UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2021

or

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

For the transition period from ______ to ______

1-13666
Commission File Number

DARDEN RESTAURANTS, INC.
(Exact name of registrant as specified in its charter)

Florida	**59-3305930**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1000 Darden Center Drive	
Orlando, Florida	**32837**
(Address of principal executive offices)	**(Zip Code)**

407-245-4000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, without par value	**DRI**	**New York Stock Exchange**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

Number of shares of common stock outstanding as of March 15, 2021: 130,842,674.

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Cautionary Statement Regarding Forward-Looking Statements

Statements set forth in or incorporated into this report 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”, “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.

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 28, 2021	February 23, 2020	February 28, 2021	February 23, 2020
Sales	$ 1,733.0	$ 2,346.5	$ 4,916.9	$ 6,536.8
Costs and expenses:				
Food and beverage	499.4	658.0	1,409.0	1,844.3
Restaurant labor	559.4	753.8	1,595.6	2,149.9
Restaurant expenses	336.8	396.7	958.2	1,144.7
Marketing expenses	19.2	71.6	66.8	206.6
General and administrative expenses	78.9	100.3	298.8	289.6
Depreciation and amortization	88.2	87.7	261.8	261.5
Impairments and disposal of assets, net	3.1	0.1	1.4	0.2
Total operating costs and expenses	$ 1,585.0	$ 2,068.2	$ 4,591.6	$ 5,896.8
Operating income	148.0	278.3	325.3	640.0
Interest, net	15.2	13.2	46.4	37.4
Other (income) expense, net	0.5	—	8.4	153.3
Earnings before income taxes	132.3	265.1	270.5	449.3
Income tax expense	3.1	31.8	7.1	18.8
Earnings from continuing operations	$ 129.2	$ 233.3	$ 263.4	$ 430.5
Losses from discontinued operations, net of tax benefit of $0.8, $0.7, $2.4 and $1.6, respectively	(0.5)	(1.0)	(2.6)	(2.9)
Net earnings	$ 128.7	$ 232.3	$ 260.8	$ 427.6
Basic net earnings per share:				
Earnings from continuing operations	$ 0.99	$ 1.92	$ 2.02	$ 3.53
Losses from discontinued operations	—	—	(0.02)	(0.03)
Net earnings	$ 0.99	$ 1.92	$ 2.00	$ 3.50
Diluted net earnings per share:				
Earnings from continuing operations	$ 0.98	$ 1.90	$ 2.00	$ 3.48
Losses from discontinued operations	—	(0.01)	(0.02)	(0.02)
Net earnings	$ 0.98	$ 1.89	$ 1.98	$ 3.46
Average number of common shares outstanding:				
Basic	130.5	121.3	130.3	122.1
Diluted	132.0	122.8	131.5	123.7

See accompanying notes to our unaudited consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	February 28, 2021	**February 23, 2020**	**February 28, 2021**	**February 23, 2020**
Net earnings	$ 128.7	$ 232.3	$ 260.8	$ 427.6
Other comprehensive income:				
Foreign currency adjustment	0.2	—	0.4	5.5
Change in fair value of derivatives and amortization of unrecognized gains and losses on derivatives, net of taxes of $0.2, $0.0, $0.5 and $(0.1), respectively	7.1	0.7	16.6	(4.9)
Net unamortized gain (loss) arising during the period, including amortization of unrecognized net actuarial gain (loss), net of taxes of $0.1, $(0.1), $0.4 and $32.3, respectively, related to pension and other post-employment benefits	0.5	(0.6)	1.3	97.2
Other comprehensive income	$ 7.8	$ 0.1	$ 18.3	$ 97.8
Total comprehensive income	$ 136.5	$ 232.4	$ 279.1	$ 525.4

See accompanying notes to our unaudited consolidated financial statements.

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

	February 28, 2021	May 31, 2020
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 993.9	$ 763.3
Receivables, net	44.0	49.8
Inventories	188.2	206.9
Prepaid income taxes	15.6	18.4
Prepaid expenses and other current assets	58.7	63.0
Total current assets	$ 1,300.4	$ 1,101.4
Land, buildings and equipment, net of accumulated depreciation and amortization of $2,785.1 and $2,640.9, respectively	2,813.4	2,756.9
Operating lease right-of-use assets	3,842.8	3,969.2
Goodwill	1,037.4	1,037.4
Trademarks	806.3	805.9
Other assets	295.8	275.3
Total assets	$ 10,096.1	$ 9,946.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 238.8	$ 249.4
Short-term debt	—	270.0
Accrued payroll	162.2	150.0
Accrued income taxes	6.4	6.2
Other accrued taxes	47.1	43.4
Unearned revenues	493.8	467.9
Other current liabilities	698.2	605.9
Total current liabilities	$ 1,646.5	$ 1,792.8
Long-term debt	929.7	928.8
Deferred income taxes	40.4	56.1
Operating lease liabilities - non-current	4,156.3	4,276.3
Other liabilities	747.7	560.9
Total liabilities	$ 7,520.6	$ 7,614.9
Stockholders' equity:		
Common stock and surplus	$ 2,271.8	$ 2,205.3
Retained earnings	303.0	143.5
Accumulated other comprehensive income (loss)	0.7	(17.6)
Total stockholders' equity	$ 2,575.5	$ 2,331.2
Total liabilities and stockholders' equity	$ 10,096.1	$ 9,946.1

See accompanying notes to our unaudited consolidated financial statements.

DARDEN RESTAURANTS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three And Nine Months Ended February 28, 2021 and February 23, 2020
(In millions)
(Unaudited)

	Common Stock And Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total Stockholders' Equity
Balance at November 29, 2020	$ 2,239.0	$ 223.2	$ (7.1)	$ —	$ 2,455.1
Net earnings	—	128.7	—	—	128.7
Other comprehensive income			7.8		7.8
Dividends declared ($0.37 per share)	—	(48.6)	—	—	(48.6)
Stock option exercises (0.4 shares)	21.5	—	—	—	21.5
Stock-based compensation	9.2	—	—	—	9.2
Repurchases of common stock (0.0 shares)	—	(0.4)	—	—	(0.4)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.0 shares)	2.3	—	—	—	2.3
Other	(0.2)	0.1	—	—	(0.1)
Balance at February 28, 2021	$ 2,271.8	$ 303.0	$ 0.7	$ —	$ 2,575.5
Balance at May 31, 2020	$ 2,205.3	$ 143.5	$ (17.6)	$ —	$ 2,331.2
Net earnings	—	260.8	—	—	260.8
Other comprehensive income			18.3		18.3
Dividends declared ($0.67 per share)		(88.1)	—	—	(88.1)
Stock option exercises (0.5 shares)	27.1	—	—	—	27.1
Stock-based compensation	32.2	—	—	—	32.2
Repurchases of common stock (0.1 shares)	(1.5)	(5.7)	—	—	(7.2)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.1 shares)	7.1	—	—		7.1
Other	1.6	(7.5)	—	—	(5.9)
Balance at February 28, 2021	$ 2,271.8	$ 303.0	$ 0.7	$ —	$ 2,575.5
Balance at November 24, 2019	$ 1,690.0	$ 584.5	$ (0.5)	$ (0.3)	$ 2,273.7
Net earnings	—	232.3	—	—	232.3
Other comprehensive income	—	—	0.1	—	0.1
Dividends declared ($0.88 per share)	—	(107.4)	—	—	(107.4)
Stock option exercises (0.1 shares)	0.7	—	—	—	0.7
Stock-based compensation	8.7	—	—	—	8.7
Repurchases of common stock (0.6 shares)	(8.6)	(60.8)	—	—	(69.4)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.0 shares)	2.2	—	—	—	2.2
Other	—	—	—	0.3	0.3
Balance at February 23, 2020	$ 1,693.0	$ 648.6	$ (0.4)	$ —	$ 2,341.2
Balance at May 26, 2019	$ 1,685.0	$ 806.6	$ (98.2)	$ (0.8)	$ 2,392.6
Net earnings	—	427.6	—	—	427.6
Other comprehensive income	—	—	97.8	—	97.8
Dividends declared ($2.64 per share)	—	(324.9)	—	—	(324.9)
Stock option exercises (0.3 shares)	11.5	—	—	—	11.5
Stock-based compensation	24.3	—	—	—	24.3
Repurchases of common stock (2.6 shares)	(35.8)	(264.5)	—	—	(300.3)
Issuance of stock under Employee Stock Purchase Plan and other plans (0.1 shares)	6.2	—	—	—	6.2
Other	1.8	3.8	—	0.8	6.4
Balance at February 23, 2020	$ 1,693.0	$ 648.6	$ (0.4)	$ —	$ 2,341.2

See accompanying notes to our unaudited consolidated financial statements.

