DARDEN RESTAURANTS INC
Form 10-Q
January 02, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended November 25, 2018
or

o 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 Orlando, Florida	32837
(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. x Yes o 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). x Yes o 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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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). o Yes x No

Number of shares of common stock outstanding as of December 14, 2018: 123,509,077 (excluding 1,263,682 shares held in our treasury).

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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.

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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		Six Months Ended	
	November 25, 2018	November 26, 2017	November 25, 2018	November 26, 2017
Sales	$1,973.4	$ 1,881.5	$4,034.8	$ 3,817.6
Costs and expenses:				
Food and beverage	563.3	542.9	1,146.6	1,098.1
Restaurant labor	662.4	622.4	1,341.7	1,246.6
Restaurant expenses	361.0	351.5	718.9	694.4
Marketing expenses	58.0	58.1	124.5	124.1
General and administrative expenses	95.1	98.9	199.6	196.9
Depreciation and amortization	82.8	78.8	163.5	154.9
Impairments and disposal of assets, net	2.7	—	2.8	(0.8)
Total operating costs and expenses	$1,825.3	$ 1,752.6	$3,697.6	$ 3,514.2
Operating income	148.1	128.9	337.2	303.4
Interest, net	12.8	15.5	25.9	30.5
Earnings before income taxes	135.3	113.4	311.3	272.9
Income tax expense	19.4	24.8	26.5	63.0
Earnings from continuing operations	$115.9	$ 88.6	$284.8	$ 209.9
Losses from discontinued operations, net of tax expense (benefit) of $0.7, $(2.5), $(0.4) and $(3.5), respectively	(0.3)	(3.9)	(3.0)	(6.2)
Net earnings	$115.6	$ 84.7	$281.8	$ 203.7
Basic net earnings per share:				
Earnings from continuing operations	$0.94	$ 0.72	$2.30	$ 1.69
Losses from discontinued operations	(0.01)	(0.03)	(0.03)	(0.05)
Net earnings	$0.93	$ 0.69	$2.27	$ 1.64
Diluted net earnings per share:				
Earnings from continuing operations	$0.92	$ 0.71	$2.26	$ 1.66
Losses from discontinued operations	—	(0.04)	(0.02)	(0.05)
Net earnings	$0.92	$ 0.67	$2.24	$ 1.61
Average number of common shares outstanding:				
Basic	123.9	123.6	123.9	124.4
Diluted	125.8	125.5	125.8	126.4

See accompanying notes to our unaudited consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	November 25, 2018	November 26, 2017	November 25, 2018	November 26, 2017
Net earnings	$115.6	$ 84.7	$281.8	$ 203.7
Other comprehensive income (loss):				
Foreign currency adjustment	0.2	(0.2)	0.6	(0.7)
Change in fair value of marketable securities, net of taxes of $0.0, $0.0, $0.0 and $0.0, respectively	—	(0.1)	—	(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	(2.3)	(1.8)	6.3	(4.4)
Amortization of unrecognized net actuarial (loss) gain, net of taxes of $0.0, $0.0, $0.0 and $0.0 respectively, related to pension and other post-employment benefits	(0.2)	—	(0.4)	(0.1)
Other comprehensive income (loss)	$(2.3)	$ (2.1)	$6.5	$ (5.3)
Total comprehensive income	$113.3	$ 82.6	$288.3	$ 198.4

See accompanying notes to our unaudited consolidated financial statements.

