting purposes.

(b) During the quarter ended March 20, 2010 we refranchised all of our remaining company restaurants in Taiwan, which consisted of 124 KFCs. We included in our financial statements a non-cash write off of $7 million of goodwill in determining the loss on refranchising of Taiwan. The amount of goodwill write-off was based on the relative fair values of the Taiwan business disposed of and the portion of the business that was retained. The fair value of the business disposed of was determined by reference to the discounted value of the future cash flows expected to be generated by the restaurants and retained by the franchisee, which include a deduction for the anticipated royalties the franchisee will pay the Company associated with the franchise agreement entered into in connection with this refranchising transaction. The fair value of the Taiwan business retained consists of expected, net cash flows to be derived from royalties from franchisees, including the royalties associated with the franchise agreement entered into connection with this refranchising transaction. We believe the terms of the franchise agreement entered into in connection with the Taiwan refranchising are substantially consistent with market. The remaining carrying value of goodwill related to our Taiwan business of $30 million, after the aforementioned write-off, was determined not to be impaired as the fair value of the Taiwan reporting unit exceeds its carrying amount.

(c) U.S. refranchising loss for the year to date ended June 12, 2010 is the net result of gains from 71 restaurants sold and non-cash impairment charges related to our offers to refranchise restaurants in the U.S. During the quarter ended March 20, 2010 we offered to refranchise a substantial portion of our Company operated KFCs in the U.S. While we do not yet believe this restaurant group meets the criteria to be classified as held for sale, we did, consistent with our historical policy, review the restaurant group for impairment as a result of our offer to refranchise. We determined that the carrying value of the restaurant group was not recoverable based upon our estimate of expected refranchising proceeds and holding period cash flows anticipated while we continue to operate the restaurants as company units. Accordingly, we wrote this restaurant group down to our estimate of its fair value, which is based on the sales price we would expect to receive from a franchisee for the restaurant group. This fair value determination considered current market conditions, real-estate values, trends in the KFC-U.S. business, prices for similar transactions in the restaurant industry and preliminary offers for the restaurant group to date and resulted in a non-cash write down of the restaurants' carrying value totaling $73 million. No further impairment was recorded in the quarter ended June 12, 2010 as we believe the current carrying value of the restaurants, adjusted for the write down described in the previous sentence, is recoverable at June 12, 2010. We continued to depreciate the pre-impairment charge carrying value of these restaurants through the quarter ended March 20, 2010 and in the quarter ended June 12, 2010 continued to depreciate the post-impairment charge carrying value. We will continue to depreciate the post-impairment charge carrying value going forward until the date we believe the held for sale criteria for the restaurant group are met. Additionally, we will continue to review the restaurant group for any further necessary impairment. The $73 million write down does not include any allocation of the KFC reporting unit goodwill in the restaurant group carrying value. This additional non-cash write down would be recorded, consistent with our historical policy, if the restaurant group ultimately meets the criteria to be classified as held for sale. If the restaurant group is ultimately sold, we will also be required to record a charge for the fair value of our guarantee of future lease payments for leases we assign to the franchisee.

(d) Store closure (income) costs include the net gain or loss on sales of real estate on which we formerly operated a Company restaurant that was closed, lease reserves established when we cease using a property under an operating lease and subsequent adjustments to those reserves and other facility-related expenses from previously closed stores.

Assets held for sale at June 12, 2010 and December 26, 2009 total $26 million and $32 million, respectively, of U.S. property, plant and equipment and are included in Prepaid expenses and other current assets on our Condensed Consolidated Balance Sheets.

Note 5 - Recently Adopted Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued new guidance and clarifications for improving disclosures about fair value measurements. This guidance requires enhanced disclosures regarding transfers in and out of the levels within the fair value hierarchy. Separate disclosures are required for transfers in and out of Level 1 and 2 fair value measurements, and the reasons for the transfers must be disclosed. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009.

In June 2009, the FASB issued guidance on transfers and servicing of financial assets, requiring more information about transfers of financial assets, eliminating the qualifying special purpose entity concept, changing the requirements for derecognizing financial assets and requiring additional disclosures. The FASB also issued guidance for determining whether an entity is a variable interest entity, that modifies the methods allowed for determining the primary beneficiary of a variable interest entity, that requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity and that requires enhanced disclosures related to an enterprise's involvement in a variable interest entity. The adoption of this guidance did not impact the Company's Condensed Consolidated Financial Statements for the quarter or year to date ended June 12, 2010. See Note 13 for additional information on an entity that operates a lending program on behalf of the Company's franchisees.

Note 6 - Other (Income) Expense

| | Quarter ended | | Year to date | |
|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | 6/12/10 | 6/13/09 |
| Equity income from investments in unconsolidated affiliates | $ (8) | $ (7) | $ (20) | $ (17) |
| Gain upon consolidation of former unconsolidated affiliate in China(a) | — | (68) | — | (68) |
| Foreign exchange net (gain) loss and other | (2 ) | — | — | 1 |
| Other (income) expense | $ (10 ) | $ (75 ) | $ (20 ) | $ (84 ) |

(a) See Note 4 for further discussion of the consolidation of a former unconsolidated affiliate in China.

Note 7 – Supplemental Balance Sheet Information

| | 6/12/10 | 12/26/09 |
|---|---|---|
| Accounts and notes receivable | $ 294 | $ 274 |
| Allowance for doubtful accounts | (34 ) | (35 ) |
| Accounts and notes receivable, net | $ 260 | $ 239 |

Accounts and notes receivable consist primarily of amounts due from franchisees and licensees, including initial and continuing fees. The financial condition of these franchisees and licensees is largely dependent upon the underlying business trends of our concepts. This concentration of credit risk is mitigated, in part, by the large number of franchisees and licensees of each concept and the short-term nature of the franchisee and licensee fee receivables.

| | 6/12/10 | 12/26/09 |
|---|---|---|
| Property, plant and equipment, gross | $ 7,081 | $ 7,247 |
| Accumulated depreciation and amortization | (3,387 ) | (3,348 ) |
| Property, plant and equipment, net | $ 3,694 | $ 3,899 |

Note 8 – Income Taxes

| | Quarter ended | | Year to date | |
|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | 6/12/10 | 6/13/09 |
| Income taxes | $ 90 | $ 45 | $ 168 | $ 124 |
| Effective tax rate | 23.8 % | 12.8 % | 24.0 % | 19.1 % |

Our second quarter and year to date 2010 and 2009 effective tax rates were lower than the expected U.S. federal statutory rate of 35% primarily due to the majority of our income being earned outside of the U.S. where tax rates are generally lower than the U.S. rate.

Our second quarter 2010 rate was higher than the prior year primarily due to lapping certain items from 2009. These items include: the reversal of foreign valuation allowances associated with certain deferred tax assets we now believe are more likely than not to be utilized on future tax returns; a one-time $68 million gain recognized upon our acquisition of additional interest in, and consolidation of, the entity that operates the KFCs in Shanghai, China, which resulted in no related tax expense; and adjustments to reserves in certain foreign jurisdictions and prior year foreign tax credit balances.

Year to date, our effective tax rate was higher than the prior year due to lapping 2009 items, as described above. This was partially offset by the favorable impact of foreign and U.S. tax effects attributable to ongoing foreign operations, including a recent foreign law change.

On June 23, 2010, the Company received a Revenue Agent Report ("RAR") from the Internal Revenue Service (the "IRS") relating to its examination of our U.S. federal income tax returns for fiscal years 2004 through 2006. The RAR includes a proposed adjustment related to buy-in payments in connection with the sale of ownership rights of trademarks and systems between Yum and certain foreign subsidiaries. The proposed adjustment would result in additional taxable income of approximately $2 billion for these years and approximately $700 million of additional taxes plus net interest to date of approximately $140 million. Furthermore, if the IRS prevails it is likely to make similar claims for years subsequent to fiscal 2006. The potential additional taxes for these later years, through 2009, computed on a similar basis to the 2004-2006 additional taxes, would be approximately $280 million plus net interest to date of approximately $15 million.

We believe that the Company has properly reported taxable income and paid taxes in accordance with applicable laws and that the proposed adjustment is inconsistent with applicable income tax laws, Treasury Regulations and relevant case law. We intend to defend our position vigorously and have filed a protest with the IRS. As the final resolution of the proposed adjustment remains uncertain, the Company will continue to provide for its position in this matter based on the tax benefit that we believe is the largest amount that is more likely than not to be realized upon settlement of this issue. There can be no assurance that payments due upon final resolution of this issue will not exceed our currently recorded reserve and such payments could have a material adverse effect on our financial position. Additionally, if increases to our reserves are deemed necessary due to future developments related to this issue, such increases could have a material, adverse effect on our results of operations as they are recorded. The Company does not expect resolution of this matter within twelve months and cannot predict with certainty the timing of such resolution.

Note 9 - Reportable Operating Segments

We identify our operating segments based on management responsibility. The China Division includes mainland China and YRI includes the remainder of our international operations. See Note 1 regarding a 2010 change in segments impacting the China Division and YRI. In the U.S., we consider LJS and A&W to be a single operating segment. We consider our KFC-U.S., Pizza Hut-U.S., Taco Bell-U.S. and LJS/A&W-U.S. operating segments to be similar and therefore have aggregated them into a single reportable operating segment.

The following tables summarize revenue and operating profit for each of our reportable operating segments:

| | Quarter ended | | Year to date | |
|---|---|---|---|---|
| Revenues | 6/12/10 | 6/13/09 | 6/12/10 | 6/13/09 |
| China Division | $ 887 | $ 728 | $ 1,595 | $ 1,297 |
| YRI(a) | 693 | 653 | 1,397 | 1,282 |
| U.S. | 994 | 1,099 | 1,927 | 2,145 |
| Unallocated Franchise and license fees and income(b)(c) | — | (4 ) | — | (31 ) |
| | $ 2,574 | $ 2,476 | $ 4,919 | $ 4,693 |

| | Quarter ended | | Year to date | |
|---|---|---|---|---|
| Operating Profit | 6/12/10 | 6/13/09 | 6/12/10 | 6/13/09 |
| China Division (d) | $ 139 | $ 105 | $ 315 | $ 233 |
| YRI | 122 | 100 | 263 | 226 |
| United States | 184 | 169 | 327 | 326 |
| Unallocated Franchise and license fees and income(b)(c) | — | (4) | — | (31) |
| Unallocated Occupancy and other(c) | 3 | — | 3 | — |
| Unallocated and corporate expenses(c) | (37) | (43) | (70) | (89) |
| Unallocated Other income (expense)(c)(e) | — | 68 | — | 67 |
| Unallocated Refranchising gain (loss)(c) | 10 | (1 ) | (53 ) | 13 |
| Operating Profit | 421 | 394 | 785 | 745 |
| Interest expense, net | (42 ) | (43 ) | (83 ) | (96 ) |
| Income Before Income Taxes | $ 379 | $ 351 | $ 702 | $ 649 |

(a) Includes revenues of $247 million and $236 million for the quarters ended June 12, 2010 and June 13, 2009, respectively, and $504 million and $469 million for the years to date ended June 12, 2010 and June 13, 2009, respectively, for entities in the United Kingdom.

(b) Amount consists of reimbursements to KFC franchisees for installation costs of ovens for the national launch of Kentucky Grilled Chicken (See Note 4).

(c) Amounts have not been allocated to the China Division, YRI or U.S. segments for performance reporting purposes.

(d) Includes equity income from investments in unconsolidated affiliates of $8 million and $7 million for the quarters ended June 12, 2010 and June 13, 2009, respectively, and $20 million and $17 million for the years to date ended

June 12, 2010 and June 13, 2009, respectively.

(e) The quarter and year to date ended June 13, 2009 includes a $68 million gain recognized upon our acquisition of additional ownership in, and consolidation of, the operating entity that owns the KFCs in Shanghai, China. See Note 4 for further discussion of this transaction.

Note 10 - Pension Benefits

We sponsor noncontributory defined benefit pension plans covering certain full-time salaried and hourly U.S. employees. The most significant of these plans, the YUM Retirement Plan (the "Plan"), is funded while benefits from the other U.S. plan are paid by the Company as incurred. During 2001, the plans covering our U.S. salaried employees were amended such that any salaried employee hired or rehired by YUM after September 30, 2001 is not eligible to participate in those plans. We also sponsor various defined benefit pension plans covering certain of our non-U.S. employees, the most significant of which are in the United Kingdom ("U.K."). Our plans in the U.K. have previously been amended such that new employees are not eligible to participate in these plans.

