

YUM BRANDS INC  
Form 10-K  
February 18, 2014

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 for the fiscal year ended December 28, 2013

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  
Securities registered pursuant to Section 12(b) of the Act

Title of Each Class  
Common Stock, no par value

Name of Each Exchange on Which Registered  
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:  
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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

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The aggregate market value of the voting stock (which consists solely of shares of Common Stock) held by non-affiliates of the registrant as of June 15, 2013 computed by reference to the closing price of the registrant's Common Stock on the New York Stock Exchange Composite Tape on such date was approximately \$31,700,000,000. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant. The number of shares outstanding of the registrant's Common Stock as of February 11, 2014 was 442,931,286 shares.

Documents Incorporated by Reference

Portions of the definitive proxy statement furnished to shareholders of the registrant in connection with the annual meeting of shareholders to be held on May 1, 2014 are incorporated by reference into Part III.

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## Forward-Looking Statements

In this Form 10-K, as well as in other written reports and oral statements that we make from time to time, we present “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and we are including this statement for purposes of complying with those safe harbor provisions.

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

## PART I

### Item 1. Business.

YUM! Brands, Inc. (referred to herein as “YUM”, the “Registrant” or the “Company”), was incorporated under the laws of the state of North Carolina in 1997. The principal executive offices of YUM are located at 1441 Gardiner Lane, Louisville, Kentucky 40213, and the telephone number at that location is (502) 874-8300. Our website address is <http://yum.com>.

YUM, together with its subsidiaries, is referred to in this Form 10-K annual report (“Form 10-K”) as the Company. The terms “we,” “us” and “our” are also used in the Form 10-K to refer to the Company. Throughout this Form 10-K, the terms “restaurants,” “stores” and “units” are used interchangeably. While YUM! Brands, Inc., referred to as the Company, does not directly own or operate any restaurants, throughout this document we may refer to restaurants as being Company-owned.

#### Financial Information about Operating Segments

As of and through December 28, 2013, YUM consisted of six operating segments: YUM Restaurants China (“China” or “China Division”), YUM Restaurants International (“YRI” or “International Division”), Taco Bell U.S., KFC U.S., Pizza Hut U.S. and YUM Restaurants India (“India” or “India Division”). The China Division includes mainland China, and the India Division includes India, Bangladesh, Mauritius, Nepal and Sri Lanka. YRI includes the remainder of our international operations.

For financial reporting purposes, management considers the three U.S. operating segments to be similar and, therefore, has aggregated them into a single reportable operating segment (“U.S.”). In 2012, our India Division began being reported as a standalone reporting segment separate from YRI as a result of changes to our management reporting structure. While our consolidated results are not impacted, our historical segment information has been restated to be consistent with the current period presentation. In December 2011, the Company sold the Long John Silver's (“LJS”) and A&W All-American Food Restaurants (“A&W”) brands to key franchisee leaders and strategic investors in separate transactions. Financial information prior to these transactions reflects our ownership of these brands.

Operating segment information for the years ended December 28, 2013, December 29, 2012 and December 31, 2011 for the Company is included in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) in Part II, Item 7, pages 21 through 51 and in the related Consolidated Financial Statements in Part II, Item 8, pages 52 through 101.

In the first quarter of 2014, we will combine our YRI and U.S. businesses and begin reporting segment information for three global divisions: KFC, Pizza Hut and Taco Bell. China and India will remain separate reporting segments due to their strategic importance and growth potential. This new structure is designed to drive greater global brand focus, enabling us to more effectively share know-how and accelerate growth. While our consolidated results will not be impacted, we will restate our historical segment information during 2014 for consistent presentation.

#### Narrative Description of Business

##### General

YUM has over 40,000 restaurants in more than 125 countries and territories. Primarily through the three concepts of KFC, Pizza Hut and Taco Bell (the “Concepts”), the Company develops, operates, franchises and licenses a worldwide system of restaurants which prepare, package and sell a menu of competitively priced food items. Units are operated

by a Concept or by independent franchisees or licensees under the terms of franchise or license agreements. Franchisees can range in size from individuals owning just one restaurant to large publicly traded companies.

The China Division, based in Shanghai, China, comprises approximately 6,200 system restaurants, primarily Company-owned KFCs and Pizza Huts. In 2013, the China Division recorded revenues of approximately \$6.9 billion and Operating Profit of \$777 million. On February 1, 2012, we acquired a controlling interest in Little Sheep Group Limited ("Little Sheep"), a casual dining concept headquartered in Inner Mongolia, China. See Note 4 for details. The Company also owns non-controlling interests in Chinese entities who operate in a manner similar to KFC franchisees and a meat processing entity that supplies lamb primarily to our recently acquired Little Sheep business. YRI, based in Plano, Texas, comprises approximately 15,200 system restaurants, primarily franchised KFCs and Pizza Huts, operating in over 120 countries outside the U.S., China and India. In 2013 YRI recorded revenues of approximately \$3.1 billion and Operating Profit of \$760 million. We have approximately 18,100 system restaurants, primarily franchised restaurants, in the U.S. and recorded revenues of approximately \$3.0 billion and Operating Profit of \$684 million in 2013. The India Division, based in Delhi, India comprises approximately 700 system restaurants. In 2013, India recorded revenues of approximately \$125 million and an Operating Loss of \$15 million.

## Restaurant Concepts

Most restaurants in each Concept offer consumers the ability to dine in and/or carry out food. In addition, Taco Bell and KFC offer a drive-thru option in many stores. Pizza Hut offers a drive-thru option on a much more limited basis. Pizza Hut and KFC, on a more limited basis primarily in China, offer delivery service.

Each Concept has proprietary menu items and emphasizes the preparation of food with high quality ingredients, as well as unique recipes and special seasonings to provide appealing, tasty, convenient and attractive food at competitive prices.

The franchise programs of the Company are designed to promote consistency and quality, and the Company is selective in granting franchises. Under standard franchise agreements, franchisees supply capital – initially by paying a franchise fee to YUM, purchasing or leasing the land, building, equipment, signs, seating, inventories and supplies and, over the longer term, by reinvesting in the business. Franchisees contribute to the Company's revenues on an ongoing basis through the payment of royalties based on a percentage of sales.

The Company believes that it is important to maintain strong and open relationships with its franchisees and their representatives. To this end, the Company invests a significant amount of time working with the franchisee community and their representative organizations on key aspects of the business, including products, equipment, operational improvements and standards and management techniques.

Following is a brief description of each Concept:

### KFC

KFC was founded in Corbin, Kentucky by Colonel Harland D. Sanders, an early developer of the quick service food business and a pioneer of the restaurant franchise concept. The Colonel perfected his secret blend of 11 herbs and spices for Kentucky Fried Chicken in 1939 and signed up his first franchisee in 1952.

KFC operates in 118 countries and territories throughout the world. As of year end 2013, KFC had 4,563 units in China, 9,460 units in YRI, 4,491 units in the U.S. and 361 units in India. Approximately 78 percent of the China units, 11 percent of the YRI units, 5 percent of the U.S. units and 47 percent of the India units are Company-owned.

KFC restaurants across the world offer fried and non-fried chicken products such as sandwiches, chicken strips, chicken-on-the-bone and other chicken products marketed under a variety of names. KFC restaurants also offer a variety of entrees and side items suited to local preferences and tastes. Restaurant decor throughout the world is characterized by the image of the Colonel.

### Pizza Hut

The first Pizza Hut restaurant was opened in 1958 in Wichita, Kansas, and within a year, the first franchise unit was opened. Today, Pizza Hut is the largest restaurant chain in the world specializing in the sale of ready-to-eat pizza products.

Pizza Hut operates in 91 countries and territories throughout the world. As of year end 2013, Pizza Hut had 1,264 units in China, 5,490 units in YRI, 7,846 units in the U.S. and 367 units in India. Nearly 100 percent of the China units and approximately 4 percent of the YRI units, 6 percent of the U.S. units and 5 percent of the India units are Company-owned.