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

	November 25, 2018 (Unaudited)	May 27, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 139.7	$146.9
Receivables, net	80.5	83.7
Inventories	209.4	205.3
Prepaid income taxes	20.7	15.9
Prepaid expenses and other current assets	99.8	89.9
Assets held for sale	11.1	11.9
Total current assets	$ 561.2	$553.6
Land, buildings and equipment, net of accumulated depreciation and amortization of $2,358.6 and $2,231.7, respectively	2,521.1	2,429.8
Goodwill	1,183.7	1,183.7
Trademarks	950.8	950.8
Other assets	332.4	351.7
Total assets	$ 5,549.2	$5,469.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 301.3	$277.0
Short-term debt	45.0	—
Accrued payroll	139.8	177.5
Accrued income taxes	4.5	—
Other accrued taxes	56.8	56.6
Unearned revenues	388.6	415.8
Other current liabilities	449.3	457.6
Total current liabilities	$ 1,385.3	$1,384.5
Long-term debt	927.1	926.5
Deferred income taxes	125.1	114.0
Deferred rent	339.2	318.0
Other liabilities	522.2	531.8
Total liabilities	$ 3,298.9	$3,274.8
Stockholders' equity:		
Common stock and surplus	$ 1,675.5	$1,631.9
Retained earnings	662.5	657.6
Treasury stock	(7.8)	(7.8)
Accumulated other comprehensive income (loss)	(78.7)	(85.2)
Unearned compensation	(1.2)	(1.7)
Total stockholders' equity	$ 2,250.3	$2,194.8
Total liabilities and stockholders' equity	$ 5,549.2	$5,469.6

See accompanying notes to our unaudited consolidated financial statements.

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DARDEN RESTAURANTS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three and Six Months Ended November 25, 2018 and November 26, 2017
(In millions)
(Unaudited)

	Common Stock And Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total Stockholders' Equity
Balance at August 26, 2018	$1,667.4	$693.5	$(7.8)	$(76.4)	$(1.5)	$2,275.2
Net earnings	—	115.6	—	—	—	115.6
Other comprehensive income	—	—	—	(2.3)	—	(2.3)
Dividends declared ($0.75 per share)	—	(93.1)	—	—	—	(93.1)
Stock option exercises (0.2 shares)	6.8	—	—	—	—	6.8
Stock-based compensation	7.2	—	—	—	—	7.2
Repurchases of common stock (0.6 shares)	(7.5)	(53.5)	—	—	—	(61.0)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.0 shares)	1.6	—	—	—	0.4	2.0
Other	—	—	—	—	(0.1)	$(0.1)
Balance at November 25, 2018	$1,675.5	$662.5	$(7.8)	$(78.7)	$(1.2)	$2,250.3
Balance at May 27, 2018	$1,631.9	$657.6	$(7.8)	$(85.2)	$(1.7)	$2,194.8
Net earnings	—	281.8	—	—	—	281.8
Other comprehensive income	—	—	—	6.5	—	6.5
Dividends declared ($1.50 per share)	—	(186.6)	—	—	—	(186.6)
Stock option exercises (0.9 shares)	38.4	—	—	—	—	38.4
Stock-based compensation	12.8	—	—	—	—	12.8
Repurchases of common stock (0.9 shares)	(11.6)	(80.7)	—	—	—	(92.3)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.1 shares)	3.3	—	—	—	0.4	3.7
Other	0.7	(9.6)	—	—	0.1	(8.8)
Balance at November 25, 2018	$1,675.5	$662.5	$(7.8)	$(78.7)	$(1.2)	$2,250.3
Balance at August 27, 2017	$1,619.8	$515.0	$(7.8)	$(66.1)	$(2.2)	$2,058.7
Net earnings	—	84.7	—	—	—	84.7
Other comprehensive income	—	—	—	(2.1)	—	(2.1)
Dividends declared ($0.63 per share)	—	(77.9)	—	—	—	(77.9)
Stock option exercises (0.1 shares)	0.2	—	—	—	—	0.2
Stock-based compensation	6.0	—	—	—	—	6.0
Repurchases of common stock (1.1 shares)	(14.2)	(74.5)	—	—	—	(88.7)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.0 shares)	1.4	—	—	—	—	1.4
Other	(6.4)	—	—	—	0.2	$(6.2)
Balance at November 26, 2017	$1,606.8	$447.3	$(7.8)	$(68.2)	$(2.0)	$1,976.1
Balance at May 28, 2017	$1,614.6	$560.1	$(7.8)	$(62.9)	$(2.3)	$2,101.7
Net earnings	—	203.7	—	—	—	203.7
Other comprehensive income	—	—	—	(5.3)	—	(5.3)

Dividends declared ($1.26 per share)	—	(157.0)	—	—	—	(157.0)
Stock option exercises (0.4 shares)	14.6	—	—	—	—	14.6
Stock-based compensation	10.6	—	—	—	—	10.6
Repurchases of common stock (2.3 shares)	(29.4)	(159.5)	—	—	—	(188.9)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.0 shares)	2.8	—	—	—	—	2.8
Other	(6.4)	—	—	—	0.3	(6.1)
Balance at November 26, 2017	$1,606.8	$447.3	$(7.8)	$(68.2)	$(2.0)	$1,976.1

See accompanying notes to our unaudited consolidated financial statements.