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

| | U.S. Pension Plans | | International Pension Plans | |
|---|---|---|---|---|
| | Quarter ended | | Quarter ended | |
| | 6/12/10 | 6/13/09 | 6/12/10 | 6/13/09 |
| Service cost | $ 6 | $ 6 | $ 2 | $ 1 |
| Interest cost | 14 | 14 | 2 | 1 |
| Expected return on plan assets | (16) | (14) | (3) | (2) |
| Amortization of net loss | 6 | 3 | 1 | 1 |
| Net periodic benefit cost | $ 10 | $ 9 | $ 2 | $ 1 |

| | U.S. Pension Plans | | International Pension Plans | |
|---|---|---|---|---|
| | Year to date | | Year to date | |
| | 6/12/10 | 6/13/09 | 6/12/10 | 6/13/09 |
| Service cost | $ 12 | $ 12 | $ 3 | $ 2 |
| Interest cost | 28 | 27 | 4 | 3 |
| Expected return on plan assets | (32) | (27) | (5) | (3) |
| Amortization of net loss | 11 | 6 | 1 | 1 |
| Net periodic benefit cost | $ 19 | $ 18 | $ 3 | $ 3 |

We made no contributions to the Plan during the year to date ended June 12, 2010 and no contributions to the Plan are anticipated in 2010. We made contributions of $15 million to our U.K. Plans during the year to date ended June 12, 2010.

Note 11 - Derivative Instruments

The Company is exposed to certain market risks relating to its ongoing business operations. The primary market risks managed by using derivative instruments are interest rate risk and cash flow volatility arising from foreign currency fluctuations.

We enter into interest rate swaps with the objective of reducing our exposure to interest rate risk and lowering interest expense for a portion of our fixed-rate debt. At June 12, 2010, our interest rate derivative instruments outstanding had notional amounts of $925 million and have been designated as fair value hedges of a portion of our debt. The critical terms of these swaps, including reset dates and floating rate indices match those of our underlying fixed-rate debt and no ineffectiveness has been recorded.

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We enter into foreign currency forward contracts with the objective of reducing our exposure to cash flow volatility arising from foreign currency fluctuations associated with certain foreign currency denominated intercompany short-term receivables and payables. The notional amount, maturity date, and currency of these contracts match those of the underlying receivables or payables. For those foreign currency exchange forward contracts that we have designated as cash flow hedges, we measure ineffectiveness by comparing the cumulative change in the forward contract with the cumulative change in the hedged item. At June 12, 2010, foreign currency forward contracts outstanding had a total notional amount of $368 million.

The fair values of derivatives designated as hedging instruments as of June 12, 2010 and December 26, 2009 were:

| | 6/12/2010 | 12/26/09 | Condensed Consolidated Balance Sheet Location |
|---|---|---|---|
| Interest Rate Swaps - Asset | $ 15 | $ — | Prepaid expenses and other current assets |
| Interest Rate Swaps - Asset | 31 | 44 | Other assets |
| Foreign Currency Forwards - Asset | 36 | 6 | Prepaid expenses and other current assets |
| Foreign Currency Forwards - Liability | (4) | (3) | Accounts payable and other current liabilities |
| Total | $ 78 | $ 47 | |

The unrealized gains associated with our interest rate swaps that hedge the interest rate risk for a portion of our debt have been reported as an addition of $12 million and $26 million to Short-term borrowings and long-term debt, respectively, at June 12, 2010 and as an addition of $36 million to long-term debt at December 26, 2009. During the quarter and year to date ended June 12, 2010, Interest expense, net was reduced by $8 million and $15 million, respectively, for recognized gains on these interest rate swaps. During the quarter and year to date ended June 13, 2009, Interest expense, net was reduced by $15 million and $18 million, respectively for recognized gains on these interest rate swaps.

For our foreign currency forward contracts the following effective portions of gains and losses were recognized into Other Comprehensive Income ("OCI") and reclassified into income from OCI:

| | Quarter ended | | Year to date | |
|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | 6/12/10 | 6/13/09 |
| Gains (losses) recognized into OCI, net of tax | $ 10 | $ (12) | $ 34 | $ 1 |
| Gains (losses) reclassified from Accumulated OCI into income, net of tax | $ 13 | $ (12) | $ 35 | $ (7) |

The gains/losses reclassified from Accumulated OCI into income were recognized as Other income (expense) in our Condensed Consolidated Statement of Income, largely offsetting foreign currency transaction losses/gains recorded when the related intercompany receivables and payables were adjusted for foreign currency fluctuations. Changes in fair values of the foreign currency forwards recognized directly in our results of operations either from ineffectiveness or exclusion from effectiveness testing were insignificant in the quarters and years to date ended June 12, 2010 and June 13, 2009.

Additionally, we had a net deferred loss of $13 million, net of tax, as of June 12, 2010 within Accumulated OCI due to treasury locks and forward starting interest rate swaps that have been cash settled, as well as outstanding foreign currency forward contracts. The majority of this loss arose from the settlement of forward stating interest rate swaps entered into prior to the issuance of our Senior Unsecured Notes due in 2037, and is being reclassed into earnings through 2037 to interest expense. In the quarters and years to date ended June 12, 2010 and June 13, 2009, an insignificant amount was reclassified from Accumulated OCI to Interest expense, net as a result of previously settled cash flow hedges.

As a result of the use of derivative instruments, the Company is exposed to risk that the counterparties will fail to meet their contractual obligations. To mitigate the counterparty credit risk, we only enter into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and continually assess the creditworthiness of counterparties. At June 12, 2010, all of the counterparties to our interest rate swaps and foreign currency forwards had investment grade ratings. To date, all counterparties have performed in accordance with their contractual obligations.

Note 12 - Fair Value Disclosures

The following table presents the fair values for those assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall.  No transfers among the levels within the fair value hierarchy occurred during the year to date ended June 12, 2010.

| | Fair Value Level | 6/12/10 | 12/26/09 |
|---|---|---|---|
| Foreign Currency Forwards, net | 2 | $ 32 | $ 3 |
| Interest Rate Swaps, net | 2 | 46 | 44 |
| Other Investments | 1 | 13 | 13 |
| Total | | $ 91 | $ 60 |

The fair value of the Company's foreign currency forwards and interest rate swaps were determined based on the present value of expected future cash flows considering the risks involved, including nonperformance risk, and using discount rates appropriate for the duration based upon observable inputs.  The other investments include investments in mutual funds, which are used to offset fluctuations in deferred compensation liabilities that employees have chosen to invest in phantom shares of a Stock Index Fund or Bond Index Fund.  The other investments are classified as trading securities and their fair value is determined based on the closing market prices of the respective mutual funds as of June 12, 2010 and December 26, 2009.

In the quarter and year to date ended June 12, 2010, we recorded impairment charges of $10 million and $87 million, respectively, to write down long-lived assets of certain restaurants or groups of restaurants to their estimated fair values.  The long-lived assets of these restaurants were deemed to be impaired on a held for use basis.  The fair value measurements used in these impairment evaluations were made using significant unobservable inputs (Level 3).  The $10 million impairment charge in the quarter ended June 12, 2010 was recorded in Closures and impairment (income) expenses.  Of the $87 million impairment charge recorded in the year to date June 12, 2010, $10 million was recorded in Closures and impairment (income) expenses and $77 million was recorded in Refranchising (gain) loss.

In both the quarter and year to date ended June 12, 2010, we recorded impairment charges of $10 million in Closure and impairment (income) expenses resulting from our semi-annual impairment evaluation of  long lived assets of individual restaurants that are currently being operated and have not been offered for refranchising.  In the year to date ended June 12, 2010, we recorded non-cash impairment charges of $77 million in Refranchising (gain) loss to write down the long-lived assets of restaurant groups being offered for refranchising to their estimated fair value.  The long-lived assets of these restaurant groups, which consist of approximately 650 restaurants, were deemed impaired on a held for use basis.  The fair values used in our impairment evaluations were an estimate of the sales prices we would anticipate receiving from a franchisee for the restaurants groups.

At June 12, 2010 the carrying values of cash and cash equivalents, accounts receivable and accounts payable approximated their fair values because of the short-term nature of these instruments.  The fair value of notes receivable net of allowances and lease guarantees less subsequent amortization approximates their carrying value.  The Company's debt obligations, excluding capital leases, were estimated to have a fair value of $3.3 billion, compared to their carrying value of $3 billion.  We estimated the fair value of debt using market quotes and calculations based on market rates.

Note 13 - Guarantees, Commitments and Contingencies

Lease Guarantees

As a result of (a) assigning our interest in obligations under real estate leases as a condition to the refranchising of certain Company restaurants; (b) contributing certain Company restaurants to unconsolidated affiliates; and (c) guaranteeing certain other leases, we are frequently contingently liable on lease agreements. These leases have varying terms, the latest of which expires in 2026. As of June 12, 2010, the potential amount of undiscounted payments we could be required to make in the event of non-payment by the primary lessee was approximately $500 million. The present value of these potential payments discounted at our pre-tax cost of debt at June 12, 2010 was approximately $425 million. Our franchisees are the primary lessees under the vast majority of these leases. We generally have cross-default provisions with these franchisees that would put them in default of their franchise agreement in the event of non-payment under the lease. We believe these cross-default provisions significantly reduce the risk that we will be required to make payments under these leases. Accordingly, the liability recorded for our probable exposure under such leases at June 12, 2010 was not material.

Franchise Loan Pool and Equipment Guarantees

We have agreed to provide financial support, if required, to a variable interest entity that operates a franchisee lending program used primarily to assist franchisees in the development of new restaurants and, to a lesser extent, in connection with the Company's historical refranchising programs. As part of this agreement, we have provided a partial guarantee of approximately $15 million and two letters of credit totaling approximately $23 million in support of the franchisee loan program at June 12, 2010. One such letter of credit could be used if we fail to meet our obligations under our guarantee. The other letter of credit could be used, in certain circumstances, to fund our participation in the funding of the franchisee loan program. The total loans outstanding under the loan pool were $61 million with an additional $19 million available for lending at June 12, 2010. We have determined that we are not required to consolidate this entity as we share the power to direct this entity's lending activity with other parties.

In addition to the guarantee described above, YUM has provided guarantees of $33 million on behalf of franchisees for several equipment financing programs related to specific initiatives, the most significant of which was the purchase of ovens by KFC franchisees for the launch of Kentucky Grilled Chicken. The total loans outstanding under these equipment financing programs were approximately $37 million at June 12, 2010.

Insurance Programs

We are self-insured for a substantial portion of our current and prior years' coverage including workers' compensation, employment practices liability, general liability, automobile liability, product liability and property losses (collectively, "property and casualty losses"). To mitigate the cost of our exposures for certain property and casualty losses, we make annual decisions to self-insure the risks of loss up to defined maximum per occurrence retentions on a line by line basis or to combine certain lines of coverage into one loss pool with a single self-insured aggregate retention. The Company then purchases insurance coverage, up to a certain limit, for losses that exceed the self-insurance per occurrence or aggregate retention. The insurers' maximum aggregate loss limits are significantly above our actuarially determined probable losses; therefore, we believe the likelihood of losses exceeding the insurers' maximum aggregate loss limits is remote. As of June 12, 2010 and December 26, 2009, we had liabilities recorded for self-insured property and casualty losses of $160 million and $173 million, respectively.

In the U.S. and in certain other countries, we are also self-insured for healthcare claims and for long-term disability claims for eligible participating employees subject to certain deductibles and limitations. We have accounted for our retained liabilities for property and casualty losses, healthcare and long-term disability claims, including reported and incurred but not reported claims, based on information provided by independent actuaries.

Due to the inherent volatility of actuarially determined property and casualty loss estimates, it is reasonably possible that we could experience changes in estimated losses which could be material to our growth in quarterly and annual Net Income. We believe that we have recorded reserves for property and casualty losses at a level which has substantially mitigated the potential negative impact of adverse developments and/or volatility.

Legal Proceedings

We are subject to various claims and contingencies related to lawsuits, real estate, environmental and other matters arising in the normal course of business. We provide reserves for such claims and contingencies when payment is probable and reasonably estimable.

