YUM BRANDS INC
Form 10-K
February 25, 2008

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

FORM 10-K

[ü] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 29, 2007

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	Name of Each Exchange on Which Registered
Common Stock, no par value	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 the 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

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, non-accelerated filer or smaller reporting company. See definition of "accelerated filer, large accelerated filer and smaller reporting company" in Rule 12-b of the Exchange Act (Check one): Large accelerated filer: [√] Accelerated filer: [ ] Non-accelerated filer: [ ] Smaller reporting company: [ ]

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

The 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 16, 2007 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 $17,730,290,814. 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 18, 2008 was 475,493,520 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 15, 2008 are incorporated by reference into Part III.

PART I

Item 1. Business.

YUM! Brands, Inc. (referred to herein as “YUM” 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.

YUM, the registrant, 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.

This Form 10-K should be read in conjunction with the Cautionary Statements on pages 47 through 48.

(a) General Development of Business

In January 1997, PepsiCo announced its decision to spin-off its restaurant businesses to shareholders as an independent public company (the “Spin-off”). Effective October 6, 1997, PepsiCo disposed of its restaurant businesses by distributing all of the outstanding shares of Common Stock of YUM to its shareholders.

On May 7, 2002, YUM completed the acquisition of Yorkshire Global Restaurants, Inc. (“YGR”), the parent company and operator of Long John Silver’s (“LJS”) and A&W All-American Food Restaurants (“A&W”). On May 16, 2002, following receipt of shareholder approval, the Company changed its name from TRICON Global Restaurants, Inc. to YUM! Brands, Inc.

(b) Financial Information about Operating Segments

YUM consists of six operating segments: KFC-U.S., Pizza Hut-U.S., Taco Bell-U.S., LJS/A&W-U.S., YUM Restaurants International (“YRI” or “International Division”) and YUM Restaurants China (“China Division”). For financial reporting purposes, management considers the four U.S. operating segments to be similar and, therefore, has aggregated them into a single reportable operating segment. The China Division includes mainland China (“China”), Thailand and KFC Taiwan, and the International Division includes the remainder of our international operations.

Operating segment information for the years ended December 29, 2007, December 30, 2006 and December 31, 2005 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 48 and in the related Consolidated Financial Statements and footnotes in Part II, Item 8, pages 49 through 101.

(c) Narrative Description of Business

General

YUM is the world’s largest quick service restaurant (“QSR”) company based on number of system units, with more than 35,000 units in more than 100 countries and territories. Through the five concepts of KFC, Pizza Hut, Taco Bell, LJS and A&W (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. In all five of its Concepts, the Company either operates units or they are operated by independent franchisees or licensees under the terms of franchise or license agreements. Franchisees can range in size from individuals owning just one unit to large publicly traded companies. In addition, the Company owns non-controlling interests in Unconsolidated Affiliates who operate similar to franchisees.

At year end 2007, we had approximately 20,000 system restaurants in the U.S. which generated revenues of $5.2 billion and operating profit of $739 million during 2007. The International Division, based in Dallas, Texas, comprises more than 12,000 system restaurants, primarily KFCs and Pizza Huts, operating in over 100 countries outside the U.S. In 2007, YRI achieved revenues of $3.1 billion and operating profit of $480 million. The China Division, based in Shanghai, China, comprises more than 3,000 system restaurants, predominately KFCs. In 2007, the China Division achieved revenues of $2.1 billion and operating profit of $375 million.

Restaurant Concepts

Most restaurants in each Concept offer consumers the ability to dine in and/or carry out food. In addition, Taco Bell, KFC, LJS and A&W offer a drive-thru option in many stores. Pizza Hut offers a drive-thru option on a much more limited basis. Pizza Hut and, on a much more limited basis, KFC 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 and attractive food at competitive prices.

The franchise program of the Company is designed to assure 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 and equipment and purchasing signs, seating, inventories and supplies and, over the longer term, by reinvesting in the business. Franchisees then contribute to the Company's revenues 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 all aspects of the business, including products, equipment, operational improvements and standards and management techniques.

The Company and its franchisees also operate multibrand units, primarily in the U.S., where two or more of the Concepts are operated in a single unit. At year end 2007, there were 3,989 multibranded units in the worldwide system, of which 3,699 were in the U.S. These units were comprised of 2,703 units offering food products from two of the Concepts, 47 units offering food products from three of the Concepts and 1,216 units offering food products from Pizza Hut and WingStreet, a flavored chicken wings concept. YUM has 23 units offering food products from KFC and Wing Works, another flavored chicken wings concept developed by YUM.

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 is based in Louisville, Kentucky.

