DARDEN RESTAURANTS INC
Form 10-Q
April 01, 2013
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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 February 24, 2013
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 (State or other jurisdiction of incorporation or organization)	59-3305930 (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. (Check one):

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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 March 15, 2013: 129,812,201 (excluding 1,390,178 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 net increase in the number of our restaurants, U.S. same-restaurant sales, total sales growth, diluted net earnings per share growth, and capital expenditures in fiscal 2013, 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,” “believe,” “plan” or similar expressions, a 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. For further information regarding such forward-looking statements, risks and uncertainties, please see “Forward-Looking Statements” under Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this report.

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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		Nine Months Ended	
	February 24, 2013	February 26, 2012	February 24, 2013	February 26, 2012
Sales	$2,258.2	$ 2,159.7	$6,253.0	$ 5,933.2
Costs and expenses:				
Cost of sales:				
Food and beverage	695.1	661.7	1,921.5	1,828.5
Restaurant labor	709.0	657.2	1,971.5	1,864.6
Restaurant expenses	348.2	308.4	977.8	901.2
Total cost of sales, excluding restaurant depreciation and amortization of $95.8, $83.2, $277.2 and $242.2, respectively	$1,752.3	$ 1,627.3	$4,870.8	$ 4,594.3
Selling, general and administrative	199.8	198.0	634.1	568.3
Depreciation and amortization	101.0	88.9	292.8	258.8
Interest, net	31.9	27.7	92.7	74.5
Total costs and expenses	$2,085.0	$ 1,941.9	$5,890.4	$ 5,495.9
Earnings before income taxes	173.2	217.8	362.6	437.3
Income taxes	(38.7)	(53.7)	(83.3)	(112.3)
Earnings from continuing operations	$134.5	$ 164.1	$279.3	$ 325.0
Losses from discontinued operations, net of tax benefit of $0.2, $0.0, $0.4 and $0.4, respectively	(0.1)	—	(0.5)	(0.7)
Net earnings	$134.4	$ 164.1	$278.8	$ 324.3
Basic net earnings per share:				
Earnings from continuing operations	$1.04	$ 1.28	$2.17	$ 2.49
Losses from discontinued operations	—	—	—	(0.01)
Net earnings	$1.04	$ 1.28	$2.17	$ 2.48
Diluted net earnings per share:				
Earnings from continuing operations	$1.02	$ 1.25	$2.13	$ 2.43
Losses from discontinued operations	—	—	(0.01)	(0.01)
Net earnings	$1.02	$ 1.25	$2.12	$ 2.42
Average number of common shares outstanding:				
Basic	129.3	128.0	128.7	130.7
Diluted	131.5	130.9	131.4	133.8
Dividends declared per common share	$0.50	$ 0.43	$1.50	$ 1.29

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		Nine Months Ended	
	February 24, 2013	February 26, 2012	February 24, 2013	February 26, 2012
Net earnings	$134.4	$164.1	$278.8	$324.3
Other comprehensive income (loss):				
Foreign currency adjustment	(0.6)	0.9	0.1	(0.5)
Change in fair value of marketable securities, net of tax benefit of $0.0, $0.0, $(0.1) and $(0.1), respectively	—	—	(0.1)	(0.1)
Change in fair value of derivatives and amortization of unrecognized gains and losses on derivatives, net of tax expense (benefit) of $1.0, $(0.3), $(1.6) and $(25.0), respectively	(3.7)	1.7	(8.9)	(42.5)
Net unamortized gain arising during period, including amortization of unrecognized net actuarial loss, net of tax expense of $1.1, $1.1, $3.2 and $3.3, respectively	1.7	1.8	5.2	5.4
Other comprehensive income (loss)	$(2.6)	$4.4	$(3.7)	$(37.7)
Total comprehensive income	$131.8	$168.5	$275.1	$286.6

See accompanying notes to consolidated financial statements.

