

MCDONALDS CORP
Form 10-Q
November 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
^x 1934

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____

Commission File Number 1-5231

McDONALD'S CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware 36-2361282
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

One McDonald's Plaza 60523
Oak Brook, Illinois
(Address of Principal Executive Offices) (Zip Code)
(630) 623-3000
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

830,443,627
(Number of shares of common stock
outstanding as of September 30, 2016)

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEET

In millions, except per share data	(unaudited)	
	September 30,	December 31,
	2016	2015
Assets		
Current assets		
Cash and equivalents	\$ 2,266.7	\$ 7,685.5
Accounts and notes receivable	1,349.8	1,298.7
Inventories, at cost, not in excess of market	90.5	100.1
Prepaid expenses and other current assets	595.1	558.7
Total current assets	4,302.1	9,643.0
Other assets		
Investments in and advances to affiliates	878.0	792.7
Goodwill	2,504.7	2,516.3
Miscellaneous	1,816.4	1,869.1
Total other assets	5,199.1	5,178.1
Property and equipment		
Property and equipment, at cost	37,931.1	37,692.4
Accumulated depreciation and amortization	(14,945.4)	(14,574.8)
Net property and equipment	22,985.7	23,117.6
Total assets	\$ 32,486.9	\$ 37,938.7
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 852.2	\$ 874.7
Dividends payable	772.9	—
Income taxes	561.3	154.8
Other taxes	295.3	309.0
Accrued interest	263.6	233.1
Accrued payroll and other liabilities	1,731.4	1,378.8
Total current liabilities	4,476.7	2,950.4
Long-term debt	26,007.0	24,122.1
Other long-term liabilities	2,248.5	2,074.0
Deferred income taxes	1,378.8	1,704.3
Shareholders' equity		
Preferred stock, no par value; authorized – 165.0 million shares; issued – none	—	—
Common stock, \$.01 par value; authorized – 3.5 billion shares; issued – 1,660.6 million shares	16.6	16.6
Additional paid-in capital	6,712.8	6,533.4
Retained earnings	45,030.0	44,594.5
Accumulated other comprehensive income	(2,622.6)	(2,879.8)
Common stock in treasury, at cost; 830.2 and 753.8 million shares	(50,760.9)	(41,176.8)
Total shareholders' equity	(1,624.1)	7,087.9
Total liabilities and shareholders' equity	\$ 32,486.9	\$ 37,938.7
See Notes to condensed consolidated financial statements.		

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(UNAUDITED)

In millions, except per share data	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenues				
Sales by Company-operated restaurants	\$3,972.1	\$4,282.9	\$11,642.2	\$12,458.1
Revenues from franchised restaurants	2,452.0	2,332.2	6,950.8	6,613.6
Total revenues	6,424.1	6,615.1	18,593.0	19,071.7
Operating costs and expenses				
Company-operated restaurant expenses	3,239.5	3,607.7	9,662.9	10,558.3
Franchised restaurants—occupancy expenses	437.6	416.1	1,283.6	1,230.7
Selling, general & administrative expenses	582.9	584.0	1,757.0	1,759.2
Other operating (income) expense, net	26.8	(23.0)	114.0	258.4
Total operating costs and expenses	4,286.8	4,584.8	12,817.5	13,806.6
Operating income	2,137.3	2,030.3	5,775.5	5,265.1
Interest expense	221.4	160.9	663.6	457.4
Nonoperating (income) expense, net	11.4	(9.0)	(19.2)	(37.2)
Income before provision for income taxes	1,904.5	1,878.4	5,131.1	4,844.9
Provision for income taxes	629.1	569.2	1,638.0	1,521.8
Net income	\$1,275.4	\$1,309.2	\$3,493.1	\$3,323.1
Earnings per common share-basic	\$1.52	\$1.41	\$4.04	\$3.51
Earnings per common share-diluted	\$1.50	\$1.40	\$4.01	\$3.49
Dividends declared per common share	\$0.89	\$0.85	\$2.67	\$2.55
Weighted-average shares outstanding-basic	841.4	930.3	864.7	947.9
Weighted-average shares outstanding-diluted	847.7	934.8	871.8	952.7

See Notes to condensed consolidated financial statements.

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COMPREHENSIVE INCOME (UNAUDITED)

In millions	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	\$1,275.4	\$1,309.2	\$3,493.1	\$3,323.1
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments:				
Gain (loss) recognized in accumulated other comprehensive income (AOCI), including net investment hedges	50.7	(492.6)	255.0	(1,083.1)
Reclassification of (gain) loss to net income	—	—	18.3	0.2
Foreign currency translation adjustments-net of tax benefit (expense) of \$30.4, \$0.3, \$(66.9) and \$(92.6)	50.7	(492.6)	273.3	(1,082.9)
Cash flow hedges:				
Gain (loss) recognized in AOCI	(1.3)	1.7	(8.4)	13.7
Reclassification of (gain) loss to net income	1.8	(8.3)	(10.2)	(23.0)
Cash flow hedges-net of tax benefit (expense) of \$(0.1), \$3.8 and \$10.6, \$5.3	0.5	(6.6)	(18.6)	(9.3)
Defined benefit pension plans:				
Gain (loss) recognized in AOCI	(0.1)	—	(0.9)	(1.4)
Reclassification of (gain) loss to net income	1.1	1.7	3.4	5.8
Defined benefit pension plans-net of tax benefit (expense) of \$0.1, \$0.1 and \$0.1, \$0.7	1.0	1.7	2.5	4.4
Total other comprehensive income (loss), net of tax	52.2	(497.5)	257.2	(1,087.8)
Comprehensive income (loss)	\$1,327.6	\$811.7	\$3,750.3	\$2,235.3

See Notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

In millions	Quarters Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Operating activities				
Net income	\$1,275.4	\$1,309.2	\$3,493.1	\$3,323.1
Adjustments to reconcile to cash provided by operations				
Charges and credits:				
Depreciation and amortization	370.6	387.7	1,137.6	1,166.0
Deferred income taxes	(216.0)	(0.1)	(374.7)	15.2
Share-based compensation	34.3	29.0	102.1	76.7
Other	2.9	27.2	189.1	289.3
Changes in working capital items	783.9	194.4	697.5	290.1
Cash provided by operations	2,251.1	1,947.4	5,244.7	5,160.4
Investing activities				
Capital expenditures	(405.3)	(412.7)	(1,149.6)	(1,221.2)
Sales and purchases of restaurant businesses and property sales	103.9	38.2	421.3	136.8
Other	(49.7)	(44.0)	(82.4)	(29.8)
Cash used for investing activities	(351.1)	(418.5)	(810.7)	(1,114.2)
Financing activities				
Net short-term borrowings	(80.0)	170.2	(742.9)	131.4
Long-term financing issuances	0.6	1.4	3,372.7	4,229.2
Long-term financing repayments	(5.7)	(6.2)	(819.6)	(1,052.9)
Treasury stock purchases	(1,969.8)	(2,392.3)	(9,662.2)	(4,554.1)
Common stock dividends	(745.1)	(789.1)	(2,285.2)	(2,416.4)
Proceeds from stock option exercises	36.1	35.7	249.9	170.9
Excess tax benefit on share-based compensation	—	4.6	—	30.0
Other	(11.8)	(2.9)	(3.9)	(22.4)
Cash used for financing activities	(2,775.7)	(2,978.6)	(9,891.2)	(3,484.3)
Effect of exchange rates on cash and cash equivalents	14.4	(96.3)	38.4	(187.3)
Cash and equivalents increase (decrease)	(861.3)	(1,546.0)	(5,418.8)	374.6
Cash and equivalents at beginning of period	3,128.0	3,998.5	7,685.5	2,077.9
Cash and equivalents at end of period	\$2,266.7	\$2,452.5	\$2,266.7	\$2,452.5
See Notes to condensed consolidated financial statements.				

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Basis of Presentation

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Company's December 31, 2015 Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. The results for the quarter and nine months ended September 30, 2016 do not necessarily indicate the results that may be expected for the full year.

Restaurant Information

The following table presents restaurant information by ownership type:

Restaurants at September 30, 2016	2016	2015
Conventional franchised	21,456	21,009
Developmental licensed	5,742	5,348
Foreign affiliated	3,361	3,494
Total Franchised	30,559	29,851
Company-operated	6,056	6,554
Systemwide restaurants	36,615	36,405

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

Per Common Share Information

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation, calculated using the treasury stock method, of 6.3 million shares and 4.5 million shares for the quarters 2016 and 2015, respectively, and 7.1 million shares and 4.8 million shares for the nine months 2016 and 2015, respectively. Stock options that would have been antidilutive, and therefore were not included in the calculation of diluted weighted-average shares, totaled 4.2 million shares and 9.1 million shares for the quarters 2016 and 2015, respectively, and 1.2 million shares and 9.4 million shares for the nine months 2016 and 2015, respectively. In the second quarter 2016, the Company entered into an Accelerated Share Repurchase agreement ("ASR") to purchase up to \$2.6 billion of the Company's common stock and received an initial delivery of 16.2 million shares, which represented 80% of the total shares the Company expected to receive based on the market price at the time of initial delivery. In July 2016, the purchase period for this ASR ended, and an additional 5.1 million shares were received. In September 2016, McDonald's Board of Directors declared a fourth quarter dividend of \$0.94 per share of common stock, resulting in \$772.9 million of dividends payable in December 2016.

Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value. Fair value disclosures are reflected in a three-level hierarchy, maximizing the use of observable inputs and minimizing the use of unobservable inputs. The Company did not have any significant changes to the valuation techniques used to measure fair value as described in the Company's December 31, 2015 Annual Report on Form 10-K.

At September 30, 2016, the fair value of the Company's debt obligations was estimated at \$28.8 billion, compared to a carrying amount of \$26.0 billion. The fair value was based upon quoted market prices, Level 2 within the valuation hierarchy. The carrying amounts of cash and equivalents, short-term investments and notes receivable approximate fair value.

Table of Contents**Financial Instruments and Hedging Activities**

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

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

In millions	Derivative Assets		Derivative Liabilities	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Total derivatives designated as hedging instruments	\$9.7	\$ 60.9	\$(11.3)	\$(38.9)
Total derivatives not designated as hedging instruments	131.1	144.4	(16.6)	(5.5)
Total derivatives	\$140.8	\$ 205.3	\$(27.9)	\$(44.4)

The following table presents the pretax amounts affecting income and other comprehensive income ("OCI") for the nine months ended September 30, 2016 and 2015, respectively:

In millions	Gain (Loss) Recognized in Accumulated OCI		Gain (Loss) Reclassified into Income from Accumulated OCI		Gain (Loss) Recognized in Income on Derivative ⁽¹⁾	
	2016	2015	2016	2015	2016	2015
Cash Flow Hedges	\$(13.6)	\$19.7	\$15.6	\$34.3	—	\$22.9
Net Investment Hedges	\$(96.5)	\$493.5	\$(18.3)	\$(0.2)		
Undesignated derivatives					\$(4.1)	\$19.5

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

Fair Value Hedges

The Company enters into fair value hedges that convert a portion of its fixed-rate debt into floating-rate debt by use of interest rate swaps. At September 30, 2016, \$2.2 billion of the Company's outstanding fixed-rate debt was effectively converted. For the nine months ended September 30, 2016, the Company recognized a \$2.2 million gain on fair value interest rate swaps, which was exactly offset by a corresponding loss in the fair value of the hedged debt instruments.

Cash Flow Hedges

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. To protect against the reduction in value of forecasted foreign currency cash flows (such as royalties denominated in foreign currencies), the Company uses foreign currency forwards and foreign currency options to hedge a portion of anticipated exposures. The hedges cover the next 18 months for certain exposures and are denominated in various currencies. As of September 30, 2016, the Company had derivatives outstanding with an equivalent notional amount of \$676.5 million that hedged a portion of forecasted foreign currency denominated royalties.

Based on market conditions at September 30, 2016, the \$1.4 million in cumulative cash flow hedging gains, after tax, is not expected to have a significant effect on earnings over the next 12 months.

Net Investment Hedges

The Company primarily uses foreign currency denominated debt (third party and intercompany) to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of OCI and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in OCI. As of September 30, 2016, \$8.4 billion of the Company's third party foreign currency denominated debt, \$3.3 billion of intercompany foreign currency denominated debt and \$297.7 million of derivatives were designated to hedge investments in certain foreign subsidiaries and affiliates.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by its derivative counterparties. The Company did not have significant exposure to any individual counterparty at September 30, 2016 and has master agreements that contain netting arrangements. For financial reporting purposes, the Company presents gross derivative balances in the financial statements and supplementary data, including for counterparties subject to netting arrangements. Some of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At September 30, 2016, the Company was required to post an immaterial amount of collateral due to certain derivatives having negative positions. The Company's counterparties were not required to post collateral on any derivative position, other than on hedges of certain of the Company's supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

Segment Information

The Company franchises and operates McDonald's restaurants in the global restaurant industry. The following reporting segments reflect how management reviews and evaluates operating performance.

U.S. - the Company's largest segment.

International Lead Markets - established markets including Australia, Canada, France, Germany, the U.K. and related markets.

High Growth Markets - markets the Company believes have relatively higher restaurant expansion and franchising potential including China, Italy, Korea, Poland, Russia, Spain, Switzerland, the Netherlands and related markets.

Foundational Markets & Corporate - the remaining markets in the McDonald's system, each of which the Company believes have the potential to operate under a largely franchised model. Corporate activities are also reported within this segment.

The following table presents the Company's revenues and operating income by segment.

In millions	Quarters Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Revenues				
U.S.	\$2,072.5	\$2,189.3	\$6,215.2	\$6,341.6
International Lead Markets	1,881.2	1,971.6	5,452.5	5,699.3
High Growth Markets	1,651.3	1,645.2	4,644.1	4,714.4
Foundational Markets & Corporate	819.1	809.0	2,281.2	2,316.4
Total revenues	\$6,424.1	\$6,615.1	\$18,593.0	\$19,071.7
Operating Income				
U.S.	\$977.5	\$902.1	\$2,836.6	\$2,559.7
International Lead Markets	754.1	739.5	2,127.2	2,011.6
High Growth Markets	320.1	297.3	814.7	639.3
Foundational Markets & Corporate	85.6	91.4	(3.0)	54.5
Total operating income	\$2,137.3	\$2,030.3	\$5,775.5	\$5,265.1

Recently Issued Accounting Standards

Employee Share-Based Payment Accounting

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The goal of this update is to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This update is effective beginning January 1, 2017 with early adoption permitted.

The Company elected to early adopt ASU 2016-09 in the second quarter 2016, which required reflection of any adjustments as of January 1, 2016. The primary impact of adoption was the recognition of excess tax benefits as a reduction to the provision for income taxes for all periods reported in fiscal year 2016.

Additional amendments to ASU 2016-09 related to income taxes and minimum statutory withholding tax requirements had no impact to retained earnings, where the cumulative effect of these changes are required to be recorded. The Company also elected to continue estimating forfeitures when determining the amount of compensation costs to be recognized in each period.

The presentation requirements for cash flows related to excess tax benefits were applied prospectively; as such, prior years have not been restated. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to any of the periods presented in the consolidated statement of cash flows, since such cash flows have historically been presented in financing activities.

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company anticipates ASU 2016-02 to have a material impact on the consolidated balance sheet. The impact on the Company's consolidated statement of income is currently being evaluated. The impact of ASU 2016-02 is non-cash in nature, as such, it will not affect the Company's cash position.

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Revenue Recognition

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

Subsequent Events

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

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

Overview

The Company franchises and operates McDonald’s restaurants. Of the 36,615 restaurants in 120 countries at September 30, 2016, 30,559 were licensed to franchisees (comprised of 21,456 franchised to conventional franchisees, 5,742 licensed to developmental licensees and 3,361 licensed to foreign affiliates (“affiliates”) – primarily in Japan) and 6,056 were operated by the Company.

Under McDonald's conventional franchise arrangement, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and décor of their restaurant business, and by reinvesting in the business over time. The Company owns the land and building or secures long-term leases for both Company-operated and conventional franchised restaurant sites. This maintains long-term occupancy rights, helps control related costs and assists in alignment with franchisees enabling restaurant performance levels that are among the highest in the industry. In certain circumstances, the Company participates in the reinvestment for conventional franchised restaurants in an effort to accelerate implementation of certain initiatives.

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

McDonald's is primarily a franchisor and believes franchising is paramount to delivering great-tasting food, locally-relevant customer experiences and driving profitability. Franchising enables an individual to own a restaurant business and maintain control over staffing, purchasing, marketing and pricing decisions, while also benefiting from the financial strength and global experience of McDonald's. However, directly operating restaurants is important to being a credible franchisor and provides Company personnel with restaurant operations experience. In Company-operated restaurants, and in collaboration with franchisees, McDonald's further develops and refines operating standards, marketing concepts and product and pricing strategies, so that only those that the Company believes are most beneficial are introduced in the restaurants. McDonald's continually reviews its mix of Company-operated and franchised restaurants to help optimize overall performance, with a goal to be 95% franchised over the long term.

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

The business is structured with segments that combine markets with similar characteristics and opportunities for growth. Significant reportable segments include the United States (“U.S.”), International Lead Markets and High Growth Markets. In addition, throughout this report we present the Foundational Markets & Corporate segment which includes markets in over 80 countries, as well as Corporate activities. For the nine months ended September 30, 2016, the U.S., the International Lead Markets and the High Growth Markets accounted for 33%, 29% and 25% of total revenues, respectively.

Strategic Direction

The strength of the alignment among the Company, its franchisees and suppliers (collectively referred to as the “System”) has been key to McDonald's long-term success. By leveraging the System, McDonald’s is able to identify, implement and scale ideas that meet customers' changing needs and preferences. In addition, the Company’s business model enables the System to build on its competitive advantages of geographic diversification and System alignment that have been created over time to consistently deliver locally-relevant restaurant experiences to customers and be an integral part of the communities it serves.