- As of year end 2007, KFC was the leader in the U.S. chicken QSR segment among companies featuring chicken-on-the-bone as their primary product offering, with a 45 percent market share (Source: The NPD Group, Inc.; NPD Foodworld; CREST) in that segment, which is nearly four times that of its closest national competitor.

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KFC operates in 105 countries and territories throughout the world. As of year end 2007, KFC had 5,358 units in the U.S. and 9,534 units outside the U.S., including 2,140 units in mainland China. Approximately 18 percent of the U.S. units and 25 percent of the non-U.S. units are operated by the Company.

- Traditional KFC restaurants in the U.S. offer fried chicken-on-the-bone products, primarily marketed under the names Original Recipe and Extra Tasty Crispy. Other principal entree items include chicken sandwiches (including the Snacker and the Twister), KFC Famous Bowls, Colonel's Crispy Strips, Wings, Popcorn Chicken and seasonally, Chunky Chicken Pot Pies. KFC restaurants in the U.S. also offer a variety of side items, such as biscuits, mashed potatoes and gravy, coleslaw, corn, and potato wedges, as well as desserts. While many of these products are offered outside of the U.S., international menus are more focused on chicken sandwiches and Colonel's Crispy Strips, and include side items that are 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 is based in Dallas, Texas.

- As of year end 2007, Pizza Hut was the leader in the U.S. pizza QSR segment, with a 15 percent market share (Source: The NPD Group, Inc.; NPD Foodworld; CREST) in that segment.

- Pizza Hut operates in 97 countries and territories throughout the world. As of year end 2007, Pizza Hut had 7,515 units in the U.S., and 5,362 units outside of the U.S. Approximately 17 percent of the U.S. units and 25 percent of the non-U.S. units are operated by the Company.

- Pizza Hut features a variety of pizzas, which may include Pan Pizza, Thin 'n Crispy, Hand Tossed, Sicilian, Stuffed Crust, Twisted Crust, Sicilian Lasagna Pizza, Cheesy Bites Pizza, The Big New Yorker, The Insider, The Chicago Dish and 4forALL. Each of these pizzas is offered with a variety of different toppings. In some restaurants, Pizza Hut also offers chicken wings, breadsticks, pasta, salads and sandwiches. Menu items outside of the U.S. are generally similar to those offered in the U.S., though pizza toppings are often suited to local preferences and tastes.

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 is based in Irvine, California.

- As of year end 2007, Taco Bell was the leader in the U.S. Mexican QSR segment, with a 54 percent market share (Source: The NPD Group, Inc.; NPD Foodworld; CREST) in that segment.

- Taco Bell operates in 15 countries and territories throughout the world. As of year end 2007, there were 5,580 Taco Bell units in the U.S., and 240 units outside of the U.S. Approximately 23 percent of the U.S. units and 1 percent of the non-U.S. units are operated by the Company.

- Taco Bell specializes in Mexican-style food products, including various types of tacos, burritos, gorditas, chalupas, quesadillas, taquitos, salads, nachos and other related items. Additionally, proprietary entrée items include Grilled Stuft Burritos and Border Bowls. Taco Bell units feature a distinctive bell logo on their signage.

LJS

- The first LJS restaurant opened in 1969 and the first LJS franchise unit opened later the same year. LJS is based in Louisville, Kentucky.

- As of year end 2007, LJS was the leader in the U.S. seafood QSR segment, with a 32 percent market share (Source: The NPD Group, Inc.; NPD Foodworld; CREST) in that segment.

- LJS operates in 7 countries and territories throughout the world. As of year end 2007, there were 1,081 LJS units in the U.S., and 38 units outside the U.S. Approximately 30 percent of the U.S. units are operated by the Company. All non-U.S. units are operated by franchisees or licensees.

- LJS features a variety of seafood and chicken items, including meals featuring batter-dipped fish, chicken, shrimp, hushpuppies and portable snack items. LJS units typically feature a distinctive seaside/nautical theme.

A&W

- A&W was founded in Lodi, California by Roy Allen in 1919 and the first A&W franchise unit opened in 1925. A&W is based in Louisville, Kentucky.

- A&W operates in 11 countries and territories throughout the world. As of year end 2007, there were 371 A&W units in the U.S., and 254 units outside the U.S. Approximately 1 percent of the U.S. units are operated by the Company. All non-U.S. units are operated by franchisees.

- A&W serves A&W draft Root Beer and a signature A&W Root Beer float, as well as hot dogs and hamburgers.

Restaurant Operations

Through its Concepts, YUM develops, operates, franchises and licenses a worldwide system of both traditional and non-traditional QSR restaurants. 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 and operate in non-traditional locations like malls, airports, gasoline service stations, convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient.