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

	Nine Months Ended	
	February 28, 2021	February 23, 2020
Cash flows—operating activities		
Net earnings	$ 260.8	$ 427.6
Losses from discontinued operations, net of tax	2.6	2.9
Adjustments to reconcile net earnings from continuing operations to cash flows:		
Depreciation and amortization	261.8	261.5
Impairments and disposal of assets, net	1.4	0.2
Stock-based compensation expense	60.0	42.6
Change in current assets and liabilities	128.2	50.2
Contributions to pension and postretirement plans	(1.3)	(14.0)
Deferred income taxes	(12.3)	(1.9)
Change in other assets and liabilities	71.2	14.7
Pension settlement charge	—	147.1
Other, net	(26.4)	(8.5)
Net cash provided by operating activities of continuing operations	$ 746.0	$ 922.4
Cash flows—investing activities		
Purchases of land, buildings and equipment	(177.3)	(374.5)
Proceeds from disposal of land, buildings and equipment	5.4	4.3
Cash used in business acquisitions, net of cash acquired	—	(50.1)
Purchases of capitalized software and other assets	(10.6)	(16.9)
Other, net	1.1	(10.2)
Net cash used in investing activities of continuing operations	$ (181.4)	$ (447.4)
Cash flows—financing activities		
Proceeds from issuance of common stock	34.2	17.7
Dividends paid	(87.3)	(322.3)
Repurchases of common stock	(7.2)	(300.3)
Repayments of short-term debt	(270.0)	—
Principal payments on finance leases	(5.0)	(3.8)
Other, net	(0.2)	0.6
Net cash used in financing activities of continuing operations	$ (335.5)	$ (608.1)
Cash flows—discontinued operations		
Net cash provided by (used in) operating activities of discontinued operations	1.5	(2.5)
Net cash provided by (used in) discontinued operations	$ 1.5	$ (2.5)
Increase (decrease) in cash and cash equivalents	230.6	(135.6)
Cash and cash equivalents - beginning of period	763.3	457.3
Cash and cash equivalents - end of period	$ 993.9	$ 321.7

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

	Nine Months Ended	
	February 28, 2021	February 23, 2020
Cash flows from changes in current assets and liabilities		
Receivables, net	5.8	12.8
Inventories	18.7	(22.1)
Prepaid expenses and other current assets	3.9	(2.1)
Accounts payable	(17.5)	20.7
Accrued payroll	12.2	(20.1)
Prepaid/accrued income taxes	3.0	15.7
Other accrued taxes	3.6	(2.1)
Unearned revenues	25.8	47.1
Other current liabilities	72.7	0.3
Change in current assets and liabilities	$ 128.2	$ 50.2

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®, Seasons 52®, Bahama Breeze®, and Eddie V's Prime Seafood®. As of February 28, 2021, 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 31 franchised restaurants. We also have 24 franchised restaurants in operation located in Latin America.

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. Our fiscal year ending May 30, 2021 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 31, 2020. 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.

COVID-19 Pandemic

The COVID-19 pandemic has resulted in a significant reduction in guest traffic at our restaurants due to changes in consumer behavior as public health officials encouraged social distancing and state and local governments mandated restrictions including suspension of dine-in operations, reduced restaurant seating capacity, table spacing requirements, bar closures and additional physical barriers. Beginning in late March 2020, we operated with all of our dining rooms closed and served our guests in a To Go only or To Go and delivery format. In late April 2020, state and local governments began to allow us to open dining rooms at limited capacities, along with other operating restrictions. While increasing our in-restaurant dining capacity is subject to the ordinances in the jurisdictions where we operate, we are focused on increasing capacity where possible, while continuing to provide a safe environment for our team members and guests, and maintaining many of the operating efficiencies established during this time. As we navigate through the pandemic, we have taken significant steps to adapt our business to allow us to continue to serve guests, support our team members and secure our liquidity position to provide financial flexibility. During November 2020, rising case rates resulted in certain jurisdictions implementing restrictions that reduced dining room capacity or mandated the closure of dining rooms. However, starting in January 2021, many jurisdictions began lifting these restrictions and by the end of February, most of our dining jurisdictions allowed at least some indoor dining. As of the date of this filing, nearly all of our restaurants were able to open their dining rooms to some extent. With approved vaccines being distributed, we expect our restaurants' dining room capacity to increase as public health conditions improve and restrictions are eased. However, it is possible additional outbreaks could require us to reduce our capacity or further suspend our in-restaurant dining operations.

Recently Adopted Accounting Standards

As of June 1, 2020, we adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-13 Financial Instruments - Credit Losses (Topic 326). The amendments in this update require entities to estimate an expected lifetime credit loss on financial assets ranging from short-term trade accounts receivable to long-term financings. This guidance impacts, among other items, how a company determines liabilities associated with financial guarantees related to assigned leases. We remain contingently liable for lease payments under certain restaurant leases related to dispositions. We adopted this guidance using the modified retrospective transition method. Upon adoption, we recorded a $7.5 million (net of tax of $2.5 million) cumulative-effect adjustment to the beginning balance of retained earnings related to an expected credit loss liability for the contingent aspect of our lease guarantees. See Note 11 for information regarding contingent lease guarantees.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740). The amendments in this update are intended to simplify the accounting for income taxes by removing certain exceptions in the existing guidance and simplify areas such as franchise taxes, recognizing deferred taxes for tax goodwill, separate entity financial statements and interim recognition of enactment of tax laws or tax rate changes. This update is effective for us in the first quarter of fiscal 2022, however we elected to early adopt this guidance during the quarter ended August 30, 2020. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Note 2. Revenue Recognition

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

(in millions)	February 28, 2021	May 31, 2020
Unearned revenues		
Deferred gift card revenue	$ 522.6	$ 494.6
Deferred gift card discounts	(29.2)	(28.2)
Other	0.4	1.5
Total	$ 493.8	$ 467.9
Other liabilities		
Deferred franchise fees - non-current	$ 2.2	$ 2.8

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

	Three Months Ended		Nine Months Ended	
(in millions)	February 28, 2021	February 23, 2020	February 28, 2021	February 23, 2020
Beginning balance	$ 469.3	$ 412.4	$ 494.6	$ 453.6
Activations	230.2	362.7	400.6	606.5
Redemptions and breakage	(176.9)	(269.7)	(372.6)	(554.7)
Ending balance	$ 522.6	$ 505.4	$ 522.6	$ 505.4

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

Note 3. Additional Financial Information

Supplemental Balance Sheet Information

The components of lease assets and liabilities on the consolidated balance sheet are as follows:

(in millions)	Balance Sheet Classification	February 28, 2021	May 31, 2020
Operating lease right-of-use assets	Operating lease right-of-use assets	$ 3,842.8	$ 3,969.2
Finance lease right-of-use assets	Land, buildings and equipment, net	346.8	235.2
Total lease assets, net		$ 4,189.6	$ 4,204.4
Operating lease liabilities - current	Other current liabilities	$ 173.1	$ 160.6
Finance lease liabilities - current	Other current liabilities	5.7	5.7
Operating lease liabilities - non-current	Operating lease liabilities - non-current	4,156.3	4,276.3
Finance lease liabilities - non-current	Other liabilities	490.1	368.4
Total lease liabilities		$ 4,825.2	$ 4,811.0

Supplemental Cash Flow Information

Cash paid for interest and income taxes are as follows:	Nine Months Ended	
(in millions)	February 28, 2021	February 23, 2020
Interest, net of amounts capitalized	$ 45.7	$ 40.2
Income taxes, net of refunds	12.4	1.1

Non-cash investing and financing activities are as follows:	Nine Months Ended	
(in millions)	February 28, 2021	February 23, 2020
Increase in land, buildings and equipment through accrued purchases	$ 29.8	$ 44.7
Right-of-use assets obtained in exchange for new operating lease liabilities	30.1	164.5
Right-of-use assets obtained in exchange for new finance lease liabilities	128.1	166.2

Note 4. Income Taxes

The effective income tax rate for continuing operations for the quarter ended February 28, 2021 was 2.3 percent, compared to an effective income tax rate for the quarter ended February 23, 2020 of 12.0 percent. The effective income tax rate for continuing operations for the nine months ended February 28, 2021 was 2.6 percent, compared to an effective income tax rate of 4.2 percent for the nine months ended February 23, 2020. The change was driven by lower net earnings from continuing operations in the quarter ended February 28, 2021 compared to the quarter ended February 23, 2020 and the impact of certain tax credits on our lower earnings before income taxes, in addition to tax benefits related to stock option exercises and hedge mark to market impacts related to deferred compensation.

Included in our remaining balance of unrecognized tax benefits is $6.4 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. 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:

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

	Three Months Ended		Nine Months Ended	
(in millions)	February 28, 2021	February 23, 2020	February 28, 2021	February 23, 2020
Anti-dilutive stock-based compensation awards	0.3	0.7	0.7	0.6

Note 6. Segment Information

We manage our restaurant brands, Olive Garden, LongHorn Steakhouse, Cheddar’s Scratch Kitchen, Yard House, The Capital Grille, Seasons 52, Bahama Breeze 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”). Non-cash lease-related expenses included in restaurant expenses (which is a component of segment profit) and lease-related depreciation and amortization are reported at the corporate level as these are expenses for which our operating segments are not being evaluated. Additionally, our lease-related right-of-use assets are not managed or evaluated at the operating segment level, but rather at the corporate level.

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

The following tables reconcile our segment results to our consolidated results reported in accordance with GAAP.