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

	February 24, 2013 (Unaudited)	May 27, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$103.9	$70.5
Receivables, net	68.1	71.4
Inventories	432.6	404.1
Prepaid income taxes	12.7	12.2
Prepaid expenses and other current assets	82.5	74.9
Deferred income taxes	153.6	124.5
Total current assets	$853.4	$757.6
Land, buildings and equipment, net of accumulated depreciation and amortization of $2,981.7 and $2,774.3, respectively	4,335.0	3,951.3
Goodwill	904.5	538.6
Trademarks	574.2	464.9
Other assets	290.7	231.8
Total assets	$6,957.8	$5,944.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$324.8	$260.7
Short-term debt	216.9	262.7
Accrued payroll	135.5	154.3
Accrued income taxes	12.9	—
Other accrued taxes	69.7	60.4
Unearned revenues	315.4	231.7
Current portion of long-term debt	—	349.9
Other current liabilities	460.2	454.4
Total current liabilities	$1,535.4	$1,774.1
Long-term debt, less current portion	2,502.4	1,453.7
Deferred income taxes	369.9	312.9
Deferred rent	223.4	204.4
Obligations under capital leases, net of current installments	53.0	54.4
Other liabilities	323.4	302.7
Total liabilities	$5,007.5	$4,102.2
Stockholders' equity:		
Common stock and surplus	$1,184.5	$2,518.8
Retained earnings	930.9	3,172.8
Treasury stock	(8.5)	(3,695.8)
Accumulated other comprehensive income (loss)	(150.3)	(146.6)
Unearned compensation	(6.3)	(7.2)
Total stockholders' equity	$1,950.3	$1,842.0
Total liabilities and stockholders' equity	$6,957.8	$5,944.2

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 nine months ended February 24, 2013 and February 26, 2012
(In millions)
(Unaudited)

	Common Stock And Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total Stockholders' Equity
Balance at May 27, 2012	$2,518.8	$3,172.8	$(3,695.8)	$(146.6)	$(7.2)	$1,842.0
Net earnings	—	278.8	—	—	—	278.8
Other comprehensive income (loss)	—	—	—	(3.7)	—	(3.7)
Dividends declared	0.4	(194.5)	—	—	—	(194.1)
Stock option exercises (1.5 shares)	42.5	—	1.4	—	—	43.9
Stock-based compensation	19.0	—	—	—	—	19.0
ESOP note receivable repayments	—	—	—	—	0.9	0.9
Income tax benefits credited to equity	10.4	—	—	—	—	10.4
Repurchases of common stock (1.0 shares)	—	(0.1)	(52.3)	—	—	(52.4)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (0.2 shares)	4.8	—	0.7	—	—	5.5
Treasury shares retirement (159.3 shares)	(1,411.4)	(2,326.1)	3,737.5	—	—	—
Balance at February 24, 2013	$1,184.5	$930.9	$(8.5)	$(150.3)	$(6.3)	$1,950.3
Balance at May 29, 2011	$2,408.8	$2,921.9	$(3,325.3)	$(59.8)	$(9.4)	$1,936.2
Net earnings	—	324.3	—	—	—	324.3
Other comprehensive income (loss)	—	—	—	(37.7)	—	(37.7)
Dividends declared	—	(169.0)	—	—	—	(169.0)
Stock option exercises (1.4 shares)	37.7	—	2.2	—	—	39.9
Stock-based compensation	20.5	—	—	—	—	20.5
ESOP note receivable repayments	—	—	—	—	1.5	1.5
Income tax benefits credited to equity	12.0	—	—	—	—	12.0
Repurchases of common stock (7.9 shares)	—	—	(357.0)	—	—	(357.0)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (0.1 shares)	4.7	—	0.9	—	—	5.6
Balance at February 26, 2012	$2,483.7	$3,077.2	$(3,679.2)	$(97.5)	$(7.9)	$1,776.3

See accompanying notes to our unaudited consolidated financial statements.