McDonald’s aspires to be viewed by its customers as a modern and progressive burger company delivering a contemporary customer experience and continues to execute on the three priorities of the turnaround plan - driving operating growth, building brand excitement and enhancing financial value. The turnaround plan is grounded on running great restaurants and providing customers with what matters most to them - hot and fresh food, fast and

friendly service, and a contemporary restaurant experience at the value and convenience of McDonald's. Management is encouraged by the progress the Company has made to execute the turnaround plan, as evidenced by stronger business results and improved customer perceptions of McDonald's over the past eighteen months. The Company is now beginning to transition from revitalization to strengthening its business to drive long-term sustainable growth. As the Company pursues its refranchising and restructuring targets, it will unlock financial value and direct its resources towards innovations and investments that will strengthen the Company's ability to deliver a better McDonald's experience over time. The Company is putting the customer at the center of everything it does and remains focused on serving more customers and growing global comparable sales while being mindful of the near-term challenges in several markets.

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Financial Performance

The Company continues to make meaningful progress towards improving efficiencies and reducing costs, and most importantly driving top-line growth, despite a challenging environment in several key markets. For the third quarter and nine months, global comparable sales increased 3.5% and 4.2%, respectively, driven by stronger operating performance across all segments, with third quarter marking the Company's fifth consecutive quarter of positive comparable sales growth across all segments.

Amidst continued industry softness, comparable sales in the U.S. increased 1.3% for the quarter and 2.7% for the nine months, supported by All Day Breakfast, everyday value under the McPick 2 platform and the introduction of Chicken McNuggets with no artificial preservatives. McDonald's U.S. begins the fourth quarter with an expanded All Day Breakfast menu and continued emphasis on food quality and the customer experience.

Comparable sales for the International Lead Markets increased 3.3% for the quarter and 3.6% for the nine months, reflecting strong sales in the U.K. and positive results in Australia, Canada and Germany, as strong execution of core menu, compelling value and convenience strategies continued to resonate with consumers.

In the High Growth Markets, comparable sales increased 1.5% for the quarter and 2.2% for the nine months, reflecting positive performance in nearly all markets for both periods. The quarter was partially offset by negative comparable sales in China due in part to temporary protests related to events surrounding the South China Sea and comparison against very strong prior year results.

Consolidated operating income for the quarter and nine months benefited from stronger operating performance and higher gains on sales of restaurant businesses, partly offset by pre-tax restructuring and non-cash impairment charges of \$128 million in the quarter and \$357 million for the nine months related to the Company's global G&A and refranchising initiatives. The nine months of 2015 included pre-tax strategic charges primarily related to store closing costs, restructuring and other asset write-offs totaling \$240 million.

Third Quarter and Nine Months 2016 Highlights:

- Global comparable sales increased 3.5% for the quarter and 4.2% for the nine months, reflecting positive comparable sales in all segments

- Due to the impact of refranchising, consolidated revenues decreased 3% (1% in constant currencies) for the quarter and decreased 3% (flat in constant currencies) for the nine months

- Consolidated operating income increased 5% (7% in constant currencies) for the quarter and increased 10% (12% in constant currencies) for the nine months, which included restructuring and non-cash impairment charges of \$128 million in the quarter and \$357 million for the nine months related to the Company's global G&A and refranchising initiatives. The nine months of 2015 included strategic charges primarily related to store closing costs, restructuring and other asset write-offs totaling \$240 million

- Diluted earnings per share of \$1.50 for the quarter increased 7% (9% in constant currencies) and \$4.01 for the nine months increased 15% (17% in constant currencies), which included strategic charges totaling \$0.12 per share for the quarter and \$.30 per share for the nine months. Excluding the impact of the current and prior year charges, diluted earnings per share increased 16% (17% in constant currencies) for the quarter and 17% (19% in constant currencies) for the nine months

- Returned \$3.4 billion to shareholders through share repurchases and dividends for the quarter. This brings the cumulative return to shareholders to \$27.8 billion against the targeted return of about \$30 billion for the three-year period ending 2016. In addition, the Company announced a 6% increase in its dividend beginning in the fourth quarter

Outlook

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

Changes in Systemwide sales are driven by comparable sales and net restaurant unit expansion. The Company expects net restaurant additions to add approximately 1 percentage point to 2016 Systemwide sales growth (in constant currencies).

- The Company does not generally provide specific guidance on changes in comparable sales. However, as a perspective, assuming no change in cost structure, a 1 percentage point change in comparable sales for either

the U.S. or the International Lead Markets would change annual diluted earnings per share by about 4 cents.

With about 75% of McDonald's grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company's commodity costs. For the full-year 2016, costs for the total basket of goods are expected to decrease about 4.5-5.0% in the U.S. and remain relatively flat in the International Lead Markets.

• The Company expects full-year 2016 selling, general and administrative expenses to be relatively flat in constant currencies. Some volatility may be experienced between quarters.

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Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full-year 2016 to increase about 40-45% compared with 2015 due to higher average debt balances in connection with the Company's previously-announced plans to optimize its capital structure.

A significant part of the Company's operating income is generated outside the U.S., and about 40% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 65% of the Company's operating income outside the U.S. If all four of these currencies moved by 10% in the same direction, the Company's annual diluted earnings per share would change by up to 25 cents.

The Company expects the effective income tax rate for the full-year 2016 to be in the 31-33% range. Some volatility may be experienced between the quarters resulting in a quarterly tax rate outside of the annual range.

The Company expects capital expenditures for 2016 to be approximately \$2.0 billion, less than half of which are expected to be used to open new restaurants. The Company expects to open about 900 restaurants, including about 400 restaurants in affiliated and developmental-licensee markets where the Company does not fund any capital expenditures. The Company expects net additions of about 400 restaurants. The remaining capital is expected to be used to reinvest in existing locations.

The Company continues to optimize its capital structure and expects to return about \$30 billion to shareholders for the three-year period ending 2016. The cumulative return through the September 30, 2016 was approximately \$28 billion.

Long-term

The Company expects to rebrand about 4,000 restaurants through 2018 with a long-term goal to become 95% franchised. The majority of the rebranding is expected to take place in the High Growth and Foundational markets. The Company expects to realize net annual G&A savings of about \$500 million from our G&A base of \$2.6 billion at the beginning of 2015, the vast majority of which is expected to be realized by the end of 2017. These savings will be realized through our rebranding efforts, streamlining across corporate, segment and market organizations, primarily in non-customer facing functions, and realizing greater efficiencies in the Company's Global Business Services platform. This target excludes the impact of foreign currency changes. We expect to realize a cumulative total of at least \$150 million in savings by the end of 2016, with about half of these savings already achieved in 2015.

In connection with executing against our rebranding and G&A targets, we may incur additional strategic charges.

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

Information in constant currency is calculated by translating current year results at prior year average exchange rates.

Management reviews and analyzes business results excluding the effect of foreign currency translation and bases incentive compensation plans on these results because they believe this better represents the Company's underlying business trends.

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

Comparable sales represent sales at all restaurants and comparable guest counts represent the number of transactions at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed. Some of the reasons restaurants may be temporarily closed include rebranding or remodeling, rebuilding, road construction and natural disasters. Comparable sales exclude the impact of currency translation. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. Typically, pricing has a greater impact on average check than product mix. Management reviews the increase or decrease in comparable sales and comparable guest counts compared with the same period in the prior year to assess business trends.

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CONSOLIDATED OPERATING RESULTS

Dollars in millions, except per share data	Quarter Ended		Nine Months Ended		
	September 30, 2016		September 30, 2016		
	Amount	Increase/ (Decrease)	Amount	Increase/ (Decrease)	
Revenues					
Sales by Company-operated restaurants	\$3,972.1	(7)%	\$11,642.2	(7)%	
Revenues from franchised restaurants	2,452.0	5	6,950.8	5	
Total revenues	6,424.1	(3)	18,593.0	(3)	
Operating costs and expenses					
Company-operated restaurant expenses	3,239.5	(10)	9,662.9	(8)	
Franchised restaurants—occupancy expenses	437.6	5	1,283.6	4	
Selling, general & administrative expenses	582.9	0	1,757.0	0	
Other operating (income) expense, net	26.8	n/m	114.0	(56)	
Total operating costs and expenses	4,286.8	(6)	12,817.5	(7)	
Operating income	2,137.3	5	5,775.5	10	
Interest expense	221.4	38	663.6	45	
Nonoperating (income) expense, net	11.4	n/m	(19.2)	48	
Income before provision for income taxes	1,904.5	1	5,131.1	6	
Provision for income taxes	629.1	11	1,638.0	8	
Net income	\$1,275.4	(3)%	\$3,493.1	5	%
Earnings per common share-basic	\$1.52	8	\$4.04	15	%
Earnings per common share-diluted	\$1.50	7	\$4.01	15	%
n/m Not meaningful					

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Impact of Foreign Currency Translation

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

IMPACT OF FOREIGN CURRENCY TRANSLATION

Dollars in millions, except per share data

			Currency Translation Benefit/ (Cost)
Quarters Ended September 30,	2016	2015	2016
Revenues	\$6,424.1	\$6,615.1	\$ (113.6)
Company-operated margins	732.6	675.2	(18.5)
Franchised margins	2,014.4	1,916.1	(14.3)
Selling, general & administrative expenses	582.9	584.0	4.1
Operating income	2,137.3	2,030.3	(26.8)
Net income	1,275.4	1,309.2	(19.0)
Earnings per share-diluted	\$1.50	\$1.40	\$ (0.03)

			Currency Translation Benefit/ (Cost)
Nine Months Ended September 30,	2016	2015	2016
Revenues	\$18,593.0	\$19,071.7	\$ (552.2)
Company-operated margins	1,979.3	1,899.8	(70.9)
Franchised margins	5,667.2	5,382.9	(87.0)
Selling, general & administrative expenses	1,757.0	1,759.2	21.5
Operating income	5,775.5	5,265.1	(136.8)
Net income	3,493.1	3,323.1	(73.8)
Earnings per share-diluted	\$4.01	\$3.49	\$ (0.08)

The impact of foreign currency translation on consolidated operating results for the quarter primarily reflected the weaker British Pound. The nine months reflected the strengthening of the U.S. Dollar against the British Pound and most other currencies.