(in millions)

For the three months ended February 28, 2021	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
Sales	$ 872.0	$ 454.3	$ 104.4	$ 302.3	$ —	$ 1,733.0
Restaurant and marketing expenses	669.7	372.2	88.0	270.5	14.4	1,414.8
Segment profit	$ 202.3	$ 82.1	$ 16.4	$ 31.8	$ (14.4)	$ 318.2
Depreciation and amortization	$ 35.7	$ 16.3	$ 7.8	$ 24.6	$ 3.8	$ 88.2
Impairments and disposal of assets, net	—	—	—	3.3	(0.2)	3.1

(in millions)

For the nine months ended February 28, 2021	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
Sales	$ 2,489.7	$ 1,238.4	$ 295.6	$ 893.2	$ —	$ 4,916.9
Restaurant and marketing expenses	1,938.5	1,033.0	249.0	786.4	22.7	4,029.6
Segment profit	$ 551.2	$ 205.4	$ 46.6	$ 106.8	$ (22.7)	$ 887.3
Depreciation and amortization	$ 106.0	$ 49.7	$ 23.3	$ 72.7	$ 10.1	$ 261.8
Impairments and disposal of assets, net	—	—	—	3.3	(1.9)	1.4
Purchases of land, buildings and equipment	69.8	27.3	33.1	45.0	2.1	177.3

(in millions)

For the three months ended February 23, 2020	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
Sales	$ 1,169.3	$ 510.7	$ 188.4	$ 478.1	$ —	$ 2,346.5
Restaurant and marketing expenses	922.6	406.1	141.7	408.6	1.1	1,880.1
Segment profit	$ 246.7	$ 104.6	$ 46.7	$ 69.5	$ (1.1)	$ 466.4
Depreciation and amortization	$ 35.3	$ 17.1	$ 8.0	$ 24.7	$ 2.6	$ 87.7
Impairments and disposal of assets, net	0.6	0.5	—	—	(1.0)	0.1

(in millions)

For the nine months ended February 23, 2020	Olive Garden	LongHorn Steakhouse	Fine Dining	Other Business	Corporate	Consolidated
Sales	$ 3,283.0	$ 1,408.2	$ 479.4	$ 1,366.2	$ —	$ 6,536.8
Restaurant and marketing expenses	2,617.1	1,157.2	381.9	1,184.6	4.7	5,345.5
Segment profit	$ 665.9	$ 251.0	$ 97.5	$ 181.6	$ (4.7)	$ 1,191.3
Depreciation and amortization	$ 107.4	$ 50.9	$ 23.9	$ 73.2	$ 6.1	$ 261.5
Impairments and disposal of assets, net	2.4	1.7	—	—	(3.9)	0.2
Purchases of land, buildings and equipment	164.1	61.8	50.5	93.4	4.7	374.5

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

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

	Three Months Ended		Nine Months Ended	
(in millions)	February 28, 2021	February 23, 2020	February 28, 2021	February 23, 2020
Segment profit	$ 318.2	$ 466.4	$ 887.3	$ 1,191.3
Less general and administrative expenses	(78.9)	(100.3)	(298.8)	(289.6)
Less depreciation and amortization	(88.2)	(87.7)	(261.8)	(261.5)
Less impairments and disposal of assets, net	(3.1)	(0.1)	(1.4)	(0.2)
Less interest, net	(15.2)	(13.2)	(46.4)	(37.4)
Less other (income) expense, net	(0.5)	—	(8.4)	(153.3)
Earnings before income taxes	$ 132.3	$ 265.1	$ 270.5	$ 449.3

Note 7. Stockholders' Equity

Accumulated Other Comprehensive Income (Loss) (AOCI)

The components of accumulated other comprehensive income (loss), net of tax, for the quarter and nine months ended February 28, 2021 are as follows:

(in millions)	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Derivatives	Benefit Plan Funding Position	Accumulated Other Comprehensive Income (Loss)
Balance at November 29, 2020	$ 4.7	$ 0.9	$ (12.7)	$ (7.1)
Gain (loss)	0.2	8.2	—	8.4
Reclassification realized in net earnings	—	(1.1)	0.5	(0.6)
Balance at February 28, 2021	$ 4.9	$ 8.0	$ (12.2)	$ 0.7
Balance at May 31, 2020	$ 4.5	$ (8.6)	$ (13.5)	$ (17.6)
Gain (loss)	0.4	17.2	—	17.6
Reclassification realized in net earnings	—	(0.6)	1.3	0.7
Balance at February 28, 2021	$ 4.9	$ 8.0	$ (12.2)	$ 0.7

The components of accumulated other comprehensive income (loss), net of tax, for the quarter and nine months ended February 23, 2020 are as follows:

(in millions)	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Derivatives	Benefit Plan Funding Position	Accumulated Other Comprehensive Income (Loss)
Balance at November 24, 2019	$ 4.5	$ 3.4	$ (8.4)	$ (0.5)
Gain (loss)	—	0.2	—	0.2
Reclassification realized in net earnings	—	0.5	(0.6)	(0.1)
Balance at February 23, 2020	$ 4.5	$ 4.1	$ (9.0)	$ (0.4)
Balance at May 26, 2019	$ (1.0)	$ 9.0	$ (106.2)	$ (98.2)
Gain (loss)	5.5	(4.9)	(12.7)	(12.1)
Reclassification realized in net earnings	—	—	109.9	109.9
Balance at February 23, 2020	$ 4.5	$ 4.1	$ (9.0)	$ (0.4)

DARDEN RESTAURANTS, INC.
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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) AOCI Components	Location of Gain (Loss) Recognized in Earnings	Amount Reclassified from AOCI into Net Earnings: Three Months Ended February 28, 2021	Three Months Ended February 23, 2020	Nine Months Ended February 28, 2021	Nine Months Ended February 23, 2020
Derivatives					
Commodity contracts	(1)	$ (0.2)	$ (0.5)	$ (1.1)	$ (1.1)
Equity contracts	(2)	1.3	—	1.6	1.0
Interest rate contracts	(3)	—	—	(0.1)	(0.1)
Total before tax		$ 1.1	(0.5)	$ 0.4	$ (0.2)
Tax (expense) benefit		—	—	0.2	0.2
Net of tax		$ 1.1	$ (0.5)	$ 0.6	$ —
Benefit plan funding position					
Recognized net actuarial loss - pension/postretirement plans	(4)	$ —	$ (0.1)	$ (0.1)	$ (148.9)
Recognized net actuarial gain (loss) - other plans	(5)	(0.6)	0.8	(1.6)	2.4
Total before tax		$ (0.6)	$ 0.7	$ (1.7)	$ (146.5)
Tax (expense) benefit		0.1	(0.1)	0.4	36.6
Net of tax		$ (0.5)	$ 0.6	$ (1.3)	$ (109.9)

(1) Primarily included in food and beverage costs and restaurant expenses. See Note 9 for additional details.
(2) Included in general and administrative expenses. See Note 9 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, for fiscal 2021, is a component of general and administrative expenses and other (income) expense, net, and for fiscal 2020, is a component of restaurant labor expenses, general and administrative expenses and other (income) expense, net.
(5) Included in the computation of net periodic benefit costs - other plans, which, for fiscal 2021, is a component of restaurant labor, general and administrative expenses and other (income) expense, net, and for fiscal 2020, is a component of general and administrative expenses.

Note 8. 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 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.

DARDEN RESTAURANTS, INC.
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(Unaudited)

The weighted-average fair value of non-qualified stock options and the related assumptions used in the Black-Scholes option pricing model for options granted during the periods presented, were as follows:

	Nine Months Ended	
	February 28, 2021	February 23, 2020
Weighted-average fair value	$ 20.07	$ 19.94
Dividend yield	3.0 %	3.0 %
Expected volatility of stock	37.3 %	22.5 %
Risk-free interest rate	0.4 %	1.9 %
Expected option life (in years)	6.4	6.3
Weighted-average exercise price per share	$ 78.84	$ 124.24

The weighted-average grant date fair value of performance-based restricted stock units and the related assumptions used in the Monte Carlo simulation to record stock-based compensation for units granted during the periods presented, were as follows:

	Nine Months Ended	
	February 28, 2021	February 23, 2020
Dividend yield (1)	0.0 %	0.0 %
Expected volatility of stock	50.5 %	23.1 %
Risk-free interest rate	0.1 %	1.8 %
Expected life (in years)	2.8	2.9
Weighted-average grant date fair value per unit	$ 83.46	$ 124.41

(1) Assumes a reinvestment of dividends.

The following table presents a summary of our stock-based compensation activity for the nine months ended February 28, 2021.