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

	Nine Months Ended	
	February 24, 2013	February 26, 2012
Cash flows—operating activities		
Net earnings	$278.8	$324.3
Losses from discontinued operations, net of tax benefit	0.5	0.7
Adjustments to reconcile net earnings from continuing operations to cash flows:		
Depreciation and amortization	292.8	258.8
Asset impairment charges	0.8	0.3
Amortization of loan costs	9.3	4.4
Stock-based compensation expense	36.0	41.3
Change in current assets and liabilities	46.6	(101.4)
Contributions to pension and postretirement plans	(2.8)	(22.7)
Loss on disposal of land, buildings and equipment	6.1	4.9
Change in cash surrender value of trust-owned life insurance	(11.5)	0.1
Deferred income taxes	14.3	23.7
Change in deferred rent	19.5	13.7
Change in other assets and liabilities	(6.7)	(1.2)
Income tax benefits from exercise of stock-based compensation credited to goodwill	0.1	0.3
Other, net	6.2	3.3
Net cash provided by operating activities of continuing operations	$690.0	$550.5
Cash flows—investing activities		
Purchases of land, buildings and equipment	(518.5)	(483.4)
Proceeds from disposal of land, buildings and equipment	—	3.3
Purchases of marketable securities	(7.6)	(32.1)
Proceeds from sale of marketable securities	16.4	21.3
Cash used in business acquisitions, net of cash acquired	(577.4)	(58.6)
Increase in other assets	(31.8)	(10.3)
Net cash used in investing activities of continuing operations	$(1,118.9)	$(559.8)
Cash flows—financing activities		
Proceeds from issuance of common stock	49.4	45.1
Income tax benefits credited to equity	10.4	12.0
Dividends paid	(193.2)	(168.6)
Repurchases of common stock	(52.4)	(357.0)
ESOP note receivable repayment	0.9	1.5
Proceeds from issuance of short-term debt	2,184.9	1,791.7
Repayments of short-term debt	(2,230.6)	(1,689.5)
Repayment of long-term debt	(350.9)	(1.5)
Proceeds from issuance of long-term debt	1,050.0	400.0
Payment of debt issuance costs	(7.4)	(5.1)
Principal payments on capital leases	(1.2)	(1.2)
Net cash provided by financing activities of continuing operations	$459.9	$27.4
Cash flows—discontinued operations		
Net cash used in operating activities of discontinued operations	(0.3)	(0.4)
Net cash provided by investing activities of discontinued operations	2.7	0.3

Net cash provided by (used in) discontinued operations	$2.4	$(0.1)
Increase in cash and cash equivalents	33.4	18.0
Cash and cash equivalents - beginning of period	70.5	70.5
Cash and cash equivalents - end of period	$103.9	$88.5
Cash flows from changes in current assets and liabilities		
Receivables, net	3.9	9.9
Inventories	(25.1)	(152.5)
Prepaid expenses and other current assets	(8.6)	(3.3)
Accounts payable	35.5	28.9
Accrued payroll	(24.2)	(9.0)
Prepaid/accrued income taxes	12.7	(15.9)
Other accrued taxes	8.5	7.7
Unearned revenues	81.3	66.7
Other current liabilities	(37.4)	(33.9)
Change in current assets and liabilities	$46.6	$(101.4)

See accompanying notes to our unaudited consolidated financial statements.

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DARDEN RESTAURANTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1.Basis of Presentation
Darden Restaurants, Inc. (we, our or the Company) owns and operates full-service dining restaurants in the United States and Canada under the trade names Red Lobster®, Olive Garden®, LongHorn Steakhouse®, The Capital Grille®, Bahama Breeze®, Seasons 52®, Eddie V's Prime Seafood®, Wildfish Seafood Grille® and Yard House®.
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 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. Operating results for the quarter or nine months ended February 24, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending May 26, 2013.
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, 2012. The accounting policies used in preparing these consolidated financial statements are the same as those described in our Form 10-K.
We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. 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.
Acquisition of Yard House
On August 29, 2012, we completed the acquisition of Yard House USA, Inc. (Yard House) for $585.0 million in cash. The acquired operations of Yard House included 40 restaurants that are included in the results of operations in our consolidated financial statements from the date of acquisition.
The assets and liabilities of Yard House were recorded at their respective fair values as of the date of acquisition. We are in the process of confirming, through internal studies and third-party valuations, the fair value of these assets, including buildings and equipment, intangible assets, and income tax liabilities. The fair values set forth below are based on preliminary valuations and are subject to adjustment as additional information is obtained. When the valuation process is completed, adjustments to goodwill may result.
The following table summarizes the preliminary allocation of the purchase price as of the acquisition date and the adjustments made thereto during the fiscal quarter ended February 24, 2013:

(in millions)	Preliminary	Adjustments	Balances at February 24, 2013
Current assets	$12.9	$0.5	$13.4
Buildings and equipment	150.6	3.2	153.8
Trademark	109.3	—	109.3
Other assets	10.1	(0.5)	9.6
Goodwill	366.3	(0.4)	365.9
Total assets acquired	$649.2	$2.8	$652.0
Current liabilities	38.4	1.7	40.1
Other liabilities	25.8	1.1	26.9
Total liabilities assumed	$64.2	$2.8	$67.0
Net assets acquired	$585.0	$—	$585.0

Adjustments to the preliminary purchase price allocation during the quarter ended February 24, 2013 were primarily related to updated valuations in the preliminary appraisals of identifiable intangible and tangible assets.

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The excess of the purchase price over the aggregate fair value of net assets acquired was allocated to goodwill. Of the $365.9 million recorded as goodwill, $37.9 million is expected to be deductible for tax purposes. The portion of the purchase price attributable to goodwill represents benefits expected as a result of the acquisition, including sales and unit growth opportunities in addition to supply-chain and administrative cost synergies. The trademark has an indefinite life based on the expected use of the asset and the regulatory and economic environment within which it is being used. The trademark represents a highly respected brand with positive connotations and we intend to cultivate and protect the use of this brand. Goodwill and indefinite-lived trademarks are not amortized but are reviewed annually for impairment or more frequently if indicators of impairment exist. Buildings and equipment will be depreciated over a period of 7 months to 21 years. Other assets and liabilities include values associated with favorable and unfavorable market leases that will be amortized over a weighted average period of 16 years.
As a result of the acquisition and related integration efforts, we incurred expenses of approximately $2.0 million (net of tax) and $10.4 million (net of tax) during the quarter and nine months ended February 24, 2013, respectively, which are included in restaurant expenses, selling, general and administrative expenses and depreciation expense in our consolidated statements of earnings. Pro-forma financial information of the combined entities for periods prior to the acquisition is not presented due to the immaterial impact of the financial results of Yard House on our consolidated financial statements.

Note 2.Supplemental Cash Flow Information

	Nine Months Ended	
(in millions)	February 24, 2013	February 26, 2012
Interest paid, net of amounts capitalized	$61.7	$51.0
Income taxes paid, net of refunds	67.5	92.0

Note 3.Stock-Based Compensation
We grant stock options for a fixed number of shares to certain employees and directors 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 determined based on our closing stock price on the date of grant. In addition, we also grant cash settled stock units (Darden Stock Units) and cash settled performance 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 During the Nine Months Ended	
	February 24, 2013	February 26, 2012
Weighted-average fair value	$12.22	$14.32
Dividend yield	4.0 %	3.5 %
Expected volatility of stock	39.7 %	39.4 %
Risk-free interest rate	0.8 %	2.1 %
Expected option life (in years)	6.5	6.5

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DARDEN RESTAURANTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents a summary of our stock-based compensation activity for the nine months ended February 24, 2013:

(in millions)	Stock Options	Restricted Stock/ Restricted Stock Units	Darden Stock Units	Performance Stock Units
Outstanding beginning of period	12.3	0.3	2.1	1.1
Awards granted	1.6	0.1	0.6	0.3
Awards exercised	(1.5)	(0.1)	(0.3)	(0.4)
Awards forfeited	(0.3)	(0.1)	(0.1)	(0.1)
Outstanding end of period	12.1	0.2	2.3	0.9

We recognized expense from stock-based compensation as follows:

(in millions)	Three Months Ended February 24, 2013	Three Months Ended February 26, 2012	Nine Months Ended February 24, 2013	Nine Months Ended February 26, 2012
Stock options	$4.7	$4.8	$14.2	$14.5
Restricted stock/restricted stock units	0.7	0.9	2.1	3.5
Darden stock units	1.7	6.0	12.2	11.1
Performance stock units	(0.4)	4.4	4.8	9.6
Employee stock purchase plan	0.5	0.5	1.4	1.4
Director compensation program/other	0.1	—	1.3	1.2
Total stock-based compensation expense	$7.3	$16.6	$36.0	$41.3

