

YUM BRANDS INC
Form 10-Q
April 29, 2013

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 March 23, 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

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:

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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 [ü]

The number of shares outstanding of the Registrant's Common Stock as of April 23, 2013 was 449,837,985 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 ended		
	3/23/2013	3/24/2012	
Revenues			
Company sales	\$2,099	\$2,344	
Franchise and license fees and income	436	399	
Total revenues	2,535	2,743	
Costs and Expenses, Net			
Company restaurant expenses			
Food and paper	680	767	
Payroll and employee benefits	490	513	
Occupancy and other operating expenses	596	624	
Company restaurant expenses	1,766	1,904	
General and administrative expenses	273	272	
Franchise and license expenses	30	26	
Closures and impairment (income) expenses	4	1	
Refranchising (gain) loss	(17) (26)
Other (income) expense	(8) (79)
Total costs and expenses, net	2,048	2,098	
Operating Profit	487	645	
Interest expense, net	31	37	
Income Before Income Taxes	456	608	
Income tax provision	120	147	
Net Income – including noncontrolling interests	336	461	
Net Income (loss) – noncontrolling interests	(1) 3)
Net Income – YUM! Brands, Inc.	\$337	\$458	
Basic Earnings Per Common Share	\$0.74	\$0.99	
Diluted Earnings Per Common Share	\$0.72	\$0.96	
Dividends Declared Per Common Share	\$0.335	\$0.285	

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Quarter ended		
	3/23/2013	3/24/2012	
Net Income - including noncontrolling interests	\$ 336	\$ 461	
Other comprehensive income, net of tax			
Translation adjustments and gains (losses) from intra-entity transactions of a long-term investment nature	(5	) 13
Tax (expense) benefit	7	(2)
Reclassification of currency translation adjustments into Net Income	—	3	
Tax expense (benefit)	—	—	
Net unrealized losses arising during the year on pension and post-retirement plans	(8) —	
Tax (expense) benefit	1	—	
Reclassification of pension and post-retirement losses to Net Income	25	15	
Tax expense (benefit)	(9) (6)
Net unrealized gain (loss) on derivative instruments	1	(1)
Tax (expense) benefit	—	—	
Other comprehensive income, net of tax	12	22	
Comprehensive Income - including noncontrolling interests	348	483	
Comprehensive Income (loss) - noncontrolling interests	(1	) 3
Comprehensive Income - YUM! Brands, Inc.	\$ 349	\$ 480	

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Quarter ended	
	3/23/2013	3/24/2012
Cash Flows – Operating Activities		
Net Income – including noncontrolling interests	\$336	\$461
Depreciation and amortization	130	127
Closures and impairment (income) expenses	4	1
Refranchising (gain) loss	(17	) (26
Contributions to defined benefit pension plans	(1	) (8
Gain upon acquisition of Little Sheep	—	(74
Deferred income taxes	(6	) (4
Equity income from investments in unconsolidated affiliates	(7	) (13
Excess tax benefits from share-based compensation	(11	) (28
Share-based compensation expense	9	11
Changes in accounts and notes receivable	9	29
Changes in inventories	26	27
Changes in prepaid expenses and other current assets	(8	) (15
Changes in accounts payable and other current liabilities	(81	) (124
Changes in income taxes payable	18	70
Other, net	—	39
Net Cash Provided by Operating Activities	401	473
Cash Flows – Investing Activities		
Capital spending	(237	) (173
Proceeds from refranchising of restaurants	81	102
Acquisitions	—	(540
Changes in restricted cash	—	300
Increase in short-term investments	—	(79
Other, net	3	(1
Net Cash Used in Investing Activities	(153	) (391
Cash Flows – Financing Activities		
Repayments of long-term debt	(1	) (3
Short-term borrowings, more than three months, net	9	—
Repurchase shares of Common Stock	(98	) (78
Excess tax benefits from share-based compensation	11	28
Employee stock option proceeds	5	16
Dividends paid on Common Stock	(151	) (131
Other, net	(34	) (20
Net Cash Used in Financing Activities	(259	) (188
Effect of Exchange Rates on Cash and Cash Equivalents	(3	) 7
Net Decrease in Cash and Cash Equivalents	(14	) (99
Cash and Cash Equivalents - Beginning of Period	776	1,198
Cash and Cash Equivalents - End of Period	\$762	\$1,099