- Pizza Hut operates in the delivery, carryout and casual dining segments around the world. Outside of the U.S., Pizza Hut often uses unique branding to differentiate these segments.

Pizza Hut features a variety of pizzas which are marketed under varying names. Each of these pizzas is offered with a variety of different toppings suited to local preferences and tastes. Many Pizza Huts also offer pasta and chicken wings, including over 4,800 stores offering wings under the brand WingStreet, primarily in the U.S. Outside the U.S., Pizza Hut casual dining restaurants offer a variety of core menu products other than pizza, which are typically suited to local preferences and tastes. Pizza Hut units feature a distinctive red roof logo on their signage.



## Taco Bell

The first Taco Bell restaurant was opened in 1962 by Glen Bell in Downey, California, and in 1964, the first Taco Bell franchise was sold.

Taco Bell operates in 21 countries and territories throughout the world. As of year end 2013, there were 5,769 Taco Bell units in the U.S., 279 units in YRI and 5 units in India. Approximately 15 percent of the U.S. units, none of the YRI units and 100 percent of the India units are Company-owned.

Taco Bell specializes in Mexican-style food products, including various types of tacos, burritos, quesadillas, salads, nachos and other related items. Taco Bell units feature a distinctive bell logo on their signage.

## Restaurant Operations

Through its Concepts, YUM develops, operates, franchises and licenses a worldwide system of both traditional and non-traditional Quick Service Restaurants ("QSR"). Traditional units feature dine-in, carryout and, in some instances, drive-thru or delivery services. Non-traditional units, which are typically licensed outlets, include express units and kiosks which have a more limited menu, usually lower sales volumes and operate in non-traditional locations like malls, airports, gasoline service stations, train stations, subways, convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient.

Restaurant management structure varies by Concept and unit size. Generally, each Concept-owned restaurant is led by a restaurant general manager ("RGM"), together with one or more assistant managers, depending on the operating complexity and sales volume of the restaurant. Most of the employees work on a part-time basis. Each Concept issues detailed manuals, which may then be customized to meet local regulations and customs. These manuals set forth standards and requirements for all aspects of restaurant operations, including food safety and quality, food handling and product preparation procedures, equipment maintenance, facility standards and accounting control procedures. The restaurant management teams are responsible for the day-to-day operation of each unit and for ensuring compliance with operating standards. CHAMPS – which stands for Cleanliness, Hospitality, Accuracy, Maintenance, Product Quality and Speed of Service – is our proprietary systemwide program for training, measuring and rewarding employee performance against key customer measures. CHAMPS is intended to align the operating processes of our entire system around one core set of standards. RGMs' efforts, including CHAMPS performance measures, are monitored by Area Coaches. Area Coaches typically work with approximately six to twelve restaurants. Various senior operators visit Concept-owned restaurants from time to time to promote adherence to system standards and mentor restaurant team members.

## Supply and Distribution

The Company's Concepts, including Concept units operated by its franchisees, are substantial purchasers of a number of food and paper products, equipment and other restaurant supplies. The principal items purchased include chicken, cheese, beef and pork products, paper and packaging materials. The Company has not experienced any significant continuous shortages of supplies, and alternative sources for most of these products are generally available. Prices paid for these supplies fluctuate. When prices increase, the Concepts may attempt to pass on such increases to their customers, although there is no assurance that this can be done practically.

China Division In China, we work with approximately 650 independent suppliers, mostly China-based, providing a wide range of products. We own most of the distribution system which includes approximately 20 logistics centers. We also own a non-controlling interest in a meat processing facility in Inner Mongolia that supplies meat to our Little Sheep business.

U.S. Division The Company, along with the representatives of the Company's KFC, Pizza Hut and Taco Bell franchisee groups, are members in the Restaurant Supply Chain Solutions, LLC ("RSCS"), formerly known as the Unified Foodservice Purchasing Co-op, LLC, which is responsible for purchasing certain restaurant products and equipment in the U.S. The core mission of the RSCS is to provide the lowest possible sustainable store-delivered prices for restaurant products and equipment. This arrangement combines the purchasing power of the Company-owned and franchisee restaurants in the U.S. which the Company believes leverages the system's scale to drive cost savings and effectiveness in the purchasing function. The Company also believes that the RSCS fosters closer alignment of interests and a stronger relationship with its franchisee community.

Most food products, paper and packaging supplies, and equipment used in restaurant operations are distributed to individual restaurant units by third-party distribution companies. McLane Company, Inc. (“McLane”) is the exclusive distributor for the majority of items used in Company-owned restaurants and for a substantial number of franchisee and licensee stores. The Company entered into an agreement with McLane effective January 1, 2011 relating to distribution to Company-owned restaurants. This agreement extends through December 31, 2016 and generally restricts Company-owned restaurants from using alternative distributors for most products.

**International and India Divisions** Outside China and the U.S., we and our franchisees use decentralized sourcing and distribution systems involving many different global, regional, and local suppliers and distributors. In our YRI markets and India Division, we have approximately 3,000 and 150 suppliers, respectively, including U.S.-based suppliers that export to many countries.

#### Trademarks and Patents

The Company and its Concepts own numerous registered trademarks and service marks. The Company believes that many of these marks, including its Kentucky Fried Chicken®, KFC®, Pizza Hut® and Taco Bell® marks, have significant value and are materially important to its business. The Company’s policy is to pursue registration of its important marks whenever feasible and to oppose vigorously any infringement of its marks.

The use of these marks by franchisees and licensees has been authorized in our franchise and license agreements. Under current law and with proper use, the Company’s rights in its marks can generally last indefinitely. The Company also has certain patents on restaurant equipment which, while valuable, are not material to its business.

#### Working Capital

Information about the Company’s working capital is included in MD&A in Part II, Item 7, pages 21 through 51 and the Consolidated Statements of Cash Flows in Part II, Item 8, page 56.

#### Seasonal Operations

The Company does not consider its operations to be seasonal to any material degree.

#### Competition

The retail food industry, in which our Concepts compete, is made up of supermarkets, supercenters, warehouse stores, convenience stores, coffee shops, snack bars, delicatessens and restaurants (including the QSR segment), and is intensely competitive with respect to food quality, price, service, convenience, location and concept. The industry is often affected by changes in consumer tastes; national, regional or local economic conditions; currency fluctuations; demographic trends; traffic patterns; the type, number and location of competing food retailers and products; and disposable purchasing power. Each of the Concepts competes with international, national and regional restaurant chains as well as locally-owned restaurants, not only for customers, but also for management and hourly personnel, suitable real estate sites and qualified franchisees. Given the various types and vast number of competitors, our Concepts do not constitute a significant portion of the retail food industry in terms of number of system units or system sales, either on a worldwide or individual country basis.

#### Research and Development (“R&D”)

The Company operates R&D facilities in Shanghai, China (China Division); Plano, Texas (Pizza Hut U.S. and YRI); Irvine, California (Taco Bell); Louisville, Kentucky (KFC U.S.) and several other locations outside the U.S. The Company expensed \$31 million, \$30 million and \$34 million in 2013, 2012 and 2011, respectively, for R&D activities. From time to time, independent suppliers also conduct research and development activities for the benefit of the YUM system.

#### Environmental Matters

The Company is not aware of any federal, state or local environmental laws or regulations that will materially affect its earnings or competitive position, or result in material capital expenditures. However, the Company cannot predict the effect on its operations of possible future environmental legislation or regulations. During 2013, there were no material capital expenditures for environmental control facilities and no such material expenditures are anticipated.