Note 4.Income Taxes

The effective income tax rate for the quarter and nine months ended February 24, 2013 was 22.3 percent and 23.0 percent, respectively, compared to an effective income tax rate of 24.7 percent and 25.7 percent for the quarter and nine months ended February 26, 2012, respectively. The decrease in the effective income tax rate for the quarter ended February 24, 2013 as compared to the quarter ended February 26, 2012 is primarily attributable to an increase in the impact of FICA tax credits for employee reported tips and the Work Opportunity Tax Credit due to a decrease in our earnings before income taxes and the impact of market-driven changes in the value of our trust-owned life insurance that are excluded for tax purposes, partially offset by a decrease in federal income tax credits related to the Hiring Incentives to Restore Employment (HIRE) Act and the impact of market-driven changes in the value of our equity forwards that are excluded for tax purposes.

The decrease in the effective income tax rate for the nine months ended February 24, 2013 as compared to the nine months ended February 26, 2012 is primarily attributable to an increase in the impact of FICA tax credits for employee reported tips due to a decrease in our earnings before income taxes and the impact of market-driven changes in the value of our trust-owned life insurance that are excluded for tax purposes, partially offset by a decrease in federal income tax credits related to the HIRE Act.

Included in our remaining balance of unrecognized tax benefits is $0.5 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 5.Long-Term Debt

We maintain a $750.0 million revolving Credit Agreement (Revolving Credit Agreement) with Bank of America, N.A. (BOA), as administrative agent, and the lenders and other agents party thereto. The Revolving Credit Agreement is a senior unsecured credit commitment to the Company and contains customary representations and affirmative and negative covenants (including limitations on liens and subsidiary debt and a maximum consolidated lease adjusted total debt to total capitalization ratio of 0.75 to 1.00) and events of default customary for credit facilities of this type. As of February 24, 2013, we were in compliance with the covenants under the Revolving Credit Agreement.

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DARDEN RESTAURANTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Revolving Credit Agreement matures on October 3, 2016, and the proceeds may be used for commercial paper back-up, working capital and capital expenditures, the refinancing of certain indebtedness, certain acquisitions and general corporate purposes. Loans under the Revolving Credit Agreement bear interest at a rate of LIBOR plus a margin determined by reference to a ratings-based pricing grid (Applicable Margin), or the base rate (which is defined as the higher of the BOA prime rate or the Federal Funds rate plus 0.500 percent) plus the Applicable Margin. Assuming a “BBB” equivalent credit rating level, the Applicable Margin under the Revolving Credit Agreement will be 1.075 percent for LIBOR loans and 0.075 percent for base rate loans.

As of February 24, 2013, we had no outstanding balances under the Revolving Credit Agreement. As of February 24, 2013, $216.9 million of commercial paper was outstanding, which was backed by this facility. After consideration of commercial paper backed by the Revolving Credit Agreement, as of February 24, 2013, we had $533.1 million of credit available under the Revolving Credit Agreement.

On October 4, 2012, we issued $450.0 million aggregate principal amount of unsecured 3.350 percent senior notes due November 2022 (the New Senior Notes) under a registration statement filed with the SEC on October 6, 2010. Discount and issuance costs, which totaled $4.7 million, are being amortized over the term of the New Senior Notes using the straight-line method, the results of which approximate the effective interest method. Interest on the New Senior Notes is payable semi-annually in arrears on May 1 and November 1 of each year, commencing May 1, 2013. We may redeem the New Senior Notes at any time in whole or from time to time in part, at the principal amount plus a make-whole premium. If we experience a change in control triggering event, unless we have previously exercised our right to redeem the New Senior Notes, we may be required to purchase the New Senior Notes from the holders at a purchase price equal to 101 percent of their principal amount plus accrued and unpaid interest.