On November 26, 2001, Kevin Johnson, a former Long John Silver's ("LJS") restaurant manager, filed a collective action against LJS in the United States District Court for the Middle District of Tennessee alleging violation of the Fair Labor Standards Act ("FLSA") on behalf of himself and allegedly similarly-situated LJS general and assistant restaurant managers. Johnson alleged that LJS violated the FLSA by perpetrating a policy and practice of seeking monetary restitution from LJS employees, including Restaurant General Managers ("RGMs") and Assistant Restaurant General Managers ("ARGMs"), when monetary or property losses occurred due to knowing and willful violations of LJS policies that resulted in losses of company funds or property, and that LJS had thus improperly classified its RGMs and ARGMs as exempt from overtime pay under the FLSA. Johnson sought overtime pay, liquidated damages, and attorneys' fees for himself and his proposed class.

LJS moved the Tennessee district court to compel arbitration of Johnson's suit. The district court granted LJS's motion on June 7, 2004, and the United States Court of Appeals for the Sixth Circuit affirmed on July 5, 2005.

On December 19, 2003, while the arbitrability of Johnson's claims was being litigated, former LJS managers Erin Cole and Nick Kaufman, represented by Johnson's counsel, initiated arbitration with the American Arbitration Association (the "Cole Arbitration"). The Cole Claimants sought a collective arbitration on behalf of the same putative class as alleged in the Johnson lawsuit and alleged the same underlying claims.

On June 15, 2004, the arbitrator in the Cole Arbitration issued a Clause Construction Award, finding that LJS's Dispute Resolution Policy did not prohibit Claimants from proceeding on a collective or class basis. LJS moved unsuccessfully to vacate the Clause Construction Award in federal district court in South Carolina. On September 19, 2005, the arbitrator issued a Class Determination Award, finding, inter alia, that a class would be certified in the Cole Arbitration on an "opt-out" basis, rather than as an "opt-in" collective action as specified by the FLSA.

On January 20, 2006, the district court denied LJS's motion to vacate the Class Determination Award and the United States Court of Appeals for the Fourth Circuit affirmed the district court's decision on January 28, 2008. A petition for a writ of certiorari filed in the United States Supreme Court seeking a review of the Fourth Circuit's decision was denied on October 7, 2008. The parties participated in mediation on April 24, 2008, on February 28, 2009, and again on November 18, 2009 without reaching resolution. Arbitration on liability during a portion of the alleged restitution policy period began in November, 2009 and, after a delay at the request of the plaintiffs, concluded in June, 2010 and a ruling on liability for that portion of the policy period is expected in August. Arbitration with respect to the remaining alleged restitution policy period has not been scheduled.

Based on the rulings issued to date in this matter, the Cole Arbitration is proceeding as an "opt-out" class action, rather than as an "opt-in" collective action. LJS denies liability and is vigorously defending the claims in the Cole Arbitration. We have provided for a reasonable estimate of the cost of the Cole Arbitration, taking into account a number of factors, including our current projection of eligible claims, the estimated amount of each eligible claim, the estimated claim recovery rate, the estimated legal fees incurred by Claimants and a reasonable settlement value of Claimants' claims. However, in light of the inherent uncertainties of litigation, the fact-specific nature of Claimants' claims, and the novelty of proceeding in an FLSA lawsuit on an "opt-out" basis, there can be no assurance that the Cole Arbitration will not result in losses in excess of those currently provided for in our Condensed Consolidated Financial Statements.

On August 4, 2006, a putative class action lawsuit against Taco Bell Corp. styled Rajeev Chhibber vs. Taco Bell Corp. was filed in Orange County Superior Court. On August 7, 2006, another putative class action lawsuit styled Marina Puchalski v. Taco Bell Corp. was filed in San Diego County Superior Court. Both lawsuits were filed by a Taco Bell RGM purporting to represent all current and former RGMs who worked at corporate-owned restaurants in California since August 2002. The lawsuits allege violations of California's wage and hour laws involving unpaid overtime and meal period violations and seek unspecified amounts in damages and penalties. The cases were consolidated in San Diego County as of September 7, 2006.

Based on plaintiffs' revised class definition in their class certification motion, Taco Bell removed the case to federal court in San Diego on August 29, 2008. On March 17, 2009, the court granted plaintiffs' motion to remand. On January 29, 2010, the court granted the plaintiffs' class certification motion with respect to the unpaid overtime claims of RGMs and Market Training Managers but denied class certification on the meal period claims. The parties participated in mediation on May 26, 2010 without reaching resolution.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. We have provided for a reasonable estimate of the cost of this lawsuit. However, in view of the inherent uncertainties of litigation, there can be no assurance that this lawsuit will not result in losses in excess of those currently provided for in our Condensed Consolidated Financial Statements.

On September 10, 2007, a putative class action against Taco Bell Corp., the Company and other related entities styled Sandrika Medlock v. Taco Bell Corp., was filed in United States District Court, Eastern District, Fresno, California. The case was filed on behalf of all hourly employees who have worked at corporate-owned restaurants in California since September 2003 and alleges numerous violations of California labor laws including unpaid overtime, failure to pay wages on termination, denial of meal and rest breaks, improper wage statements, unpaid business expenses and unfair or unlawful business practices in violation of California Business & Professions Code §17200. The Company was dismissed from the case without prejudice on January 10, 2008.

On April 11, 2008, Lisa Hardiman filed a Private Attorneys General Act ("PAGA") complaint in the Superior Court of the State of California, County of Fresno against Taco Bell Corp., the Company and other related entities. This lawsuit, styled Lisa Hardiman vs. Taco Bell Corp., et al., was filed on behalf of Hardiman individually and all other aggrieved employees pursuant to PAGA. The complaint seeks penalties for alleged violations of California's Labor Code. On June 25, 2008, Hardiman filed an amended complaint adding class action allegations on behalf of hourly employees in California very similar to the Medlock case, including allegations of unpaid overtime, missed meal and rest periods, improper wage statements, non-payment of wages upon termination, unreimbursed business expenses and unfair or unlawful business practices in violation of California Business & Professions Code §17200.

On June 16, 2008, a putative class action lawsuit against Taco Bell Corp. and the Company, styled Miriam Leyva vs. Taco Bell Corp., et al., was filed in Los Angeles Superior Court. The case was filed on behalf of Leyva and purportedly all other California hourly employees and alleges failure to pay overtime, failure to provide meal and rest periods, failure to pay wages upon discharge, failure to provide itemized wage statements, unfair business practices and wrongful termination and discrimination. The Company was dismissed from the case without prejudice on August 20, 2008.

On November 5, 2008, a putative class action lawsuit against Taco Bell Corp. and the Company styled Loraine Naranjo vs. Taco Bell Corp., et al., was filed in Orange County Superior Court. The case was filed on behalf of Naranjo and purportedly all other California employees and alleges failure to pay overtime, failure to reimburse for business related expenses, improper wage statements, failure to pay accrued vacation wages, failure to pay minimum wage and unfair business practices. The Company filed a motion to dismiss on December 15, 2008, which was denied on January 20, 2009.

On March 26, 2009, Taco Bell was served with a putative class action lawsuit filed in Orange County Superior Court against Taco Bell and the Company styled Endang Widjaja vs. Taco Bell Corp., et al. The case was filed on behalf of Widjaja, a former California hourly assistant manager, and purportedly all other individuals employed in Taco Bell's California restaurants as managers and alleges failure to reimburse for business related expenses, failure to provide rest periods, unfair business practices and conversion. Taco Bell removed the case to federal district court and filed a notice of related case.  On June 18, 2009 the case was transferred to the Eastern District of California.

On May 19, 2009 the court granted Taco Bell's motion to consolidate the Medlock, Hardiman, Leyva and Naranjo matters, and the consolidated case is styled In Re Taco Bell Wage and Hour Actions.  On July 22, 2009, Taco Bell filed a motion to dismiss, stay or consolidate the Widjaja case with the In Re Taco Bell Wage and Hour Actions, and Taco Bell's motion to consolidate was granted on October 19, 2009.

The In Re Taco Bell Wage and Hour Actions plaintiffs filed a consolidated complaint on June 29, 2009, and on March 30, 2010 the court approved the parties' stipulation to dismiss YUM from the action. The court set a filing deadline of August 26, 2010 for motions regarding class certification. The hearing on any class certification motion is currently scheduled for January 10, 2011.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. However, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

On September 28, 2009, a putative class action styled Marisela Rosales v. Taco Bell Corp. was filed in Orange County Superior Court. The plaintiff, a former Taco Bell crew member, alleges that Taco Bell failed to timely pay her final wages upon termination, and seeks restitution and late payment penalties on behalf of herself and similarly situated employees. This case appears to be duplicative of the In Re Taco Bell Wage and Hour Actions case described above. Taco Bell removed the case to federal court on November 5, 2009, and subsequently filed a motion to dismiss, stay or transfer the case to the same district court as the In Re Taco Bell Wage and Hour Actions case. The parties stipulated to remand of the case to Orange County Superior Court on March 18, 2010. The state court granted Taco Bell's motion to stay the Rosales case on May 28, 2010, but required Taco Bell to give notice to Rosales' counsel of the In Re Taco Bell Wage and Hour Actions mediation.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. However, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

On October 14, 2008, a putative class action, styled Kenny Archila v. KFC U.S. Properties, Inc., was filed in California state court on behalf of all California hourly employees alleging various California Labor Code violations, including rest and meal break violations, overtime violations, wage statement violations and waiting time penalties. KFC removed the case to the United States District Court for the Central District of California on January 7, 2009. On July 7, 2009, the Judge ruled that the case would not go forward as a class action. Plaintiff also sought recovery of civil penalties under the California Private Attorney General Act as a representative of other "aggrieved employees." On August 3, 2009, the Court ruled that the plaintiff could not assert such claims and the case had to proceed as a single plaintiff action. On the eve of the August 18, 2009 trial, the plaintiff stipulated to a dismissal of his individual claims with prejudice but reserved his right to appeal the Court's rulings regarding class and PAGA claims. KFC reserved its right to make any and all challenges to the appeal. On or about September 16, 2009, plaintiff filed a notice of appeal. Plaintiff filed his opening appellate brief on March 31, 2010, KFC filed its opposition brief on May 28, 2010 and plaintiff filed his reply brief on June 25, 2010.

KFC denies liability and intends to vigorously defend against all claims in this lawsuit. However, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

On October 2, 2009, a putative class action, styled Domonique Hines v. KFC U.S. Properties, Inc., was filed in California state court on behalf of all California hourly employees alleging various California Labor Code violations, including rest and meal break violations, overtime violations, wage statement violations and waiting time penalties. Plaintiff is a current non-managerial KFC restaurant employee represented by the same counsel that filed the Archila action described above. KFC filed an answer on October 28, 2009, in which it denied plaintiff's claims and allegations. KFC removed the action to the United States District Court for the Southern District of California on October 29, 2009. KFC filed a motion to transfer the action to the Central District of California due to the overlapping nature of the claims in this action and the Archila action. Plaintiff filed a motion to remand the action to state court. The District Court denied both motions. Plaintiff filed a motion for class certification on May 20, 2010, and a hearing with respect to plaintiff's motion, which KFC has opposed, is scheduled for July 30, 2010. Discovery with respect to the class certification motion is ongoing. No trial date has been set.

KFC denies liability and intends to vigorously defend against all claims in this lawsuit. However, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

On December 17, 2002, Taco Bell was named as the defendant in a class action lawsuit filed in the United States District Court for the Northern District of California styled Moeller, et al. v. Taco Bell Corp. On August 4, 2003, plaintiffs filed an amended complaint that alleges, among other things, that Taco Bell has discriminated against the class of people who use wheelchairs or scooters for mobility by failing to make its approximately 220 company-owned restaurants in California accessible to the class. Plaintiffs contend that queue rails and other architectural and structural elements of the Taco Bell restaurants relating to the path of travel and use of the facilities by persons with mobility-related disabilities do not comply with the U.S. Americans with Disabilities Act (the "ADA"), the Unruh Civil Rights Act (the "Unruh Act"), and the California Disabled Persons Act (the "CDPA"). Plaintiffs have requested: (a) an injunction from the District Court ordering Taco Bell to comply with the ADA and its implementing regulations; (b) that the District Court declare Taco Bell in violation of the ADA, the Unruh Act, and the CDPA; and (c) monetary relief under the Unruh Act or CDPA. Plaintiffs, on behalf of the class, are seeking the minimum statutory damages per offense of either $4,000 under the Unruh Act or $1,000 under the CDPA for each aggrieved member of the class. Plaintiffs contend that there may be in excess of 100,000 individuals in the class.