The Company's restaurant management structure varies by Concept and unit size. Generally, each Company 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. In the U.S., the average restaurant has 25 to 30 employees, while internationally this figure can be significantly higher depending on the location and sales volume of the restaurant. Most of the employees work on a part-time basis. We issue detailed manuals, which may then be customized to meet local regulations and customs, covering all aspects of restaurant operations, including food handling and product preparation procedures, safety and quality issues, 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 core 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 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 the Company's restaurants from time to time to help ensure adherence to system standards and mentor restaurant team members.

Supply and Distribution

The Company is a substantial purchaser of a number of food and paper products, equipment and other restaurant supplies. The principal items purchased include chicken, cheese, beef and pork products, seafood, paper and packaging materials.

U.S. Division. The Company, along with the representatives of the Company's KFC, Pizza Hut, Taco Bell, LJS and A&W franchisee groups, are members in the Unified FoodService Purchasing Co-op, LLC (the "Unified Co-op") which was created for the purpose of purchasing certain restaurant products and equipment in the U.S. The core mission of the Unified Co-op is to provide the lowest possible sustainable store-delivered prices for restaurant products and equipment while ensuring compliance with certain quality and safety standards. This arrangement combines the purchasing power of the Company 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 Unified Co-op has resulted, and should continue to result, in closer alignment of interests and a stronger relationship with its franchisee community.

The Company is committed to conducting its business in an ethical, legal and socially responsible manner. To encourage compliance with all legal requirements and ethical business practices, YUM has a supplier code of conduct for all U.S. suppliers to our business. To ensure the quality and safety of food products, suppliers and distributors are required to meet strict quality control standards. Long-term contracts and long-term vendor relationships are used to ensure availability of products. 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 Company may be able to pass on such increases to its customers, although there is no assurance that this can be done practically.

Most food products, paper and packaging supplies, and equipment used in the operation of the Company's restaurants are distributed to individual restaurant units by third party distribution companies. McLane Company, Inc. ("McLane") is the exclusive distributor for Company-operated KFCs, Pizza Huts, Taco Bells and Long John Silvers in the U.S. and for a substantial number of franchisee and licensee stores. McLane became the distributor when it assumed all distribution responsibilities under an existing agreement between Ameriserve Food Distribution, Inc. ("AmeriServe") and the Company. This agreement extends through October 31, 2010 and generally prohibits Company-operated KFC, Pizza Hut and Taco Bell restaurants from using alternative distributors in the U.S. The Company stores within the LJS and A&W systems are covered under a separate agreement with McLane.

International and China Divisions. Outside of the U.S. we and our franchisees use decentralized sourcing and distribution systems involving many different global, regional, and local suppliers and distributors. In certain countries, we own all or a portion of the distribution system, including mainland China where we own the entire distribution system.

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®, Taco Bell® and Long John Silver's® 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 Company also licenses certain A&W trademarks and service marks (the "A&W Marks"), which are owned by A&W Concentrate Company (formerly A&W Brands, Inc.). A&W Concentrate Company, which is not affiliated with the Company, has granted the Company an exclusive, worldwide (excluding Canada), perpetual, royalty-free license (with the right to sublicense) to use the A&W Marks for restaurant services.

The use of these marks by franchisees and licensees has been authorized in KFC, Pizza Hut, Taco Bell, LJS and A&W 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 48 and the Consolidated Statements of Cash Flows in Part II, Item 8, page 53.

Customers

The Company's business is not dependent upon a single customer or small group of customers.

Seasonal Operations

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

Backlog Orders

Company restaurants have no backlog orders.

Government Contracts

No material portion of the Company's business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. government.

Competition

The retail food industry, in which the Company competes, 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 compete 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. In 2007, the restaurant business in the U.S. consisted of about 935,000 restaurants representing approximately $535 billion in annual sales. The Company's Concepts accounted for about 2% of those restaurants and about 3% of those sales. There is currently no way to reasonably estimate the size of the competitive market outside the U.S.

Research and Development ("R&D")

The Company operates R&D facilities in Louisville, Kentucky; Dallas, Texas; and Irvine, California and in several locations outside the U.S., including Shanghai, China. The Company expensed $39 million, $33 million and $33 million in 2007, 2006 and 2005, 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 2007, 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 Company's restaurants in the U.S. must comply with licensing and regulation by a number of governmental authorities, which include health, sanitation, safety and fire agencies in the state or municipality in which the restaurant is located. In addition, the Company must comply with various state laws that regulate the franchisor/franchisee relationship. To date, the Company has not been significantly affected by any difficulty, delay or failure to obtain required licenses or approvals.

The Company is also subject to federal and state laws governing such matters as employment and pay practices, overtime, tip credits and working conditions. The bulk of the Company's employees are paid on an hourly basis at rates related to the federal and state minimum wages.