On August 22, 2012, we entered into a Term Loan Agreement (the Term Loan Agreement) with BOA, as administrative agent, and the lenders and other agents party thereto. During the second quarter of fiscal 2013, we made borrowings under this agreement in a total aggregate principal amount of $300.0 million. The Term Loan Agreement is a senior unsecured term loan commitment to the Company and contains customary representations, events of default and affirmative and negative covenants (including limitations on liens and subsidiary debt and a maximum consolidated lease adjusted total debt to total capitalization ratio of 0.75 to 1.00) for facilities of this type. The Term Loan Agreement matures on August 22, 2017, and the proceeds may be used for the refinancing of certain indebtedness, certain acquisitions and general corporate purposes. The loans under the Term Loan Agreement are subject to annual amortization of principal of 5 percent, 5 percent, 5 percent and 85 percent, payable on the second, third, fourth and fifth anniversaries, respectively, of the effective date of the Term Loan Agreement. Interest rates on borrowings under the Term Loan Agreement will be based on LIBOR plus a fixed spread as described in the Term Loan Agreement and, in part, upon our credit ratings. Pricing for interest and fees under the Term Loan Agreement may be modified in the event of a change in the rating of our long-term senior unsecured debt.

On August 28, 2012, we closed on the issuance of $80.0 million unsecured 3.790 percent senior notes due August 2019 and $220.0 million unsecured 4.520 percent senior notes due August 2024, pursuant to a Note Purchase Agreement dated June 18, 2012. The Note Purchase Agreement contains customary representations, events of default and affirmative and negative covenants (including limitations on liens and priority debt and a maximum consolidated total debt to capitalization ratio of 0.75 to 1.00, as such may be adjusted in certain circumstances) for facilities of this type.

The interest rates on our $500.0 million 6.200 percent senior notes due October 2017 and $300.0 million 6.800 percent senior notes due October 2037 are subject to adjustment from time to time if the debt rating assigned to such series of notes is downgraded below a certain rating level (or subsequently upgraded). The maximum adjustment is 2.000 percent above the initial interest rate and the interest rate cannot be reduced below the initial interest rate. As of February 24, 2013, no adjustments to these interest rates had been made.

Note 6.Net Earnings per Share

Outstanding stock options and restricted stock granted by us represent the only dilutive effect reflected in diluted weighted average shares outstanding. Options and restricted stock do not impact the numerator of the diluted net earnings per share computation. Restricted stock and options to purchase shares of common stock excluded from the calculation of diluted net earnings per share because the effect would have been anti-dilutive, are as follows:

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(in millions)	Three Months Ended		Nine Months Ended	
	February 24, 2013	February 26, 2012	February 24, 2013	February 26, 2012
Anti-dilutive restricted stock and options	3.1	3.1	2.7	2.7

Note 7.Stockholders' Equity
Pursuant to the authorization of our Board of Directors to repurchase up to 187.4 million shares of our common stock in accordance with applicable securities laws, we have repurchased a total of 171.9 million shares of our common stock through February 24, 2013. Fiscal 2013 common stock repurchases are as follows:

	Three Months Ended February 24, 2013		Nine Months Ended February 24, 2013	
(in millions)	Shares	Total Cost	Shares	Total Cost
Common stock repurchased	0.002	$0.1	1.045	$52.4

In the second quarter of fiscal 2013, we retired a portion of our treasury stock totaling 159.3 million shares and restored them to authorized but unissued shares of common stock. The retired treasury stock had a carrying amount of approximately $3.74 billion. Upon formal retirement and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 505, Equity, we reduced our common stock and surplus account based on the estimated weighted average cost of the common shares and reduced our treasury stock account based on the repurchase price. The difference between the repurchase price and the estimated average cost was recorded as a reduction to retained earnings. We expect that all shares of common stock acquired in the future will be restored to authorized but unissued shares of common stock.
The components of accumulated other comprehensive income (loss), net of tax, for the quarters ended February 24, 2013 and February 26, 2012 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)
Balances at November 25, 2012	$(0.9)	$0.3	$(54.9)	$(92.2)	$(147.7)
Gain (loss)	(0.6)	—	(5.2)	—	(5.8)
Reclassification realized in net earnings	—	—	1.5	1.7	3.2
Balances at February 24, 2013	$(1.5)	$0.3	$(58.6)	$(90.5)	$(150.3)
Balances at November 27, 2011	$(1.8)	$0.4	$(48.3)	$(52.2)	$(101.9)
Gain (loss)	0.9	—	0.5	—	1.4
Reclassification realized in net earnings	—	—	1.2	1.8	3.0
Balances at February 26, 2012	$(0.9)	$0.4	$(46.6)	$(50.4)	$(97.5)