On February 23, 2004, the District Court granted plaintiffs' motion for class certification. The class includes claims for injunctive relief and minimum statutory damages.

On May 17, 2007, a hearing was held on plaintiffs' Motion for Partial Summary Judgment seeking judicial declaration that Taco Bell was in violation of accessibility laws as to three specific issues: indoor seating, queue rails and door opening force. On August 8, 2007, the court granted plaintiffs' motion in part with regard to dining room seating. In addition, the court granted plaintiffs' motion in part with regard to door opening force at some restaurants (but not all) and denied the motion with regard to queue lines.

The parties participated in mediation on March 25, 2008, and again on March 26, 2009, without reaching resolution. On December 16, 2009, the court denied Taco Bell's motion for summary judgment on the ADA claims and ordered plaintiff to file a definitive list of remaining issues and to select one restaurant to be the subject of a trial. The trial will be bifurcated and the first stage will address equitable relief and whether violations existed at the restaurant. Taco Bell will have the opportunity to renew its motion for summary judgment on those issues. Depending on the findings in the first stage of the trial, the court may address the issue of damages in a separate, second stage.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. Taco Bell has taken steps to address potential architectural and structural compliance issues at the restaurants in accordance with applicable state and federal disability access laws. The costs associated with addressing these issues have not significantly impacted our results of operations. It is not possible at this time to reasonably estimate the probability or amount of liability for monetary damages on a class wide basis to Taco Bell.

On March 14, 2007, a lawsuit styled Boskovich Farms, Inc. v. Taco Bell Corp. and Does 1 through 100 was filed in the Superior Court of the State of California, Orange County. Boskovich Farms, a supplier of produce to Taco Bell, alleged in its complaint, among other things, that it suffered damage to its reputation and business as a result of publications and/or statements it claims were made by Taco Bell in connection with Taco Bell's reporting of results of certain tests conducted during investigations on green onions used at Taco Bell restaurants. The parties participated in mediation on April 10, 2008, without reaching resolution. The arbitration panel heard the parties' cross motions for summary judgment on August 12, 2009. On August 14, 2009, the arbitration panel issued an opinion granting Taco Bell's motion for summary judgment and dismissing all of Boskovich's claims with prejudice. On September 23, 2009, Boskovich filed a motion to vacate the arbitration award. On January 6, 2010 the court heard oral arguments on Boskovich's motion to vacate and took the matter under submission. On March 24, 2010, the court denied plaintiff's motion and confirmed the arbitration award. Boskovich appealed to the Kentucky Court of Appeals on April 23, 2010. Taco Bell filed its response on May 19, 2010 and reserved the right to seek attorneys' fees for the cost of the appeals. Taco Bell denies liability and intends to vigorously defend against all claims in any arbitration and the lawsuit. However, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

On July 9, 2009, a putative class action styled Mark Smith v. Pizza Hut, Inc. was filed in the United States District Court for the District of Colorado. The complaint alleges that Pizza Hut did not properly reimburse its delivery drivers for various automobile costs, uniforms costs, and other job-related expenses and seeks to represent a class of delivery drivers nationwide under the Fair Labor Standards Act (FLSA) and Colorado state law. On January 4, 2010, plaintiffs filed a motion for conditional certification of a nationwide class of current and former Pizza Hut, Inc. delivery drivers. However, on March 11, 2010, the court granted Pizza Hut's pending motion to dismiss for failure to state a claim, with leave to amend. On March 31, 2010, plaintiffs filed an amended complaint, which in addition to the federal FLSA claims asserts state-law class action claims under the laws of 16 different states. Pizza Hut has filed a motion to dismiss the amended complaint.

Pizza Hut denies liability and intends to vigorously defend against all claims in this lawsuit. However, in view of the inherent uncertainties of litigation, the outcome of these cases cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

We are engaged in various other legal proceedings and have certain unresolved claims pending, the ultimate liability for which, if any, cannot be determined at this time. However, based upon consultation with legal counsel, we are of the opinion that such proceedings and claims are not expected to have a material adverse effect, individually or in the aggregate, on our consolidated financial condition or results of operations.

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

Introduction and Overview

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited Condensed Consolidated Financial Statements ("Financial Statements"), the Cautionary Note Regarding Forward-Looking Statements and our annual report on Form 10-K for the fiscal year ended December 26, 2009 ("2009 Form 10-K"). Throughout the MD&A, YUM! Brands, Inc. ("YUM" or the "Company") makes reference to certain performance measures as described below.

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

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

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

- Company restaurant profit is defined as Company sales less expenses incurred directly by our Company restaurants in generating Company sales. Company restaurant margin as a percentage of sales is defined as Company restaurant profit divided by Company sales.

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

All Note references herein refer to the accompanying Notes to the Condensed Consolidated Financial Statements. Tabular amounts are displayed in millions except per share and unit count amounts, or as otherwise specifically identified.

Description of Business

YUM is the world's largest restaurant company based on number of system units, with over 37,000 units in more than 110 countries and territories operating under the KFC, Pizza Hut, Taco Bell, Long John Silver's and A&W All-American Food Restaurants brands. Four of the Company's restaurant brands – KFC, Pizza Hut, Taco Bell and Long John Silver's – are the global leaders in the quick-service chicken, pizza, Mexican-style food and seafood categories, respectively. Of the over 37,000 restaurants, 20% are operated by the Company, 74% are operated by franchisees and unconsolidated affiliates and 6% are operated by licensees.

YUM's business consists of three reporting segments: YUM Restaurants China ("China Division"), YUM Restaurants International ("YRI" or "International Division") and United States ("U.S."). The China Division includes mainland China ("China") and YRI includes the remainder of our international operations. The China Division, YRI and Taco Bell-U.S. now represent approximately 85% of the Company's operating profits. Our KFC-U.S. and Pizza Hut-U.S. businesses operate in a highly competitive marketplace resulting in slower profit growth, but continue to produce strong cash flows.

At the beginning of 2010 we began reporting information for our Thailand and KFC Taiwan businesses within our International Division as a result of changes to our management reporting structure. These businesses now report to the President of YRI, whereas previously they reported to the President of our China Division. While this reporting change did not impact our consolidated results, segment information for previous periods has been restated to be consistent with the current period presentation.

The following table summarizes the 2009 quarterly increases to selected line items within the YRI segment as a result of these segment reporting changes (with equal and offsetting decreases impacting the China Division):

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total |
|---|---|---|---|---|---|
| Company sales | $ 47 | $ 64 | $ 68 | $ 91 | $ 270 |
| Company restaurant expenses | 42 | 57 | 62 | 83 | 244 |
| Operating Profit | 3 | — | 1 | 2 | 6 |

Strategies

The Company continues to focus on four key strategies:

Build Leading Brands in China in Every Significant Category – The Company has developed the KFC and Pizza Hut brands into the leading quick service and casual dining restaurants, respectively, in China. Additionally, the Company owns and operates the distribution system for its restaurants in China which we believe provides a significant competitive advantage. Given this strong competitive position, a growing economy and a population of 1.3 billion in China, the Company is rapidly adding KFC and Pizza Hut Casual Dining restaurants and testing the additional restaurant concepts of Pizza Hut Home Service (pizza delivery) and East Dawning (Chinese food). Our ongoing earnings growth model in China is driven by new unit development each year and modest same store sales growth, which we expect to drive annual Operating Profit growth of 15%.

Drive Aggressive International Expansion and Build Strong Brands Everywhere – The Company and its franchisees opened over 900 new restaurants in 2009 in the Company's International Division, representing the 10th straight year of opening over 700 restaurants, and is the leading international retail developer in terms of units opened. The Company expects to continue to experience strong growth by building our existing markets and growing in new markets including France, Russia and India. Through 2009 the International Division's Operating Profit has experienced a 7 year compound annual growth rate of 10%. Our ongoing earnings growth model includes annual Operating Profit growth of 10% driven by new unit development, modest same store sales growth, modest margin improvement and leverage of our General and Administrative ("G&A") infrastructure for YRI.

Dramatically Improve U.S. Brand Positions, Consistency and Returns – The Company continues to focus on improving its U.S. position through differentiated products and marketing and an improved customer experience. The Company also strives to provide industry leading new product innovation which adds sales layers and expands day parts. We continue to evaluate our returns and ownership positions with an earn the right to own philosophy on Company owned restaurants. Our ongoing earnings growth model calls for annual Operating Profit growth of 5% in the U.S. with same store sales growth of 2%, modest restaurant margin improvement and leverage of our G&A infrastructure.

Drive Industry-Leading, Long-Term Shareholder and Franchisee Value – The Company is focused on delivering high returns and returning substantial cash flows to its shareholders via dividends and share repurchases. The Company has one of the highest returns on invested capital in the Quick Service Restaurants ("QSR") industry. The Company's dividend and share repurchase programs have returned over $1 billion and $6 billion to shareholders, respectively, since 2004. The Company is targeting an annual dividend payout ratio of 35% to 40% of net income and has increased the quarterly dividend each year since inception in 2004. Shares are repurchased opportunistically as part of our regular capital structure decisions.

Details of our 2010 Guidance by division and updates, if available, can be found online at http://www.yum.com/investors.

Quarter Ended June 12, 2010 Highlights

- Diluted EPS growth of 17% or $0.58 per share.

- Worldwide operating profit grew 21% prior to foreign currency translation, including 33% in China, 10% in the U.S., and 7% in YRI.

- Worldwide system sales growth prior to foreign currency translation of 4% including 15% in China, 4% in YRI, and 1% in the U.S.

- Worldwide restaurant margin improvement of over 1 percentage point driven by China and the U.S.

- Share repurchases, on a trade date basis, totaled $115 million for 2.8 million shares at an average price of $40 per share.

All preceding comparisons are versus the same period a year ago and exclude the impact of Special Items. See the Significant Known Events, Trends or Uncertainties Impacting or Expected to Impact Comparisons of Reported or Future Results section of this MD&A for a description of Special Items.

Results of Operations

| | Quarter ended | | | Year to date | | |
|---|---|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | % B/(W) | 6/12/10 | 6/13/09 | % B/(W) |
| Company sales | $ 2,220 | $ 2,152 | 3 | $ 4,216 | $ 4,070 | 4 |
| Franchise and license fees and income | 354 | 324 | 9 | 703 | 623 | 13 |
| Total revenues | $ 2,574 | $ 2,476 | 4 | $ 4,919 | $ 4,693 | 5 |
| Company restaurant profit | $ 366 | $ 324 | 13 | $ 706 | $ 632 | 12 |
| % of Company sales | 16.5% | 15.1% | 1.4 ppts | 16.8% | 15.5% | 1.3 ppts |
| Operating Profit | 421 | 394 | 7 | 785 | 745 | 5 |
| Interest expense, net | 42 | 43 | 5 | 83 | 96 | 13 |
| Income tax provision | 90 | 45 | NM | 168 | 124 | (36) |
| Net Income – including noncontrolling interest | 289 | 306 | (5) | 534 | 525 | 2 |
| Net Income – noncontrolling interest | 3 | 3 | (35) | 7 | 4 | (78) |
| Net Income – YUM! Brands, Inc. | $ 286 | $ 303 | (6) | $ 527 | $ 521 | 1 |
| Diluted earnings per share (a) | $ 0.59 | $ 0.63 | (6) | $ 1.09 | $ 1.08 | — |

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

Significant Known Events, Trends or Uncertainties Impacting or Expected to Impact Comparisons of Reported or Future Results

The following factors impacted comparability of operating performance for the quarters and/or years to date ended June 12, 2010 and June 13, 2009 and/or could impact comparability with the remainder of our results in 2010 or beyond. Certain of these factors were previously discussed in our 2009 Form 10-K.