(in millions)	Stock Options	Restricted Stock/ Restricted Stock Units	Equity-Settled Performance Stock Units	Cash-Settled Darden Stock Units
Outstanding beginning of period	2.62	0.28	0.55	1.03
Awards granted	0.28	0.10	0.14	0.28
Awards exercised/vested	(0.53)	(0.08)	(0.19)	(0.44)
Awards forfeited	(0.01)	(0.01)	—	(0.05)
Outstanding end of period	2.36	0.29	0.50	0.82

DARDEN RESTAURANTS, INC.
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We recognized expense from stock-based compensation as follows:

	Three Months Ended		Nine Months Ended	
(in millions)	February 28, 2021	February 23, 2020	February 28, 2021	February 23, 2020
Stock options	$ 2.2	$ 1.7	$ 6.7	$ 4.5
Restricted stock/restricted stock units	2.1	2.2	7.9	5.7
Equity-settled performance stock units	4.0	4.0	14.7	11.7
Cash-settled Darden stock units	9.4	5.9	27.8	18.3
Employee stock purchase plan	0.6	0.4	1.8	1.3
Director compensation program/other	0.3	0.4	1.1	1.1
Total stock-based compensation expense	$ 18.6	$ 14.6	$ 60.0	$ 42.6

Note 9. Derivative Instruments and Hedging Activities

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments as 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. 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 February 28, 2021, 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 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 2021.

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 2025. The contracts are 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 have net cash settlement terms and net settle every three months. 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.

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 July 2024.

The notional and fair values of our derivative contracts are as follows:

				Fair Values			
millions, except per share data)	Number of Shares Outstanding	Weighted-Average Per Share Forward Rates	Notional Values	Derivative Assets (1)		Derivative Liabilities (1)	
	February 28, 2021			February 28, 2021	May 31, 2020	February 28, 2021	May 31, 2020
quity forwards:							
Designated	0.3	$105.22	$ 27.3	$ 2.2	$ 1.8	$ —	$ —
Not designated	0.4	$98.02	$ 42.4	3.6	4.4	—	—
otal equity forwards				$ 5.8	$ 6.2	$ —	$ —
ommodity contracts:							
Designated	N/A	N/A	$ 4.7	$ 0.5	$ 0.3	$ —	$ 1.8
Not designated	N/A	N/A	$ 0.2	—	—	—	0.3
otal commodity contracts				$ 0.5	$ 0.3	$ —	$ 2.1
otal derivative contracts				$ 6.3	$ 6.5	$ —	$ 2.1

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

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

	Amount of Gain (Loss) Recognized in AOCI		Amount of Gain (Loss) Reclassified from AOCI to Earnings	
	Three Months Ended		Three Months Ended	
(in millions)	February 28, 2021	February 23, 2020	February 28, 2021	February 23, 2020
Equity (1)	$ 8.0	$ 0.8	$ 1.3	$ —
Commodity (2)	0.3	(0.8)	(0.2)	(0.5)
Interest rate (3)	—	—	—	—
Total	$ 8.3	$ —	$ 1.1	$ (0.5)

	Amount of Gain (Loss) Recognized in AOCI		Amount of Gain (Loss) Reclassified from AOCI to Earnings	
	Nine Months Ended		Nine Months Ended	
(in millions)	February 28, 2021	February 23, 2020	February 28, 2021	February 23, 2020
Equity (1)	$ 16.7	$ (3.5)	$ 1.6	$ 1.0
Commodity (2)	0.7	(1.8)	(1.1)	(1.1)
Interest rate (3)	—	—	(0.1)	(0.1)
Total	$ 17.4	$ (5.3)	$ 0.4	$ (0.2)

(1) Location of the gain (loss) reclassified from AOCI to earnings is general and administrative expenses.
(2) Location of the gain (loss) reclassified from AOCI to earnings is food and beverage costs and restaurant expenses.
(3) Location of the gain (loss) reclassified from AOCI to earnings is interest, net.

The effects of derivatives not designated as hedging instruments in the consolidated statements of earnings are as follows:

(in millions)	Amount of Gain (Loss) Recognized in Earnings			
	Three Months Ended		Nine Months Ended	
Location of Gain (Loss) Recognized in Earnings on Derivatives	February 28, 2021	February 23, 2020	February 28, 2021	February 23, 2020
Food and beverage costs and restaurant expenses	$ —	$ —	$ 0.1	$ 0.3
General and administrative expenses	13.6	2.4	28.7	1.8
Total	$ 13.6	$ 2.4	$ 28.8	$ 2.1

Based on the fair value of our derivative instruments designated as cash flow hedges as of February 28, 2021, we expect to reclassify $1.2 million of net gains on derivative instruments from accumulated other comprehensive income (loss) to earnings during the next 12 months based on the maturity of our equity forward contracts. However, the amounts ultimately realized in earnings will be dependent on the fair value of the contracts on the settlement dates.

Note 10. Fair Value Measurements

The fair values of cash equivalents, receivables, net, accounts payable and short-term debt approximate their carrying amounts due to their short duration.

The following tables summarize the fair values of financial instruments measured at fair value on a recurring basis as of February 28, 2021 and May 31, 2020.

Items Measured at Fair Value at February 28, 2021

(in millions)		Fair value of assets (liabilities)	Quoted prices in active market for identical assets (liabilities) (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivatives:					
Commodities futures, swaps & options	(1)	$ 0.5	$ —	$ 0.5	$ —
Equity forwards	(2)	5.8	—	5.8	—
Total		$ 6.3	$ —	$ 6.3	$ —

Items Measured at Fair Value at May 31, 2020

(in millions)		Fair value of assets (liabilities)	Quoted prices in active market for identical assets (liabilities) (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivatives:					
Commodities futures, swaps & options	(1)	$ (1.8)	$ —	$ (1.8)	$ —
Equity forwards	(2)	6.2	—	6.2	—
Total		$ 4.4	$ —	$ 4.4	$ —

(1) The fair value of our commodities futures, swaps and options is based on closing market prices of the contracts, inclusive of the risk of nonperformance.
(2) The fair value of equity forwards is based on the closing market value of Darden stock, inclusive of the risk of nonperformance.

The carrying value and fair value of long-term debt as of February 28, 2021, was $929.7 million and $1.02 billion, respectively. The carrying value and fair value of long-term debt as of May 31, 2020, was $928.8 million and $1.20 billion, respectively. The fair value of long-term debt, which is classified as Level 2 in the fair value hierarchy, is determined based on market prices or, if market prices are not available, the present value of the underlying cash flows discounted at our incremental borrowing rates.

The fair value of non-financial assets measured at fair value on a non-recurring basis, classified as Level 2 in the fair value hierarchy, is determined based on third-party market appraisals. As of February 28, 2021, adjustments to the fair values of non-financial assets measured at fair value on a non-recurring basis, classified as Level 2, were not material. As of May 31, 2020, operating lease right-of-use assets with a carrying amount of $24.2 million, primarily related to seven restaurants, were determined to have a fair value of $17.6 million resulting in an impairment of $6.6 million.

The fair value of non-financial assets measured at fair value on a non-recurring basis, classified as Level 3 in the fair value hierarchy, is determined based on appraisals, sales prices of comparable assets, or estimates of discounted future cash flows. As of February 28, 2021, adjustments to the fair values of non-financial assets, classified as Level 3, were not material. As of May 31, 2020, long-lived assets held and used with a carrying amount of $35.1 million, primarily related to thirteen underperforming restaurants as well as two restaurants damaged by natural disasters, were determined to have a fair value of $0.2 million resulting in an impairment of $34.9 million. Also as of May 31, 2020, goodwill and trademarks for our Cheddar’s Scratch Kitchen brand with carrying values of $334.3 million and $375.1 million, respectively, were determined to have fair values of $165.1 million and $230.1 million, respectively, resulting in a total impairment of $314.2 million.

Note 11. Commitments and Contingencies

As collateral for performance on contracts and as credit guarantees to banks and insurers, we are contingently liable for guarantees of subsidiary obligations under standby letters of credit. As of February 28, 2021 and May 31, 2020, we had $70.5 million and $65.2 million, respectively, of standby letters of credit related to workers’ compensation and general liabilities accrued in our consolidated financial statements. As of February 28, 2021 and May 31, 2020, we had $28.7 million and $44.0 million, respectively, of surety bonds related to other payments. Most surety bonds are renewable annually.

As of February 28, 2021 and May 31, 2020, we had $128.6 million and $151.5 million, respectively, of guarantees associated with leased properties that have been assigned to third parties. These amounts represent the maximum potential amount of future payments under the guarantees. The fair value of the maximum potential future payments discounted at our weighted-average cost of capital as of February 28, 2021 and May 31, 2020, amounted to $105.1 million and $122.4 million, respectively. In the event of default by a third party, the indemnity and default clauses in our assignment agreements govern our ability to recover from and pursue the third party for damages incurred as a result of its default. We do not hold any third-party assets as collateral related to these assignment agreements, except to the extent that the assignment allows us to repossess the building and personal property. These guarantees expire over their respective lease terms, which range from fiscal 2021 through fiscal 2034. The likelihood of the third parties defaulting on the assignment agreements was deemed to be remote. In conjunction with the adoption of ASU 2016-13 in the first quarter of fiscal 2021, the liability recorded for our expected credit losses under these leases as of February 28, 2021 was $10.0 million. See Note 1.