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	(Unaudited)	
	3/23/2013	12/29/2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$762	\$776
Accounts and notes receivable, net	368	301
Inventories	288	313
Prepaid expenses and other current assets	227	272
Deferred income taxes	133	127
Advertising cooperative assets, restricted	120	136
Total Current Assets	1,898	1,925
Property, plant and equipment, net	4,258	4,250
Goodwill	1,026	1,034
Intangible assets, net	693	690
Investments in unconsolidated affiliates	31	72
Other assets	571	575
Deferred income taxes	468	467
Total Assets	\$8,945	\$9,013
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	\$1,866	\$2,036
Income taxes payable	82	97
Short-term borrowings	21	10
Advertising cooperative liabilities	120	136
Total Current Liabilities	2,089	2,279
Long-term debt	2,924	2,932
Other liabilities and deferred credits	1,515	1,490
Total Liabilities	6,528	6,701
Redeemable noncontrolling interest	59	59
Shareholders' Equity		
Common Stock, no par value, 750 shares authorized; 450 and 451 shares issued in 2013 and 2012, respectively	—	—
Retained earnings	2,413	2,286
Accumulated other comprehensive income (loss)	(120)	(132)
Total Shareholders' Equity – YUM! Brands, Inc.	2,293	2,154
Noncontrolling interests	65	99
Total Shareholders' Equity	2,358	2,253
Total Liabilities, Redeemable Noncontrolling Interest and Shareholders' Equity	\$8,945	\$9,013

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Tabular amounts in millions, except per share data)

Note 1 - Financial Statement Presentation

We have prepared our accompanying unaudited Condensed Consolidated Financial Statements (“Financial Statements”) in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by Generally Accepted Accounting Principles in the United States (“GAAP”) for complete financial statements. Therefore, we suggest that the accompanying Financial Statements be read in conjunction with the Consolidated Financial Statements included in our annual report on Form 10-K for the fiscal year ended December 29, 2012 (“2012 Form 10-K”). Except as disclosed herein, there has been no material change in the information disclosed in our Consolidated Financial Statements included in the 2012 Form 10-K.

YUM! Brands, Inc. and Subsidiaries (collectively referred to herein as “YUM” or the “Company”) comprises primarily the worldwide operations of KFC, Pizza Hut and Taco Bell (collectively the “Concepts”). References to YUM throughout these Notes to our Financial Statements are made using the first person notations of “we,” “us” or “our.”

YUM’s business consists of four reporting segments: YUM Restaurants China (“China” or “China Division”), YUM Restaurants International (“YRI” or “International Division”), United States (“U.S.” or “U.S. Division”) 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.

Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every five or six years. The first three quarters of each fiscal year consist of 12 weeks and the fourth quarter consists of 16 weeks in fiscal years with 52 weeks and 17 weeks in fiscal years with 53 weeks. Our subsidiaries operate on similar fiscal calendars except that China, India and certain other international subsidiaries operate on a monthly calendar, and thus never have a 53rd week, with two months in the first quarter, three months in the second and third quarters and four months in the fourth quarter. YRI closes one period earlier to facilitate consolidated reporting. During the quarter ended March 23, 2013 we eliminated the period lag that we previously used to facilitate the reporting of our India Division's results. Accordingly, the India Division results for the first quarter of 2013 include the months of January and February 2013. Due to the immateriality of the India Division's results we did not restate the prior year operating results for the elimination of this period lag and therefore the results for the first quarter of 2012 continue to include the months of December 2011 and January 2012.

