

DARDEN RESTAURANTS INC

Form 10-Q

September 30, 2011

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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 August 28, 2011

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 (I.R.S. Employer
incorporation or organization) Identification No.)

1000 Darden Center Drive 32837
Orlando, Florida (Zip Code)
(Address of principal executive offices)

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. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Number of shares of common stock outstanding as of September 15, 2011: 131,823,543 (excluding 156,044,680 shares held in our treasury).

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Cautionary Statement Regarding Forward-Looking Statements

Statements in 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 2012, 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, 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. 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	
	August 28, 2011	August 29, 2010
Sales	\$1,942.0	\$1,806.7
Costs and expenses:		
Cost of sales:		
Food and beverage	593.5	507.5
Restaurant labor	613.1	578.8
Restaurant expenses	299.8	279.1
Total cost of sales, excluding restaurant depreciation and amortization of \$78.4 and \$71.7, respectively	\$1,506.4	\$1,365.4
Selling, general and administrative	182.8	180.9
Depreciation and amortization	84.1	76.7
Interest, net	21.7	24.6
Total costs and expenses	\$1,795.0	\$1,647.6
Earnings before income taxes	147.0	159.1
Income taxes	(40.2)	(45.8)
Earnings from continuing operations	\$106.8	\$113.3
Losses from discontinued operations, net of tax benefit of \$0.1, and \$0.1, respectively	(0.2)	(0.2)
Net earnings	\$106.6	\$113.1
Basic net earnings per share:		
Earnings from continuing operations	\$0.80	\$0.82
Losses from discontinued operations	—	—
Net earnings	\$0.80	\$0.82
Diluted net earnings per share:		
Earnings from continuing operations	\$0.78	\$0.80
Losses from discontinued operations	—	—
Net earnings	\$0.78	\$0.80
Average number of common shares outstanding:		
Basic	133.8	138.6
Diluted	137.2	141.7
Dividends declared per common share	\$0.43	\$0.32

See accompanying notes to our unaudited consolidated financial statements.

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

	August 28, 2011 (Unaudited)	May 29, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$74.2	\$70.5
Receivables, net	64.4	65.4
Inventories	343.0	300.1
Prepaid income taxes	5.2	5.2
Prepaid expenses and other current assets	81.7	77.0
Deferred income taxes	163.5	145.6
Total current assets	\$732.0	\$663.8
Land, buildings and equipment, net of accumulated depreciation and amortization of \$2,610.7 and \$2,545.4, respectively	3,690.2	3,622.0
Goodwill	516.9	517.1
Trademarks	454.0	454.0
Other assets	201.1	209.7
Total assets	\$5,594.2	\$5,466.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$289.0	\$251.3
Short-term debt	330.5	185.5
Accrued payroll	129.7	167.1
Accrued income taxes	22.1	9.3
Other accrued taxes	63.7	64.3
Unearned revenues	177.8	200.0
Other current liabilities	439.4	409.3
Total current liabilities	\$1,452.2	\$1,286.8
Long-term debt	1,405.9	1,407.3
Deferred income taxes	352.7	345.4
Deferred rent	190.3	186.2
Obligations under capital leases, net of current installments	55.6	56.0
Other liabilities	234.2	248.7
Total liabilities	\$3,690.9	\$3,530.4
Stockholders' equity:		
Common stock and surplus	\$2,444.4	\$2,408.8
Retained earnings	2,970.7	2,921.9
Treasury stock	(3,415.1)	(3,325.3)
Accumulated other comprehensive income (loss)	(88.1)	(59.8)
Unearned compensation	(8.6)	(9.4)
Total stockholders' equity	\$1,903.3	\$1,936.2
Total liabilities and stockholders' equity	\$5,594.2	\$5,466.6

See accompanying notes to our unaudited consolidated financial statements.

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DARDEN RESTAURANTS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

For the three months ended August 28, 2011 and August 29, 2010

(In millions)

(Unaudited)

	Common Stock And Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total Stockholders' Equity
Balance at May 29, 2011	\$2,408.8	\$2,921.9	\$(3,325.3)	\$ (59.8)	\$ (9.4)	\$1,936.2
Comprehensive income:						
Net earnings	—	106.6	—	—	—	106.6
Other comprehensive income (loss):						
Foreign currency adjustment	—	—	—	(0.3)	—	(0.3)
Change in fair value of derivatives, net of tax of \$16.3	—	—	—	(29.8)	—	(29.8)
Amortization of unrecognized net actuarial loss, net of tax of \$1.1	—	—	—	1.8	—	1.8
Total comprehensive income						78.3
Dividends declared	—	(57.8)	—	—	—	(57.8)
Stock option exercises (0.8 shares)	19.9	—	1.3	—	—	21.2
Stock-based compensation	6.7	—	—	—	—	6.7
ESOP note receivable repayments	—	—	—	—	0.8	0.8
Income tax benefits credited to equity	7.4	—	—	—	—	7.4
Purchases of common stock for treasury (1.9 shares)	—	—	(91.3)	—	—	(91.3)
Issuance of treasury stock under Employee Stock Purchase Plan and other plans (0.1 shares)	1.6	—	0.2	—	—	1.8
Balance at August 28, 2011	\$2,444.4	\$2,970.7	\$(3,415.1)	\$ (88.1)	\$ (8.6)	\$1,903.3
Balance at May 30, 2010	\$2,297.9	\$2,621.9	\$(2,943.5)	\$ (71.1)	\$ (11.2)	\$1,894.0
Comprehensive income:						
Net earnings	—	113.1	—	—	—	113.1
Other comprehensive income (loss):						
Foreign currency adjustment	—	—	—	(0.2)	—	(0.2)
Change in fair value of marketable securities, net of tax of \$0.1	—	—	—	0.2	—	0.2
Change in fair value of derivatives, net of tax of \$7.7	—	—	—	(12.7)	—	(12.7)
Amortization of unrecognized net actuarial loss, net of tax of \$1.0	—	—	—	1.5	—	1.5

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Total comprehensive income						101.9
Dividends declared	—	(44.4)	—	—	(44.4
Stock option exercises (0.2 shares)	3.7	—	0.3	—	—	4.0
Stock-based compensation	7.7	—	—	—	—	