Net Income and Diluted Earnings per Common Share

For the quarter, net income decreased 3% (1% in constant currencies) to \$1,275.4 million, and diluted earnings per share increased 7% (up 9% in constant currencies) to \$1.50. Foreign currency translation had a negative impact of \$0.03 on diluted earnings per share.

For the nine months, net income increased 5% (7% in constant currencies) to \$3,493.1 million, and diluted earnings per share increased 15% (17% in constant currencies) to \$4.01. Foreign currency translation had a negative impact of \$0.08 on diluted earnings per share.

Results for the quarter and nine months benefited from stronger operating performance and higher gains on sales of restaurant businesses, partly offset by pre-tax restructuring and non-cash impairment charges of \$128 million in the quarter and \$357 million for the nine months related to the Company's global G&A and refranchising initiatives. The nine months of 2015 included pre-tax strategic charges primarily related to store closing costs, restructuring and other

asset write-offs totaling \$240 million.

Excluding the impact of the current and prior year charges, diluted earnings per share increased 16% (17% in constant currencies) for the quarter and 17% (19% in constant currencies) for the nine months. This supplemental information is provided to help investors understand the impact of the current and prior year charges on the Company's results. Diluted earnings per share for both periods benefited from a decrease in diluted weighted-average shares outstanding due to share repurchases. During the quarter, the Company repurchased 23.3 million shares of stock for \$2.7 billion, bringing total purchases for the nine months to 80.4 million shares or \$9.8 billion. In addition, the Company paid a quarterly dividend of \$0.89 per share, or \$745.1 million, bringing the total dividends paid for the nine months to \$2.3 billion.

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Revenues

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

The Company is accelerating the pace of refranchising to optimize its restaurant ownership mix, generate more stable and predictable revenue and cash flow streams, and operate with a less resource-intensive structure. The shift to a greater percentage of franchised restaurants negatively impacts consolidated revenues as Company-operated sales are replaced by franchised sales, where the Company receives rent and/or royalty revenue based on a percentage of sales.

REVENUES

Dollars in millions

Quarters Ended September 30,	2016	2015	Inc/ (Dec)	Inc/ (Dec)	Excluding Currency Translation	
Company-operated sales						
U.S.	\$910.3	\$1,062.2	(14	)%	(14)%
International Lead Markets	1,098.8	1,233.0	(11	)	(6)
High Growth Markets	1,441.5	1,450.9	(1	)	2)
Foundational Markets & Corporate	521.5	536.8	(3	)	(2)
Total	\$3,972.1	\$4,282.9	(7	)%	(5)%
Franchised revenues						
U.S.	\$1,162.2	\$1,127.1	3	%	3	%
International Lead Markets	782.4	738.6	6		8	
High Growth Markets	209.8	194.3	8		9	
Foundational Markets & Corporate	297.6	272.2	9		10	
Total	\$2,452.0	\$2,332.2	5	%	6	%
Total revenues						
U.S.	\$2,072.5	\$2,189.3	(5	)%	(5)%
International Lead Markets	1,881.2	1,971.6	(5	)	(1)
High Growth Markets	1,651.3	1,645.2	0		2	
Foundational Markets & Corporate	819.1	809.0	1		2	
Total	\$6,424.1	\$6,615.1	(3)%	(1)%

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Nine Months Ended September 30,	2016	2015	Inc/ (Dec)	Inc/ (Dec)	
				Excluding Currency Translation	
Company-operated sales					
U.S.	\$2,852.0	\$3,126.6	(9)	(9)	%
International Lead Markets	3,250.7	3,605.9	(10)	(6)	
High Growth Markets	4,063.5	4,170.5	(3)	3	
Foundational Markets & Corporate	1,476.0	1,555.1	(5)	(1)	
Total	\$11,642.2	\$12,458.1	(7)	(3)	%
Franchised revenues					
U.S.	\$3,363.2	\$3,215.0	5	5	%
International Lead Markets	2,201.8	2,093.4	5	8	
High Growth Markets	580.6	543.9	7	8	
Foundational Markets & Corporate	805.2	761.3	6	10	
Total	\$6,950.8	\$6,613.6	5	7	%
Total revenues					
U.S.	\$6,215.2	\$6,341.6	(2)	(2)	%
International Lead Markets	5,452.5	5,699.3	(4)	0	
High Growth Markets	4,644.1	4,714.4	(1)	4	
Foundational Markets & Corporate	2,281.2	2,316.4	(2)	2	
Total	\$18,593.0	\$19,071.7	(3)	0	%

Revenues: Revenues decreased 3% (1% in constant currencies) for the quarter and decreased 3% (flat in constant currencies) for the nine months.

U.S.: Revenues decreased for the quarter and nine months due to the impact of refranchising, partly offset by positive comparable sales.

International Lead Markets: Revenues decreased for both periods partly due to negative foreign currency translation. In constant currencies, revenues decreased for the quarter and were flat for the nine months due to the impact of refranchising, partly offset by strong sales in the U.K. and positive results in Australia, Canada and Germany.

High Growth Markets: Revenues were flat for the quarter and decreased for the nine months partly due to negative foreign currency translation. In constant currencies, revenues increased for both periods due to positive comparable sales in most markets and continued expansion in Russia. For the quarter, revenues were partly offset by negative comparable sales in China due in part to temporary protests related to events surrounding the South China Sea and comparison against very strong prior year results.

Comparable Sales and Guest Counts

The following table presents the percent change in comparable sales for the quarters and nine months ended September 30, 2016 and 2015:

COMPARABLE SALES

	Increase/ (Decrease)			
	Quarters Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
U.S.	1.3 %	0.9 %	2.7 %	(1.2)%
International Lead Markets	3.3	4.6	3.6	3.2
High Growth Markets	1.5	8.9	2.2	1.4
Foundational Markets & Corporate	10.1	6.1	9.6	(0.9)

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Total 3.5 % 4.0 % 4.2 % 0.4 %

On a consolidated basis, comparable guest counts (the number of transactions at all restaurants, whether operated by *the Company or by franchisees, in operation at least thirteen months, including those temporarily closed) decreased 0.1% and 3.1% for the nine months ended 2016 and 2015, respectively.

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Systemwide Sales and Franchised Sales

The following table presents the percent change in Systemwide sales for the quarter and nine months ended September 30, 2016:

SYSTEMWIDE SALES

	Quarter Ended September 30, 2016		Nine Months Ended September 30, 2016		
	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation	
U.S.	1	% 1	% 3	% 3	%
International Lead Markets	2	5	2	5	
High Growth Markets	3	5	2	6	
Foundational Markets & Corporate	13	12	7	11	
Total	4	% 4	% 3	% 5	%

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

FRANCHISED SALES

Dollars in millions

Quarters Ended September 30,	2016	2015	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation	
U.S.	\$8,391.0	\$8,139.9	3	% 3	%
International Lead Markets	4,534.1	4,290.5	6	8	
High Growth Markets	1,305.4	1,216.6	7	9	
Foundational Markets & Corporate	4,126.0	3,592.7	15	14	
Total*	\$18,356.5	\$17,239.7	6	% 7	%

Nine Months Ended September 30,	2016	2015	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation	
U.S.	\$24,356.4	\$23,389.7	4	% 4	%
International Lead Markets	12,760.8	12,158.6	5	8	
High Growth Markets	3,636.0	3,407.9	7	9	
Foundational Markets & Corporate	11,117.8	10,247.3	8	13	
Total*	\$51,871.0	\$49,203.5	5	% 7	%

Sales from developmental licensed restaurants and foreign affiliated markets where the Company earns a royalty based on a percent of sales totaled \$3,705.6 million and \$3,177.4 million for the quarters 2016 and 2015, respectively, and \$9,990.0 million and \$9,110.1 million for the nine months 2016 and 2015, respectively. Results *reflected improved performance in Japan, partly due to the stronger Yen, and improved performance across most markets. These results were partly offset by weaker currencies in Latin America. The remaining balance of franchised sales is derived from conventional franchised restaurants where the Company earns rent and royalties based primarily on a percent of sales.