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

	Six Months Ended	
	November 25, 2018	November 26, 2017
Cash flows—operating activities		
Net earnings	$281.8	$ 203.7
Losses from discontinued operations, net of tax	3.0	6.2
Adjustments to reconcile net earnings from continuing operations to cash flows:		
Depreciation and amortization	163.5	154.9
Impairments and disposal of assets, net	2.8	(0.8)
Stock-based compensation expense	31.6	18.1
Change in current assets and liabilities	(90.0)	(98.9)
Contributions to pension and postretirement plans	(0.9)	(0.8)
Deferred income taxes	10.8	18.1
Change in deferred rent	18.7	19.1
Change in other assets and liabilities	3.2	(1.5)
Other, net	9.4	(4.0)
Net cash provided by operating activities of continuing operations	$433.9	$ 314.1
Cash flows—investing activities		
Purchases of land, buildings and equipment	(233.0)	(197.7)
Proceeds from disposal of land, buildings and equipment	0.8	3.1
Cash used in business acquisitions, net of cash acquired	—	(40.4)
Purchases of capitalized software and other assets	(11.5)	(10.2)
Other, net	1.9	4.4
Net cash used in investing activities of continuing operations	$(241.8)	$ (240.8)
Cash flows—financing activities		
Proceeds from issuance of common stock	41.7	17.4
Dividends paid	(186.0)	(157.0)
Repurchases of common stock	(92.3)	(188.9)
Proceeds from issuance of short-term debt	132.0	593.6
Repayments of short-term debt	(87.0)	(440.1)
Principal payments on capital and financing leases	(3.2)	(2.3)
Other, net	0.1	(8.2)
Net cash used in financing activities of continuing operations	$(194.7)	$ (185.5)
Cash flows—discontinued operations		
Net cash used in operating activities of discontinued operations	(4.6)	(6.2)
Net cash used in discontinued operations	$(4.6)	$ (6.2)
Decrease in cash and cash equivalents	(7.2)	(118.4)
Cash and cash equivalents - beginning of period	146.9	233.1
Cash and cash equivalents - end of period	$139.7	$ 114.7

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

	Six Months Ended	
	November 25, 2018	November 26, 2017
Cash flows from changes in current assets and liabilities		
Receivables, net	3.2	9.5
Inventories	(4.1)	(20.1)
Prepaid expenses and other current assets	(9.9)	(12.8)
Accounts payable	10.5	(9.0)
Accrued payroll	(37.7)	(20.1)
Prepaid/accrued income taxes	(0.4)	1.0
Other accrued taxes	0.2	2.3
Unearned revenues	(28.5)	(16.9)
Other current liabilities	(23.3)	(32.8)
Change in current assets and liabilities	$(90.0)	$ (98.9)

See accompanying notes to our unaudited consolidated financial statements.

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 November 25, 2018, 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 34 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 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 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)	November 25, 2018
Unearned Revenues	
Deferred gift card revenue	$ 411.6
Deferred gift card discounts	(24.3)
Other	1.3
Total	$ 388.6
Other liabilities	
Deferred franchise fees - non-current	$ 2.8

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

(in millions)	Three Months Ended November 25, 2018	Six Months Ended November 25, 2018
Beginning balance	$ 404.3	$ 443.1
Activations	133.7	251.6
Redemptions and breakage	(126.4)	(283.1)
Ending balance	$ 411.6	$ 411.6

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:

(in millions)	Three Months Ended November 25, 2018	Three Months Ended November 26, 2017	Six Months Ended November 25, 2018	Six Months Ended November 26, 2017
Costs and expenses:				
Restaurant and marketing expenses	$0.1	$ —	$2.3	$ (0.3)
Other income and expenses	(0.5)	6.4	1.1	10.0
Earnings (loss) before income taxes	0.4	(6.4)	(3.4)	(9.7)
Income tax expense (benefit)	0.7	(2.5)	(0.4)	(3.5)
Losses from discontinued operations, net of tax	$(0.3)	$ (3.9)	$(3.0)	$ (6.2)

Assets Held For Sale

Assets classified as held for sale on our accompanying consolidated balance sheets as of November 25, 2018 and May 27, 2018, primarily related to excess land parcels adjacent to our corporate headquarters with carrying amounts of $11.1 million and $11.9 million, respectively.

