

DARDEN RESTAURANTS INC

Form 10-Q

April 02, 2019

Table of Contents

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 February 24, 2019

or

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

For the transition period from _____ to _____

1-13666

Commission File Number

DARDEN RESTAURANTS, INC.

(Exact name of registrant as specified in its charter)

Florida

59-3305930

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

1000 Darden Center Drive

32837

Orlando, Florida

(Address of principal executive offices) (Zip Code)

407-245-4000

(Registrant's telephone number, including area code)

Not applicable (Former name, former address and former fiscal year, if changed since last report)

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 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.

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Edgar Filing: DARDEN RESTAURANTS INC - Form 10-Q

Number of shares of common stock outstanding as of March 15, 2019: 122,975,802 (excluding 1,263,682 shares held in our treasury).

Table of Contents

TABLE OF CONTENTS

	Page
Part I - Financial Information	
Item 1. <u>Financial Statements (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Earnings</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>5</u>
<u>Consolidated Balance Sheets</u>	<u>6</u>
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	<u>7</u>
<u>Consolidated Statements of Cash Flows</u>	<u>8</u>
<u>Notes to Consolidated Financial Statements</u>	<u>10</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>32</u>
Item 4. <u>Controls and Procedures</u>	<u>32</u>
Part II - Other Information	
Item 1. <u>Legal Proceedings</u>	<u>33</u>
Item 1A. <u>Risk Factors</u>	<u>33</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>33</u>
Item 6. <u>Exhibits</u>	<u>34</u>
<u>Signature</u>	<u>35</u>

Table of Contents

Cautionary Statement Regarding Forward-Looking Statements

Statements set forth in or incorporated into this report regarding the expected increase in the number of our restaurants, U.S. same-restaurant sales and capital expenditures in fiscal 2019 and all other statements that are not historical facts, including without limitation statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of Darden Restaurants, Inc. and its subsidiaries that are preceded by, followed by or that include words such as “may,” “will,” “expect,” “intend,” “anticipate,” “continue,” “estimate,” “project,” “plan”, “outlook” or similar expressions, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This statement is included for purposes of complying with the safe harbor provisions of that Act. Any forward-looking statements speak only as of the date on which such statements are made, and we undertake no obligation to update such statements for any reason to reflect events or circumstances arising after such date. By their nature, forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by such forward-looking statements. The most significant of these uncertainties are described in Darden’s Form 10-K, Form 10-Q (including this report) and Form 8-K reports.

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

DARDEN RESTAURANTS, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(In millions, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	February 24,	February 25,	February 24,	February 25,
	2019	2018	2019	2018
Sales	\$2,246.5	\$ 2,128.4	\$6,281.3	\$ 5,946.0
Costs and expenses:				
Food and beverage	638.0	603.3	1,784.6	1,701.4
Restaurant labor	711.4	683.0	2,053.1	1,929.6
Restaurant expenses	379.5	360.8	1,098.4	1,055.2
Marketing expenses	62.4	58.9	186.9	183.0
General and administrative expenses	102.8	110.1	302.4	307.0
Depreciation and amortization	85.3	79.2	248.8	234.1
Impairments and disposal of assets, net	1.6	(0.3)	4.4	(1.1)
Total operating costs and expenses	\$1,981.0	\$ 1,895.0	\$5,678.6	\$ 5,409.2
Operating income	265.5	233.4	602.7	536.8
Interest, net	12.4	117.4	38.3	147.9
Earnings before income taxes	253.1	116.0	564.4	388.9
Income tax expense (benefit)	28.0	(102.5)	54.5	(39.5)
Earnings from continuing operations	\$225.1	\$ 218.5	\$509.9	\$ 428.4
Losses from discontinued operations, net of tax benefit of \$0.8, \$0.5, \$1.3 and \$4.0, respectively	(1.5)	(0.7)	(4.5)	(6.9)
Net earnings	\$223.6	\$ 217.8	\$505.4	\$ 421.5
Basic net earnings per share:				
Earnings from continuing operations	\$1.83	\$ 1.77	\$4.12	\$ 3.45
Losses from discontinued operations	(0.02)	(0.01)	(0.03)	(0.06)
Net earnings	\$1.81	\$ 1.76	\$4.09	\$ 3.39
Diluted net earnings per share:				
Earnings from continuing operations	\$1.80	\$ 1.74	\$4.06	\$ 3.40
Losses from discontinued operations	(0.01)	(0.01)	(0.04)	(0.06)
Net earnings	\$1.79	\$ 1.73	\$4.02	\$ 3.34
Average number of common shares outstanding:				
Basic	123.3	123.6	123.7	124.2
Diluted	125.0	125.7	125.6	126.1

See accompanying notes to our unaudited consolidated financial statements.