## Government Regulation

U.S. Division. The Company and its U.S. Division are subject to various federal, state and local laws affecting its business. Each of the Concepts' restaurants in the U.S. must comply with licensing and regulation by a number of governmental authorities, which include health, sanitation, safety, fire and zoning agencies in the state and/or municipality in which the restaurant is located. In addition, each Concept must comply with various state and federal laws that regulate the franchisor/franchisee relationship. To date, the Company has not been materially adversely affected by such licensing and regulation or by any difficulty, delay or failure to obtain required licenses or approvals.

The Company and each Concept are also subject to federal and state laws governing such matters as immigration, employment and pay practices, overtime, tip credits and working conditions. The bulk of the Concepts' employees are paid on an hourly basis. The Company has not been materially adversely affected by such laws to date.

The Company and each Concept are also subject to federal and state child labor laws which, among other things, prohibit the use of certain "hazardous equipment" by employees younger than 18 years of age. The Company has not been materially adversely affected by such laws to date.

The Company and each Concept are also subject to laws relating to information security, privacy, cashless payments, consumer credit, protection and fraud. The Company has not been materially adversely affected by such laws to date.

The Company and each Concept are also subject to laws relating to nutritional content, nutritional labeling, product safety and menu labeling. The Company has not been materially adversely affected by such laws to date.

The Company and each Concept, as applicable, continue to monitor their facilities for compliance with the Americans with Disabilities Act ("ADA") in order to conform to its requirements. Under the ADA, the Company or the relevant Concept could be required to expend funds to modify its restaurants to better provide service to, or make reasonable accommodation for the employment of, disabled persons. The Company has not been materially adversely affected by such laws to date.

International, China and India Divisions. The Company's restaurants outside the U.S. are subject to national and local laws and regulations which are similar to those affecting U.S. restaurants, including laws and regulations concerning information security, labor, health, sanitation and safety. The restaurants outside the U.S. are also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment. International compliance with environmental requirements has not had a material adverse effect on the Company's results of operations, capital expenditures or competitive position.

The Company is also subject to anti-bribery and anti-corruption laws and regulations, which are the focus of increasing enforcement around the world.

See Item 1A "Risk Factors" on page 8 for a discussion of risks relating to federal, state, local and international regulation of our business.

## Employees

As of year end 2013, the Company and its Concepts employed approximately 539,000 persons, approximately 86 percent of whom were part-time. The Company believes that it provides working conditions and compensation that compare favorably with those of its principal competitors. The majority of employees are paid on an hourly basis. Some employees are subject to labor council relationships that vary due to the diverse cultures in which the Company operates. The Company and its Concepts consider their employee relations to be good.

#### Financial Information about Geographic Areas

Financial information about our significant geographic areas (China Division, International Division, the U.S. and India) is incorporated herein by reference from Selected Financial Data in Part II, Item 6, pages 19 and 20; MD&A in Part II, Item 7, pages 21 through 51; and in the related Consolidated Financial Statements in Part II, Item 8, pages 52 through 101.

#### Available Information

The Company makes available through the Investor Relations section of its internet website at <http://yum.com> its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after electronically filing such material

with the Securities and Exchange Commission ("SEC") at <http://www.sec.gov>. These reports may also be obtained by visiting the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1 (800) SEC-0330.

Our Corporate Governance Principles and our Code of Conduct are also located within the Investor Relations section of the Company's website. The reference to the Company's website address does not constitute incorporation by reference of the information contained on the website and should not be considered part of this document. These documents, as well as our SEC filings, are available in print free of charge to any shareholder who requests a copy from our Investor Relations Department.

Item 1A. Risk Factors.

You should carefully review the risks described below as they identify important factors that could cause our actual results to differ materially from our forward-looking statements and historical trends.

Food safety and food-borne illness concerns may have an adverse effect on our business.

Food-borne illnesses, such as E. coli, hepatitis A, trichinosis or salmonella, and food safety issues, such as food tampering, contamination or adulteration, have occurred in the past and could occur in the future. Any report or publicity linking us or one of our Concept restaurants, including restaurants operated by our Concepts' franchisees, to instances of food-borne illness or food safety issues could adversely affect our Concepts' brands and reputations as well as our revenues and profits and possibly lead to litigation. If a customer of our Concepts becomes ill from food-borne illnesses or as a result of food safety issues, restaurants in our system may be temporarily closed, which would decrease our revenues. In addition, instances or allegations of food-borne illness or food safety issues, real or perceived, involving our restaurants, restaurants of competitors, suppliers or distributors (regardless of whether we use or have used those suppliers or distributors), or otherwise involving the types of food served at our restaurants, could result in negative publicity that could adversely affect our sales. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, which could result in disruptions in our supply chain and/or lower margins for us and our Concepts' franchisees.

Our significant China operations subject us to risks that could negatively affect our business.

A significant and growing portion of our restaurants are located, and our revenues and profits originate, in China. As a consequence, our financial results are increasingly dependent on our results in China, and our business is increasingly exposed to risks there. These risks include changes in economic conditions (including consumer spending, unemployment levels and wage and commodity inflation), income and non-income based tax rates and laws and consumer preferences, as well as changes in the regulatory environment and increased competition. In addition, our results of operations in China and the value of our Chinese assets are affected by fluctuations in currency exchange rates, which may adversely affect reported earnings. There can be no assurance as to the future effect of any such changes on our results of operations, financial condition or cash flows.

In addition, any significant or prolonged deterioration in U.S.-China relations could adversely affect our China business. Certain risks and uncertainties of doing business in China are solely within the control of the Chinese government, and Chinese law regulates the scope of our foreign investments and business conducted within China. There are also uncertainties regarding the interpretation and application of laws and regulations and the enforceability of intellectual property and contract rights in China. If we were unable to enforce our intellectual property or contract rights in China, our business would be adversely impacted.

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

Outbreaks of avian flu occur from time to time around the world, including in China where a significant portion of our profits and revenues originate. It is possible that outbreaks in China and elsewhere could reach pandemic levels. Public concern over avian flu generally may cause fear about the consumption of chicken, eggs and other products derived from poultry, which could cause customers to consume less poultry and related products. This would likely result in lower revenues and profits. Avian flu outbreaks could also adversely affect the price and availability of poultry, which could negatively impact our profit margins and revenues. Widespread outbreaks could also affect our ability to attract and retain employees.

Furthermore, other viruses such as H1N1 or “swine flu” may be transmitted through human contact, and the risk of contracting viruses could cause employees or guests to avoid gathering in public places, which could adversely affect restaurant guest traffic or the ability to adequately staff restaurants. We could also be adversely affected if jurisdictions in which we have restaurants impose mandatory closures, seek voluntary closures or impose restrictions on operations of restaurants. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or health risk may affect our business.



Our foreign operations subject us to risks that could negatively affect our business.

A significant portion of our Concepts' restaurants are operated in countries and territories outside of the U.S., and we intend to continue expansion of our international operations. As a result, our business is increasingly exposed to risks inherent in foreign operations. These risks, which can vary substantially by country, include political instability, corruption, social and ethnic unrest, changes in economic conditions (including consumer spending, unemployment levels and wage and commodity inflation), the regulatory environment, income and non-income based tax rates and laws and consumer preferences as well as changes in the laws and policies that govern foreign investment in countries where our restaurants are operated.

In addition, our results of operations and the value of our foreign assets are affected by fluctuations in currency exchange rates, which may adversely affect reported earnings. More specifically, an increase in the value of the U.S. Dollar relative to other currencies, such as the Australian Dollar, the British Pound, the Canadian Dollar and the Euro, as well as currencies in certain emerging markets, could have an adverse effect on our reported earnings. There can be no assurance as to the future effect of any such changes on our results of operations, financial condition or cash flows.

Failure to protect the integrity and security of personal information of our customers and employees could result in substantial costs, expose us to litigation and damage our reputation.