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Restaurant Margins

FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS

Dollars in millions

Quarters Ended September 30,	Percent		Amount		Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation	
	2016	2015	2016	2015			
Franchised							
U.S.	82.7 %	83.1 %	\$961.4	\$937.0	3	% 3	%
International Lead Markets	81.2	80.8	635.4	596.7	6	8	
High Growth Markets	71.6	72.3	150.1	140.4	7	8	
Foundational Markets & Corporate	89.8	88.8	267.5	242.0	11	11	
Total	82.1 %	82.2 %	\$2,014.4	\$1,916.1	5	% 6	%
Company-operated							
U.S.	16.9 %	12.4 %	\$153.9	\$132.2	16	% 16	%
International Lead Markets	21.6	20.8	237.9	256.8	(7	) (3)
High Growth Markets	17.0	14.3	245.2	207.5	18	21	
Foundational Markets & Corporate	18.4	14.7	95.6	78.7	22	23	
Total	18.4 %	15.8 %	\$732.6	\$675.2	9	% 11	%

Nine Months Ended September 30,	Percent		Amount		Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation	
	2016	2015	2016	2015			
Franchised							
U.S.	82.7 %	82.5 %	\$2,779.7	\$2,652.1	5	% 5	%
International Lead Markets	80.2	79.9	1,765.8	1,673.0	6	9	
High Growth Markets	69.9	71.0	406.0	385.9	5	7	
Foundational Markets & Corporate	88.9	88.3	715.7	671.9	7	11	
Total	81.5 %	81.4 %	\$5,667.2	\$5,382.9	5	% 7	%
Company-operated							
U.S.	15.9 %	14.7 %	\$454.4	\$460.5	(1	) (1)
International Lead Markets	20.7	20.0	673.2	719.9	(6	) (2)
High Growth Markets	15.3	12.6	623.4	526.6	18	25	
Foundational Markets & Corporate	15.5	12.4	228.3	192.8	18	22	
Total	17.0 %	15.2 %	\$1,979.3	\$1,899.8	4	% 8	%

Franchised: Franchised margin dollars increased \$98.3 million or 5% (6% in constant currencies) for the quarter and increased \$284.3 million or 5% (7% in constant currencies) for the nine months. Both periods benefited from expansion and refranchising, as well as positive comparable sales performance.

U.S.: The franchised margin percent declined in the quarter and increased for the nine months. Positive comparable sales contributed to both periods, but for the quarter was more than offset by higher occupancy costs.

International Lead Markets: The increase in the franchised margin percent for the quarter and nine months reflected the benefit from positive comparable sales performance, partly offset by refranchising.

High Growth Markets: The decrease in the franchised margin percent for the quarter and nine months was primarily due to refranchising and higher occupancy costs.

In general, refranchising may have a dilutive effect on the franchised margin percent, but results in higher franchised margin dollars.

Company-operated: Company-operated margin dollars increased \$57.4 million or 9% (11% in constant currencies) for the quarter and increased \$79.5 million or 4% (8% in constant currencies) for the nine months.

U.S.: The Company-operated margin percent increased for the quarter and nine months. Both periods reflected positive comparable sales and lower commodity costs. The incremental investment in wages and benefits for eligible Company-operated restaurant employees impacted results for the nine months.

International Lead Markets: The Company-operated margin percent increased for the quarter and nine months primarily due to positive comparable sales, partly offset by higher labor and occupancy costs.

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High Growth Markets: The Company-operated margin percent increased for the quarter and nine months due to improved restaurant profitability in China, which benefited from recent VAT reform. Higher labor costs across the segment pressured margins for both periods.

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

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

	Quarters Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Food & paper	31.8 %	33.7 %	32.1 %	33.8 %
Payroll & employee benefits	26.1	26.5	27.0	26.5
Occupancy & other operating expenses	23.7	24.0	23.9	24.5
Total expenses	81.6 %	84.2 %	83.0 %	84.8 %
Company-operated margins	18.4 %	15.8 %	17.0 %	15.2 %

Selling, General & Administrative Expenses

Selling, general and administrative expenses were flat for the quarter and nine months benefiting from negative foreign currency translation. In constant currencies, selling, general and administrative expenses increased 1% for the quarter and nine months. These results were due to higher incentive-based compensation costs reflecting improved Company performance, partly offset by lower employee-related costs resulting from the Company's recent restructuring initiatives. The nine months also included costs associated with the 2016 Worldwide Owner/Operator Convention.

For the nine months, selling, general and administrative expenses as a percent of revenues increased to 9.4% for 2016 compared with 9.2% for 2015, and as a percent of Systemwide sales decreased to 2.8% for 2016 compared with 2.9% for 2015.

Other Operating (Income) Expense, Net

OTHER OPERATING (INCOME) EXPENSE, NET

Dollars in millions

	Quarters Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Gains on sales of restaurant businesses	\$(70.1)	\$(20.2)	\$(219.6)	\$(84.1)
Equity in (earnings) losses of unconsolidated affiliates	(26.7)	8.2	(25.2)	95.9
Asset dispositions and other (income) expense, net	(4.0)	(17.5)	1.6	85.3
Impairment and other charges, net	127.6	6.5	357.2	161.3
Total	\$26.8	\$(23.0)	\$114.0	\$258.4

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

Equity in earnings of unconsolidated affiliates increased for the quarter and nine months due to improved performance in Japan.

Asset dispositions and other expense increased for the quarter and decreased for the nine months. The nine months of 2015 included asset write-offs resulting from the decision to close under-performing restaurants, mostly in the U.S. and China.

Impairment and other charges, net increased for the quarter and nine months due to restructuring and non-cash impairment charges related to the Company's global G&A and refranchising initiatives. The nine months of 2015 included strategic charges relating to asset write-offs as part of the Company's refranchising initiative in certain Foundational markets, and global restructuring charges.

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Operating Income
OPERATING INCOME
Dollars in millions

Quarters Ended September 30,	2016	2015	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation	
U.S.	\$977.5	\$902.1	8	% 8	%
International Lead Markets	754.1	739.5	2	5	
High Growth Markets	320.1	297.3	8	10	
Foundational Markets & Corporate	85.6	91.4	(6	) (7)
Total	\$2,137.3	\$2,030.3	5	% 7	%

Nine Months Ended September 30,	2016	2015	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation	
U.S.	\$2,836.6	\$2,559.7	11	% 11	%
International Lead Markets	2,127.2	2,011.6	6	9	
High Growth Markets	814.7	639.3	27	32	
Foundational Markets & Corporate	(3.0	) 54.5	n/m	(44)
Total	\$5,775.5	\$5,265.1	10	% 12	%

n/m Not meaningful

Operating Income: Operating income increased \$107.0 million or 5% (7% in constant currencies) for the quarter and increased \$510.4 million or 10% (12% in constant currencies) for the nine months. Both periods were impacted by strategic charges of \$128 million in the quarter and \$357 million for the nine months. The nine months of 2015 included strategic charges primarily related to store closing costs, restructuring and other asset write-offs totaling \$240 million.

U.S.: The increase in operating income for the quarter and nine months was primarily due to higher sales-driven franchised margin dollars, improved Company-operated restaurant performance and higher gains from restaurant refranchising, partly offset by strategic charges. In addition, the nine months of 2015 included restructuring and restaurant closing charges.

International Lead Markets: The constant currency operating income increase for the quarter and nine months was primarily due to sales-driven improvements in franchised margin dollars across most markets.

High Growth Markets: The constant currency operating income increase for the quarter and nine months primarily reflected improved restaurant profitability in China.

Foundational Markets and Corporate: The constant currency operating income decrease for the quarter and nine months primarily reflected the impact of restructuring and non-cash impairment charges related to the Company's global G&A and refranchising initiatives. In addition, for the nine months, Corporate selling, general and administrative expenses were higher largely due to the centralization of certain costs. For both periods, results benefited from Japan's strong performance.

Operating Margin: Operating margin is defined as operating income as a percent of total revenues. Operating margin was 31.1% and 27.6% for the nine months ended 2016 and 2015, respectively.

Interest Expense

Interest expense increased 38% for the quarter and 45% for the nine months primarily due to higher average debt balances in connection with the Company's previously-announced plans to optimize its capital structure, partly offset by lower average interest rates.

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Nonoperating (Income) Expense, Net
 NONOPERATING (INCOME) EXPENSE, NET
 Dollars in millions

	Quarters Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest Income	\$ 0.8	\$ (3.2)	\$(6.0)	\$(7.2)
Foreign currency and hedging activity	4.5	(10.7)	(23.2)	(45.6)
Other (income) expense, net	6.1	4.9	10.0	15.6
Total	\$ 11.4	\$ (9.0)	\$(19.2)	\$(37.2)

Income Taxes

The effective income tax rate was 33.0% and 30.3% for the quarters ended 2016 and 2015, respectively, and 31.9% and 31.4% for the nine months ended 2016 and 2015, respectively. The higher effective tax rate for the quarter was primarily due to lower tax benefits associated with the Company's ongoing foreign cash repatriation, partially offset by a favorable shift in the mix of income. The effective income tax rate for both periods benefited from the early adoption of new accounting guidance related to share-based compensation.