Special Items

In addition to the results provided in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") above and throughout this document, the Company has provided non-GAAP measurements which present operating results for the quarters and years to date ended June 12, 2010 and June 13, 2009 on a basis before Special Items. Included in Special Items are the impact of measures we took to transform our U.S. business ("the U.S. business transformation measures") including the U.S. refranchising gain (loss), the depreciation reduction arising from the impairment of KFC restaurants we offered to sell in the first quarter of 2010, charges relating to U.S. G&A productivity initiatives, realignment of resources and investments in our U.S. Brands, as well as the 2010 loss recognized upon refranchising of an equity market outside the U.S. and the 2009 gain upon our acquisition of additional ownership in, and consolidation of, the operating entity that owns the KFCs in Shanghai, China. These amounts are further described below.

The Company uses earnings before Special Items as a key performance measure of results of operations for the purpose of evaluating performance internally and Special Items are not included in our China Division, YRI or U.S.

segment results. This non-GAAP measurement is not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of earnings before Special Items provides additional information to investors to facilitate the comparison of past and present operations, excluding items in the quarters and years to date ended June 12, 2010 and June 13, 2009 that the Company does not believe are indicative of our ongoing operations due to their size and/or nature.

| | Quarter ended 6/12/10 | Quarter ended 6/13/09 | Year to date 6/12/10 | Year to date 6/13/09 |
|---|---|---|---|---|
| Detail of Special Items | | | | |
| Gain upon consolidation of a former unconsolidated affiliate in China | $ — | $ 68 | $ — | $ 68 |
| Loss upon refranchising of an equity market outside the U.S. | — | — | (7) | — |
| U.S. Refranchising gain (loss) | 5 | 1 | (51) | 15 |
| Depreciation reduction from KFC restaurants impaired upon offer to sell | 3 | — | 3 | — |
| Charges relating to U.S. G&A productivity initiatives and realignment of resources | (2) | (5) | (5) | (9) |
| Investments in our U.S. Brands | — | (4) | — | (31) |
| Total Special Items Income (Expense) | 6 | 60 | (60) | 43 |
| Tax Benefit (Expense) on Special Items(a) | (2) | 3 | 20 | 9 |
| Special Items Income (Expense), net of tax | $ 4 | $ 63 | $ (40) | $ 52 |
| Average diluted shares outstanding | 485 | 483 | 485 | 481 |
| Special Items diluted EPS | $ 0.01 | $ 0.13 | $ (0.08) | $ 0.11 |
| Reconciliation of Operating Profit Before Special Items to Reported Operating Profit | | | | |
| Operating Profit before Special Items | $ 415 | $ 334 | $ 845 | $ 702 |
| Special Items Income (Expense) | 6 | 60 | (60) | 43 |
| Reported Operating Profit | $ 421 | $ 394 | $ 785 | $ 745 |
| Reconciliation of EPS Before Special Items to Reported EPS | | | | |
| Diluted EPS before Special Items | $ 0.58 | $ 0.50 | $ 1.17 | $ 0.97 |
| Special Items EPS | 0.01 | 0.13 | (0.08) | 0.11 |
| Reported EPS | $ 0.59 | $ 0.63 | $ 1.09 | $ 1.08 |
| Reconciliation of Effective Tax Rate Before Special Items to Reported Effective Tax Rate | | | | |
| Effective Tax Rate before Special Items | 23.6% | 16.4% | 24.7% | 22.0% |
| Impact on Tax Rate as a result of Special Items(a) | 0.2 | (3.6) | (0.7) | (2.9) |
| Reported Effective Tax Rate | 23.8% | 12.8% | 24.0% | 19.1% |

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

U.S. Business Transformation Measures

The U.S. business transformation measures in 2010 and 2009 included: expansion of our U.S. refranchising; a reduced emphasis on multi-branding as a long-term growth strategy; G&A productivity initiatives and realignment of resources (primarily severance and early retirement costs); and investments in our U.S. Brands made on behalf of our franchisees such as equipment purchases.  We do not believe these measures are indicative of our ongoing operations and are not including the impacts of these U.S. business transformation measures in our U.S. segment for performance reporting purposes.

In the quarter and year to date ended June 12, 2010, we recorded a pre-tax refranchising gain of $5 million and a pre-tax refranchising loss of $51 million, respectively, in the U.S.  The loss recorded in the year to date ended June 12, 2010 is the net result of gains from 71 restaurants sold and non-cash impairment charges related to our offers to refranchise restaurants in the U.S., principally a substantial portion of our Company operated KFCs.  The non-cash impairment charges related to our offers to refranchise a substantial portion of our Company operated KFC restaurants in the U.S. decreased depreciation expense by $3 million in the quarter and year to date ended June 12, 2010.  This depreciation reduction was recorded as a Special Item, resulting in depreciation expense in the U.S. segment results continuing to be recorded at the rate at which it was prior to the impairment charge being recorded for these restaurants.  In the quarter and year to date ended June 13, 2009, we recorded pre-tax refranchising gains of $1 million and $15 million, respectively, in the U.S.  The refranchising gains and losses are more fully discussed in Note 4 and the Store Portfolio Strategy section of the MD&A.

In connection with our G&A productivity initiatives and realignment of resources (primarily severance and early retirement costs) we recorded pre-tax charges of $2 million and $5 million in the quarters ended June 12, 2010 and June 13, 2009, respectively.  In the years to date ended June 12, 2010 and June 13, 2009, we recorded pre-tax charges of $5 million and $9 million, respectively.

Additionally, the Company recognized a reduction to Franchise and license fees and income of $4 million and $31 million, pre-tax, in the quarter and year to date ended June 13, 2009, respectively, related to investments in our U.S. Brands.  These investments reflect our reimbursements to KFC franchisees for installation costs of ovens for the national launch of Kentucky Grilled Chicken.  The reimbursements were recorded as a reduction to franchise and license fees and income as we would not have provided the reimbursements absent the ongoing franchisee relationship.

Refranchising of an International Equity Market

During the quarter ended March 20, 2010 we refranchised all of our remaining company restaurants in Taiwan, which consisted of 124 KFCs.  We included in our financial statements a non-cash write off of $7 million of goodwill in determining the loss on refranchising of Taiwan.  The amount of goodwill write-off was based on the relative fair values of the Taiwan business disposed of and the portion of the business that was retained.  The fair value of the business disposed of was determined by reference to the discounted value of the future cash flows expected to be generated by the restaurants and retained by the franchisee, which include a deduction for the anticipated royalties the franchisee will pay the Company associated with the franchise agreement entered into in connection with this refranchising transaction. The fair value of the Taiwan business retained consists of expected, net cash flows to be derived from royalties from franchisees, including the royalties associated with the franchise agreement entered into connection with this refranchising transaction.  We believe the terms of the franchise agreement entered into in connection with the Taiwan refranchising are substantially consistent with market.  The remaining carrying value of goodwill related to our Taiwan business of $30 million, after the aforementioned write-off, was determined not to be impaired as the fair value of the Taiwan reporting unit exceeds its carrying amount.

Consolidation of a Former Unconsolidated Affiliate in China

On May 4, 2009 we acquired an additional 7% ownership in the entity that operates more than 200 KFCs in Shanghai, China for $12 million, increasing our ownership to 58%. Prior to our acquisition of this additional interest, this entity was accounted for as an unconsolidated affiliate under the equity method of accounting. Concurrent with the acquisition we received additional rights in the governance of the entity and thus we began consolidating the entity upon acquisition. As required by GAAP, we remeasured our previously held 51% ownership in the entity, which had a recorded value of $17 million at the date of acquisition, at fair value and recognized a gain of $68 million accordingly. This gain, which resulted in no related income tax expense, was recorded in Other (income) expense on our Condensed Consolidated Statements of Income during the quarter ended June 13, 2009.

Under the equity method of accounting, we previously reported our 51% share of the net income of the unconsolidated affiliate (after interest expense and income taxes) as Other (income) expense in the Condensed Consolidated Statements of Income. We also recorded a franchise fee for the royalty received from the stores owned by the unconsolidated affiliate. Subsequent to the date of the acquisition, we reported the results of operations for the entity in the appropriate line items of our Condensed Consolidated Statements of Income. We no longer recorded franchise fee income for these restaurants nor did we report Other (income) expense as we did under the equity method of accounting. Net income attributable to our partner's ownership percentage is recorded as Net Income-noncontrolling interest. For the quarter and year to date ended June 12, 2010 the consolidation of the existing restaurants upon acquisition increased Company sales by $46 million and $98 million, respectively, and decreased Franchise and license fees and income by $3 million and $6 million, respectively. The consolidation of the existing restaurants upon acquisition increased Operating Profit by $1 million and $3 million for the quarter and year to date ended June 12, 2010, respectively. The impact on Net Income – YUM! Brands, Inc. was not significant to the quarter and year to date ended June 12, 2010.

Restaurant Profit

Worldwide restaurant margin increased 1.4 percentage points and 1.3 percentage points, respectively, in the quarter and year to date ended June 12, 2010. These increases were driven by our China Division and the U.S.

The China Division restaurant margins increased 1.7 percentage points and 2.1 percentage points, respectively, in the quarter and year to date ended June 12, 2010. These improvements were largely driven by Company Same Store Sales growth of 5% in both the quarter and year to date ended June 12, 2010 and commodity deflation of $14 million and $29 million in the quarter and year to date ended June 12, 2010, respectively. For the full year in the China Division, we continue to expect moderate year-over-year margin improvement as we anticipate labor and commodity inflation to largely offset same store sales growth.

The YRI restaurant margins decreased 0.4 percentage points and 0.5 percentage points, respectively, in the quarter and year to date ended June 12, 2010 primarily due to labor inflation.

The U.S. restaurant margins increased 1.4 percentage points and 0.2 percentage points, respectively, in the quarter and year to date ended June 12, 2010 due to improved margin performance at KFC and refranchising. Additionally, the quarter ended June 12, 2010 was favorably impacted by lower insurance expense.

Impact of Foreign Currency Translation on Operating Profit

Changes in foreign currency exchange rates positively impacted the translation of our foreign currency denominated Operating Profit in our YRI Division by $14 million and $28 million for the quarter and year to date ended June 12, 2010, respectively. The impact on our China Division was not significant for the quarter or year to date ended June 12, 2010.

Store Portfolio Strategy

From time to time we sell Company restaurants to existing and new franchisees where geographic synergies can be obtained or where franchisees' expertise can generally be leveraged to improve our overall operating performance, while retaining Company ownership of strategic U.S. and international markets. In the U.S., we are targeting Company ownership of restaurants potentially below 10%, down from its current level of 16%. Consistent with this strategy, 71 Company restaurants in the U.S. were sold to franchisees in the year to date ended June 12, 2010.

Refranchisings reduce our reported revenues and restaurant profits and increase the importance of system sales growth as a key performance measure. Additionally, G&A expenses will decline over time as a result of these refranchising activities. The timing of G&A declines will vary and often lag the actual refranchising activities as the synergies are typically dependent upon the size and geography of the respective deals. G&A expenses included in the tables below reflect only direct G&A that we no longer incurred as a result of stores that were operated by us for all or some portion of the respective comparable period in 2009 and were no longer operated by us as of the last day of the current quarter.

The following table summarizes our refranchising activities:

| | Quarter ended | | Year to date | |
|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | 6/12/10 | 6/13/09 |
| Number of units refranchised | 42 | 85 | 217 | 205 |
| Refranchising proceeds, pre-tax | $ 41 | $ 27 | $ 83 | $ 63 |
| Refranchising (gain) loss, pre-tax(a) | $ (10) | $ 1 | $ 53 | $ (13) |

(a) The year to date ended June 12, 2010 includes a non-cash impairment charge of $73 million related to our offer to refranchise a substantial portion of our Company operated KFC restaurants in the U.S. See Note 4 for further discussion.

The impact on Operating Profit arising from refranchising is the net of (a) the estimated reductions in restaurant profit, which reflects the decrease in Company sales, and G&A expenses and (b) the increase in franchise fees from the restaurants that have been refranchised. The tables presented below reflect the impacts on Total revenues and on Operating Profit from stores that were operated by us for all or some portion of the prior year period and were no longer operated by us as of the last day of the current quarter. In these tables, Decreased Company sales and Decreased Restaurant profit represents the amount of sales or restaurant profit earned by the refranchised restaurants during the period we owned them in the prior year but did not own them in the current year. Increased Franchise and license fees and income represents the franchise and license fees from the refranchised restaurants that were recorded by the Company in the current year during periods in which the restaurants were Company stores in the prior year.