Table of Contents

DARDEN RESTAURANTS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	February 24,	February 25,	February 24,	February 25,
	2019	2018	2019	2018
Net earnings	\$223.6	\$ 217.8	\$505.4	\$ 421.5
Other comprehensive income (loss):				
Foreign currency adjustment	(0.3)	(0.4)	0.3	(1.1)
Change in fair value of marketable securities, net of taxes of \$0.0, \$0.0, \$0.0 and \$0.0, respectively	—	—	—	(0.1)
Change in fair value of derivatives and amortization of unrecognized gains and losses on derivatives, net of taxes of \$(0.1), \$0.0, \$(0.1) and \$0.0, respectively	(1.9)	3.6	4.4	(0.8)
Amortization of unrecognized net actuarial (loss) gain, net of taxes of \$0.0, \$(0.1), \$0.0 and \$(0.1), respectively, related to pension and other post-employment benefits	(0.1)	—	(0.5)	(0.1)
Reclassification of tax effect	—	(15.4)	—	(15.4)
Other comprehensive income (loss)	\$(2.3)	\$ (12.2)	\$4.2	\$ (17.5)
Total comprehensive income	\$221.3	\$ 205.6	\$509.6	\$ 404.0

See accompanying notes to our unaudited consolidated financial statements.

Table of Contents

DARDEN RESTAURANTS, INC.
CONSOLIDATED BALANCE SHEETS
(In millions)

	February 24, 2019	May 27, 2018
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 302.9	\$ 146.9
Receivables, net	73.9	83.7
Inventories	209.5	205.3
Prepaid income taxes	5.2	15.9
Prepaid expenses and other current assets	95.7	89.9
Assets held for sale	—	11.9
Total current assets	\$ 687.2	\$ 553.6
Land, buildings and equipment, net of accumulated depreciation and amortization of \$2,414.5 and \$2,231.7, respectively	2,539.9	2,429.8
Goodwill	1,183.7	1,183.7
Trademarks	950.8	950.8
Other assets	336.2	351.7
Total assets	\$ 5,697.8	\$ 5,469.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 303.2	\$ 277.0
Accrued payroll	163.3	177.5
Accrued income taxes	7.3	—
Other accrued taxes	50.5	56.6
Unearned revenues	471.7	415.8
Other current liabilities	446.9	457.6
Total current liabilities	\$ 1,442.9	\$ 1,384.5
Long-term debt	927.4	926.5
Deferred income taxes	130.7	114.0
Deferred rent	346.5	318.0
Other liabilities	534.6	531.8
Total liabilities	\$ 3,382.1	\$ 3,274.8
Stockholders' equity:		
Common stock and surplus	\$ 1,676.8	\$ 1,631.9
Retained earnings	728.4	657.6
Treasury stock	(7.8)	(7.8)
Accumulated other comprehensive income (loss)	(81.0)	(85.2)
Unearned compensation	(0.7)	(1.7)
Total stockholders' equity	\$ 2,315.7	\$ 2,194.8
Total liabilities and stockholders' equity	\$ 5,697.8	\$ 5,469.6

See accompanying notes to our unaudited consolidated financial statements.

Table of Contents

DARDEN RESTAURANTS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Three and Nine Months Ended February 24, 2019 and February 25, 2018

(In millions)

(Unaudited)

