October 22, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

File Reference No. 1820-100

Dear Sir/Madam:

Yum! Brands, Inc. ("YUM") thanks you for the opportunity to comment on the Exposure Draft, Revenue Recognition, issued on June 24, 2010 ("Exposure Draft"). YUM is a worldwide quick service restaurant company that operates, franchises and licenses a system of over 37,000 restaurants which sell quick service food items through its five restaurant concepts (KFC, Pizza Hut, Taco Bell, LJS and A&W). Over 29,000 of these restaurants are operated by independent franchisees and licensees (collectively "franchisees") under long-term franchise and license arrangements. Under these arrangements, franchisees generally pay an upfront fee at the inception of the contract and pay an ongoing royalty based on a percentage of sales over the term of the arrangement.

Accounting Standards Codification 952 "Franchisors" ("ASC 952") is the current authoritative guidance for revenue recognition of continuing franchise fees. ASC 952 states that revenues from continuing franchise fees should be recorded as revenue as the fees are earned and become receivable from the franchisee. YUM and other franchisors in the restaurant industry recognize continuing fee revenue as franchisees make the underlying sales upon which the royalty is based. We are concerned that certain interpretations of this Exposure Draft could change the timing of recognition of continuing fee revenue for YUM and others in the industry. We do not believe such a change is necessary or appropriate as the current model results in recognition of royalties that is consistent with:

- The manner in which franchisors view and manage their franchise businesses;
- The fundamental principles on which the franchise model is based in which the franchisor and franchisee share in the short-term fluctuations of the franchisee's sales; and
- The timing of recognition of sales in company operated restaurants (i.e. when the products are sold to the customers) in the same restaurant concept that should be experiencing similar short-term business trends (through the promotion of similar products, etc.)
While we appreciate the desire for a single revenue recognition framework, the current model for recognition of continuing franchise fees is easy to apply, well understood by financial users and consistent with the economic proposition of the franchisor model. Thus, we are not supportive of any potential change that would impact recognition of continuing fees for franchisors. We address this concern with the Exposure Draft in our responses to Questions 4 and 16 as follows.

**Question 4:**
The Boards propose that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognize revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognizing revenue when the transaction price is variable and why?

We have concerns with the Exposure Draft proposal to estimate a transaction price for variable consideration. As internal and external factors are constantly changing, projecting accurate long-term sales trends would be extremely difficult. Additionally, processes, controls and systems would need to be implemented to handle the changes for initial measurement, reevaluation and revenue recognition. This would be further complicated due to the volume of maintenance required for contracts for over 29,000 restaurants.

The use of estimates would also result in a significant number of adjustments being made to reported revenues each reporting period. These adjustments may mask the current, underlying business trends for a concept. We believe that an estimation and adjustment process would add unnecessary complication and reduce the usefulness of financial statements. We have difficulty understanding how this costly method is better than the current accounting under ASC 952 which recognizes revenue as franchisees make the underlying sales upon which the royalty is based.

**Question 16:**
The Boards propose the following if a license is not considered to be a sale of intellectual property:

a) if an entity grants a customer an exclusive license to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the license; and

b) if an entity grants a customer a nonexclusive license to use its intellectual property, it has a performance obligation to transfer the license and it satisfies that obligation when the customer is able to use and benefit from the license.

Do you agree that the pattern of revenue recognition should depend on whether the license is exclusive? Do you agree with the patterns of revenue recognition proposed by the Boards? Why or why not?
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Under the guidance provided in IG37, exclusivity can be determined based upon geography. Specifically IG37(b), provides the example that exclusivity based on geography is obtained when a franchisor grants “one customer the exclusive right to a franchise in a particular region.” While this is clearly referenced as an example in the Exposure Draft, we are concerned that the example could be interpreted to mean that a region is the lowest level at which geographic exclusivity is determined. Our franchise contracts are often only exclusive from a geographic standpoint at their assigned location (i.e. a single restaurant address). While exclusivity may be limited to a single restaurant address in order for us to maintain maximum flexibility as franchisor, we would not generally grant a franchise right to another franchisee in the same trade area as the success of our franchisees and maintenance of strong relationships with them is critical to our long-term growth.  

We also believe that our franchise agreements, without regard to geographic boundaries, are exclusive in the context of the discussions in BC 223 (b) and BC 225. BC 223 (b) states that “leases, by nature, are exclusive because a lessor cannot grant the right to use the leased asset to more than one lessee at one time. In contrast, an entity can grant similar rights to use some intellectual property to more than one customer under substantially the same terms.” Additionally, BC 225 states that “a license is nonexclusive if the entity continues to retain and control its intellectual property and can use that property to grant similar licenses to other customers under substantially the same terms.” Our individual franchise agreements are clearly viewed by both YUM and its franchisees as being for the exclusive right to use YUM’s intellectual property, regardless of any contractual geographical provisions.  

While we believe that our individual franchise agreements provide for the exclusive rights to use our intellectual property, we believe that the concept that is more relevant to the determination of whether a performance obligation has been satisfied for the recognition of continuing franchise fees is that of continuous involvement. Similar to the concepts discussed in paragraph 32 of the Exposure Draft we continuously provide significant services to the franchisee through the term of the franchise agreement such as marketing and operational support. We believe that the provision of such support is indicative of the satisfaction of our obligations as franchisor and should be the basis for revenue recognition.  

We appreciate the opportunity to express our opinion on this matter and would be pleased to discuss our comments in greater detail if requested.  

Sincerely,  

/s/ David E. Russell  
David E. Russell  
Vice President and  
Assistant Corporate Controller