We are subject to private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. A number of these lawsuits, proceedings and claims may exist at any given time. These matters typically involve claims from guests, employees and others related to operational issues common to the restaurant industry, and can also involve infringement of, or challenges to, our trademarks. While the resolution of a lawsuit, proceeding or claim may have an impact on our financial results for the period in which it is resolved, we believe that the final disposition of the lawsuits, proceedings and claims in which we are currently involved, either individually or in the aggregate, will not have a material adverse effect on our financial position, results of operations or liquidity.

Note 12. Corporate Restructuring

During the first quarter of fiscal 2021, as a result of the impact of the COVID-19 pandemic on our business operations, we undertook a strategic restructuring of our corporate organization and workforce in order to reduce costs and better align corporate expenses to our sales levels in the current environment. The corporate restructuring included a voluntary early retirement incentive program and other involuntary strategic workforce reductions. In accordance with these actions, we incurred employee termination benefits costs and other costs of $47.8 million, including cash and non-cash components of $38.1 million and $9.7 million, respectively. These costs are reflected in general and administrative expenses and other (income) expense, net in our consolidated statements of earnings for the nine months ended February 28, 2021.

The following table summarizes the accrued employee termination benefits and other costs which are included in other current liabilities and other liabilities on our consolidated balance sheet as of February 28, 2021. We expect the remaining liability to be paid by the second quarter of fiscal 2022.

(in millions)	Initial Liability	Payments	Balance at February 28, 2021
Accrued liability (1)	$ 38.1	$ (16.3)	$ 21.8

(1) Excludes costs associated with equity awards that will be settled in shares upon vesting and postretirement benefit plan valuation adjustment.

Note 13. Subsequent Events

On March 23, 2021, the Board of Directors declared a cash dividend of $0.88 per share to be paid May 3, 2021 to all shareholders of record as of the close of business on April 9, 2021.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis below for the Company, which contains forward-looking statements, should be read in conjunction with the unaudited financial statements, the notes to such financial statements and the "Forward-Looking Statements" included elsewhere in this Form 10-Q.

To facilitate review of our discussion and analysis, the following table sets forth our financial results for the periods indicated. All information is derived from the unaudited consolidated statements of earnings for the quarters and nine months ended February 28, 2021 and February 23, 2020.

	Three Months Ended			Nine Months Ended		
(in millions)	February 28, 2021	February 23, 2020	% Chg	February 28, 2021	February 23, 2020	% Chg
Sales	$ 1,733.0	$ 2,346.5	(26.1)%	$ 4,916.9	$ 6,536.8	(24.8)%
Costs and expenses:						
Food and beverage	499.4	658.0	(24.1)	1,409.0	1,844.3	(23.6)
Restaurant labor	559.4	753.8	(25.8)	1,595.6	2,149.9	(25.8)
Restaurant expenses	336.8	396.7	(15.1)	958.2	1,144.7	(16.3)
Marketing expenses	19.2	71.6	(73.2)	66.8	206.6	(67.7)
General and administrative expenses	78.9	100.3	(21.3)	298.8	289.6	3.2
Depreciation and amortization	88.2	87.7	0.6	261.8	261.5	0.1
Impairments and disposal of assets, net	3.1	0.1	NM	1.4	0.2	NM
Total costs and expenses	$ 1,585.0	$ 2,068.2	(23.4)	$ 4,591.6	$ 5,896.8	(22.1)
Operating income	148.0	278.3	(46.8)	325.3	640.0	(49.2)
Interest, net	15.2	13.2	15.2	46.4	37.4	24.1
Other (income) expense, net	0.5	—	NM	8.4	153.3	(94.5)
Earnings before income taxes	132.3	265.1	(50.1)	270.5	449.3	(39.8)
Income tax expense (1)	3.1	31.8	(90.3)	7.1	18.8	(62.2)
Earnings from continuing operations	$ 129.2	$ 233.3	(44.6)	$ 263.4	$ 430.5	(38.8)
Losses from discontinued operations, net of tax	(0.5)	(1.0)	(50.0)	(2.6)	(2.9)	(10.3)
Net earnings	$ 128.7	$ 232.3	(44.6)%	$ 260.8	$ 427.6	(39.0)%
Diluted net earnings per share:						
Earnings from continuing operations	$ 0.98	$ 1.90	(48.4)%	$ 2.00	$ 3.48	(42.5)%
Losses from discontinued operations	—	(0.01)	(100.0)	(0.02)	(0.02)	—
Net earnings	$ 0.98	$ 1.89	(48.1)%	$ 1.98	$ 3.46	(42.8)%
(1) Effective tax rate	2.3 %	12.0 %		2.6 %	4.2 %	

NM- Percentage not considered meaningful.

The following table details the number of company-owned restaurants currently reported in continuing operations that were open at the end of the third quarter of fiscal 2021, compared with the number open at the end of fiscal 2020 and the end of the third quarter of fiscal 2020.

	February 28, 2021	May 31, 2020	February 23, 2020
Olive Garden	874	868	870
LongHorn Steakhouse	528	522	522
Cheddar's Scratch Kitchen	170	165	169
Yard House	81	81	81
The Capital Grille (1)	60	60	60
Seasons 52	43	44	45
Bahama Breeze	41	41	42
Eddie V's	25	23	23
Total	1,822	1,804	1,812

(1) Includes two The Capital Burger restaurants.

OVERVIEW OF OPERATIONS

COVID-19 Pandemic

The COVID-19 pandemic has resulted in a significant reduction in guest traffic at our restaurants due to changes in consumer behavior as public health officials encouraged social distancing and state and local governments mandated restrictions including suspension of dine-in operations, reduced restaurant seating capacity, table spacing requirements, bar closures and additional physical barriers. Beginning in late March 2020, we operated with all of our dining rooms closed and served our guests in a To Go only or To Go and delivery format. In late April 2020, state and local governments began to allow us to open dining rooms at limited capacities, along with other operating restrictions. While increasing our in-restaurant dining capacity is subject to the ordinances in the jurisdictions where we operate, we are focused on increasing capacity where possible, while continuing to provide a safe environment for our team members and guests, and maintaining many of the operating efficiencies established during this time. As we navigate through the pandemic, we have taken significant steps to adapt our business to allow us to continue to serve guests, support our team members and secure our liquidity position to provide financial flexibility. During the first quarter of fiscal 2021, we undertook a strategic restructuring of our corporate organization and workforce in order to reduce costs and better align corporate expenses to our sales levels in the current environment. The corporate restructuring included a voluntary early retirement incentive program and other involuntary strategic workforce reductions and we incurred employee termination benefits costs and other costs of $47.8 million.

Through our second and third quarters of fiscal 2021, most of our restaurants were able to operate with at least restricted dine-in capacity. As of the date of this filing, nearly all of our restaurants were able to open their dining rooms to some extent. With approved vaccines being distributed, we expect our restaurants' dining room capacity to increase as public health conditions improve and restrictions are eased. However, it is possible additional outbreaks could require us to reduce our capacity or further suspend our in-restaurant dining operations.

Financial Highlights - Consolidated

Our sales from continuing operations were $1.73 billion and $4.92 billion for the third quarter and first nine months of fiscal 2021, respectively, compared to $2.35 billion and $6.54 billion for the third quarter and first nine months of fiscal 2020, respectively. The 26.1 percent and 24.8 percent decreases in sales for the third quarter and first nine months of fiscal 2021 were driven by combined Darden same-restaurant sales decreases of 26.7 percent and 25.5 percent for the third quarter and first nine months of fiscal 2021, respectively, partially offset by revenue from the addition of 10 net new company-owned restaurants since the third quarter of fiscal 2020.

For the third quarter of fiscal 2021, our net earnings from continuing operations were $129.2 million compared to $233.3 million for the third quarter of fiscal 2020, and our diluted net earnings per share from continuing operations were $0.98 for the third quarter of fiscal 2021 compared to $1.90 for the third quarter of fiscal 2020. For the first nine months of fiscal 2021, our net earnings from continuing operations were $263.4 million compared to $430.5 million for the first nine months of fiscal 2020, and our diluted net earnings per share from continuing operations were $2.00 for the first nine months of fiscal 2021 compared to $3.48 for the first nine months of fiscal 2020. Our diluted per share results from continuing operations for the first nine months of fiscal 2021 were adversely impacted by approximately $0.28 due to charges associated with our corporate restructuring plan. Our diluted per share results from continuing operations for the first nine months of fiscal 2020 were adversely impacted by approximately $0.90 due to a pension settlement charge and approximately $0.01 due to an international structure simplification.

Outlook

We expect sales for the fourth quarter of fiscal 2021 to be approximately $2.1 billion.

Additionally, for the full year we expect to open 33 net new restaurants and we expect capital expenditures incurred to build new restaurants, remodel and maintain existing restaurants and for technology initiatives to be between $285 and $295 million.

SALES

The following table presents our sales by segment for the periods indicated.