We receive and maintain certain personal information about our customers and employees. The use of this information is regulated by applicable law, as well as by certain third-party contracts. If our security and information systems are compromised or our employees, franchisees or vendors fail to comply with these laws and regulations and this information is obtained by unauthorized persons or used inappropriately, it could result in liabilities and penalties and could damage our reputation, cause us to incur substantial costs and result in a loss of customer confidence, which could adversely affect our restaurant operations and results of operations and financial condition. Additionally, we could be subject to litigation, government enforcement actions and private litigation as a result of any such failure.

Shortages or interruptions in the availability and delivery of food and other supplies may increase costs or reduce revenues.

The products sold by our Concepts and their franchisees are sourced from a wide variety of domestic and international suppliers. We are also dependent upon third parties to make frequent deliveries of food products and supplies that meet our specifications at competitive prices. Shortages or interruptions in the supply of food items and other supplies to our restaurants could adversely affect the availability, quality and cost of items we buy and the operations of our restaurants. Such shortages or disruptions could be caused by inclement weather, natural disasters such as floods, drought and hurricanes, increased demand, problems in production or distribution, the inability of our vendors to obtain credit, political instability in the countries in which foreign suppliers and distributors are located, the financial instability of suppliers and distributors, suppliers' or distributors' failure to meet our standards, product quality issues, inflation, other factors relating to the suppliers and distributors and the countries in which they are located, food safety warnings or advisories or the prospect of such pronouncements or other conditions beyond our control. A shortage or interruption in the availability of certain food products or supplies could increase costs and limit the availability of products critical to restaurant operations, which in turn could lead to restaurant closures and/or a decrease in sales. In addition, failure by a principal distributor for our Concepts and/or our Concepts' franchisees to meet its service requirements could lead to a disruption of service or supply until a new distributor is engaged, and any disruption could have an adverse effect on our business.

We may not attain our target development goals, and aggressive development could cannibalize existing sales.

Our growth strategy depends in large part on our ability to increase our net restaurant count in markets outside the U.S., especially China and other emerging markets. The successful development of new units will depend in large part on our ability and the ability of our Concepts' franchisees to open new restaurants and to operate these restaurants on a profitable basis. We cannot guarantee that we, or our Concepts' franchisees, will be able to achieve our expansion goals or that new restaurants will be operated profitably. Further, there is no assurance that any new restaurant will produce operating results similar to those of our existing restaurants. Other risks which could impact our ability to increase our net restaurant count include prevailing economic conditions and our, or our Concepts' franchisees' ability to obtain suitable restaurant locations, negotiate acceptable lease or purchase terms for the locations, obtain required permits and approvals in a timely manner, hire and train qualified personnel and meet construction schedules.

Expansion into target markets could also be affected by our Concepts' franchisees' ability to obtain financing to construct and open new restaurants. If it becomes more difficult or more expensive for our Concepts' franchisees to obtain financing to develop new restaurants, the expected growth of our system could slow and our future revenues and operating cash flows could be adversely impacted.

In addition, the new restaurants could impact the sales of our existing restaurants nearby. There can be no assurance that sales cannibalization will not occur or become more significant in the future as we increase our presence in existing markets.

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

Any increase in certain commodity prices, such as food, supply and energy costs, could adversely affect our operating results. Because our Concepts and their franchisees provide competitively priced food, our ability to pass along commodity price increases to our customers is limited. Significant increases in gasoline prices could also result in a decrease of customer traffic at our restaurants or the imposition of fuel surcharges by our distributors, each of which could adversely affect our profit margins. Our operating expenses also include employee wages and benefits and insurance costs (including workers' compensation, general liability, property and health) which may increase over time. Any such increase could adversely affect our profit margins.

Our operating results are closely tied to the success of our Concepts' franchisees.

A significant portion of our restaurants are operated by franchisees from whom we derive a significant portion of our revenues in the form of royalty payments. As a result, the success of our business depends in part upon the operational and financial success of our Concepts' franchisees. We have limited control over how our Concepts' franchisees' businesses are run, and the inability of our Concepts' franchisees to operate successfully could adversely affect our operating results through decreased royalty payments.

If franchisees incur too much debt or if economic or sales trends deteriorate such that they are unable to operate profitably or repay existing debt, it could result in financial distress, including insolvency or bankruptcy. If a significant franchisee or a significant number of our Concepts' franchisees become financially distressed, our operating results could be impacted through reduced or delayed royalty payments or increased rent obligations for leased properties on which we are contingently liable.

Our success depends substantially on the value and perception of our brands.

Our success depends in large part upon our ability to maintain and enhance the value of our brands and our customers' connection to our brands. Brand value is based in part on consumer perceptions on a variety of subjective qualities. Business incidents, whether isolated or recurring and whether originating from us, our franchisees or suppliers, can significantly reduce brand value and consumer trust, particularly if the incidents receive considerable publicity or result in litigation. For example, our brands could be damaged by claims or perceptions about the quality or safety of our products or the quality of our suppliers, regardless of whether such claims or perceptions are true. Any such incident could cause a decline in consumer confidence in, or the perception of, our Concepts and/or our products and decrease the value of our brands as well as consumer demand for our products, which would likely result in lower revenues and profits.

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could materially adversely impact our business.

There has been a marked increase in the use of social media platforms, including weblogs (blogs), social media websites, and other forms of Internet-based communications which allow individuals access to a broad audience of consumers and other interested persons. Many social media platforms immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests and/or may be inaccurate. The dissemination of

information online could harm our business, prospects, financial condition, and results of operations, regardless of the information's accuracy. The harm may be immediate without affording us an opportunity for redress or correction.

Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about our Concepts, exposure of personally identifiable information, fraud and out-of-date information. The inappropriate use of social media by our customers or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation.

A suspension of the Chinese affiliates of the "Big Four" accounting firms may impact our ability to access capital markets and could result in other material adverse effects.

In January 2014, a U.S. administrative law court issued an initial ruling to suspend Chinese affiliates of the global "Big Four" accounting firms, including the Chinese affiliate of our independent auditor, from auditing U.S.-listed companies for six months. While we believe the likelihood of the suspension becoming effective is remote, it is difficult to determine the potential consequences

if the ruling is sustained. However, given the significance of our China Division to our consolidated financial statements, it is possible that we would be unable to include audited and/or reviewed consolidated financial statements in the Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K that we are required to file with the SEC. As a result, we could be unable to file our reports in a timely manner or such filings would be considered deficient. Until such reviews or audits are completed, our filings under the Exchange Act could continue to be deficient or untimely, and our ability to access the capital markets could be significantly limited. These issues could render us temporarily ineligible for use of both shelf registration and “short-form” registration that allows us to incorporate our prior filings by reference. Our inability to satisfy our reporting obligations as a public company may lead the New York Stock Exchange to commence delisting procedures with respect to our common shares. In addition, the failure to deliver audited financial statements could also constitute an event of default under our Credit Facility. Moreover, any negative news about the proceedings against the “Big Four” audit firms could erode investor confidence in financial statements relating to our Chinese operations.

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

From time to time we are involved in a number of legal proceedings, which include consumer, employment, tort, patent, securities, derivative and other litigation (see the discussion of Legal Proceedings in Note 19 to the consolidated financial statements included in Item 8 of this Report). We are currently a defendant in cases containing class action allegations in which the plaintiffs have brought claims under federal and state wage and hour, disability and other laws. We are also currently a defendant in securities and derivative lawsuits alleging inadequate disclosures in violation of federal securities laws. Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may not be accurately estimated. Regardless of whether any claims against us are valid, or whether we are ultimately held liable, such litigation may be expensive to defend and may divert resources away from our operations and negatively impact reported earnings. With respect to insured claims, a judgment for monetary damages in excess of any insurance coverage could adversely affect our financial condition or results of operations. Any adverse publicity resulting from these allegations may also adversely affect our reputation, which in turn could adversely affect our results.