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

In our opinion, the accompanying Financial Statements include all normal and recurring adjustments considered necessary to present fairly, when read in conjunction with our 2012 Form 10-K, our financial position as of March 23, 2013, and the results of our operations, comprehensive income and cash flows for the quarters ended March 23, 2013 and March 24, 2012. Our results of operations, comprehensive income and cash flows for these interim periods are not necessarily indicative of the results to be expected for the full year.

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

We have reclassified certain items in the Financial Statements for the prior period to be comparable with the classification for the quarter ended March 23, 2013. These reclassifications had no effect on previously reported Net Income - YUM! Brands, Inc.

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Note 2 - Earnings Per Common Share (“EPS”)

	Quarter ended	
	3/23/2013	3/24/2012
Net Income – YUM! Brands, Inc.	\$337	\$458
Weighted-average common shares outstanding (for basic calculation)	455	465
Effect of dilutive share-based employee compensation	10	13
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	465	478
Basic EPS	\$0.74	\$0.99
Diluted EPS	\$0.72	\$0.96
Unexercised employee stock options and stock appreciation rights (in millions) excluded from the diluted EPS computation ^(a)	4.5	1.9

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

Note 3 - Shareholders' Equity

Under the authority of our Board of Directors, we repurchased shares of our Common Stock during the quarters ended March 23, 2013 and March 24, 2012, as indicated below. All amounts exclude applicable transaction fees.

Authorization Date	Authorization Expiration Date	Shares Repurchased (thousands)		Dollar Value of Shares Repurchased		Remaining Dollar Value of Shares that may be Repurchased
		2013	2012	2013	2012	2013
January 2011	June 2012	—	1,219	\$—	\$78	\$—
November 2012	May 2014	1,198	—	78	—	875
Total		1,198	^(a) 1,219	\$78	^(a) \$78	\$875

^(a) Amount excludes the effect of \$20 million in share repurchases (0.3 million shares) with trade dates prior to the 2012 fiscal year end but cash settlement dates subsequent to the 2012 fiscal year end.

Changes in accumulated other comprehensive income ("OCI") are presented below.

	Translation Adjustments and Gains (Losses) From Intra-Entity Transactions of a Long-Term Nature	Pension and Post-Retirement Benefit Plan Losses (a)	Net Unrealized Loss on Derivative Instruments	Total
Balance at December 29, 2012, net of tax	\$ 166	\$(286)	\$(12)	\$(132)
Amounts classified into OCI, net of tax	2	(7)	1	(4)
Amounts reclassified from accumulated OCI, net of tax	—	16	—	16
OCI, net of tax	2	9	1	12
Balance at March 23, 2013, net of tax	\$ 168	\$(277)	\$(11)	\$(120)

Amounts reclassified from accumulated OCI for pension and post-retirement benefit plan losses include (a) amortization of net losses of \$15 million, settlement charges of \$10 million and the related income tax benefit of \$9 million. See Note 10 Pension Benefits for further information.

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

Little Sheep Acquisition

On February 1, 2012 we acquired an additional 66% interest in Little Sheep Group Limited ("Little Sheep") for \$540 million, net of cash acquired of \$44 million, increasing our ownership to 93%. The acquisition was driven by our strategy to build leading brands across China in every significant category. Prior to our acquisition of this additional interest, our 27% interest in Little Sheep was accounted for under the equity method of accounting. As a result of the acquisition we obtained voting control of Little Sheep, and thus we began consolidating Little Sheep upon acquisition. As required by GAAP, we remeasured our previously held 27% ownership in Little Sheep, which had a recorded value of \$107 million at the date of acquisition, at fair value based on Little Sheep's traded share price immediately prior to our offer to purchase the business and recognized a non-cash gain of \$74 million. This gain, which resulted in no related income tax expense, was recorded in Other (income) expense on our Condensed Consolidated Statement of Income during the quarter ended March 24, 2012 and was not allocated to any segment for performance reporting purposes.