The following tables summarize the impact of refranchising as described above:

| | Quarter ended 6/12/10 | | | |
|---|---|---|---|---|
| | China Division | YRI | U.S. | Worldwide |
| Decreased Company sales | $ (4) | (44) | (99) | (147) |
| Increased Franchise and license fees and income | — | 2 | 6 | 8 |
| Decrease in Total revenues | $ (4 ) | (42 ) | (93 ) | (139 ) |

| | Year to date ended 6/12/10 | | | |
|---|---|---|---|---|
| | China | YRI | U.S. | Worldwide |

| | | | | |
|---|---|---|---|---|
| | Division | | | |
| Decreased Company sales | $ (6) | (56) | (210) | (272) |
| Increased Franchise and license fees and income | — | 3 | 13 | 16 |
| Decrease in Total revenues | $ (6 ) | (53 ) | (197 ) | (256 ) |

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The following tables summarize the estimated impact on Operating Profit of refranchising:

| | Quarter ended 6/12/10 | | | |
|---|---|---|---|---|
| | China Division | YRI | U.S. | Worldwide |
| Decreased Restaurant profit | $ (1) | (2) | (10) | (13) |
| Increased Franchise and license fees and income | — | 2 | 6 | 8 |
| Decreased G&A | — | 3 | 2 | 5 |
| Increase (decrease) in Operating Profit | $ (1) | 3 | (2) | — |

| | Year to date ended 6/12/10 | | | |
|---|---|---|---|---|
| | China Division | YRI | U.S. | Worldwide |
| Decreased Restaurant profit | $ (1) | (2) | (25) | (28) |
| Increased Franchise and license fees and income | — | 3 | 13 | 16 |
| Decreased G&A | — | 3 | 4 | 7 |
| Increase (decrease) in Operating Profit | $ (1) | 4 | (8) | (5) |

Internal Revenue Service Proposed Adjustment

On June 23, 2010, the Company received a Revenue Agent Report ("RAR") from the Internal Revenue Service (the "IRS") relating to its examination of our U.S. federal income tax returns for fiscal years 2004 through 2006. The RAR includes a proposed adjustment related to buy-in payments in connection with the sale of ownership rights of trademarks and systems between Yum and certain foreign subsidiaries. The proposed adjustment would result in additional taxable income of approximately $2 billion for these years and approximately $700 million of additional taxes plus net interest to date of approximately $140 million. Furthermore, if the IRS prevails it is likely to make similar claims for years subsequent to fiscal 2006. The potential additional taxes for these later years, through 2009, computed on a similar basis to the 2004-2006 additional taxes, would be approximately $280 million plus net interest to date of approximately $15 million.

We believe that the Company has properly reported taxable income and paid taxes in accordance with applicable laws and that the proposed adjustment is inconsistent with applicable income tax laws, Treasury Regulations and relevant case law. We intend to defend our position vigorously and have filed a protest with the IRS. As the final resolution of the proposed adjustment remains uncertain, the Company will continue to provide for its position in this matter based on the tax benefit that we believe is the largest amount that is more likely than not to be realized upon settlement of this issue. There can be no assurance that payments due upon final resolution of this issue will not exceed our currently recorded reserve and such payments could have a material adverse effect on our financial position. Additionally, if increases to our reserves are deemed necessary due to future developments related to this issue, such increases could have a material, adverse effect on our results of operations as they are recorded. The Company does not expect resolution of this matter within twelve months and cannot predict with certainty the timing of such resolution.

Restaurant Unit Activity

| Worldwide | Company | Unconsolidated Affiliates | Franchisees | Total Excluding Licensees (a) |
|---|---|---|---|---|
| Beginning of year | 7,666 | 469 | 26,745 | 34,880 |
| New Builds | 194 | 17 | 319 | 530 |
| Acquisitions | 3 | — | (3) | — |
| Refranchising | (217) | — | 217 | — |
| Closures | (50) | (2) | (308) | (360) |
| Other | — | — | (13 ) | (13 ) |
| End of quarter | 7,596 | 484 | 26,957 | 35,037 |
| % of Total | 22% | 1% | 77% | 100% |

| China Division | Company | Unconsolidated Affiliates | Franchisees | Total Excluding Licensees(a) |
|---|---|---|---|---|
| Beginning of year(b) | 2,866 | 469 | 118 | 3,453 |
| New Builds | 137 | 17 | 1 | 155 |
| Acquisitions | — | — | — | — |
| Refranchising | (13) | — | 13 | — |
| Closures | (15) | (2) | (1) | (18) |
| Other | — | — | — | — |
| End of quarter | 2,975 | 484 | 131 | 3,590 |
| % of Total | 83% | 13% | 4% | 100% |

| YRI | Company | Unconsolidated Affiliates | Franchisees | Total Excluding Licensees(a) |
|---|---|---|---|---|
| Beginning of year(b) | 2,000 | — | 11,808 | 13,808 |
| New Builds | 31 | — | 253 | 284 |
| Acquisitions | 3 | — | (3) | — |
| Refranchising | (133) | — | 133 | — |
| Closures | (19) | — | (158) | (177) |
| Other | — | — | — | — |
| End of quarter | 1,882 | — | 12,033 | 13,915 |
| % of Total | 14% | — | 86% | 100% |

| United States | Company | Unconsolidated Affiliates | Franchisees | Total |
|---|---|---|---|---|
| Beginning of year | 2,800 | — | 14,819 | 17,619 |
| New Builds | 26 | — | 65 | 91 |
| Acquisitions | — | — | — | — |
| Refranchising | (71) | — | 71 | — |
| Closures | (16) | — | (149) | (165) |
| Other | — | — | (13) | (13) |
| End of quarter | 2,739 | — | 14,793 | 17,532 |
| % of Total | 16% | — | 84% | 100% |

(a) The Worldwide, YRI and U.S. totals exclude 2,177, 136 and 2,041 licensed units, respectively, at June 12, 2010. There are no licensed units in the China Division. Licensed units are generally units that offer limited menus and operate in non-traditional locations like malls, airports, gasoline service stations, convenience stores, stadiums and amusement parks where a full scale traditional outlet would not be practical or efficient. As licensed units have lower average unit sales volumes than our traditional units and our current strategy does not place a significant emphasis on expanding our licensed units, we do not believe that providing further detail of licensed unit activity provides significant or meaningful information.

(b) The beginning balances for the International Division and China Division have been restated to reflect a change in our management reporting structure. The International Division beginning balance has been restated to include 444 Company and 158 Franchisee units in Thailand and KFC Taiwan with the offset to the China Division beginning balance.

System Sales Growth

The following tables detail the key drivers of system sales growth for each reportable segment for the quarter. Net unit growth and other represents the net impact of actual system sales growth due to new unit openings and historical system sales lost due to closures as well as any necessary rounding.

| | Quarter ended 6/12/10 vs. Quarter ended 6/13/09 | | | |
|---|---|---|---|---|
| | China Division | YRI | U.S. | Worldwide |
| Same store sales growth (decline) | 4% | 1% | —% | 1% |
| Net unit growth and other | 11 | 3 | 1 | 3 |
| Foreign currency translation | — | 11 | N/A | 4 |
| % Change | 15% | 15% | 1% | 8% |
| % Change, excluding forex | 15% | 4% | N/A | 4% |

| | Year to date ended 6/12/10 vs. Year to date ended 6/13/09 | | | |
|---|---|---|---|---|
| | China Division | YRI | U.S. | Worldwide |
| Same store sales growth (decline) | 4% | (1)% | —% | —% |
| Net unit growth and other | 11 | 3 | — | 2 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Foreign currency translation | — | | 10 | | N/A | | 4 | |
| % Change | 15 | % | 12 | % | — | % | 6 | % |
| % Change, excluding forex | 15 | % | 2 | % | N/A | | 2 | % |

Company Operated Store Results

The following tables detail the key drivers of the quarter-over-quarter and year-over-year changes of Company sales and Restaurant profit. Store portfolio actions represent the net impact of new unit openings, acquisitions, refranchisings and store closures on Company sales or Restaurant profit. The impact of new unit openings and acquisitions represent the actual Company sales or Restaurant profit for the periods the Company operated the restaurants in the current year but did not operate them in the prior year. The impact of refranchisings and store closures represent the actual Company sales or Restaurant profit for the periods in the prior year while the Company operated the restaurants but did not operate them in the current year.

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

China Division

| | Quarter ended | | | | |
|---|---|---|---|---|---|
| Income / (Expense) | 6/13/09 | Store Portfolio Actions | Other | FX | 6/12/10 |
| Company sales | $ 714 | $ 129 | $ 32 | $ — | $ 875 |
| Cost of sales | (254) | (44) | 9 | (1) | (290) |
| Cost of labor | (102) | (22) | (7) | — | (131) |
| Occupancy and other | (226) | (45) | (7) | — | (278) |
| Restaurant profit | $ 132 | $ 18 | $ 27 | $ (1) | $ 176 |
| Restaurant Margin | 18.5 % | | | | 20.2% |

| | Year to date ended | | | | |
|---|---|---|---|---|---|
| Income / (Expense) | 6/13/09 | Store Portfolio Actions | Other | FX | 6/12/10 |
| Company sales | $1,271 | $ 245 | $ 56 | $ 1 | $1,573 |
| Cost of sales | (455) | (82) | 19 | (1) | (519) |
| Cost of labor | (170) | (40) | (11) | — | (221) |
| Occupancy and other | (380) | (81) | (10) | — | (471) |
| Restaurant profit | $ 266 | $ 42 | $ 54 | $ — | $ 362 |
| Restaurant Margin | 20.9 % | | | | 23.0% |

In the quarter and year to date ended June 12, 2010, the increase in China Division Company sales and Restaurant profit associated with store portfolio actions was primarily driven by the development of new units and the acquisition of additional interest in and consolidation of a former China unconsolidated affiliate during 2009. Significant other factors impacting Company sales and/or Restaurant profit were Company same store sales growth of 5% in the quarter and year to date ended June 12, 2010 and commodity deflation of $14 million and $29 million in the quarter and year to date ended June 12, 2010, respectively.

YRI

| Income / (Expense) | Quarter ended | | | | |
|---|---|---|---|---|---|
| | 6/13/09 | Store Portfolio Actions | Other | FX | 6/12/10 |
| Company sales | $ 515 | $ (20) | $ (7) | $ 46 | $ 534 |
| Cost of sales | (168) | 7 | 5 | (16) | (172) |
| Cost of labor | (130) | 6 | (2) | (11) | (137) |
| Occupancy and other | (160) | 7 | (2) | (14) | (169) |
| Restaurant profit | $ 57 | $ — | $ (6) | $ 5 | $ 56 |
| Restaurant Margin | 11.1 % | | | | 10.7% |

| Income / (Expense) | Year to date ended | | | | |
|---|---|---|---|---|---|
| | 6/13/09 | Store Portfolio Actions | Other | FX | 6/12/10 |
| Company sales | $ 994 | $ (13) | $ (16) | $ 104 | $ 1,069 |
| Cost of sales | (325) | 4 | 10 | (35) | (346) |
| Cost of labor | (249) | 6 | (2) | (26) | (271) |
| Occupancy and other | (306 ) | 5 | (3) | (31) | (335) |
| Restaurant profit | $ 114 | $ 2 | $ (11) | $ 12 | $ 117 |
| Restaurant Margin | 11.5 % | | | | 11.0% |

The decrease in YRI Company sales in the quarter and year to date ended June 12, 2010 associated with store portfolio actions was driven by refranchising, primarily KFC Taiwan, and closures partially offset by new unit development. The increase in Restaurant profit in the year to date ended June 12, 2010 associated with store portfolio actions was driven by new unit development partially offset by refranchising and closures. Company same store sales declined 2% in both the quarter and year to date ended June 12, 2010.

