

YUM BRANDS INC
Form 10-Q
July 20, 2010

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

FORM 10-Q

(Mark One)

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

OR

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

For the transition period from _____ to _____

Commission file number 1-13163

YUM! BRANDS, INC.

(Exact name of registrant as specified in its charter)

North Carolina
(State or other jurisdiction of
incorporation or organization)

13-3951308
(I.R.S. Employer
Identification No.)

1441 Gardiner Lane, Louisville, Kentucky
(Address of principal executive offices)

40213
(Zip Code)

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

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

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

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

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

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

YUM! BRANDS, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

YUM! BRANDS, INC. AND SUBSIDIARIES

(in millions, except per share data)

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | (Unaudited) | |
|------------------------------------|-------------|----------|
| | 6/12/10 | 12/26/09 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 530 | \$ 353 |
| Accounts and notes receivable, net | 260 | 239 |
| Inventories | | |