Under the equity method of accounting, we previously reported our 27% share of the net income of Little Sheep as Other (income) expense in the Condensed Consolidated Statements of Income. Since we began consolidating, we have reported the results of operations for Little Sheep in the appropriate line items of our Condensed Consolidated Statement of Income. We no longer report Other (income) expense as we did under the equity method of accounting. Net income attributable to our partner's ownership percentage is recorded as Net Income (loss) - noncontrolling interest. Little Sheep reports on a one month lag, and as a result, their consolidated results are included in the China Division from the beginning of the quarter ended June 16, 2012. The consolidation of Little Sheep increased China Division revenues and Operating Profit each by 4% for the quarter ended March 23, 2013.

Refranchising (Gain) Loss

The Refranchising (gain) loss by reportable segment is presented below. We do not allocate such gains and losses to our segments for performance reporting purposes.

	Quarter ended	
	3/23/2013	3/24/2012
China	\$—	\$(2)
YRI ^(a)	—	21
U.S. ^(b)	(17)	(45)
India	—	—
Worldwide	\$(17)	\$(26)

During the fourth quarter of 2012, we refranchised our remaining 331 Company-owned Pizza Hut dine-in (a) restaurants in the United Kingdom ("UK"). During the quarter ended March 24, 2012 we recorded a loss of \$21 million and a \$4 million related income tax benefit due to the then planned refranchising of these restaurants.

(b) In the quarters ended March 23, 2013 and March 24, 2012, U.S. Refranchising (gain) loss primarily relates to gains on the sales of Taco Bell restaurants.

Store Closure and Impairment Activity

Store closure (income) costs and Store impairment charges by reportable segment are presented below.

	Quarter ended March 23, 2013				
	China	YRI	U.S.	India	Worldwide
Store closure (income) costs ^(a)	\$(1)	\$—	\$1	\$—	\$—
Store impairment charges	3	—	—	1	4
Closure and impairment (income) expenses	\$2	\$—	\$1	\$1	\$4
	Quarter ended March 24, 2012				
	China	YRI	U.S.	India	Worldwide
Store closure (income) costs ^(a)	\$—	\$—	\$(1)	\$—	\$(1)
Store impairment charges	1	1	—	—	2
Closure and impairment (income) expenses	\$1	\$1	\$(1)	\$—	\$1

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

Note 5 - Recently Adopted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2013-2, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-2), that requires an organization to present the effects on the line items of net income of significant amounts reclassified out of Accumulated OCI, but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. ASU 2013-2 is effective for fiscal years beginning after December 15, 2012. All necessary disclosures have been complied with in these Financial Statements.

Note 6 - Other (Income) Expense

	Quarter ended	
	3/23/2013	3/24/2012
Equity income from investments in unconsolidated affiliates	\$(7)	\$(13)
Gain upon acquisition of Little Sheep	—	(74)
Foreign exchange net (gain) loss and other ^(a)	(1)	8
Other (income) expense	\$(8)	\$(79)

^(a) The quarter ended March 24, 2012 includes \$6 million of deal costs related to the acquisition of Little Sheep that were allocated to the China Division for performance reporting purposes.

Note 7 - Supplemental Balance Sheet Information

Receivables

The Company's receivables are primarily generated as a result of ongoing business relationships with our franchisees and licensees as a result of royalty and lease agreements. Trade receivables consisting of royalties from franchisees and licensees are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts and notes receivable on our Condensed Consolidated Balance Sheets.

	3/23/2013	12/29/2012
Accounts and notes receivable	\$380	\$313
Allowance for doubtful accounts	(12	) (12
Accounts and notes receivable, net	\$368	\$301

Property, Plant and Equipment

	3/23/2013	12/29/2012
Property, plant and equipment, gross	\$7,428	\$7,389
Accumulated depreciation and amortization	(3,170	) (3,139
Property, plant and equipment, net	\$4,258	\$4,250

Assets held for sale at March 23, 2013 and December 29, 2012 total \$17 million and \$56 million, respectively, and are included in Prepaid expenses and other current assets in our Condensed Consolidated Balance Sheets.