The Company is 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 continues to monitor its facilities for compliance with the Americans with Disabilities Act ("ADA") in order to conform to its requirements. Under the ADA, the Company 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. We believe that expenditures, if required, would not have a material adverse effect on the Company's results of operations or cash flows.

International and China Divisions. The Company's restaurants outside the U.S. are subject to national and local laws and regulations which are similar to those affecting the Company's U.S. restaurants, including laws and regulations concerning 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.

Employees

As of year end 2007, the Company employed approximately 301,000 persons, approximately 84 percent of whom were part-time. Approximately 34 percent of the Company's employees are employed in the U.S. The Company believes that it provides working conditions and compensation that compare favorably with those of its principal competitors. Most Company employees are paid on an hourly basis. Some of the Company's non-U.S. employees are subject to labor council relationships that vary due to the diverse cultures in which the Company operates. The Company considers its employee relations to be good.

(d) Financial Information about Geographic Areas

Financial information about our significant geographic areas (U.S., International Division and China Division) is incorporated herein by reference from Selected Financial Data in Part II, Item 6, page 19; Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in Part II, Item 7, pages 21 through 48; and in the related Consolidated Financial Statements and footnotes in Part II, Item 8, pages 49 through 101.

(e) Available Information

The Company makes available through the Investor Relations section of its internet website at www.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. Our Corporate Governance Principles and our Code of Conduct are also located within this section of the 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 to any shareholder who requests a copy from our Investor Relations Department.

Item 1A. Risk Factors.

Our business and industry face a variety of risks, including operational, legal, regulatory and product risks. The following are some of the more significant factors that could affect our business and our results of operations. Other factors may exist that we cannot anticipate or that we do not consider significant based on currently available information.

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

We consider food safety a top priority and dedicate substantial resources to ensure that our customers enjoy safe, quality food products. However, food-borne illnesses (such as E. coli, hepatitis A, trichinosis or salmonella) and food safety issues have occurred in the past (see Note 22, Guarantees, Commitments and Contingencies, to the Consolidated Financial Statements included in Part II, Item 8 of this report for a discussion of litigation arising from an E. coli outbreak allegedly linked to a number of Taco Bell restaurants in the Northeast U.S. during November/December 2006), and could occur in the future. If such instances of food-borne illness or other food safety issues were to occur, whether at our restaurants or those of our competitors, negative publicity could result which could adversely affect sales and profitability. If our customers become ill from food-borne illnesses, we could also be forced to temporarily close some restaurants. Additionally, the occurrence of food-borne illnesses or food safety issues could adversely affect the price and availability of affected ingredients. Finally, like other companies in the restaurant industry, some of our products may contain genetically engineered food products, and our U.S. suppliers are currently not required to label their products as such. Increased regulation of and opposition to genetically engineered food products have on occasion and may in the future force us to use alternative sources at increased costs.

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

A significant and growing portion of our restaurants are located in China. As a result, 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 inflation, consumer spending and unemployment levels), tax rates and laws and consumer preferences, as well as changes in the regulatory environment. 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 favorably or 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. Many of the risks and uncertainties of doing business in China are solely within the control of the Chinese government. China's government regulates the scope of our foreign investments and business conducted within China. Although management believes it has structured our China operations to comply with local laws, there are 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 and contract rights in China, our business would be adversely impacted.

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

A significant portion of our restaurants are operated in foreign countries and territories outside of the U.S. and China, 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 market, include political instability, social and ethnic unrest, changes in economic conditions (including inflation, consumer spending and unemployment levels), the regulatory environment, 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 foreign currency exchange rates, which may favorably or 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.

Changes in commodity and other operating costs or supply chain and business disruptions could adversely affect our results of operations.

While we take measures to anticipate and react to changes in food, energy and supply costs, any increase in certain commodity prices could adversely affect our operating results. Because we provide moderately priced food, our ability to pass along commodity price increases to our customers may be limited. Additionally, significant increases in gasoline prices could 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 business. We rely on third party distribution companies to deliver food and supplies to our stores. Interruption of distribution services due to financial distress or other issues could impact our operations. Our operating expenses also include employee benefits and insurance costs (including workers' compensation, general liability, property and health) which may increase over time. Finally, our industry is susceptible to natural disasters which could result in restaurant closures and supply chain and business disruptions.

Health concerns arising from outbreaks of Avian Flu may have an adverse effect on our business.

Asian and European countries have experienced outbreaks of Avian Flu, and some commentators have hypothesized that further outbreaks could occur and reach pandemic levels. While fully-cooked chicken has been determined to be safe for consumption, and while we have taken and continue to take measures to anticipate and minimize the effect of these outbreaks on our business, future outbreaks could adversely affect the price and availability of poultry and cause customers to shift their preferences. In addition, outbreaks on a widespread basis could also affect our ability to attract and retain employees.