U.S.

| Income / (Expense) | Quarter ended | | | | |
|---|---|---|---|---|---|
| | 6/13/09 | Store Portfolio Actions | Other | FX | 6/12/10 |
| Company sales | $ 923 | $ (96) | $ (16) | $ N/A | $ 811 |
| Cost of sales | (271) | 27 | 7 | N/A | (237) |
| Cost of labor | (273) | 32 | 6 | N/A | (235) |
| Occupancy and other | (244) | 29 | 7 | N/A | (208) |
| Restaurant profit | $ 135 | $ (8) | $ 4 | $ N/A | $ 131 |
| Restaurant Margin | 14.7% | | | | 16.1% |

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| Income / (Expense) | Year to date ended | | | | |
|---|---|---|---|---|---|
| | 6/13/09 | Store Portfolio Actions | Other | FX | 6/12/10 |
| Company sales | $ 1,805 | $ (201) | $ (30) | $ N/A | $ 1,574 |
| Cost of sales | (524) | 56 | 9 | N/A | (459) |
| Cost of labor | (543) | 65 | 6 | N/A | (472) |
| Occupancy and other | (486) | 60 | 7 | N/A | (419) |
| Restaurant profit | $ 252 | $ (20) | $ (8) | $ N/A | $ 224 |
| Restaurant Margin | 14.0% | | | | 14.2% |

In the quarter ended June 12, 2010, the decrease in U.S. Company sales and Restaurant profit associated with store portfolio actions was primarily driven by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were improved margin performance at KFC and lower insurance expense. Commodity deflation of $4 million and $9 million in the quarter and year to date ended June 12, 2010, respectively, was offset by a negative impact from sales mix shift. Company same store sales declined 2% in both the quarter and year to date ended June 12, 2010.

Franchise and License Fees and Income

| | Quarter ended | | % Increase (Decrease) | % Increase (Decrease) excluding forex |
|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | | |
| China Division | $ 12 | $ 14 | (14) | (14) |
| YRI | 159 | 138 | 16 | 4 |
| U.S. | 183 | 176 | 4 | N/A |
| Unallocated Franchise and license fees and income | — | (4) | N/A | N/A |
| Worldwide | $ 354 | $ 324 | 9 | 4 |

| | Year to date ended | | % Increase (Decrease) | % Increase (Decrease) excluding forex |
|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | | |
| China Division | $ 22 | $ 26 | (16) | (16) |
| YRI | 328 | 288 | 14 | 3 |
| U.S. | 353 | 340 | 4 | N/A |
| Unallocated Franchise and license fees and income | — | (31) | N/A | N/A |
| Worldwide | $ 703 | $ 623 | 13 | 8 |

China Division Franchise and license fees and income for the quarter and year to date ended June 12, 2010 was negatively impacted by 20% and 21%, respectively, related to the acquisition of additional interest in, and consolidation of, an entity that operated the KFCs in Shanghai, China during 2009.

U.S. Franchise and license fees and income for both the quarter and year to date ended June 12, 2010 was positively impacted by 4% due to the impact of refranchising.

Worldwide Franchise and license fees and income included reductions of $4 million and $31 million, respectively, for the quarter and year to date ended June 13, 2009, as a result of our reimbursements to KFC franchisees for installation costs for the national launch of Kentucky Grilled Chicken that have not been allocated to the U.S. segment for performance reporting purposes.

General and Administrative Expenses

| | Quarter ended | | % Increase (Decrease) | % Increase (Decrease) Excluding forex |
|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | | |
| China Division | $ 51 | $ 45 | 12 | 12 |
| YRI | 86 | 82 | 6 | (2) |
| U.S. | 109 | 111 | (2) | N/A |
| Unallocated | 37 | 43 | (13) | N/A |
| Worldwide | $ 283 | $ 281 | 1 | (1) |

| | Year to date ended | | % Increase (Decrease) | % Increase (Decrease) Excluding forex |
|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | | |
| China Division | $ 81 | $ 72 | 12 | 12 |
| YRI | 164 | 154 | 7 | (2) |
| U.S. | 213 | 221 | (3) | N/A |
| Unallocated | 70 | 89 | (21) | N/A |
| Worldwide | $ 528 | $ 536 | (1) | (4) |

The increase in China Division G&A expenses for the quarter and year to date ended June 12, 2010 was driven by increased compensation costs resulting from higher headcount and the impact of the consolidation of a former unconsolidated affiliate (See Note 4 for further discussion).

The decrease in YRI G&A expenses, excluding the impact of foreign currency translation, for the quarter and year to date ended June 12, 2010 was driven by G&A savings from refranchising all of our remaining company restaurants in Taiwan.

The decrease in U.S. G&A expenses for the quarter and year to date ended June 12, 2010 was driven by the actions taken as part of our U.S. Business transformation measures, partially offset by increased litigation costs.

The decrease in Unallocated G&A expenses for the quarter ended June 12, 2010 was driven by the actions taken as part of our U.S. Business transformation measures, partially offset by increased litigation costs.

The decrease in Unallocated G&A expenses for the year to date ended June 12, 2010 was driven by the actions taken as part of our U.S. Business transformation measures and lapping higher charitable contributions.

Worldwide Other (Income) Expense

| | Quarter ended | | Year to date ended | |
|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | 6/12/10 | 6/13/09 |
| Equity income from investments in unconsolidated affiliates | $ (8) | $ (7) | $ (20) | $ (17) |

| | | | | |
|---|---|---|---|---|
| Gain upon consolidation of former unconsolidated affiliate in China(a) | — | (68) | — | (68) |
| Foreign exchange net (gain) loss and other | (2) | — | — | 1 |
| Other (income) expense | $ (10) | $ (75) | $ (20) | $ (84) |

(a) See Note 4 for further discussion of the consolidation of a former unconsolidated affiliate in China.

Worldwide Closure and Impairment Expense and Refranchising (Gain) Loss

See the Store Portfolio Strategy section for more detail of our refranchising activity and Note 4 for a summary of the components of facility actions by reportable operating segment.

Operating Profit

| | Quarter ended | | | Year to date ended | | |
|---|---|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | % B/(W) | 6/12/10 | 6/13/09 | % B/(W) |
| China Division | $ 139 | $ 105 | 33 | $ 315 | $ 233 | 35 |
| YRI | 122 | 100 | 21 | 263 | 226 | 17 |
| U.S. | 184 | 169 | 10 | 327 | 326 | 1 |
| Unallocated Franchise and license fees and income | — | (4) | N/A | — | (31) | N/A |
| Unallocated Occupancy and other | 3 | — | NM | 3 | — | NM |
| Unallocated and corporate expenses | (37) | (43) | 13 | (70) | (89) | 21 |
| Unallocated Other income (expense) | — | 68 | NM | — | 67 | NM |
| Unallocated Refranchising gain (loss) | 10 | (1 ) | NM | (53 ) | 13 | NM |
| Operating Profit | $ 421 | $ 394 | 7 | $ 785 | $ 745 | 5 |
| | | | | | | |
| U.S. operating margin | 18.6% | 15.3% | 3.3 ppts. | 17.0% | 15.2% | 1.8 ppts. |
| International Division operating margin | 17.6% | 15.4% | 2.2 ppts. | 18.8% | 17.6% | 1.2 ppts. |

China Division Operating Profit increased 33% and 35% in the quarter and year to date ended June 12, 2010, respectively. These increases were driven by the impact of higher restaurant margin and new unit development.

International Division Operating Profit increased 21% and 17% in the quarter and year to date ended June 12, 2010, respectively, including a 14% and 13% favorable impact from foreign currency translation. Excluding the favorable impact from foreign currency translation, International Division Operating Profit increased 7% and 4% in the quarter and year to date ended June 12, 2010, respectively. These increases were driven by the impact of net unit development and lower Closure and impairment costs, partially offset by lower Company restaurant margin.

U.S. Operating Profit increased 10% in the quarter ended June 12, 2010. The increase was driven by lower Closure and impairment costs and improved restaurant margin.

U.S. Operating Profit increased 1% in the year to date ended June 12, 2010. The increase was driven by lower Closure and impairment costs.

Unallocated refranchising gain (loss) for the year to date ended June 12, 2010 includes a pre-tax non-cash impairment charge of $73 million related to our offer to refranchise a substantial portion of our Company operated KFC restaurants in the U.S. in the quarter ended March 20, 2010.

Unallocated franchise and license fees and income for the quarter and year to date ended June 13, 2009 reflects our reimbursements to, or obligations to reimburse, KFC franchisees for installation costs of ovens for the national launch of Kentucky Grilled Chicken that has not been allocated to the U.S. segment for performance reporting purposes.

Unallocated other income (expense) for the quarter and year to date ended June 13, 2009 includes a $68 million gain upon acquisition of additional ownership in, and consolidation of, the entity that operates KFCs in Shanghai, China.

Interest Expense, Net

| | Quarter ended | | | Year to date ended | | |
|---|---|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | % B/(W) | 6/12/10 | 6/13/09 | % B/(W) |
| Interest expense | $ 45 | $ 47 | 5 | $ 89 | $ 103 | 13 |
| Interest income | (3) | (4) | (1) | (6) | (7) | (11) |
| Interest expense, net | $ 42 | $ 43 | 5 | $ 83 | $ 96 | 13 |

Interest expense, net decreased $1 million or 5% for the quarter ended June 12, 2010 and decreased $13 million or 13% for the year to date ended June 12, 2010. The quarter to date decrease was primarily driven by a decrease in our net borrowings, partially offset by an increase in interest rates on the variable portion of our debt. The year to date decrease was primarily driven by a decrease in our net borrowings and a decrease in interest rates on the variable portion of our debt.

Income Taxes

| | Quarter ended | | Year to date ended | |
|---|---|---|---|---|
| | 6/12/10 | 6/13/09 | 6/12/10 | 6/13/09 |
| Income taxes | $ 90 | $ 45 | $ 168 | $ 124 |
| Effective tax rate | 23.8 % | 12.8 % | 24.0 % | 19.1 % |

Our second quarter and year to date 2010 and 2009 effective tax rates were lower than the expected U.S. federal statutory rate of 35% primarily due to the majority of our income being earned outside of the U.S. where tax rates are generally lower than the U.S. rate.

Our second quarter 2010 rate was higher than the prior year primarily due to lapping certain items from 2009. These items include: the reversal of foreign valuation allowances associated with certain deferred tax assets we now believe are more likely than not to be utilized on future tax returns; a one-time $68 million gain recognized upon our acquisition of additional interest in, and consolidation of, the entity that operates the KFCs in Shanghai, China, which resulted in no related tax expense; and adjustments to reserves in certain foreign jurisdictions and prior year foreign tax credit balances.

Year to date, our effective tax rate was higher than the prior year due to lapping 2009 items, as described above. This was partially offset by the favorable impact of foreign and U.S. tax effects attributable to ongoing foreign operations, including a recent foreign law change.

Consolidated Cash Flows

Net cash provided by operating activities was $833 million compared to $495 million in 2009. The increase was primarily driven by higher operating profit before special items, lapping higher prior year pension contributions and the lapping of higher prior year payments related to our U.S. business transformation measures, including severance and investments in our U.S. brands.

Net cash used in investing activities was $239 million versus $356 million in 2009. The decrease was driven by lapping the 2009 acquisition of Little Sheep Group Limited and higher 2009 acquisitions of restaurants from franchisees, as well as higher 2010 proceeds from refranchising of restaurants.

Net cash used in financing activities was $412 million versus $82 million in 2009. The increase was driven by an increase in share repurchases and lower net borrowings.

Consolidated Financial Condition

The increase in short-term borrowings was primarily due to the classification of $650 million in Senior Unsecured Notes as Short-term borrowings due to their April 2011 maturity date.

Liquidity and Capital Resources

Operating in the QSR industry allows us to generate substantial cash flows from the operations of our company stores and from our substantial franchise operations which require a limited YUM investment. In each of the last eight fiscal years, net cash provided by operating activities has exceeded $1.1 billion. We expect these levels of net cash provided by operating activities to continue in the foreseeable future. However, unforeseen downturns in our business could adversely impact our cash flows from operations from the levels historically realized.

In the event our cash flows are negatively impacted by business downturns, we believe we have the ability to temporarily reduce our discretionary spending without significant impact to our long-term business prospects. Our discretionary spending includes capital spending for new restaurants, acquisitions of restaurants from franchisees, repurchases of shares of our Common Stock and dividends paid to our shareholders. As of June 12, 2010 we also had approximately $1.3 billion in unused capacity under revolving credit facilities that expire in 2012, primarily related to a domestic facility.

Currently our China Division and YRI represent more than 60% of the Company’s operating profit on an annual basis and both generate a significant amount of positive cash flows that we have historically used to fund our international development. To the extent we have needed to repatriate international cash to fund our U.S. discretionary cash spending, including share repurchases, dividends and debt repayments, we have historically been able to do so in a tax efficient manner. As a result of our substantial international development a significant amount of non-cash undistributed earnings in our foreign subsidiaries is considered indefinitely reinvested as of June 12, 2010. If we experience an unforeseen decrease in our cash flows from our U.S. business or are unable to refinance future U.S. debt maturities we may be required to repatriate future international earnings at tax rates higher than we have historically experienced.