Noncontrolling Interests

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

Noncontrolling interests as of December 29, 2012	\$99
Net Income (loss) – noncontrolling interests	(1
Acquisition of Little Sheep store-level non-controlling interests	(15
Dividends declared	(18
Noncontrolling interests as of March 23, 2013	\$65

Note 8 - Income Taxes

	Quarter ended	
	3/23/2013	3/24/2012
Income taxes	\$120	\$147
Effective tax rate	26.4	% 24.1

Our effective tax rate was lower than the expected U.S. federal statutory rate of 35% primarily due to the majority of our income being earned outside of the U.S. where tax rates are generally lower than the U.S. rate.

Our effective tax rate for the quarter ended March 23, 2013 was higher than the prior year primarily due to lapping the impact of the \$74 million gain recognized upon our acquisition of additional interest in Little Sheep, which resulted in no related tax expense.

On June 23, 2010, the Company received a Revenue Agent Report (RAR) from the Internal Revenue Service (the "IRS") relating to its examination of our U.S. federal income tax returns for fiscal years 2004 through 2006. The IRS has proposed an adjustment to increase the taxable value of rights to intangibles used outside the U.S. that YUM transferred to certain of its foreign subsidiaries. The proposed adjustment would result in approximately \$700 million of additional taxes plus net interest to date of approximately \$230 million for fiscal years 2004-2006. On January 9, 2013, the Company received an RAR from the IRS for

fiscal years 2007 and 2008. As expected, the IRS proposed an adjustment similar to their proposal for 2004-2006 that would result in approximately \$270 million of additional taxes plus net interest to date of approximately \$35 million for fiscal years 2007 and 2008. Furthermore, the Company expects the IRS to make similar claims for years subsequent to fiscal 2008. The potential additional taxes for 2009 through 2012, computed on a similar basis to the 2004-2008 additional taxes, would be approximately \$130 million plus net interest to date of approximately \$5 million.

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

Note 9 - Reportable Operating Segments

We identify our operating segments based on management responsibility. The China Division includes mainland China and the India Division includes India, Bangladesh, Mauritius, Nepal and Sri Lanka. YRI includes the remainder of our international operations. We consider our KFC-U.S., Pizza Hut-U.S. and Taco Bell-U.S. operating segments to be similar and therefore have aggregated them into a single reportable operating segment.

The following tables summarize Revenues and Operating Profit for each of our reportable operating segments:

Revenues	Quarter ended	
	3/23/2013	3/24/2012
China	\$1,151	\$1,218
YRI	669	708
U.S.	695	800
India	20	17
	\$2,535	\$2,743

Operating Profit (loss)	Quarter ended	
	3/23/2013	3/24/2012
China ^(a)	\$154	\$256
YRI	199	168
United States	165	158
India	(2	) 1
Unallocated Occupancy and other ^{(b)(e)}	—	4
Unallocated and General and administrative expenses ^(e)	(46	) (42
Unallocated Other income (expense) ^{(c)(e)}	—	74
Unallocated Refranchising gain (loss) ^{(d)(e)}	17	26
Operating Profit	\$487	\$645
Interest expense, net	(31	) (37
Income Before Income Taxes	\$456	\$608

- (a) Includes equity income from investments in unconsolidated affiliates of \$7 million and \$13 million for the quarters ended March 23, 2013 and March 24, 2012, respectively.
- (b) Amounts represent depreciation reduction recognized as a result of our decisions to rebrand Company operated Pizza Hut dine-in restaurants in the UK (see Note 4) and Company operated KFC restaurants in the U.S.

(c) Represents gain upon acquisition of Little Sheep of \$74 million for the quarter ended March 24, 2012. See Note 4.

Includes U.S. refranchising gains of \$17 million and \$45 million for the quarters ended March 23, 2013 and (d) March 24, 2012, respectively, and a loss of \$21 million related to the planned refranchising of our Pizza Hut UK dine-in business for the quarter ended March 24, 2012. See Note 4.

(e) Amounts have not been allocated to any segment for performance reporting purposes.