	Common Stock And Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total Stockholders' Equity
Balance at November 25, 2018	\$1,675.5	\$662.5	\$ (7.8)	\$ (78.7)	\$ (1.2)	\$ 2,250.3
Net earnings	—	223.6	—	—	—	223.6
Other comprehensive income (loss)	—	—	—	(2.3)	—	(2.3)
Dividends declared (\$0.75 per share)	—	(93.6)	—	—	—	(93.6)
Stock option exercises (0.0 shares)	1.8	—	—	—	—	1.8
Stock-based compensation	7.2	—	—	—	—	7.2
Repurchases of common stock (0.7 shares)	(9.6)	(64.1)	—	—	—	(73.7)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.0 shares)	1.9	—	—	—	0.4	2.3
Other	—	—	—	—	0.1	\$ 0.1
Balance at February 24, 2019	\$1,676.8	\$728.4	\$ (7.8)	\$ (81.0)	\$ (0.7)	\$ 2,315.7
Balance at May 27, 2018	\$1,631.9	\$657.6	\$ (7.8)	\$ (85.2)	\$ (1.7)	\$ 2,194.8
Net earnings	—	505.4	—	—	—	505.4
Other comprehensive income (loss)	—	—	—	4.2	—	4.2
Dividends declared (\$2.25 per share)	—	(280.2)	—	—	—	(280.2)
Stock option exercises (0.9 shares)	40.2	—	—	—	—	40.2
Stock-based compensation	20.0	—	—	—	—	20.0
Repurchases of common stock (1.6 shares)	(21.2)	(144.8)	—	—	—	(166.0)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.1 shares)	5.2	—	—	—	0.8	6.0
Other	0.7	(9.6)	—	—	0.2	(8.7)
Balance at February 24, 2019	\$1,676.8	\$728.4	\$ (7.8)	\$ (81.0)	\$ (0.7)	\$ 2,315.7
Balance at November 26, 2017		\$1,606.8	\$447.3	\$ (7.8)	\$ (68.2)	\$ (2.0) \$1,976.1
Net earnings		—	217.8	—	—	— 217.8
Other comprehensive income (loss)		—	—	—	(12.2)	— (12.2)
Dividends declared (\$0.63 per share)		—	(77.9)	—	—	— (77.9)
Stock option exercises (0.4 shares)		16.5	—	—	—	— 16.5
Stock-based compensation		6.1	—	—	—	— 6.1
Repurchases of common stock (0.2 shares)		(2.5)	(16.2)	—	—	— (18.7)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.1 shares)		1.5	—	—	—	0.1 1.6
Other		—	15.4	—	—	0.2 \$15.6
Balance at February 25, 2018		\$1,628.4	\$586.4	\$ (7.8)	\$ (80.4)	\$ (1.7) \$2,124.9
Balance at May 28, 2017		\$1,614.6	\$560.1	\$ (7.8)	\$ (62.9)	\$ (2.3) \$2,101.7
Net earnings		—	421.5	—	—	— 421.5
Other comprehensive income (loss)		—	—	—	(17.5)	— (17.5)

Edgar Filing: DARDEN RESTAURANTS INC - Form 10-Q

Dividends declared (\$1.89 per share)	—	(234.9)	—	—	—	(234.9)
Stock option exercises (0.8 shares)	31.1	—	—	—	—	31.1
Stock-based compensation	16.7	—	—	—	—	16.7
Repurchases of common stock (2.5 shares)	(31.9)	(175.7)	—	—	—	(207.6)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.1 shares)	4.3	—	—	—	0.1	4.4
Other	(6.4)	15.4	—	—	0.5	9.5
Balance at February 25, 2018	\$1,628.4	\$586.4	\$(7.8)	\$(80.4)	\$(1.7)	\$2,124.9
See accompanying notes to our unaudited consolidated financial statements.						

Table of Contents

DARDEN RESTAURANTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended	
	February 24, 2019	February 25, 2018
Cash flows—operating activities		
Net earnings	\$ 505.4	\$ 421.5
Losses from discontinued operations, net of tax	4.5	6.9
Adjustments to reconcile net earnings from continuing operations to cash flows:		
Depreciation and amortization	248.8	234.1
Impairments and disposal of assets, net	4.4	(1.1)
Stock-based compensation expense	45.3	32.2
Change in current assets and liabilities	59.3	13.9
Contributions to pension and postretirement plans	(1.3)	(61.6)
Deferred income taxes	15.9	(29.0)
Change in deferred rent	26.5	27.8
Change in other assets and liabilities	5.7	11.0
Loss on extinguishment of debt	—	102.2
Other, net	5.5	(6.9)
Net cash provided by operating activities of continuing operations	\$ 920.0	\$ 751.0
Cash flows—investing activities		
Purchases of land, buildings and equipment	(346.9)	(294.9)
Proceeds from disposal of land, buildings and equipment	12.7	3.3
Cash used in business acquisitions, net of cash acquired	—	(40.4)
Purchases of capitalized software and other assets	(17.4)	(14.7)
Other, net	1.9	4.4
Net cash used in investing activities of continuing operations	\$(349.7)	\$(342.3)
Cash flows—financing activities		
Proceeds from issuance of common stock	45.4	35.5
Dividends paid	(278.4)	(234.9)
Repurchases of common stock	(166.0)	(207.6)
Proceeds from issuance of short-term debt	137.5	812.2
Repayments of short-term debt	(137.5)	(761.6)
Repayments of long-term debt	—	(408.2)
Proceeds from issuance of long-term debt	—	300.0
Principal payments on capital and financing leases	(4.9)	(3.9)
Other, net	0.1	(11.5)
Net cash used in financing activities of continuing operations	\$(403.8)	\$(480.0)
Cash flows—discontinued operations		
Net cash used in operating activities of discontinued operations	(10.5)	(15.2)
Net cash provided by investing activities of discontinued operations	—	0.2
Net cash used in discontinued operations	\$(10.5)	\$(15.0)
Increase (decrease) in cash and cash equivalents	156.0	(86.3)
Cash and cash equivalents - beginning of period	146.9	233.1
Cash and cash equivalents - end of period	\$ 302.9	\$ 146.8