	Three Months Ended				Nine Months Ended			
(in millions)	February 28, 2021	February 23, 2020	% Chg	SRS (1)	February 28, 2021	February 23, 2020	% Chg	SRS (1)
Olive Garden	$ 872.0	$ 1,169.3	(25.4)%	(25.8)%	$ 2,489.7	$ 3,283.0	(24.2)%	(24.7)%
LongHorn Steakhouse	$ 454.3	$ 510.7	(11.0)%	(12.6)%	$ 1,238.4	$ 1,408.2	(12.1)%	(13.9)%
Fine Dining	$ 104.4	$ 188.4	(44.6)%	(45.2)%	$ 295.6	$ 479.4	(38.3)%	(38.8)%
Other Business	$ 302.3	$ 478.1	(36.8)%	(36.9)%	$ 893.2	$ 1,366.2	(34.6)%	(35.0)%

(1) Same-restaurant sales is a year-over-year comparison of each period's sales volumes for a 52-week year and is limited to restaurants open at least 16 months.

Olive Garden's sales decrease for the third quarter and first nine months of fiscal 2021 was primarily driven by U.S. same-restaurant sales decreases driven by the impact of COVID-19, partially offset by revenue from new restaurants. The decrease in U.S. same-restaurant sales for the third quarter of fiscal 2021 resulted from a 27.5 percent decrease in same-restaurant guest counts, partially offset by a 1.7 percent increase in average check. The decrease in U.S. same-restaurant sales for the first nine months of fiscal 2021 resulted from a 26.2 percent decrease in same-restaurant guest counts, partially offset by a 1.5 percent increase in average check.

LongHorn Steakhouse's sales decrease for the third quarter and first nine months of fiscal 2021 was primarily driven by same-restaurant sales decreases driven by the impact of COVID-19, partially offset by revenue from new restaurants. The decrease in same-restaurant sales for the third quarter of fiscal 2021 resulted from a 13.6 percent decrease in same-restaurant guest counts, partially offset by a 1.0 percent increase in average check. The decrease in U.S. same-restaurant sales for the first nine months of fiscal 2021 resulted from a 14.8 percent decrease in same-restaurant guest counts, partially offset by a 0.9 percent increase in average check.

Fine Dining's sales decrease for the third quarter and first nine months of fiscal 2021 was primarily driven by same-restaurant sales decreases driven by the impact of COVID-19, partially offset by revenue from new restaurants. The decrease in same-restaurant sales for the third quarter of fiscal 2021 resulted from a 45.6 percent decrease in same-restaurant guest counts, partially offset by a 0.4 percent increase in average check. The decrease in same-restaurant sales for the first nine months of fiscal 2021 resulted from a 39.6 percent decrease in same-restaurant guest counts, partially offset by a 0.8 percent increase in average check.

Other Business' sales decrease for the third quarter and first nine months of fiscal 2021 was primarily driven by same-restaurant sales decreases driven by the impact of COVID-19. The decrease in same-restaurant sales for the third quarter of fiscal 2021 resulted from a 34.7 percent decrease in same-restaurant guest counts and a 2.2 percent decrease in average check. The decrease in same-restaurant sales for the first nine months of fiscal 2021 resulted from a 35.1 percent decrease in same-restaurant guest counts, partially offset by a 0.1 percent increase in average check.

COSTS AND EXPENSES

The following table sets forth selected operating data as a percent of sales for the periods indicated. All information is derived from the unaudited consolidated statements of earnings for the quarter and nine months ended February 28, 2021 and February 23, 2020.

	Three Months Ended		Nine Months Ended	
	February 28, 2021	February 23, 2020	February 28, 2021	February 23, 2020
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Costs and expenses:				
Food and beverage	28.8	28.0	28.7	28.2
Restaurant labor	32.3	32.1	32.5	32.9
Restaurant expenses	19.4	16.9	19.5	17.5
Marketing expenses	1.1	3.1	1.4	3.2
General and administrative expenses	4.6	4.3	6.1	4.4
Depreciation and amortization	5.1	3.7	5.3	4.0
Impairments and disposal of assets, net	0.2	—	—	—
Total operating costs and expenses	91.5 %	88.1 %	93.4 %	90.2 %
Operating income	8.5	11.9	6.6	9.8
Interest, net	0.9	0.6	0.9	0.6
Other (income) expense, net	—	—	0.2	2.3
Earnings before income taxes	7.6	11.3	5.5	6.9
Income tax expense	0.2	1.4	0.1	3.0
Earnings from continuing operations	7.5 %	9.9 %	5.4 %	6.6 %

Quarter Ended February 28, 2021 Compared to Quarter Ended February 23, 2020

- Food and beverage costs increased as a percent of sales primarily due to a 1.5% impact from menu mix and investments in food quality in addition to a 0.4% impact from inflation, partially offset by a 1.1% impact from pricing leverage and cost savings initiatives.
- Restaurant labor costs increased as a percent of sales primarily due to sales deleverage of 2.9% and a 1.0% impact from team member bonuses, partially offset by a 3.1% impact from productivity improvement driven by operational simplification and a 0.7% impact from pricing leverage.
- Restaurant expenses increased as a percent of sales primarily due to a 5.1% impact from sales deleverage, partially offset by a 1.0% impact from lower repairs and maintenance expenses, 0.8% impact from costs savings initiatives and pricing leverage and a 0.8% impact from lower utility costs and worker's compensation and public liability costs.
- Marketing expenses decreased as a percent of sales primarily due to a 3.0% impact from lower media spending at Olive Garden and LongHorn Steakhouse, partially offset by a 1.0% impact from sales deleverage.
- General and administrative expenses increased as a percent of sales primarily due to a 1.5% impact from sales deleverage, a 0.2% impact from the mark to market impact of our deferred compensation plans and a 0.2% impact from restaurant development related costs, partially offset by a 0.9% impact from a legal recovery and a 0.8% impact from cost savings initiatives.
- Depreciation and amortization expenses increased as a percent of sales primarily due to sales deleverage.
- Impairments and disposal of assets, net increased as a percent of sales due to the total impairment of a restaurant in the third quarter of fiscal 2021. There was only nominal net impairment and disposal activity during the third fiscal quarter of 2020.

Nine Months Ended February 28, 2021 Compared to Nine Months Ended February 23, 2020

- Food and beverage costs increased as a percent of sales primarily due to a 0.5% impact from menu mix and investments in food quality in addition to a 0.5% impact from inflation, partially offset by a 0.5% impact from cost savings initiatives.
- Restaurant labor costs decreased as a percent of sales primarily due to a 2.9% impact from productivity improvement driven by operational simplification and a 0.7% impact from pricing leverage, partially offset by a 2.5% impact from sales deleverage, a 0.4% impact from inflation and a 0.3% impact from team member bonuses.

- Restaurant expenses increased as a percent of sales primarily due to a 5.0% impact from sales deleverage, partially offset by a 1.2% impact from lower repairs and maintenance expenses, a 1.1% impact from cost savings initiatives and pricing leverage and a 0.5% impact from lower utility costs.
- Marketing expenses decreased as a percent of sales primarily due to a 2.8% impact from lower media spending at Olive Garden and LongHorn Steakhouse, partially offset by a 1.0% impact from sales deleverage.
- General and administrative expenses increased as a percent of sales primarily due to a 1.5% impact from sales deleverage, a 0.8% impact related to our corporate restructuring actions during the first quarter of fiscal 2021 and a 0.3% impact from the mark to market of our deferred compensation plans, partially offset by a 0.6% impact from cost savings initiatives and a 0.3% impact from a legal recovery.
- Depreciation and amortization expenses increased as a percent of sales primarily due to sales deleverage.

INTEREST EXPENSE

Net interest expense increased as a percent of sales for the third quarter of fiscal 2021 primarily due to sales deleverage. Net interest expense increased as a percent of sales for the first nine months of fiscal 2021 primarily due to interest incurred on our $270.0 million term loan and sales deleverage.

OTHER (INCOME) EXPENSE, NET

Other (income) expense, net was $0.5 million for the third quarter and $8.4 million for the first nine months of fiscal 2021 primarily due to a postretirement benefit plan valuation adjustment resulting from our corporate restructuring in the first quarter of fiscal 2021.

INCOME TAXES

The effective income tax rate for continuing operations for the quarter ended February 28, 2021 was 2.3 percent, compared to an effective income tax rate for the quarter ended February 23, 2020 of 12.0 percent. The effective income tax rate for continuing operations for the nine months ended February 28, 2021 was 2.6 percent, compared to an effective income tax rate of 4.2 percent for the nine months ended February 23, 2020. The change was driven primarily by lower net earnings from continuing operations in the quarter ended February 28, 2021, compared to the quarter ended February 23, 2020 and the impact of certain tax credits on our lower earnings before income taxes, in addition to tax benefits related to stock option exercises and hedge mark to market impacts related to deferred compensation. Subsequent to the quarter ended February 28, 2021, we filed our fiscal 2020 tax return, along with applications for certain tax accounting method changes. These method changes, along with the effects of COVID-19 on our fiscal 2021 taxable income, could have a one-time favorable impact on our fiscal 2021 effective tax rate during our fourth fiscal quarter. However, the amount of such impact is dependent on our actual results of operations for fiscal 2021 and final positions ultimately taken on our fiscal 2021 tax return, and, as such, is not determinable at this time.