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Note 4.Supplemental Cash Flow Information

Cash paid for interest and income taxes are as follows:	Six Months Ended	
(in millions)	November 25, 2018	November 26, 2017
Interest paid, net of amounts capitalized	$ 24.9	$ 30.2
Income taxes paid, net of refunds	12.3	39.0

Non-cash investing activities are as follows:	Six Months Ended	
(in millions)	November 25, 2018	November 26, 2017
Increase in land, buildings and equipment through accrued purchases	$ 51.3	$ 44.3

Note 5.Income Taxes

The effective income tax rate for continuing operations for the quarter ended November 25, 2018 was 14.3 percent compared to an effective income tax rate of 21.9 percent for the quarter ended November 26, 2017. The effective income tax rate for continuing operations for the six months ended November 25, 2018 was 8.5 percent compared to an effective income tax rate of 23.1 percent for the six months ended November 26, 2017. The decrease in the effective income tax rate for the quarter and six months ended November 25, 2018 was primarily due to the December 2017 enactment of the Tax Cuts and Jobs Act (Tax Act) which reduced the federal corporate income tax rate from 35.0 percent to 21.0 percent. The effective income tax rate for the six months ended November 25, 2018 also decreased due to tax impacts associated with market-driven changes related to our equity-based compensation and tax benefits from stock-option exercises. While we are able to make a reasonable estimate of the impacts of the Tax Act, adjustments may occur and may be affected by other factors, including, but not limited to, further refinement of our calculations, changes in interpretations and assumptions and regulatory changes from the Internal Revenue Service, the SEC, the FASB and various tax jurisdictions.

Included in our remaining balance of unrecognized tax benefits is $4.2 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		Six Months Ended	
(in millions)	November 25, 2018	November 26, 2017	November 25, 2018	November 26, 2017
Anti-dilutive stock-based compensation awards	0.4	0.4	0.2	0.3

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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) For the three months ended November 25, 2018	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
Sales	$998.1	$ 412.6	$146.7	$ 416.0	$ —	$ 1,973.4
Restaurant and marketing expenses	813.6	346.7	117.1	367.3	—	1,644.7
Segment profit	$184.5	$ 65.9	$29.6	$ 48.7	$ —	$ 328.7
Depreciation and amortization	$34.7	$ 16.8	$8.2	$ 23.1	$ —	$ 82.8
Impairments and disposal of assets, net	2.4	0.3	—	—	—	2.7

(in millions) For the six months ended November 25, 2018	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
Sales	$2,050.1	$ 842.9	$276.7	$ 865.1	$ —	$ 4,034.8
Restaurant and marketing expenses	1,647.4	706.8	226.4	751.1	—	3,331.7
Segment profit	$402.7	$ 136.1	$50.3	$ 114.0	$ —	$ 703.1
Depreciation and amortization	$68.3	$ 33.5	$16.4	$ 45.3	$ —	$ 163.5
Impairments and disposal of assets, net	2.5	0.3	—	—	—	2.8
Purchases of land, buildings and equipment	96.3	38.3	17.9	78.7	1.8	233.0

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(in millions) For the three months ended November 26, 2017	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
Sales	$951.6	$ 387.7	$140.6	$ 401.6	$ —	$ 1,881.5
Restaurant and marketing expenses	784.0	327.2	113.5	350.2	—	1,574.9
Segment profit	$167.6	$ 60.5	$27.1	$ 51.4	$ —	$ 306.6
Depreciation and amortization	$33.4	$ 16.4	$7.8	$ 21.2	$ —	$ 78.8
Impairments and disposal of assets, net	—	—	—	—	—	—