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

As a result of our franchising programs, our operating results are dependent upon the sales volumes and viability of our franchisees. Any significant inability of our franchisees to operate successfully could adversely affect our operating results. We have limited control over our franchisees and the quality of franchise restaurant operations may be impacted by factors that are not in our control. Franchisees may not have access to the financial or management resources that they need to open or continue operating the restaurants contemplated by their franchise agreements with us, or be able to find suitable sites on which to develop them. In addition, franchisees may not be able to negotiate acceptable lease or purchase terms for the sites, obtain the necessary permits and government approvals or meet construction schedules. Our franchisees generally depend upon financing from banks and other financial institutions in order to construct and open new restaurants. In some instances, financing has been difficult to obtain for some operators. Any of these problems could slow our planned growth.

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

We are in the process of a refranchising program, which could reduce the percentage of company ownership in the U.S., excluding licensees, from approximately 22% at the end of 2007 to potentially less than 10% by the end of 2010. Our ability to execute this plan will depend on, among other things, whether we can find viable and appropriate buyers for our restaurants, how quickly we can agree to terms with potential buyers and the availability of financing to potential buyers. The success of the refranchising program once executed will depend on, among other things, our selection of buyers who can effectively operate our restaurants, our ability to limit our exposure to contingent liabilities in connection with the sale of our restaurants, and whether the resulting ownership mix of Company-operated and franchisee-operated restaurants allows us to meet our financial objectives. In addition, refranchising activity could vary significantly from quarter-to-quarter and year-to-year and that volatility could impact our reported earnings.

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

Like others in the restaurant industry, we are susceptible to claims filed by customers alleging that we are responsible for an illness or injury they suffered at or after a visit to our restaurants. 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 time and money away from our operations and hurt our performance. A judgment for significant 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 governmental regulations may adversely affect our business operations.

We and our franchisees are subject to various federal, state and local regulations. Each of our restaurants is subject to state and local licensing and regulation by health, sanitation, food and workplace safety and other agencies. Requirements of local authorities with respect to zoning, land use, licensing, permitting and environmental factors could delay or prevent development of new restaurants in particular locations. In addition, we face risks arising from compliance with and enforcement of increasingly complex federal and state immigration laws and regulations.

We are subject to the Americans with Disabilities Act and similar state laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas. The expenses associated with any facilities modifications required by these laws could be material. Our operations are also subject to the U.S. Fair Labor Standards Act, which governs such matters 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. The compliance costs associated with these laws and evolving regulations could be substantial.

We also face risks from new or changing laws and regulations relating to nutritional content, nutritional labeling, product safety and menu labeling regulation. Compliance with these laws and regulations can be costly and can increase our exposure to litigation or governmental investigations or proceedings. In addition, we are subject to laws relating to information security, privacy, cashless payments and consumer credit, protection and fraud, and any failure or perceived failure to comply with those laws could harm our reputation or lead to litigation, which could adversely affect our financial condition.

We may not attain our target development goals.

We are pursuing a disciplined growth strategy, which, to be successful, will depend in large part on our ability and the ability of our franchisees to upgrade existing restaurants and open new restaurants, and to operate these restaurants on a profitable basis. We cannot guarantee that we, or our franchisees, will be able to achieve our expansion goals or that new, upgraded or converted restaurants will be operated profitably. Further, there is no assurance that any restaurant we open or convert will obtain operating results similar to those of our existing restaurants. The success of our planned expansion will depend upon numerous factors, many of which are beyond our control.

Our growth strategy depends in large part on our ability to increase our net restaurant count in our international markets. Risks which could impact our ability to increase our net restaurant count include prevailing economic conditions and our, or our franchisees', ability to obtain suitable restaurant locations, obtain required permits and approvals and hire and train qualified personnel.

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, price, advertising levels and promotional initiatives, customer service, reputation, restaurant location, and attractiveness and maintenance of properties. If consumer 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. 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. In addition, our success depends to a significant extent on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could harm our results of operations.

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 2007 fiscal year and that remain unresolved.

Item 2. Properties.

As of year end 2007, the Company owned more than 1,600 units and leased land, building or both in more than 6,000 units worldwide. These units are further detailed as follows:

- The Company owned more than 1,300 units and leased land, building or both in more than 2,500 units in the U.S.
- The International Division owned more than 200 units and leased land, building or both in more than 1,300 units.
- The China Division leased land, building or both in more than 2,000 units.