Cash Flows and Financial Position

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

Cash provided by operations totaled \$5.2 billion and exceeded capital expenditures by \$4.1 billion for the nine months 2016. Cash provided by operations increased \$84 million compared with the nine months 2015, primarily due to improved operating results, partly offset by the impact from weaker foreign currencies.

Cash used for investing activities totaled \$811 million for the nine months 2016, a decrease of \$304 million compared with the nine months 2015, primarily due to higher proceeds from sales of restaurant businesses.

Cash used for financing activities totaled \$9.9 billion for the nine months 2016, an increase of \$6.4 billion compared with the nine months 2015, primarily due to higher treasury stock purchases and a decrease in net borrowings.

Debt obligations at September 30, 2016 totaled \$26.0 billion compared with \$24.1 billion at December 31, 2015. The increase was primarily due to long-term debt issuances of \$3.4 billion, partly offset by net debt repayments of \$1.6 billion.

Recently Issued Accounting Standards**Employee Share-Based Payment Accounting**

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The goal of this update is to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This update is effective beginning January 1, 2017 with early adoption permitted.

The Company elected to early adopt ASU 2016-09 in the second quarter 2016, which required reflection of any adjustments as of January 1, 2016. The primary impact of adoption was the recognition of excess tax benefits as a reduction to the provision for income taxes for all periods reported in fiscal year 2016.

Additional amendments to ASU 2016-09 related to income taxes and minimum statutory withholding tax requirements had no impact to retained earnings, where the cumulative effect of these changes are required to be recorded. The Company also elected to continue estimating forfeitures when determining the amount of compensation costs to be recognized in each period.

The presentation requirements for cash flows related to excess tax benefits were applied prospectively; as such, prior years have not been restated. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to any of the periods presented in the consolidated statement of cash flows, since such cash flows have historically been presented in financing activities.

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company anticipates ASU 2016-02 to have a material impact on the consolidated balance sheet.

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The impact on the Company's consolidated statement of income is currently being evaluated. The impact of ASU 2016-02 is non-cash in nature, as such, it will not affect the Company's cash position.

Revenue Recognition

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

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Risk Factors and Cautionary Statement Regarding Forward-Looking Statements

The information in this report includes forward-looking statements about future events and circumstances and their effects upon revenues, expenses and business opportunities. Generally speaking, any statement in this report not based upon historical fact is a forward-looking statement. Forward-looking statements can also be identified by the use of forward-looking words, such as “may,” “will,” “expect,” “believe” and “plan” or similar expressions. In particular, statements regarding our plans, strategies, prospects and expectations regarding our business and industry, including those under “Outlook”, are forward-looking statements. They reflect our expectations, are not guarantees of performance and speak only as of the date of this report. Except as required by law, we do not undertake to update them. Our expectations (or the underlying assumptions) may change or not be realized, and you should not rely unduly on forward-looking statements. Our business results are subject to a variety of risks, including those that are reflected in the following considerations and factors, as well as elsewhere in our filings with the SEC. If any of these considerations or risks materialize, our expectations may change and our performance may be adversely affected. If we do not successfully design and execute our business strategies, we may not be able to increase operating income or market share.

To drive future results, we must design business strategies to be effective in delivering operating income growth.

Whether we successfully execute these strategies depends mainly on our System’s ability to:

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

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

The implementation of our turnaround plan may intensify the risks we face and may not be successful in driving improved performance.

Our turnaround plan includes an accelerated pace of refranchising, cost savings and global restructuring. In addition, we have increased our leverage. As we continue to implement our plans, the existing risks we face in our business may be intensified. Our efforts to reduce costs and capital expenditures depend, in part, upon our refranchising efforts, which, in turn, depend upon our ability to identify qualified and capable franchisees and licensees. Our cost savings initiatives also depend upon our ability to achieve efficiencies through the consolidation of global, back-office functions. Therefore, if our turnaround-related initiatives are not successful, take longer to complete than initially projected, or are not executed well, or if our cost reduction efforts adversely impact our effectiveness, our business operations, financial results and results of operations could be adversely affected.

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

We compete primarily in the “informal eating out” (IEO) segment, which is highly competitive. We are facing slowing restaurant industry trends in several key markets, including the U.S., as well as sustained, intense competition from traditional, fast casual and other competitors, which may include many non-traditional market participants such as convenience stores, grocery stores and coffee shops. We expect our environment to continue to be highly competitive and in any particular reporting period our results may be impacted by new actions of our competitors, which may have a short- or long-term impact on our results.

We compete on the basis of product choice, quality, affordability, service and location. In particular, we believe our ability to compete successfully in the current market environment depends on our ability to improve existing products, develop new products, price our products appropriately, manage the complexity of our restaurant operations and respond effectively to our competitors’ actions. Recognizing these dependencies, we have intensified our focus in recent periods on strategies to achieve these goals, including the turnaround plan described above, and we will likely

continue to modify our strategies and implement new strategies in the future. There can be no assurance these strategies will be effective, and some strategies may be effective at improving some metrics while adversely affecting other metrics.

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

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

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If our pricing, promotional and marketing plans are not effective, our results may be negatively impacted. Our results depend on the impact of our pricing, promotional and marketing plans and our System's ability to efficiently adjust these plans to respond quickly and effectively to evolving customer preferences, as well as economic and competitive conditions. Our existing or future pricing strategies and the value proposition they represent will continue to be important components of our overall plan, may not be successful and could negatively impact sales and margins. The promotion of our menu offerings, including through expanded digital engagement with our customers, may yield results below desired levels.

Additionally, we operate in an increasingly complex and costly advertising environment. Our marketing and advertising programs may not be successful and we may fail to attract and retain customers. We have expanded engagement with our customers through digital media and loyalty initiatives. Our success depends in part on whether our allocation of our advertising and marketing resources across different channels allows us to effectively reach our customers. If our advertising and marketing programs are not successful, or are not as successful as those of our competitors, our sales, guest counts and market share could decrease.

Failure to preserve the value and relevance of our brand could have a negative impact on our financial results. To be successful in the future, we believe we must preserve, enhance and leverage the value of our brand. Brand value is based in part on consumer perceptions on a variety of factors, including the nutritional content and preparation of our food, the ingredients we use, our business practices and the manner in which we source the commodities we use. Consumer acceptance of our offerings is subject to change for a variety of reasons. For example, nutritional, health and other scientific studies and conclusions, which constantly evolve and often have contradictory implications, drive popular opinion, litigation and regulation (including initiatives intended to drive consumer behavior) in ways that affect the IEO segment or perceptions of our brand and could be material to our business. Perceptions may also be affected by third parties presenting or promoting adverse commentary or perceptions of the quick-service category of the IEO segment, our brand and/or our operations, our suppliers or our franchisees. If we are unsuccessful in addressing such adverse commentary or perceptions, our brand and our financial results may suffer.

Additionally, the ongoing relevance of our brand may depend on the success of our sustainability initiatives, which will require System-wide coordination and alignment. If we are not effective in addressing social responsibility matters, trust in our brand may suffer. Also, if we are unable to articulate and achieve relevant sustainability goals, consumers may lose confidence in our brand. In particular, business incidents that erode consumer trust or confidence, particularly if such incidents receive considerable publicity or result in litigation, can significantly reduce brand value and have a negative impact on our financial results.

Unfavorable general economic conditions could adversely affect our business and financial results.

Our results of operations are substantially affected by economic conditions, which can vary significantly by market and can impact consumer disposable income levels and spending habits. Economic conditions can also be impacted by a variety of factors including hostilities, epidemics and actions taken by governments to manage national economic matters, whether through austerity or stimulus measures and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers. Continued adverse economic conditions or adverse changes in economic conditions in our markets could pressure our operating performance, and our business and financial results may suffer.

Supply chain interruptions may increase costs or reduce revenues.

We depend on the effectiveness of our supply chain management to assure reliable and sufficient product supply, including on favorable terms. Although many of the products we sell are sourced from a wide variety of suppliers in countries around the world, certain products have limited suppliers, which may increase our reliance on those suppliers. Supply chain interruptions, including due to lack of supply or price increases, can adversely affect us or the suppliers and franchisees that are also part of our System and whose performance has a significant impact on our results. Such shortages or disruptions could be caused by factors beyond the control of our suppliers or us. If we experience interruptions in our supply chain, our costs could increase and it could limit the availability of products critical to our operations.

Food safety concerns may have an adverse effect on our business.