In addition, the restaurant industry has been subject to claims that relate to the nutritional content of food products, as well as claims that the menus and practices of restaurant chains have led to the obesity of some customers. We may also be subject to this type of claim in the future and, even if we are not, publicity about these matters (particularly directed at the quick service and fast-casual segments of the industry) may harm our reputation and adversely affect our results.

Changes in, or noncompliance with, governmental regulations may adversely affect our business operations, growth prospects or financial condition.

Our Concepts and their franchisees are subject to numerous laws and regulations around the world. These laws change regularly and are increasingly complex. For example, we are subject to:

- The Americans with Disabilities Act in the U.S. and similar state laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas.

- The U.S. Fair Labor Standards Act, which governs matters such as minimum wages, overtime and other working conditions, family leave mandates and a variety of similar state laws that govern these and other employment law matters.

- Anti-bribery and corruption laws and regulations, such as the Foreign Corrupt Practices Act, the UK Bribery Act and similar laws, which are the subject of increasing scrutiny and enforcement around the world.

New or changing laws and regulations in government-mandated health care benefits such as the Patient Protection and Affordable Care Act.

New or changing laws and regulations relating to nutritional content, nutritional labeling, product safety and menu labeling.

New or changing laws relating to state and local licensing.

New or changing laws and regulations relating to health, sanitation, food, workplace safety and fire safety and prevention.

New or changing laws and regulations relating to union organizing rights and activities.

New or changing laws relating to information security, privacy, cashless payments and consumer credit, protection and fraud.

New or changing environmental regulations.

New or changing federal and state immigration laws and regulations in the U.S.

Compliance with new or existing laws and regulations could impact our operations. In addition, the compliance costs associated with these laws and regulations could be substantial. Any failure or alleged failure to comply with these laws or regulations could adversely affect our reputation, international expansion efforts, growth prospects and financial condition or result in, among other things, litigation, revocation of required licenses, governmental investigations or proceedings, administrative enforcement actions,

finances and civil and criminal liability. Publicity relating to any such noncompliance could also harm our reputation and adversely affect our revenues.

Tax matters, including changes in tax rates, disagreements with taxing authorities and imposition of new taxes could impact our results of operations and financial condition.

A significant percentage of our profits are earned outside the U.S. and taxed at lower rates than the U.S. statutory rates. Historically, the cash we generate outside the U.S. has principally been used to fund our international development. However, if the cash generated by our U.S. business is not sufficient to meet our need for cash in the U.S., we may need to repatriate a greater portion of our international earnings to the U.S. in the future. We are required to record U.S. income tax expense in our financial statements at the point in time when our management determines that such funds are not permanently invested outside the U.S. This could cause our worldwide effective tax rate to increase materially.

We are subject to income taxes as well as non-income based taxes, such as payroll, sales, use, value-added, net worth, property, withholding and franchise taxes in both the U.S. and various foreign jurisdictions. We are also subject to regular reviews, examinations and audits by the Internal Revenue Service and other taxing authorities with respect to such income and non-income based taxes inside and outside of the U.S. If the IRS or another taxing authority disagrees with our tax positions, we could face additional tax liability, including interest and penalties. Payment of such additional amounts upon final settlement or adjudication of any disputes could have a material impact on our results of operations and financial position.

In addition, we are directly and indirectly affected by new tax legislation and regulation and the interpretation of tax laws and regulations worldwide. Changes in such legislation, regulation or interpretation could increase our taxes and have an adverse effect on our operating results and financial condition.

Our business may be adversely impacted by general economic conditions.

Our results of operations are dependent upon discretionary spending by consumers, which may be affected by general economic conditions globally or in one or more of the markets we serve. Some of the factors that impact discretionary consumer spending include unemployment, disposable income and consumer confidence. These and other macroeconomic factors could have an adverse effect on our sales, profitability or development plans, which could harm our financial condition and operating results.

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

The retail food industry in which we operate is highly competitive with respect to price and quality of food products, new product development, advertising levels and promotional initiatives, customer service, reputation, restaurant location, and attractiveness and maintenance of properties. If consumer or dietary preferences change, or our restaurants are unable to compete successfully with other retail food outlets in new and existing markets, our business could be adversely affected. We also face growing competition as a result of convergence in grocery, deli and restaurant services, including the offering by the grocery industry of convenient meals, including pizzas and entrees with side dishes. In addition, in the retail food industry, labor is a primary operating cost component. Competition for qualified employees could also require us to pay higher wages to attract a sufficient number of employees, which could adversely impact our profit margins.

Item 1B. Unresolved Staff Comments.

The Company has received no written comments regarding its periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of its 2013 fiscal year and that remain unresolved.

Item 2. Properties.

As of year end 2013, the Company's Concepts owned approximately 850 units and leased land, building or both for approximately 7,275 units worldwide. These units are further detailed as follows:

- The China Division leased land, building or both in approximately 5,000 units.
- The International Division owned approximately 150 units and leased land, building or both in approximately 1,175 units.
- The U.S. Division owned approximately 675 units and leased land, building or both in approximately 900 units.
- The India Division leased land, building or both in approximately 200 units.

Company-owned restaurants in China are generally leased for initial terms of 10 to 15 years and generally do not have renewal options. Historically, the Company has either been able to renew its China Division leases or enter into competitive leases at replacement sites without a significant impact on our operations, cash flows or capital resources. Company-owned restaurants in the U.S. with leases are generally leased for initial terms of 15 or 20 years and generally have renewal options; however, Pizza Hut delivery/carryout units in the U.S. generally are leased for significantly shorter initial terms with shorter renewal options. Company-owned restaurants outside of China and the U.S. with leases have initial lease terms and renewal options that vary by country. The Company currently has approximately 825 units worldwide that it leases or subleases to franchisees, principally in the U.S., U.K. and Mexico.

The China Division leases their corporate headquarters and research facilities in Shanghai, China. The Pizza Hut U.S. and YRI corporate headquarters and a research facility in Plano, Texas are owned by Pizza Hut. Taco Bell leases its corporate headquarters and research facility in Irvine, California. The KFC U.S. and YUM corporate headquarters and a research facility in Louisville, Kentucky are owned by the Company. In addition, YUM leases office facilities for the U.S. Division shared service center in Louisville, Kentucky. YUM sub-leases a portion of its shared service office facility in Louisville, Kentucky to a company that performs certain of our information technology, accounting and payroll services. Additional information about the Company's properties is included in the Consolidated Financial Statements in Part II, Item 8, pages 52 through 101.

The Company believes that its properties are generally in good operating condition and are suitable for the purposes for which they are being used.

Item 3. Legal Proceedings.

The Company is subject to various lawsuits covering a variety of allegations. The Company believes that the ultimate liability, if any, in excess of amounts already provided for these matters in the Consolidated Financial Statements, is not likely to have a material adverse effect on the Company's annual results of operations, financial condition or cash flows. The following is a brief description of the more significant of the categories of lawsuits and other matters we face from time to time. Descriptions of specific claims and contingencies appear in Note 19, Contingencies, to the Consolidated Financial Statements included in Part II, Item 8, which Note is incorporated by reference into this item.

Franchisees



A substantial number of the restaurants of each of the Concepts are franchised to independent businesses. In the course of the franchise relationship, occasional disputes arise with franchisees relating to a broad range of subjects, including, without limitation, marketing, operational standards, quality, service and cleanliness issues, grants, transfers or terminations of franchise rights, territorial disputes and delinquent payments.

### Suppliers

The Company and its Concepts purchase food, paper, equipment and other restaurant supplies as well as certain services from numerous independent suppliers throughout the world. Disputes arise from time-to-time with suppliers on a number of issues, including, but not limited to, general performance, compliance with product specifications and terms of procurement and service requirements.

### Employees

At any given time, the Company or its Concepts employ hundreds of thousands of persons, primarily in its restaurants. In addition, each year thousands of persons seek employment with the Company and its Concepts. From time to time, disputes arise regarding employee hiring, compensation, termination and promotion practices.