We are currently managing our cash and debt positions in order to maintain our current investment grade ratings from Standard & Poor’s Rating Services (BBB-) and Moody’s Investors Service (Baa3). As a commitment to maintaining our investment grade rating we improved our capital structure by extending our scheduled debt maturities while reducing our debt outstanding during 2009. In 2010 we have resumed repurchasing shares of our Common Stock, which we believe we can do while maintaining a capital structure that allows us to remain an investment grade borrower. While we do not anticipate a downgrade in our credit rating, a downgrade would increase the Company’s current borrowing costs and could impact the Company’s ability to access the credit markets if necessary. Based on the amount and composition of our debt at June 12, 2010, which included no borrowings outstanding under our credit facilities, our interest expense would not materially increase on a full year basis should we receive a one-level downgrade in our ratings.

Discretionary Spending

In the year to date ended June 12, 2010, we invested $327 million in capital spending, including approximately $113 million in the China Division, $112 million in the International Division and $102 million in the U.S.

In the year to date ended June 12, 2010, we repurchased shares for $247 million excluding $5 million for share repurchases with settlement dates subsequent to June 12, 2010. At June 12, 2010, we had remaining capacity to repurchase up to approximately $48 million of outstanding Common Stock (excluding applicable transaction fees) through September 2010 under a September 2009 authorization. In March 2010, our Board of Directors authorized additional share repurchases through March 2011 of up to $300 million (excluding applicable transaction fees) of our outstanding Common Stock. No shares have been repurchased under the March 2010 authorization as of June 12, 2010.

During the year to date ended June 12, 2010, we paid cash dividends of $197 million. Additionally, on May 20, 2010 our Board of Directors approved a cash dividend of $0.21 per share of Common Stock, to be distributed on August 6, 2010 to shareholders of record at the close of business on July 16, 2010. The Company is targeting an ongoing annual dividend payout ratio of 35% - 40% of net income.

Borrowing Capacity

Our primary bank credit agreement comprises a $1.15 billion syndicated senior unsecured revolving credit facility (the “Credit Facility”) which matures in November 2012 and includes 23 participating banks with commitments ranging from $20 million to $113 million. We believe the syndication reduces our dependency on any one bank.

Under the terms of the Credit Facility, we may borrow up to the maximum borrowing limit, less outstanding letters of credit or banker’s acceptances, where applicable. At June 12, 2010, our unused Credit Facility totaled $990 million net of outstanding letters of credit of $160 million. There were no borrowings outstanding under the Credit Facility at June 12, 2010. The interest rate for borrowings under the Credit Facility ranges from 0.25% to 1.25% over the London Interbank Offered Rate (“LIBOR”) or is determined by an Alternate Base Rate, which is the greater of the Prime Rate or the Federal Funds Rate plus 0.50%. The exact spread over LIBOR or the Alternate Base Rate, as applicable, depends on our performance under specified financial criteria. Interest on any outstanding borrowings under the Credit Facility is payable at least quarterly.

We also have a $350 million, syndicated revolving credit facility (the “International Credit Facility,” or “ICF”) which matures in November 2012 and includes 6 banks with commitments ranging from $35 million to $90 million. We believe the syndication reduces our dependency on any one bank. There were no outstanding borrowings under the ICF at June 12, 2010. The interest rate for borrowings under the ICF ranges from 0.31% to 1.50% over LIBOR or is determined by a Canadian Alternate Base Rate, which is the greater of the Citibank, N.A., Canadian Branch’s publicly announced reference rate or the “Canadian Dollar Offered Rate” plus 0.50%. The exact spread over LIBOR or the Canadian Alternate Base Rate, as applicable, depends upon YUM’s performance under specified financial criteria. Interest on any outstanding borrowings under the ICF is payable at least quarterly.

The Credit Facility and the ICF are unconditionally guaranteed by our principal domestic subsidiaries. Additionally, the ICF is unconditionally guaranteed by YUM. These agreements contain financial covenants relating to maintenance of leverage and fixed charge coverage ratios and also contain affirmative and negative covenants including, among other things, limitations on certain additional indebtedness and liens, and certain other transactions specified in the agreement. Given the Company’s strong balance sheet and cash flows we were able to comply with all debt covenant requirements at June 12, 2010 with a considerable amount of cushion.

The majority of our remaining long-term debt primarily comprises Senior Unsecured Notes with varying maturity dates from 2011 through 2037 and interest rates ranging from 4.25% to 8.88%. The Senior Unsecured Notes represent senior, unsecured obligations and rank equally in right of payment with all of our existing and future unsecured unsubordinated indebtedness. Amounts outstanding under Senior Unsecured Notes were $2.9 billion at June 12, 2010, including $650 million that was reclassified to Short-term borrowings in the quarter ended June 12, 2010 to reflect the current maturities of our Senior Unsecured Notes due April 2011.

Our Senior Unsecured Notes, Credit Facility, and ICF all contain cross-default provisions, whereby a default under any of these agreements constitutes a default under each of the other agreements.

Recently Adopted Accounting Pronouncements

See Note 5 to the Condensed Consolidated Financial Statements of this report for further details of recently adopted accounting pronouncements.

New Accounting Pronouncements Not Yet Recognized

In January 2010, the Financial Accounting Standards Board ("FASB") issued new guidelines and clarifications for improving disclosures about fair value measurements. This guidance requires enhanced disclosures for purchases, sales, issuances, and settlements on a gross basis for Level 3 fair value measurements. We do not anticipate the adoption of this guidance to materially impact the Company. These new disclosures are effective for interim and annual reporting periods beginning after December 15, 2010.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes during the quarter ended June 12, 2010 to the disclosures made in Item 7A of the Company's 2009 Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control

There were no significant changes with respect to the Company's internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended June 12, 2010.

Cautionary Note Regarding Forward-Looking Statements

From time to time, in both written reports and oral statements, we present "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and we are including this statement for purposes of complying with those safe harbor provisions.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements often include words such as "may," "will," "estimate," "intend," "seek," "expect," "project," "an "believe," "plan" or other similar terminology. These forward-looking statements are based on current expectations and assumptions and upon data available at the time of the statements and are neither predictions nor guarantees of future events or circumstances. The forward-looking statements are subject to risks and uncertainties, which may cause actual results to differ materially. Important factors that could cause actual results and events to differ materially from our expectations and forward-looking statements include (i) the risks and uncertainties described in the Risk Factors included in Part II, Item 1A of this report, (ii) the risks and uncertainties described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part I, Item 2 of this report, (iii) the risks and uncertainties described in the Risk Factors included in Part I, Item 1A of our Form 10-K for the year ended December 26, 2009 and (iv) the factors described in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of our Form 10-K for the year ended December 26, 2009. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. In making these statements, we are not undertaking to address or update any risk factor set forth herein, in future filings or communications regarding our business results.

## Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying condensed consolidated balance sheet of YUM! Brands, Inc. and Subsidiaries ("YUM") as of June 12, 2010 and the related condensed consolidated statements of income for the twelve and twenty-four weeks ended June 12, 2010 and June 13, 2009 and the condensed consolidated statements of cash flows for the twenty-four weeks ended June 12, 2010 and June 13, 2009. These condensed consolidated financial statements are the responsibility of YUM's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of YUM as of December 26, 2009, and the related consolidated statements of income, cash flows and shareholders' equity (deficit) and comprehensive income (loss) for the year then ended (not presented herein); and in our report dated February 17, 2010, we expressed an unqualified opinion on those consolidated financial statements. As discussed in Note 2 to those consolidated financial statements, in 2009 YUM changed its method of reporting non-controlling interests due to the adoption of new accounting requirements issued by the FASB. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 26, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Louisville, Kentucky
July 20, 2010

PART II – Other Information and Signatures

Item 1. Legal Proceedings

Information regarding legal proceedings is incorporated by reference from Note 13 to the Company's Condensed Consolidated Financial Statements set forth in Part I of this report.

Item 1A. Risk Factors

We face a variety of risks that are inherent in our business and our industry, including operational, legal, regulatory and product risks. Such risks could cause our actual results to differ materially from our forward-looking statements, expectations and historical trends. The following are some of the more significant factors that could affect our business and our results of operations:

- Food-borne illnesses (such as E. coli, hepatitis A., trichinosis or salmonella) and food safety issues may have an adverse effect on our business;

- A significant and growing number of our restaurants are located in China, and our business is increasingly exposed to risk there. These risks include changes in economic conditions, tax rates, currency exchange rates, laws and consumer preferences, as well as changes in the regulatory environment and increased competition;

- Our other foreign operations, which are significant and increasing, subject us to risks that could negatively affect our business. These risks, which can vary substantially by market, include political instability, corruption, social and ethnic unrest, changes in economic conditions, the regulatory environment, tax rates and laws and consumer preferences, as well as changes in the laws that govern foreign investment in countries where our restaurants are operated. In addition, our results of operations and the value of our foreign assets are affected by fluctuations in foreign currency exchange rates, which may favorably or adversely affect reported earnings;

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

- Shortages or interruptions in the availability or delivery of food or other supplies or other supply chain or business disruptions could adversely affect the availability, quality or cost of items we buy and the operations of our restaurants;

- Risks associated with the suppliers from whom our products are sourced and the safety of those products could adversely affect our financial performance;

- Our operating results are closely tied to the success of our franchisees, and any significant inability of our franchisees to operate successfully could adversely affect our operating results;

- Our results and financial condition could be affected by the success of our refranchising program;

- We could be party to litigation that could adversely affect us by increasing our expenses or subjecting us to significant money damages and other remedies;

- Health concerns arising from outbreaks of viruses or other diseases may have an adverse effect on our business;

- We may not attain our target development goals, which are dependent upon our ability and the ability of our franchisees to upgrade existing restaurants and open new restaurants, and any new restaurants may not produce operating results similar to those of our existing restaurants;

- Our business may be adversely impacted by general economic conditions globally or in one or more of the markets we serve;

· Changes in governmental regulations, including changing laws relating to nutritional content, nutritional labeling, product safety and menu labeling regulation, may adversely affect our business operations; and

· The retail food industry in which we operate is highly competitive.

These risks are described in more detail under "Risk Factors" in Part I, Item 1A of our Form 10-K for the year ended December 26, 2009. We encourage you to read these risk factors in their entirety. These risks are not exclusive, and our business and our actual results of operations could also be affected by other risks that we cannot anticipate or that we do not consider to be material based on currently available information.

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

The following table provides information as of June 12, 2010 with respect to shares of Common Stock repurchased by the Company during the quarter then ended:

| Fiscal Periods | Total number of shares purchased | | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | | Approximate dollar value of shares that may yet be purchased under the plans or programs |
|---|---|---|---|---|---|---|
| Period 4<br>3/21/10 – 4/17/10 | 737,964 | $ | 38.56 | 737,964 | $ | 434,860,711 |
| Period 5<br>4/18/10 – 5/15/10 | 818,545 | $ | 41.91 | 818,545 | $ | 400,555,704 |
| Period 6<br>5/16/10 – 6/12/10 | 1,282,863 | $ | 40.63 | 1,282,863 | $ | 348,431,596 |
| Total | 2,839,372 | $ | 40.46 | 2,839,372 | $ | 348,431,596 |

In September 2009, our Board of Directors authorized share repurchases, through September 2010, of up to $300 million (excluding applicable transaction fees) of our outstanding Common Stock. For the quarter ended June 12, 2010, approximately 3 million shares were repurchased under this authorization.

In March 2010, our Board of Directors authorized additional share repurchases through March 2011, of up to $300 million (excluding applicable transaction fees) of our outstanding Common Stock. For the quarter ended June 12, 2010, no share repurchases were made pursuant to this authorization.

Item 6. Exhibits

(a) Exhibit Index

EXHIBITS

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

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

SIGNATURES

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

YUM! BRANDS, INC.
(Registrant)

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|---|---|
| Date: July 20, 2010 | /s/ Ted F. Knopf<br>Senior Vice President of Finance<br>and Corporate Controller<br>(Principal Accounting Officer) |