Our ability to increase sales and profits depends on our System's ability to meet expectations for safe food and on our ability to manage the potential impact on McDonald's of food-borne illnesses and food or product safety issues that may arise in the future. Food safety is a top priority, and we dedicate substantial resources to ensure that our customers enjoy safe food products, including as our menu evolves. However, food safety events, including instances of food-borne illness, have occurred in the food industry in the past, and could occur in the future. Instances of food tampering, food contamination or food-borne illness, whether actual or perceived, could adversely affect our brand and reputation as well as our revenues and profits.

Our franchise business model presents a number of risks.

Our success increasingly relies in part on the financial success and cooperation of our franchisees, yet we have limited influence over their operations. Our restaurant margins arise from two sources: Company-operated restaurants and franchised restaurants. Our franchisees manage their businesses independently, and therefore are responsible for the day-to-day operation of their restaurants. The revenues we realize from franchised restaurants are largely dependent on the ability of our franchisees to grow their sales. If our franchisees do not experience sales growth, our revenues and margins could be negatively affected as a result. Also, if sales trends worsen for franchisees,

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

Our ownership mix also affects our results and financial condition. The decision to own restaurants or to operate under franchise or license agreements is driven by many factors whose interrelationship is complex and changing. Our ability to achieve the benefits of our refranchising strategy, which involves a shift to a greater percentage of franchised restaurants, in a timely manner or at all, will depend on various factors, including our ability to timely and effectively identify franchisees and/or licensees that meet our rigorous standards and/or to complete transactions on favorable terms and to manage associated risks, and will also depend on the performance of our franchisees, and whether the resulting ownership mix supports our financial objectives.

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

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

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

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

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

Additionally, challenges and uncertainties are associated with operating in developing markets, which may entail a relatively higher risk of political instability, economic volatility, crime, corruption and social and ethnic unrest. Such challenges are exacerbated in many cases by a lack of an independent and experienced judiciary and uncertainties in how local law is applied and enforced, including in areas most relevant to commercial transactions and foreign investment. An inability to effectively manage the risks associated with our international operations could have a material adverse effect on our business and financial condition.

The U.K.'s decision to leave the European Union could adversely affect our business.

As a result of the U.K.'s decision to leave the European Union through a negotiated exit over a period of time, it is possible that there will be increased regulatory complexities, as well as potential referenda in the U.K. and/or other European countries that could cause uncertainty in European or worldwide economic conditions. In the short term, the decision created volatility in certain foreign currency exchange rates, which may continue. Any of these effects, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

Challenges with respect to talent management could harm our business.

Effective succession planning is important to our long-term success. Failure to effectively identify, develop and retain key personnel, recruit high-quality candidates and ensure smooth management and personnel transitions could disrupt our business and adversely affect our results.

Our success depends in part on our System's ability to identify, recruit, motivate and retain a qualified workforce to work in our restaurants in an intensely competitive environment. Increased costs associated with recruiting, motivating and retaining qualified employees to work in our Company-operated restaurants could have a negative impact on our Company-operated margins.

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We are also impacted by the costs and other effects of compliance with U.S. and international regulations affecting our workforce, which includes our staff and employees working in our Company-operated restaurants. These regulations are increasingly focused on employment issues including wage and hour, healthcare, immigration, retirement and other employee benefits and unlawful workplace discrimination. Our potential exposure to reputational and other harm regarding our workplace practices or conditions or those of our independent franchisees or suppliers (or perceptions thereof) could have a negative impact on our business. Additionally, economic action, such as boycotts, protests, work stoppages or campaigns by labor organizations, could adversely affect (including the ability to recruit and retain talent) us or the franchisees and suppliers that are also part of the McDonald's System and whose performance may have a material impact on our results.

Information technology system failures or interruptions or breaches of network security may interrupt our operations. We are increasingly reliant on technological systems (e.g., point-of-sale and other in-store systems or platforms) as well as technologies which facilitate communication and collaboration internally, with affiliated entities, or with independent third parties to conduct our business, including technology-enabled solutions provided to us by third parties; and any failure of these systems could significantly impact our operations and customer perceptions. Despite the implementation of security measures, those technology systems and solutions could become vulnerable to damage, disability or failures due to theft, fire, power loss, telecommunications failure or other catastrophic events. The third party solutions also present the risks faced by the third party's business. If those systems or solutions were to fail or otherwise be unavailable, and we were unable to recover in a timely way, we could experience an interruption in our operations. We may also not fully realize the benefits of the significant investments we are making to enhance the customer experience through digital engagement and social media. Furthermore, security breaches involving our systems, the systems of the parties we communicate or collaborate with, or those of third party providers may occur, such as unauthorized access, denial of service, computer viruses and other disruptive problems caused by hackers. Our information technology systems contain personal, financial and other information that is entrusted to us by our customers and employees as well as financial, proprietary and other confidential information related to our business. An actual or alleged security breach could result in system disruptions, shutdowns, theft or unauthorized disclosure of confidential information. The occurrence of any of these incidents could result in adverse publicity, loss of consumer confidence, reduced sales and profits, and criminal penalties or civil liabilities.

Increasing regulatory complexity may adversely affect restaurant operations and our financial results.

Our regulatory environment worldwide exposes us to complex compliance and similar risks that could affect our operations and results in material ways. In many of our markets we are subject to increasing regulation, which has increased our cost of doing business. We are affected by the cost, compliance and other risks associated with the often conflicting and highly prescriptive regulations we face, including where inconsistent standards imposed by multiple governmental authorities can adversely affect our business and increase our exposure to litigation or governmental investigations or proceedings.

Our success depends in part on our ability to manage the impact of new, potential or changing regulations that can affect our business plans. These regulations may relate to, among others, product packaging, marketing and the nutritional content and safety of our food and other products, labeling and other disclosure practices, ordinary variations in food preparation among our own restaurants, and the need to rely on the accuracy and completeness of information from third-party suppliers (particularly given varying requirements and practices for testing and disclosure).

Additionally, we are working to manage the risks and costs to us, our franchisees and our supply chain of the effects of climate change, greenhouse gases, energy and water resources. The increased public focus, including by governmental and nongovernmental organizations, on these and other environmental sustainability matters (e.g., packaging and waste, animal health and welfare, deforestation and land use) and the increased pressure to make commitments, set targets or establish additional goals and take actions to meet them, could expose us to market, operational and execution costs or risks. If we are unable to effectively manage the risks associated with our complex regulatory environment, it could have a material adverse effect on our business and financial condition.

We are subject to increasing legal complexity and could be party to litigation that could adversely affect us.

Increasing legal complexity will continue to affect our operations and results in material ways. We could be subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations, employment and personal injury claims, landlord/tenant disputes, disputes with current or former suppliers, claims by current or former franchisees, and intellectual property claims (including claims that we infringed another party's trademarks, copyrights, or patents). Inconsistent standards imposed by governmental authorities can adversely affect our business and increase our exposure to litigation.

Litigation involving our relationship with franchisees and the legal distinction between our franchisees and us for employment law purposes, if determined adversely, could increase costs, negatively impact the business prospects of our franchisees and subject us to incremental liability for their actions. Similarly, although our commercial relationships with our suppliers remain independent, there may be attempts to challenge that independence, which, if determined adversely, could also increase costs, negatively impact the business prospects of our suppliers, and subject us to incremental liability for their actions. We are also subject to legal and compliance risks and associated liability, such as in the areas of privacy, data collection, protection and management, as it relates to information we collect and share when we provide optional technology-related services and platforms to third parties.

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Our operating results could also be affected by the following:

• The relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings;

• The cost and other effects of settlements, judgments or consent decrees, which may require us to make disclosures or take other actions that may affect perceptions of our brand and products;

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

• The scope and terms of insurance or indemnification protections that we may have.

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

We may not be able to adequately protect our intellectual property or adequately ensure that we are not infringing the intellectual property of others, which could harm the value of the McDonald's brand and our business.

The success of our business depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products in both domestic and international markets. We rely on a combination of trademarks, copyrights, service marks, trade secrets, patents and other intellectual property rights to protect our brand and branded products. We cannot ensure that franchisees and other third parties who hold licenses to our intellectual property will not take actions that hurt the value of our intellectual property.

We have registered certain trademarks and have other trademark registrations pending in the United States and certain foreign jurisdictions. The trademarks that we currently use have not been registered in all of the countries outside of the United States in which we do business or may do business in the future and may never be registered in all of these countries. The steps we have taken to protect our intellectual property in the United States and foreign countries may not be adequate. In addition, the steps we have taken may not adequately ensure that we do not infringe the intellectual property of others and third parties may claim infringement by us in the future. In particular, we may be involved in intellectual property claims, including often aggressive or opportunistic attempts to enforce patents used in information technology systems, which might affect our operations and results. Any claim of infringement, whether or not it has merit, could be time-consuming, could result in costly litigation and could harm our business.

Changes in tax laws and unanticipated tax liabilities could adversely affect the taxes we pay and our profitability.

We are subject to income and other taxes in the United States and foreign jurisdictions, and our operations, plans and results are affected by tax and other initiatives around the world. In particular, we are affected by the impact of changes to tax laws or related authoritative interpretations, particularly if corporate tax reform becomes a key component of budgetary initiatives in the United States and elsewhere. We are also impacted by settlements of pending or any future adjustments proposed by the IRS or other taxing authorities in connection with our tax audits, all of which will depend on their timing, nature and scope. Any increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our financial results.