Company restaurants in the U.S. which are not owned 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 short renewal options. Company restaurants in the International Division which are not owned have initial lease terms and renewal options that vary by country. Company restaurants in the China Division 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 significant impact on our operations, cash flows or capital resources. The Company generally does not lease or sub-lease units that it owns or leases to franchisees.

Pizza Hut and YRI lease their corporate headquarters and a research facility in Dallas, Texas. Taco Bell leases its corporate headquarters and research facility in Irvine, California. KFC owns its and LJS's, A&W's and YUM's corporate headquarters and a research facility in Louisville, Kentucky. In addition, YUM leases office facilities for certain support groups in Louisville, Kentucky. The China Division leases their corporate headquarters and research facilities in Shanghai, China. Additional information about the Company's properties is included in the Consolidated Financial Statements and footnotes in Part II, Item 8, pages 49 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 claims and contingencies related to lawsuits, real estate, environmental and other matters arising in the normal course of business. 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 22, Guarantees, Commitments and Contingencies, to the Consolidated Financial Statements included in Part II, Item 8.

Franchising

A substantial number of the restaurants of each of the Concepts are franchised to independent businesses operating under arrangements with the Concepts. In the course of the franchise relationship, occasional disputes arise between the Company and its Concepts' franchisees relating to a broad range of subjects, including, without limitation, quality, service, and cleanliness issues, contentions regarding grants, transfers or terminations of franchises, territorial disputes and delinquent payments.

Suppliers

The Company, through approved distributors, purchases food, paper, equipment and other restaurant supplies from numerous independent suppliers throughout the world. These suppliers are required to meet and maintain compliance with the Company's standards and specifications. On occasion, disputes arise between the Company and its suppliers on a number of issues, including, but not limited to, compliance with product specifications and terms of procurement and service requirements.

Employees

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

Like other retail employers, the Company has been faced in a few states with allegations of purported class-wide wage and hour and other labor law violations.

Customers

The Company's 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 such as those of the Company.

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 may become involved in litigation to defend and protect its use and ownership of its registered marks.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of shareholders during the fourth quarter of 2007.

Executive Officers of the Registrant

The executive officers of the Company as of February 18, 2008, and their ages and current positions as of that date are as follows:

David C. Novak, 55, is Chairman of the Board, Chief Executive Officer and President of YUM. He has served in this position since January 2001. From December 1999 to January 2001, Mr. Novak served as Vice Chairman of the Board, Chief Executive Officer and President of YUM. From October 1997 to December 1999, he served as Vice Chairman and President of YUM. Mr. Novak previously served as Group President and Chief Executive Officer, KFC and Pizza Hut from August 1996 to July 1997.

Richard T. Carucci, 50, is Chief Financial Officer of YUM. He has served in this position since March 2005. From October 2004 to February 2005, he served as Senior Vice President, Finance and Chief Financial Officer – Designate of YUM. From May 2003 to October 2004, he served as Executive Vice President and Chief Development Officer of YRI. From November 2002 to May 2003, he served as Senior Vice President for YRI and also assisted Pizza Hut in asset strategy development. From November 1999 to July 2002, he was Chief Financial Officer of YRI.

Peter R. Hearl, 56, is Chief Operating and Development Officer of YUM. He has served in this position since December 2006. From December 2002 to November 2006, he served as President and Chief Concept Officer of Pizza Hut. From January 2002 to November 2002, he was Chief People Officer and Executive Vice President of YUM. Mr. Hearl intends to retire from the Company at the end of March 2008.

Christian L. Campbell, 57, 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. In January 2003, his title and job responsibilities were expanded to include Chief Franchise Policy Officer.

Jonathan D. Blum, 49, is Senior Vice President – Public Affairs for YUM. He has served in this position since July 1997.

Anne P. Byerlein, 49, is Chief People Officer of YUM. She has served in this position since December 2002. From October 1997 to December 2002, she was Vice President of Human Resources of YUM. From October 2000 to December 2002, she also served as KFC's Chief People Officer.

Ted F. Knopf, 56, is Senior Vice President Finance and Corporate Controller of YUM. He has served in this position since April 2005. From September 2001 to April 2005, Mr. Knopf served as Vice President of Corporate Planning and Strategy of YUM.

Emil J. Brolick, 60, is President of U.S. Brand Building. He has served in this position since December 2006. Prior to this position, he served as President and Chief Concept Officer of Taco Bell, a position he held from July 2000 to November 2006. Prior to joining Taco Bell, Mr. Brolick served as Senior Vice President of New Product Marketing, Research & Strategic Planning for Wendy's International, Inc. from August 1995 to July 2000.