Table of Contents

DARDEN RESTAURANTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(In millions)

(Unaudited)

	Nine Months Ended	
	February 24, 2019	February 25, 2018
Cash flows from changes in current assets and liabilities		
Receivables, net	16.5	25.8
Inventories	(4.2)	(29.1)
Prepaid expenses and other current assets	(5.8)	(12.9)
Accounts payable	26.3	28.9
Accrued payroll	(14.2)	5.7
Prepaid/accrued income taxes	17.9	(56.8)
Other accrued taxes	(6.1)	(1.9)
Unearned revenues	54.6	74.0
Other current liabilities	(25.7)	(19.8)
Change in current assets and liabilities	\$59.3	\$ 13.9

See accompanying notes to our unaudited consolidated financial statements.

Table of Contents

DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

Darden Restaurants, Inc. (we, our, Darden or the Company) owns and operates full-service dining restaurants in the United States and Canada under the trade names Olive Garden®, LongHorn Steakhouse®, Cheddar's Scratch Kitchen®, Yard House®, The Capital Grille®, Bahama Breeze®, Seasons 52®, and Eddie V's Prime Seafood®. As of February 24, 2019, through subsidiaries, we own and operate all of our restaurants in the United States and Canada, except for 3 joint venture restaurants managed by us and 37 franchised restaurants. We also have 32 franchised restaurants in operation located in Latin America and the Middle East.

We have prepared these consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally presented in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. We operate on a 52/53-week fiscal year which ends on the last Sunday in May, and our fiscal year ending May 26, 2019 will contain 52 weeks of operation. Operating results for interim periods presented are not necessarily indicative of results that may be expected for the full fiscal year.

These statements should be read in conjunction with the consolidated financial statements and related notes to consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended May 27, 2018. We prepare our consolidated financial statements in conformity with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of sales and costs and expenses during the reporting period. Actual results could differ from those estimates.

We have reclassified certain amounts in prior-period financial statements to conform to the current period's presentation.

Recently Adopted Accounting Standards

As of May 28, 2018, we adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This guidance did not impact the recognition of our primary source of revenue from company-owned restaurants, which also includes gift card revenue. This guidance did impact the recognition of initial franchise fees and area development fees, however, due to the relative insignificance of these amounts, the adoption of this guidance did not have a material impact on our consolidated financial statements. We adopted this guidance using the modified retrospective method, recording a decrease of \$3.3 million to retained earnings for the cumulative effect of the change, with an offsetting increase to unearned revenue of \$1.2 million and other liabilities of \$2.1 million for current and noncurrent deferred revenue, respectively. Comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods. See Note 2.

As of May 28, 2018, we adopted ASU 2016-16, Income Taxes (Topic 740). This update addresses the income tax consequences of intra-entity transfers of assets other than inventory. Previous accounting guidance prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. In addition, interpretations of this guidance had developed in practice over the years for transfers of certain intangible and tangible assets. The amendments in the update require recognition of current and deferred income taxes resulting from an intra-entity transfer of an asset other than inventory when the transfer occurs. We adopted these provisions using the modified retrospective method recording a decrease of \$6.3 million to retained earnings for the cumulative effect of the change, with a corresponding decrease to other assets.

As of May 28, 2018, we adopted ASU 2017-07, Compensation - Retirement Benefits (Topic 715). The amendments in this update require that an employer disaggregate the service cost component from the other components of net benefit cost. The adoption of this guidance did not have a material impact on our consolidated financial statements. In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40). This update aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This update is effective for us in the first quarter of fiscal 2021, however, we elected to early adopt this guidance

Table of Contents

DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

during the quarter ended November 25, 2018, using a prospective approach. The adoption of this guidance did not have a material impact on our consolidated financial statements.

New Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update requires a lessee to recognize on the balance sheet a liability to make lease payments and a corresponding right-of-use asset. The guidance also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. The initial guidance required entities to use a modified retrospective transition approach as of the beginning of the earliest comparable period presented. In July 2018, the FASB issued an amendment providing an additional transition method allowing entities to apply the new lease requirements at the adoption date, rather than at the beginning of the earliest comparative period, and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Under this transition method, an entity's reporting for the comparative periods presented in the financial statements in the period of adoption will continue to be in accordance with current GAAP (Topic 840, Leases). We plan to adopt this guidance in the first quarter of fiscal 2020 using this optional transition method.

We are implementing a new lease system in connection with the adoption and we also expect changes to our internal controls over financial reporting. We expect our balance sheet presentation to be materially impacted upon adoption due to the recognition of right-of-use assets and lease liabilities for operating leases, however, we do not expect adoption to have a material impact on our consolidated statements of earnings. We do not expect our accounting for capital leases to substantially change. We plan to elect the short-term lease recognition exemption which provides the option to not recognize right-of-use assets and related liabilities that arise from certain leases with terms of 12 months or less. We also plan to elect the package of practical expedients which will allow us to not reassess previous accounting conclusions regarding lease identification and classification and we are finalizing our assessment of the other practical expedients and policy elections offered by the standard. We continue to evaluate the effect this guidance will have on our consolidated financial statements and related disclosures.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815). The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. This update is effective for us in the first quarter of fiscal 2020. The guidance will be applied retrospectively or prospectively, depending on the area covered in this update. Early adoption is permitted. We are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures.

Note 2.Revenue Recognition

Revenue from restaurant sales is recognized when food and beverage products are sold and is presented net of discounts, coupons, employee meals and complimentary meals. Revenue is presented net of sales tax. Sales taxes collected from customers are included in other accrued taxes on our consolidated balance sheets until the taxes are remitted to governmental authorities.

Franchise royalties, which are a percentage of net sales of franchised restaurants, are recognized in the period the related sales occur. Revenue from area development and franchise fees are recognized as the performance obligations are satisfied over the term of the franchise agreement, which is generally 10 years. Prior to the adoption of ASU 2014-09, area development fees were recognized over the term of the area development agreement and franchise fees were recognized when received, upon a new restaurant opening. Advertising contributions, which are a percentage of net sales of franchised restaurants, are recognized in the period the related sales occur. Prior to the adoption of ASU 2014-09, these contributions were recorded as a reduction of general and administrative expenses. Additionally, upon adoption of ASU 2014-09, franchisee purchases of our inventory through our distribution network are now recognized as revenue in the period the purchases are made.

Revenue from the sale of consumer packaged goods includes ongoing royalty fees based on a percentage of licensed retail product sales and is recognized upon the sale of product by our licensed manufacturers to retail outlets. We recognize sales from our gift cards when the gift card is redeemed by the customer. Although there are no expiration dates or dormancy fees for our gift cards, based on our analysis of our historical gift card redemption patterns, we can reasonably estimate the amount of gift cards for which redemption is remote, which is referred to as “breakage.” We recognize breakage within sales for unused gift card amounts in proportion to actual gift card redemptions, which is also referred to as the “redemption recognition” method. The estimated value of gift cards expected to remain unused is recognized over the expected

Table of Contents

DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

period of redemption as the remaining gift card values are redeemed, generally over a period of 12 years. Utilizing this method, we estimate both the amount of breakage and the time period of redemption. Discounts for gift cards sold by third parties are recorded to unearned revenues and are recognized over a period that approximates redemption patterns.

Deferred revenue liabilities from contracts with customers included on our accompanying consolidated balance sheets is comprised of the following:

(in millions)	February 24, 2019
Unearned revenues	
Deferred gift card revenue	\$ 501.8
Deferred gift card discounts	(31.6)
Other	1.5
Total	\$ 471.7

Other liabilities

Deferred franchise fees - non-current \$ 2.9

The following table presents a rollforward of deferred gift card revenue:

	Three Months Ended February 24, 2019	Nine Months Ended February 24, 2019
(in millions)		
Beginning balance	\$ 411.6	\$ 443.1
Activations	363.5	615.1
Redemptions and breakage	(273.3)	(556.4)
Ending balance	\$ 501.8	\$ 501.8

Note 3. Discontinued Operations and Assets Held for Sale

Discontinued Operations

Losses from discontinued operations, net of taxes in our accompanying consolidated statements of earnings is primarily related to the run-off of retained rights and obligations from the Red Lobster disposition and is comprised of the following:

	Three Months Ended February 24, 2019		Nine Months Ended February 25, 2019	
(in millions)	2019	2018	2019	2018
Costs and expenses:				
Restaurant and marketing expenses	\$0.9	\$ (0.1)	\$3.2	\$ (0.4)
Other income and expenses	1.4	1.3	2.6	11.3
Losses before income taxes	(2.3)	(1.2)	(5.8)	(10.9)
Income tax benefit	(0.8)	(0.5)	(1.3)	(4.0)
Losses from discontinued operations, net of tax	\$(1.5)	\$ (0.7)	\$(4.5)	\$ (6.9)

Assets Held For Sale

Assets classified as held for sale on our accompanying consolidated balance sheet as of May 27, 2018, primarily related to excess land parcels adjacent to our corporate headquarters with a carrying amount of \$11.9 million and were sold in the third quarter of fiscal 2019. See Note 8.

Table of Contents

DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 4. Supplemental Cash Flow Information

Cash paid for interest and income taxes are as follows:	Nine Months Ended	
(in millions)	February 24, 2019	February 25, 2018
Interest paid, net of amounts capitalized (1)	\$37.1	\$ 142.2
Income taxes paid, net of refunds	15.0	40.3

(1) Interest paid for the nine months ended February 25, 2018 includes approximately \$97.3 million of payments associated with the retirement of long-term debt.

Non-cash

investing activities are as follows:

	Nine Months Ended	
(in millions)	February 24, 2019	February 25, 2018
Increase in land, buildings and equipment through accrued purchases	\$ 37.5	\$ 35.7

Note 5. Income Taxes

The effective income tax rate for continuing operations for the quarter ended February 24, 2019 was 11.1 percent expense compared to an effective income tax rate of 88.4 percent benefit for the quarter ended February 25, 2018. The effective income tax rate for continuing operations for the nine months ended February 24, 2019 was 9.7 percent expense compared to an effective income tax rate of 10.2 percent benefit for the nine months ended February 25, 2018. The increase in the effective income tax rate for the quarter and nine months ended February 24, 2019 was primarily due to the favorable impact in fiscal 2018 of the Tax Cuts and Jobs Act (Tax Act), which included a \$77.3 million one-time adjustment of our net deferred tax liabilities and a corresponding income tax benefit reflected in our consolidated statements of earnings for the quarter and nine months ended February 25, 2018. We concluded our analysis of the accounting impact of the Tax Act pursuant to SEC Staff Accounting Bulletin 118 and recorded immaterial adjustments to the provisional amounts.

Included in our remaining balance of unrecognized tax benefits is \$3.6 million related to tax positions for which it is reasonably possible that the total amounts could change within the next twelve months based on the outcome of examinations or as a result of the expiration of the statute of limitations for specific jurisdictions.

Note 6. Net Earnings per Share

Outstanding stock options, restricted stock and equity-settled performance stock units granted by us represent the only dilutive effect reflected in diluted weighted average shares outstanding, none of which impact the numerator of the diluted net earnings per share computation. Stock options, restricted stock and equity-settled performance stock units excluded from the calculation of diluted net earnings per share because the effect would have been anti-dilutive, are as follows:

	Three Months Ended		Nine Months Ended	
(in millions)	February 24, 2019	February 25, 2018	February 24, 2019	February 25, 2018
Anti-dilutive stock-based compensation awards	0.4	0.4	0.3	0.2

Table of Contents

DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 7. Segment Information

We manage our restaurant brands, Olive Garden, LongHorn Steakhouse, Cheddar's Scratch Kitchen, Yard House, The Capital Grille, Bahama Breeze, Seasons 52 and Eddie V's in North America as operating segments. The brands operate principally in the U.S. within full-service dining. We aggregate our operating segments into reportable segments based on a combination of the size, economic characteristics and sub-segment of full-service dining within which each brand operates. We have four reportable segments: (1) Olive Garden, (2) LongHorn Steakhouse, (3) Fine Dining and (4) Other Business.

The Olive Garden segment includes the results of our company-owned Olive Garden restaurants in the U.S. and Canada. The LongHorn Steakhouse segment includes the results of our company-owned LongHorn Steakhouse restaurants in the U.S. The Fine Dining segment aggregates our premium brands that operate within the fine-dining sub-segment of full-service dining and includes the results of our company-owned The Capital Grille and Eddie V's restaurants in the U.S. The Other Business segment aggregates our remaining brands and includes the results of our company-owned Cheddar's Scratch Kitchen, Yard House, Seasons 52 and Bahama Breeze restaurants in the U.S and results from our franchise operations.