Changes in accounting standards or the recognition of impairment or other charges may adversely affect our future operations and results.

New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could adversely affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings. In assessing the recoverability of our long-lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and local business and economic conditions, operating costs, inflation, competition, consumer and demographic trends, and our restructuring activities. If our estimates or underlying assumptions change in the future, we may be required to record impairment charges. If we experience any such changes, they could have a significant adverse effect on our reported results for the affected periods.

A decrease in our credit ratings or an increase in our funding costs could adversely affect our profitability.

We may be negatively affected by the impact of changes in our debt levels or our results of operations on our credit ratings, interest expense, availability of acceptable counterparties, ability to obtain funding on favorable terms or our operating or financial flexibility, especially if lenders impose new operating or financial covenants.

Our operations may also be impacted by regulations affecting capital flows, financial markets or financial institutions, which can limit our ability to manage and deploy our liquidity or increase our funding costs. If any of these events were to occur, they could have a material adverse effect on our business and financial condition.

Trading volatility and price of our common stock may be adversely affected by many factors.

Many factors affect the volatility and price of our common stock in addition to our operating results and prospects.

The most important of these factors, some of which are outside our control, are the following:

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• The continuing unpredictable global economic and market conditions;

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

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the disclosure made in our Annual Report on Form 10-K for the year ended December 31, 2015 regarding this matter.

Item 4. Controls and Procedures

An evaluation was conducted under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2016. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

During the third quarter 2016, the Company commenced a phased initiative to transition some transaction-processing activities within certain accounting processes to a third-party service provider. The Company is performing the implementation in the ordinary course of business to increase efficiency. This is not in response to any identified deficiency or weakness in the Company's internal control over financial reporting. Over time, this initiative is expected to continue to enhance the Company's internal control over financial reporting, but in the short-term may increase the Company's risk. Except for these changes, there has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

There were no material changes to the disclosure made in our Annual Report on Form 10-K for the year ended December 31, 2015 regarding these matters.

Item 1A. Risk Factors

For a discussion of risk factors affecting our business, refer to statements appearing under the caption “Risk Factors and Cautionary Statement Regarding Forward-Looking Statements” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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

Issuer Purchases of Equity Securities*

The following table presents information related to repurchases of common stock the Company made during the three months ended September 30, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
July 1-31, 2016	10,222,961	\$ 122.04	10,222,961	\$ 6,766,217,434
August 1-31, 2016	7,155,219	117.13	7,155,219	5,928,146,730
September 1-30, 2016	5,939,352	115.75	5,939,352	5,240,643,503
Total	23,317,532	\$ 118.93	23,317,532	

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

On December 3, 2015, the Company’s Board of Directors approved a share repurchase program, effective January (1) 1, 2016, that authorizes the purchase of up to \$15 billion of the Company’s outstanding common stock with no specified expiration date.

In May 2016, the Company entered into an Accelerated Share Repurchase agreement (“ASR”) to purchase up to \$2.6 billion of the Company’s common stock and received an initial delivery of 16.2 million shares, which represented 80% of the total shares the Company expected to receive based on the market price at the time of initial delivery. In July 2016, the purchase period for this ASR ended, and an additional 5.1 million shares were received. In total, 21.3 million shares were delivered under this ASR at an average purchase price of \$122.25 per share.

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Item 6. Exhibits

Exhibit
Number Description

- (3) (a) Restated Certificate of Incorporation, effective as of June 14, 2012, incorporated herein by reference from Exhibit 3(a) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2012.
- (b) By-Laws, as amended and restated with effect as of October 26, 2015, incorporated herein by reference from Exhibit 3(b) of Form 8-K (File No. 001-05231), filed October 28, 2015.
- (4) Instruments defining the rights of security holders, including Indentures:*
 - (a) Senior Debt Securities Indenture, dated as of October 19, 1996, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
 - (b) Subordinated Debt Securities Indenture, dated as of October 18, 1996, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
- (10) Material Contracts
 - (a) Directors' Deferred Compensation Plan, effective as of January 1, 2008, incorporated herein by reference from Exhibit 99.4 of Form 8-K (File No. 001-05231), filed December 4, 2007.**
 - Directors' Deferred Compensation Plan, amended and restated effective as of May 26, 2016,
 - (i) incorporated herein by reference from Exhibit 10(i) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**
 - (b) McDonald's Excess Benefit and Deferred Bonus Plan, effective January 1, 2011, as amended and restated March 22, 2010, incorporated herein by reference from Exhibit 10(b) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2010.**
 - (c) McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Exhibit 10(c) of Form 10-K (File No. 001-05231), for the year ended December 31, 2001.**
 - First Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan,
 - (i) effective as of January 1, 2002, incorporated herein by reference from Exhibit 10(c)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2002.**
 - Second Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan,
 - (ii) effective January 1, 2005, incorporated herein by reference from Exhibit 10(c)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2004.**
 - (d) 1992 Stock Ownership Incentive Plan, as amended and restated January 1, 2001, incorporated herein by reference from Exhibit 10(e) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2001.**
 - First Amendment to McDonald's Corporation 1992 Stock Ownership Incentive Plan, as amended and restated, effective as of February 14, 2007, incorporated herein by reference from Exhibit 10(e)(i) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2007.**

McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.**

First Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(h)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2008.**

Second Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan as amended, effective February 9, 2011, incorporated herein by reference from Exhibit 10(h)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2010.**

McDonald's Corporation 2012 Omnibus Stock Ownership Plan, effective June 1, 2012, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2012.**

McDonald's Corporation 2009 Cash Incentive Plan, effective as of May 27, 2009, incorporated herein by reference from Exhibit 10(j) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.**

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Exhibit Number	Description
(h)	McDonald's Corporation Target Incentive Plan, effective January 1, 2013, incorporated herein by reference from Exhibit 10(j) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**
(i)	McDonald's Corporation Cash Performance Unit Plan, effective February 13, 2013, incorporated herein by reference from Exhibit 10(k) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**
(j)	Form of Executive Stock Option Grant Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Exhibit 10(j) of Form 10-K (File No. 001-05231), for the year ended December 31, 2011.**
(k)	Form of Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(n) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**
(l)	McDonald's Corporation Severance Plan, as Amended and Restated, effective September 30, 2015, incorporated herein by reference from Exhibit 10(o) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2015.**
(i)	First Amendment to the McDonald's Corporation Severance Plan, effective June 1, 2016, incorporated herein by reference from Exhibit 10(l)(i) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**
(ii)	Second Amendment to the McDonald's Corporation Severance Plan, effective June 1, 2016, incorporated herein by reference from Exhibit 10(l)(ii) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**
(iii)	Third Amendment to the McDonald's Corporation Severance Plan, effective as of July 15, 2016, incorporated herein by reference from Exhibit 10(l)(iii) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**
(m)	Form of McDonald's Corporation Tier I Change of Control Employment Agreement, incorporated herein by reference from Exhibit 10(i) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2008.**
(n)	Description of Restricted Stock Units granted to Andrew J. McKenna, incorporated herein by reference from Exhibit 10(r) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2015.**
(o)	Assignment Agreement between Douglas Goare and the Company, effective January 1, 2012, incorporated herein by reference from Exhibit 10(x) of Form 10-K (File No. 001-05231), for the year ended December 31, 2013.**
(p)	Assignment Agreement between David Hoffmann and the Company, effective April 13, 2011, incorporated herein by reference from Exhibit 10(y) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2014. **
(i)	

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2015 Extension of the Assignment Agreement between David Hoffmann and the Company, dated as of January 7, 2015, incorporated herein by reference from Exhibit 10(w)(i) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2015.**

(q) Form of 2014 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(z) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2014.**

(r) Retirement Agreement between Timothy Fenton and the Company, dated July 9, 2014, incorporated herein by reference from Exhibit 10(z) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2014.**

(s) Retirement and Consulting Agreement between Donald Thompson and the Company, effective March 1, 2015, incorporated herein by reference from Exhibit 99 to Form 8-K (File No. 001-05231), filed on March 3, 2015.**

(t) Form of 2015 Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(aa) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2015.**

(u) Offer Letter between Christopher Kempczinski and the Company, dated September 23, 2015, incorporated herein by reference from Exhibit 10(u) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

(12) Computation of Ratios.

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

(101.CAL) XBRL
Taxonomy
Extension
Calculation
Linkbase
Document.

(101.DEF) XBRL
Taxonomy
Extension
Definition
Linkbase
Document.

(101.LAB) XBRL
Taxonomy
Extension Label
Linkbase
Document.

(101.PRE) XBRL
Taxonomy
Extension
Presentation
Linkbase
Document.

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

**Denotes compensatory plan.

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SIGNATURE

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

McDONALD'S
CORPORATION
(Registrant)

/s/ Kevin M. Ozan

November 4, 2016 Kevin M. Ozan
Corporate
Executive Vice
President and
Chief Financial
Officer