(in millions) For the six months ended November 26, 2017	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
Sales	$1,941.4	$ 792.1	$262.8	$ 821.3	$ —	$ 3,817.6
Restaurant and marketing expenses	1,574.7	668.1	216.4	704.0	—	3,163.2
Segment profit	$366.7	$ 124.0	$46.4	$ 117.3	$ —	$ 654.4
Depreciation and amortization	$65.5	$ 32.9	$15.6	$ 40.9	$ —	$ 154.9
Impairments and disposal of assets, net	—	—	—	—	(0.8)	(0.8)
Purchases of land, buildings and equipment	89.2	36.4	13.3	54.7	4.1	197.7

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

(in millions)	Three Months Ended November 25, 2018	Three Months Ended November 26, 2017	Six Months Ended November 25, 2018	Six Months Ended November 26, 2017
Segment profit	$328.7	$ 306.6	$703.1	$ 654.4
Less general and administrative expenses	(95.1)	(98.9)	(199.6)	(196.9)
Less depreciation and amortization	(82.8)	(78.8)	(163.5)	(154.9)
Less impairments and disposal of assets, net	(2.7)	—	(2.8)	0.8
Less interest, net	(12.8)	(15.5)	(25.9)	(30.5)
Earnings before income taxes	$135.3	$ 113.4	$311.3	$ 272.9

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 November 25, 2018	Three Months Ended November 26, 2017	Six Months Ended November 25, 2018	Six Months Ended November 26, 2017
Restaurant impairments	$ 2.6	$ —	$ 2.7	$ —
Disposal losses (gains)	0.1	—	0.1	(0.8)
Impairments and disposal of assets, net	$ 2.7	$ —	$ 2.8	$ (0.8)

Restaurant impairments for the quarter and six months ended November 25, 2018 were primarily related to underperforming restaurants. Disposal losses (gains) are related to the sale of excess land parcels and disposal of closed locations.

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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 six months ended November 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 August 26, 2018	$ (1.2)	$ —	$ 12.0	$ (87.2)	$ (76.4)
Gain (loss)	0.2	—	(2.3)	—	(2.1)
Reclassification realized in net earnings	—	—	—	(0.2)	(0.2)
Balance at November 25, 2018	$ (1.0)	$ —	$ 9.7	$ (87.4)	$ (78.7)
Balances at May 27, 2018	$ (1.6)	$ —	$ 3.4	$ (87.0)	$ (85.2)
Gain (loss)	0.6	—	11.4	—	12.0
Reclassification realized in net earnings	—	—	(5.1)	(0.4)	(5.5)
Balance at November 25, 2018	$ (1.0)	$ —	$ 9.7	$ (87.4)	$ (78.7)

The components of accumulated other comprehensive income (loss), net of tax, for the quarter six months ended November 26, 2017 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 August 27, 2017	$ (1.2)	$ 0.1	$ 5.6	$ (70.6)	$ (66.1)
Gain (loss)	(0.2)	—	(1.8)	—	(2.0)
Reclassification realized in net earnings	—	(0.1)	—	—	(0.1)
Balance at November 26, 2017	$ (1.4)	$ —	$ 3.8	$ (70.6)	$ (68.2)
Balances at May 28, 2017	$ (0.7)	$ 0.1	$ 8.2	$ (70.5)	$ (62.9)
Gain (loss)	(0.7)	—	(4.6)	—	(5.3)
Reclassification realized in net earnings	—	(0.1)	0.2	(0.1)	—
Balance at November 26, 2017	$ (1.4)	$ —	$ 3.8	$ (70.6)	$ (68.2)

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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:

(in millions)	Location of Gain (Loss)	Amount Reclassified from AOCI into Net Earnings			
		Three Months Ended		Six Months Ended	
AOCI Components	Recognized in Earnings	November 25, 2018	November 26, 2017	November 25, 2018	November 26, 2017
Derivatives					
Commodity contracts	(1)	$0.2	$ —	$0.4	$ —
Equity contracts	(2)	—	—	4.9	(0.2)
Interest rate contracts	(3)	(0.1)	—	(0.1)	—
Total before tax		$0.1	$ —	$5.2	$ (0.2)
Tax expense		(0.1)	—	(0.1)	—
Net of tax		$—	$ —	$5.1	$ (0.2)
Benefit plan funding position					
Recognized net actuarial loss - pension/postretirement plans	(4)	$(0.7)	$ (0.7)	$(1.3)	$ (1.4)
Recognized net actuarial gain - other plans	(5)	0.9	0.7	1.7	1.5
Total before tax		$0.2	$ —	$0.4	$ 0.1
Tax benefit		—	—	—	—
Net of tax		$0.2	$ —	$0.4	$ 0.1