External sales are derived principally from food and beverage sales. We do not rely on any major customers as a source of sales, and the customers and long-lived assets of our reportable segments are predominantly in the U.S.

There were no material transactions among reportable segments.

Our management uses segment profit as the measure for assessing performance of our segments. Segment profit includes revenues and expenses directly attributable to restaurant-level results of operations (sometimes referred to as restaurant-level earnings). These expenses include food and beverage costs, restaurant labor costs, restaurant expenses and marketing expenses (collectively "restaurant and marketing expenses"). The following tables reconcile our segment results to our consolidated results reported in accordance with GAAP:

(in millions)	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
For the three months ended February 24, 2019						
Sales	\$1,130.2	\$ 483.2	\$174.5	\$458.6	\$ —	\$ 2,246.5
Restaurant and marketing expenses	883.2	386.8	130.2	391.1	—	1,791.3
Segment profit	\$247.0	\$ 96.4	\$44.3	\$67.5	\$ —	\$ 455.2
Depreciation and amortization	\$35.5	\$ 17.2	\$8.5	\$24.1	\$ —	\$ 85.3
Impairments and disposal of assets, net	2.2	—	—	—	(0.6)	1.6

(in millions)	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
For the nine months ended February 24, 2019						
Sales	\$3,180.3	\$ 1,326.2	\$451.2	\$1,323.6	\$ —	\$ 6,281.3
Restaurant and marketing expenses	2,530.6	1,093.7	356.7	1,142.0	—	5,123.0
Segment profit	\$649.7	\$ 232.5	\$94.5	\$181.6	\$ —	\$ 1,158.3
Depreciation and amortization	\$103.8	\$ 50.6	\$24.9	\$69.5	\$ —	\$ 248.8
Impairments and disposal of assets, net	4.6	0.3	—	—	(0.5)	4.4
Purchases of land, buildings and equipment	146.1	50.5	31.2	116.3	2.8	346.9

Table of Contents

DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(in millions)	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
For the three months ended February 25, 2018						
Sales	\$1,073.2	\$ 452.8	\$ 164.4	\$ 438.0	\$ —	\$ 2,128.4
Restaurant and marketing expenses	846.5	362.9	124.1	372.5	—	1,706.0
Segment profit	\$226.7	\$ 89.9	\$ 40.3	\$ 65.5	\$ —	\$ 422.4

Depreciation and amortization	\$33.7	\$ 16.5	\$ 7.9	\$ 21.1	\$ —	\$ 79.2
Impairments and disposal of assets, net	0.1	(0.3)	—	—	(0.1)	(0.3)

(in millions)	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
For the nine months ended February 25, 2018						
Sales	\$3,014.6	\$ 1,245.0	\$ 427.1	\$ 1,259.3	\$ —	\$ 5,946.0
Restaurant and marketing expenses	2,421.2	1,031.0	340.5	1,076.5	—	4,869.2
Segment profit	\$593.4	\$ 214.0	\$ 86.6	\$ 182.8	\$ —	\$ 1,076.8

Depreciation and amortization	\$99.2	\$ 49.3	\$ 23.5	\$ 62.1	\$ —	\$ 234.1
Impairments and disposal of assets, net	0.1	(0.3)	—	—	(0.9)	(1.1)
Purchases of land, buildings and equipment	125.8	55.6	21.6	87.7	4.2	294.9

Reconciliation of segment profit to earnings from continuing operations before income taxes:

(in millions)	Three Months Ended February 24, 2019		Nine Months Ended February 24, 2019	
Segment profit	\$455.2	\$ 422.4	\$ 1,158.3	\$ 1,076.8
Less general and administrative expenses	(102.8)	(110.1)	(302.4)	(307.0)
Less depreciation and amortization	(85.3)	(79.2)	(248.8)	(234.1)
Less impairments and disposal of assets, net	(1.6)	0.3	(4.4)	1.1
Less interest, net	(12.4)	(117.4)	(38.3)	(147.9)
Earnings before income taxes	\$253.1	\$ 116.0	\$ 564.4	\$ 388.9

Note 8. Impairments and Disposal of Assets, Net

Impairments and disposal of assets, net, in our accompanying consolidated statements of earnings are comprised of the following:

(in millions)	Three Months Ended February 24, 2019		Nine Months Ended February 24, 2019	
Restaurant impairments	\$2.1	\$ —	\$ 4.8	\$ —
Disposal gains	(0.7)	(0.3)	(0.6)	(1.1)
Other	0.2	—	0.2	—
Impairments and disposal of assets, net	\$ 1.6	\$ (0.3)	\$ 4.4	\$ (1.1)

Restaurant impairments for the quarter and nine months ended February 24, 2019 were primarily related to underperforming restaurants. Disposal gains were primarily related to the sale of excess land parcels.