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The components of accumulated other comprehensive income (loss), net of tax, for the nine months ended February 24, 2013 and February 26, 2012 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)
Balances at May 27, 2012	$(1.6)	$0.4	$(49.7)	$(95.7)	$(146.6)
Gain (loss)	0.1	(0.1)	(12.1)	—	(12.1)
Reclassification realized in net earnings	—	—	3.2	5.2	8.4
Balances at February 24, 2013	$(1.5)	$0.3	$(58.6)	$(90.5)	$(150.3)
Balances at May 29, 2011	$(0.4)	$0.5	$(4.1)	$(55.8)	$(59.8)
Gain (loss)	(0.5)	(0.1)	(44.2)	—	(44.8)
Reclassification realized in net earnings	—	—	1.7	5.4	7.1
Balances at February 26, 2012	$(0.9)	$0.4	$(46.6)	$(50.4)	$(97.5)

Note 8.Retirement Plans

Components of net periodic benefit cost are as follows:

	Defined Benefit Plans			
	Three Months Ended		Nine Months Ended	
(in millions)	February 24, 2013	February 26, 2012	February 24, 2013	February 26, 2012
Service cost	$1.2	$1.4	$3.6	$4.1
Interest cost	2.5	2.2	7.5	6.7
Expected return on plan assets	(4.9)	(4.5)	(14.6)	(13.4)
Recognized net actuarial loss	2.2	1.6	6.6	4.7
Net periodic benefit cost	$1.0	$0.7	$3.1	$2.1

	Postretirement Benefit Plan			
	Three Months Ended		Nine Months Ended	
(in millions)	February 24, 2013	February 26, 2012	February 24, 2013	February 26, 2012
Service cost	$0.2	$0.2	$0.6	$0.6
Interest cost	0.3	0.3	0.9	1.0
Net periodic benefit cost	$0.5	$0.5	$1.5	$1.6

Note 9.Derivative Instruments and Hedging Activities

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments as required by ASC Topic 815, Derivatives and Hedging, and those utilized as economic hedges. We use financial and commodities derivatives to manage interest rate, compensation and commodities pricing and foreign currency exchange rate risks inherent in our business operations. To the extent our derivatives are effective in offsetting the variability of the hedged cash flows, and otherwise meet the cash flow hedge accounting criteria required by ASC Topic 815, 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 our derivatives are effective in mitigating changes in fair value, and otherwise meet the fair value hedge accounting criteria required by ASC Topic 815, gains and losses in the derivatives' fair value are included in current earnings, as are the gains and losses of the related hedged item. To the extent the hedge accounting criteria are not met, the derivative contracts are utilized as

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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 February 24, 2013, if counterparties to the derivative instruments failed completely to perform, would approximate the values of derivative instruments currently recognized as assets in 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.

The notional values of our derivative contracts are as follows:

	Notional Values	
(in millions)	February 24, 2013	May 27, 2012
Derivative contracts designated as hedging instruments		
Commodities	$7.3	$8.7
Foreign currency	5.2	19.4
Interest rate swaps	100.0	550.0
Equity forwards	27.8	21.7
Derivative contracts not designated as hedging instruments		
Equity forwards	46.3	50.0

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 natural gas, soybean oil, milk, diesel fuel and butter. 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 September 2013.

We periodically enter into foreign currency forward contracts to reduce the risk of fluctuations in exchange rates specifically related to forecasted transactions or payments made in a foreign currency either for commodities and items used directly in our restaurants or for forecasted payments of services. Our foreign currency forward contracts currently extend through May 2013.

We entered into forward-starting interest rate swap agreements with $300.0 million of notional value to hedge a portion of the risk of changes in the benchmark interest rate prior to the issuance of the New Senior Notes in October 2012, as changes in the benchmark interest rate would cause variability in our forecasted interest payments. These derivative instruments were designated as cash flow hedges. These instruments were settled at the issuance of the New Senior Notes for a cumulative loss of approximately $55.0 million, which was recorded in accumulated other comprehensive income (loss) and will be reclassified into earnings as an adjustment to interest expense on the New Senior Notes or similar debt as incurred.