(1) Primarily included in food and beverage costs and restaurant expenses. See Note 12 for additional details.
(2) Primarily included in restaurant labor costs and general and administrative expenses. See Note 12 for additional details.
(3) Included in interest, net, on our consolidated statements of earnings.
(4) Included in the computation of net periodic benefit costs - pension and postretirement plans, which is a component of restaurant labor expenses and general and administrative expenses. See Note 10 for additional details.
(5) Included in the computation of net periodic benefit costs - other plans, which is a component of general and administrative expenses.

Note 10. Retirement Plans

Components of net periodic benefit cost are as follows:

(in millions)	Defined Benefit Plans			
	Three Months Ended		Six Months Ended	
	November 25, 2018	November 26, 2017	November 25, 2018	November 26, 2017
Interest cost	$2.2	$ 2.2	$4.6	$ 4.3
Expected return on plan assets	(2.8)	(3.0)	(5.6)	(6.0)
Recognized net actuarial loss	0.7	0.7	1.3	1.4
Net periodic benefit (credit) cost	$0.1	$ (0.1)	$0.3	$ (0.3)

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(in millions)	Postretirement Benefit Plan Three Months Ended November 25, 2018	November 26, 2017	Six Months Ended November 25, 2018	November 26, 2017
Service cost	$—	$ 0.1	$—	$ 0.1
Interest cost	0.2	0.1	0.4	0.3
Amortization of unrecognized prior service credit	(1.2)	(1.2)	(2.4)	(2.4)
Recognized net actuarial loss	0.4	0.5	0.8	0.9
Net periodic benefit (credit) cost	$(0.6)	$ (0.5)	$(1.2)	$ (1.1)

Note 11. Stock-Based Compensation

We grant stock options for a fixed number of shares to certain employees with an exercise price equal to the fair value of the shares at the date of grant. We also grant restricted stock, restricted stock units, and performance stock units with a fair value generally determined based on our closing stock price on the date of grant. In addition, we also grant cash settled stock units (Darden stock units) which are classified as liabilities and are marked to market as of the end of each period.

The weighted-average fair value of non-qualified stock options and the related assumptions used in the Black-Scholes option pricing model were as follows.

	Stock Options Granted Six Months Ended November 25, 2018	November 26, 2017
Weighted-average fair value	$18.78	$ 14.63
Dividend yield	3.2 %	3.0 %
Expected volatility of stock	22.6 %	23.5 %
Risk-free interest rate	2.9 %	2.0 %
Expected option life (in years)	6.4	6.4
Weighted-average exercise price per share	$107.05	$ 85.83

The following table presents a summary of our stock-based compensation activity for the six months ended November 25, 2018:

(in millions)	Stock Options	Restricted Stock/ Restricted Stock Units	Darden Stock Units	Equity-Settled Performance Stock Units
Outstanding beginning of period	3.53	0.24	1.39	0.55
Awards granted	0.37	0.07	0.23	0.21
Awards exercised/vested	(0.90)	(0.01)	(0.32)	(0.11)
Awards forfeited	(0.03)	—	(0.04)	(0.04)
Outstanding end of period	2.97	0.30	1.26	0.61

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We recognized expense from stock-based compensation as follows:

(in millions)	Three Months Ended November 25, 2018	Three Months Ended November 26, 2017	Six Months Ended November 25, 2018	Six Months Ended November 26, 2017
Stock options	$ 1.3	$ 1.2	$ 2.5	$ 2.4
Restricted stock/restricted stock units	1.7	1.1	3.0	1.8
Darden stock units	6.5	3.7	18.8	7.5
Equity-settled performance stock units	3.5	3.0	6.0	5.1
Employee stock purchase plan	0.4	0.3	0.7	0.6
Director compensation program/other	0.3	0.4	0.6	0.7
Total stock-based compensation expense	$ 13.7	$ 9.7	$ 31.6	$ 18.1