Gregg R. Dedrick, 48, is President and Chief Concept Officer of KFC. He has served in this position since September 2003. From January 2002 to September 2003, Mr. Dedrick acted as a Strategic Advisor to YUM while serving as Chief Administrative Officer of his church, which is one of the ten largest churches in the United States. From July

1997 to January 2002, he served as Chief People Officer of YUM and Executive Vice President of People and Shared Services.

Scott O. Bergren, 61, is President and Chief Concept Officer of Pizza Hut. He has served in this position since November 2006. Prior to this position, he served as Chief Marketing officer of KFC and YUM from August 2003 to November 2006. From September 2002 until July 2003, he was the Executive Vice President, Marketing and Chief Concept Officer for YUM Restaurants International, Inc. From April 2002 until September 2002, he was Senior Vice President New Concepts for YUM Restaurants International, Inc. From June 1995 until 2002, he was Chief Executive Officer of Chevy's Mexican Restaurants, Inc.

Greg Creed, 50, is President and Chief Concept Officer of Taco Bell. He has served in this position since December 2006. Prior to this position, Mr. Creed served as Chief Operating Officer of YUM from December 2005 to November 2006. Mr. Creed served as Chief Marketing Officer of Taco Bell from July 2001 to October 2005.

Graham D. Allan, 52, is the President of YRI. He has served in this position since November 2003. Immediately prior to this position he served as Executive Vice President of YRI. From December 2000 to May 2003, Mr. Allan was the Managing Director of YRI.

Samuel Su, 55, is the President of YUM Restaurants China. He has served in this position since 1997. Prior to this, he was the Vice President of North Asia for both KFC and Pizza Hut. Mr. Su started his career with YUM in 1989 as KFC International's Director of Marketing for the North Pacific area.

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. All per share and share amounts herein have been adjusted for the two-for-one stock split on June 26, 2007.

		2007		
Quarter	High	Low	Dividends Declared	Dividends Paid
First	$ 31.03	$ 27.69	$ —	$ 0.075
Second	34.37	28.85	0.15	0.15
Third	34.80	29.62	—	0.15
Fourth	40.27	31.45	0.30	0.15

		2006		
Quarter	High	Low	Dividends Declared	Dividends Paid
First	$ 25.59	$ 23.38	$0.0575	$ 0.0575
Second	26.84	23.83	0.075	0.0575
Third	25.96	22.47	—	0.075
Fourth	31.74	25.59	0.30	0.075

In 2006, the Company declared one cash dividend of $0.0575 per share of Common Stock, three cash dividends of $0.075 per share of Common Stock and one cash dividend of $0.15 per share of Common Stock. In 2007, the Company declared three cash dividends of $0.15 per share of Common Stock, one of which had a distribution date of February 1, 2008. The Company is targeting an annual dividend payout ratio of 35% to 40% of net income.

As of February 18, 2008, there were approximately 85,000 registered holders of record of the Company's Common Stock.

The Company had no sales of unregistered securities during 2007, 2006 or 2005.

Issuer Purchases of Equity Securities

The following table provides information as of December 29, 2007 with respect to shares of Common Stock repurchased by the Company during the quarter then ended:

Fiscal Periods	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
Period 10 9/9/07 – 10/6/07	4,140,000	$ 33.56	4,140,000	$ 26,137,093
Period 11 10/7/07 – 11/3/07	5,706,777	$ 38.37	5,706,777	$ 1,057,158,754
Period 12 11/4/07 – 12/1/07	3,958,428	$ 37.87	3,958,428	$ 907,256,535
Period 13 12/2/07 – 12/29/07	2,468,063	$ 38.24	2,468,063	$ 812,876,870
Total	16,273,268	$ 37.01	16,273,268	$ 812,876,870

In March 2007, our Board of Directors authorized additional share repurchases, through March 2008, of up to an additional $500 million (excluding applicable transaction fees) of our outstanding Common Stock. For the quarter ended December 29, 2007, approximately 4.9 million shares were repurchased under this authorization. This authorization was completed during the quarter.

In October 2007, our Board of Directors authorized additional share repurchases, through October 2008, of up to an additional $1.25 billion (excluding applicable transaction fees) of our outstanding Common Stock. For the quarter ended December 29, 2007, approximately 11.4 million shares were repurchased under this authorization.

In January 2008, our Board of Directors authorized additional share repurchases, through January 2009, of up to an additional $1.25 billion (excluding applicable transaction fees) of our outstanding Common Stock.

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 27, 2002 to December 28, 2007, the last trading day of our 2007 fiscal year. The graph assumes that the value of the investment in our Common Stock and each index was $100 at December 27, 2002 and that all dividends were reinvested.