Note 10 - Pension Benefits

We sponsor noncontributory defined benefit pension plans covering certain full-time salaried and hourly U.S. employees. The most significant of these plans, the YUM Retirement Plan (the "Plan"), is funded while benefits from the other U.S. plan are paid by the Company as incurred. During 2001, the plans covering our U.S. salaried employees were amended such that any salaried employee hired or rehired by YUM after September 30, 2001 is not eligible to participate in those plans. We also sponsor various defined benefit pension plans covering certain of our non-U.S. employees, the most significant of which are in the UK. During the quarter ended March 23, 2013, one of our UK plans was frozen such that existing participants can no longer earn future service credits. Our other UK plan was previously frozen to future service credits in 2011.

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

	U.S. Pension Plans		International Pension Plans	
	Quarter ended		Quarter ended	
	3/23/2013	3/24/2012	3/23/2013	3/24/2012
Service cost	\$5	\$6	\$—	\$—
Interest cost	13	15	2	2
Expected return on plan assets	(14	) (16	) (3	) (2
Amortization of net loss	14	15	1	—
Net periodic benefit cost	\$18	\$20	\$—	\$—
Additional loss (gain) recognized due to:				
Settlement ^(a)	\$10	\$—	\$—	\$—
Curtailement ^(b)	\$—	\$—	\$ (5) \$—

(a) Loss is a result of settlement transactions from a non-funded plan which exceeded the sum of annual service and interest costs for that plan. The loss was recorded in unallocated General and administrative expenses.

(b) Gain is a result of terminating future service benefits for all participants in one of our UK plans. The gain was recorded in YRI's General and administrative expenses.

We made no contributions to the Plan during the quarter ended March 23, 2013. While we are not required to make any contributions to the Plan in 2013, we may choose to make additional discretionary contributions as part of our overall capital structure strategy. We do not anticipate making any significant contributions to any plan outside of the U.S. in 2013.

Note 11 - Derivative Instruments

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

We enter into interest rate swaps with the objective of reducing our exposure to interest rate risk and lowering interest expense for a portion of our fixed-rate debt. At March 23, 2013, our interest rate derivative instruments outstanding had notional amounts of \$300 million and have been designated as fair value hedges of a portion of our debt. These fair value hedges meet the shortcut method requirements and no ineffectiveness has been recorded.

We enter into foreign currency forward contracts with the objective of reducing our exposure to cash flow volatility arising from foreign currency fluctuations associated with certain foreign currency denominated intercompany short-term receivables and payables. The notional amount, maturity date, and currency of these contracts match those of the underlying receivables or payables. For those foreign currency exchange forward contracts that we have designated as cash flow hedges, we measure ineffectiveness by comparing the cumulative change in the fair value of the forward contract with the cumulative change in the fair value of the hedged item. At March 23, 2013, foreign currency forward contracts outstanding had a total notional amount of \$533 million.

The fair values of derivatives designated as hedging instruments as of March 23, 2013 and December 29, 2012 were:

	3/23/2013	12/29/2012	Condensed Consolidated Balance Sheet Location
Interest Rate Swaps - Asset	\$22	\$24	Other assets
Foreign Currency Forwards - Asset	2	—	Prepaid expenses and other current assets
Foreign Currency Forwards - Liability	(5)	(5)	Accounts payable and other current liabilities
Total	\$19	\$19	

The unrealized gains associated with our interest rate swaps that hedge the interest rate risk for a portion of our debt have been reported as an addition of \$20 million to Long-term debt at March 23, 2013 and as an addition of \$22 million to Long-term debt at December 29, 2012. During the quarters ended March 23, 2013 and March 24, 2012, Interest expense, net was reduced by \$2 million and \$4 million, respectively, for recognized gains on interest rate swaps.

Changes in fair value of derivative instruments:

	Quarter	
	3/23/2013	3/24/2012
Beginning of Year Balance	\$19	\$34
Changes in fair value recognized into OCI	2	(5)
Changes in fair value recognized into income	(1)	2
Cash receipts	(1)	(7)
Ending Balance		