Like other retail employers, the Company and its Concepts have been faced with allegations of class-wide wage and hour, employee classification and other labor law violations.

### Customers

The Concepts' restaurants serve a large and diverse cross-section of the public, and in the course of serving so many people, disputes arise regarding products, service, accidents and other matters typical of large restaurant systems.

### Intellectual Property

The Company has registered trademarks and service marks, many of which are of material importance to the Company's business. From time to time, the Company and its Concepts may become involved in litigation to defend and protect its use and ownership of its registered marks.

### Shareholders

As a publicly-traded company, from time-to-time, disputes arise with our shareholders, including allegations that the Company breached federal securities laws as a result of material misstatements or omissions. In addition, shareholders may bring claims derivatively on behalf of the Company against officers and/or directors alleging claims such as breaches of fiduciary duties, waste of corporate assets or unjust enrichment.

Item 4. Mine Safety Disclosures.

Not applicable

Executive Officers of the Registrant

The executive officers of the Company as of February 18, 2014, and their ages and current positions as of that date are as follows:

David C. Novak, 61, is Chairman of the Board and Chief Executive Officer of YUM. He has served in this position since January 2001.

Jing-Shyh S. Su, 61, is Vice-Chairman of the Board of YUM and Chairman and Chief Executive Officer of YUM Restaurants China. He has served in this position since May 2010. He has served as Vice-Chairman of the Board of YUM since March 2008, and he served as President of YUM Restaurants China from 1997 to May 2010.

Scott O. Bergren, 67, is Chief Executive Officer of Pizza Hut and Chief Innovation Officer of YUM. He has served as Chief Executive Officer of Pizza Hut since January 2014 and as Chief Innovation Officer of YUM since February 2011. Prior to these positions, Mr. Bergren served as Chief Executive Officer of Pizza Hut U.S. from February 2011 to December 2013 and as President and Chief Concept Officer of Pizza Hut U.S. from November 2006 to January 2011.

Jonathan D. Blum, 55, is Senior Vice President, Chief Public Affairs Officer and Global Nutrition Officer of YUM. He has served as Senior Vice President and Chief Public Affairs Officer since July 1997. In March of 2012, his title and job responsibilities were expanded to include Global Nutrition Officer.

Anne P. Byerlein, 55, is Chief People Officer of YUM. She has served in this position since December 2002.

Christian L. Campbell, 63, is Senior Vice President, General Counsel, Secretary and Chief Franchise Policy Officer of YUM. He has served as Senior Vice President, General Counsel and Secretary since September 1997 and Chief Franchise Policy Officer since January 2003.

Richard T. Carucci, 56, is President of YUM. He has served in this position since May 2012. Prior to this position, Mr. Carucci served as Chief Financial Officer of YUM, a position he held beginning in March 2005. Mr. Carucci will retire as President of YUM in March 2014.

Greg Creed, 56, is Chief Executive Officer of Taco Bell. He has served in this position since February 2011. Prior to this position, Mr. Creed served as President and Chief Concept Officer of Taco Bell, a position he held beginning in December 2006.

Roger Eaton, 53, is President of KFC and Chief Operations Officer of YUM. He has served as President of KFC since January 2014 and as Chief Operations Officer of YUM since November 2011. Prior to these positions, Mr. Eaton served as Chief Executive Officer of KFC U.S. and YUM Operational Excellence Officer from February 2011 to November 2011. He was President and Chief Concept Officer of KFC U.S. from June 2008 to February 2011.

Patrick Grismer, 52, is Chief Financial Officer of YUM. He has served in this position since May 2012. Prior to this position, Mr. Grismer served as Chief Planning and Control Officer, a position he held beginning January 2011. Mr. Grismer served in as Chief Financial Officer of YRI from June 2008 to January 2011.

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Muktesh Pant, 59, is Chief Executive Officer of KFC. He has served in this position since January 2014. Prior to this position he served as Chief Executive Officer of YRI from December 2011 to December 2013. Mr. Pant served as President of YRI from May 2010 to December 2011 and as President of Global Brand Building for YUM from February 2009 to December 2011. He served as the Chief Marketing Officer of YRI from July 2005 to May 2010.

David E. Russell, 44, is Vice President, Finance and Corporate Controller of YUM. He has served in this position since December 2012. He has been Vice President and Corporate Controller since February 2011. Effective December 2012, his duties and title were expanded to include Vice President, Finance. From November 2010 to February 2011, Mr. Russell served as Vice President, Controller-Designate. From January 2008 to November 2010, he served as Vice President and Assistant Controller.

Executive officers are elected by and serve at the discretion of the Board of Directors.

## PART II

## Item 5. Market for the Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's Common Stock trades under the symbol YUM and is listed on the New York Stock Exchange ("NYSE"). The following sets forth the high and low NYSE composite closing sale prices by quarter for the Company's Common Stock and dividends per common share.

## 2013

Quarter	High	Low	Dividends Declared	Dividends Paid
First	\$70.20	\$62.08	\$0.335	\$0.335
Second	73.52	64.15	0.335	0.335
Third	74.82	68.10	—	0.335
Fourth	78.30	65.17	0.74	0.37

## 2012

Quarter	High	Low	Dividends Declared	Dividends Paid
First	\$70.72	\$58.57	\$0.285	\$0.285
Second	73.93	62.86	0.285	0.285
Third	67.53	61.95	—	0.285
Fourth	74.47	63.88	0.67	0.335

In 2013, the Company declared two cash dividends of \$0.335 per share and two cash dividends of \$0.37 per share of Common Stock, one of which had a distribution date of February 7, 2014. In 2012, the Company declared two cash dividends of \$0.285 per share and two cash dividends of \$0.335 per share of Common Stock, one of which had a distribution date of February 1, 2013. The Company targets an annual dividend payout ratio of 35% to 40% of net income.

As of February 11, 2014, there were 61,700 registered holders of record of the Company's Common Stock.

## Issuer Purchases of Equity Securities

The following table provides information as of December 28, 2013 with respect to shares of Common Stock repurchased by the Company during the quarter then ended:

Fiscal Periods	Total number of shares purchased(thousands)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (thousands)	Approximate dollar value of shares that may yet be purchased under the plans or programs (millions)
Period 10 9/8/13 - 10/5/13	—	\$—	—	\$463
Period 11 10/6/13 - 11/2/13	2,967	\$66.59	2,967	\$266
Period 12 11/3/13 - 11/30/13	387	\$73.36	387	\$987
Period 13 12/1/13 - 12/28/13	467	\$73.47	467	\$953
Total	3,821	\$68.11	3,821	\$953

On November 16, 2012, our Board of Directors authorized share repurchases through May 2014 of up to \$1 billion (excluding applicable transaction fees) of our outstanding Common Stock. On November 22, 2013, our Board of Directors authorized additional share repurchases through May 2015 of up to \$750 million (excluding applicable transaction fees) of our outstanding Common Stock. As of December 28, 2013, we have remaining capacity to repurchase up to \$953 million of Common Stock under these authorizations.

## Stock Performance Graph

This graph compares the cumulative total return of our Common Stock to the cumulative total return of the S&P 500 Stock Index and the S&P 500 Consumer Discretionary Sector, a peer group that includes YUM, for the period from December 26, 2008 to December 27, 2013, the last trading day of our 2013 fiscal year. The graph assumes that the value of the investment in our Common Stock and each index was \$100 at December 26, 2008 and that all dividends were reinvested.