Table of Contents

DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 9. Stockholders' Equity

Accumulated Other Comprehensive Income (Loss) (AOCI)

The components of accumulated other comprehensive income (loss), net of tax, for the quarter and nine months ended February 24, 2019 are as follows:

(in millions)	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Marketable Securities	Unrealized Gains (Losses) on Derivatives	Benefit Plan Funding Position	Accumulated Other Comprehensive Income (Loss)
Balance at November 25, 2018	\$ (1.0)	\$ —	\$ 9.7	\$ (87.4)	\$ (78.7)
Gain (loss)	(0.3)	—	(1.5)	—	(1.8)
Reclassification realized in net earnings	—	—	(0.4)	(0.1)	(0.5)
Balance at February 24, 2019	\$ (1.3)	\$ —	\$ 7.8	\$ (87.5)	\$ (81.0)
Balances at May 27, 2018	\$ (1.6)	\$ —	\$ 3.4	\$ (87.0)	\$ (85.2)
Gain (loss)	0.3	—	9.9	—	10.2
Reclassification realized in net earnings	—	—	(5.5)	(0.5)	(6.0)
Balance at February 24, 2019	\$ (1.3)	\$ —	\$ 7.8	\$ (87.5)	\$ (81.0)

The components of accumulated other comprehensive income (loss), net of tax, for the quarter and nine months ended February 25, 2018 are as follows:

(in millions)	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Marketable Securities	Unrealized Gains (Losses) on Derivatives	Benefit Plan Funding Position	Accumulated Other Comprehensive Income (Loss)
Balance at November 26, 2017	\$ (1.4)	\$ —	\$ 3.8	\$ (70.6)	\$ (68.2)
Gain (loss)	(0.4)	—	3.7	—	3.3
Reclassification realized in net earnings	—	—	(0.1)	—	(0.1)
Reclassification of tax effect (1)	—	—	(0.2)	(15.2)	(15.4)
Balance at February 25, 2018	\$ (1.8)	\$ —	\$ 7.2	\$ (85.8)	\$ (80.4)
Balances at May 28, 2017	\$ (0.7)	\$ 0.1	\$ 8.2	\$ (70.5)	\$ (62.9)
Gain (loss)	(1.1)	—	(0.9)	—	(2.0)
Reclassification realized in net earnings	—	(0.1)	0.1	(0.1)	(0.1)
Reclassification of tax effect (1)	—	—	(0.2)	(15.2)	(15.4)
Balance at February 25, 2018	\$ (1.8)	\$ —	\$ 7.2	\$ (85.8)	\$ (80.4)

(1) Stranded tax effects reclassified from accumulated other comprehensive income (loss) to retained earnings from the fiscal 2018 adoption of ASU 2018-02.

Table of Contents

DARDEN RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the amounts and line items in our consolidated statements of earnings where adjustments reclassified from AOCI into net earnings were recorded:

		Amount Reclassified from AOCI into Net Earnings			
		Three Months Ended		Nine Months Ended	
(in millions)	Location of Gain (Loss) Recognized in Earnings	February 24, 2019	February 25, 2018	February 24, 2019	February 25, 2018
AOCI Components					
Derivatives					
Commodity contracts	(1)	\$0.5	\$ 0.2	\$0.9	\$ 0.2
Equity contracts	(2)	—	—	4.9	(0.2)
Interest rate contracts	(3)	—	(0.1)	(0.1)	(0.1)
Total before tax		\$0.5	\$ 0.1	\$5.7	\$ (0.1)
Tax (expense) benefit		(0.1)	—	(0.2)	—
Net of tax		\$0.4	\$ 0.1	\$5.5	\$ (0.1)
Benefit plan funding position					
Recognized net actuarial loss - pension/postretirement plans	(4)	\$(0.6)	\$ (0.7)	\$(1.9)	\$ (2.1)
Recognized net actuarial gain - other plans	(5)	0.7	0.8	2.4	2.3
Total before tax		\$0.1	\$ 0.1	\$0.5	\$ 0.2
Tax (expense) benefit		—	(0.1)	—	(0.1)
Net of tax					