LOSSES FROM DISCONTINUED OPERATIONS

On an after-tax basis, losses from discontinued operations for the third quarter and first nine months of fiscal 2021 were $0.5 million ($0.00 per diluted share) and $2.6 million ($0.02 per diluted share), respectively, compared with losses from discontinued operations for the third quarter and first nine months of fiscal 2020 of $1.0 million ($0.01 per diluted share) and 2.9 million ($0.02 per diluted share), respectively.

SEGMENT RESULTS

We manage our restaurant brands, Olive Garden, LongHorn Steakhouse, Cheddar’s Scratch Kitchen, Yard House, The Capital Grille, Seasons 52, Bahama Breeze and Eddie V’s in North America as operating segments. 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. Our four reportable segments are: (1) Olive Garden, (2) LongHorn Steakhouse, (3) Fine Dining and (4) Other Business (see Note 6 to our unaudited consolidated financial statements in Part I, Item 1 of this report).

Our management uses segment profit as the measure for assessing performance of our segments. The following table presents segment profit margin for the periods indicated.

	Three Months Ended			Nine Months Ended		
Segment	February 28, 2021	February 23, 2020	Change	February 28, 2021	February 23, 2020	Change
Olive Garden	23.2%	21.1%	210 BPS	22.1%	20.3%	180 BPS
LongHorn Steakhouse	18.1%	20.5%	(240) BPS	16.6%	17.8%	(120) BPS
Fine Dining	15.7%	24.8%	(910) BPS	15.8%	20.3%	(450) BPS
Other Business	10.5%	14.5%	(400) BPS	12.0%	13.3%	(130) BPS

The increase in Olive Garden’s segment profit margin for the third quarter and first nine months of fiscal 2021 was driven primarily by decreased restaurant labor costs and decreased television and digital media related marketing expense, partially offset by negative same restaurant sales resulting from the economic impact of COVID-19. The decrease in LongHorn Steakhouse’s segment profit margin for the third quarter and first nine months of fiscal 2021 was driven primarily by negative same-restaurant sales resulting from the economic impact of COVID-19, partially offset by decreased marketing costs. The decrease in Fine Dining’s segment profit margins for the third quarter and first nine months of fiscal 2021 was driven primarily by negative same-restaurant sales resulting from the economic impact of COVID-19, partially offset by decreased marketing costs. The decrease in Other Business’ segment profit margin for the third quarter and first nine months of fiscal 2021 was driven primarily by negative same restaurant sales resulting from the economic impact of COVID-19, offset by decreased marketing and restaurant labor costs.

SEASONALITY

Our sales volumes fluctuate seasonally. Typically, our average sales per restaurant are highest in the winter and spring, followed by the summer, and lowest in the fall. Holidays, changes in the economy, severe weather and similar conditions may impact sales volumes seasonally in some operating regions. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year. We are not able to predict the impact that the COVID-19 pandemic may have on the seasonality of our business.

LIQUIDITY AND CAPITAL RESOURCES

Typically, cash flows generated from operating activities are our principal source of liquidity, which we use to finance capital expenditures for new restaurants and to remodel and maintain existing restaurants, to pay dividends to our shareholders and to repurchase shares of our common stock. Since substantially all of our sales are for cash and cash equivalents, and accounts payable are generally paid in 5 to 90 days, we are typically able to carry current liabilities in excess of current assets. As previously noted, in March 2020, all of our restaurants began operating at reduced capacities due to the COVID-19 outbreak and initially were not able to generate sufficient cash from operations to cover all of our projected expenditures while operating at those reduced capacities. Accordingly, we took significant steps to adapt our business, which allowed us to continue to serve guests, support our team members and secure our liquidity position to provide financial flexibility. As state and local governments allowed us to open dining rooms at limited capacities our cash flows have improved, and during fiscal 2021 we have generated positive operating cash flows and fully repaid our $270.0 million 364-day term loan prior to maturity. Additionally, our Board of Directors has declared a cash dividend of $0.88 per share to be paid May 3, 2021 to all shareholders of record as of the close of business on April 9, 2021.

We currently manage our business and financial ratios to target an investment-grade bond rating, which has historically allowed flexible access to financing at reasonable costs. Our publicly issued long-term debt currently carries the following ratings:

- Moody’s Investors Service “Baa3”;
- Standard & Poor’s “BBB-”; and
- Fitch “BBB-”.

Our commercial paper has ratings of:

- Moody’s Investors Service “P-3”;
- Standard & Poor’s “A-3”; and
- Fitch “F-3”.

These ratings are as of the date of the filing of this Form 10-Q and have been obtained with the understanding that Moody’s Investors Service, Standard & Poor’s and Fitch will continue to monitor our credit and make future adjustments to these ratings to the extent warranted. The ratings are not a recommendation to buy, sell or hold our securities, may be changed, superseded or withdrawn at any time and should be evaluated independently of any other rating.

We maintain a $750.0 million 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 usual for credit facilities of this type. As of February 28, 2021, we were in compliance with all covenants under the Revolving Credit Agreement.

The Revolving Credit Agreement matures on October 27, 2022, and the proceeds may be used for 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 highest of the BOA prime rate plus 0.075 percent, the Federal Funds rate plus 0.500 percent, and the Eurocurrency Rate plus 1.075 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 28, 2021, we had no outstanding balances under the Revolving Credit Agreement.

As of February 28, 2021, our outstanding long-term debt consisted principally of:

- $500.0 million of unsecured 3.850 percent senior notes due in May 2027;
- $96.3 million of unsecured 6.000 percent senior notes due in August 2035;
- $42.8 million of unsecured 6.800 percent senior notes due in October 2037; and
- $300.0 million of unsecured 4.550 percent senior notes due in February 2048.

The interest rate on our $42.8 million senior notes due in October 2037 is 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 28, 2021, no such adjustments are made to this rate.

We may from time to time repurchase our remaining outstanding debt in privately negotiated transactions. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements and other factors.

From time to time we enter into interest rate derivative instruments. See Note 9 to our unaudited consolidated financial statements in Part I, Item 1 of this report, which is incorporated by reference.

Net cash flows provided by operating activities of continuing operations decreased to $746.0 million for the first nine months of fiscal 2021, from $922.4 million for the first nine months of fiscal 2020. Net cash flows provided by operating activities include net earnings from continuing operations of $263.4 million and $430.5 million in the first nine months of fiscal 2021 and 2020, respectively. The decrease in net earnings is primarily driven by the impact of COVID-19.

Net cash flows used in investing activities of continuing operations were $181.4 million for the first nine months of fiscal 2021, compared to $447.4 million for the first nine months of fiscal 2020. Capital expenditures decreased to $177.3 million for the first nine months of fiscal 2021 from $374.5 million for the first nine months of fiscal 2020 reflecting a decrease in new restaurant construction and remodel activity during fiscal 2021. Net cash flows used in investing activities for fiscal 2020 also reflect net cash used of $50.1 million in the acquisition of Cheddar's Scratch Kitchen restaurants from existing franchisees.

Net cash flows used in financing activities of continuing operations were $335.5 million for the first nine months of fiscal 2021, compared to $608.1 million for the first nine months of fiscal 2020. Net cash flows used in financing activities for the first nine months of fiscal 2021 included repayment of a 364-day term loan of $270.0 million prior to maturity as well as dividends paid of $87.3 million partially offset by proceeds from the exercise of employee stock options. Net cash flows used in financing activities for the first nine months of fiscal 2020 reflected dividends paid of $322.3 million and share repurchases of $300.3 million partially offset by proceeds from the exercise of employee stock options. Dividends declared by our Board of Directors totaled $0.67 and $2.64 per share for the first nine months of fiscal 2021 and 2020, respectively.

On March 23, 2021, our Board of Directors authorized a new share repurchase program under which we may repurchase up to $500.0 million of our outstanding common stock. This repurchase program does not have an expiration and replaces all other outstanding share repurchase authorizations. During the quarter and nine months ended February 28, 2021, we repurchased 0.0 million and 0.1 million shares of our common stock, respectively, compared to 0.6 million and 2.6 million shares of our common stock, respectively, during the quarter and nine months ended February 23, 2020. All shares repurchased during the quarter and nine months ended February 28, 2021 were solely related to shares withheld for taxes on vesting of restricted stock, shares delivered or deemed to be delivered to us on tender of stock in payment for the exercise price of options, or shares reacquired pursuant to tax withholding on option exercises.

We are not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, sales, costs or expenses, results of operations, liquidity, capital expenditures or capital resources.

Impairment of our assets, including goodwill or trademarks, adversely affects our financial position and results of operations, and our leverage ratio for purposes of our Revolving Credit Agreement. A leverage ratio exceeding the maximum permitted under our Revolving Credit Agreement would be a default under our Revolving Credit Agreement. At February 28, 2021, write-downs of goodwill, other indefinite-lived intangible assets, or any other assets in excess of approximately $1.44 billion would have been required to cause our leverage ratio to exceed the permitted maximum. As our leverage ratio is determined on a quarterly basis, and due to the seasonal nature of our business, a lesser amount of impairment in future quarters could cause our leverage ratio to exceed the permitted maximum.

FINANCIAL CONDITION

Our current assets totaled $1.30 billion as of February 28, 2021, compared to $1.10 billion as of May 31, 2020. The increase was primarily due to an increase in cash and cash equivalents.