	12/26/2008	12/24/2009	12/23/2010	12/30/2011	12/28/2012	12/27/2013
YUM!	\$100	\$120	\$172	\$208	\$232	\$271
S&P 500	\$100	\$132	\$151	\$154	\$176	\$235
S&P Consumer Discretionary	\$100	\$148	\$188	\$198	\$241	\$349

## Item 6. Selected Financial Data.

## Selected Financial Data

## YUM! Brands, Inc. and Subsidiaries

(in millions, except per share and unit amounts)

	Fiscal Year					
	2013	2012	2011	2010	2009	
Summary of Operations						
Revenues						
Company sales	\$11,184	\$11,833	\$10,893	\$9,783	\$9,413	
Franchise and license fees and income	1,900	1,800	1,733	1,560	1,423	
Total	13,084	13,633	12,626	11,343	10,836	
Closures and impairment income (expenses) <sup>(a)</sup>	(331 )	(37 )	(135 )	(47 )	(103 )	
Refranchising gain (loss) <sup>(b)</sup>	100	78	(72 )	(63 )	26	
Operating Profit <sup>(c)</sup>	1,798	2,294	1,815	1,769	1,590	
Interest expense, net <sup>(c)</sup>	247	149	156	175	194	
Income before income taxes	1,551	2,145	1,659	1,594	1,396	
Net Income – including noncontrolling interest	1,064	1,608	1,335	1,178	1,083	
Net Income – YUM! Brands, Inc.	1,091	1,597	1,319	1,158	1,071	
Basic earnings per common share	2.41	3.46	2.81	2.44	2.28	
Diluted earnings per common share	2.36	3.38	2.74	2.38	2.22	
Diluted earnings per common share before Special Items <sup>(c)</sup>	2.97	3.25	2.87	2.53	2.17	
Cash Flow Data						
Provided by operating activities	\$2,139	\$2,294	\$2,170	\$1,968	\$1,404	
Capital spending, excluding acquisitions and investments	1,049	1,099	940	796	797	
Proceeds from refranchising of restaurants	260	364	246	265	194	
Repurchase shares of Common Stock	770	965	752	371	—	
Dividends paid on Common Stock	615	544	481	412	362	
Balance Sheet						
Total assets	\$8,695	\$9,013	\$8,834	\$8,316	\$7,148	
Long-term debt	2,918	2,932	2,997	2,915	3,207	
Total debt	2,989	2,942	3,317	3,588	3,266	
Other Data						
Number of stores at year end						
Company	8,131	7,578	7,437	7,271	7,666	
Unconsolidated Affiliates	716	660	587	525	469	
Franchisees	29,349	28,608	26,928	27,852	26,745	
Licensees	2,115	2,168	2,169	2,187	2,200	
System	40,311	39,014	37,121	37,835	37,080	
China system sales growth <sup>(d)</sup>						
Reported	(1 )	% 23	% 35	% 18	% 11	%
Local currency <sup>(e)</sup>	(4 )	% 20	% 29	% 17	% 10	%
YRI system sales growth <sup>(d)</sup>						
Reported	1	% 2	% 12	% 9	% (4 )	%
Local currency <sup>(e)</sup>	5	% 5	% 7	% 4	% 5	%
India system sales growth <sup>(d)</sup>						
Reported	11	% 13	% 36	% 43	% 10	%



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Local currency <sup>(e)</sup>	20	% 29	% 35	% 36	% 24	%
U.S. same store sales growth <sup>(d)</sup>	—	% 5	% (1	)% 1	% (5	)%
Shares outstanding at year end	443	451	460	469	469	
Cash dividends declared per Common Share	\$1.41	\$1.24	\$1.07	\$0.92	\$0.80	
Market price per share at year end	\$73.87	\$64.72	\$59.01	\$49.66	\$35.38	

Fiscal years 2013, 2012, 2010 and 2009 include 52 weeks and fiscal year 2011 includes 53 weeks. See Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for discussion of the impact of the 53<sup>rd</sup> week in fiscal year 2011.

The selected financial data should be read in conjunction with the Consolidated Financial Statements.

Closures and impairment income (expense) includes \$295 million of Little Sheep impairment losses in 2013, \$80 million of net losses related to the LJS and A&W divestitures in 2011 and \$26 million and \$12 million of goodwill impairment charges in 2009 recorded within our U.S. Division and Pizza Hut Korea business, respectively.

(b) See Note 4 for discussion of Refranchising Gain (Loss) for fiscal years 2013, 2012 and 2011. Fiscal year 2010 included a \$52 million loss on the refranchising of our Mexico equity market.

In addition to the results provided in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) throughout this document, the Company has provided non-GAAP measurements which present operating results on a basis before Special Items. The Company uses earnings before Special Items as a key performance measure of results of operations for the purpose of evaluating performance internally. This non-GAAP measurement is not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of earnings before Special Items provides additional information to investors to facilitate the comparison of past and present operations, excluding items that the Company does not believe are indicative of our ongoing operations due to their size and/or nature.

(c) 2013, 2012 and 2011 Special Items are described in further detail within our MD&A. Special Items in 2010 negatively impacted Operating Profit by \$77 million, primarily due to \$59 million in refranchising losses for equity markets outside the U.S. and U.S. refranchising net losses of \$18 million. Special Items in 2009 positively impacted Operating Profit by \$18 million, primarily due to a gain of \$68 million upon our acquisition of additional ownership interest in, and consolidation of, the operating entity that owns KFCs in Shanghai China, U.S. refranchising net gains of \$34 million, offset by investments in our U.S. brands of \$32 million, a U.S. goodwill impairment charge of \$26 million and charges of \$16 million relating to U.S. General and Administrative (“G&A”) productivity initiatives and realignment of resources. These items above resulted in cumulative net tax benefits of \$7 million and \$5 million in 2010 and 2009, respectively.

(d) System sales growth includes the results of all restaurants regardless of ownership, including Company-owned, franchise, unconsolidated affiliate and license restaurants that operate our concepts, except for non-Company-owned restaurants for which we do not receive a sales-based royalty. Sales of franchise, unconsolidated affiliate and license restaurants generate franchise and license fees for the Company (typically at a rate of 4% to 6% of sales). Franchise, unconsolidated affiliate and license restaurant sales are not included in Company sales on the Consolidated Statements of Income; however, the franchise and license fees are included in the Company’s revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit development. Same-store sales growth includes the estimated growth in sales of all restaurants that have been open and in the YUM system one year or more.

(e) Local currency represents the percentage change excluding the impact of foreign currency translation. These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the foreign currency translation impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Introduction and Overview

The following Management's Discussion and Analysis ("MD&A"), should be read in conjunction with the Consolidated Financial Statements on pages 53 through 100 ("Financial Statements") and the Forward-Looking Statements on page 2 and the Risk Factors set forth in Item 1A. Throughout the MD&A, YUM! Brands, Inc. ("YUM" or the "Company") makes reference to certain performance measures as described below.

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

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

Same-store sales is the estimated growth in sales of all restaurants that have been open and in the YUM system one year or more. The impact of same-store sales growth on both our Company-owned store results and Franchise and license fees and income is described elsewhere in this MD&A.

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

Operating margin is defined as Operating Profit divided by Total revenue.

All Note references herein refer to the Notes to the Financial Statements on pages 59 through 100. Tabular amounts are displayed in millions of U.S. dollars except per share and unit count amounts, or as otherwise specifically identified. Percentages may not recompute due to rounding.

Description of Business

YUM has over 40,000 restaurants in more than 125 countries and territories operating primarily under the KFC, Pizza Hut or Taco Bell brands, which are the global leaders in the chicken, pizza and Mexican-style food categories, respectively. Of the over 40,000 restaurants, 20% are operated by the Company, 75% are operated by franchisees and unconsolidated affiliates and 5% are operated by licensees.

As of and through December 28, 2013, YUM's business consists of four reporting segments: YUM China ("China" or "China Division"), YUM Restaurants International ("YRI" or "International Division"), United States ("U.S.") and YUM Restaurants India ("India" or "India Division"). The China Division includes mainland China and the India Division includes India, Bangladesh, Mauritius, Nepal and Sri Lanka. YRI includes the remainder of our international operations. The China Division, YRI and Taco Bell U.S. represent approximately 90% of the Company's operating

profits, excluding Corporate and unallocated income and expenses.