Note 12. Derivative Instruments and Hedging Activities

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments as provided by FASB ASC Topic 815, Derivatives and Hedging, and those utilized as economic hedges. We use financial derivatives to manage interest rate and compensation risks inherent in our business operations. To the extent our cash-flow hedging instruments are effective in offsetting the variability of the hedged cash flows, and otherwise meet the cash flow hedge accounting criteria required by Topic 815 of the FASB ASC, changes in the derivatives' fair value are not included in current earnings, but are included in accumulated other comprehensive income (loss), net of tax. These changes in fair value will be reclassified into earnings at the time of the forecasted transaction. Ineffectiveness measured in the hedging relationship is recorded currently in earnings in the period in which it occurs. To the extent the cash flow hedge accounting criteria are not met, the derivative contracts are utilized as economic hedges and changes in the fair value of such contracts are recorded currently in earnings in the period in which they occur.

By using these instruments, we expose ourselves, from time to time, to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. We minimize this credit risk by entering into transactions with high quality counterparties. We currently do not have any provisions in our agreements with counterparties that would require either party to hold or post collateral in the event that the market value of the related derivative instrument exceeds a certain limit. As such, the maximum amount of loss due to counterparty credit risk we would incur at November 25, 2018, if counterparties to the derivative instruments failed completely to perform, would approximate the values of derivative instruments currently recognized as assets on our consolidated balance sheet. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates, commodity prices, or the market price of our common stock. We minimize this market risk by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

We periodically enter into commodity futures, swaps and option contracts (collectively, commodity contracts) to reduce the risk of variability in cash flows associated with fluctuations in the price we pay for commodities, such as natural gas and diesel fuel. For certain of our commodity purchases, changes in the price we pay for these commodities are highly correlated with changes in the market price of these commodities. For these commodity purchases, we designate commodity contracts as cash flow hedging instruments. For the remaining commodity purchases, changes in the price we pay for these commodities are not highly correlated with changes in the market price, generally due to the timing of when changes in the market prices are reflected in the price we pay. For these commodity purchases, we utilize these commodity contracts as economic hedges. Our commodity contracts currently extend through May 2019.

We enter into equity forward contracts to hedge the risk of changes in future cash flows associated with the unvested, unrecognized Darden stock units. The equity forward contracts will be settled at the end of the vesting periods of their underlying Darden stock units, which range between three and five years and currently extend through July 2023. The contracts were initially designated as cash flow hedges to the extent the Darden stock units are unvested and, therefore, unrecognized as a liability in our financial statements. The forward contracts can only be net settled in cash. As the Darden stock units vest, we will de-designate that portion of the equity forward contract that no longer qualifies for hedge accounting, and changes in fair value associated with that portion of the equity forward contract will be recognized in current earnings. We periodically incur interest on the notional value of the contracts and receive dividend equivalents on the underlying shares. These amounts are recognized currently in earnings as they are incurred or received.

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We entered into equity forward contracts to hedge the risk of changes in future cash flows associated with recognized, employee-directed investments in Darden stock within the non-qualified deferred compensation plan. We did not elect hedge accounting with the expectation that changes in the fair value of the equity forward contracts would offset changes in the fair value of Darden stock investments in the non-qualified deferred compensation plan within general and administrative expenses in our consolidated statements of earnings. These contracts currently extend through September 2023.
The notional and fair values of our derivative contracts are as follows:

				Fair Values			
(in millions, except per share data)	Number of Shares Outstanding	Weighted-Average Per Share Forward Rates	Notional Values	Derivative Assets (1)		Derivative Liabilities (1)	
	November 25, 2018			November 25, 2018	May 27, 2018	November 25, 2018	May 27, 2018
Equity forwards:							
Designated	0.5	$88.78	$ 38.6	$—	$ 0.2	$ 0.1	$ —
Not designated	0.5	$75.07	$ 39.0	—	0.4	0.1	—
Total equity forwards				$—	$ 0.6	$ 0.2	$ —
Commodity contracts	N/A	N/A	$ 10.0	$1.2	$ 0.5	$ 0.5	$