Our current liabilities totaled $1.65 billion as of February 28, 2021, compared to $1.79 billion as of May 31, 2020. The decrease was primarily driven by repayment of short-term debt, partially offset by an increase in other current liabilities.

CRITICAL ACCOUNTING ESTIMATES

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, costs and expenses during the reporting period. Actual results could differ from those estimates. We have discussed the development, selection and disclosure of those estimates with the Audit Committee. Our critical accounting estimates have not changed materially from those previously reported in our Annual Report on Form 10-K for the fiscal year ended May 31, 2020.

APPLICATION OF NEW ACCOUNTING STANDARDS

Information regarding application of new accounting standards is incorporated by reference from Note 1 to our unaudited consolidated financial statements in Part I, Item 1 of this report.

FORWARD-LOOKING STATEMENTS

Statements set forth in or incorporated into this report regarding the expected increase in the number of our restaurants and capital expenditures in fiscal 2021, projections for sales 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,” “outlook” or similar expressions, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are included, along with this statement, 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. In addition to the risks and uncertainties of ordinary business obligations, and those described in information incorporated into this report, the forward-looking statements contained in this report are subject to the risks and uncertainties described in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended May 31, 2020 and in our Forms 10-Q (including this report), which are summarized as follows:

- The impacts of the novel coronavirus (COVID-19) pandemic on our business, including the response of governments and of our company to the pandemic and the effectiveness, acceptance, availability, timing and distribution of approved vaccines;
- Health concerns arising from food-related pandemics, outbreaks of flu viruses or other diseases;

- Insufficient guest or employee facing technology, or a failure to maintain a continuous and secure cyber network, free from material failure, interruption or security breach;
- Food safety and food-borne illness concerns throughout the supply chain;
- The inability to hire, train, reward and retain restaurant team members;
- A failure to recruit, develop and retain effective leaders or the loss or shortage of key personnel;
- Insufficient or ineffective response to legislation or government regulation may impact our cost structure, operational efficiencies and talent availability;
- Litigation, including allegations of illegal, unfair or inconsistent employment practices;
- Unfavorable publicity, or a failure to respond effectively to adverse publicity;
- An inability or failure to recognize, respond to and effectively manage the accelerated impact of social media;
- The inability to cancel long-term, non-cancelable leases that we may want to cancel or the inability to renew the leases that we may want to extend at the end of their terms;
- Labor and insurance costs;
- Our inability or failure to execute a comprehensive business continuity plan following a major natural disaster such as a hurricane or manmade disaster, including terrorism;
- Intense competition, or an insufficient focus on competition and the consumer landscape;
- Changes in consumer preferences that may adversely affect demand for food at our restaurants;
- Our failure to drive both short-term and long-term profitable sales growth through brand relevance, operating excellence, opening new restaurants of existing brands and developing or acquiring new dining brands;
- A lack of suitable new restaurant locations or a decline in the quality of the locations of our current restaurants;
- Higher-than-anticipated costs to open, close, relocate or remodel restaurants;
- A failure to identify and execute innovative marketing and guest relationship tactics and ineffective or improper use of other marketing initiatives and increased advertising and marketing costs;
- A failure to address cost pressures, including rising costs for commodities, labor, health care and utilities used by our restaurants, and a failure to effectively deliver cost management activities and achieve economies of scale in purchasing;
- The impact of shortages or interruptions in the delivery of food and other products from third-party vendors and suppliers;
- Adverse weather conditions and natural disasters;
- Volatility in the market value of derivatives we may use to hedge commodity and broader market prices;
- Volatility in the United States equity markets that may affect our ability to efficiently hedge exposures to our market risk related to equity-based compensation awards;
- Economic and business factors specific to the restaurant industry and other general macroeconomic factors including energy prices and interest rates that are largely out of our control;
- Disruptions in the financial markets that may impact consumer spending patterns, affect the availability and cost of credit;
- Risks associated with doing business with franchisees and licensees;
- Risks associated with doing business with business partners and vendors in foreign markets;
- Failure to protect our service marks or other intellectual property;
- Impairment of the carrying value of our goodwill or other intangible assets;
- Changes in tax laws or treaties and unanticipated tax liabilities; and
- A failure of our internal controls over financial reporting and future changes in accounting standards.

Any of the risks described above or elsewhere in this report or our other filings with the SEC could have a material impact on our business, financial condition or results of operations. It is not possible to predict or identify all risk factors. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations. Therefore, the above is not intended to be a complete discussion of all potential risks or uncertainties.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to a variety of market risks, including fluctuations in interest rates, foreign currency exchange rates, compensation and commodity prices. To manage this exposure, we periodically enter into interest rate, foreign currency exchange rate, equity forward and commodity derivative instruments for other than trading purposes (see Note 9 to our unaudited consolidated financial statements in Part I, Item 1 of this report).

We use the variance/covariance method to measure value at risk, over time horizons ranging from one week to one year, at the 95 percent confidence level. As of February 28, 2021, our potential losses in future net earnings resulting from changes in equity forwards, commodity instruments and floating rate debt interest rate exposures were approximately $33.7 million over a period of one year. The value at risk from an increase in the fair value of all of our long-term fixed-rate debt, over a period of one year, was approximately $77.5 million. The fair value of our long-term fixed-rate debt outstanding as of February 28, 2021, averaged $996.09 million, with a high of $1.05 billion and a low of $917.27 million during the first nine months of fiscal 2021. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows by targeting an appropriate mix of variable and fixed-rate debt.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of February 28, 2021, the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of February 28, 2021.

During the fiscal quarter ended February 28, 2021, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

See the discussion of legal proceedings contained in the third paragraph of Note 11 to our unaudited consolidated financial statements in Part I, Item 1 of this report, which is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes to the risk factors contained in Item 1A of our Annual Report on Form 10-K for the year ended May 31, 2020, as supplemented by the risk factors contained in Item 1A of our Quarterly Report on Form 10-Q for the period ended November 29, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below provides information concerning our repurchase of shares of our common stock during the quarter ended February 28, 2021.

(Dollars in millions, except per share data)	Total Number of Shares Purchased (1) (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (3)
November 30, 2020 through January 3, 2021	—	$ —	—	$ 283.8
January 4, 2021 through January 31, 2021	3,959	$ 121.98	3,959	$ 283.3
February 1, 2021 through February 28, 2021	—	$ —	—	$ 283.3
Total	3,959	$ 121.98	3,959	$ 283.3

(1) All of the shares purchased during the quarter ended February 28, 2021 were purchased as part of our repurchase program. On March 23, 2021, our Board of Directors authorized a new share repurchase program under which the Company may repurchase up to $500.0 million of its outstanding common stock. This repurchase program, which was announced publicly in a press release issued on March 25, 2021, does not have an expiration and replaced the previously existing share repurchase authorization.

(2) The number of shares purchased includes shares withheld for taxes on vesting of restricted stock, shares delivered or deemed to be delivered to us on tender of stock in payment for the exercise price of options, and shares reacquired pursuant to tax withholding on option exercises. These shares are included as part of our repurchase program and deplete the repurchase authority granted by our Board. The number of shares repurchased excludes shares we reacquired pursuant to forfeiture of restricted stock.

(3) Repurchases are subject to prevailing market prices, may be made in open market or private transactions and may occur or be discontinued at any time. There can be no assurance that we will repurchase any shares.

Item 6. Exhibits

Exhibit No.	Exhibit Title
31(a)	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31(b)	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32(a)	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32(b)	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DARDEN RESTAURANTS, INC.

Dated: April 6, 2021

By: /s/ Rajesh Vennam

Rajesh Vennam
Senior Vice President, Chief Financial Officer and Treasurer
(Principal financial officer)

EXHIBIT 31(a)

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Eugene I. Lee, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Darden Restaurants, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 6, 2021

/s/ Eugene I. Lee, Jr.

Eugene I. Lee, Jr.
Chairman and Chief Executive Officer

EXHIBIT 31(b)

CERTIFICATION PURSUANT TO SECTION 302 OF THE

SARBANES-OXLEY ACT OF 2002

I, Rajesh Vennam, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Darden Restaurants, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 6, 2021

/s/ Rajesh Vennam

Rajesh Vennam
Senior Vice President, Chief Financial Officer and Treasurer

EXHIBIT 32(a)

CERTIFICATION PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Darden Restaurants, Inc. (Company) on Form 10-Q for the quarter ended February 28, 2021, as filed with the Securities and Exchange Commission (Report), I, Eugene I. Lee, Jr., Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 6, 2021

/s/ Eugene I. Lee, Jr.

Eugene I. Lee, Jr.
Chairman and Chief Executive Officer

EXHIBIT 32(b)

CERTIFICATION PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Darden Restaurants, Inc. (Company) on Form 10-Q for the quarter ended February 28, 2021, as filed with the Securities and Exchange Commission (Report), I, Rajesh Vennam, Senior Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

April 6, 2021

/s/ Rajesh Vennam

Rajesh Vennam
Senior Vice President, Chief Financial Officer and Treasurer