In the first quarter of 2014, we will combine our YRI and U.S. businesses and begin reporting segment information for three global divisions: KFC, Pizza Hut and Taco Bell. China and India will remain separate reporting segments due to their strategic importance and growth potential. This new structure is designed to drive greater global brand focus, enabling us to more effectively share know-how and accelerate growth. While our consolidated results will not be impacted, we will restate our historical segment information during 2014 for consistent presentation.

In 2012, our India Division began being reported as a standalone reporting segment separate from YRI as a result of changes to our management reporting structure. While our consolidated results are not impacted, our historical segment information has been restated to be consistent with the current period presentation.

In December of 2011 we sold our Long John Silver's ("LJS") and A&W All American Food Restaurants ("A&W") brands to key franchise leaders and strategic investors in separate transactions. The results for these businesses through the sale dates are included in the Company's results for 2011.

## Strategies

The Company has historically focused on the following four key strategies:

**Build Leading Brands in China in Every Significant Category** – The Company has developed the KFC and Pizza Hut brands into the leading quick service and casual dining restaurant brands, respectively, in mainland China. Additionally, the Company owns and operates the distribution system for its restaurants in China which we believe provides a significant competitive advantage. Given this strong competitive position, a growing economy and a population of 1.4 billion in mainland China, the Company is rapidly adding KFC and Pizza Hut Casual Dining restaurants, beginning to develop Pizza Hut Home Service (home delivery) and testing the additional restaurant concept of East Dawning (Chinese food). Additionally, on February 1, 2012 we acquired an additional 66% interest in Little Sheep Group Ltd. ("Little Sheep"), a leading casual dining concept in China. This acquisition brought our total ownership to approximately 93% of the business. Our ongoing earnings growth model in China includes low double-digit percentage unit growth, mid-single digit same-store sales growth and moderate margin improvement, which we expect to drive Operating Profit growth of 15%.

**Drive Aggressive International Expansion and Build Strong Brands Everywhere** – Outside the U.S. and China the Company and its franchisees opened over 1,200 new restaurants in 2013, representing 14 straight years of opening over 700 restaurants, and the Company is one of the leading international retail developers in terms of units opened. The Company expects to continue to experience strong growth by building out existing markets and growing in new markets including India, France, Germany, Russia and across Africa. The International Division's Operating Profit has experienced a 10-year compound annual growth rate of approximately 12%. Our ongoing earnings growth model for YRI includes Operating Profit growth of 10% driven by 3-4% unit growth, system sales growth of 6%, at least 2-3% same-store sales growth, margin improvement and leverage of our G&A infrastructure.

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

**Drive Industry-Leading, Long-Term Shareholder and Franchisee Value** – The Company is focused on delivering high returns and returning substantial cash flows to its shareholders via dividends and share repurchases. The Company has one of the highest returns on invested capital in the QSR industry. The Company's dividend and share repurchase programs have returned over \$3.3 billion and \$8.5 billion to shareholders, respectively, since 2004. The Company targets an annual dividend payout ratio of 35% to 40% of net income and has increased the quarterly dividend at a double-digit percentage rate each year since first initiating a dividend in 2004. Shares are repurchased opportunistically as part of our regular capital structure decisions.

Our ongoing earnings growth model, including the components above, is expected to generate EPS growth of at least 10% annually. However, due primarily to poor performance in our China Division, the Company's 2013 EPS prior to Special Items declined 9%. Our 2014 EPS prior to Special Items is expected to grow at least 20% due in large part to our expectations that China Division Operating Profit for 2014 will grow at a rate significantly above the ongoing growth rate of 15% indicated above.

### 2013 Highlights

KFC China sales and profits were significantly impacted by the effects of the December 2012 poultry supply incident, as well as subsequent news of avian flu.

Worldwide system sales grew 2%, prior to foreign currency translation, including 5% growth at YRI and 1% growth in the U.S. System sales declined 4% in China.

Same-store sales declined 13% in China. Same-store sales grew 1% at YRI and were flat in the U.S.

Total international development was 1,952 new restaurants.

Worldwide restaurant margin declined 1.6 percentage points to 15.0%, including a decline of 2.7 percentage points in China. Restaurant margin was even at YRI and increased 0.6 percentage points in the U.S.

Worldwide operating profit declined 10%, prior to foreign currency translation, including a decline of 26% in China. Operating profit grew 10% at YRI and 3% in the U.S.

Worldwide effective tax rate increased to 28.0% from 25.8%, driven primarily by a tax reserve adjustment in the third quarter. The tax rate increase negatively impacted 2013 EPS results by 3 percentage points.

A non-cash, Special Items net charge of \$258 million related to the write-down of Little Sheep intangible assets was recorded in the third quarter. This charge impacted reported EPS by 16 percentage points for the full year.

The Company repurchased \$550 million of outstanding debt in the fourth quarter and recorded a Special Items net charge of approximately \$75 million, primarily due to premiums paid related to this transaction. This charge impacted reported EPS by 5 percentage points for the full year.

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

## Results of Operations

	Amount			% B/(W)		
	2013	2012	2011	2013	2012	
Company sales	\$11,184	\$11,833	\$10,893	(5 )	9	
Franchise and license fees and income	1,900	1,800	1,733	6	4	
Total revenues	\$13,084	\$13,633	\$12,626	(4 )	8	
Company restaurant profit	\$1,683	\$1,981	\$1,753	(15 )	13	
% of Company sales	15.0	% 16.7	% 16.1	% (1.7 )	ppts. 0.6	ppts.
Operating Profit	\$1,798	\$2,294	\$1,815	(22 )	26	
Interest expense, net	247	149	156	(66 )	5	
Income tax provision	487	537	324	9	(66 )	
Net Income – including noncontrolling interests	1,064	1,608	1,335	(34 )	20	
Net Income (loss) – noncontrolling interests	(27 )	11	16	NM	35	
Net Income – YUM! Brands, Inc.	\$1,091	\$1,597	\$1,319	(32 )	21	
Diluted EPS <sup>(a)</sup>	\$2.36	\$3.38	\$2.74	(30 )	23	
Diluted EPS before Special Items <sup>(a)</sup>	\$2.97	\$3.25	\$2.87	(9 )	13	
Reported Effective tax rate	31.4%	25.0%	19.5%			
Effective tax rate before Special Items	28.0%	25.8%	24.2%			

(a) See Note 3 for the number of shares used in these calculations.

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

##### Special Items

In addition to the results provided in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) above and throughout this document, the Company has provided non-GAAP measurements which present operating results in 2013, 2012 and 2011 on a basis before Special Items.

The Company uses earnings before Special Items as a key performance measure of results of operations for the purpose of evaluating performance internally, and Special Items are not included in our China, YRI, U.S. or India segment results. This non-GAAP measurement is not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of earnings before Special Items provides additional information to investors to facilitate the comparison of past and present operations, excluding items in 2013, 2012 and 2011 that the Company does not believe are indicative of our ongoing operations due to their size and/or nature.



The table below details items classified as Special Items.

Detail of Special Items	Year		
	2013	2012	2011
U.S. Refranchising gain (loss)	\$91	\$122	\$(17 )
Pension settlement charges	(10 )	(84 )	—
Little Sheep impairment	(295 )	—	—
Gain upon acquisition of Little Sheep	—	74	—
Losses associated with the refranchising of the Pizza Hut UK dine-in business	(1 )	(70 )	(76 )
Losses and other costs relating to the LJS and A&W divestitures	—	—	(86 )
Other Special Items Income (Expense)	(7 )	16	(8 )
Special Items Income (Expense) - Operating Profit	(222 )	58	(187 )
Losses related to the extinguishment of debt - Interest Expense, net	(118 )	—	—
Special Items Income (Expense) before income taxes	(340 )	58	—