We entered into interest rate swap agreements with $250.0 million of notional value to limit the risk of changes in fair value of a portion of the $350.0 million 5.625 percent senior notes due October 2012 and a portion of the $400.0 million 4.500 percent senior notes due October 2021 attributable to changes in the benchmark interest rate, between inception of the interest rate swap agreements and maturity of the related debt. The swap agreements effectively swap the fixed rate obligations for floating rate obligations, thereby mitigating changes in fair value of the related debt prior to maturity. The swap agreements were designated as fair value hedges of the related debt and met the requirements to be accounted for under the short-cut method, resulting in no ineffectiveness in the hedging relationship. Concurrent with the repayment at maturity of the $350.0 million senior notes due October 2012, we settled $150.0 million of notional value of these swaps. During the quarters ended

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February 24, 2013 and February 26, 2012, $0.4 million and $0.7 million, respectively, was recorded as a reduction to interest expense related to the net swap settlements. During the nine months ended February 24, 2013 and February 26, 2012, $2.5 million and $2.2 million, respectively, was recorded as a reduction to interest expense related to the net swap settlements.

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 four and five years. 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. As of February 24, 2013, we were party to equity forward contracts that were indexed to 1.2 million shares of our common stock, at varying forward rates between $29.28 per share and $52.66 per share, extending through August 2017. 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 dividends on the underlying shares. These amounts are recognized currently in earnings as they are incurred.

We entered into equity forward contracts to hedge the risk of changes in future cash flows associated with cash-settled performance stock units and employee-directed investments in Darden stock within the non-qualified deferred compensation plan. The equity forward contracts are indexed to 0.5 million shares of our common stock at forward rates between $47.07 and $51.95 per share, can only be net settled in cash and expire between fiscal 2013 and 2016. 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 the performance stock units and Darden stock investments in the non-qualified deferred compensation plan within selling, general and administrative expenses in our consolidated statements of earnings.

The fair value of our derivative contracts are as follows:

(in millions)	Balance Sheet Location	Derivative Assets February 24, 2013	Derivative Assets May 27, 2012	Derivative Liabilities February 24, 2013	Derivative Liabilities May 27, 2012
Derivative contracts designated as hedging instruments					
Commodity contracts	(1)	$0.4	$0.3	$(0.1)	$(0.4)
Equity forwards	(1)	0.7	0.9	—	—
Interest rate related	(1)	3.2	3.2	—	(44.9)
Foreign currency forwards	(1)	—	0.5	—	—
		$4.3	$4.9	$(0.1)	$(45.3)
Derivative contracts not designated as hedging instruments					
Equity forwards	(1)	1.2	1.9	—	—
		$1.2	$1.9	$—	$—
Total derivative contracts		$5.5	$6.8	$(0.1)	$(45.3)

(1) Derivative assets and liabilities are included in receivables, net, prepaid expenses and other current assets and other current liabilities, as applicable, on our consolidated balance sheets.

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The effects of derivative instruments in cash flow hedging relationships on the consolidated statements of earnings are as follows:

(in millions)	Amount of Gain (Loss) Recognized in AOCI (effective portion)		Location of Gain (Loss) Reclassified from AOCI to Earnings	Amount of Gain (Loss) Reclassified from AOCI to Earnings (effective portion)		Location of Gain (Loss) Recognized in Earnings (ineffective portion)	(1) Amount of Gain (Loss) Recognized in Earnings (ineffective portion)	
	Three Months Ended			Three Months Ended			Three Months Ended	
Type of Derivative	February 24, 2013	February 26, 2012		February 24, 2013	February 26, 2012		February 24, 2013	February 26, 2012
Commodity	$—	$ (0.1)	(2)	$0.2	$ (1.1)	(2)	$—	$ —
Equity	(5.3)	2.4	(3)	—	—	(3)	0.4	0.2
Interest rate	—	(3.5)	Interest, net	(2.6)	(1.1)	Interest, net	—	—
Foreign currency	0.1	0.6						