	12/27/02	12/26/03	12/23/04	12/30/05	12/29/06	12/28/07
YUM!	$ 100	$ 140	$ 193	$ 197	$ 250	$ 333
S&P 500	$ 100	$ 125	$ 138	$ 143	$ 162	$ 169
S&P Consumer Discretionary	$ 100	$ 137	$ 153	$ 144	$ 169	$ 145

Item 6. Selected Financial Data.

Selected Financial Data

YUM! Brands, Inc. and Subsidiaries

(in millions, except per share and unit amounts)

	Fiscal Year				
	2007	2006	2005	2004	2003
Summary of Operations					
Revenues					
Company sales	$ 9,100	$ 8,365	$ 8,225	$ 7,992	$ 7,441
Franchise and license fees	1,316	1,196	1,124	1,019	939
Total	10,416	9,561	9,349	9,011	8,380
Closures and impairment expenses(a)	(35)	(59)	(62)	(38)	(40)
Refranchising gain (loss)(a)	11	24	43	12	4
Operating profit(b)	1,357	1,262	1,153	1,155	1,059
Interest expense, net	166	154	127	129	173
Income before income taxes and cumulative effect of accounting change	1,191	1,108	1,026	1,026	886
Income before cumulative effect of accounting change	909	824	762	740	618
Cumulative effect of accounting change, net of tax(c)	—	—	—	—	(1)
Net income	909	824	762	740	617
Basic earnings per common share	1.74	1.51	1.33	1.27	1.05
Diluted earnings per common share	1.68	1.46	1.28	1.21	1.01
Cash Flow Data					
Provided by operating activities	$ 1,567	$ 1,299	$ 1,233	$ 1,186	$ 1,099
Capital spending, excluding acquisitions	742	614	609	645	663
Proceeds from refranchising of restaurants	117	257	145	140	92
Repurchase shares of Common Stock	1,410	983	1,056	569	278
Dividends paid on common shares	273	144	123	58	—
Balance Sheet					
Total assets	$ 7,242	$ 6,368	$ 5,797	$ 5,696	$ 5,620
Long-term debt	2,924	2,045	1,649	1,731	2,056
Total debt	3,212	2,272	1,860	1,742	2,066
Other Data					
Number of stores at year end					
Company	7,625	7,736	7,587	7,743	7,854
Unconsolidated Affiliates	1,314	1,206	1,648	1,662	1,512
Franchisees	24,297	23,516	22,666	21,858	21,471
Licensees	2,109	2,137	2,376	2,345	2,362
System	35,345	34,595	34,277	33,608	33,199
U.S. Company same store sales growth(d)	(3)%	—	4%	3%	—
International Division system sales growth(e)					
Reported	15%	7%	9%	14%	13%
Local currency(f)	10%	7%	6%	6%	5%
China Division system sales growth(e)					
Reported	31%	26%	13%	23%	23%
Local currency(f)	24%	23%	11%	23%	23%
Shares outstanding at year end(g)	499	530	556	581	583

Cash dividends declared per common share(g)	$ 0.45	$ 0.4325	$ 0.2225	$ 0.15	$ —
Market price per share at year end (g)	$ 38.54	$ 29.40	$ 23.44	$ 23.14	$ 16.82

Fiscal years 2007, 2006, 2004 and 2003 include 52 weeks and fiscal year 2005 includes 53 weeks.

Fiscal years 2007, 2006 and 2005 include the impact of the adoption of Statement of Financial Accounting Standards ("SFAS") No. 123R (Revised 2004), "Share Based Payment," ("SFAS 123R"). This resulted in a $37 million, $39 million and $38 million decrease in net income, for 2007, 2006 and 2005, respectively. This translates to a decrease of $0.07 to both basic and diluted earnings per share for 2007 and 2006, and a decrease of $0.07 and $0.06 to basic and diluted earnings per share, respectively, for 2005. If SFAS 123R had been effective for prior years presented, both reported basic and diluted earnings per share would have decreased $0.06 for 2004 and 2003 consistent with previously disclosed pro-forma information.

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

(a) See Note 5 to the Consolidated Financial Statements for a description of Closures and Impairment Expenses and Refranchising Gain (Loss) in 2007, 2006 and 2005.

(b) Fiscal years 2007, 2006, 2005, 2004 and 2003 included $11 million income, $1 million income, $4 million income, $30 million income and $16 million expense, respectively, related to Wrench litigation and AmeriServe. The Wrench litigation relates to a lawsuit against Taco Bell Corporation, which was settled in 2004, including financial recoveries from settlements with insurance carriers. Amounts related to AmeriServe are the result of cash recoveries related to the AmeriServe bankruptcy reorganization process for which we incurred significant expense in years prior to those presented here (primarily 2000). AmeriServe was formerly our primary distributor of food and paper supplies to our U.S. stores.

(c) Fiscal year 2003 includes the i